WORLD ECONOMIC SURVEY 1960

UNITED NATIONS

WORLD ECONOMIC SURVEY 1960

UNITED NATIONS
Department of Economic and Social Affairs
New York, 1961

E/3501/Rev. 1
ST/ECA/68

UNITED NATIONS PUBLICATION

Sales No.: 61. II.C. 1

Price: $U.S.3.00; 21/- stg.; Sw. fr. 13.00
(or equivalent in other currencies)

FOREWORD

This report, *World Economic Survey, 1960,* is the thirteenth in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare an annual review and analysis of world economic conditions and trends. The report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of world economic conditions which may serve as a basis for recommendations in the economic field; it is also designed to meet the needs of the general public.

The present report is the sixth in the series to contain a study of a particular problem in the field of economic development. Among the subjects examined in successive *Surveys* since 1955 have been a comprehensive review of economic growth in the first post-war decade, balance of payments problems in relation to economic growth, inflation and economic growth and post-war commodity trade and policies. In the *World Economic Survey, 1959,* which preceded this report, attention was focused on post-war investment trends and policies for economic development. As a complement to this study, part I of the present *Survey* contains an examination of saving for economic growth and development. Chapters 1 and 2 deal with the problem in the industrial and under-developed countries respectively. Both chapters analyse the several sources of saving and explore the factors accounting for inter-country differences in levels of saving. Trends in saving during the nineteen fifties are also described and the main forces affecting changes in saving are identified. Both chapters close with a review of the supply of finance for investment and of governmental policies to reduce financial impediments to investment in the various branches of production. In chapter 3, problems involved in the mobilization of saving in the centrally planned economies are discussed together with related problems in the financial planning of investment. The chapter draws attention to new tendencies in the field of financial policies.

Part II of the *Survey* examines recent trends in the world economy. Chapter 4 provides an analysis of the recent situation in the industrially advanced private enterprise economies, special attention being paid to the divergent trends in the North American and western European countries since the beginning of 1960. Chapter 5 reviews recent events in the primary producing private enterprise economies in the light of the upsurge in imports and the deteriorating external balance. An assessment of the economic outlook at the beginning of 1961 is given for both these groups of countries; this is based largely on replies by governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1960. Chapter 6 provides an account of recent changes in the centrally planned economies.

The Introduction to the *Survey* considers recent economic trends in the context of the broader issues of economic growth and stability and relates these issues to the question of the adequacy of saving.

The basic data used in the *Survey* are, in general, as published in governmental or inter-governmental sources, or as officially reported to the United Nations and its specialized agencies. The significance of the figures may vary from country to country, depending on the statistical concepts and methods followed and on the structure and development of the national economy. For this reason, the compilation of international statistical tables requires that attention be given to any important elements of non-comparability or qualifications attaching to the data; these are usually shown in the tables of this report or in the publications of the United Nations and of the specialized agencies that contain the basic data from which many of the tables have been prepared.

The *World Economic Survey* is prepared by the Division of General Economic Research and Policies of the United Nations Secretariat.

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., 1955/56

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

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

The term "billion" signifies a thousand million.

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

Certain abbreviations have been used: DLF for Development Loan Fund; EEC for European Economic Community; EFTA for European Free Trade Association; IBRD for International Bank for Reconstruction and Development; IFC for International Finance Corporation; IMF for International Monetary Fund; OECD for Organisation for Economic Co-operation and Development; OEEC for Organisation for European Economic Co-operation. "Rhodesia and Nyasaland" stands for the Federation of Rhodesia and Nyasaland; UAR for the United Arab Republic.

The term "Congo" refers to the Republic of the Congo (capital: Léopoldville).

Where statistical presentation has rendered it necessary, "Malaya" has been used to designate the Federation of Malaya and Singapore; "South Africa", the Union of South Africa (since 31 May 1961, the Republic of South Africa), South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland.

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

TABLE OF CONTENTS

List of Tables

Part I

Saving for economic growth: Its sources and trends

Part II

Current economic developments

4. Recent trends in industrial countries

List of Charts

INTRODUCTION

Introduction

GROWTH, STABILITY AND THE RATE OF SAVING

Economic slowdown in 1960

The new decade of the nineteen sixties opened on a contradictory note. On the one hand there was a gratifying increase both in world economic activity and in world trade. The private enterprise world registered a rise of more than 4 per cent in production and of over 10 per cent in the quantum of international trade. In the centrally planned countries, production in industry—though not in agriculture—registered an even greater increase. The expansion was, moreover, achieved without undue strain: in relatively few countries, developed or under-developed, did retail prices rise by more than 3 per cent from 1959 to 1960. Despite this apparent progress, the optimism with which the year had been initially greeted soon gave way to a considerable measure of disappointment. By the second quarter of 1960 the rate of expansion declined in one industrial country after another; and though in western Europe rates of growth soon began to stabilize, in North America the economy slipped into a recession which continued through the first quarter of 1961. Though the decline in United States output was mild, it came as a disappointment, cutting short the period of limited recovery from the earlier recession of 1957/58.

The contrast between a booming Europe and a lagging United States, reinforced by differential short-term interest rates in favour of Europe, accentuated the flow of capital to a point that brought the dollar under speculative pressure. Notwithstanding the enormous reserves at its disposal, the United States was impelled to take protective action; for the first time in the post-war period, it no longer found itself free to determine its domestic economic policy without regard to its balance of payments position. Fortunately, in view of an increased United States trade surplus, the pressure on the dollar was quickly relieved as speculative operations on the gold market were brought to an end and the gap between European and American interest rates was narrowed. Action was also taken towards the strengthening of both United States and international liquidity, as well as towards a greater measure of harmonization of the policies of the industrial countries affecting their balances of payments.

Welcome as was the improvement in the United States payments position, it was not an unmixed blessing. In so far as the increase in its trade surplus resulted from a recession-induced decline in its imports, it could not but have unfavourable repercussions on the rest of the world. The economies of western Europe, it is true, again proved sufficiently resilient to withstand these adverse effects. The situation was less encouraging, however, in the under-developed countries, since the gradual reversal in balance between world demand for and supply of primary products during the nineteen fifties has rendered their export markets increasingly vulnerable to industrial recessions. Even during the two years of United States recovery and expansion following the 1957/58 recession, export prices of primary products had failed to show any real strength. With the oncoming of the recession, these prices generally resumed their downward drift despite a notable upsurge in raw material imports into Europe and Japan. By the end of 1960 the index of export unit values of under-developed countries had fallen below the corresponding 1959 level to a point about 8 per cent below the 1957 average. While the rise in their export earnings was thus being restrained by weakening price trends, their imports, which had been cut back in 1959 following the 1958 decline in earnings, expanded in 1960. The result was a 50 per cent rise in the trade deficit, which generated stresses in the balance of payments of many under-developed countries.

In contrast to the private enterprise world, the centrally planned economies continued to expand at the same rapid pace as in earlier years. Given the relatively small, even if increasing, role which trade with the rest of the world plays in their economies, they have found it possible to maintain their rate of growth of production without regard to whether rates elsewhere are rising or declining.

When recovery began in the second quarter of 1961, the 1960/61 United States recession could be characterized in some respects as among the mildest of the post-war period. Though it lasted somewhat longer than its predecessor in 1957/58, it had not generated as large a decline in industrial production or in the gross national product. Indeed, despite the fact that the contraction had begun as early as May 1960, total "final purchases" of goods, that is, the purchases of goods other than for inventories, registered a decline—and that a very slight one—only in the first quarter of 1961. Statistically, the drop in gross national product from the peak level of 1960 of about $5 billion, or about one per cent, could be more than accounted for by the nearly $10 billion cutback in investment in inventories. The strength of final purchases encouraged wide-spread hopes that the recession would be self-correcting, and led to considerable hesitation with regard to the taking of counter-measures. At the beginning of 1961 debate was still continuing over whether it was proper to characterize the economy as being in a state of recession, whether business confidence might not be shaken by such a characterization, and whether anti-recession measures might not do more harm than good. The new Administration, calling attention to the fact that industrial production had fallen by about 8 per cent, that steel capacity was being only half utilized and that unemployment had risen to five and one-half million persons, declared, however, that the economy was in a state of recession and advanced a broad programme of executive and legislative action for recovery. This programme went beyond temporary measures, such as supplements to unemployment insurance and speed-up of government outlays, which had also been taken during the 1957/58 recession. It included more permanent measures, such as a reduction of mortgage rates and extension of other assistance to housing, aid to education and to public health programmes, urban renewal measures, and liberalization of social security insurance. At the time of writing, however, though recovery was already under way, it was still far from certain how soon this programme would prove effective in restoring economic activity to full employment levels. Partly, the uncertainty reflected the inevitable administrative and legislative delays before many of the decisions could be translated into action. In large measure, however, it was due to the moderate financial dimensions of the programme for 1960/61 and 1961/62 in relation to the magnitude of the problem as analysed by the United States Council of Economic Advisers.

The United States economy has proved to be the most vulnerable to post-war cyclical fluctuations of all the major industrial countries. The 1960/61 recession is the fourth in twelve years; except for Canada, whose economy is closely geared to that of the United States, no other industrial country has experienced a comparable degree of economic fluctuation. The significance of these recessions appears, however, to have been widely underestimated. Though many reasons have been given for discounting the seriousness of the post-war recessions, a basic factor seems to be a tendency to assume that recurrent recessions are inherent in a private enterprise economy; indeed, a large part of the public seems to have come to believe not only that recessions are inevitable, but that they are also necessary in order to provide immunity against large-scale inflation that would be followed by major depressions.

While it is probably true that the periodicity of post-war recessions has been no greater than in pre-war years, it may still be of significance, as the Council of Economic Advisers has noted, that the intervals between successive recessions have been growing progressively shorter—from forty-five months between the downturns of 1948 and 1953 to thirty-five months between 1953 and 1957 and to only twenty-five months between 1957 and 1960. Even if this shortening of the intervals were entirely accidental, it would still be striking that it should be the world's major economy which has failed to show any improvement over pre-war experience. Unlike the record of stability of the United States, that of most other industrial countries has been vastly better than in pre-war years. Nor can western Europe's current achievement be properly attributed—as its progress in earlier years could in part—to special factors such as the carry-over of pent-up demand from the Second World War or the large-scale aid received from the United States under the Marshall Plan. Essential as these factors were in the rehabilitation of Europe immediately after the war, they do not in themselves suffice to explain the phenomenon of its continued growth—in some cases at extraordinarily high rates—long after pre-war peak records of production had been surpassed. Clearly, Europe's current achievements are traceable not simply to special factors inherited from the past but also to current economic attitudes and policies towards growth and stability.

Perhaps another reason for the tendency to underestimate the real cost of recession is that it appears to be only a temporary cost, because to some extent, what is lost in the downswing of a cycle may be made good in the subsequent upswing. Since the post-war fluctuations have taken place around a rising economic trend, we may even be tempted to believe that the recession loss has been more than made good over the cycle as a whole. But this is really a statistical illusion that disappears upon closer examination. What is relevant in assessing real cost is not the absolute level of production but whether the full production potential is realized over the cycle. If the expansion phase were sufficiently vigorous to carry output above normal full-potential levels—if, for example, as was the case during the war, it were to involve abnormal additions to the labour force or lengthening of the normal work-week or an increase in the number of work-shifts—then the expanded potential of the boom phase would offset the loss of potential production during the recession. If, however, as has been generally true in peace-time, the recovery is at most adequate to carry production and employment to normal levels of full utilization without any special enlargement of the capacity to produce, then the loss of potential output and employment during recession is not offset during the subsequent expansion and the recession loss is a permanent loss.

But perhaps the most important cause of the inadequate assessment of the seriousness of recessions has been their mildness in the post-war period. In the United States the longest downswing—that of 1953/54—lasted only thirteen months, and the maximum contraction in gross national product recorded—in the recession of

1957/58—was about 5 per cent. Except for 1953/54, when there was a large cutback in government expenditure on military account, the major element in the contraction of economic activity has been a reduction of investment in inventories. True, there has also been some decline in investment in plant and equipment in the last two recessions, but this has been largely or wholly offset by rising government expenditure and consumer outlays on services. The United States economy has thus proved sufficiently stable to avoid any major repercussions of the reduction in inventories upon final purchases, and the market has been able to right itself as soon as the inventory position has been corrected.

The mildness of the downturns has encouraged considerable public debate as to the performance of the economy in the post-war period. Should such downturns be properly considered recessions? Should they not be regarded only as inevitable periods of rest or of rolling readjustment that are required to pave the way for the subsequent period of expansion? Even granting that the downturn involves a temporary rise in unemployment, should the burden of such unemployment be considered intolerable so long as it is not unduly prolonged and compensation is provided to alleviate the loss of wage income to the unemployed? May there not even be a question whether there has in fact been any downturn in national product? Perhaps the real gross national product has been consistently underestimated because of our inability to make adequate allowance for continuing technological improvements in goods and services, and as a result, price increases have been overstated and increases in output understated. Is the increase in unemployment due to inadequacy of effective demand for goods and services, or is it essentially of a structural character, reflecting the inability of the labour force to adjust sufficiently rapidly to the changes in the pattern of production brought on by an accelerating rate of technological innovation? Must not the problem of unemployment therefore be resolved by measures to increase the adaptability and mobility of the labour force rather than by means of an increase in effective demand?

Whatever answers may be given to such questions, it seems doubtful whether these questions really address themselves to the basic problem of the adequacy of recent rates of economic growth. Here the crucial question is whether the leading industrial countries are making full use of their production capabilities and whether these capabilities are being increased as rapidly as is consistent with the maintenance of other economic and social objectives, including rising levels of living and internal and external stability. There can be little doubt that the manpower released by technological progress and the shifting pattern of demand has added to the complexity of the task of maintaining full employment. It does not necessarily follow, however, that the resulting unemployment cannot be appropriately overcome by a more rapid rate of increase in aggregate effective demand. A faster rate of advance in technology and productivity per man has not precluded many western European countries from maintaining much fuller levels of employment; indeed in the Federal Republic of Germany, not only the manpower released by an advancing technology but also the abnormal additions to the labour force from large-scale immigration were absorbed by the rapid rate of increase in output. It can hardly be doubted that in the United States, likewise, if effective demand were to rise sufficiently it could readily absorb the wide-spread unemployment and restore the rate of utilization of productive capacity to more nearly normal levels.

The notion that the recessions have been mild is based on the assumption that once the downturn is reversed the economy is able to realize its full potential of production and employment. In that case the recession loss may be measured by the decline from the preceding peak. If, however, as has become increasingly true of the post-war years, even the periods of expansion prove less and less adequate to provide for normal full capacity rates of utilization, then the pre-recession peaks themselves become irrelevant as benchmarks for measuring economic losses. In such cases, there may still be continuing losses of potential production and employment, even when the absolute level of activity is on a rising trend. And if population and labour force are constantly expanding, unemployment may then show a rising trend even though employment is increasing at the same time. According to estimates of the Council of Economic Advisers, the loss in potential gross national product in the first quarter of 1961 amounted to approximately 10 per cent of the total, or about $50 billion, even though the decline from the preceding peak was only about one-tenth that amount. To achieve full recovery by the end of 1962 it would be necessary not only to restore this $50 billion but perhaps half as much again to allow for the increase in labour force and the addition to productive capacity that is taking place in the meantime.

The issue of growth and stability

Viewed in terms of the need to restore output to full potential levels, the problem thus ceases to be one merely of recovery from recession. It becomes instead a continuing problem of promoting steady growth at full potential rates. Even the familiar phrase of "maintaining full employment" ceases to be an adequate description of the task. What is required is not merely to maintain a high level of output and employment but to sustain a steady rate of growth that is adequate to absorb each year's new entrants into the labour force as well as the manpower released by advancing technology and rising productivity. This problem has not been confined to countries such as the United States and Canada, which have experienced a high degree of cyclical instability. It has also been typical of some countries in western Europe, most notably the United Kingdom, where economic activity, though relatively stable in the short term, has moved sluggishly over the longer term. In contrast to rates of growth in gross product ranging as high as 9 per cent and more in Japan and in the neighbourhood of 6 per cent per annum in the Federal Republic of Germany and Italy, the rates of growth in the United Kingdom and the United States over the past five years have averaged only a little over 2 per cent. In both cases this rate represents a significant decline from the average prevailing in the first half of the decade of the nineteen fifties.

The debate over the magnitude and significance of recessions is thus seen to be part of a larger issue relating to the long-term performance of the economy. That issue, discussed at some length in the volumes of the *World Economic Survey* since 1955, is over the adequacy of the long-term rate of growth. The debate is not limited to the United States but is paralleled in many parts of the world, both developed and under-developed. The central question in the debate concerns the proper balance to be struck in national economic objectives between price stability and long-term economic growth. In many countries—recently including also the United States—the issue has been further complicated by the problem of reconciling equilibrium in the balance of international payments with the maintenance of economic growth. Though the specific arguments have changed with the evolution of economic institutions and of economic analysis, the debate over stability and growth has been at the centre of public policy questions in every major industrial crisis of inflation or depression for more than a generation. In recent years the differences have been considerably narrowed, both sides having moved away from extreme positions. During the great world depression of the nineteen thirties, a large segment of public opinion in industrial countries was still opposed to government measures for expansion of effective demand on the grounds that they might lead to inflation. Today, however, no one would suggest keeping unemployment at whatever levels might be required to prevent prices from rising. Immediately after the Second World War, on the other hand, an influential segment of public opinion, particularly in underdeveloped regions, was apparently prepared to support inflation as a means for promoting economic development. Today no one would propose to finance capital formation for economic growth through forced savings from large-scale inflation. Despite this narrowing of the debate, however, the issue of economic stability and growth remains far from resolved.

Until fairly recently the view that had gained the widest acceptance seems to have been that there was in fact no issue to be resolved. It seems widely to have been believed that there could be no possible conflict between the objectives of economic stability and economic growth. This thesis was based on the assumption that inflation can exist only when there is excess demand and that its elimination cannot therefore interfere with the full utilization of productive resources. In its simplest form the reasoning seems to have derived from the fact that a rise in general prices necessarily involves an increase in money expenditures in relation to the value of goods and services at existing prices. From this it was concluded that inflation represents "too much money chasing too few goods" and that siphoning off only the excess money so as to achieve economic stability will not render effective demand inadequate for full production and full employment. In its more analytical form the argument derived from the traditional body of economic theory, based on a perfectly competitive system, in which prices and wages are continually adjusted so as to eliminate any excess demand or supply. In such a system prices and wages come to rest when demand equals supply. Since a continuously rising trend can thus occur only if excess demand is constantly re-emerging, the solution to rising prices is inevitably to restrict demand to a level that equals supply. Such restriction need in no way reduce output below maximum attainable levels, since it is only the excess of demand above attainable supply that is eliminated and not the demand required to absorb attainable supply. In either case, whether the simpler or more complex analysis was employed, the possibility of any conflict between economic stability and economic growth was eliminated.

This view of the problem of inflation and economic growth has now come to be increasingly questioned. A growing consensus has emerged around the thesis that in the real world as distinct from the theoretical model of a perfectly competitive system, inflation cannot be automatically equated with an excess of aggregate demand over supply. In the real world where prices are determined by conventional markups over costs, by collective wage-bargaining and by government regulations, demand in some markets may exceed, and in others fall short of, supply. In such cases inflation is not necessarily symptomatic of a general excess of demand over supply; though price increases may originate in markets where demand is strong they may spread to other markets, even where supply is excessive. A cumulatively rising price trend may thus develop despite considerable slack in production and employment. Under these circumstances it will not always be possible to resort to a policy of restraint of demand for the stabilization of prices without adversely affecting production and employment. Where inflation is, in fact, due to excess demand it may be eliminated by demand restraint without such adverse effects. Where, however, as has been true of the creeping inflation of the nineteen fifties, a cumulatively rising price trend develops side by side with slack in production and employment, inflation can no longer be eliminated by restraint of demand without adding to the slack. This does not necessarily mean that an objective of rapid economic growth cannot be reconciled with a goal of price stability; it only means that it cannot be reconciled with a policy of restraining demand when there is already slack in the economy.

This point bears emphasizing because cases in which governments have succeeded in achieving high rates of growth together with price stability are frequently cited as evidence in support of the thesis that restraint of demand to keep prices from rising will not interfere with the rate of growth. But the issue is not whether there is a positive rather than a negative correlation between rates of growth and rates of change in price. A rapidly growing economy may, through the stimulus it provides to high rates of investment, technological innovation and increasing productivity, be more conducive to price stability than is a sluggish economy. Thus, the issue is not whether economic growth and reasonable price stability are in principle irreconcilable. The issue is rather whether a conflict between the two goals may arise in fact if price stability is pursued by a policy of restraint of demand regardless of the degree of slack in the economy.

Although the emerging consensus over the causes of inflation has greatly clarified the issues under consideration, it has not yet led to a comparable consensus on policy decisions. The debate over policy is now based not so much on disagreement over points of economic analysis as on differences in assessment of the degree of inflation or of slack to which the economy may be exposed, as well as on differences in value judgements as to the relative costs and benefits of economic growth and of price stability. One segment of public opinion shuns the risk-taking of a growth-oriented policy for the security of price stability. According to this view, inflation represents the main long-term economic danger to the economy while the long-term rate of growth is as high as resources permit. The danger of inflation is assumed to be so great that no rate of price increase can be countenanced; creeping inflation is bound to accelerate to a gallop. Even if inflation may in theory be due to many factors and not to excess demand alone, the existence of any unnecessary slack in the economy is assumed improbable so long as prices are rising along with production. Thus, according to this viewpoint, it is not the rate of utilization of productive capacity nor the rate of unemployment but rather the movement of prices which serves as the appropriate measure of the adequacy of effective demand. Though the rate of growth in output may be lower than normal, though the rate of utilization of productive capacity may be declining and the rate of unemployment increasing, a rising trend in prices, particularly if it accompanies an increase in output, is taken as a symptom of excess demand and therefore as a signal for a policy of restraint of demand.

This concentration of public thinking and public policy of recent years upon the danger of inflation is now coming to be increasingly challenged by the thesis that the main danger to the economy lies in an inadequate long-term rate of growth, and that the risk of inflation is not so great as to require a policy of restraint upon aggregate demand while there is yet so much slack in the economy. This currently developing reorientation is visible in the United States Administration's diagnosis of the need for policies to achieve not merely recovery from recession but also long-term full utilization of productive resources. It is even more evident in its proposals for investment in human and natural resources as well as for the stimulation of investment in plant and equipment designed to increase the rate of growth of the potential levels of production and employment. If this reorientation has been correctly diagnosed, an expansion of the rate of growth of the United States economy might well be expected.

Such a growth-oriented policy, it may be noted, does not necessarily mean sacrificing price stability and embracing inflation. Rather it involves a shift in the methods of fighting inflation from primary reliance on measures to restrain demand to the inclusion of policies designed to accelerate the rate of expansion of incomes and the available supplies of goods and services. In a world in which inflationary pressures are so largely the result of mutually frustrating attempts of various income-earning groups to increase their respective shares of the national product, it is not unreasonable to expect that an increase in the size of the total share to be divided will contribute to some relaxation of the pressure. To the extent to which an increase in prices results from a larger rise in wages than in productivity, the stimulus to output per man that is imparted by higher investment and a higher rate of growth of national product may very well slow down rather than accelerate the rising trend in prices.

That this assumption is not altogether unrealistic is evident from the fact that the rate of increase of prices in the Federal Republic of Germany and Japan has been no greater than in the United States or the United Kingdom despite the very much higher rates of growth of national product. Should it appear, however, that an acceleration of the rate of growth might, in fact, increase the risk of inflation before the full potential of production is realized, other measures could still be taken to reduce the risk without curbing the rate of growth of production. In some countries governments have helped to shape prices, not only by throwing the weight of their moral influence in favour of price stability, but also by establishing machinery to ensure that the public interest in stable prices is effectively registered at the bargaining table. Every government also has at its disposal a vast array of powers to strengthen competitive forces in the process of price formation, whether it be through anti-monopoly legislation or through foreign trade policy. By means of such measures governments can make a powerful contribution towards the maintenance of reasonable price stability without necessarily curbing the rate of growth of output.

It is frequently questioned whether this can be achieved without the introduction of direct price and wage controls that would endanger private enterprise. This question, however, seems to be based on a simple extrapolation from war-time experience when vast resources had to be shifted from personal consumption to military outlays and to investment in military production. Under such extraordinary conditions of excess demand, involving enormous budget deficits and wide-spread shortages of goods of all types as well as of manpower and productive equipment, direct controls on prices and wages and, in many instances, even rationing of supplies did in fact prove necessary to curb inflation. But from this it does not follow that controls of similar type might prove necessary to preserve price stability under high peace-time rates of growth, in the absence of budget deficits and in the absence of any important shortages of goods and productive resources. There is no evidence to show that under such circumstances the government's moral influence and its powers of education, persuasion and general regulation would not suffice to maintain reasonable price stability along with economic growth based on the full realization of the production potential. Nor does the post-war experience of countries with very high rates of growth lend support to such a thesis; the price stability of the Federal Republic of Germany and of Italy, which, as already noted, was no less than that of the United States and the United Kingdom, was achieved without any greater degree of direct price intervention by government. And if it be said in reply that these countries succeeded in achieving price stability with such high rates of growth only because of sound monetary and fiscal policies, the answer is that it is not an unsound monetary and fiscal policy which is called for by those who seek greater emphasis on economic growth. Evidently the countries with very high rates of growth did not prevent demand from approaching the full production potential of the economy. Yet, though they achieved as high a degree of price stability, they were not obliged to intervene in the process of price formation any more than countries with low rates of growth.

The adequacy of saving

Among the most important factors inhibiting the acceleration of the rate of growth in the leading industrial countries is the wide-spread concern over the adequacy of saving to finance a higher rate of growth without inflation. Frequently this concern is coupled with the fear that an acceleration in the rate of growth is likely to involve permanent budget deficits. The coupling of budget deficits with inflation, as if the two phenomena were indeed synonymous, is understandable in the light of historical experience with galloping inflation. Undoubtedly all instances of severe inflation crises—especially those associated with war or with post-war collapse of an economy—have been marked by uncontrollable budget deficits. In war-time, when vast resources had to be shifted from personal consumption to military use, and when government expenditure became so swollen that it was simply not possible to increase taxes sufficiently to finance the government's requirements, the inflation was inevitably reflected in a huge budget deficit. Similarly, immediately after the war, in countries where productive resources had been destroyed and all goods were in short supply and confidence in the currency had disappeared, it was again inevitable that the resulting hyper-inflation should be marked by seemingly uncontrollable budget deficits.

Yet, the experience with such cases of galloping inflation, particularly with the phenomenon of hyper-inflation, is not an adequate guide to the problems of financing an increase in the peace-time rate of growth of the economy. Indeed, in the peace-time context of raising the rate of growth there is no unique relationship between budget deficits and inflationary pressure of excess demand. While budget deficits may still be a cause of excess demand, it is possible to have a budget deficit without any excess demand, and on the other hand, it is also possible to have excess demand without a budget deficit, even with a budget surplus. During a recession when private investment falters, it is now universally recognized that it may be necessary to resort to a budget deficit either through an increase in government expenditure or through a reduction in taxation in order to achieve recovery. In fact, all modern industrial economies have features built into their fiscal system designed to generate a budget deficit automatically in case of recession. A deficit under conditions of recession, far from creating pressure of excess demand, merely permits demand to rise to the level of productive capacity by filling the gap between the rate of saving at full employment and the lagging rate of investment. So long as productive capacity is not adequately utilized and it is still possible to increase the supply of goods and services there is no reason why an increase in demand, even if in the circumstances it is generated by a budget deficit, should necessarily lead to inflationary pressure of demand upon supply; the additional demand can be matched by a corresponding increase in output instead of being dissipated by a rise in prices. On the other hand, in a boom, if private investment demand expands sufficiently to overtake the rate of saving at full employment, the outcome is likely to be inflationary pressure of excess demand upon supply, unless the government can raise taxes sufficiently or the net supply of imports can be adequately expanded so as to equate demand and supply once again. But if in this instance inflationary pressure does develop as a result of the investment boom, it is rather more likely to be accompanied by a budget surplus than by a budget deficit. For if the budget had been balanced before the boom began, the rise in income generated by the investment boom would automatically yield higher government revenues, and unless the government deliberately reinforced the inflationary pressure by simultaneously increasing its own expenditure or reducing tax rates, the inflationary pressure would be accompanied by a budget surplus.

It follows that there is no unique relationship between budget deficits and inflation: while the two may of course go hand in hand—and indeed generally do so in major crises—there may also be budget deficits without inflation, as in periods of recession, or inflation with budget surpluses rather than with deficits, as during periods of investment boom. To maintain a high rate of growth without inflationary pressure of excess demand and with a balanced budget, it is necessary to ensure that the rate of private saving should equal the rate of investment that is required for the desired rate of growth. Should the rate of investment exceed the rate of private saving that will be forthcoming, the result would be inflationary pressure accompanied by a budget surplus. On the other hand, should the rate of investment fall short of the rate of private saving, the desired rate of growth might be attained through a budget deficit, but such a budget deficit which merely fills the gap between private saving and investment would only equate demand and supply rather than generate any pressure of excess demand. Only if the government should persist in increasing its expenditure even after investment had begun to catch up with the rate of private saving, could a budget deficit be identified with inflationary pressure of excess demand.

It is instructive in this context to consider post-war experience in saving for economic growth. As an extension of the study in part I of last year's *World Economic Survey*[1] of the interrelationships between investment and economic growth, part I of the present *Survey* examines at some length the sources of saving for post-war growth. The picture that emerges is a complex one, far more complex, indeed, than that of the relation between investment and economic growth. Nevertheless, certain conclusions do seem reasonably certain. The first, as may be seen in chapter 1, is that there has been no tendency among the industrially developed countries for high rates of growth of national product to be accompanied by budget deficits. The tendency has, if anything, been the other way round, that is, for high growth rates to be accompanied by relatively large budget surpluses. Both private saving—particularly of households—and public saving appear to have been positively correlated with rates of growth. High rates of investment and high rates of growth of national product and income have tended to be accompanied by high rates of household saving as well as by substantial excesses of government revenue over government expenditure. Low rates of investment and low rates of growth, on the other hand, have tended to be accompanied by relatively low rates of household saving as well as by significantly smaller budget surpluses. Though this relationship is far from perfect, it is nevertheless striking that it should emerge so clearly in an inter-country comparison, particularly when account is taken of the wide variety of factors determining the proportion of resources devoted to government expenditure and revenues in different countries, as well as of the heterogeneity of forces determining the level of household saving among even the industrially developed countries. Despite the very considerable differences in all these respects, it still appears reasonably clear that high rates of investment and growth have tended to be associated with relatively large budget surpluses, and low rates of growth with relatively low budget surpluses. The notion, therefore, that high rates of growth are likely to involve permanent deficit financing does not find any support in the post-war evidence of the inter-country experience.

Equally evident from the post-war data is the absence of any meaningful correlation between country rates of growth or of investment and the balance of payments on current account. Export balances were to be found among countries with both high and low rates of growth, and the same was true of import balances. This is understandable in view of the wide variety of possible relationships between rates of growth and the balance of payments. Since the external balance is influenced not by investment alone but represents the difference between domestic saving and domestic investment, and since investment decisions and saving decisions are made independently under separate sets of influences, it is clear that the difference between saving and investment may be positive, zero, or negative at both high and low rates of investment. In general, it might be expected that in a country where investment is rising more rapidly than elsewhere, saving would be more likely to fall short of investment, so that a relative increase in the rate of investment would tend to be accompanied by a deteriorating export balance. But while such a correlation between relative year-to-year changes in investment and in export balances has been observed during the post-war period, no such correlation is visible between average levels of investment and of export balances among countries over the post-war period. The absence of correlation is due not only to differences in the influences affecting domestic saving among countries, which tend in large part to offset the effect of differences in investment levels on the balance of payments. It is also due in part to the fact that saving and investment decisions are themselves not entirely determined by internal forces within a country but are also influenced

[1] United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1).

by external market forces. Thus, a country favourably situated with respect to export markets is more likely to generate an excess of saving over investment and therefore to experience an export balance than is a country less favourably situated. And to the extent to which a high rate of investment makes possible a more rapid expansion of export industries, high rates of investment may thus be accompanied by an excess of domestic saving over investment and an export balance rather than the reverse. It is not surprising, therefore, that no simple correlation between rates of investment and external balance can be found.

While the data on inter-country variations in rates of investment and saving do suggest that the financing of relatively high rates of investment has not been so formidable a task as might be imagined in countries with relatively low rates of investment, they do not in themselves provide a sufficient guide as to the ease with which additional financing is likely to become available within any country that may seek to increase its rate of economic growth. An attempt is made in chapter 1 to examine this question on the basis of data relating to the changes experienced from the first half to the second half of the decade of the nineteen fifties. Though in view of the limited information that has been available, the findings must be considered as highly provisional, they do indicate at least one important factor tending to link changes in private saving with the rate of economic growth. While there seems to have been little correlation of rates of economic growth with changes in enterprise saving, a significant correlation is evident with changes in personal saving out of personal disposable income. Evidently the higher the rate of growth of per capita personal income, the greater has been the tendency for changes in personal consumption to lag behind, and the greater, therefore, has been the increase in the rate of saving out of such income. Other factors, however, have also influenced the changes in the rate of saving; in particular, the lower the initial rate of saving and the greater the shift in the distribution of income in favour of income from property, the greater has been the increase in the rate of saving. In many cases the increases in private saving were so large as to permit governments to reduce tax rates from the high levels prevailing at the beginning of the decade. In very many instances, aided by an improvement in the terms of trade in the course of the decade, domestic saving even rose sufficiently in relation to investment to yield an increase in the balance of exports over imports with the rest of the world.

Judging, therefore, from the post-war experience, there seems little basis for the fear prevailing in some countries that a growth-oriented economy is likely to give rise to unmanageable problems of imbalance. The data examined in chapter 1 demonstrate that some countries have achieved rates of growth as much as two or even three times as high as that prevailing in other countries without incurring any greater degree of price inflation, or relying upon permanent budget deficits, or encountering balance of payments difficulties, or resorting to a system of direct controls that is inimical to private enterprise. On the contrary, the higher rates of growth have themselves contributed, through increasing productivity, towards lessening the inflationary pressure from rising costs of production. They have afforded a powerful stimulus to private saving, partly by raising incomes faster than consumption levels could be adjusted and partly by bringing within reach of mass incomes such items as major durable goods and housing for which saving is necessary. At the same time, in countries with progressive tax systems, they have generated such increases in government revenues as to make possible significant reductions in tax rates and increases in public consumption expenditure without bringing the budget into deficit. And far from generally leading to balance of payments difficulties, the high rates of growth have introduced an element of flexibility in the industrial structure and have increased the competitive strength of export industries to such an extent that they have been frequently accompanied by active rather than passive trade balances.

This does not mean, of course, that a programme for raising the rate of investment to increase the rate of growth is altogether free from any risks of imbalance. But the data do suggest that the risks are far less than is frequently assumed in countries with low rates of investment and, above all, that they are amenable to control by appropriate government policy. It is important to bear in mind, however, that the policy needed to cope with the risks of imbalance lies not only in the national but also in the international sphere. Risks of external imbalance depend not on the domestic policies of the country alone, but also on the policies of the countries with which it is linked in trade and payments. Here a major difficulty stems from the fact that in the course of the post-war period an unstable equilibrium appears to have been achieved in which the trade balances of the major industrial countries are not appropriately related to their respective rates of capital transfers. Some countries with relatively high rates of growth have achieved an export balance on current account in excess of their readiness to lend abroad, while other countries with a considerably lower rate of growth lend abroad at a rate in excess of their export balance. In the absence of appropriate policies designed to bring capital flows in better relation with respective balances on current account, this unstable external equilibrium may act as a serious deterrent against programmes for increasing the rate of growth in the leading industrial countries. In view of the economic importance of these countries, this deterrent may inhibit not only their own rates of growth but the rate of growth of the entire world economy.

There can now be little doubt that a modern industrial economy is capable of sustaining much higher rates of growth under conditions of stability than had hitherto been deemed feasible. There is regrettably less basis for optimism in the post-war experience of the under-developed countries. It is true, as was shown in the *World Economic Survey, 1959*, that many under-developed countries succeeded during the nineteen fifties in significantly raising their rates of investment. The data even indicate that on an aggregate, though not, of course, on a per capita, basis the under-developed countries attained a rate of growth of domestic product comparable in percentage terms to that of the developed countries. Nevertheless, an examination of the record concerning the sources of financing of their economic development is far from reassuring. As will be seen from chapter 2, the increases that have taken place in the rate of investment of under-developed countries have been largely financed by increases in foreign saving in the form of a balance of imports over exports of goods and services. Of twenty-eight countries for which data are available, only nine registered an increase in domestic saving from the beginning to the end of the nineteen fifties, and of these only three recorded such an increase in excess of 2 per cent of gross domestic product. Despite some rise in per capita incomes of households and in government revenues, neither private nor public saving has shown any wide-spread tendency to increase. At the private level, saving ratios have declined more often than they have risen. In part this was due to a relative shift in the distribution of income from property owners to wage earners, reflecting in some instances reductions in profits from export sales with the long-term weakening of commodity markets. In most instances this tendency was also reinforced by the expansion of industrial employment which has increased wages in relation to other incomes. The effect of this shift in the distribution of income upon saving ratios has been greatly enhanced in most countries by the impact of increasingly rapid urbanization upon demand for consumption, both because of the expense involved in the establishment of new homes and because the needs and conventions of urban living often tend to generate a higher permanent propensity to consume. The effect of urbanization upon consumption has not been limited to the private sector, but has on the contrary made necessary parallel increases in public consumption expenditure. This factor, together with the general influence of a rapidly rising population and a growing awareness of government responsibility for promotion of economic and social welfare, has everywhere led to higher levels of public expenditure for consumption. The result has been a rather limited rise in public saving in relation to output despite fairly general increases in government revenues. Given the urgent need for increasing the rate of investment, it is clear that a great deal more remains to be done in under-developed countries to encourage private saving and to increase public revenue, reduce non-essential public expenditure and increase public saving.

Given the very limited success in raising domestic saving, the increases in investment that have taken place have had to be financed in large part by increases in foreign saving. Except to the limited extent to which drawings upon gold and foreign exchange reserves or short-term borrowing may have been possible to cope with fluctuations in the balance of payments, the major source of foreign saving has, of course, been the annual net flow of long-term private and public capital. Despite a gratifying expansion in this flow, the problem of obtaining adequate financing for economic development remains acute. Not only is the aggregate still much too low to provide a basis for developing a self-sustaining rate of growth, but—what is no less important—its distribution among countries also remains highly uneven. So far as concerns private capital, the flow has been highly concentrated in countries with expanding export markets and with relatively high per capita incomes. As may be seen in chapter 2, out of thirty-one under-developed countries for which data are available, seven with per capita income of over $300 accounted for nearly half the total flow of private capital over the decade of the nineteen fifties. Some countries with expanding exports have received as high as 4 or 5 per cent of gross product in private capital, whereas countries with stagnant exports have received less than one-half of one per cent of gross product. Moreover, the degree of concentration of the flow of private capital has tended to increase rather than decrease in the course of the decade.

To some extent this concentration has been offset by the distribution of public capital flow which has been more heavily weighted in favour of countries with lower per capita incomes. This tendency, in fact, became more pronounced in the course of the nineteen fifties, more than two-thirds of the increase in public capital funds from the beginning to the end of the decade having been directed towards countries with per capita incomes under $200. Thus, though the distribution of public capital flows is inevitably influenced by special factors of a political nature, it is evident that governments have become increasingly aware of the essential role of foreign economic aid at the present stage of economic development of the less developed countries.

As a counterpart to the study of the sources of saving for economic growth and development of private enterprise economies, chapter 3 of the present *Survey* examines the nature and sources of saving in the centrally planned economies. In these countries financial plans and policies are subordinated to the general economic plan. In contrast to the private enterprise economies, where decisions to save and invest may be made independently so that investment decisions may at times exceed and at others fall short of decisions to save, in centrally planned economies no such dichotomy in decision-making exists. Instead, investment decisions are based on the estimated needs for an expansion of physical capacity to meet output targets, and the saving to finance such investment is simultaneously provided in the economic plan by means of the appropriate allocation of resources as between investment and consumption goods. Provided, therefore, only that the plan is comprehensive and internally consistent, there can be no discrepancy between investment and saving in the plan any more than such a discrepancy could arise in a non-market economy.

Despite the central control over the allocation of resources and the flow of goods, however, the role of finance in the centrally planned economies is not without importance. Its significance arises from the fact that these countries have retained the monetary mechanism for a large part of their economy, particularly in the sphere of consumer income and expenditure. Instead of resorting to direct rationing of supplies—in effect to a system of payments in kind—they have, for reasons of economic efficiency and the encouragement of initiative, relied upon the monetary mechanism not only in relation to labour but also in relation to enterprise. There has, in fact, been a growing tendency in recent years to reinforce the administrative direction of the economy through the financial mechanism.

While the use of a monetary system provides a means for stimulating initiative and increasing efficiency, it introduces at the same time an additional dimension in the problem of economic planning. If labour were paid entirely in kind there could be no possibility of imbalance between consumer income and supplies. This is not to say that the problem of achieving a proper balance between investment and consumption would cease to exist; this problem, which stems from the fundamental fact of scarcity, exists in every economy regardless of its political or social institutions. But in the absence of a monetary system, once the decision as to the allocation of resources between consumption and investment had been made, no problem of possible imbalance between consumer income and consumer supplies could arise. Given the existence of a monetary system, however, it is clear that it is necessary to include in the plan a mechanism to ensure a proper balance not only between investment and consumption but also between consumer income and consumer supplies. This is the purpose of the financial planning, described in chapter 3; in particular, integration of the credit plan and cash plan with the plan for production is necessary in order to ensure monetary balance of demand and supply within the economy.

If all elements of the economic plan at both the physical and the financial level could be exactly realized, no imbalance between demand and supply would arise under an internally consistent plan. Since, however, not all elements of the economy can be fully controlled—output of food and of consumer goods may, for instance, fall short of the plan while incomes may exceed planned levels owing to over-fulfilled targets in producer goods industries—not even centrally planned economies, as was shown at some length in the *World Economic Survey, 1957*[2]—can be free of concern with problems of monetary imbalance.

This is not to say, of course, that problems of economic imbalance between demand and supply are the same in countries with the centrally planned economies as in those based on private enterprise. But the problems are not so entirely dissimilar as to render comparison and contrast meaningless. One conclusion emerges from such a comparison with striking clarity. While the centrally planned economies can no more disregard the problem of possible pressure of excess demand in deciding upon their rate of investment than can countries based on private enterprise, they are able to eliminate two of the most basic deterrents to investment which elsewhere inhibit the rate of economic growth. First, they do not have a problem of providing adequate incentives for investment, such as is met in private enterprise economies. Second, once they have decided upon a rate of investment they are able to provide the required saving through their central control over consumer supplies. The ability to provide the requisite domestic saving has rendered the economic development of the centrally planned economies largely independent of foreign borrowing. It is true that capital imports have not been without significance even for them, particularly during the initial stages of development; indeed, the importance of capital flow was probably greater than might be suggested by its magnitude alone, since the flow was frequently channelled into industries that were strategic for economic growth. Nevertheless, as shown in chapter 3, only a very small fraction of investment in the centrally planned economies has been financed by foreign borrowing, the rest having been provided by domestic saving. Among the most crucial problems to be faced in the economic development of countries based on private enterprise, none is perhaps more important than that of finding a counterpart through the market economy to ensure, on the one hand, that adequate incentives are provided to bring forth the required investment decisions, and on the other, that adequate saving should be forthcoming to permit the decisions to be translated into actual investment. An important beginning has been made in the nineteen fifties on both counts. A far greater effort will, however, be necessary both at the national and at the international level before the process of economic development can become self-sustaining in most of the less developed regions of the world.

[2] United Nations, *World Economic Survey, 1957* (Sales No.: 58.II.C.1).

Part I

SAVING FOR ECONOMIC GROWTH: ITS SOURCES AND TRENDS

Chapter 1

SAVING FOR ECONOMIC GROWTH IN THE INDUSTRIAL COUNTRIES

The role of saving and investment

The significant differences among industrial countries in their rates of economic growth during the last decade or so have become a matter of increasing interest. Despite fairly similar economic backgrounds, several of these countries have been advancing at a very rapid pace while others have recorded only modest rates of growth. During the earlier post-war years, it seemed reasonable to ascribe such differences very largely to special circumstances, such as the recovery of some countries from war-time destruction and dislocation or the presence of particularly favourable trends in export markets. As the nineteen fifties advanced, however, it became increasingly clear that such special circumstances had ceased to be of much explanatory value. Most countries had already surpassed their pre-war peak levels of output at the outset of the period. And, while buoyant export demand has helped to sustain domestic economic growth in some countries, there have been other countries where similar rates of growth have been achieved despite quite different export experience.

Nor have the faster rates of growth in some countries been associated with stricter government controls, greater austerity or persistent internal and external disequilibrium. In fact, the controls imposed in war-time have been almost entirely abolished in most countries, and direction of the flow of resources has been left very largely to the market mechanism. Improvements in private consumption levels have been no less evident in countries with high rates of growth than in other countries. Further, there has been no consistent relationship between rates of economic growth and inflation, and some of the countries with high rates of growth have been notable for their balance of payments surpluses.

In the search for strategic factors to explain economic growth in the nineteen fifties, the *World Economic Survey, 1959* examined at some length the role of capital accumulation.[1] It was found that, by and large, countries with relatively high rates of investment have achieved relatively high rates of growth. The positive relationship between annual rates of growth of output and percentage shares of investment in output in the industrial countries for the period from 1950 to 1959 is again demonstrated in table 1-1.[2] The contrast between the investment experience of the high-growth countries, such as the Federal Republic of Germany and Japan, and of the low-growth countries, such as Belgium and the United Kingdom, is fairly clear. At the same time, it is also evident that an unusually high investment ratio in such countries as Australia and Norway has not brought about a particularly high growth rate; the inter-country experience, in other words, does not suggest that long-term growth in the output of an economy has always been related solely to the level of investment.

As analysed in detail in chapter 1 of the *World Economic Survey, 1959*, other factors have tended to modify the relationship between investment and output, causing it to vary among countries or in the same country over time. Of crucial importance in this connexion have been the rates at which the labour force in different countries has expanded and the ways in which capital and labour have been combined in the productive process. Often the different rates of expansion in the industrial labour force in the various countries have been affected not only by the natural growth of working-age population but also by the movement of labour from other sectors, particularly from agriculture. Another factor affecting the inter-country differences in growth experience has been the degree of utilization of capacity. Relatively high rates of growth in a number of countries have been facilitated by the gradual absorption of unemployed labour or of spare productive capacity available at the beginning of the period. Further, since the investment-output relationship varies greatly among different sectors of industry, country differences in the composition of output and in investment patterns have also had a

[1] United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1).

[2] In the present study, the saving ratio is expressed in terms of current prices because it is a more appropriate concept for analysing the sources of financing. The investment ratio is also expressed in current terms in order to facilitate comparison; therefore it is not strictly comparable with the ratio calculated at constant prices which was presented in the *World Economic Survey, 1959*. Furthermore, the concept of total investment, rather than fixed investment, is used here since additions to inventory have also to be financed. In the generally expanding economies of the nineteen fifties, inventory accumulation was not exactly balanced by decumulation; for most countries it amounted to between one and 2 per cent of gross domestic product. Consequently, as may be seen from table 1-1, the total investment or saving associated with a given rate of growth was higher than the fixed investment. This is especially so for those countries with a relatively high rate of growth. Thus, if the inter-country experience is suggestive of a typical investment-growth relationship, the proportion of resources which would have to be devoted to total investment and saving in order to bring about a given rate of growth would have to be somewhat higher than that indicated by fixed investment alone.

Table 1-1. Rate of Growth of Output[a] and Relationship Between Investment and Output, 1950-1959

Country	*Annual rate of growth in real gross domestic product (percentage per annum)*	*Gross domestic fixed capital formation* (percentage of gross domestic product)[b]	*Gross domestic capital formation*	*Incremental capital-output ratio*[c]
Japan	9.1	22.3	28.5	3.0
Germany (Federal Republic)	7.5	21.3	23.9	3.1
Austria	5.7	21.2	21.8	4.0
Italy	5.7	20.0	20.8	3.6
Netherlands	4.6	22.2	24.3	5.3
Australia	4.3	25.8	28.4	6.5
Finland	4.2	25.6	...	7.0
France	4.0	16.9	18.6	4.6
Canada	3.9	23.1	24.5	6.0
Norway	3.4	28.4	29.7	8.9
United States	3.3	16.7	18.0	5.3
Sweden	3.3	20.2	21.1	6.4
New Zealand	3.1	21.1	23.2	7.8
Belgium	2.7	15.7	16.3	5.7
Denmark	2.7	17.7	18.9	6.7
United Kingdom	2.5	14.6	15.6	6.1

Source: Division 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 national sources.

[a] Gross domestic product in constant market prices. For Australia and New Zealand the annual rate of growth is calculated from the average of 1950/51 and 1951/52 as the base period, rather than from a single year as in the case of other countries, owing to the abnormally high level of product in 1950/51.

[b] Ratios are shown in current prices. *See* footnote 2 to the present chapter.

[c] The incremental capital-output ratio is calculated by dividing the ratio of gross capital formation to gross domestic product by the rate of growth of output, all at constant prices. For Finland, it is estimated by gross fixed capital formation and annual rate of growth of output.

bearing on growth experience. New investment projects over a given span of time may also not all be completed and thus may not contribute to the growth of output within the period; if investment projects taking a long time to complete have been undertaken in some countries, this may raise their capital-output ratios. The differences in the productivity of new investment are further dependent upon the degree of durability and the extent to which technological advance has been absorbed. Here, the scope for rapid absorption of new technology has been especially great for those countries which have started from a relatively low level of achievement.

While the investment-output relationship has varied among countries, the differences should not be regarded as detracting from the role of investment in the growth process. From the point of view of policy, investment stands out as one of the most tangible instruments of growth which government can influence. Even if there are other impediments to growth, the prime force in the expansion of productive capacity and the attainment of higher levels of productive activity may still originate in investment activity. The significance of investment does not simply lie in the augmentation of the existing capital stock, but rather in the creation of new capital embodying technological advances. The continuous application of new technology to investment has been the foundation of economic growth in the industrial countries; and the potentialities of economic transformation through this channel have been increasingly recognized in the post-war period. Further, a high level of investment increases the flexibility of the economy and facilitates its structural adaptation to the continuous change in economic circumstances. Not only does new investment tend to flow into those sectors of the economy where the demand for output is expanding most rapidly, but the growth of these sectors also makes the adjustment of lagging sectors a much easier task.[3]

It is therefore clear that investment is of the utmost importance in the process of economic growth. At the same time, it is equally evident that, in order to realize investment, the necessary resources must be made available. If the low-growth countries are to accelerate their rates of growth through increases in investment, there is no escaping the fact that corresponding increases in saving must be secured.

While saving in the aggregate is necessarily equal to investment in the aggregate, it cannot be presumed that an increase in investment will always bring forth a corresponding expansion in saving at the prevailing

[3] It must always be recognized that the usual definition of capital excludes certain expenditures which, in a broad analysis of the determinants of economic growth, might be more properly regarded as capital expenditure. Outlays on education and health, for example, are conventionally classified as consumption expenditure, though they may permanently raise the productivity of the population. The practical difficulties in the reclassification of expenditures according to such a broader concept are, however, immense.

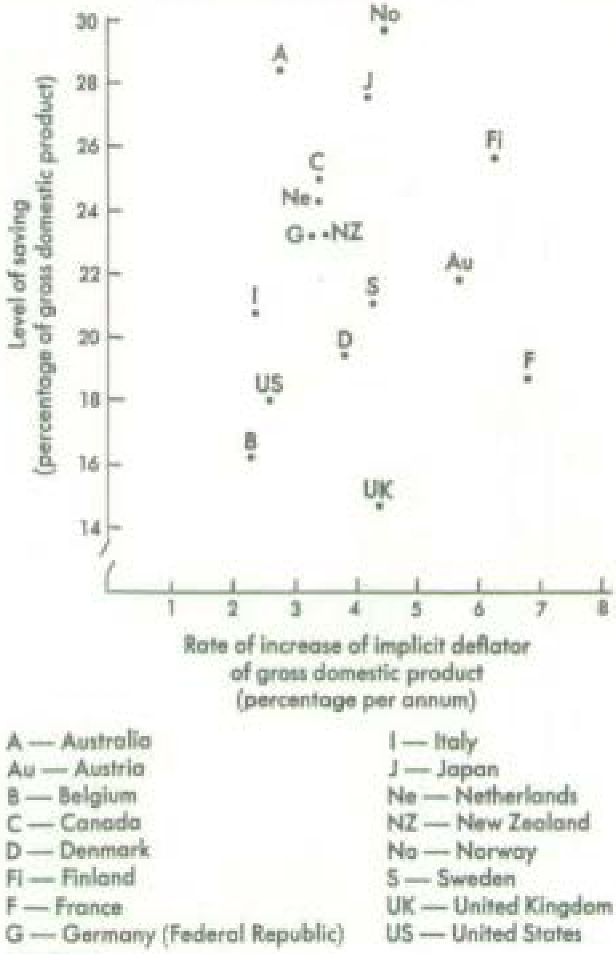
level of prices. If productive resources are already fully employed, a further addition to investment demand may well generate excess aggregate demand throughout the economy. The intensification of competition for the available output and productive resources, unless it is relieved by larger imports from abroad, then exerts an upward pressure on prices. If this gives rise to divergent movements in market and factor prices, most notably in the relationship between money wages and prices of wage-goods, the increase in investment demand may result in a higher level of saving and thus permit realization of a higher level of investment. But this process cannot be continued for long without adverse repercussions. Because of the redistribution of income, it is injurious, in particular, to the living standards of wage-earners and may give rise to wage-inflation; and, in so far as domestic pressure is relieved by imports from abroad, balance of payments difficulties may emerge.

It is in this way that the supply of saving may become a factor limiting investment. It is certainly true that decisions to save cannot by themselves be expected to stimulate investment; under conditions of inadequate effective demand, as was dramatically demonstrated in the nineteen thirties, efforts by governments or private business to strive for higher saving by retrenchment of expenditure may only lead to a reduction in output rather than to an increase in investment. But, in buoyant economic conditions, if the saving behaviour of the community is not adapted to the level of investment which private business and government seek to realize, investment must be restrained or domestic inflation and external imbalance may ensue.

In the post-war period, economic activity in the industrial countries has typically been sustained at high levels; and the rapid strides in technical knowledge have enhanced the prospect of ever widening markets. In these circumstances the stimuli to a growing volume of investment have been powerful and a central economic issue confronting industrial countries has been the release of sufficient resources from consumption to meet expanding investment requirements. The experience of the post-war years, however, indicates that these countries have not all been equally successful in releasing resources for investment. Nor, as noted earlier, have the more successful countries secured higher levels of saving by resort to inflation or by greater dependence on external sources of saving.

As a means of exacting saving from the community, inflation has probably been of some significance in most countries at various times. But it is evident that the high investment countries have not placed greater reliance on this means; this is quite clear from chart 1-1 which shows no systematic relationship between the level of saving and the rate of price increase. Generally, while moderate advances in prices have been tolerated by governments, any sign of a marked ac-

Chart 1-1. Relationship between Price Inflation and Level of Saving, 1950-1959



Source: See table 1-1.

celeration in price increases has been combatted by vigorous measures of restraint.

It is true that, in some industrial countries, the pressure on domestic resources arising from increased investment activity has been lessened by drawing on resources from abroad. The availability of foreign saving has then served as a safety valve for the domestic economy. But such relief from pressure on domestic resources by resort to the foreign sector has generally been temporary and limited. Moreover, for most countries, the inflow of autonomous foreign capital has been limited and the level of foreign exchange reserves during the period has been too small to permit a continuing drain. Any abrupt increase in demand for foreign saving has thus often resulted in a balance of payments crisis, and this, in turn, has necessitated policies of retrenchment of expenditure.

As will be seen, the factors accounting for differences in ability to save are indeed complex and do not lend themselves to easy generalization. Within the domestic economy, saving is conducted by myriad persons and institutions and is motivated by many different considerations. But it is feasible to classify these persons and institutions into the three broad groups of government, households and enterprises, since saving behaviour within each group is moulded by factors that are frequently different from those affecting the other groups. In government, the level of saving is largely an outcome of the decisions taken in furtherance of general economic or budgetary policy. In the household sector, saving is motivated by such things as the wish to accumulate funds for contingencies, to make provision for old age, to purchase a house or some consumer durable or to invest in an income-yielding asset. In the enterprise sector, the saving behaviour of corporations is determined by such factors as their need to make provision for the replacement of depreciating assets, their dividend policy, their programmes for expansion, their policies with regard to the financing of new investment from internal or external sources and the fiscal policies of government.

In none of these sectors can saving behaviour be considered entirely in isolation from events in other sectors or from the general economic environment. Corporate policy, for example, with regard to the distribution of profits may not only affect corporate saving but also saving in the household sector; or, as will be seen, the rate of growth in general economic activity may be an important determinant of household saving. Most important of all, the influence of government in determining the level of total saving in the economy extends far beyond its immediate policy with regard to saving in its own sector. In the modern economy, governmental policy may affect the decisions of private individuals or corporations through innumerable channels. Explanation of the differences among countries in saving experience therefore lies not only in the interplay of purely economic forces, but also in the host of measures that comprise governmental policy.

Interest naturally focuses most upon the influence of governmental policy as distinct from other forces. In the following analysis, particular attention has therefore been paid to the identification of governmental measures as they affect the saving behaviour of the community. In the next section of this chapter, comparisons are made among the various countries of the level and structure of saving during the nineteen fifties as a whole. This approach helps, in particular, to reveal those differences among countries in the structure of their economies and in their institutions which affect their relative levels of saving. Differences among countries in the size of the corporate sector, for example, is in itself an important reason for differences in the level of corporate saving. This sets the background to the analysis contained in the following section of the factors accounting for the divergent trends in saving which countries have experienced throughout the last decade. Explanation of these trends is clearly of immediate interest from the point of view of appropriate governmental policies to raise the level of saving.

Analysis of levels and trends in saving, however, necessarily abstracts to some extent from the short-term fluctuations in economic activity that permeate the economies of industrial countries. But government policy with regard to saving and investment has to be adjusted to the current economic situation as well as to its long-term economic aims. To the extent that cyclical fluctuations have not been completely eliminated, a rise in the level of saving may not always be appropriate. The behaviour of saving in the course of short-term fluctuations is thus examined, particularly from the point of view of the anti-cyclical role of government. It must also be recognized that, if the process of growth is to be sustained, the availability of aggregate saving is not always sufficient. In particular, if a continuing supply of saving from the foreign sector is presumed, the expansion of economic activity may be brought to a halt by balance of payments difficulties or the inability or unwillingness to place further reliance on the supply of foreign funds.

In the penultimate section, it is emphasized that in focusing attention on the sources of saving for investment in the economy as a whole, the question of the financing of particular industries or firms should not be lost sight of. In so far as there are imperfections in financial markets, funds available to one sector may not necessarily be available to another. Apart from policies to ensure adequate supply of saving in the aggregate, appropriate measures must, therefore, be adopted to ensure a sufficient flow of funds into the particular sectors which are strategic to growth. In the conclusion to the chapter, the policy issues affecting saving are drawn together to give some indication of the possible instruments available to governments.

Sources of saving

The diversity among industrial countries in the levels of saving which they have achieved during the nineteen fifties as a whole, has been associated with considerable differences in patterns. The several sources of saving have not all contributed proportionately to the higher or lower level of total saving. Further, while saving behaviour in certain sectors has been particularly important in explaining inter-country differences in the level of total saving, it has been by no means always true that the same level of saving among countries has been associated with similar levels within each sector. In seeking to identify the factors accounting for the diversity in levels of total saving, some attempt must therefore be made to determine the reasons for inter-country differences in the level of saving within each sector. Such analysis constitutes the main content of this section.

Before each of the sources of saving is considered separately, however, it is useful to form some impression of their relative importance. This can be derived from the data shown in tables 1-2 and 1-3. It will be seen that, for all countries, domestic saving in comparison with foreign saving is by far the more important source of saving; indeed, in a number of countries, the foreign sector has absorbed, rather than added to, domestic saving. As may also be seen from table 1-3, the proportion of total output devoted to domestic saving in the high-saving countries has been nearly double the rate in the low-saving countries.

Table 1-2. Levels of Foreign and Domestic Saving, 1950-1959

(Percentage of gross domestic product)[a]

Country	Total supply of saving[b]	Foreign saving[c]	Gross domestic saving
Norway	29.7	2.6	27.1
Australia	28.4	2.3	26.1
Japan	27.5	−1.2	28.7
Finland[d]	25.6	−1.1	26.7
Canada	25.0	2.5	22.5
Netherlands	24.3	−1.4	25.7
Germany (Federal Republic)	23.2	−3.1	26.3
New Zealand	23.2	0.7	22.5
Austria	21.8	1.4	20.4
Sweden	21.1	−0.3	21.4
Italy	20.8	1.3	19.5
Denmark[e]	18.7	0.2	18.5
France	18.6	0.2	18.4
United States	18.0	−0.6	18.6
Belgium[e]	16.2	−1.4	17.6
United Kingdom	14.7	−0.5	15.2

Source: See table 1-1.
[a] Ratios are shown in current prices.
[b] Total saving ratios in Canada, the Federal Republic of Germany, Japan and the United Kingdom are slightly different from their respective gross investment ratios as given in table 1-1, owing to statistical discrepancies.
[c] Foreign saving is equal to payments for imports of goods and services minus receipts from exports of goods and services. A positive foreign saving reflects an excess of such payments over receipts and a negative foreign saving an excess of receipts over payments. *See also* footnote 8 to the present chapter.
[d] Excluding financing of inventories.
[e] 1950-1958, annual average.

In all the countries, as would be expected from the nature of their economic systems, enterprise and household savings, taken together, have been far more important than government saving. And, as between the two sources of non-government saving, the saving of enterprises has usually been larger than that of households. In interpreting the data, however, certain statistical conventions must be remembered. First, undistributed profits of corporations are considered as corporate saving rather than as saving accruing to shareholders. Secondly, although net saving of unin-

Table 1-3. Level of Gross Domestic Saving, by Sector,[a] 1950-1959

(Percentage of gross domestic product)

Country	Gross domestic saving	General government saving	Enterprise saving	Household saving
Japan	28.7	5.9	12.6	10.2
Norway	27.1	7.3	13.6	6.2
Finland[b]	26.7	13.0	— 13.7 —	
Germany (Federal Republic)	26.3	7.7	10.5	8.1
Australia	26.1	5.5	10.6	10.0
Netherlands	25.7	6.9	14.6	4.3
Canada	22.5	2.9	14.6	5.0
New Zealand	22.5	5.7	9.2	7.6
Italy[c]	21.4	2.3	— 19.1 —	
Sweden	21.4	4.9	12.2	4.3
Austria	20.4	6.6	8.0	5.8
United States	18.6	2.5	10.8	5.3
Denmark[d]	18.5	4.1	7.4	7.0
France	18.4	3.9	11.1	3.4
Belgium[d]	17.6	−0.5	10.0	8.1
United Kingdom	15.2	2.2	11.4	1.6

Source: See table 1-1.
[a] The inclusion of depreciation charges in individual sectors follows statistical convention. Thus, government saving consists of its net saving and, wherever data are available, of depreciation charges of general government. Enterprise saving includes not only net saving and depreciation charges of public and private corporations but also depreciation charges of government enterprises, unincorporated enterprises and housing. Household saving refers to net saving of persons, unincorporated enterprises and non-profit institutions.
[b] Excluding financing of inventories.
[c] These figures refer to annual averages for 1955-1959 only; the domestic saving ratio is therefore different from that in table 1-2.
[d] 1950-1958, annual average.

corporated enterprises is included in the household rather than the enterprise sector, depreciation of unincorporated enterprises, including that of owner-occupied houses, is lumped together with that of government enterprises and public and private corporations in enterprise saving. If it were allocated to the household sector, household saving would approximately double in a number of countries.[4] A further implication of the high concentration of depreciation in the enterprise sector is that, in terms of net saving, the relative weight of this sector is much reduced; indeed for most countries the net saving of enterprises is not more than 5 per cent of gross product and is generally smaller than net saving of government or households. On a gross basis, however, there is little doubt that most of the

[4] Data are available for a few countries:

Household saving as percentage of gross domestic product, 1950-1959

Country	Depreciation of unincorporated enterprise: Included	Excluded
Japan	13.1	10.2
Canada	9.5	5.0
France	6.7	3.4
United Kingdom	3.4	1.6

Corresponding differences will thus be reflected in saving of enterprises.

saving decisions are made by business institutions rather than by households.

The relatively larger share of enterprise saving in the total non-government saving, however, does not imply that it is more important than household saving in explaining the inter-country differences in total saving. In fact, high-saving countries have more often been characterized by high household saving than by high enterprise saving. This is partly explained by the fact that, as just noted, enterprise saving is a heterogeneous item, being especially heavily weighted by depreciation charges which are not systematically related to total saving. It should be noted further that there has been a tendency in some cases for a relatively high enterprise saving to be offset by a low household saving, as in Canada and the Netherlands, or vice versa, as in Denmark and the Federal Republic of Germany. Consequently, the combined saving of enterprises and households rather than each separately appear to have been more closely associated with total saving.[5]

The level of government saving has usually been somewhat smaller than that of the other two classes of domestic saving.[6] But, like household saving, it has varied quite widely among countries. It has ranged, for example, from about 7 per cent of gross domestic product in Austria, the Federal Republic of Germany, the Netherlands and Norway, to less than 3 per cent in the United Kingdom and the United States and to a deficit in Belgium. By and large, the countries with high total saving ratios have also been among those with high government saving ratios. Moreover, they have tended to derive a relatively high proportion of total saving from government saving. Thus, a number of the high-saving countries have obtained more than one-quarter of total saving from the government sector while, for some of the low-saving countries, government saving has contributed no more than one-eighth to the total.[7] It may also be observed that the positive association between gross saving ratios and general government saving ratios also applies when government saving is replaced by saving of the public sector.

A feature common to all the industrial countries has been the minor role played by foreign saving in the total supply.[8] It is true that the rapid post-war development of a number of industrial countries was greatly facilitated by substantial aid from the United States. There is no doubt, however, that such aid has not played an important part in the industrial areas since the mid-nineteen fifties. On the contrary, the demands upon them to increase their capital aid to the less developed areas have been mounting. In fact, the net inflow of foreign saving in no case reached the level of 3 per cent of gross domestic product, and in some countries it has been well below one per cent. In half of the countries foreign saving has actually been a negative quantity. Those countries which have benefited significantly from foreign saving, such as Australia, Canada and Norway, have been particularly attractive to foreign capital by virtue of such special circumstances as their resource pattern or their geographic or political affinity with the main capital exporting countries. While, therefore, there appears to have been a slight positive association between the level of total saving among countries and the supply of foreign saving, the marginal nature of foreign saving deprives it

[5] This combined saving is not, however, identical with the saving of the private sector since enterprise saving also includes gross saving of public corporations together with depreciation charges of government enterprise. For a number of countries, separate data for saving of private enterprises (that is, gross saving of private corporations and depreciation of unincorporated enterprises, including that of owner-occupied houses) can be obtained. The saving of the private sector as a whole is then as follows:

Private saving in selected countries, 1950-1959
(percentage of gross domestic product)

Country[a]	Total private sector	Private enterprises	Households
Australia	19.6	9.6	10.0
Japan	21.0	10.8	10.2
Canada	18.2	13.2	5.0
Netherlands	17.0	12.7	4.3
United States	15.2	10.0	5.3
Belgium[b]	17.3	9.2	8.1
United Kingdom	11.5	9.8	1.6

Source: See table 1-1.
[a] Countries are arranged in descending order of total gross saving as a percentage of gross domestic product.
[b] Average 1950-1958.

[6] Net saving of government enterprises is included in government saving. Depreciation of government enterprises cannot usually be separated from that of other enterprises and is therefore included in enterprise saving.

[7] In the present discussion, the government sector refers to general government only because data on saving of government enterprises and public corporations are not available for many countries. For those for which data are available, the combined saving of general government and public enterprises, that is, the public sector as a whole, is as follows:

Public saving in selected countries, 1950-1959
(percentage of gross domestic product)

Country[a]	Total public sector	Public enterprises
Australia	6.6	1.1
Japan	7.7	1.8
Canada	4.3	1.4
Netherlands	8.8	1.9
United States	3.4	0.9
Belgium[b]	0.3	0.8
United Kingdom	3.8	1.5

[a] Countries are arranged in descending order of total gross saving as a percentage of gross domestic product.
[b] Average 1950-1958.

[8] Foreign saving refers to the deficit of the nation on current account in goods and services at current prices. A positive foreign saving reflects an excess of current payments over receipts and a negative foreign saving an excess of current receipts over payments. Foreign saving thus defined does not include net current transfers to or from the rest of the world. Correspondingly, saving of the general government and the household sector also excludes such net current transfers. For most countries under consideration the net amount involved in such transfers was small for the period as a whole, the main exceptions being Japan and the United States. In the former country, the transfers, mainly reparation payments, amounted to one-half of one per cent of gross domestic product, while in the latter, which extended substantial foreign aid, they represented 0.7 per cent of gross domestic product.

of much significance, particularly by comparison with similar relationships for other components of saving.

Taken together, these four sources of saving provide the total saving available to each country for domestic investment. Because levels of saving in the three domestic sectors have varied so widely among countries, there have been considerable differences in the level of total saving. As a percentage of gross domestic product, total saving has been almost twice as large in the high-saving countries as in the low-saving countries. And the disparity is even more striking if the comparison is made in terms of net, rather than of gross, saving (see table 1-4). Among most countries, the proportion of output absorbed in depreciation has been fairly uniform, being clustered around 8 to 10 per cent of output. To some extent this reflects the fact that the rate of depreciation is related to the stock of capital and its composition in terms of depreciable assets; and since output is also related to the stock and composition of capital, this means that depreciation as a proportion of output does not vary greatly among countries.[a] Accordingly, the spread in net saving among countries has been wider than in gross saving.

Table 1-4. Levels of Gross and Net Domestic Saving, 1950-1959

(Percentage of gross domestic product)

Country	*Gross domestic saving*	*Depreciation*	*Net domestic saving*
Japan	28.7	7.6	21.1
Norway	27.1	9.9	17.2
Finland[a]	26.7	5.0	21.7
Germany (Federal Republic)	26.3	9.1	17.2
Australia	26.1	5.9	20.2
Netherlands	25.7	9.8	15.9
Canada	22.5	11.1	11.4
New Zealand	22.5	6.6	15.9
Austria	20.4	7.1	13.3
Italy	19.5	8.9	10.6
United States	18.6	8.7	9.9
Denmark[b]	18.5	6.1	12.4
France	18.4	9.3	9.1
Belgium[b]	17.6	9.7	8.0
United Kingdom	15.2	8.0	7.2

Source: See table 1-1.
[a] Excluding financing of inventories.
[b] 1950-1958, annual average.

[a] The depreciation ratio is, of course, also affected by the differences among countries in depreciation practices. A higher depreciation rate, for example, might be expected in a country where accelerated depreciation allowances are granted by the government for tax purposes. Differences in depreciation practices, together with differences in the composition of capital stock, are probably major reasons why, among industrial countries, a high average capital-output ratio is not closely associated with a high depreciation ratio; or, conversely. For example, while the relatively high depreciation charges in the Netherlands and Norway are associated with relatively high capital-output ratios, and low depreciation charges in Japan with a low capital-output ratio, extreme differences in depreciation charges in Australia and Canada are associated with similar capital-output ratios.

GOVERNMENT SAVING

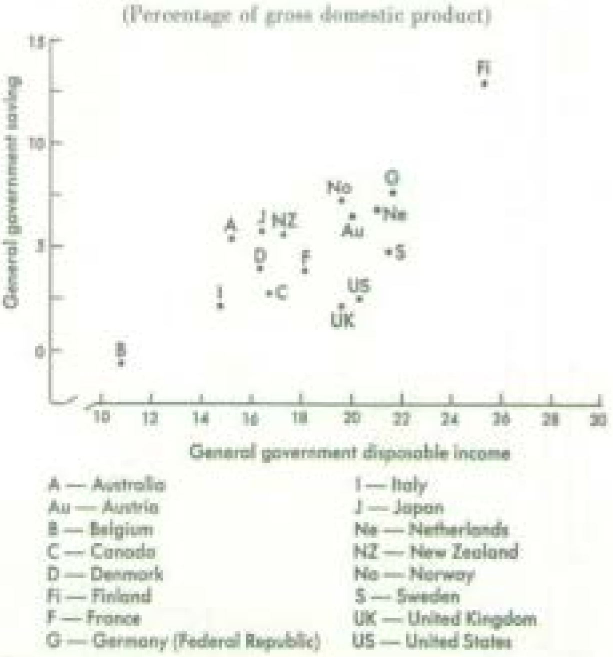
Though not a primary explanation of differences among countries in the proportion of saving to income, the saving of general government has contributed in some degree to the diversity of experience. As has been noted, the countries in which total saving has been relatively high have also been among those in which the saving of government has been high; moreover, in these countries, government saving has generally accounted for a higher share of total saving.

The determinants of saving by government are obviously quite distinct from those moulding the saving of income recipients in the private sector. Besides being able to vary the proportion of its income expended on consumption as can other savers, government is unique in its ability to alter the level of its income by legislative action. Government saving, in other words, is the outcome of a complex of policies affecting the level of its income as well as the pattern of its expenditure. Within wide limits, revenue and expenditure policies can be mutually adjusted to each other to yield many different levels and combinations of income, consumption and saving. Explanation of the differences among countries in the level of government saving must therefore be sought both in revenue or tax policies and in expenditure policies; or, more correctly, since these are interrelated policies, it must be sought in fiscal policy as a whole.

As a first step in the disentanglement of the several strands of fiscal policy that determine saving, income may be compared with saving. This is done in chart 1-2 where government disposable income has been plotted

Chart 1-2. Levels of General Government Disposable Income and Saving, 1950-1959

(Percentage of gross domestic product)



Source: See tables 1-1 and 1-5.

against government saving, both expressed as percentages of gross domestic product. What emerges is evidence of a fairly clear relationship between the level of government disposable income and the level of saving. In countries where government has absorbed a relatively high proportion of total income, the level of government saving has also tended to be relatively high; and conversely.

The differences among countries in the level of government saving, however, have been related in a distinctive way to the proportion of total income absorbed by government. Government saving has not only tended to be higher in countries where the share of government disposable income has been larger; as may be seen from table 1-5, it has also tended to account for a larger proportion of government disposable income in countries where the share of such income has been larger.

Table 1-5. Level of General Government Saving, 1950-1959

Country	Gross saving[a] (percentage of gross domestic product)	Disposable income[b] (percentage of gross domestic product)	Gross saving (percentage of government disposable income)
Finland	13.0	25.3	51.4
Germany (Federal Republic)	7.7	21.6	35.7
Norway	7.3	19.6	37.4
Netherlands	6.9	21.0	32.6
Austria	6.6	20.0	32.8
Japan	5.9	16.4	36.2
New Zealand	5.7	17.3	33.2
Australia	5.5	15.2	36.2
Sweden	4.9	21.5	23.0
Denmark[c]	4.1	16.3	24.8
France	3.9	18.1	21.4
Canada	2.9	16.7	17.4
United States	2.5	20.3	12.1
Italy[d]	2.3	14.7	15.3
United Kingdom	2.2	19.6	11.4
Belgium[c]	−0.5	10.8	−4.8

Source: See table 1-1.

[a] Including depreciation where data are available.

[b] Disposable income of government is the current income available for the purchase of goods and services. For its components, see table 1-6.

[c] 1950-1958, annual average.

[d] 1955-1959, annual average.

The most interesting aspect of the above relationship is its corollary. This is that the differences among countries in the share of government disposable income are much greater than the differences in the share of government consumption expenditure. As a share of gross product, government consumption expenditure of most countries, as may be seen in table 1-6, has been within the small range of 12 to 14 per cent in spite of differences in per capita income. The substantial differences among countries in the level of government saving are thus, in a sense, explainable by the variations in the level of government disposable income and the similarities in the level of consumption expenditure.

Two notable exceptions to this general tendency are the United Kingdom and the United States. Government consumption expenditure in these two countries amounted to about 18 per cent of gross domestic product, being much higher than in most other countries of the group. Though government civil consumption expenditure has not been as high in these two countries as in some others, the exceptionally high levels of defence expenditure have raised their total consumption expenditure well above that of other countries. Thus, despite fairly high levels of government disposable income, government saving has been relatively low. By contrast, Australia and Japan have recorded relatively high levels of government saving though disposable income has not been correspondingly high. In these two countries government consumption has been relatively low; its claim on output has, in fact, been about half of that in the United Kingdom and the United States.

The relationship between government expenditure on consumption and government disposable income is a useful first step in exposition, but it clearly needs elaboration. Expenditure on consumption and disposable income have so far been considered as though they were determined independently of each other, and this is clearly not so. Further, the other component of government expenditure, namely, investment, has been ignored. When investment as well as consumption expenditure is taken into account, the interdependence of government income and government total expenditure becomes more apparent. The addition of this dimension helps towards a fuller explanation of the elements of government policy giving rise to the wide differences among countries in the level of government saving.

The interdependence of government income and expenditure obviously does not mean that they balance each other out exactly. Indeed, the discrepancies between revenue and expenditure are of major importance for general economic policy. It is nevertheless clear that, when total income and expenditure are considered, by far the greatest part of each offsets the other. From this, it follows that, since the share of government disposable income in total income has varied widely among countries whereas the share of government consumption expenditure has not, the differences in the level of government saving has been, to some extent, associated with corresponding differences in the level of government investment. This is illustrated by the comparison between saving and investment, both expressed as percentages of disposable income, which is given in chart 1-3. That a high level of saving has been associated with a high level of investment does not necessarily mean that governments, in the formulation of their budgetary policies, have simply sought to adjust their saving to fixed programmes of investment. In the annual

Table 1-6. Levels of Government Disposable Income and Components of Income and Expenditure, 1950-1959

(Percentage of gross domestic product)

Country	Disposable income of government[a]	Direct and indirect taxes minus subsidies	Direct taxes: Total	Direct taxes: Household	Direct taxes: Corporate	Indirect taxes minus subsidies	Net transfers[b]	Other income[a]	Consumption of government: Total	Consumption of government: Civil	Consumption of government: Defence
Finland	25.3	...	...	...	4.1	12.3	...	3.0	12.3	10.7[c]	1.6[c]
Germany (Federal Republic)	21.6	32.0	18.0	14.9	3.1	14.0	−12.3	1.9	13.9	10.1	3.8
Sweden	21.5	26.2	18.3	14.9	3.4	7.9	−5.7	1.0	16.5	11.6	4.9
Netherlands	21.0	28.5	18.3	14.4	3.9	10.2	−7.3	−0.2	14.1	8.9	5.2
United States	20.3	25.7	17.2	11.9	5.3	8.5	−4.1	−1.3	17.8	7.5	10.4
Austria	20.0	30.1	18.9	16.8	2.1	11.2	−11.6	1.5	13.4	11.9	1.5
United Kingdom	19.6	27.7	15.8	10.7	5.1	11.9	−5.9	−2.2	17.3	9.4	7.9
Norway	19.6	25.0	15.7	11.8	3.9	9.3	−5.4	—	12.3	8.8	3.5
France	18.1	29.3	14.1	12.0	2.1	15.2	−10.7	−0.5	14.3	8.4[d]	5.9[d]
New Zealand	17.3	24.9	17.8	12.9	4.9	7.1	−8.3	0.7	11.5	9.0	2.5
Canada	16.7	22.9	11.2	6.4	4.8	11.7	−6.1	−0.2	13.8	7.7	6.1
Japan	16.4	19.6	10.3	6.8	3.5	9.4	−2.7	−0.6	10.5	...	...
Denmark[e]	16.3	22.5	12.4	11.0	1.3	10.1	−6.4	0.2	12.3	9.6	2.7
Australia	15.2	21.9	11.5	8.0	3.5	10.5	−5.0	−1.8	9.7	6.3	3.4
Italy[f]	14.7	18.2	5.7	...	...	12.5	−3.0	−0.5	12.4	8.6	3.8
Belgium[e]	10.8	21.1	13.1	11.0	2.1	8.0	−9.2	−1.1	11.3	7.7	3.6

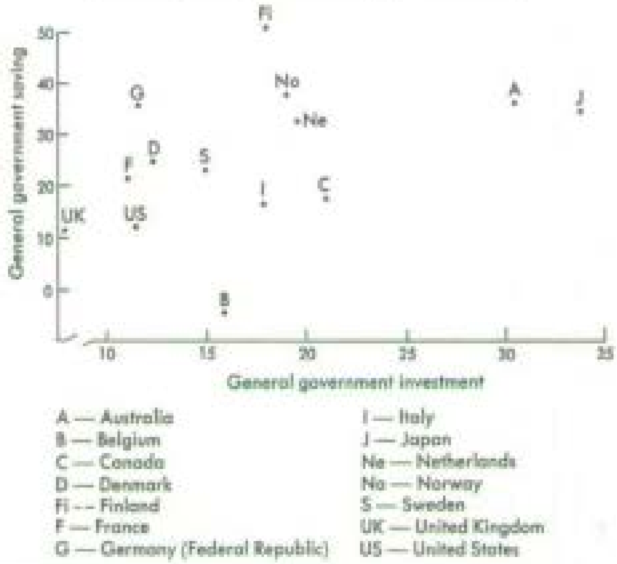
Source: See table 1-1.
[a] Including depreciation where data are available.
[b] Net transfers are shown with a reversal of sign as a deduction from government income.
[c] Estimated from 1953-1959 annual average.
[d] Estimated from 1954-1959 annual average.
[e] 1950-1958, annual average.
[f] 1955-1959, annual average.

budgets of general government, both saving and investment are variables that may be adjusted in opposite directions because of changes in budgetary policy affecting the relationship between total revenue and expenditure; this is discussed more fully in a later section of the present chapter. Nevertheless, in explanation of the wide differences among countries in the level of government saving that have prevailed during the past decade as a whole, it is evident that differences in the level of government investment have been important. In countries where the investment of general government in public services, such as schools, hospitals, roads or publicly-owned housing, has been relatively large, the level of government saving has been relatively high. Australia and Japan, for instance, are cases in point. Conversely, where investment of general government has been relatively small, government saving has been relatively low.

It will be noted from chart 1-3, however, that in a number of countries the ratio of the saving of general government to its disposable income has been significantly different from the ratio of its investment to disposable income. In most instances, the saving ratio has been higher than the investment ratio. This means that general government has been a net saver in relation to the rest of the economy. Its total consumption and investment expenditure, taking one year with the next throughout the last decade, has been less than its disposable income. In some of these countries, the accumulation of excess saving has been related to government policy with regard to the financing of public enterprises. In France and Norway, for example, government saving has been partly utilized for the financing of investment in public enterprises. In several countries, excess saving has also been partially utilized to provide financial resources for investment in the private sector; in the Federal Republic of Germany, for example, capital transfers from government saving have often been made to promote private investment. But such institutional arrangements have varied considerably

Chart 1-3. Levels of General Government Investment and Saving, 1950-1959

(Percentage of government disposable income)



Source: See table 1-1.

from country to country. In contrast to France and Norway, for example, excess saving to finance investment in public enterprises has not been relied upon so much in the United Kingdom where the government has sought to obtain the finance by borrowing on the open market. Thus, such institutional differences have been an additional factor accounting for differences among countries in the level of saving.

Not all of the variation among countries in the excess of government saving over investment, however, is explainable in terms of such institutional differences. As noted earlier, it is a matter of general budgetary policy whether total revenue and expenditure exactly balance out. And in some countries, such as the Federal Republic of Germany, the Netherlands and Norway, budgetary policy over the last decade as a whole has been adapted to yield an excess of total income over total expenditure. In the Federal Republic of Germany, for instance, the level of investment in the general government and public enterprise sectors has been relatively low, the level of government saving has been very high. The broad aim of government policy has been to stimulate private investment and, within this context, government saving has been maintained at a high level mainly for anti-inflationary purposes.

This reference to general budgetary policy serves as a reminder that, in the final analysis, the level of government saving is the outcome of policies with regard to the level of revenue as well as to the level and pattern of expenditure. It is true that high levels of government saving have generally been associated with relatively high levels of government investment in the general government or public enterprise sectors, but it is also true, as noted earlier, that these high levels of saving have been associated with relatively high levels of government disposable income. In other words, differences among countries in taxation policy must also be included in the explanation.

The disposable income available to government depends primarily on its tax policy, but it is not identical to total tax revenue. For the analysis of government saving, disposable income in the present study has been defined as the sum of total direct taxes, net indirect taxes and other income minus net transfers; net indirect taxes are equal to total indirect taxes minus subsidies. In all countries, direct and net indirect taxes are the major sources of revenue, other income being small or negative (*see* table 1-6).

In most countries, there are considerable differences between total tax revenue on the one hand and government disposable income on the other. These differences arise very largely because of the substantial net transfers made by governments in all industrial countries. These have been particularly large in such countries as Austria, Belgium, the Federal Republic of Germany and France. The size of these net transfers, however, have not been associated in any systematic way with the level of total tax revenue or, consequently, with the level of disposable income. For example, in the Federal Republic of Germany, the high level of net transfers has been accompanied by a high level of tax revenue, so that disposable income has none the less been relatively large; but in Belgium, large net transfers combined with relatively low tax revenue has reduced the level of disposable income.

In most countries, direct taxation accounts for the larger part of total tax revenue and the differences among countries in the level of direct taxes are the most important single reason for the variations in total revenue. Italy, however, is a notable exception; as is typical of a less advanced economy, net indirect taxes have been by far the larger source of revenue. Revenue from net indirect taxes has also been important in accounting for the differences in the total revenue of some countries; in the Federal Republic of Germany and France, for example, revenue from net indirect taxes has been particularly high, whereas in New Zealand and Sweden it has been unusually low. Among most countries, however, the differences in revenue from net indirect taxes have not been as great as the differences in revenue from direct taxes.

The differences among countries in revenue from direct taxes have primarily reflected variations in the effective rate of taxation on the household sector, and, principally, on personal incomes. It might be thought that the differences among countries in the average effective rate of tax on personal incomes would be associated with the degree of progression in their tax systems. So far as the data allow of generalization, however, this does not appear to be so. The evidence, in fact, suggests that a relatively high average effective rate has been accompanied by a relatively high effective rate for the lower-income groups as well as for the higher-income groups.[10] Typically, the effective rate for the top 10 per cent of incomes has been around 20 per cent, but it appears to have been somewhat higher in countries where the average effective rate has been greater; for the bottom 50 per cent of incomes, the effective rate has been about 5 per cent, but again it appears to have been higher in countries where the average effective rate has been greater. In other words, while over one-half of all revenue from personal income taxes has frequently been derived from the top 10 per cent of incomes, there is no evidence that this share is higher in countries with relatively high average effective rates of tax. Differences among countries in the level of revenue from personal income tax would thus appear to be explainable more in terms of differences in the level of tax applying to both the higher and the lower

[10] The generalizations in the text are based on an examination of the distribution of income by size and of income taxes in nine countries. While such data, chiefly derived from tax statistics, are not strictly comparable between countries because of differences in definition and coverage of income, income units and taxes, they are sufficient to yield broad conclusions.

income groups rather than in terms of differences in tax rates between these groups.

This conclusion might appear to be in conflict with the known fact that the statutory marginal rates of income tax are appreciably higher in some industrial countries than in others. In Japan, the United Kingdom and the United States, for example, these marginal rates have been very high, rising to about 90 per cent in certain instances. But it has to be remembered that these very high rates apply only at the margin to very high incomes and, as a part of the top 10 per cent of incomes, these incomes may not be large. Thus, the tax yield from these high statutory rates may be very small in relation to total tax revenue. It is also widely recognized that there are many financial arrangements whereby taxable income at the highest levels may be reduced by conversion of part of income into income in kind or capital gains which do not attract the high tax rates.

In comparison to personal income taxes, taxes on corporations have been a much less important source of revenue from direct taxes. In Canada, New Zealand, the United Kingdom and the United States, however, revenue from corporate taxes has been considerably more important than in most of the other countries. Besides the rates of taxation, the relative levels of revenue from corporate taxes in the various countries have been affected by the size of the corporate sector in the economy and the level of corporate incomes. These latter two factors are reflected in the ratio of corporate income to gross output; and this ratio has been particularly important in accounting for inter-country differences in the level of revenue from corporate taxes. For example, the higher levels of revenue in Canada, the United Kingdom and the United States compared with the Federal Republic of Germany are wholly ascribable to the higher level of corporate income.[11]

In summary, there has been some tendency for countries with high levels of total saving to have high levels of government saving, and conversely. In countries where the level of government saving has been high, tax revenue has generally been relatively large. Differences among countries in the level of tax revenue have primarily reflected differences in average effective rates of direct tax, and not in the degree of progression in direct tax rates between the upper and lower income groups. A large tax revenue, however, has not necessarily implied high government saving; in the United Kingdom and the United States, in particular, heavy defence expenditure has substantially reduced government income available for saving. Differences among countries in the level of government saving have also been related to differences in the level of investment in the general government sector or in the financial relationship between government and public enterprises.

[11] *See* tables 1-11 and 1-12 below.

In certain instances, anti-inflationary budgetary policy may also have contributed to a higher level of saving.

HOUSEHOLD SAVING

Of the several sources of saving, the diversity among countries in the level of household saving as a percentage of gross domestic product is of particular interest. It is this which, more than any one of the other classes of saving, has contributed to the differences in the level of total saving. In absolute terms, the volume of household saving has been less than that of government saving in some countries, and in all countries it has been less than the volume of enterprise saving. But of all the sectors, saving behaviour in the household sector has been the least uniform.

Unlike that of the government sector, the share of the household sector in disposable income has not been of much relevance to an explanation of differences among countries in the sector's level of saving. Households absorb the bulk of total income in all countries; accordingly, differences of a few percentage points in household disposable income as a proportion of gross domestic product do not, as in the case of government income, imply large percentage variations among countries. In most countries, household disposable income has, in fact, ranged from about two-thirds to about seven-tenths of gross domestic product[12] (*see* table 1-7 and chart 1-4). Variations in the share of this sector

Table 1-7. Levels of Household Saving and Disposable Income,[a] 1950-1959

Country	*Saving* (*percentage of gross domestic product*)	*Disposable income* (*percentage of gross domestic product*)	*Saving* (*percentage of household disposable income*)
Japan	10.2	67.6	15.2
Australia	10.0	72.6	13.7
Germany (Federal Republic)	8.1	67.8	12.0
Belgium[b]	8.1	80.5	10.0
Finland[c]	8.1	67.9	11.9
New Zealand	7.6	72.5	10.4
Denmark[b]	7.0	76.1	9.3
Norway	6.2	66.2	9.3
Austria	5.8	72.0	8.1
United States	5.3	69.3	7.6
Canada	5.0	67.6	7.4
Sweden	4.3	66.6	6.4
Netherlands	4.3	65.6	6.3
France	3.4	70.5	4.9
United Kingdom	1.6	69.7	2.3

Source: See table 1-1.

[a] The household sector includes unincorporated enterprises and private non-profit institutions. Disposable income refers to household income minus direct taxes (including such items as fines, penalties and donations).

[b] 1950-1958, annual average.

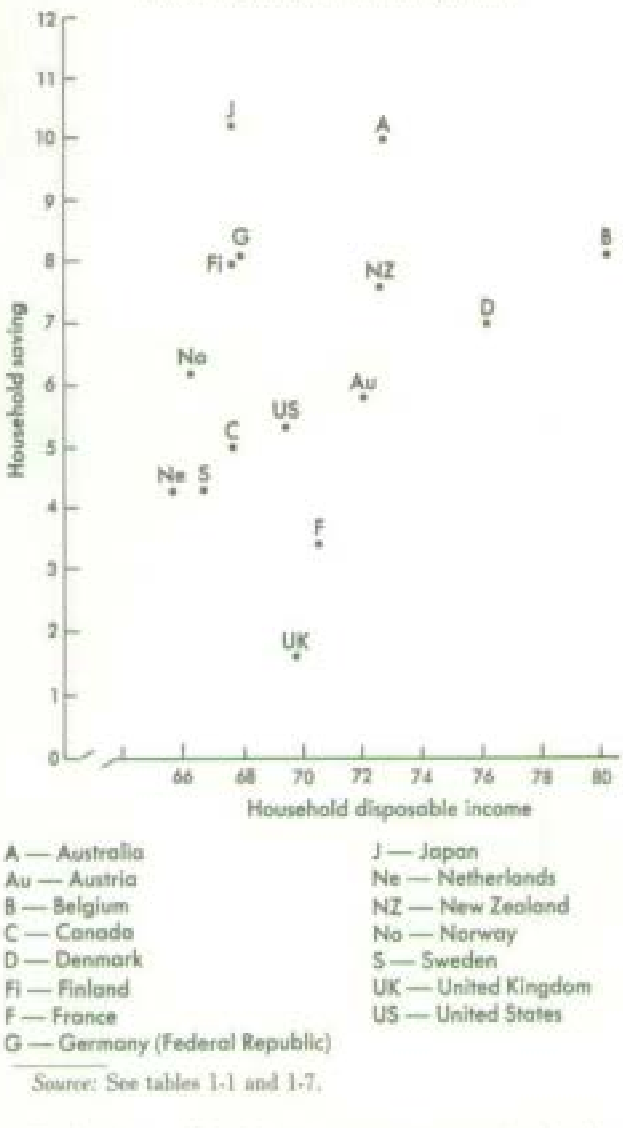
[c] 1954-1959, annual average.

[12] The difference between gross domestic product and household disposable income is accounted for by net factor income from abroad, indirect taxes net of subsidies, depreciation, corporate net saving, net transfers from government and direct taxes on households.

have, of course, necessarily had their counterpart in opposite variations in shares of other sectors. Thus, the unusually high share in Belgium has been related to the low proportion of government disposable income, and in Australia, Austria, Denmark and New Zealand, the high shares have been offset by the relatively small proportions absorbed in depreciation.

Chart 1-4. Levels of Household Disposable Income and Saving, 1950-1959

(Percentage of gross domestic product)



Source: See tables 1-1 and 1-7.

Explanation of the diversity among countries in the level of household saving as a percentage of gross domestic product thus turns very largely on the factors that account for differences in the proportion of household disposable income that is saved. That the differences among countries in the distribution of household disposable income between consumption and saving have been very large can be easily seen from table 1-7; as a proportion of income, levels of saving over the nineteen fifties as a whole have, in the extreme instances, exhibited more than a sixfold difference.

One possible explanation for this diversity that immediately comes to mind is the differences among countries in levels of per capita real income. It is well known that, within a country, the higher income groups tend to save a larger proportion of income; and it might reasonably be expected that, other things being equal, the same would hold true among countries. In fact, however, for the industrial countries during the period of the nineteen fifties, there appears to have been little consistent relationship between inter-country differences in the level of per capita real income and in the proportion of household income that is saved (see table 1-8). For instance, in the highest income countries, such as Canada and the United States, the level of household saving has not been notably high; nor can the relatively high level of saving in the Federal Republic of Germany, as compared with France or the United Kingdom, be explained by its comparative level of per capita real income. Indeed, it is striking that the country with the highest level of household saving, namely, Japan, also happens to be the poorest country in the group.

Evidently, then, saving habits have varied so much from country to country as to obscure any effect of differences in per capita real income levels. It is, of course, possible that, in any particular historical period, a lack of association between levels of saving and levels of per capita real income may emerge because real income in some countries has fallen below accustomed standards. In these circumstances, there may be a tendency for individuals to reduce their saving in order to protect their consumption levels. There is reason to suppose that this was probably of some importance in certain industrial countries during the immediate post-war years when incomes had not yet been restored to their pre-war levels. In a few countries, household saving was, in fact, negative for a time. But it is evident that, for the period under review here, this factor cannot go far towards explaining the lack of association between saving and real income. Pre-war real income levels were surpassed in most countries by the beginning of the period. Even in the case of Japan, whose recovery to pre-war levels was later than that of any other country of the group, the pre-war peak was exceeded by the middle of the nineteen fifties.

For the period under review, it is much more relevant to consider the relative rates of increase in real per capita disposable income as a possible factor contributing to the diversity in saving levels. The level of real per capita disposable income has certainly been rising in almost all the industrial countries since 1950, but the disparity in rates of growth among countries has been considerable. And given this wide disparity, it would not be unreasonable to expect that a higher proportion of income might be saved in countries where the rate of growth in income was greater. On the one hand, it is obvious that a slow rate of growth in real income of the order of one or 2 per cent may be easily absorbed by rising consumption. On the other hand, a

Table 1-8. Indices and Annual Rate of Growth of Real Disposable Income Per Capita, 1938 to 1950 and 1950 to 1959

Country[a]	Index of real disposable income per capita, 1950 to 1959 (rank)[b]	Index of real disposable income per capita 1950	1955 (1938 = 100)	1959	Annual rate of growth in real disposable income per capita, 1950 to 1959 (percentage)
Japan	14	67	98	127	7.3
Australia[c]	3	166	164	167	—
Germany (Federal Republic)	11	93[d]	140[d]	170[d]	6.9
New Zealand[c]	4	167	162	164	−0.2
Belgium[e]	5	...	...	...	2.4
Norway	10	120	138	146	2.2
Denmark[e]	9	117	118	129	1.3
Austria	13	102	149	183	6.7
United States	1	149	161	170	1.5
Canada	2	167	183	197	1.8
Sweden	6	111	129	137	2.4
Netherlands	12	89	121	130	4.4
France	7	117	146	157	3.3
United Kingdom	8	106	122	134	2.6

Source: See table 1-1.

[a] Countries are arranged in descending order of level of household saving as a percentage of household disposable income, 1950-1959.

[b] The ranking of each country is based on real disposable income per capita converted into United States dollars by their respective official exchange rates in 1955. For comparison, real disposable incomes of eight European countries were converted into United States dollars by the purchasing power of currencies, based either on United States price structure or on an average European price structure; these data were obtained from Organisation for European Economic Co-operation, *Comparative National Products and Price Levels*, by Milton Gilbert and associates (Paris, 1958) and *An International Comparison of National Product and the Purchasing Power of Currencies*, by Milton Gilbert and Irving B. Kravis (Paris, 1954). While the exact ranking of countries varies according to the particular conversion rates employed, the results are broadly similar.

[c] Calculated from the average of 1950/51 and 1951/52 as the base period, rather than from a single year as in the case of other countries, owing to the abnormally high level of income in 1950/51.

[d] 1936 = 100.

[e] 1950-1958.

much faster rate of growth may result both in a rise in the absolute level of consumption and in an increase in the proportion of income that is saved, primarily because levels of consumption adjust only gradually to rapidly growing incomes.

The evidence does, in fact, suggest that, for the period under review, relative rates of growth in real income were of some importance in explaining the differences among countries in saving levels. While the relationship does not appear to have been close, the contrast between the extreme cases is striking.[13] In the Federal Republic of Germany and Japan, for example, the remarkably high rates of growth in per capita disposable income have obviously facilitated the attainment of high levels of household saving. By contrast, the relatively low level of saving in the United Kingdom would appear to have been influenced by the limited growth in income. It is true that the divergent rates of growth in real income among countries are related to similar divergences in levels of investment; and, since high or low levels of investment necessarily imply high or low levels of saving, the level of saving and the rate of growth in real income are interrelated variables. But there appear to be some grounds for maintaining that high rates of investment, through fostering high rates of growth in per capita disposable income, may have facilitated the realization of higher levels of saving in the household sector.

In some countries, the special nature of their experience during the nineteen fifties has weakened the link between rates of growth and saving levels. In Australia and New Zealand the high saving levels for the period as a whole reflected chiefly the unusually high levels achieved during the Korean boom, when export incomes were rising very rapidly. The subsequent declines in per capita real disposable income from the peak level were actually accompanied by substantial falls in the level of saving. On the other hand, the level of saving in Austria and the Netherlands was strongly affected by opposite events. In the early nineteen fifties, purchases by consumers, especially in Austria, to replenish stocks damaged or depleted during the Second World War depressed the level of saving. However, the subsequent rapid increases in real income raised saving to substantially higher levels.

But, aside from special circumstances, it is clear that other factors besides the relative rates of growth in income have lain behind the differences in levels of household saving. Of particular importance are the differences among countries in the distribution of income.

[13] As discussed later, relative rates of growth in income have assumed a more dominant role in accounting for inter-country differences in the trend of household saving.

Since the higher income groups generally devote a larger proportion of their incomes to saving, differences in the size distribution of income must have had significant effects on levels of saving. Lack of comparable data on the size distribution of income makes it impossible to trace the effects with any precision.[14] However, comparison of the differences in the distribution of income by source can be used as an approximation. Broadly speaking, the higher the relative share of non-wage incomes in total household income the higher tends to be the share of saving. For, income from property generally accrues to persons with high incomes; and the self-employed, who consist largely of entrepreneurs and farmers, normally devote a larger proportion of their incomes to saving than other groups with comparable incomes, as there are strong incentives for the former group to accumulate saving for business expansion. Thus, as can be seen from table 1-9 and chart 1-5, there has been a fairly close association between differences in the level of saving and in the relative share of income derived from property and entrepreneurship. For instance, this share has been relatively high in Australia and Japan where the level of saving has also been high; conversely, both have been low in Sweden and the United Kingdom. Were more direct information available on differences among countries in the size distribution of income, it seems probable that the association between levels of saving and income distribution would emerge still more clearly.[15]

Table 1-9. Composition of Household Income, 1950-1959

(Percentage)

Country[a]	*Compensation of employees*	*Income from property and entrepreneurship*[b]	*Government transfers*
Japan	49.4	46.0	4.6
Australia	60.7	33.0	6.2
Germany (Federal Republic)	55.6	29.7	14.8
Finland[c]	63.4	28.2	8.4
New Zealand	55.3	35.0	9.7
Belgium[d]	46.1	43.8	10.1
Norway	59.4	33.1	7.5
Denmark[d]	53.0	39.2	7.8
Austria	53.9	32.7	13.4
United States	70.1	24.9	5.0
Canada	66.7	24.9	8.4
Sweden	69.9	21.8	8.3
Netherlands	55.5	34.8	9.7
France	52.9	34.2	12.9
United Kingdom	72.8	19.8	7.4

Source: See table 1-1.

[a] Countries are arranged in descending order of ratio of saving of households to disposable income of households.

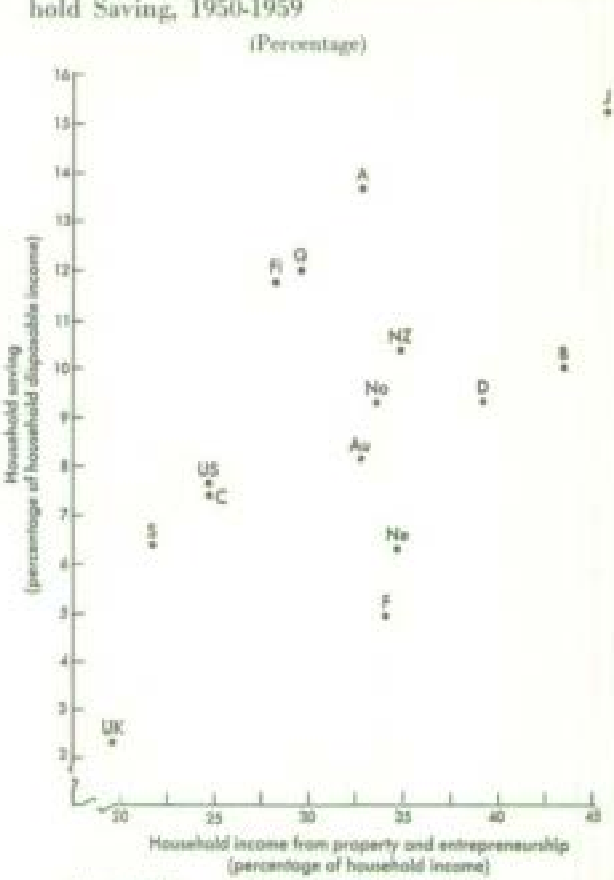
[b] Less interest on consumer debt, where data are available.

[c] 1954-1959, annual average.

[d] 1950-1958, annual average.

Chart 1-5. Level of Household Income from Property and Entrepreneurship and Level of Household Saving, 1950-1959

(Percentage)



Source: See tables 1-1, 1-7 and 1-9.

[14] The sample surveys available for a few countries appear to suggest that even with a more or less similar size distribution of income, differences in the level of household saving may have also reflected differences in the saving behaviour of particular income groups. In the United Kingdom, for example, the low level of saving may have been related to the fact that negative saving has occurred well beyond the average income level, while in the United States it has disappeared before the average income has been reached. Among the wage earners, a higher proportion of negative savers has been found in the United Kingdom than in Denmark and Sweden. *See*, Det Statistiske Departement, *Opsparing i lonmodtagerhusstandene 1955* (Copenhagen); Konjunkturinstitutet, *Hushållens sparande år 1955* (Stockholm); H. F. Lydall, *British Incomes and Saving* (Oxford, 1955) and M. F. Erritt and F. L. Nicholson, "The 1955 Savings Survey", Oxford University Institute of Statistics, *Bulletin*, vol. 20, No. 2 (Oxford, 1958).

[15] It may be noted that the influence of government transfer payments on levels of household saving does not appear to have been of much significance. Though the contribution of transfer payments to household disposable income has varied quite widely from country to country, there is no evidence of any relationship between the size of these payments and the proportion of household disposable income that is saved. For example, large transfers in France have been accompanied by a low level of saving, but equally large transfers in Austria have been accompanied by a high level of saving. The largest transfers have occurred in the Federal Republic of Germany where the level of saving has been strikingly high.

While the distribution of income and the rate of increase in real income have probably been the two factors of primary importance in accounting for differences in saving levels, there have also been other forces, more specific to individual countries, which have modified saving behaviour in the household sector. One such factor is the age composition of the population. For instance, since old people, whose working lives have passed, generally save little or even dis-save, a high proportion of old people in the population will tend to depress the level of saving in the household sector. This has probably affected saving adversely in such countries as France and the United Kingdom where the aged account for a relatively high share of the population. Another demographic factor which may also have been of some importance in certain countries is the rate of immigration. Among new immigrants seeking to establish themselves in a strange environment, the motivation for saving may be particularly strong. Saving behaviour in the household sectors of Australia, Canada and the Federal Republic of Germany may thus have been favourably influenced by the large incursion of immigrants. Other specific factors which may have given rise to differences in saving behaviour are the level of liquid assets at the outset of the period and the extent of growth in private house ownership. The motive to accumulate liquid assets for contigencies may, for example, have been stronger in such a country as the Federal Republic of Germany, where such assets had been severely depleted after the Second World War and the monetary reform, than in countries where the war and its aftermath augmented, rather than diminished, the supply of liquid assets. Again, the residential construction boom in many countries and the spread of house ownership may have stimulated saving to repay mortgages. Taken together, these specific factors may have caused appreciable differences in the saving behaviour of individual countries. A comparison of the experience of the United Kingdom with that of the United States reveals, for example, that were it not for the differences in demographic composition, in home ownership and in the liquidity position, the observed differences in the level of saving would have been considerably smaller.

Although a precise quantitative evaluation of the effect of each of the above-mentioned factors on the level of saving cannot be made, it seems probable that the distribution of income and its rate of growth have been of primary importance, though their influence may have been considerably modified by other factors. Further, the set of forces determining the level of saving in each country may not all have been of equal importance in other countries. For instance, among the high-saving countries, the level of saving in Japan has been strongly affected by the rapid recovery from war destruction, by a continued high rate of increase in real per capita income and by a distribution of income in favour of entrepreneurship and property. In the Federal Republic of Germany, the high rate of growth in per capita income has been equally as important as in Japan. In Australia and New Zealand, the high saving levels were dominated by the spectacular upsurges in income and profits arising from an export boom in the earlier years; the behaviour of their saving has thus been more typical of primary producing countries than of industrial countries. Among the low-saving countries, the United Kingdom has been adversely affected by a combination of slow growth of per capita income and a low proportion of income derived from property and entrepreneurship. In addition, the high proportion of the aged, the limited spread of home ownership and the existence of large liquid assets accumulated during the war have all served to restrict the level of saving.

ENTERPRISE SAVING

In all the industrial countries, the enterprise sector is the largest of the main sources of saving. The level of saving of the enterprise sector, however, has not varied so widely among countries as has that of the government or household sectors. Nor have the variations among countries been related in any consistent way to the variations in the level of their total saving.

Not too much economic significance, however, can be read into the more limited variation among countries in the level of enterprise saving. For, to a considerable degree, this reflects no more than the heterogeneity of the data. By statistical convention, various disparate elements are grouped together under the heading of saving in the enterprise sector. Saving in this sector includes not only the gross saving of public and private corporations, but also the depreciation charges of government enterprises, unincorporated enterprises and private housing. The inclusion in enterprise saving of by far the largest part of the depreciation charges of the whole economy naturally tends to reduce the inter-country variations in its level in relation to gross domestic product.

Corporate saving, however, is none the less the dominant component in total enterprise saving. While data on corporate gross saving are available only for a very few countries, they suggest that the corporate sector generally accounts for more than two-thirds of total enterprise saving (see table 1-10).

So far as inter-country variations in the level of corporate saving are concerned, it is barely possible that, if data were available for more countries, comparisons would reveal a positive relationship between its level and the level of total saving. Among the five countries for which data are available, Japan has had the largest corporate gross saving as well as the highest level of total saving. On the other hand, the level of corporate gross saving has been higher in the United Kingdom than in France or the United States, though the level of its total saving has been lower.

There are, in fact, strong reasons for supposing that the level of gross corporate saving may not be clearly

Table 1-10. Levels of Enterprise and Corporate Saving, 1950-1959

(Percentage of gross domestic product)

Country	*Enterprise gross saving*	*Corporate gross saving*	*Corporate net saving*
Canada	14.6	8.7	2.9
Netherlands	14.6	...	5.4
Norway	13.6	...	4.0
Japan	12.6	9.7[a]	5.0
United Kingdom	11.4	8.7	4.3
France	11.1	7.7	1.9
United States	10.8	6.8[b]	3.1
Australia	10.6	...	4.8
Germany (Federal Republic)	10.5	...	1.8
New Zealand	9.2	...	2.7
Austria	8.0	...	2.0
Denmark[c]	7.4	...	1.5

Source: See table 1-1.

[a] 1951-1959, annual average; including depreciation of government enterprises.

[b] Not including depreciation of public corporations.

[c] 1950-1958, annual average.

associated with the level of total saving. First, it is obvious that the size of the corporate sector may vary appreciably among countries. This cannot be measured with any accuracy, but the data on net corporate income before taxes which are shown in table 1-11 are suggestive of the possible variations. A second and, perhaps, more important reason is that depreciation charges bulk large in the gross saving of the corporate sector, and the size of these charges has not necessarily any relationship to the current saving behaviour of the community.

The proportion of gross corporate income before taxes set aside for depreciation is shown for six countries in chart 1-6. It will be seen that, in all countries,

Table 1-11. Levels of Corporate Income and Taxes,[a] 1950-1959

(Percentage of gross domestic product)

Country	*Net corporate income before taxes*[b]	*Corporate direct taxes*	*Corporate disposable income*
United Kingdom	12.9	5.1	7.9
Australia	11.4	3.5	7.9
United States	10.7	5.3	5.4
Canada	10.4	4.8	5.6
New Zealand	10.0	4.9	5.1
Japan	8.6	3.5	5.1
Norway	8.5	3.9	4.6
Finland	6.8	4.1	2.8
France	6.1	2.1	4.0
Germany (Federal Republic)	5.8	3.1	2.7

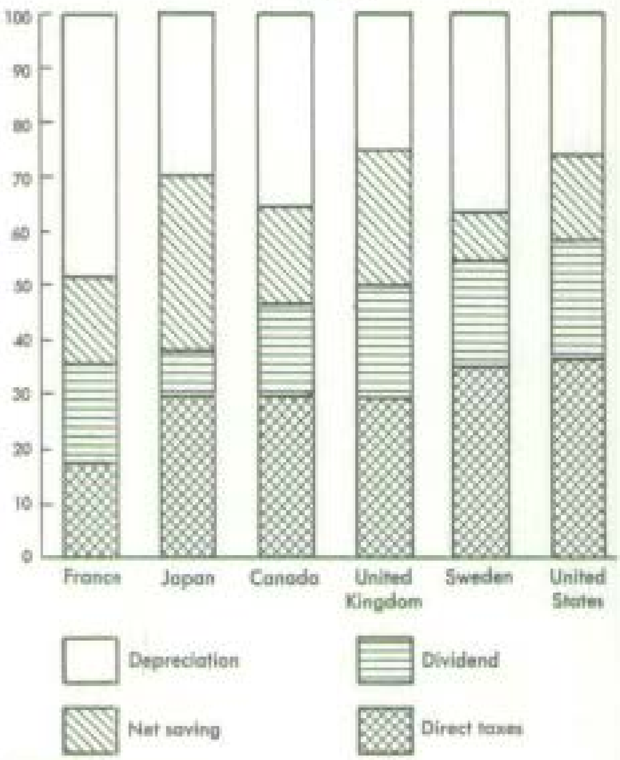
Source: See table 1-1.

[a] The corporate sector includes private and public corporations, except for Australia, Japan and the United States, where it includes private corporations only, owing to lack of comprehensive data on public corporations. Corporate income is after inventory valuation adjustment wherever data are available.

[b] After depreciation.

Chart 1-6. Uses of Corporate Income before Depreciation, 1950-1959[a]

(Percentage)



Source: See table 1-1.

[a] Japan, 1951-1959; Sweden, 1957.

depreciation charges accounted for about one-half or more of gross saving and that, in some countries, they amounted to substantially more.[14] Government fiscal policy with regard to depreciation allowances affects the level of these charges; liberal depreciation allowances tend to be reflected in high depreciation charges, since the full use of these allowances minimizes taxes. But, in the main, the amount of income absorbed in depreciation charges over a period of time reflects the structure of depreciable assets in the corporate sector. Thus, in so far as gross corporate saving is dominated by the amounts set aside for depreciation, the level of such saving is partially determined by the nature of past investment rather than by current saving decisions.

From the point of view of current saving behaviour, it is thus more relevant to consider corporate net saving than corporate gross saving. Corporate net saving as a percentage of gross domestic product is shown for twelve countries in table 1-10. It will be seen that, with depreciation charges removed, the inter-country variations in the level of corporate saving were magnified, net saving in certain countries being as much as three times larger than in some other countries.

[14] The unavailability of data for most countries is chiefly due to the fact that depreciation for the corporate sector cannot be separated from total depreciation. However, on the basis of rough estimates, it seems that the above observation is generally applicable.

As with the level of gross saving, part of the explanation for differences in the level of net saving must lie in the variations among countries in the size of the corporate sector; corporate income[17] as a percentage of gross domestic product has, as already noted, varied considerably among countries. But a further part of the explanation must also be found in the proportion of corporate income that is saved.

For a majority of countries, as may be seen from table 1-12, net saving as a proportion of corporate income after depreciation and before taxes varied within a relatively narrow range. At the extremes, however, the variation was substantial; net saving in Japan, for instance, amounted to almost one-half of income whereas in the United States it was only about one-fifth.

The narrow range of variation in most countries is of some interest in view of the greater variation in the proportion of net income paid out in direct taxes. This implies that there has been some tendency for tax payments and dividends to offset each other. For example, in Finland and the Federal Republic of Germany, relatively high tax payments in relation to corporate income have been accompanied by a relatively low proportion of income distributed in dividends; by contrast, markedly lower tax disbursements in Australia and France have largely been offset by higher dividend payments. In Japan and Norway, however, where net saving as a percentage of corporate income before taxes has been markedly higher than the average, dividend disbursements have absorbed unusually small proportions of income. And in the United States, where net saving has been substantially lower than the average, both tax and dividend payments have been relatively high.

In terms of the influence of corporate taxes on corporate saving, these relationships are of some interest, though no firm conclusions can be drawn, since account should also be taken of the role of depreciation allowances in taxation and of depreciation charges in saving. In any case, though corporate taxation may not have influenced corporate saving behaviour as much as might be supposed, it should not be inferred from the above that corporate dividend policy has merely been passively adapted to taxes. In other words, other factors besides taxation have influenced the dividend and saving policies of corporations.

[17] After depreciation and before taxes.

With a given tax bill, dividends and net saving can be viewed as competitive claims on corporate disposable income. And there is some indication that the apportionment between dividends and net saving has been influenced by corporations' plans for expansion. Thus, the high corporate net saving in relation to corporate disposable income in such countries as the Federal Republic of Germany and Japan, as shown in table 1-12, has apparently been related to the volume of finance required for expansion. Conversely, the relatively low corporate saving in the United Kingdom and the United States has partly reflected the slow growth of corporate investment. Furthermore, dividend policy may also be influenced by the pattern of external financing. A relatively liberal dividend policy may be required in countries such as the United Kingdom and the United States where equity financing has been more important than in such countries as the Federal Republic of Germany and Japan which have traditionally relied more heavily on loan financing.

In summary, neither the level of enterprise saving nor that of corporate saving has been closely associated with the level of total saving. To an important degree, this has been because depreciation charges are a major component of saving in these sectors; and depreciation charges are mainly related to past investment, though they are also influenced by current fiscal policy with regard to depreciation allowances. Another factor has simply been the variations among countries in the size of the corporate sector. Fiscal policies, corporate divi-

Table 1-12. Uses of Net Corporate Income,[a] 1950-1959

Country	Net saving	Direct taxes	Dividends[b]	Net saving	Dividends[b]
	(percentage of corporate income before taxes)			(percentage of corporate disposable income)	
Norway	47.7	46.0	6.3	88.3	11.7
Japan	47.0	40.9	12.1	79.3	20.7
Australia	34.4	31.2	34.4	49.1	50.9
United Kingdom	33.4	39.2	27.4	54.6	45.4
France	31.4	34.4	34.2	47.9	52.1
Germany (Federal Republic)	31.0	54.3	14.6	68.1	31.9
Finland	30.0	59.2	10.8	73.9	26.1
Canada	27.8	46.4	25.8	51.1	48.9
New Zealand	26.8	48.7	24.5	52.2	47.8
United States	20.8	49.5	29.7	41.2	58.8

Source: See table 1-1.
[a] See footnote *a* to table 1-11.
[b] Including corporate transfer payments.

dend policies and corporate programmes for expansion have all influenced the proportion of corporate income that is saved, though high or low tax payments appear, to some extent, to have been offset by opposite variations in dividend payments.

FOREIGN SAVING

The demand for saving to finance domestic investment is rarely exactly equal to the supply of saving generated internally in the public and private sectors. Any deficiency or excess in domestic saving is offset by opposite movements in the external accounts of a country. Thus, if a country has a deficit in the balance of payments on current account, this means that it is drawing on foreign saving to an equal amount, and, conversely, if it has a surplus, it is a supplier of foreign saving.[15]

Since foreign saving serves as a balancing item in demand and supply of domestic saving, it might seem reasonable to expect that the level of foreign saving in industrial countries would be largely the outcome of domestic economic forces. It is certainly true that the short-period variations in the level of domestic economic activity that occur in industrial countries have often been associated with corresponding variations in the external balance. Short-run balance of payments difficulties in the United Kingdom, for example, have usually been connected with buoyant domestic demand conditions; with rising domestic activity, imports have risen relatively to exports and the external balance or, in other words, the supply of domestic saving to the rest of the world, has diminished.

However, the inter-country differences in levels of foreign saving during the nineteen fifties as a whole do not reflect internal economic forces alone. Differences in the size of the foreign trade sector, in trends in exports and in the level of autonomous, long-term capital flows have been equally important.

The relevance of the size of the foreign trade sector need hardly be stressed. That the supply of saving to the rest of the world has been only 0.6 per cent of gross domestic product in the United States, for example, as shown in table 1-13, primarily reflects the relatively small size of the foreign trade sector. Exports and imports of goods and services, though very large in relation to world trade, have amounted to only 5.2 and 4.6 per cent of gross domestic product. An export surplus which has been large in absolute terms has thus been smaller, in relation to domestic output, than in some other countries.

But even among countries in which the foreign sector has been of about the same size, levels of foreign saving have varied considerably. Among the major indus-

Table 1-13. Levels of Foreign Saving, Exports and Imports, 1950-1959

(Percentage of gross domestic product)

Country	*Foreign saving*[a]	*Exports of goods and services*	*Imports of goods and services*
Norway	2.6	42.0	44.6
Canada	2.5	21.0	23.4
Australia	2.3	19.4	21.8
Austria	1.4	21.6	23.0
Italy	1.3	12.8	14.2
New Zealand	0.7	28.4	29.1
Denmark[b]	0.2	32.2	32.3
France	0.2	14.7	15.0
Sweden	−0.3	27.9	27.7
United Kingdom	−0.5	25.5	25.0
United States	−0.6	5.2	4.6
Finland	−1.1	24.0	22.9
Japan	−1.2	13.4	12.2
Netherlands	−1.4	50.2	48.8
Belgium[b]	−1.4	32.8	31.4
Germany (Federal Republic)	−3.1	20.2	17.1

Source: See table 1-1.

[a] Foreign saving is equal to imports of goods and services minus exports of goods and services. Imports and exports include factor income but exclude current transfers to and from the rest of the world.

[b] 1950-1958, annual average.

trial countries, the divergences in export experience have contributed significantly to the differences in levels of foreign saving. Of all the countries, for example, the surplus on current account, expressed as a percentage of gross domestic product, has been greatest in the Federal Republic of Germany. This has been the outcome of a sharp and continuous rise in exports. It is significant, moreover, that the high rate of internal growth has contributed to the advance in exports; the domestic growth has made it possible to achieve a rapid expansion of those export industries for whose output world demand has been increasing most strongly. By contrast, in the United Kingdom, the trend in exports has been much less favourable, reflecting in part the relatively slow growth of demand in major export markets and in part the relatively limited pace of expansion in the more dynamic industries. Austria and Italy —although, on balance, drawing upon foreign sources of saving during the decade of the nineteen fifties—were transformed by the sustained upsurge in exports throughout the period into net export surplus countries in the latter years.

Long-term capital movements are frequently a further independent factor influencing levels of foreign saving. As may be seen from table 1-14, countries which drew on foreign saving during the nineteen fifties were in general recipients of long-term capital, while countries which supplied saving were exporters of such capital.

The predominance of private, as distinct from official, long-term capital flows in the total is evident in most countries receiving foreign saving. In Canada this flow

[15] Positive foreign saving therefore means a deficit in the balance of payments on current account, and negative foreign saving a surplus.

Table 1-14. Components in the Financing of Foreign Saving, 1950-1959

(Percentage of gross domestic product)

Country	Foreign saving	Long-term capital and grants		
		Total	Private	Official
Norway	2.6	2.5	1.5	1.0
Canada	2.5	2.6	2.8	−0.2
Australia	2.3	1.7	1.6	0.1
Austria	1.4	1.7	0.3	1.4
Italy	1.3	1.3	1.1	0.2
New Zealand	0.7	1.4	1.1	0.3
Denmark[a]	0.2	0.4	—	0.4
Sweden	−0.3	−0.3	−0.1	−0.2
United Kingdom	−0.5	−1.2	−1.1	−0.1
United States	−0.6	−1.2	−0.6	−0.6
Finland	−1.1	−0.7	0.1	−0.8
Japan	−1.2	0.4	0.3	0.2
Netherlands	−1.4	0.5	0.6	−0.1
Belgium[a]	−1.4	−0.9	−0.9	—
Germany (Federal Republic)	−3.1	−0.5	−0.2	−0.3

Source: Division of General Economic Research and Policies of the United Nations Secretariat. Figures for foreign saving are the same as those shown in table 1-13 and are derived from national accounts statistics. Figures for long-term capital and grants are derived from balance of payments statistics, taken mainly from International Monetary Fund, *Balance of Payments Yearbook* (Washington, D. C.). Data do not add to totals because of rounding. A minus sign indicates an outflow of capital.

[a] 1950-1958, annual average.

has actually exceeded the total, an outflow of capital on official account having partly offset the inflow on private account. In Italy, the sharp increase in the inflow of private long-term capital in the latter part of the nineteen fifties contributed to an expansion of its share of the total long-term capital inflow. Austria and Norway have been the only countries where a substantial inflow of official capital and grants has taken place, although this was entirely concentrated in the early nineteen fifties; it primarily reflected official grants by the United States to Austria and lending by the International Bank for Reconstruction and Development to Norway.

It will also be seen from table 1-14 that foreign saving and long-term capital movements have not been exactly equal. In the United Kingdom and the United States, for example, the supply of saving to the rest of the world has been less than the outflow of total long-term capital and grants. In the Federal Republic of Germany, on the other hand, it has been substantially greater; and in Japan and the Netherlands, favourable export balances have been associated with a net inflow of long-term capital.

These discrepancies between the balance of payments on current account and movements in long-term capital and grants reflect changes in foreign exchange reserves and short-term foreign assets or liabilities. In the United Kingdom and the United States, for example, the excess of long-term capital outflows over the flow of domestic saving to the rest of the world has been matched by increases in their net short-term liabilities and also, in the United States, by a downward trend in foreign exchange reserves. Conversely, in the other countries where long-term capital outflows have been less than the flow of domestic saving to the rest of the world, foreign exchange reserves and net short-term assets have increased.

Trends and fluctuations in saving

TRENDS IN SAVING

The foregoing analysis has served to throw some light on the factors shaping the saving behaviour of communities during the last decade taken as a whole. However, even in this comparative analysis of levels of saving, it has been quite evident that saving habits are by no means immutable. In particular, governmental policies, since they affect the economic decisions of almost all individuals and institutions, may combine with dynamic market forces to induce changes in the saving behaviour of communities. It is therefore of considerable interest to identify the factors accounting for changes over time in saving behaviour.

Between 1950-1954 and 1955-1959, the total supply of saving increased relatively to gross domestic product in most industrial countries (*see* table 1-15). In some two-thirds of the countries, the increases exceeded 1.5 per cent of gross domestic product; and they were particularly large in Austria, Japan, the Netherlands and the United Kingdom where they ranged from about 2.5

Table 1-15. Foreign and Domestic Saving: Levels in 1950-1954 and Changes in Levels from 1950-1954 to 1955-1959

(Percentage of gross domestic product)

Country[a]	Total supply of saving		Foreign saving		Gross domestic saving	
	Level	Change	Level	Change	Level	Change
Japan	25.0	5.1	−1.9	1.3	26.9	3.8
Austria	20.2	3.1	2.6	−2.4	17.7	5.5
Netherlands	22.8	3.1	−1.2	−0.4	24.0	3.5
United Kingdom	13.4	2.6	−0.5	−0.1	13.9	2.7
Italy	19.8	2.0	2.2	−1.8	17.6	3.8
Germany (Federal Republic)	22.4	1.7	−2.2	−1.8	24.6	3.5
Belgium[b]	15.5	1.6	−0.4	−2.2	15.9	3.8
Canada	24.1	1.6	1.4	2.1	22.7	−0.5
Sweden	20.3	1.6	−0.9	1.2	21.2	0.3
Finland	24.8	1.6	−1.6	1.0	26.4	0.6
France	17.9	1.5	0.1	0.3	17.8	1.2
United States	17.9	0.3	−0.5	—	18.4	0.3
Norway	29.6	0.1	3.2	−1.2	26.4	1.3
New Zealand	23.7	−1.0	−0.1	1.6	23.8	−2.6
Denmark[b]	19.4	−1.5	1.2	−2.2	18.2	0.6
Australia	29.6	−2.3	2.5	−0.2	27.1	−2.1

Source: See table 1-1.

Note: Since all the figures are expressed in terms of percentages of gross domestic product, the level in 1955-1959 is equal to the level in 1950-1954 plus the change from 1950-1954 to 1955-1959.

[a] Countries are arranged in descending order of the change in the level of the total supply of saving.

[b] Change from 1950-1954 to 1955-1958.

to 5 per cent. Among the remaining third of the countries, the level of saving remained fairly stable in Norway and the United States, but fell appreciably in Australia, Denmark and New Zealand.[19] These divergent trends in the total supply of saving were generally not sufficiently large to alter the relative position of countries as high or low savers between the earlier and latter parts of the period. Those which had relatively high levels of saving at the beginning of the period still had relatively high levels at the end of the period; and conversely. That a number of countries, some with relatively high levels of saving at the commencement of the period and some with relatively low levels, experienced appreciable increases in saving is none the less of considerable interest.

As with inter-country differences in the level of total saving, the divergent trends in total saving have been dominated by trends in the supply of domestic saving. As will be seen below, foreign saving, however, has been much more important in accounting for changes over time in the total supply of saving than it has been in explaining inter-country differences in the level of saving.

The trends in domestic saving experienced in the various countries have diverged widely. At the one extreme, gross domestic saving as a percentage of gross domestic product increased by as much as 5.5 per cent in Austria between 1950-1954 and 1955-1959; and, at the other, declined by 2.6 per cent in New Zealand. The experience of other countries varied quite widely between these extremes, though a small group recorded increases of about 3 to 4 per cent.

[19] It should be noted, however, that a reversal of this trend was observable in Denmark in the most recent years.

The divergent trends in domestic saving have arisen primarily from the marked differences in changes in household saving (*see* table 1-16). In nearly all the countries where the level of total domestic saving has risen, so has the level of household saving; and in most of the countries where total domestic saving has declined or risen only slightly, household saving has fallen. By contrast, the changes in the level of government or enterprise saving have usually been smaller in magnitude and have, moreover, been much less systematically related to the trends in total domestic saving. It is true that among the countries where the level of total saving has declined or has barely changed, the level of government saving also has usually diminished. But in some countries, such as Japan and the Netherlands, which have experienced substantial increases in total saving, a relative contraction in government saving has also taken place; and among other such countries, changes in the level of government saving have usually been small. It is even more striking that almost all the countries which have experienced a decline or no significant change in the level of enterprise saving have been among those recording a rise in the level of total domestic saving.

The divergent trends in the level of household saving as a percentage of gross domestic product have, in the main, reflected changes in the proportion of household disposable income that is saved (*see* table 1-17). Household disposable income as a percentage of gross domestic product has changed but little in most countries. The

Table 1-16. Change in Level of Domestic Saving, by Sector, 1950-1954 to 1955-1959

(Percentage of gross domestic product)

Country	Gross domestic saving	General government saving	Enterprise saving	Household saving
Austria	5.5	0.4	−1.0	6.1
Belgium[a]	3.8	0.6	0.6	2.6
Japan	3.8	−1.1	3.8	1.1
Netherlands	3.5	−4.0	—	7.5
Germany (Federal Republic)	3.5	1.4	−0.7	2.7
United Kingdom	2.7	0.5	0.5	1.7
Norway	1.3	0.1	−0.3	1.5
France	1.2	0.3	−1.0	1.9
Finland	0.6	−2.3	...	...
Denmark[a]	0.6	1.0	0.8	−1.2
Sweden	0.3	0.7	−1.7	1.3
United States	0.3	−0.5	0.8	−0.1
Canada	−0.5	−1.2	1.3	−0.5
Australia	−2.1	−1.0	3.0	−4.1
New Zealand	−2.6	−0.3	0.1	−2.4

Source: See table 1-1.
[a] Change from 1950-1954 to 1955-1958.

share of saving in income, however, rose between 1950-1954 and 1955-1959 by as much as 11.1 per cent in the Netherlands and 8.4 per cent in Austria, and in several other countries it increased by amounts varying from about 2 to 4 per cent. On the other hand, its share declined in Australia, Canada, Denmark and New Zealand by sums ranging up to about 5 per cent. Only in the United States did the share of saving in disposable income remain fairly constant.

The most important single factor accounting for these changes in the proportion of income set aside as saving has been the differences among countries in the rate of growth in real per capita disposable income. Attention has already been called to the influence of this factor in explaining inter-country differences in levels of household saving. There, it was mentioned as one among several reasons, but in relation to relative trends in saving, it has been of much more decisive importance. This can be clearly seen from chart 1-7, which compares the changes in the share of household saving in disposable income with the rates of change in real per capita disposable income. For example, in such rapidly growing countries as Austria and the Netherlands, saving as

Table 1-17. Changes in Levels of Household Saving, Household Disposable Income and Income from Property and Entrepreneurship, 1950-1954 to 1955-1959

(Percentage)

Country	Change in household saving (as percentage of gross domestic product)	Change in disposable income (as percentage of gross domestic product)	Household saving as percentage of disposable income: Level[a]	Household saving as percentage of disposable income: Change	Change in income from property and entrepreneurship as percentage of household income
Netherlands	7.5	3.2	0.8	11.1	−1.4
Austria	6.1	0.2	3.9	8.4	−2.6
Germany (Federal Republic)	2.7	0.6	10.0	3.9	−2.2
Belgium[b]	2.6	−0.4	8.6	3.3	−0.8
France	1.9	1.2	3.6	2.6	−3.7
United Kingdom	1.7	—	1.1	2.4	−1.8
Norway	1.5	−1.4	8.1	2.4	−2.9
Sweden	1.3	−1.1	5.4	2.1	−3.5
Japan	1.1	−0.6	14.3	1.8	−6.0
United States	−0.1	−0.2	7.6	0.1	−2.2
Canada	−0.5	−0.9	7.7	−0.7	−4.7
Denmark[b]	−1.2	−2.9	9.8	−1.2	−3.0
New Zealand	−2.4	—	12.0	−3.3	−4.8
Australia	−4.1	−2.1	16.3	−5.2	−5.6

Source: See table 1-1.
[a] This column shows the level of household saving as a percentage of household disposable income in 1950-1954, and not, as other columns, the change in level between the two periods.
[b] Change from 1950-1954 to 1955-1958.

a proportion of income has increased, whereas in such countries as Australia and New Zealand the absence of an upward trend in per capita real income has been accompanied by a decline in the share of saving in income. This relationship, it may be noted, is quite consistent with the fact that in some countries, such as the United States, the share of saving in income has exhibited a remarkably stable trend over long periods of time despite long-term growth in real income. For, when the rate of increase in real income has been relatively moderate, its effect on saving behaviour has tended to be neutralized by the steady advance in consumption levels. But when the rate of increase in real income has been rapid—as it has in a number of coun-

Chart 1-7. Relationship between Average Annual Rate of Change in Real Disposable Income per Capita and Change in Level of Household Saving, 1950-1954 to 1955-1959

(Percentage)

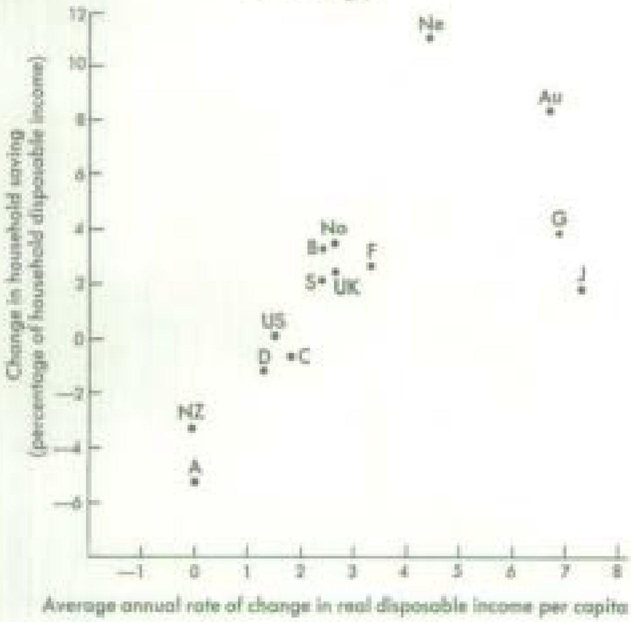


Chart 1-8. Relationship between Level of Household Saving in 1950-1954 and Change in Level of Household Saving, 1950-1954 to 1955-1959

(Percentage of household disposable income)

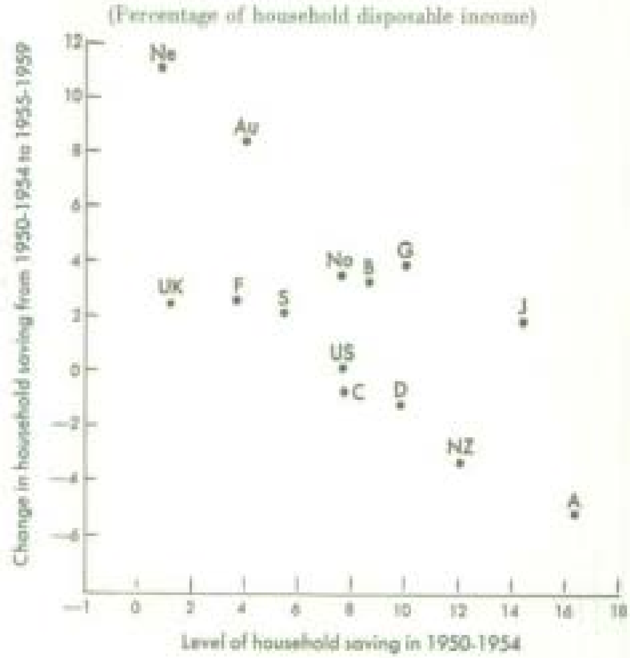
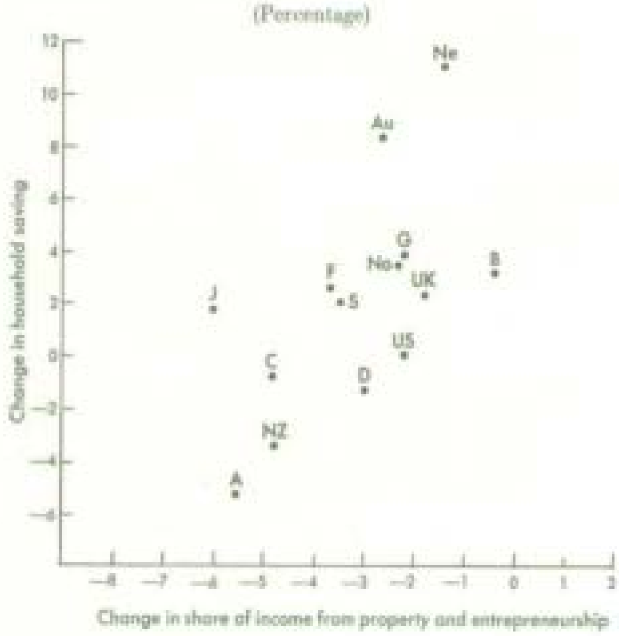


Chart 1-9. Relationship between Change in Share of Income from Property and Entrepreneurship and Change in Level of Household Saving, 1950-1954 to 1955-1959

(Percentage)



A — Australia
Au — Austria
B — Belgium
C — Canada
D — Denmark
F — France
G — Germany (Federal Republic)
J — Japan
Ne — Netherlands
NZ — New Zealand
No — Norway
S — Sweden
UK — United Kingdom
US — United States

Source: See tables 1-1 and 1-17.

tries during the last decade or so—there has been room for an increase in the share of saving concurrently with a continuing improvement in the standard of living.

It is obvious, however, that differences among countries in the degree to which the share of saving in income has changed are not wholly ascribable to rates of change in real income. And this is not too surprising since, after all, there are limits to the amount which most people are willing to save no matter how high the rate of growth in their income. Thus, in a country where the initial level of saving was already quite high, it would be expected that further increases would be modest, even if income rose rapidly. But if the initial level were low, a fast pace of advance in income might raise the level substantially. The initial share of saving in disposable income which obtained in 1950-1954 and the change in its share from that time to 1955-1959 are compared in chart 1-8; and it is clear that there is some correspondence. The differences among countries in the initial level of saving may thus largely explain why some countries deviated from the average experience illustrated in chart 1-7. In the Netherlands and the United Kingdom, for example, the extremely low levels of saving in the initial period appear to have contributed towards bringing about comparatively large increases in the share of saving in income relative to the growth of real income. Conversely, changes in the share of saving in the Federal Republic of Germany and Japan have been influenced by the relatively high levels of saving in the initial period.

It is of particular interest to note that the increases in household saving have been achieved despite a general decline in the relative share of income derived from property and entrepreneurship in total personal income. It is true that, as shown in chart 1-9, changes in the share of saving in income have been fairly closely associated with changes in the share of income derived from property and entrepreneurship. The greatest increases in saving have tended to take place in countries where the proportion of income from property and entrepreneurship has declined least. For instance, in the Netherlands, where the decline in the share of the latter has been much less than that in France, the increase of the share of saving has tended to be greater. But the mere fact that the distribution of income has not changed in the direction which normally contributes to an increase in saving would suggest that the increases in saving have not reflected the saving behaviour of high-income classes alone. In other words, the increases have probably occurred throughout a broad band of income levels.

While lack of data on saving by income group makes it impossible to verify this hypothesis conclusively, the available evidence supports it. Thus, in the United Kingdom, sample surveys have shown that, while dis-saving had occurred in income groups well above the mean income level at the beginning of the nineteen fifties, by the middle of the decade it was confined to groups below that level. Furthermore, though wage earners as a group had dis-saved at the beginning of the period, they had begun to contribute to total saving by the middle of the period.[20] Similarly, in the Federal Republic of Germany, the saving out of "mass incomes"[21] amounted to only about 3 to 4 per cent at the beginning of the nineteen fifties but has reached 8 to 9 per cent in more recent years.[22] Such increases in saving among the lower income groups probably reflects the growth of real wages beyond the socially accepted minimum levels. Once a certain wage-level has been reached, new patterns of consumption become possible and the motives for saving are strengthened by such things as the desire to own a home or to purchase a car or some major appliances. This effect on saving may have been especially marked in countries such as Austria, the Federal Republic of Germany, Japan and the Netherlands, where the absolute level of real income of the great mass of the population is still relatively low.[23]

Changes in the level of both government and enterprise saving have, as noted earlier, generally been much less important in accounting for the divergent trends in total domestic saving. Among such countries as Australia, Canada, New Zealand and the United States, where the total domestic saving declined or barely changed between 1950-1954 and 1955-1959, the level of government saving as a percentage of gross domestic product also fell in varying degree (*see* table 1-18). On the other hand, in most of the countries where total saving rose, government saving either changed little or contracted quite substantially. The Federal Republic of Germany was a major exception; here an increase in the level of government saving contributed substantially to the rising level of total saving.

The general absence of an upward trend in the saving of general government has been partly related to the lack of a marked trend in the growth of government investment. Although government investment has tended to rise somewhat in relation to total output since 1950, none of the increases has been sizable.[24] Consequently, governments have not generally regarded it as necessary to raise the rate of government saving. At the same time, the tendency for government income to increase automatically in a growing economy has often been offset

---

[20] *See* M. F. Erritt and F. L. Nicholson, op. cit.

[21] Net wages and salaries and government transfers.

[22] *See* Deutsche Bundesbank, *Monthly Report*, vol. 12, No. 9 (Frankfurt).

[23] The relative influence of the three variables discussed above on the trends in household saving can be estimated by the method of correlation analysis. The partial correlation coefficients between the changes in the share of saving in income and the changes in the three variables are as follows: per capita real disposable income, 0.84; the initial level of household saving, −0.64; and income from property and entrepreneurship, 0.50; the multiple correlation coefficient is 0.93; this is to say that the influence of these variables, taken together, has accounted for about 86 per cent of the changes in the level of household saving.

[24] *See* United Nations, *World Economic Survey, 1959*, pages 42 to 48.

Table 1-18. Changes in Levels of General Government Saving, Disposable Income and Consumption, 1950-1954 to 1955-1959

(Percentage of gross domestic product)

Country	Gross saving[a]	Disposable income[a]	Consumption
Germany (Federal Republic)	1.4	0.1	−1.3
Denmark[b]	1.0	2.3	1.3
Sweden	0.7	2.9	2.2
Belgium[b]	0.6	0.1	−0.5
United Kingdom	0.5	−0.9	−1.4
Austria	0.4	0.8	0.4
France	0.3	0.3	—
Norway	0.1	1.1	1.1
New Zealand	−0.3	−0.2	0.1
United States	−0.5	−0.1	0.4
Australia	−1.0	−1.1	−0.1
Japan	−1.1	−2.0	−0.9
Canada	−1.2	−0.7	0.5
Finland	−2.3	−0.7	1.7
Netherlands	−4.0	−3.3	0.8

Source: See table 1-1.
[a] Including depreciation where data are available.
[b] Change from 1950-1954 to 1955-1958.

by tax reductions in response to popular pressures and by the expansion of government current expenditure.

Government disposable income, as may be seen from table 1-19, increased substantially between 1950-1954 and 1955-1959 only in Austria, Denmark, Norway and Sweden. Elsewhere it showed no significant change or it declined; the decline was particularly large in the Netherlands. These differing trends have been influenced by changes both in government net transfers to the private sector and in tax revenues. Transfers have increased in almost every country, reflecting the post-war movement towards provision of more adequate social security coverage. The increases have been particularly marked in some countries where coverage at the outset of the period was rather limited. Transfers, however, have represented only a part of total social welfare expenditure, and in some countries, such as the Scandinavian countries, the expansion in direct provision of social services has also resulted in an increase in government current consumption expenditure.

Since transfers have risen everywhere, differences in trends in disposable income have been largely dependent upon the rates of growth in tax revenue relative to output. But the behaviour of revenue from the various taxes has differed greatly. In most countries, revenue from household taxes has risen mainly as a result of increases in the rate and coverage of social security contributions; other household taxes have in fact been reduced somewhat in many countries. In Australia and Japan, the reduction in personal tax rates has been especially important. In some cases, however, as in the Scandinavian countries and the United States, the increase in revenue from other household taxes appears largely to have been the outcome simply of the rising levels of individual money incomes; at higher levels of money income, the effective rate of personal income tax rises, even though statutory rates remain unchanged. In contrast, revenue from direct taxes on corporate incomes has generally tended to decline because of deliberate government action. Generally, the excess profit taxes imposed during the Korean boom have been abolished and more liberal tax provisions, such as the introduction of greater flexibility in depreciation allowances, have

Table 1-19. Changes in Levels of Government Disposable Income and Components of Income and Expenditure, 1950-1954 to 1955-1959

(Percentage of gross domestic product)

Country	Disposable income of government[a]	Direct taxes: Total	Direct taxes: Household	Direct taxes: Corporation	Indirect taxes minus subsidies	Net transfers[b]	Other income[a]	Consumption of government: Total	Consumption of government: Civil	Consumption of government: Defence
Sweden	2.9	3.0	2.9	0.1	1.3	−1.7	0.3	2.2	1.9	0.3
Denmark[c]	2.3	1.2	1.3	−0.1	1.8	−1.0	0.3	1.3	1.0	0.3
Norway	1.1	1.6	3.1	−1.5	0.9	−1.4	—	1.1	1.3	−0.2
Austria	0.8	−0.1	−0.1	—	1.8	−1.3	0.4	0.4	0.9	−0.5
France	0.3	1.5	1.1	0.4	0.1	−1.2	−0.1	—	...	...
Germany (Federal Republic)	0.1	0.7	0.7	—	−0.1	−0.9	0.4	−1.3	0.3	−1.6
Belgium[c]	0.1	−0.1	0.1	−0.2	—	0.3	−0.1	−0.5	−0.1	−0.4
United States	−0.1	0.3	1.2	−0.9	0.3	−0.8	0.1	0.4	1.1	−0.7
New Zealand	−0.2	−0.7	−0.4	−0.3	0.4	−0.2	0.3	0.1	0.4	−0.3
Canada	−0.7	−0.4	0.6	−1.0	0.5	−1.2	0.4	0.5	1.3	−0.8
Finland	−0.7	...	...	−0.9	−1.7	...	1.2	1.7	...	...
United Kingdom	−0.9	−1.1	0.1	−1.2	−0.2	−0.5	1.0	−1.4	—	−1.4
Australia	−1.1	−2.0	−2.1	0.1	1.2	−0.6	0.3	−0.1	0.7	−0.8
Japan	−2.0	−1.1	−1.2	0.1	0.3	−1.0	−0.2	−0.9	−0.4	−0.5
Netherlands	−3.3	0.6	1.4	−0.8	−2.5	−1.8	0.4	0.8	1.1	−0.3

Source: See table 1-1.
[a] Including depreciation where data are available.
[b] Changes in net transfers are shown with a reversal of sign as a deduction from government income, so that a minus sign indicates an increase in net transfers, and conversely.
[c] Change from 1950-1954 to 1955-1958.

been provided. The declines in revenue from corporate taxes as compared to total output have been especially marked in countries with relatively high levels of revenue from corporate taxes, such as Canada, the United Kingdom and the United States.

Because of the differing trends in revenue from household and corporate taxes, it is not surprising that clear trends in total direct tax revenue have been lacking. On the whole, changes in revenue from household taxes have been dominant. This is especially evident in the instances where total revenue from direct taxes has risen. In some instances where total direct tax revenue has declined, changes in revenue from corporate taxes have also been important.

It is noteworthy that most industrial countries have experienced increases during the period in revenue from indirect taxes relative to output. This has been partly due to the fact that, from time to time in recent years, many governments have attempted to employ higher indirect taxes to restrain excess domestic demand. In some cases, the shifts in the pattern of consumption towards durables and luxury items which are more heavily taxed have also been a contributing factor. The Netherlands is the only major exception to this general trend; there, the Government, as part of its general economic policy, has reduced indirect taxes and raised subsidies in an effort to curb wage demands.

As to the trends in government consumption, defence expenditure as a proportion of gross product has generally declined from the very high levels reached during the Korean boom. Such declines have been particularly noticeable in the Federal Republic of Germany and the United Kingdom; in the former case, the decline has reflected a reduction in the share of occupation costs borne by the Federal Republic. However, the relative contraction in defence expenditure has generally been insufficient to offset the rising trend in government civil expenditure, and total consumption has risen; the Federal Republic of Germany, Japan and the United Kingdom, however, have been major exceptions. The higher levels of civil expenditure, as indicated earlier, have been partly the outcome of increased social welfare benefits.

It is clear from the preceding discussion that no single factor has dominated the saving experience of governments in individual countries. While in the more important instances of a decline in the level of government saving, as in Australia, Canada, Japan and the Netherlands, a reduction in disposable income has been the dominant factor, experience with regard to increases in the level has been more varied. In Denmark and Sweden the rise in disposable income has been more than enough to offset the upward trend in government consumption, but in the Federal Republic of Germany, in spite of a stable income in relation to gross product, the Government has been able to achieve the largest increase in saving because of a relative decline in total consumption expenditure.

No less than government saving, changes in the level of enterprise saving have shown little or no systematic relationship with trends in total domestic saving. Among the countries which have experienced increases in domestic saving, the contribution of enterprise saving has been of crucial importance only in Japan.[23] But among countries where total domestic saving as a percentage of gross domestic product has declined or remained roughly the same, enterprise saving has generally increased, thus offsetting in part the unfavourable trend in saving of other domestic sectors.

Changes in the level of enterprise saving have, in the main, reflected changes in saving of corporations. This correspondence between movements in enterprise and corporate saving is quite evident for the few countries for which data are available (*see* table 1-20). The increases in corporate gross saving in many countries have been accompanied by an upward trend in depreciation charges, as depreciation allowances for tax purposes have been made progressively more liberal in recent years. Increases in corporate depreciation charges have been particularly marked in Australia, Canada, Japan, the United Kingdom and the United States and have thus played a dominant role in the trends of their corporate gross saving.

Table 1-20. Changes in Levels of Enterprise and Corporate Saving, 1950-1954 to 1955-1959

(Percentage of gross domestic product)

Country	*Enterprise gross saving*	*Corporate gross saving*	*Corporate net saving*
Japan	3.8	2.8[a]	0.7
Australia	3.0	...	0.8
Canada	1.3	1.2	−0.1
United States	0.8	0.7[b]	−0.5
United Kingdom	0.5	1.2	0.2
New Zealand	0.1	...	−1.0
Norway	−0.3	...	−1.6
Germany (Federal Republic)	−0.7	...	0.2
France	−1.0	−0.7	−0.1

Source: See table 1-1.

[a] Change from 1951-1954 to 1955-1959; including depreciation of government enterprises.

[b] Not including depreciation of public corporations.

In most countries, the level of corporate net saving has remained practically unchanged in relation to gross product. However, as shown in table 1-21, trends in corporate net saving in relation to corporate income before taxes have differed widely among countries. The combined effect of changes in corporate direct taxes

[23] Apart from other factors influencing the changes in enterprise saving in individual countries, the exceptional experience of Japan in this respect has been partly due to its much larger unincorporated enterprise sector, whose depreciation charges by statistical convention are included here.

and dividend payments on trends in corporate net saving is evident. Corporate direct taxes have been reduced in relation to corporate income in almost all the countries, mainly as a result of the removal or reduction of excess profits taxes imposed during the Korean boom. France has been the major exception where corporate taxes have risen substantially from a relatively low initial level. In contrast to the trend in taxes, there has been a marked upward trend in dividend payments by corporations, except in France. This factor has accounted for the decline in corporate saving in relation to corporate income in Japan, New Zealand, Norway and the United States; in countries such as Canada, the Federal Republic of Germany, Finland and the United Kingdom, however, large reductions in taxes have enabled corporations to increase net saving as well as dividend payments.

It is clear from the foregoing that neither enterprise saving nor government saving has generally been nearly as important as household saving in accounting for changes in the level of domestic saving. And since, as noted earlier, it has been the changes in domestic saving which have dominated the trends in the total supply of saving absorbed in domestic investment, the changes in the saving behaviour of households have clearly been of considerable importance.

In some countries, however, where there has been an upward trend in saving levels, not all of the increase in domestic saving has been absorbed in domestic investment. Some part has reflected an improvement in the external balance. And in other countries, the total supply of saving for domestic investment has been augmented by drawing on foreign saving. As noted earlier, while the inter-country differences in the level of total saving have been little influenced by differences in the level of foreign saving, changes in foreign saving have been much more significant in relation to the changes in total saving.

The changes in foreign saving which countries have experienced are the counterpart of the trends in their balances of payments on current account. For a number of industrial countries, substantial increases in exports of goods and services, together with more favourable terms of trade, resulted in improvements in the external balance during the nineteen fifties (see table 1-22). Outstanding examples are Austria and the Federal Republic of Germany. Improvements in external balances, it will be noted, have occurred no less in some countries which have drawn on foreign saving during the nineteen fifties as a whole than in other countries which have been suppliers of foreign saving.

By contrast, in some of the primary exporting countries, notably Canada and New Zealand, the increased dependence upon foreign saving has been influenced by the decline in exports from the peak levels achieved during the Korean boom. In Australia, although the decline in exports has been striking, it has been more than offset by an even sharper decline in imports.

The changes in foreign saving have necessarily been matched by identical changes in foreign exchange reserves, short-term assets and long-term capital flows, when taken together. It will be recalled that in the early nineteen fifties, most industrial countries of western Europe were net recipients of official capital, largely in the form of grants. But this flow has been almost completely reversed in recent years. As may be seen from table 1-22, only a few countries, such as Finland and the United States, have experienced a decline in the outflow of official capital as a percentage of gross domestic product. In Finland, this decline has denoted the end of reparation payments, while in the United States it has been indicative of the stabilization of foreign aid at a somewhat lower rate in relation to output than that in the early nineteen fifties. In a number of countries, such as Australia, Austria, Denmark, Italy and Norway,

Table 1-21. Changes in Levels of Corporate Income, and its Uses,[a] 1950-1954 to 1955-1959

Country	*Corporate income before taxes (percentage of gross domestic product)*	*Direct taxes*	*Dividends[b]*	*Net saving*
		(percentage of corporate income before taxes)		
Japan	0.9	−2.4	2.9	−0.5
Germany (Federal Republic)	0.9	−9.1	5.2	3.9
Australia	0.7	−1.7	1.3	0.4
France	0.1	5.6	−3.9	−1.7
Finland	−0.6	−7.9	3.9	3.9
New Zealand	−0.9	1.1	4.2	−5.4
Canada	−1.0	−5.4	1.1	4.3
United Kingdom	−1.0	−6.2	1.5	4.7
United States	−1.3	−2.6	4.8	−2.2
Norway	−3.0	−1.1	3.1	−2.0

Source: See table 1-1.

[a] The corporate sector includes private and public corporations, except for Australia, Japan and the United States, where it includes private corporations only, owing to lack of comprehensive data on public corporations. Corporate income is after inventory valuation adjustment wherever data are available.

[b] Including corporate transfer payments.

Table 1-22. Changes in Levels of Foreign Saving, Long-term Capital and Grants, 1950-1954 to 1955-1959

(Percentage of gross domestic product)

Group and country[a]	Exports of goods and services	Imports of goods and services	Foreign saving	Long-term capital and grants: Total	Private	Official
Suppliers of foreign saving						
Germany (Federal Republic)	6.8	5.0	−1.8	−1.8	−0.2	−1.6
Japan	−0.3	1.0	1.3	−0.9	−0.1	−0.8
Finland	−0.7	0.3	1.0	1.3	—	1.3
Netherlands	1.5	1.1	−0.4	−2.1	−0.3	−1.9
Sweden	−0.3	0.9	1.2	0.2	—	0.2
United States	0.3	0.3	—	0.2	−0.1	0.3
United Kingdom	0.1	—	−0.1	−0.7	—	−0.8
Belgium[b]	4.5	2.3	−2.2	−0.6	−0.6	—
France	−1.1	−0.8	0.3	...	...	...
Users of foreign saving						
Norway	1.6	0.4	−1.2	−0.8	1.8	−2.5
Austria	7.2	4.8	−2.4	−3.0	0.6	−3.7
Australia	−4.9	−5.1	−0.2	−0.1	0.2	−0.3
Italy	2.6	0.8	−1.8	−0.3	0.7	−1.0
Canada	−2.3	−0.2	2.1	0.4	0.6	−0.2
Denmark[b]	3.0	0.8	−2.2	−0.9	0.2	−1.1
New Zealand	−4.9	−3.3	1.6	0.4	—	0.4

Source: See table 1-14.

Note: For a definition of foreign saving, see table 1-2 and page 20. A positive change in foreign saving denotes a greater increase in imports of goods and services than in exports, or a smaller decline in imports than in exports. Similarly, a positive change in long-term capital and donations denotes an increase in the inflow, or a decrease in the outflow. Data do not necessarily add to totals because of rounding.

[a] Countries in each group are arranged in descending order of the absolute magnitude of foreign saving as a percentage of gross domestic product in 1950-1954, except for France and New Zealand where foreign saving in 1950-1954 was, respectively, 0.1 and −0.1 per cent of gross domestic product.

[b] Change from 1950-1954 to 1955-1958.

the decline in the inflow of official capital has been partly offset by an increased inflow of private long-term capital.

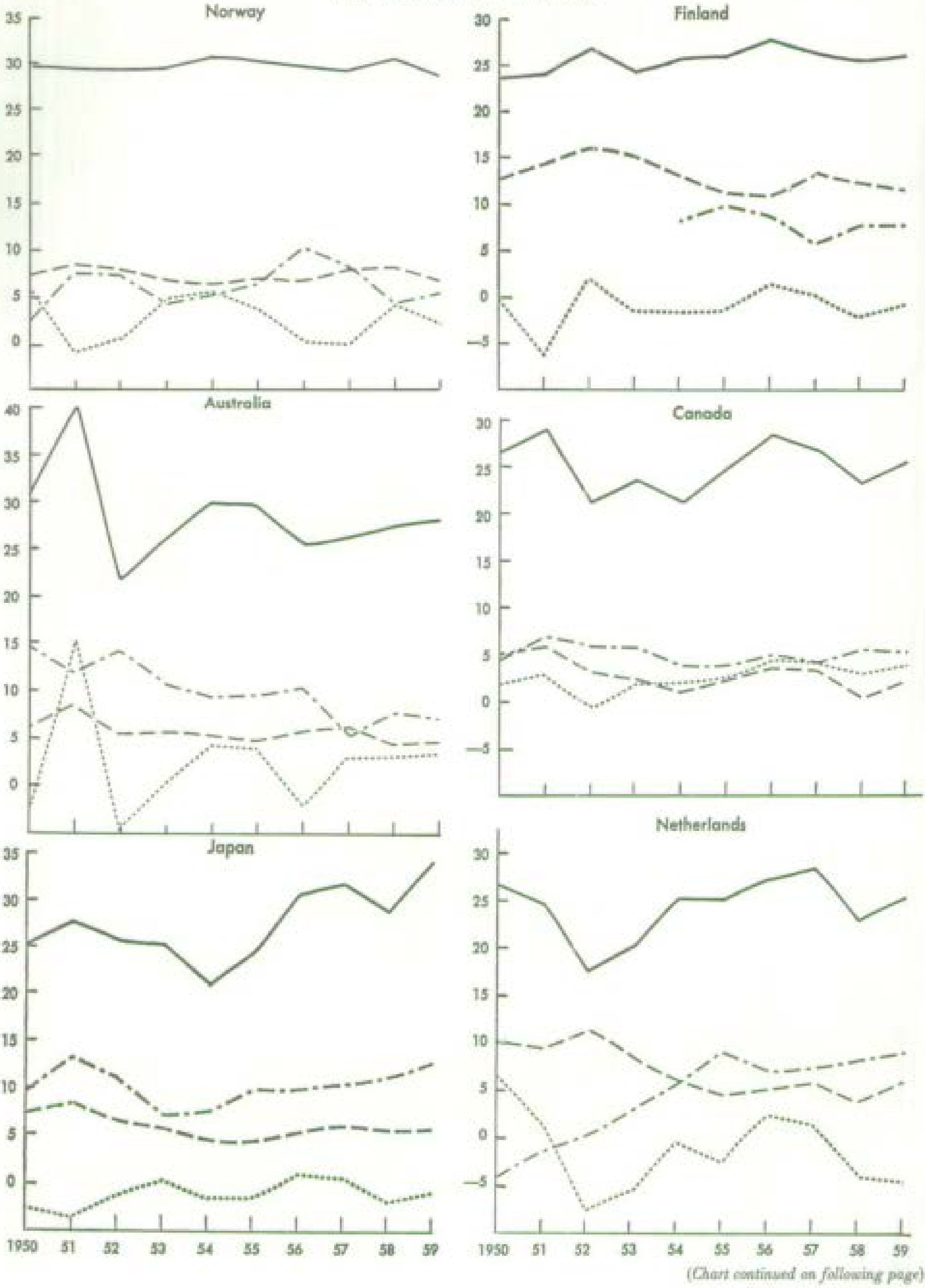
FLUCTUATIONS IN SAVING

Since high levels of economic activity have generally been sustained during the post-war years, the prevailing problem in most industrial countries has been how sufficient saving might be generated to realize a high level of investment. In some countries, this problem has been complicated by recurrent balance of payments difficulties reflecting excessive reliance on foreign saving. Recessionary lapses in the upward trend of economic activity have, however, by no means been absent. And in a recessionary situation, the problem has ceased to be one of releasing sufficient resources from consumption to meet investment requirement, and has become one of raising the general level of effective demand. If, however, the saving behaviour of the community is not adapted to the changed economic situation, a pattern of behaviour that makes possible the realization of a high level of investment when economic conditions are buoyant may tend to aggravate a recessionary situation. In fact, of course, saving behaviour in the private sectors of industrial countries does change in response to variations in general economic activity, though, as seen below, it has not always been adjusted in a direction that would exert a contra-cyclical influence on activity. More important, the saving behaviour of government has usually served, within the context of general economic policy, as a counter-cyclical instrument.

It is true that post-war cyclical fluctuations in the industrial countries have been relatively mild and recessions have, on the whole, been minor and short-lived. Yet hardly a single country in the group has escaped recessionary tendencies at one time or another. In the western European countries and Oceania, the recession in 1952 was largely an inventory readjustment following the collapse of the Korean boom. In North America, where curtailment of defence expenditure occurred at a much later date, the recession did not occur until 1953/54. Following a period of continued expansion in the mid-nineteen fifties, many western European countries again experienced a set-back in growth around 1958. In the case of the United Kingdom, however, the slackening in economic activity began as far back as 1955 and lasted for almost three full years. In Canada and the United States, the recession of 1957/58 was more prolonged than in most other countries of the group; in these countries full recovery had not yet been achieved when another recession set in.

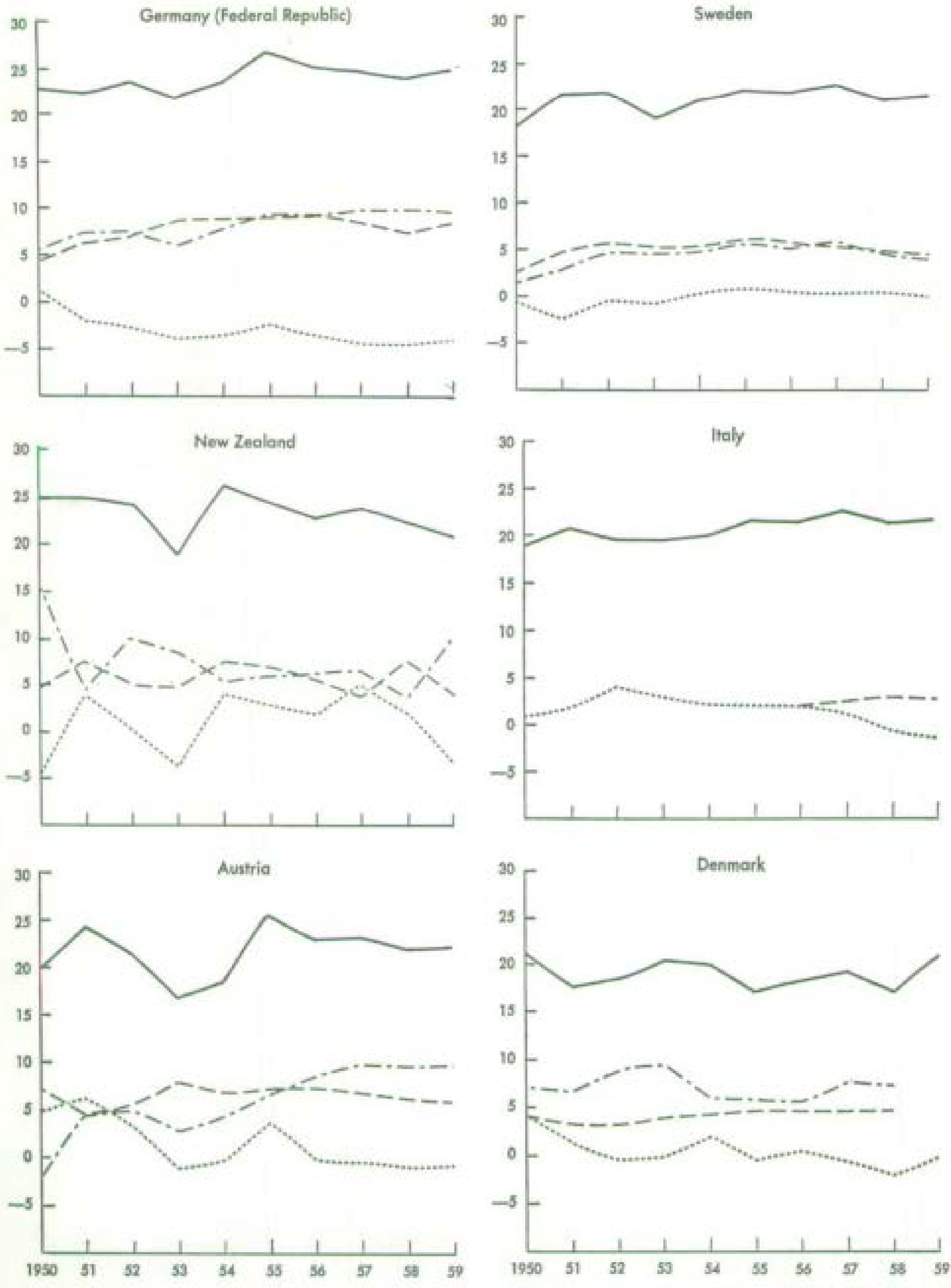
The behaviour of the three broad components of domestic saving and of foreign saving has exhibited

Chart 1-10. Annual Fluctuations in Total Saving and Certain Components, 1950-1959
(Percentage of gross domestic product)



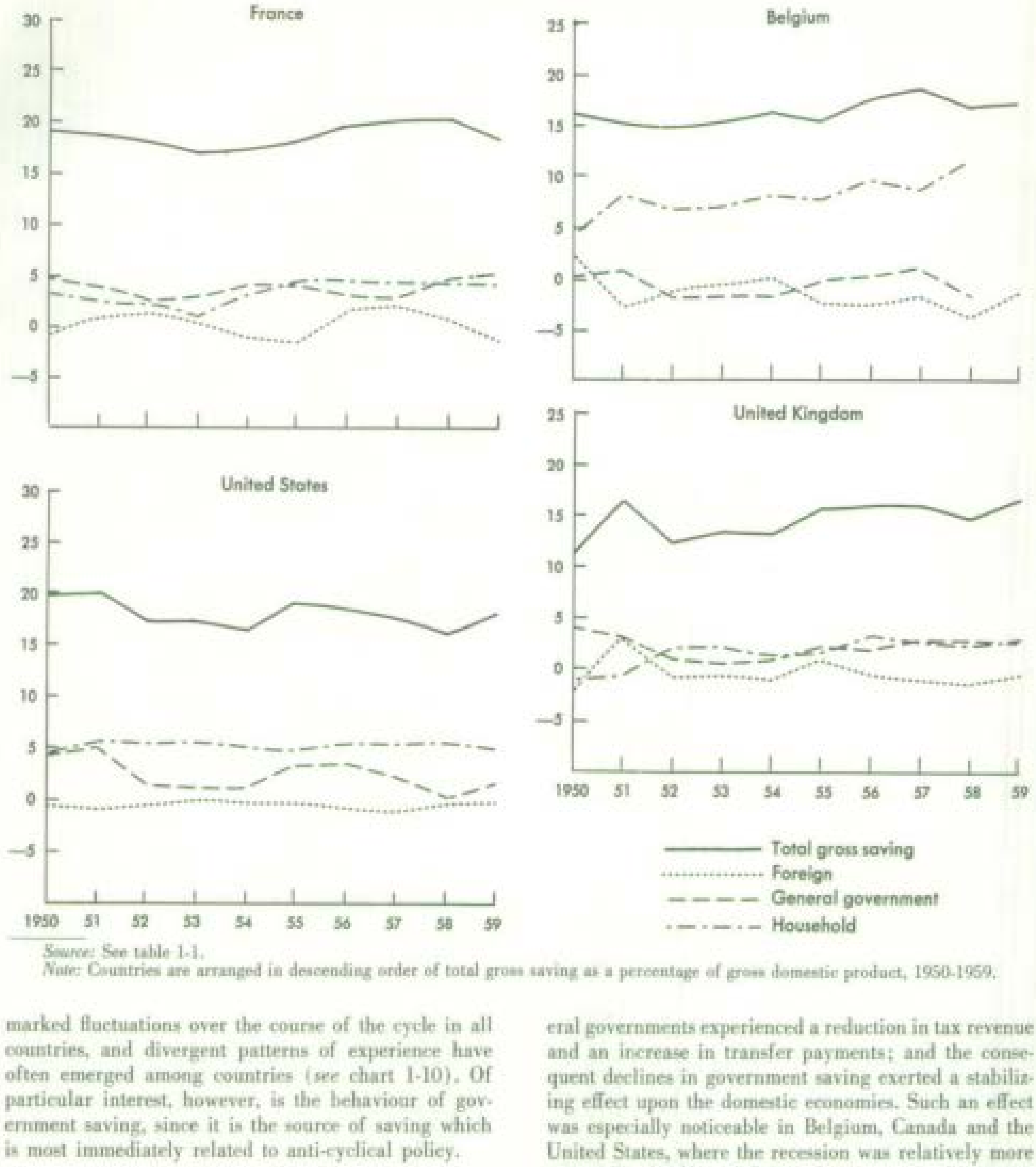
(*Chart continued on following page*)

Chart 1-10 (*continued*)



(*Chart continued on following page*)

Chart 1-10 (*continued*)



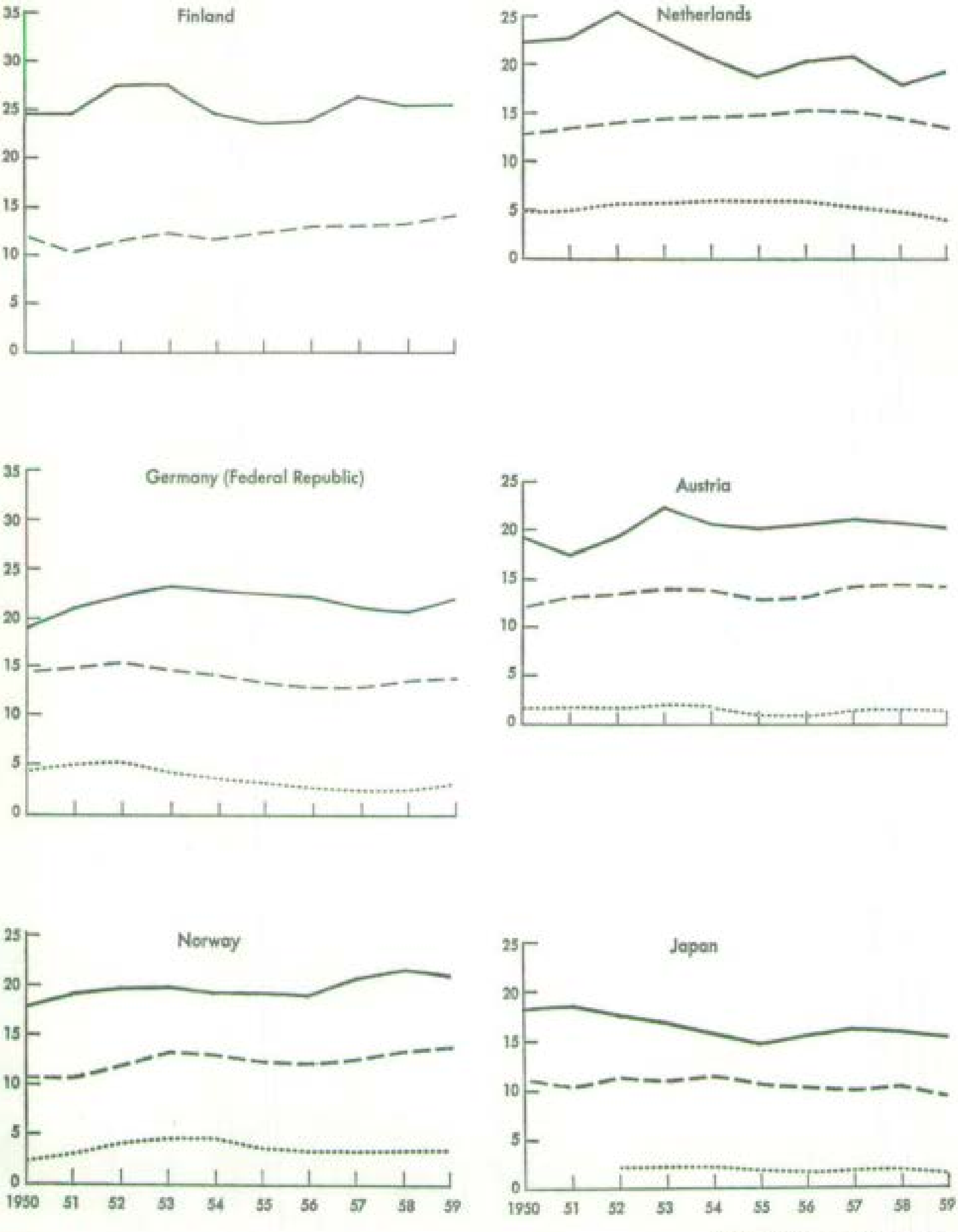
Source: See table 1-1.
Note: Countries are arranged in descending order of total gross saving as a percentage of gross domestic product, 1950-1959.

marked fluctuations over the course of the cycle in all countries, and divergent patterns of experience have often emerged among countries (*see* chart 1-10). Of particular interest, however, is the behaviour of government saving, since it is the source of saving which is most immediately related to anti-cyclical policy.

In most countries, fluctuations in government saving have exhibited a contra-cyclical pattern, tending to rise and fall in consonance with the oscillations in general economic activity. This has mainly arisen from the fact that, under the present fiscal systems in industrial countries, tax revenue and net transfer payments to the private sector tend to vary automatically in response to changes in domestic economic activity (*see* chart 1-11). For example, during the recession in 1952, several governments experienced a reduction in tax revenue and an increase in transfer payments; and the consequent declines in government saving exerted a stabilizing effect upon the domestic economies. Such an effect was especially noticeable in Belgium, Canada and the United States, where the recession was relatively more severe. In the United States, furthermore, changes in government tax revenue have been particularly sensitive to those in economic conditions, although the government sector itself may not be as large as in some western European countries. This is partly attributable to the higher share of corporate taxes in government income in the United States, since such taxes have been especially sensitive to cyclical fluctuations. In addition, the practice of the quarterly assessment of corporate taxes has eliminated much of the lag between changes

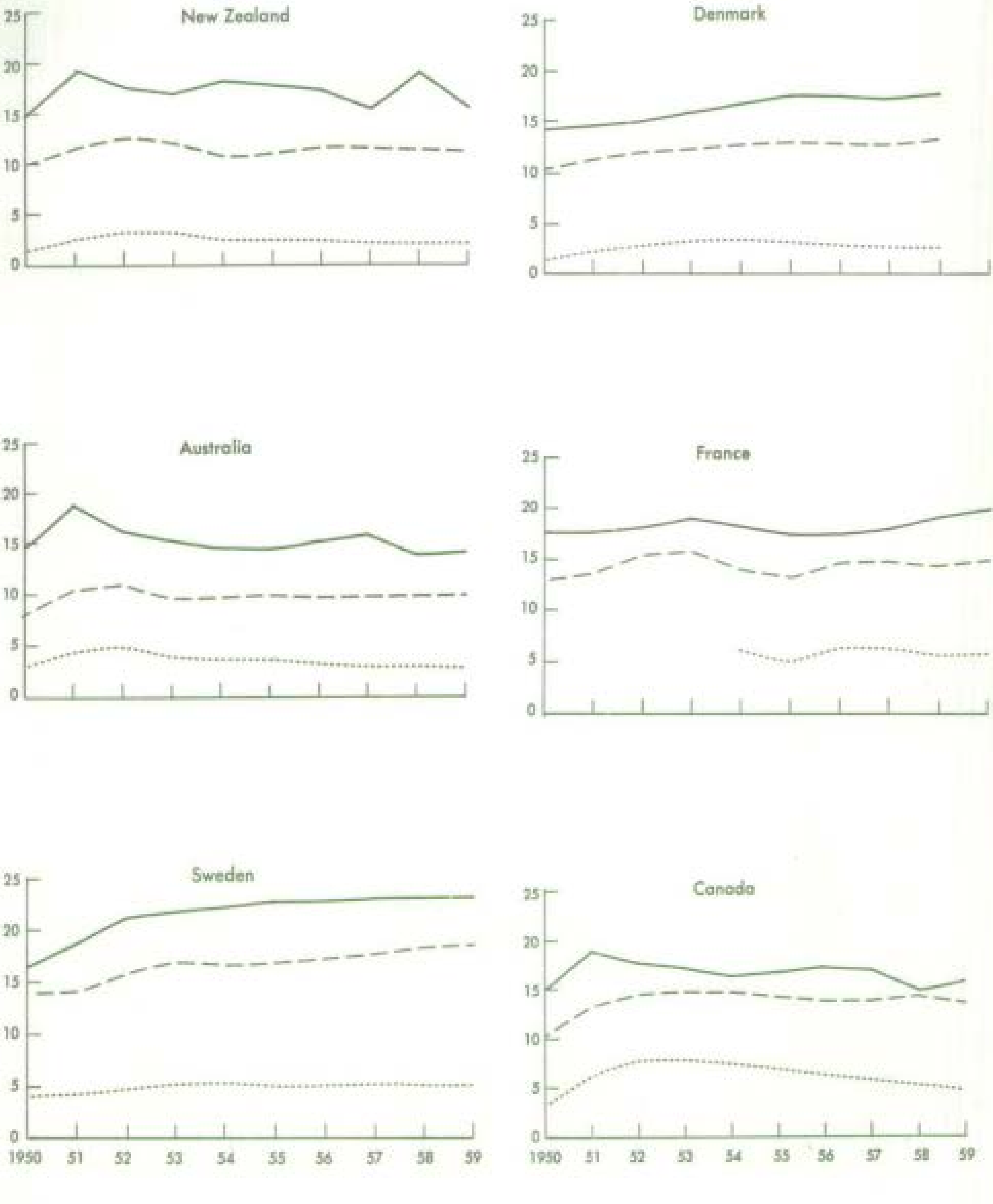
Chart 1-11. Annual Fluctuations in Disposable Income and Consumption of General Government, 1950-1959

(Percentage of gross domestic product)



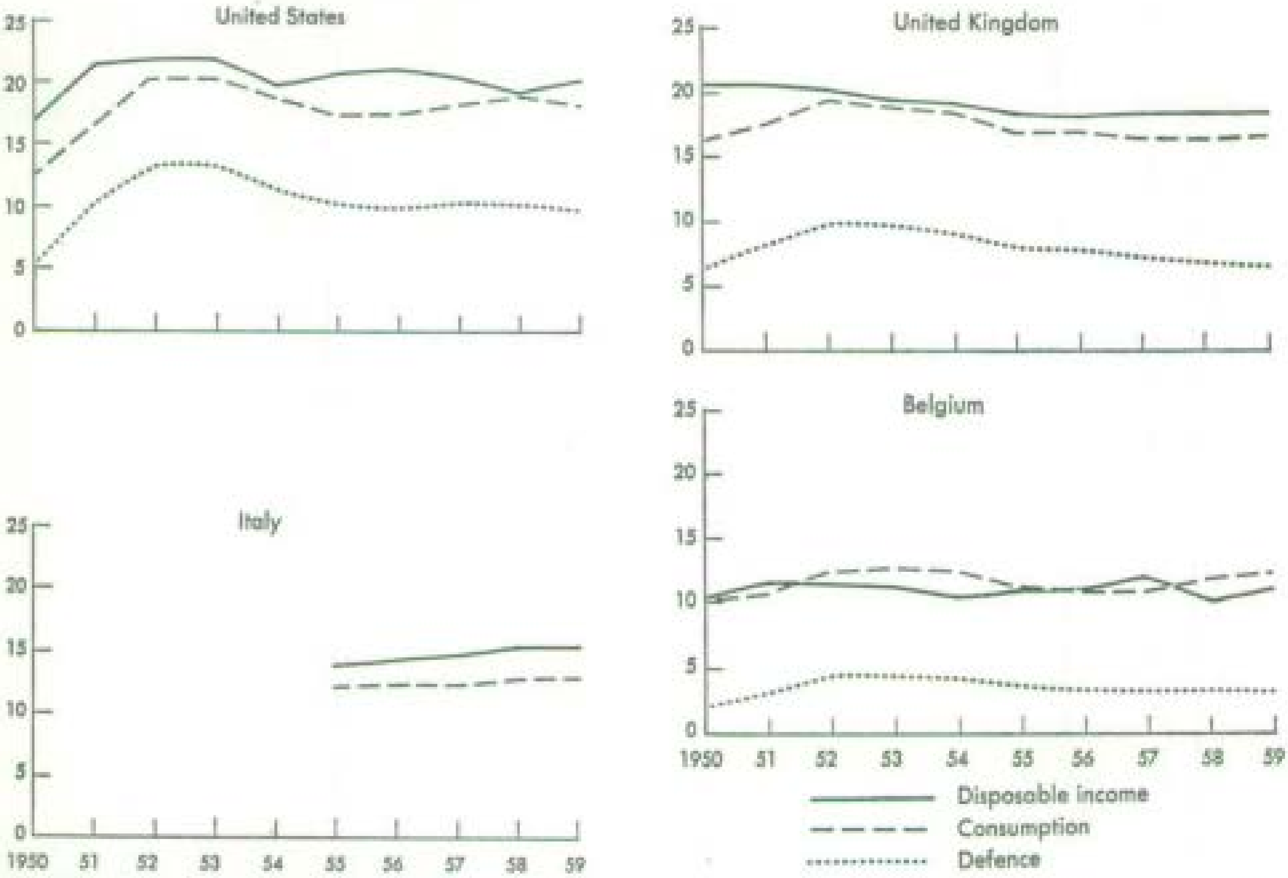
(Chart continued on following page)

Chart 1-11 (*continued*)



(*Chart continued on following page*)

Chart 1-11 (*continued*)



Source: See table 1-1.

Note: Countries are arranged in descending order of general government saving as a percentage of gross domestic product, 1950-1959.

in income and changes in tax payments. By contrast, in many western European countries, this lag has amounted to as much as one or two years, although recent tax reforms in a number of countries, in adopting a pay-as-you-go basis for tax payments, have generally tended to reduce the lapse of time.

In addition to automatic changes in tax revenue over the cycle, changes in transfer payments have also played an important role in the cyclical behaviour of government saving. This has been especially true where changes in the level of unemployment have been significant, as in the United States, since unemployment compensation is the most variable component of transfer payments. In most western European countries, however, a much larger proportion of government transfers, as compared with the United States, has been in the form of family allowances and pensions; and any changes in their levels have not been related to variations in current economic conditions.

In actual experience, however, the effect of automatic changes in income on government saving during a recession has often been strengthened or offset by other influences. During the recession of 1952, most western European countries experienced declines in the level of government saving; the declines, however, were significantly magnified by increased levels of defence expenditure, which were not an outcome of deliberate contra-cyclical policy. In a number of countries the falling trends in government income were even arrested by increases in taxes which had been imposed during the height of the Korean boom. The behaviour of government saving in the United States during 1953/54 was also affected by special influences. In spite of the automatic decline of government disposable income in the recession, government activity exerted, on balance, a contractionary influence on the economy because of an even sharper reduction in defence expenditure.

In recent years, however, governments, instead of relying exclusively upon the operation of the automatic stabilizers, have increasingly made use of additional measures to hasten the desired changes in government saving. Thus, although the recession in 1958 was more moderate than the previous recession, government contra-cyclical policies generally were more vigorous and comprehensive. Measures to reduce taxes, for example were used in such countries as Australia, Austria, Norway and Sweden. While in some instances the reduction was designed to lower total tax revenue, the choice of the kind of taxes generally had the effect of stimulating the economy at selected points. In some cases, as in Denmark, where recessionary tendencies occurred in 1957, tax relief to stimulate investment was accompanied by increases in indirect taxes to restrain consumption.

Deliberate tax relief to counteract recessionary tendencies has, however, important limitations. Many governments have been rather reluctant to reduce taxes for fear that the necessary upward readjustment during the subsequent recovery would prove too difficult. Attempts to increase government consumption during recessions have also faced limitations. Once an increase has been effected, subsequent reductions may prove to be difficult. Furthermore, the impact of many of the measures designed to vary government saving has necessarily been somewhat delayed, partly because of the administrative complexities involved in their implementation; and sometimes, economic conditions have changed more rapidly than could be foreseen when policy was formulated. For instance, even in the Netherlands, where anti-cyclical policy has been vigorously pursued, the acceleration of tax collection, introduced in 1951, had a major impact on government saving in the following year when there was a recession, and most other expansionary measures introduced to combat the recession did not take effect until 1953. Again, in France, the sharp rise in government saving in 1958 was the result of longer-term fiscal reforms.[26]

While changes in the level of government saving are, in some degree, a matter of deliberate decision, the short-term variations in corporate saving are much more the economic consequence of the oscillations in the general level of activity. It is not surprising, therefore, that the behaviour of corporate saving is more closely correlated with fluctuations in activity than is that of government saving. But this is not only because corporate income has been particularly sensitive to variations in the general level of economic activity; there has also been a strong tendency for corporations to maintain dividends in times of temporary declines in income (*see* chart 1-12). The fact that dividend disbursements have generally constituted a relatively small percentage of corporate income has partly made this possible; but also, corporate liquidity in many countries, despite a downward trend in the post-war years, has generally been high in times of recession. The operation of these factors has been clearly observable, for example, in the recent experience of the United States, where sharp dips in corporate saving have periodically occurred; thus, between the first quarters of 1957 and 1958, corporate net saving, seasonally adjusted, declined from an annual rate of $11.1 billion to a low level of $3.6 billion.

Unlike both government and corporate saving, the behaviour of household saving during post-war recessions appears to have been highly uncertain. In the United States, household saving as a percentage of gross domestic product has been remarkably stable during most of the period under review. In so far as fluctuations have tended to be much smaller in household disposable income than in total output, the stability in this percentage during recessions has been indicative of a decline in the share of household saving in household disposable income. However, it appears that during the 1960 recession, the share of household saving in disposable income tended to rise; this probably reflected uncertainty about the outlook for an improvement in employment opportunities.

In contrast to the experience of the United States, there has been no tendency for household saving in relation to gross domestic product to remain stable over time in most other industrial countries. Nor has there been a consistent pattern of behaviour during the course of the cycle.[27] Thus, during the 1952 recession, household saving as a percentage of gross domestic product did not decline in all countries. To some extent the lack of uniform behaviour in household saving among countries reflected different reactions to the collapse of the Korean boom. In some western European countries, the increases in the level of household saving marked the end of the speculative buying that occurred during the Korean boom. In the Netherlands and the United Kingdom, the increases were also prompted by the abnormally low levels of saving in the early post-war years. In Australia, household saving rose partly as a result of the restrictions on imports of consumer goods imposed prior to the recession. The absence of any uniform behaviour in household saving was again noticeable during the recession in 1958, although the general economic situation was far more normal than in 1952.

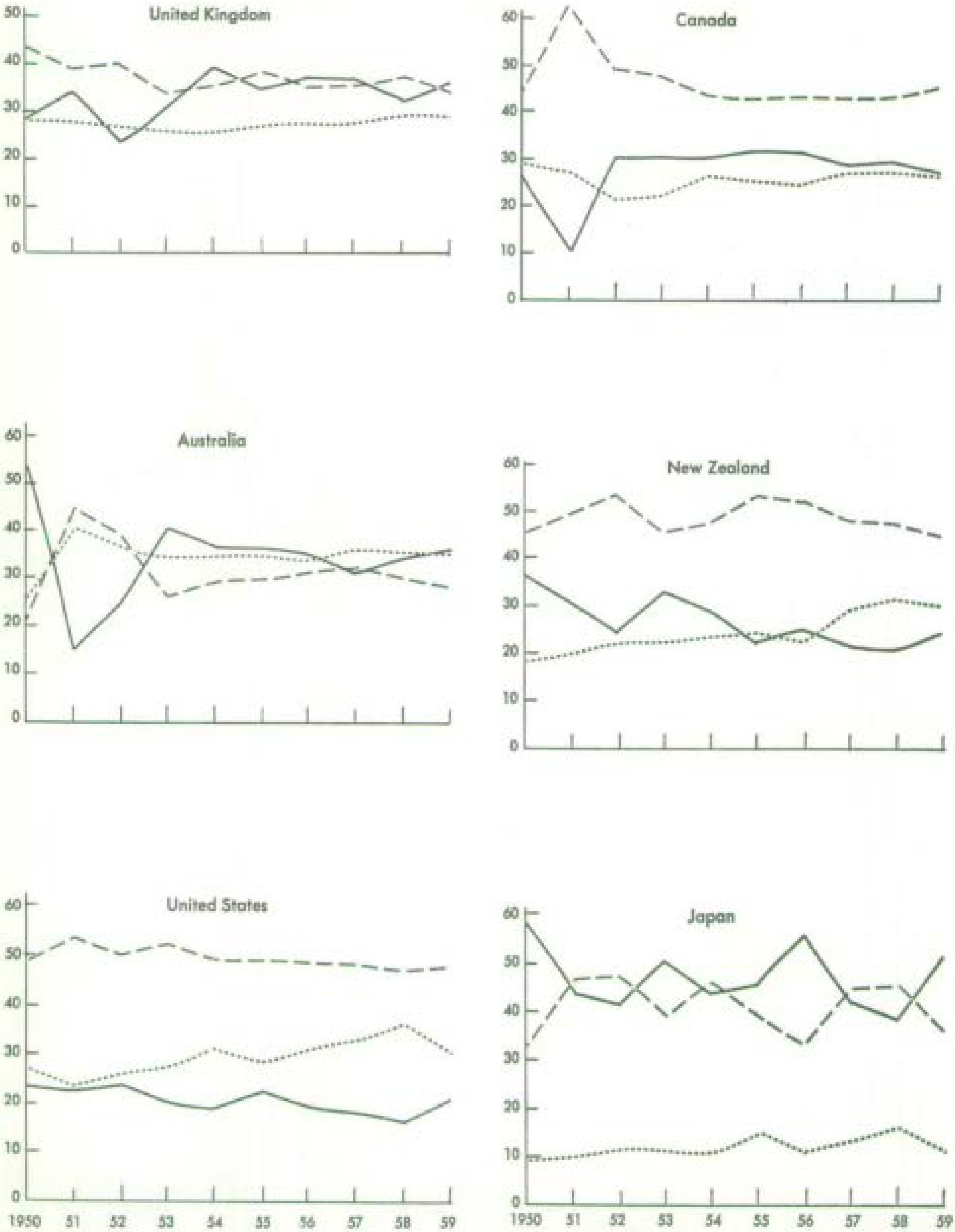
The differences among countries in the behaviour of household saving have also been influenced by the differing timing of purchases of consumer durables. Changes in these purchases have been highly volatile

[26] The present discussion centres on the role of saving as a stabilizer. In a comprehensive analysis of the stabilizing operations of the government, government investment programmes and monetary policies should also be considered. Although major expenditures usually require legislative approval, governments have often been able to vary the rate of expenditure or commitment of money already appropriated. In some countries, such as Austria, Norway and Sweden, explicit provision has been made for the Government to increase investment expenditure during a recession. In the United Kingdom, in order to strengthen its anti-cyclical policy, the Government has recently sought power to vary certain taxes within specified ranges by administrative order. For fuller discussion of fiscal and monetary policies, *see* United Nations, *Economic Survey of Europe in 1959* (Sales No.: 60.II.E.1), chapter VI; United Nations, *World Economic Survey, 1957* (Sales No.: 58.II.C.1), chapter 1; Organisation for European Economic Co-operation, *Europe and the World Economy* (Paris, 1960).

[27] There is some evidence that saving of unincorporated enterprise, which is included in household saving, has behaved in a similar way to corporate saving. The cyclical pattern of saving of farmers has, however, been complicated by the lack of correspondence between variations in agricultural and general economic activity.

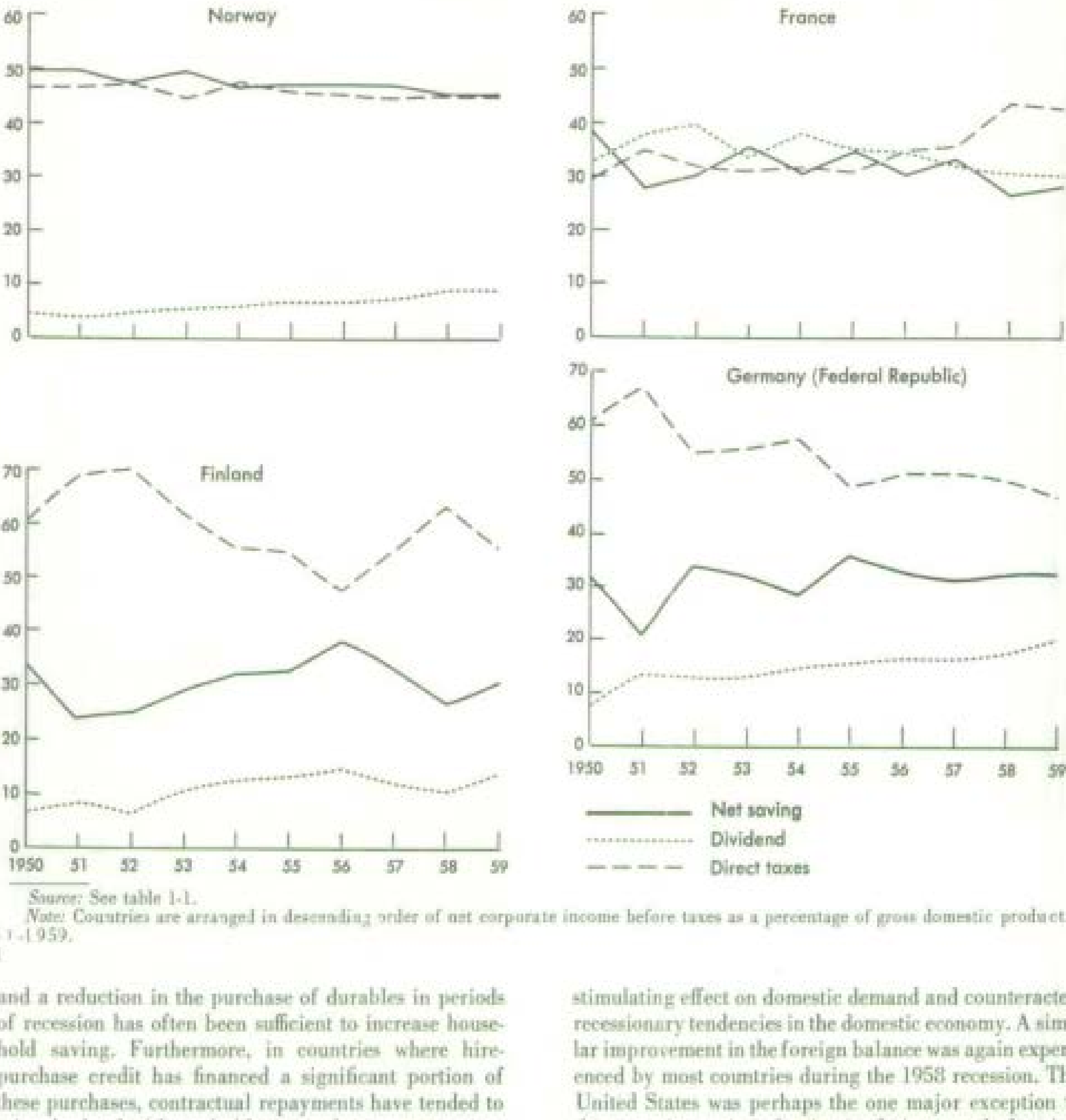
Chart 1-12. Annual Fluctuations in Uses of Corporate Income, 1950-1959

(Percentage of corporate income before taxes)



(Chart continued on following page)

Chart 1-12 (*continued*)



Source: See table 1-1.
Note: Countries are arranged in descending order of net corporate income before taxes as a percentage of gross domestic product, 1950-1959.

and a reduction in the purchase of durables in periods of recession has often been sufficient to increase household saving. Furthermore, in countries where hire-purchase credit has financed a significant portion of these purchases, contractual repayments have tended to raise the level of household saving during a recession.

In comparison to the other components of saving, foreign saving or, in other words, the balance of payments on current account has usually shown particularly violent fluctuations. This reflects the high degree of sensitivity of the foreign balance to changes in domestic demand. During the 1952 recession, the common experience was an improvement in the balance. While exports tended to rise, imports tended to fall as a result of the slackening domestic demand. The change from an import surplus to an export surplus, which was particularly noticeable in Australia, Belgium, Denmark, the Netherlands and the United Kingdom during this period, had a stimulating effect on domestic demand and counteracted recessionary tendencies in the domestic economy. A similar improvement in the foreign balance was again experienced by most countries during the 1958 recession. The United States was perhaps the one major exception to this experience since foreign trade is not only less important in its economy but has often been subjected to the influence of special factors, such as the Suez crisis. Moreover, its foreign balance has been considerably affected by autonomous movements in government grants and private investment abroad.[28]

For some countries, however, the role of foreign saving has been even more important in expansionary,

[28] It may be noted that because the timing of the post-war business cycles in various industrial countries has not exactly coincided and because special circumstances have sometimes dominated the movement of foreign balance, the cyclical impact of the industrial countries on the payments position of the rest of the world has not been as severe as otherwise might have been the case.

than in recessionary, phases of activity. To a considerable extent it has acted as a temporary safety-valve for domestic imbalance. When domestic demand for saving has risen relatively to domestic supply of saving, foreign saving has been drawn upon. Such saving, however, cannot be increasingly drawn upon for any extended period of time, since this entails the reduction of foreign exchange reserves or increasing foreign indebtedness. Foreign saving may thus prove to be a factor limiting investment and growth, as it has in certain countries, such as the United Kingdom, during recent years. To some extent, the tendency to draw excessively on foreign saving may have reflected inadequate saving from domestic sources. But even where the supply of saving from domestic sources has been adequate, market trends in exports and imports, together with autonomous capital movements, have sometimes been such as to place a serious strain on the external balance during expansionary periods.

Undoubtedly, with the gradual liberalization of trade and currency restrictions, especially among the industrial countries, the link between domestic economic activity and external balance has been strengthened. The fact that the external balance has not become a more serious source of limitation on the domestic expansion of most of the industrial countries has reflected in part the massive official grants from the United States to these countries in the early post-war years and the sizable outflow of gold in the latter part of the nineteen fifties. It is evident, however, that the United States has become increasingly concerned with its foreign balance, and further improvement in the reserves of other countries by means of a continued redistribution of gold from the United States has become less likely. It is therefore encouraging that governments in both countries with large payments surpluses and other countries, have been giving serious consideration to ways and means that could increase the supply of international liquidity.

The supply of finance

In buoyant economic conditions when productive capacity is being fully utilized, the level of investment which can be realized may be limited by the proportion of income which the community is willing to save at the prevailing level of prices. Identification of the principal factors moulding saving behaviour in different countries has formed the main content of this chapter. It is always possible, however, that the level of investment may also be limited, not by the unwillingness of the community to refrain from consuming a proportion of output at prevailing prices, but by the inability of those enterprises or institutions which undertake investment activity to secure all the funds necessary to finance investment. An enterprise may wish to invest in new capital equipment, but it may be unable to obtain the finance needed for purchase of the equipment. Conceivably, if many enterprises were so placed, the aggregate level of investment could be depressed and the balance between total investment and saving would then be struck at a lower level. Even though financial markets in industrial countries are highly developed, the flow of financial resources from savers to investors is by no means free of impediments; much financing of investment does not, in any case, take place through the financial institutions that constitute the market in an ordinary sense. Thus, the problem of the financing of investment has been of some importance in industrial countries because it has influenced the level of investment in particular industries or sectors.

Of the two sectors in the economy where investment activity is undertaken, namely, government and enterprise, it can hardly be said that the financing of investment in the government sector as a whole constitutes a problem, except in a rather special sense. While government can obtain finance by taxation or borrowing, the supply of government saving available for the financing of investment in the government sector is, as has already been discussed, not simply related to investment programmes but is the outcome of taxation and expenditure policy in general. In this sense, therefore, investment may, on occasion, be frustrated by lack of finance.

When a number of years are taken together, however, it cannot be said that lack of finance has been an impediment to investment in the government sector as a whole. Thus, as may be seen from table 1-23, in the nineteen fifties, total government saving generally proved more than adequate to cover government investment. In fact, governments have generally had excess saving, and, as noted earlier, this has been used in a number of countries to finance investment in public enterprises or even in corporate enterprises. Nor is there any indication that those countries in which investment in the government sector has been relatively large, have been faced with greater financial difficulties since significant amounts of excess saving are also found in these countries. Thus, among the countries, Finland, the Netherlands and Norway have achieved substantial excess saving in government despite high investment in the government sector. The deficit in government saving in Belgium, on the other hand, has not been due to high government investment.

Despite the general excess of total government saving, however, many technical problems have been present in the financing of investment within some subsectors of government. Much government investment, for example, is undertaken by state or local authorities, and restrictions on the fiscal power of these authorities have often limited their investment. Thus, in most industrial

Table 1-23. Level of Investment and Excess of Saving over Investment of General Government, 1950-1959

(Percentage of gross domestic product)

Country[a]	Saving	Investment[b]	Excess saving
Japan[c]	5.4	5.2	0.2
Australia	5.5	4.6	0.9
Finland	13.0	4.5	8.5
Netherlands	6.9	4.1	2.8
Norway[d]	7.4	3.7	3.7
Canada	2.9	3.5	−0.6
Sweden	4.9	3.2	1.7
Italy[c]	2.3	2.6	−0.4
Germany (Federal Republic)	7.7	2.5	5.2
United States	2.5	2.3	0.2
Denmark[d]	4.1	2.0	2.1
France	3.9	2.0	1.9
Belgium[d]	−0.5	1.7	−2.2
United Kingdom	2.2	1.5	0.8

Source: See table 1-1.

[a] Countries are arranged in descending order of level of government investment as a percentage of gross domestic product.

[b] These data on investment by general government are not exactly comparable among countries. Information on the distribution of inventories by type of purchaser is not available for most countries. Thus, it was necessary to make rough estimates of the inventories of general government in these countries. This was done by arbitrarily assuming that the share of government in total inventories was proportional to its share in total fixed investment. The error involved here is not large since inventory investment over the years is a relatively small portion of total investment.

[c] 1955-1959, annual average.

[d] 1950-1958, annual average.

countries, with the notable exception of the Scandinavian countries, the structure of taxes of local or state governments differs significantly from that of the central government. The heavy dependence on property taxes or local rates in a number of countries, for example, often does not permit automatic adjustment of revenues with rising incomes, and revisions of basic rates or reassessment of property values are usually difficult to make. Moreover, the authority to borrow money is usually severely limited, sometimes by constitutional provisions. These considerations have been particularly important in areas such as school construction which often is traditionally a local or state function.

It is, however, largely in the enterprise sector that the problem of financing assumes importance, since it is this sector which depends heavily upon financial markets to secure the funds for investment. Although the data on investment and saving for this sector are not exactly comparable, owing mainly to reasons of a statistical nature, it is clear that the enterprise sector is usually the largest net borrower from other sectors. The rough orders of magnitude may be seen from table 1-24. Further, there is some evidence that the degree of dependence on external finance has varied with the level of investment. In those countries where enterprise investment has been especially high its deficit in saving has also been relatively high; this has been true, for example, of Australia, the Federal Republic of Germany, Japan and Norway. And, where investment has been low, the deficit has tended to be low, as, for example, in Belgium, the United Kingdom and the United States.

Table 1-24. Level of Investment and Excess of Saving over Investment of Enterprises, 1950-1959

(Percentage of gross domestic product)

Country[a]	Saving	Investment[b]	Excess saving
Norway[c]	13.5	26.1	−12.6
Japan[d]	14.5	25.1	−10.6
Australia	10.6	23.9	−13.3
Germany (Federal Republic)	10.5	21.3	−10.9
Canada	14.6	21.0	−6.4
Netherlands	14.6	20.2	−5.6
Sweden	12.2	17.9	−5.7
Denmark[c]	7.4	16.7	−9.3
France	11.1	16.6	−5.6
United States	10.8	15.7	−4.9
Belgium[c]	10.0	14.5	−4.4
United Kingdom	11.4	14.1	−2.7

Source: See table 1-1.

[a] Countries are arranged in descending order of level of enterprise investment as a percentage of gross domestic product.

[b] Investment by public and private enterprises, including tha by unincorporated enterprises and investment in private housing.

[c] 1950-1958, annual average.

[d] 1955-1959, annual average.

A similar conclusion appears to emerge from data, shown in table 1-25, for a number of countries on the amount of external finance obtained by corporations in relation to their investment. External finance, however, may not be used solely to meet investment needs, but may also be used for other purposes including the maintenance of liquidity or such purely financial transactions as the acquisition of financial assets. The share of external finance in investment does not, therefore,

Table 1-25. External Finance as Share of Corporate Investment and Total Finance[a]

(Percentage)

Country	Share of external finance in gross investment	Share of external finance in total finance
Japan	91.2	60.5
Canada	66.0	51.3
Australia	62.5	55.5
France	60.0	38.5
Germany (Federal Republic)	59.1	48.4
United States	51.8	37.2
United Kingdom	49.1	37.1

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on national sources.

[a] Total finance denotes external and internal finance. Data for the Federal Republic of Germany and the United States refer to the average of 1950-1959; for Australia, 1952-1958; Canada, 1950-1954; France, 1950-1955; Japan, 1951-1959, and the United Kingdom, 1950-1958.

necessarily reveal the relative importance of external and internal sources in financing investment. This is again shown in table 1-25 where the supply of external finance is also expressed as a percentage of total finance. And, on the whole, as may be seen, the ranking of countries by this measure corresponds to that obtained from the comparison of the supply of external finance with investment.

No doubt, the relative dependence on external finance, however, must have been affected not only by the level of investment but also by such other factors as governmental fiscal policy with regard to corporate direct taxes and depreciation allowances, the growth of corporate income, corporate dividend distribution policy and the liquidity position of corporations during the period. The decline in corporate liquidity during the nineteen fifties, for instance, appears to have been especially marked in Canada, the United Kingdom and the United States. Liquid assets in these countries from the early nineteen fifties to the late nineteen fifties fell by 10 per cent or more in terms of current liabilities.

It appears to be fairly clear, nevertheless, that, in countries with higher levels of investment in the corporate or enterprise sectors, the dependence on external sources of finance has generally been relatively greater. In such countries, the flexibility of financial markets in meeting the financial requirements of varied industries and firms has no doubt been put more severely to the test than in countries where the corporate sector has been able to rely more heavily on internal sources. It may be noted, however, that reliance on internal sources in the corporate sector as a whole does not necessarily imply that the problem of finance is any less acute for individual concerns. For, though numerous industries or enterprises may have large internal financial resources, these resources may not be made available to other industries or enterprises.

Among industries, although comparison is rendered difficult by the effect of their particular operations on their patterns of finance, there is some indication that the more rapidly expanding industries generally have derived a relatively high share of finance from external sources. This appears to have been the case in Canada, the Federal Republic of Germany and France. In Japan, however, some of the higher growth industries appear to have been favoured by liberal depreciation allowances so that their dependence on external funds has not been especially high. And in the United Kingdom and the United States no significant differences in the pattern of finance between the faster growing and other industries has been apparent; this has been influenced by the fact that their rate of growth during the nineteen fifties has been relatively moderate.

While it is possible for the faster growing industry to restrain dividend disbursements in order to conserve funds for expansion, such disbursements have sometimes been considered necessary for the purpose of attracting investors in new financing. In Australia, for example, these industries have actually pursued a more liberal policy of dividend disbursements than the average. In the United Kingdom, although the faster growing industries have on the average been more restrained in dividend disbursements, the most rapidly expanding industries have generally pursued a liberal distribution policy.

If special problems may have been associated with the financing of the more dynamic industries, the same can be said of the financing of small firms. The finance of investment in small firms has been a problem common to most countries. It is well known that the lending rates applicable to small borrowers have usually been significantly higher than those to large borrowers. The reported rates, moreover, have usually understated the differential between those charged to large and to small firms since much of the differential has been hidden in such expenses as service charges and minimum deposit requirements. Moreover, as lending institutions usually perform some function of credit rationing, especially during periods of tight money, the small clients have generally experienced a higher rejection rate.[29] When the small borrowers have been forced to seek funds from sources other than the regular financial institutions the cost has even been higher. It is for such reasons that a number of governments have paid particular attention to the problem of the finance of small industries. In the United Kingdom, for example, the Industrial and Commercial Finance Corporation has specialized in loan and equity financing of small business; and in the United States, similar facilities have been provided by the Small Business Administration. The influence of these special institutions has, however, necessarily been limited since their resources have as yet been small in comparison with the total requirements. This is especially the case with equity finance which small business has found most difficult to secure.[30]

Several changes in post-war years have undoubtedly contributed towards rendering financial markets more flexible. For one thing, financial institutions themselves have been adapting to changing conditions. Thus, in situations where the commercial banks may have been reluctant to extend credit, other financial institutions, such as life insurance companies, have often emerged as alternative sources of supply. This has in turn brought pressure on banking institutions to be more flexible in their lending policies. A related trend has been the development of trade credit by non-financial corporations themselves. This development has had the effect of utilizing more fully the available liquidity within

[29] According to a survey conducted at the end of 1959 and the beginning of 1960 in the United States, for example, over one-half of the demands of the small manufacturing corporations which needed long-term credit were not satisfactorily met. In contrast, the proportion was only about one-seventh for the large manufacturing corporations requiring long-term credit. Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, January 1961 (Washington, D.C.).

[30] *Ibid.*

the corporate sector. Moreover, it has sometimes served to place the superior borrowing power of the large corporations at the disposal of small firms. These firms have usually been either suppliers or customers of the large corporations and have, therefore, been considered as essential to the efficient operation of the large corporations themselves.

Such changes have no doubt contributed towards increasing the flexibility in the supply of financial resources. In addition, however, governments in recent years have deliberately sought to influence the flow of finance into different industries or areas by a variety of measures. For example, in the Federal Republic of Germany, despite its emphasis on the market economy, the financing of investment in industries regarded as strategic to growth has been assisted by the allocation of funds for investment from special contributions as well as by special tax privileges. In such countries as France, Japan and Italy, where long-term development programmes have been worked out by the Government, corresponding financial measures have also been a part of the programme. These measures, especially in France and Italy, have included direct financing by government agencies as well as general fiscal incentives. In the Scandinavian countries, taxes or rebates on investment expenditures have been selective so that industries considered essential have usually been favoured. Differential treatment of industries as regards accelerated depreciation allowances has been fairly general in most industrial countries. In the United States, for example, although differential treatment of various categories of investment has not been widely practised, differences among industries in depreciation and depletion allowances have also had indirect effects on the pattern of investment; and a recent proposal by the government amounting to a tax privilege to those firms with a relatively high rate of investment has reflected current concern about the need to stimulate investment, especially in the growing industries. Further, in most countries, the housing industry has been singled out for special assistance and control. In the United Kingdom, for example, a major proportion of dwellings has, until recently, been constructed by the public sector itself. In most other countries, although public construction has been far less important, a significant share of the source of finance has been derived from the public sector. In addition, governments have sought to regulate the pace of residential construction activities by changes in the terms of mortgages, such as minimum down-payments and maximum years of maturity, in addition to general credit availabilities. Finally, it may be noted that many countries have made special provision for financial assistance to depressed industries or areas. The most conspicuous case of such aid has been the regional programmes in the south in Italy. More modest forms of regional assistance can also be found in Belgium, France, the Netherlands, Norway and the United Kingdom. And examples of aid to depressed industries may be found in the comprehensive plans to re-equip the textile industry in the United Kingdom and the coal industry in Belgium, and the financial aid for investment in railways in the United States.

Conclusion

Experience has demonstrated that the proportion of gross product devoted to investment is strategic in the promotion of economic growth. Were the resources of industrial countries not fully employed, their rates of growth could be improved simply by fuller utilization of existing capacity. But, since high levels of economic activity have generally been maintained, the attainment of high rates of growth has necessarily turned upon the realization of high levels of investment; this has been especially true of countries where labour shortages have tended to limit the pace of expansion. Most governments have shown growing recognition of this need and have in fact taken various steps to promote investment during the nineteen fifties.

If the level of investment is to be raised, however, it must be matched by a corresponding increase in saving. It is encouraging that, among the industrial countries, since they possess more or less similar economic systems, a number have succeeded in generating high levels of saving in the past decade. But this also raises the question of why saving in other countries has not been adapted to the achievement of a high rate of growth.

There is no simple or clear-cut answer to this question. The set of forces which have determined the supply of saving during the past decade have not only been complex but have also differed in their relative importance among countries. But it is at least not difficult to dismiss certain possible explanations of the differing experience of countries. For one thing, whatever the influence of the level of per capita real income on saving behaviour, this has not been decisive in accounting for inter-country differences in saving; indeed, the highest level of saving has been generated in the poorest of the industrial countries. Nor have higher levels of saving been attained by greater reliance on the inflationary mechanism; inflationary pressures and balance of payments difficulties have certainly been no less evident in countries where saving has been low. In all countries, moreover, it is the domestic economy which has been the predominant source of saving, and in none has the attainment of a high level of saving depended significantly on recourse to the saving of other countries.

The evidence of the nineteen fifties suggests that an important element in the realization of high levels of saving has been saving habits in the household sector.

The distribution of income among high-income or low-income groups is undoubtedly influential in determining the proportion of income which the community is willing to set aside as saving. But it is striking that the saving habits of the community as a whole have also been significantly affected by high rates of growth in household income. Moreover, the tendency to save more when income is rising rapidly has persisted even though the lower-income groups have shared more than proportionately in the expansion of total income. It is certainly true that a number of other factors have also moulded saving habits; the age composition of the population or the spread of home ownership are examples. But the experience of the nineteen fifties does afford support for the hypothesis that high levels of investment, through fostering high rates of growth in income, may have facilitated the realization of higher levels of saving in the household sector.

The evidence concerning the contribution of the enterprise sector to total saving is much less conclusive. It is quite clear that it is generally the largest single source of saving, though this partly reflects the statistical convention that practically all the depreciation charges of the economy are included in enterprise saving. Depreciation charges themselves are a major source of gross saving in all countries; and it must not be forgotten that technological advances become embodied in the capital stock as much through replacement of depreciated assets as through the creation of new assets. While depreciation rates are largely related to the size and structure of accumulated physical assets and therefore reflect past investment, rather than present saving, decisions, it is true that there is a large element of convention in corporate practice as regards depreciation charges and that the fiscal policy of government in defining depreciation allowances for purposes of corporate taxation can therefore affect gross saving in this sector.

The role of government in affecting the saving behaviour of the community is of especial interest. In the modern economy, government policy and market forces are inextricably interwoven, and policy, in some degree, affects the economic decisions of almost all individuals and economic entities in the community.

The most immediate impact of government on the level of total saving has been through its own direct contribution as a saver. It is of some interest that the countries which have achieved high levels of total saving have usually been able to generate a large amount of saving in the government sector as well as in the private sector. A high level of saving by the government has, moreover, generally reflected a relatively high level of tax revenue rather than a low level of consumption expenditure. Where tax revenue has been high but saving has been low, it has been defence expenditure rather than civil expenditure that has limited saving. And a relatively large volume of tax revenue has been indicative not so much of a greater degree of progression in the structure of direct taxes as of a higher effective rate of tax at both higher-income and lower-income levels.

From the point of view of policy, however, the immediate contribution which government can make to a higher level of saving through modification of its own role as a saver is subject to practical limitations in the industrial countries. On the side of expenditure, a large proportion of the resources available to government has been absorbed by defence expenditure in some countries. And, in the growing economies of today, the need for continuous expansion of public services renders any reduction in the share of total output absorbed in civil expenditure extremely difficult. The ability to expand revenue may also be limited by a lack of correspondence between tax rates and yields. Although government revenue could possibly be raised still further, there have been cogent arguments of a social as well as of an economic nature against increasing the tax burden. If the burden falls heavily on the lower-income groups, there is generally a conflict with the objective of more equal distribution of income; but if it falls mainly on the higher-income groups, incentives to work and to save may be adversely affected. Governments have, therefore, generally avoided drastic changes in the tax structure.

Of much more general importance is the indirect influence on the saving behaviour of the community which government can exert through the innumerable specific instruments at its disposal. In early post-war years, the direct controls exercised by governments over supplies of consumer goods, particularly those imported from abroad, influenced household saving by restraining private consumption. In more recent years, such restrictions have largely been removed, though imports of certain consumer durables, such as motor-cars, have sometimes continued to be controlled. More important, with the rapid expansion of consumer credit, governments have increasingly sought to influence its availability and terms. In a few countries, notably the United Kingdom, consumer expenditure has also been influenced through changes in purchase taxes, although such changes may sometimes have impeded the orderly expansion of some of the leading sectors of the economy. In some countries, additional reliance has been placed on changes in broader types of consumer taxes or subsidies, such as turnover or sales taxes. Efforts have also been made to encourage household saving by the offer of direct incentives to save; among these have been the provision of attractive tax-free interest payments on small savings, and measures to broaden participation in life insurance and pension plans or in the ownership of shares. A particularly noteworthy feature has been the encouragement of home ownership since home-owners, through repayment of mortgages, tend to save more.

Liberal depreciation allowances, as noted above, have been an important influence in raising corporate saving.

Such measures have also been used to encourage the growth of selected industries. In some countries, corporate saving has been stimulated through lower rates of taxes on retained profits. The increase in corporate saving, however, may have been, to some extent, offset by lower personal saving as a result of smaller distribution of corporate profits. Inasmuch as a significant portion of the distributed profits may be expected to be reinvested, certain governments have provided tax incentives for distribution of profits in order to stimulate the growth of the capital market.

The many specific measures available to government to encourage saving can undoubtedly have a cumulative effect on saving habits. In the final analysis, however, it must be recognized that the problem of raising the level of saving cannot be solved by the offer of specific inducements to save alone. Saving and investment are but two aspects of the more general problems of balanced economic growth. It has been seen that, in some countries, for example, the tendency for disequilibrium in the balance of payments to emerge when domestic economic activity accelerates, has reacted adversely on investment and growth. And this has not been solely a problem of balanced domestic growth, but has merged into the larger problem of the supply of international liquidity. The experience of the nineteen fifties, in fact, suggests that where the constraint imposed on domestic activity by the need to protect the external balance has been less severe, the constraint placed by saving on investment has also been lessened by the realization of high rates of domestic economic growth.

Chapter 2

SAVING FOR ECONOMIC DEVELOPMENT IN THE UNDER-DEVELOPED COUNTRIES

The role of saving and investment

It is self-evident that the acute poverty of people in under-developed areas has its source in extremely low levels of productive capacity. And of the labour, natural resources and capital that combine to determine productive capacity, it is the stock of capital that is in greatest want. While the stock of capital accumulated in industrial countries over the decades is large in relation to the population, it is still very small in under-developed countries. The task of raising levels of living in these countries thus, in large measure, resolves itself into the problem of capital accumulation.

The crucial role of investment in the economic growth of under-developed countries was discussed at some length in the *World Economic Survey, 1959*.[1] The *Survey* observed that the rates of economic growth attained by individual countries have been clearly related to their levels of investment; and this relationship is again illustrated in table 2-1. The highest rates of growth have generally occurred in countries where the proportion of output allocated to investment has been relatively large; similarly, in countries experiencing low or moderate growth rates the level of investment has tended to be comparatively small. Nevertheless, as may be seen, the relationship has not been very close. There are some countries which have grown rapidly despite the moderate proportion of output devoted to investment; and there are others which have grown slowly notwithstanding rather high levels of investment. The fact that the relationship between investment and growth is only moderately close is not, of course, unexpected, for the level of investment is but one of the determinants of economic growth. Another important factor has been the growth of effective demand in relation to the nature and amount of under-utilized productive capacity at the beginning of the period. Thus, in countries where under-utilization of capacity was considerable in the early nineteen fifties, the growth in output was greatly facilitated through a fuller employment of idle productive capacity. An especially important instance of greater utilization of capacity is to be found in the case of the export sector. In the under-developed countries, where foreign trade is particularly important, the state of export markets has exerted a strong influence on growth rates; a vigorous demand for the exports of a country has stimulated the growth of employment and output, while sluggish export markets have depressed growth. And in so far as the expanded supply of exports has been achieved through a greater utilization of existing resources, the additional capital required for the increase in output has been reduced.

Other factors have also influenced the relationship between investment and the rate of growth. Countries have differed considerably in the extent to which there have been improvements in the techniques of production, the introduction of which has required a minimum of new investment. Moreover, the pattern of investment has also had a considerable influence upon the rate of economic growth. An undue emphasis on a particular sector, or disregard for important sectors, has on occasion retarded economic activity as seriously as a lack of essential raw materials. For example, a failure to provide power, communications and other necessary infrastructure facilities has at times been a deterrent to investment in other fields.

Important as these additional factors are, there is no doubt that higher levels of investment are crucial to the acceleration of economic growth. And while many problems certainly confront under-developed countries in the appropriate use of new capital, their greatest problem arises not in the allocation of investment but in the securing of additional productive resources for investment. Without these additional resources, higher levels of investment cannot be realized.

In view of the wide-spread under-employment of productive resources in under-developed countries, it might at first sight seem that greater investment should not be too difficult of attainment. But the under-employment of productive resources which is a characteristic of under-developed countries has its roots in the chronic disequilibrium inherent in the structure of their economies; and it is broadly true that resources can only be more fully utilized as the causes of disequilibrium are gradually removed.

The sources of such disequilibrium are manifold. Though labour is usually in plentiful supply, for example, it may not be practicable to utilize it more fully to meet an expansion in investment demand because the complementary resources necessary for production are lacking; or even if the complementary resources, such as tools or machinery, are available, the manpower may

[1] United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1).

Table 2-1. Rate of Growth of Output and Relationship between Investment and Output, 1950-1959[a]

Country	*Rate of growth in gross domestic product*[b] *(percentage per annum)*	*Gross domestic capital formation as percentage of gross domestic product*[c]	*Incremental capital-output ratio*[b]
Jamaica	12	21	2
Israel	11	26	2
Trinidad and Tobago	9	24	3
Iraq	9	15	2
Venezuela	8	27	3
Greece	7	17	2
Rhodesia and Nyasaland	7	29	4
China (Taiwan)	7	17	3
Burma	6	19	3
Mexico	6	16	3
Brazil	6	16	2
Costa Rica	6	20	4
Philippines	6	9	1
Turkey	6	14	3
Panama	6	12	2
Malta	5	22	3
Spain	5	18	3
Guatemala	5	12	2
Puerto Rico	5	20	4
Congo	5	26	6
Cyprus	5	19	5
Korea (Republic of)	5	13	2
Union of South Africa	5	23	4
Ecuador	5	14	3
Ghana	5	11	3
Colombia	5	18	4
Thailand	4	16	4
Indonesia	4	6	1[d]
Portugal	4	16	4
Chile	4	10	3
Honduras	4	15	4
UAR (Egypt)	3	12	4
India	3	8	2
Ceylon	3	11	4
Tanganyika	2	17	8
Argentina	2	20	12
Morocco	2	16	11

Source: Division 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 national sources.

[a] For the following countries, the period differs from that stated: Burma, 1949/50-1958/59 (fiscal years ending in September); Brazil, Mexico and Panama, 1950-1958; Honduras, 1950-1957; Iraq, 1950-1956; India, 1950/51-1957/58 (fiscal years beginning in April); Puerto Rico, 1950/51-1959/60 (fiscal years beginning in July); Cyprus, 1951-1959; Argentina and Trinidad and Tobago, 1951-1958; UAR (Egypt), 1951-1956; Portugal, 1952-1959; Morocco, 1952-1958; Thailand, 1952-1957; China (Taiwan), Jamaica, Republic of Korea and Union of South Africa, 1953-1959; Israel, 1953-1958; Malta, Rhodesia and Nyasaland and Tanganyika, 1954-1959; Greece, 1954-1958; Spain, 1954-1957; Ghana, 1955-1959.

For Indonesia, Mexico and the Philippines, the data are based on gross national product; for India, they are based on net national product at factor cost and net domestic capital formation. Capital formation data for Tanganyika, Thailand and Turkey exclude changes in stocks.

[b] The rates of growth in gross domestic product generally refer to annual compound rates for the period from 1950-1952 to 1957-1959; but where the period is shorter, averages of only two terminal years have been used. For calculation of growth rates and incremental capital-output ratios, all basic data were expressed in constant prices. Incremental capital-output ratios have been calculated by dividing the share of gross fixed investment in gross domestic product by the annual rate of growth in gross domestic product.

[c] In current prices, since this is a more appropriate concept for studying the sources of financing of investment. A similar procedure has been followed in calculating saving ratios in subsequent tables in the present chapter.

[d] Calculated from the ratio of gross fixed investment to gross domestic product in current prices.

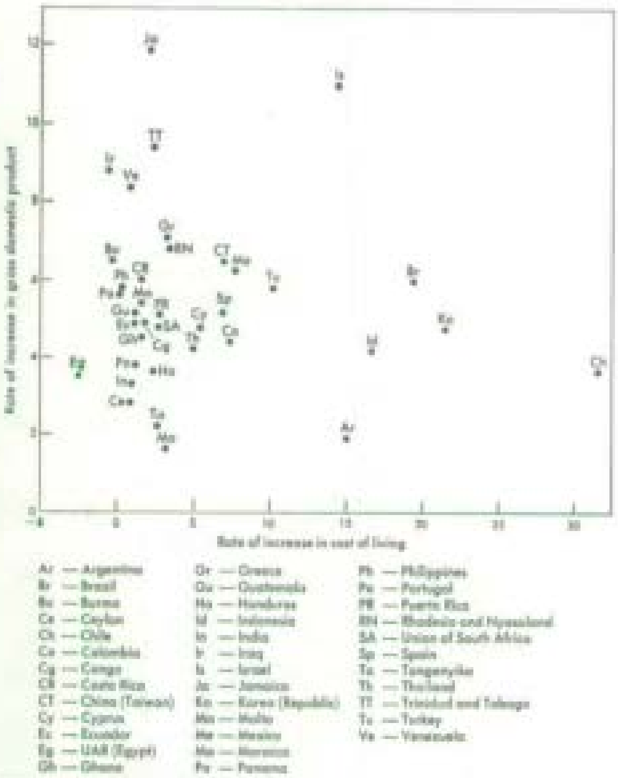
lack the training and skill to use them. Again, a higher level of investment expenditure may not be feasible because the employment of additional labour raises demand for wage-goods, notably, food; and an increased supply of food may not be forthcoming. More than any other sector of production, agriculture in under-developed countries is usually least adapted to the requirements of an expanding economy; primitive methods of production and antiquated systems of land ownership, in particular, combine to obstruct the responsiveness of output to market conditions. Yet another instance of chronic disequilibrium is the unintegrated state of an under-developed economy; because of inadequate transport and communication facilities, the many local markets within the economy may be relatively isolated from each other, each market being unresponsive to events in the others.

The elements of chronic disequilibrium inherent in the economies of under-developed countries are the primary reason why these countries are particularly prone to inflation. Despite the under-employment of resources, output often responds only weakly to increase in demand. Additions to investment demand may thus fail to evoke an expansion in output, but may rather bring pressure on the level of domestic prices or on the external balance. In these circumstances, unless the additional investment demand can be met through a corresponding deterioration in the external balance, a higher level of investment can be realized only if the upward movement in domestic prices causes a redistribution of income in favour of the higher-income groups. Since these groups tend to save a larger proportion of their incomes, the higher level of saving in the economy will then release resources to satisfy the increase in investment demand; and a higher level of investment can be realized. No less than in industrial countries, however, the attainment of a higher level of investment in under-developed countries through the inflationary mechanism brings undesirable consequences. Indeed, in these countries, since per capita income is already at very low levels, any fall in real income among the poorer classes may have particularly severe social and economic consequences.

It is true that inflation has been a major problem confronting a number of under-developed countries in the nineteen fifties. It is not to be inferred, however, that inflation has generally been an important factor in the achievement of high levels of saving. While, as may be seen from chart 2-1, annual rates of growth of 5 per cent or more have been attained in a few countries where the degree of inflation has been considerable, for the under-developed countries as a group, there has been no consistent relationship between inflation and growth.

Chart 2-1. Relationship between Rate of Growth in Real Output and Price Change, 1950-1952 to 1957-1959[a]

(Percentage per annum)



Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1.

As in the industrial countries, the differing experience of under-developed countries with regard to the levels and trends in investment and saving which they have achieved is not simply explainable in terms of their reliance on the inflationary mechanism. But, in contrast to the industrial countries, divergences among under-developed countries in the level and trend of the total supply of saving have not been related so exclusively to the behaviour of domestic saving. As will be seen in the following pages, foreign saving has bulked much larger in the experience of under-developed countries. As will also be seen, however, saving behaviour in the domestic economy has been far from uniform.

It is the purpose of this chapter to analyse the factors accounting for the divergent experience among under-developed countries in the level and trend of saving in the nineteen fifties. Each of the several sources of saving is thus discussed separately.

The grouping of the sources of saving into the household, enterprise, government and foreign sectors is, to some extent, arbitrary, for the decisions to consume or save that are taken in each of these sectors have repercussions on saving behaviour in the other sectors. It must also be recognized that there are several important factors, such as the export experience or stage of development of countries, that have significantly influenced saving in all sectors of the economy. Nevertheless, analysis by these broad classes of saving is illuminating since the processes through which saving has been shaped in the several sectors have generally been distinctively different.

This point is most obvious in the case of foreign capital, which has been an important source of saving for investment in the under-developed countries during the decade. For while the level of private capital flow has been mainly determined by the nature of commodities exported and the stage of development, the flow of public funds has been affected to a large extent by political and other considerations. Public capital flows have, in fact, tended to be related to relative investment needs, and have been larger as a proportion of gross product in the lower-income countries than in those at a more advanced stage of development.

Domestic saving, considered as an aggregate, has tended to vary mainly with export experience, and also, to a minor degree, with per capita income levels. However, the level of domestic saving has also been significantly affected by other factors. The saving of governments, for example, has inevitably reflected their policies with respect to public expenditure and revenue programmes; again, a significant determinant of household saving has been the distribution of income between wages and property and enterprise incomes.

The government sector is perhaps the most striking instance of the extent to which decisions taken in one part of the economy affect the behaviour of saving elsewhere. Thus, government tax and expenditure policies have been important in determining the level of saving in the corporate enterprise and household sectors. Corporate dividend policies provide another important example of the interdependence of decisions which affect saving. While a liberal policy of distributing dividends within the domestic economy reduces corporate saving, it may be offset by higher levels of household income.

The study of the factors accounting for differences in the saving levels of foreign and domestic sectors with which the chapter opens provides a point of departure for the subsequent examination of trends. While, generally, the same economic forces are found to account for trends in saving as for levels of saving, their influence is revealed in a dynamic context of developments affecting trade, income and institutional factors. Finally, it is recognized that the failure to use available saving efficiently has adversely affected the pace of economic growth in some countries, and that, if saving is to make a maximum contribution to progress, efficient means for channelling it into a broad range of investment outlets are needed. For this reason consideration is also given to the problems encountered in its allocation among alternative uses.

Sources of saving

In the under-developed countries, although their need for high rates of economic growth is greater, the total supply of saving available for domestic investment, when expressed as a percentage of gross domestic product, has often not been as large as in most industrial countries. This constitutes an important difference between the two groups of countries and goes close to the heart of the problem of under-development.

The gap between the two groups of countries in their capacity for self-sustaining growth is, however, reflected not only in their different levels of saving but also in their different patterns of saving. It is a mark of the under-developed economies that not all the total supply of saving available for investment is generated within the domestic economy. Whereas a number of the industrial countries are major sources of saving for the rest of the world, most under-developed countries rely upon foreign saving to augment domestic supplies (*see* table 2-2). It is also significant that, as compared with industrial countries, the various groups of income recipients who are classified under the heading of unincorporated enterprises appear to be of relatively greater importance as a source of saving in the under-developed countries. Again, depreciation charges in the under-developed areas are generally a much smaller proportion of gross product; and these charges accordingly contribute less to gross saving. It is quite possible that this may, in part, denote differences in depreciation practices between the two groups of countries. But it is more probable that it primarily reflects fairly obvious differences in the structure of production and, accordingly, the composition of the stock of depreciable assets. Since agriculture accounts for a larger part of total output, a much smaller proportion of the capital stock in under-developed countries is made up of industrial assets with a relatively short life, such as machinery, and a much larger share consists of slowly depreciating assets, such as buildings, roads, railways or dams.

It is thus clear that the broad differences between the industrial and the under-developed countries in their patterns of saving are reflective of fundamental structural and institutional differences in the nature of their economies. When the under-developed countries are considered as a group, the several sources of saving have differed in their relative importance as compared with industrial countries; and these differences in the pattern of saving have contributed to the differences in the level of total saving.

However, the broad differences between the two groups of countries should not obscure the fact that, among the under-developed countries themselves, there has been considerable diversity of experience as regards both the level and the pattern of saving. Though the total supply of saving has often been less, there are even a few under-developed countries where it has been as high as that prevailing in some industrial countries. The range of variation in the level of total saving has, in fact, been considerable. In Rhodesia and Nyasaland, Venezuela, Israel and the Congo, for example, the total supply of saving has exceeded 25 per cent; this is in sharp contrast to the low level of about 10 per cent in Ceylon, Chile and the Philippines.[2]

Were there only small variations among countries in the total supply of saving, these might perhaps be ascribed primarily to deficiencies in the data. There is no doubt that the measurement of saving in the under-developed countries can, at best, yield only rough orders of magnitude and that small differences among countries may not be of any economic significance.[3] But, since differences have been large, it is evident that they must have been mainly the outcome of economic forces—modified, undoubtedly, by governmental policy.

There is no single economic force or aspect of governmental policy to which the diversity in experience can be traced. Rather, there have been differences in the complex of forces and policies, not only as between countries with high or low levels of saving, but also among countries with similar levels. As noted earlier, the total

[2] Total supply of saving is the sum of depreciation, net domestic saving and foreign saving. Depreciation is the provision for the current value of wear and tear, obsolescence and accidental damage to fixed capital. Net domestic saving is the sum of the surplus of incomings over outgoings in the current accounts of government, enterprises, households and private non-profit institutions. Transfers of the household and government sectors to or from the rest of the world are excluded from the income and expenditure accounts in estimating the saving of these sectors. Foreign saving is the deficit in the balance of goods and services; it does not include current transfers to or from the rest of the world.

[3] Certain limitations of the data on which the analysis in this chapter is based should be noted. National accounts statistics are deficient to the extent that countries follow different valuation methods. Coverage of the non-monetized sector, moreover, is often limited. In view of such shortcomings, small differences in magnitudes among countries cannot be considered significant. This caution applies with particular force to saving data, some of which are estimated as balancing items in the national sectoral accounts. Estimates of international flow of funds which are derived from balance of payments data are deficient to the extent that they exclude re-invested earnings in a number of cases. It should also be noted that these estimates refer only to the recorded items and that "errors and omissions" are often large.

Table 2-2. Levels of Foreign and Domestic Saving, 1950-1959[a]

(Percentage of gross domestic product)

Country	*Total supply of saving*	*Depreciation*	*Total net saving*	*Foreign saving*[b]	*Net domestic saving*
Rhodesia and Nyasaland	29	6	23	9	14
Venezuela	27	8	19	3	16
Israel	26	...	...	21	...
Congo	26	8	18	2	16
Trinidad and Tobago	24	8	16	6	10
Union of South Africa	23	8	15	1	14
Malta	22	4	18	3	15
Jamaica	21	7	15	9	5
Puerto Rico	20	6	14	18	−4
Argentina	20	10	10	2	8
Costa Rica	20	5	15	4	11
Burma	19	6	13	−1	14
Cyprus	19	4	15	12	3
Spain	18	7	10	2	8
Colombia	18	9	9	—	9
China (Taiwan)	17	6	12	7	5
Greece	17	5	12	8	4
Tanganyika	17	...	...	−1	...
Mexico	16	...	...	1	...
Brazil	16	5	11	1	10
Thailand	16	...	...	2	...
Morocco	16	6	10	−1	11
Portugal	16	5	11	5	6
Honduras	15	5	10	2	8
Iraq	15	4	10	−3	13
Ecuador	14	5	9	1	8
Turkey	14	4	10	2	8
Korea (Republic of)	13	5	8	9	−1
UAR (Egypt)	12	...	...	3	...
Panama	12	6	6	6	−1
Guatemala	12	4	8	2	6
Ceylon	11	2	9	—	9
Ghana	11	...	...	2	...
Chile	10	7	3	2	1
Philippines	9	5	4	2	2
Indonesia	6	3	3	1	2
India	...	...	8	1	7

Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1.

[b] Foreign saving is equal to payments for imports of goods and services minus receipts from exports of goods and services. A positive foreign saving reflects an excess of such payments over receipts and a negative foreign saving an excess of receipts over payments. *See also* footnote 2 to the present chapter.

supply of saving consists of foreign saving and of the domestic saving undertaken within the government, enterprise and household sectors; and since the factors determining the saving from each of these sources are distinctly different, analysis of the total supply is best facilitated by consideration of its several components. These components are considered separately in the following sections, but by way of introduction it is useful first to form some impression of their relative importance. It should be noted, incidentally, that since it is not possible to allocate depreciation charges among the different sectors, the analysis hereafter is necessarily in terms of net saving.

That foreign saving has generally contributed significantly to the total supply of saving can be easily seen from table 2-2. If the period from 1950 to 1959 is taken as a whole, thirty-one of the thirty-seven countries listed in the table were recipients of foreign saving, and in about half of all the countries, foreign saving augmented the domestic supply by amounts ranging from one to 3 per cent of gross domestic product. As discussed later, these additions to the supply of saving have mainly reflected long-term capital outflows from the industrial countries. A considerable number of under-developed countries, however, have received substantially larger amounts of foreign saving. In nearly one-third of all the countries, foreign saving has amounted to 4 per cent or more of gross domestic product, and in the extreme instances, such as Israel or Puerto Rico, it has been as high as about one-fifth of gross product. In only four of the thirty-seven countries has there been an outflow of domestic saving; these are the countries which have either made net repayments on their previous borrowings from abroad or simply added to their gold and foreign exchange reserves. Iraq, for example, added substantial amounts to its reserves in the nineteen fifties.

The level of foreign saving, however, although it has varied widely among countries, has not been closely associated with the level of total saving. Countries which have drawn heavily on foreign saving have not necessarily had high levels of total saving; nor has a moderate inflow of foreign saving necessarily implied that the total supply of saving has been low. This only points to the fact that levels of foreign and domestic saving have frequently been determined by unrelated factors. It is true that, in a few of the countries which have been large recipients of foreign saving, the level of domestic saving has also been high; Rhodesia and Nyasaland, for example, is a case in point. And it is quite correct that, in these instances, the levels of foreign and domestic saving in the export sector and elsewhere have been stimulated by sharply rising export incomes. On the other hand, other countries which have been recipients of foreign saving have experienced very low levels of domestic saving. Conspicuous examples are Cyprus, Israel, Puerto Rico and the Republic of Korea, where special factors, usually of a non-economic nature, have determined the level of foreign saving. More important, among the larger number of countries where the level of foreign saving has been more moderate, differences in the level of foreign saving have not been related in any systematic way to differences in the level of domestic saving.

The lack of correspondence between foreign saving and the total supply of saving is necessarily reflected in the relationship between domestic saving and the total supply. But, as may be seen from table 2-3, since domestic saving is generally the major source of total saving, high or low levels of total saving have frequently been associated with high or low levels of domestic saving.

Table 2-3. Level of Net Domestic Saving, by Sector, 1950-1959[a]

(Percentage of gross domestic product)

Country	*Total domestic saving*	*Government saving*	*Private saving*		
			Total	*Corporate*	*Household*
Congo	16	4	13	8	4
Venezuela	16	10	6	3	3
Rhodesia and Nyasaland	14	5	9	4	4
Union of South Africa	14	3	10	3	7
Burma	14	2	11	...	...
Morocco	11	4	7	1	6
Costa Rica	11	4	7	3	4
Trinidad and Tobago	10	3	7	2	5
Brazil	10	3	7	4	3
Colombia	9	4	5	1	3
Ceylon	9	2	7	5	2
Spain	8	2	6	3	3
Ecuador[b]	8	4	5	2	3
Honduras	8	2	7	1	6
India	7	1	6	...	...
Portugal	6	3	3	...	...
Jamaica	5	2	3	3	—
China (Taiwan)	5	1	4	...	...
Greece	4	1	3	...	...
Philippines[b]	2	1	—	2	−2
Chile[b]	1	2	−2	...	...
Panama	−1	1	−1	2	−3
Korea (Republic of)	−1	−4	2	...	...
Puerto Rico	−4	...	...	5	...

Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1. Government sector consists of general government, the corporate sector of private and public corporations, and the household sector of households, unincorporated enterprises and private non-profit institutions. Components do not necessarily add to totals because of rounding.

[b] Public corporations included in government sector.

As might be expected, private saving has generally been more important than government saving in determining the level of total net domestic saving. What is of greater interest, however, is the fact that, in countries where total domestic saving has been high, both government and private saving have generally tended to be high; and, conversely, low levels of total domestic saving have generally been associated with low levels of both government and private saving. As explained later, the levels of government and private saving have been related to each other, largely because they have both been much affected by the nature of the export sector.

The level of government saving has varied appreciably among countries. In the extreme instances, it has been as high as 10 per cent of gross domestic product in Venezuela, while in the Republic of Korea the Government has actually dis-saved. In most countries, government saving has ranged from one to 5 per cent of gross domestic product.[4] By comparison, the inter-country differences in the level of private saving have been somewhat greater. Private saving has been negative in such countries as Chile and Panama, but as high as 13 per cent of gross domestic product in the Congo. The level of saving in other countries has ranged widely between these extremes.

Within the private sector, neither corporate nor household saving seems to have played the more dominant role in explaining the inter-country differences in levels of domestic saving.[5] Nor has each, taken separately, shown a close positive association with the level of domestic saving, although in the case of household saving the low-saving countries have tended to experience no net saving or even negative saving. To some extent, as explained later, corporate and household saving have tended to offset each other because of institutional differences among countries, but they have also been affected by various other factors, such as the level of per capita income, the nature of the export sector or the impact of government fiscal policy.

FOREIGN SAVING

The inter-country differences in levels of foreign saving have, as just noted, largely reflected differences in the inflow of foreign long-term capital and official grants. That the movements of these international funds have accounted for the bulk of foreign saving in recipient countries can be easily seen from table 2-4.[6] In fact, in a significant number of these countries, such as Venezuela, Guatemala, Ecuador, the Congo, Brazil and Mexico, such funds have provided the whole of foreign saving. These capital flows, however, have been compounded of both private long-term capital and official loans and grants; and the volume of capital received by individual countries on each of these two accounts has been determined by entirely different considerations. Explanation of inter-country differences in the level of foreign saving thus turns largely upon the factors influencing these two different types of capital flow.

The relative importance of private and official capital in determining the level of foreign saving has varied widely among countries. While the flow of official long-term capital and grants to the under-developed countries as a whole has been substantially larger than the flow of private capital, in some individual countries private capital has been the dominant or even the sole component in the total inflow. In a number of countries, however, the inflow of private capital has been very small or repatriation of private foreign capital has even taken place.

The uneven distribution of private capital among the under-developed countries has reflected the fact that private foreign capital has been mainly attracted to those countries endowed with natural resources for which world demand has been rising strongly. There has thus been a significant tendency for the level of private capital inflow to be directly associated with the rate of increase in export proceeds; this is illustrated in table 2-5 where countries have been grouped both according to the absolute level of their average annual net inflow of long-term private capital and according to the percentage increase in their export earnings over the period. In certain mineral exporting countries, such as Rhodesia and Nyasaland and Venezuela, for example, large amounts have been invested by foreigners in the production and export of such commodities as copper and petroleum. In contrast, countries which export

[4] The range of gross government saving between the high-saving and low-saving countries is probably greater than that of net saving. This is because the share of government gross investment in total investment has generally been larger in countries with higher net saving. If, as an approximation, depreciation is assumed to be proportionally equal in all countries, the spread among countries is larger for government gross saving than for government net saving.

[5] In this chapter, where saving by sector is based upon the data on net saving, the concept of corporate sector is used. Net corporate saving includes saving of both public and private corporations; the available information shows that the saving of the former has generally tended to be small in the total. In chapter 1, however, the discussion in terms of gross saving has necessitated the use of the concept of enterprise sector. Gross enterprise saving comprises, in addition to gross saving of corporations, depreciation allowances of unincorporated enterprises, government enterprises and private dwellings which cannot always be separated.

[6] Estimates of international flows of public and private funds are derived from International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.). The terms public and private refer, unless otherwise stated, to the sectors in the under-developed countries and not to those in the rest of the world. For example, a loan provided by the International Bank for Reconstruction and Development, an inter-governmental organization, to a private concern in an under-developed country is considered to be a private loan, that is, a loan received by the private sector. Likewise, funds provided by private foreign investors or donors to governments are considered to be official loans or donations, that is, funds received by the public sector. The balance of payments accounts published by the International Monetary Fund combine transactions of public and private banking institutions with data on official capital flows. To the extent that the information provided by the International Monetary Fund in the descriptive notes to country statements has permitted, the long-term transactions of the banking sector have been allocated, as appropriate, to private and official capital.

Table 2-4. Levels of Foreign Saving and its Principal Components, 1950-1959[a]

(Percentage of gross domestic product)

Country	Foreign saving[b]	Net flow of long-term capital and official grants[c]: Total	Private long-term capital	Official long-term capital and grants
Israel	21	13.3	0.8	12.4
Puerto Rico	18	14.9	5.1	9.8
Rhodesia and Nyasaland	9	6.9	4.0	2.9
Korea (Republic of)	9	...	...	8.2
Greece	8	3.2	1.8	1.4
China (Taiwan)	7	6.1	0.4	5.8
Panama	6	3.4	2.1	1.3
Costa Rica	4	2.2	0.9	1.3
Venezuela	3	3.7	3.7	—
UAR (Egypt)	3	—	−0.1	0.1
Guatemala	2	2.7	1.2	1.5
Thailand	2	...	...	2.0
Ghana	2	−0.4	−0.7	0.3
Chile	2	1.4	1.1	0.3
Spain	2	0.5	0.1	0.4
Argentina	2	0.5	0.4	0.1
Honduras	2	1.7	1.9	−0.1
Turkey	2	1.1	0.1	1.0
Philippines	2	1.8	0.7	1.1
Congo	2	3.7	−0.6	4.3
India	1	0.2	—	0.3
Union of South Africa	1	0.8	0.6	0.3
Brazil	1	1.3	1.1	0.2
Ecuador	1	1.3	0.7	0.6
Indonesia	1	0.2	—	0.2
Mexico	1	1.9	1.4	0.6
Ceylon	—	−0.1	−0.6	0.5
Colombia	—	0.7	0.2	0.5
Burma	−1	0.9	—	0.9
Morocco	−1	3.9	2.1	1.8
Iraq	−3	1.0	1.4	−0.5

Source: Division 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 International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.).

[a] For certain differences in time period and concepts, *see* footnotes to table 2-1.

[b] For definition of foreign saving, *see* table 2-2 footnote *b*.

[c] For Burma and India, data on foreign capital and grants are for calendar years, while those pertaining to foreign saving and domestic product are for fiscal years. Data for Morocco exclude official grants; for Ghana, Greece and the Union of South Africa, they include short-term private capital. A minus sign indicates a net outflow of capital.

chiefly textile fibres and certain foods have been particularly unattractive to foreign private investors.

Since natural resource endowment and the rates of growth in world demand for the various primary commodities have mainly determined the level of private capital inflow, private foreign capital as a percentage of gross domestic product has been substantially higher in countries with highly favourable export experience. For 1950-1959, as is shown in the accompanying table, long-term private capital as a percentage of gross domestic product was on the average six times larger for the countries whose exports have expanded rapidly than for those whose exports have shown slow growth. Particularly large inflows were received by Rhodesia and Nyasaland and Venezuela, for example; in both countries the flows amounted to about 4 per cent of gross product.

Increase in export earnings	*Number of countries*	*Average value of long-term private capital as percentage of gross domestic product, 1950-1959*
Large	14	1.7
Moderate	4	0.8
Small	11	0.3

Source: Tables 2-4 and 2-5.

Partly as an outcome of the fact that the flow of private foreign capital has been largely related to the natural resource endowment of specific countries, private foreign investment during the last decade has tended to be concentrated in the under-developed countries with higher per capita incomes. Of the countries

Table 2-5. Relationship between Inflow of Long-term Private Capital and Increase in Export Earnings[a]

Net annual inflow of private capital	Increase in export earnings: Large	Moderate	Small
Large	*Greece* *Morocco* *Philippines* *Puerto Rico* *Rhodesia and Nyasaland* *Union of South Africa* *Venezuela*	Mexico	Argentina Brazil
Moderate	Israel	*Chile*	
Small	China (Taiwan) Congo Costa Rica Ecuador Iraq Panama	Ghana Guatemala	*Burma* *Ceylon* *Colombia* *Honduras* *India* *Indonesia* *Spain* *Turkey* *UAR (Egypt)*

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics* (Washington, D.C.).

[a] Countries have been grouped according to the annual average of the net inflow of private capital in 1950-1959 (or for a part of this period for which data are available) and the percentage increase in export earnings between 1950-1952 and 1957-1959. *Capital inflow:* large, 30 million dollars or more; moderate, at least 15 million dollars but less than 30 million dollars; small, less than 15 million dollars. *Increase in export earnings:* large, 30 per cent or more; moderate, at least 15 per cent but less than 30 per cent; small, less than 15 per cent.

included in table 2-6, seven whose per capita income is over 300 dollars have received almost half of the total net inflow of long-term private capital into the under-developed countries. In sharp contrast, the least favourably situated have been those countries with per capita national incomes of less than 100 dollars. From this group, which includes such countries as India and Indonesia, there has actually been a net outflow during this period. The inflow as a percentage of gross domestic product has also tended to be in favour of higher-income countries. Of course, not all private foreign investment in the under-developed countries has been in their export industries. Part of it has also been invested in industries producing for the domestic market. But such investment has tended to accentuate the distribution of private capital in favour of higher-income countries. Generally, foreign private investors seek outlets for their funds in areas where certain basic facilities—such as transport, communications and banking—are already fairly well developed. Adequate facilities of this kind are usually available only in countries which have reached a higher stage of economic development and where the level of per capita income is also generally higher. Moreover, with a given population, a higher

Table 2-6. Net Flow of Foreign Funds to Under-developed Countries, by Income Group, 1950-1959, Annual Average[a]

Income group	Number of countries	Private long-term capital (millions of dollars)	Official grants and long-term capital (millions of dollars)	Private long-term capital (average ratio to gross domestic product)[b]	Official grants and long-term capital (average ratio to gross domestic product)[b]
Countries with per capita national income of:					
I. Less than 100 dollars	6	−9	270	—	2.3
II. 100 to 199 dollars	13	289	458	1.0	1.3
III. 200 to 299 dollars	5	153	162	1.3	1.1
IV. 300 dollars or more	7	404	358	1.7	3.3
TOTAL, UNDER-DEVELOPED COUNTRIES	31	837	1,248	1.0	1.9

Source: See table 2-4.

[a] For certain differences in time period and concepts, see footnotes to tables 2-1 and 2-4. Countries have been grouped according to the annual average of their per capita national incomes in 1956-1958. *Group I:* Burma, China (Taiwan), Congo, India, Indonesia, Thailand; *Group II:* Brazil, Ceylon, Colombia, Ecuador, Ghana, Guatemala, Honduras, Iraq, Morocco, Philippines, Republic of Korea, Rhodesia and Nyasaland, UAR (Egypt); *Group III:* Costa Rica, Greece, Mexico, Panama, Turkey; *Group IV:* Argentina, Chile, Israel, Puerto Rico, Spain, Union of South Africa, Venezuela.

[b] Simple arithmetic mean.

per capita income provides a larger domestic market, which offers an additional impetus for the inflow of foreign capital. It is to a considerable extent for this reason that Argentina, Brazil, Chile, Mexico and the Union of South Africa, for example, have been able to attract large or moderately large inflows of private capital. On the other hand, the low level of per capita income seems to have been one of the deterrents to such inflows in countries such as India and Pakistan.

Unlike the flow of private capital which is motivated by prospects of profits, economic factors have played a less significant role in influencing the flow of public funds. Official assistance is inevitably linked with political and other non-economic forces. It is largely the influence of such factors that is reflected in the large flows of public funds, ranging from 4.3 to 12.4 per cent of gross domestic product, in such countries as China (Taiwan), the Congo, Israel, Puerto Rico and the Republic of Korea. The special circumstances that marked the emergence of Israel as an independent nation after the Second World War have brought forth large amounts of foreign aid. Political reasons, too, have been the principal factors behind the very large amounts of foreign assistance received by China (Taiwan) and the Republic of Korea. Almost all the foreign saving received by the Congo has been in the form of public funds, owing to the political link that existed until recently with Belgium. The experience of Puerto Rico has been rather special, since its relationship with the United States has enabled both the public and private sectors of the economy to receive large flows of foreign saving.

While a number of varied factors have influenced the flow of official grants and long-term loans, it is striking that a significantly large proportion of these public funds has gone to the lower per capita income countries. It is evident from table 2-6 that during 1950-1959 22 per cent of the total flow of public funds went to countries with per capita incomes of less than 100 dollars. Since these countries as a group have not received any net inflow of private capital, official assistance has been of great importance for them. Among the countries with per capita incomes of more than 300 dollars, Israel and Puerto Rico have received large amounts of official funds, but the share of this group as a whole in the total flow of official funds has been substantially less than its share of private capital. On the whole, therefore, the flow of public funds has helped to fill a gap in the availability of foreign funds for a number of countries.

While private and official capital have together accounted for the main part of the foreign saving available to most countries, it can be seen from table 2-4 that the net inflow of long-term capital and grants has frequently been smaller than total foreign saving. Such countries have had to rely on additional sources of financing. Thus, in a group of countries including Greece, Israel and, to a less extent, Puerto Rico, where historical, cultural and institutional links abroad are especially strong, private donations have contributed significantly to foreign exchange receipts. In Israel, over one-third of the goods and services deficit in 1953-1958 was covered by such contributions, while in Greece the proportion amounted to a little less than one-half in 1954-1958. In India private donations have provided close to 24 per cent of the total flow of foreign saving during the period under review. A second group includes countries which have sought to finance many of their development projects through the use of exchange holdings previously accumulated. This has been particularly true for some of the present and former members of the sterling area. For instance, between 1950 and 1959, the reduction in gold and foreign exchange reserves as a ratio of the deficit in the balance of payments on current account amounted to about 66 per cent in the United Arab Republic (Egypt), 33 per cent in India and 8 per cent in the Union of South Africa.

DOMESTIC SAVING

High or low levels of domestic saving have, as noted earlier, generally been associated with high or low levels of saving in both the private and the government sectors. This relationship between private and government saving suggests that the levels realized in both sectors may have been largely shaped by common factors. Before saving behaviour in each of these two sectors is considered separately, it is therefore of interest to explore the possible reasons for inter-country differences in the level of domestic saving as a whole.

One very broad possible explanation that immediately suggests itself is the variation among countries in the level of per capita real income. It might be expected that a smaller proportion of income would be available for saving in the lower-income countries, since relatively more would be absorbed in meeting subsistence needs. And lower per capita real income might not only depress the level of saving in the private sector, but also reduce the taxable capacity of the community and, consequently, the level of saving in the government sector.

The experience of the under-developed countries in the nineteen fifties, however, offers only limited support for this explanation. In a number of countries, such as Burma, the Congo, Rhodesia and Nyasaland, as can be seen from table 2-7, low income levels have not prevented the attainment of high levels of domestic saving. At the opposite pole are countries such as Chile and Puerto Rico, which have experienced low levels of domestic saving notwithstanding their higher income levels and more advanced economies.

This does not disprove that a low level of per capita real income may, in fact, be an important factor limiting the level of domestic saving which can be attained in an individual country. But it does indicate that the

Table 2-7. Relationship between Levels of Per Capita Income and Net Domestic Saving, 1950-1959[a]

Per capita national income (dollars)	Net domestic saving as percentage of gross domestic product				
	Below 5	5 to 7	8 to 10	11 to 13	14 to 16
Below 100........	China (Taiwan) Indonesia	India			Burma Congo
100 to 199........	Korea (Republic of) Philippines	Guatemala Portugal	Brazil Ceylon Colombia Ecuador Honduras	Iraq Morocco	Rhodesia and Nyasaland
200 to 299........	Greece Panama		Turkey	Costa Rica	
300 to 399........	Chile Cyprus	Jamaica	Spain		Malta Union of South Africa
Above 400........	Puerto Rico		Argentina Trinidad and Tobago		Venezuela

Source: See table 2-1.
[a] For certain differences in time period and concepts, see footnotes to table 2-1.

influence of the level of real income has often been outweighed by other forces. Indeed, it serves to emphasize that the under-developed countries, far from being a homogeneous group, differ considerably from each other in the structural and institutional characteristics of their economies. For, it is in large degree because of structural and institutional differences that the influence of per capita real income has often not been perceptible.

One such important difference among countries lies in the distribution of income. As is brought out later, in the countries where incomes from property and entrepreneurship constitute a high proportion of national income and where the size of the corporate sector is relatively large, the level of saving has tended to be relatively high.

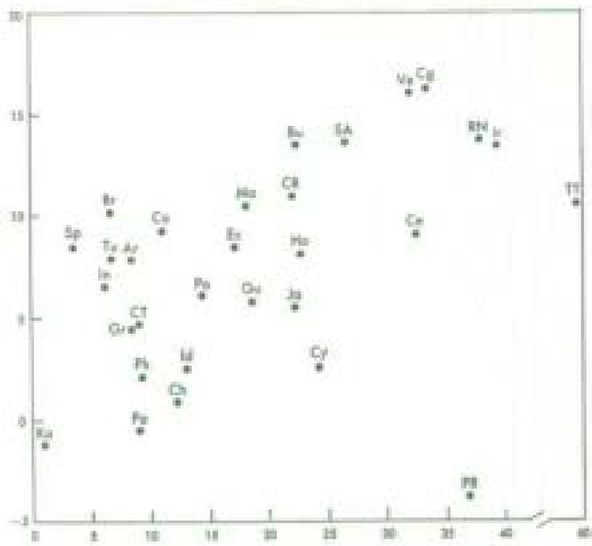
But a more important difference among countries has been the nature and size of the export sector. Where the export sector is relatively large, where the export market is buoyant and where production for export is concentrated in the hands of relatively few enterprises, the conditions are particularly favourable for high levels of private saving. Moreover, since duties on exports and imports constitute a major source of revenue for governments in under-developed countries, a relatively large export sector facilitates government saving; and this may be still easier if production for export is dominated by corporate enterprises, since revenue from indirect taxes can be augmented by revenue from direct corporate taxes. On the other hand, if the export sector is relatively small, if export incomes are diffused through many small traders and peasant producers, or if export markets are stagnant, circumstances are generally less conducive to high levels of saving either in the private or in the government sector.

The role which the export sector plays in determining the level of domestic saving is clearly not a simple one. It depends not only upon the relative size of the sector but also upon its institutional nature, upon the buoyancy of external markets and upon governmental policy with regard to taxation of foreign trade and of incomes. The relative importance of these several strands cannot easily be assessed in quantitative terms. But a rough indication of the significance of the role of the export sector is given in chart 2-2, where the size of the export sector is compared with the level of domestic saving.

The channels through which the export sector has affected the levels of government and private saving

Chart 2-2. Levels of Domestic Saving and Exports, 1950-1959[a]

(Percentage of gross domestic product)



Source: See table 2-1.
[a] For certain differences in time period and concepts, see footnotes to table 2-1. For abbreviations, see chart 2-1.

and the extent to which its influence has been offset by other factors are further explored in the following two sections.

Government saving

Although by comparison with private saving the differences among countries in the level of government saving have not been as large, they have contributed significantly to the diversity in levels of total saving. As has been pointed out earlier, the countries in which total saving has been relatively high have also been among those in which the level of government saving has been high; and conversely.

In under-developed countries, no less than in the industrial countries, the level of government saving is the outcome of a complex of interrelated policies with regard to both taxation and public expenditure. But an important qualitative difference in the role of government between these two groups of countries is the more active and direct part which it plays in fostering economic growth in most under-developed countries. This is reflected in the much greater importance of public investment in the total investment of these countries. Since government investment has, in the past decade, become a major instrument in the effort to stimulate economic growth, it is not surprising that public investment programmes have been important in shaping the saving decisions of governments in the under-developed countries. In fact, as can be seen from chart 2-3, there has been a tendency for the level of government saving to be positively associated with that of government investment. For example, in Rhodesia and Nyasaland and Venezuela both government saving and investment have been relatively high. On the other hand, in Panama and the Philippines, they have both been low.

However, the tendency for government saving and investment levels to be associated with one another does not necessarily imply that inter-country differences in the level of government saving have been simply determined by differences in the size of investment programmes. It has often happened that governments have set investment goals at a level higher than can be financed from their own saving; and, unless they have been able to obtain additional resources through domestic and foreign borrowing, the investment programmes may not have been realized. In other words, while investment programmes are an important determinant of the level of government saving, much also depends on the levels of government revenue and consumption expenditure. In the absence of government borrowing, investment outlays cannot exceed the difference between the income of government and its consumption expenditure.

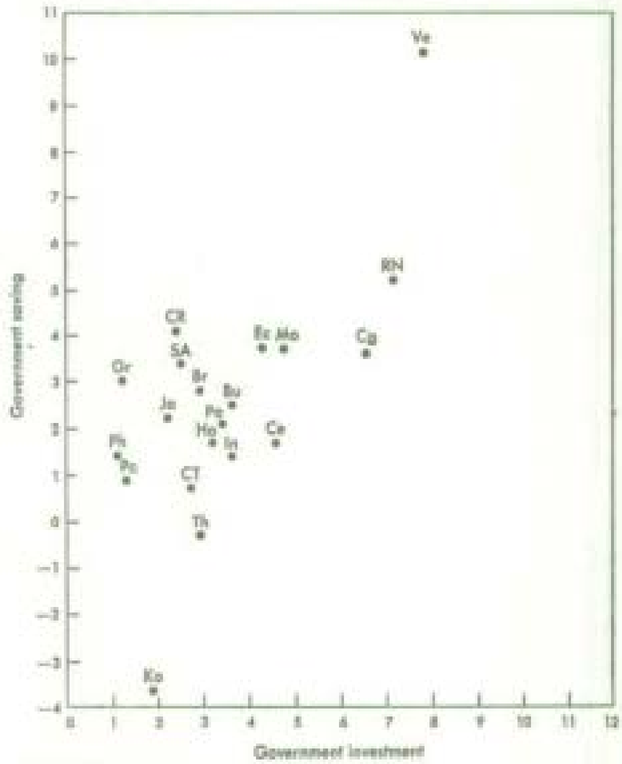
The levels of both government disposable income[7] and government consumption have, as may be seen from table 2-8, varied considerably among countries. But the differences in the level of saving have not been systematically associated with differences in levels of either consumption or income. Although there has been a moderate association between levels of saving and of disposable income, the relationship has been pronounced only in the very high-saving and the very low-saving countries.

As regards the level of government consumption expenditure, it is unfortunately difficult to offer an explanation of the wide differences among countries. The level of expenditure has ranged from 6 per cent of gross product in Colombia to 19 per cent in China (Taiwan); and these wide differences have generally been related to differences in levels of civil consumption expenditure rather than in defence expenditure. Only in a few countries, such as China (Taiwan), Greece and the Republic of Korea, have relatively high levels of defence spending accounted for the high levels of total government consumption expenditure; in most countries, defence expenditure has usually been around 2 per cent of gross domestic product.

The differences in levels of civil consumption expenditure do not appear to have been closely related to such economic factors as per capita income levels

Chart 2-3. Levels of General Government Saving and Investment, 1950-1959[a]

(Percentage of gross domestic product)



Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1. For abbreviations, see chart 2-1.

[7] Government disposable income is the current income available for the purchase of goods and services.

Table 2-8. Level of General Government Saving, 1950-1959[a]

(Percentage of gross domestic product)

Country	Net saving	Disposable income[b]	Consumption
Venezuela	10	24	14
Rhodesia and Nyasaland	5	14	9
Colombia	4	11	6
Costa Rica	4	14	10
Ecuador[c]	4	16	12
Congo	4	16	13
Portugal	3	15	11
Union of South Africa	3	14	11
Ghana[d]	3	12	8
Trinidad and Tobago	3	14	11
Brazil	3	15	12
Burma	2	16	13
Chile[c]	2	12	9
Jamaica	2	11	9
Spain	2	12	10
Honduras	2	9	8
Ceylon	2	15	13
India	1	8	7
Philippines[c]	1	9	8
Panama	1	13	12
Greece	1	15	13
China (Taiwan)	1	19	19
Thailand	—	11	11
Korea (Republic of)	−4	10	13

Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1.

[b] For components of government disposable income, see table 2-9.

[c] Public corporations included with general government.

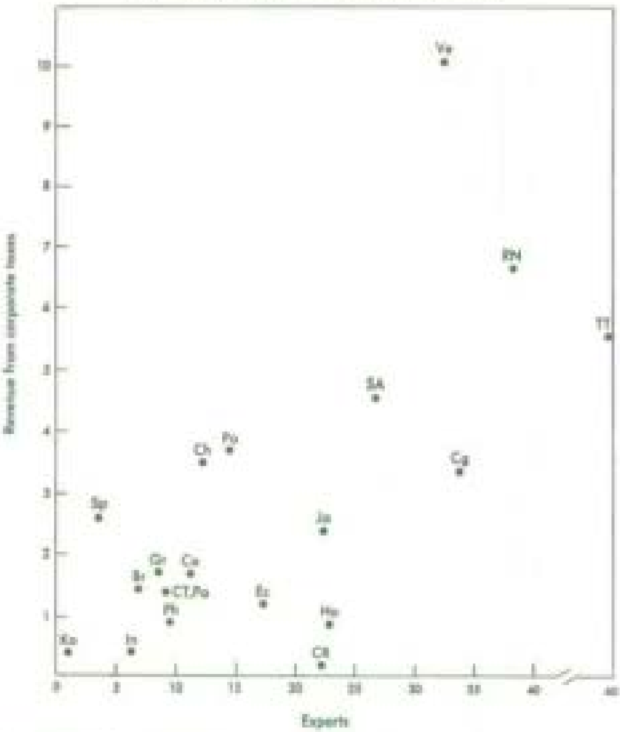
[d] Data are gross of depreciation.

and the stage of economic development, as might perhaps be expected. For instance, in the relatively more advanced of the under-developed countries, such as the Union of South Africa, Chile and Spain, the level of government consumption has not been particularly high; nor can the higher level of consumption in Ceylon, as compared with India, be explained by its comparative stage of development.

Lack of data also makes it impossible to examine in detail the differences among countries in the components of consumption expenditure. But the common pattern appears to have been that the largest components have been general administration and related services; expenditures on education and on health, usually in that order, have taken smaller fractions of current consumption expenditure.[5] However, in some countries, among which Ceylon is a striking example,

Chart 2-4. Level of Revenue from Corporate Taxes and Level of Exports, 1950-1959[a]

(Percentage of gross domestic product)



Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1. For abbreviations, see chart 2-1.

the relatively high level of government expenditure has been due mainly to large expenditure on economic and social services.

It is less difficult to identify the factors accounting for inter-country differences in the level of government disposable income. The most important reason has probably been the size and nature of the foreign trade sector, though a subsidiary factor has also been the stage of economic development.

The importance of the foreign trade sector is largely related to the fact that, typically, in under-developed countries, the principal source of revenue is indirect taxation, and, particularly, import and export duties (see table 2-9). The level of revenue derived from indirect taxes has thus, to a considerable extent, depended upon the volume of foreign trade as well as upon tax rates. In Burma, Ceylon and Thailand, for example, the large size of the foreign trade sector in the domestic economy, in conjunction with high average tax rates, has yielded higher levels of revenue from customs duties

[5] A United Nations study covering eleven Latin American countries shows the following average (median) data on the fractions of all current expenditure devoted to various services in 1954: general administration (including economic services), 51 per cent; defence, 16 per cent; education, 16 per cent; health, 12 per cent. See United Nations, *Economic Survey of Latin America, 1955* (Sales No.: 1956.II.G.1).

In another study the levels of the major components of current expenditure in ten under-developed countries were estimated for one year between 1952 and 1955. Their average (median) values as percentages of gross national product are as follows: economic services, 3.7; administration, 3.1; education, 2.1; health, 1.3. See A. Martin and W. A. Lewis, "Patterns of Public Revenue and Expenditure", *The Manchester School of Economic and Social Studies*, vol. XXIV, No. 3, September 1956 (Manchester).

Table 2-9. Levels of Government Disposable Income and its Components, 1950-1959[a]

(Percentage of gross domestic product)

Country	Disposable income	Direct taxes			Indirect taxes minus subsidies			Net transfers[b]	Other income
		Total	House-hold	Corporate	Total	Indirect taxes	Subsidies		
Venezuela	24	11	1	10	8	8	—	−1	6
China (Taiwan)	19	3	1	1	14	14	—	1	2
Congo	16	8	4	3	9	9	—	−1	1
Ecuador	16	4	2	1	10	11	1	−1	4
Burma	16	4	...	...	11	12	—	−1	1
Ceylon	15	4	...	...	11	13	2	−3	2
Brazil	15	6	4	1	13	...	...	...	...
Greece	15	8	6	2	12	12	—	−5	1
Portugal	15	9	5	4	7	8	1	−2	1
Union of South Africa	14	9	4	5	6	7	1	−2	2
Rhodesia and Nyasaland	14	9	2	7	4	5	1	−1	2
Trinidad and Tobago	14	7	1	6	6	7	2	−1	3
Costa Rica	14	4	3	—	9	9	—	1	1
Panama	13	4	2	1	7	7	—	1	1
Spain	12	8	5	3	8	8	—	−3	−1
Chile	12	10	6	3	7	8	1	−6	—
Ghana	12	2	...	...	10	10	—	—	1
Jamaica	11	4	1	2	7	8	—	—	—
Colombia	11	4	2	2	7	7	—	−1	1
Thailand	11	1	...	...	11	11	—	−1	—
Korea (Republic of)	10	3	2	—	7	7	1	—	—
Philippines	9	2	2[c]	1	6	6	—	−1[c]	1
Honduras	9	2	1	1	8	7	—	—	—
India	8	3	2	—	5	5	—	—	—

Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1.

[b] Net transfers are shown with a reversal of sign as a deduction from government income.

[c] Current transfers from household sector are included with direct taxes.

than in most other countries. In contrast, the relatively low level of revenue from indirect taxes in India has been due to the small size of the foreign trade sector.

But the foreign trade sector in many countries has also been a major source of revenue from direct taxes; these have been principally taxes on the earnings of corporations engaged in exporting primary commodities. Thus, it is evident from chart 2-4 that levels of revenue from corporate taxes in the under-developed countries have been broadly related to levels of exports. In the mineral exporting countries, such as Venezuela, Rhodesia and Nyasaland and Trinidad and Tobago, where exports constitute a very high proportion of total domestic economic activity, governments have been able to achieve high levels of revenue from corporate taxes by imposing heavy levies on exporting companies. Conversely, the relatively low levels of revenue from corporate taxes in such countries as the Republic of Korea, India and the Philippines have been largely the result of the smaller relative share of exports in total output.

However, inter-country differences in the level of revenue from direct taxes have also been related, though in smaller measure, to broad differences in the stage of economic development or the level of per capita income. In more advanced countries, for example, where the corporate form of organization is more wide-spread throughout the domestic economy, the level of revenue from corporate taxes also tends to be higher. This would largely explain why the level of revenue has been higher, say, in the Union of South Africa than in Costa Rica, Ecuador or Honduras, although the size of the foreign trade sector in all these countries has been much the same.

Similarly, inter-country differences in levels of revenue from direct taxes on households have largely reflected difference in levels of per capita income. Generally, governments in countries where per capita incomes are comparatively high have found it easier to raise revenue from direct taxes on income. Higher per capita incomes, furthermore, are often associated with greater monetization of the economy, which is conducive to a more effective administration to tax collection. It is largely for these reasons that the level of direct taxes on households as a proportion of gross domestic product has tended to be relatively high in such countries as Chile, Greece, Portugal, Spain and the Union of South Africa. However, in many cases, the level of revenue has also been affected by government tax policies. For example, in Trinidad and Tobago and Venezuela, the low levels of revenue from household taxes have reflected mainly the policy of the Governments of relying on taxes levied on corporations engaged in petroleum production.

In summary, it may be said that the inter-country differences in levels of government saving have been related to the size of their investment programmes. But public investment has been limited by the sums available for investment outlays. Primarily because of the importance of customs duties as a source of revenue in under-developed countries, the levels of government disposable income have been much affected by the size and nature of the export sector. However, the relationship between government saving and export experience has been considerably weakened by the fairly wide variations among countries in levels of government civil consumption.

Private saving

While high or low levels of both government and private saving have tended to be associated with high or low levels of total net domestic saving, it has been primarily the private sources of saving which have contributed to the inter-country differences in total saving. The private sector, in other words, has generally been the dominant source of domestic saving. Within the private sector, however, it cannot be said that either corporate or household saving has invariably been the more important source. Nor have inter-country differences in the level of saving in either of these two sectors exhibited any pronounced tendency to vary with the level of total net domestic saving.

The fact that corporate and household saving, when taken singly, have not shown a significant relationship to total domestic saving, suggests that, to some extent, they have tended to offset each other. It has to be remembered, however, that the saving of the household sector is inclusive of saving of unincorporated enterprises. It thus seems probable that a principal reason for the apparent tendency for corporate and household saving to offset each other is to be found in the differences among countries in the relative importance of corporate and unincorporated enterprises. On the one hand, as has already been noted, there are some countries where corporate enterprises bulk large in the export sector; and it also seems that, in those countries where industrialization has reached a relatively advanced stage, the corporate type of organization has become increasingly important in the domestic economy. On the other hand, there are numerous countries where by far the greater part of production both for export and for the domestic economy is undertaken by unincorporated enterprises. But these enterprises, no less than corporate enterprises, are important sources of saving: indeed, by comparison with corporate enterprises, they generally have less access to financial markets and have to rely mainly on their own saving out of current income to obtain the finance for business expansion. Thus, it appears probable that the saving of unincorporated enterprises accounts for a large part of household saving in many countries. And it seems likely that, were it possible to separate the saving of these enterprises from that of private households, the saving of business concerns as a whole, whether incorporated or unincorporated, would then stand out as the dominant source of total private saving. Further, there might well be much clearer evidence of a relationship between the level of business saving and of total net domestic saving.

This is not to say that the differences among countries in the relative size of the corporate sector in the economy or the relative importance of unincorporated enterprises in the household sector have been the sole reasons accounting for different levels of corporate or household saving. Thus, corporate saving as a percentage of gross domestic product has been affected not only by the size of the corporate sector, but also by the dividend policies of corporations and the fiscal policies of governments.

Partly because data on corporate profits remitted abroad are not available for most countries, the effect of dividend and fiscal policies on corporate saving cannot be gauged with any accuracy at all. Nevertheless, the accompanying table, though it suffers from the omission of profits remitted abroad in most instances, offers some possible indication of the role of these factors. Despite a rather small volume of dividends distributed by corporations, it appears that corporate saving in Jamaica and Trinidad and Tobago has been less than half of corporate income. In Puerto Rico and Brazil, on the other hand, both taxes and dividends have been moderate, with the result that a substantially larger proportion of corporate income has been saved.

Uses of corporate net income, 1950-1959[a]

Country	Direct taxes	Dividends	Saving
	(percentage of corporate net income)		
Puerto Rico	21	16	63
Brazil	20	23	57
Rhodesia and Nyasaland	34	44[b]	22
Jamaica	37	20[c]	43
Trinidad and Tobago	63	10	27

Source: See table 2-1.

[a] For certain differences in time period, see table 2-1, footnote *a*. Countries are arranged in descending order of corporate saving as a percentage of gross domestic product.

[b] Including earnings remitted abroad.

[c] Including corporate transfer payments.

Inter-country differences in the level of household saving, expressed as a percentage of gross domestic product, must certainly also have been influenced by other factors besides the relative importance of unincorporated enterprises in the household sector. The saving of unincorporated enterprises themselves, for example, must have been affected by government fiscal policies as has the saving of corporate enterprises. And the same would be expected to hold for the saving of private households.

This suggests that the level of household saving as a whole might have been positively associated with the level of household disposable income. But, generally, household saving does not seem to have been significantly related to disposable income, when both are expressed as percentages of gross domestic product (*see* table 2-10). In Honduras and Morocco, for example, high levels of disposable income have contributed to comparatively high levels of household saving. In the Philippines, however, where disposable income has been equally high, there has actually been dis-saving. Further, the level of household saving in Venezuela has been about the same as in Brazil, Colombia and Ecuador, despite a substantially smaller percentage of disposable income to gross product.

Table 2-10. Levels of Household Saving and Disposable Income, 1950-1959[a]

Country	*Saving* (*percentage of gross domestic product*)	*Disposable income* (*percentage of gross domestic product*)	*Saving as percentage of household disposable income*
Union of South Africa	7	71	10
Morocco	6	84	7
Honduras	6	82	7
Trinidad and Tobago	5	67	7
Congo	4	62	7
Rhodesia and Nyasaland	4	67	6
Costa Rica	4	77	5
Colombia	3	78	4
Brazil	3	75	4
Spain	3	77	4
Ecuador	3	74	4
Venezuela	3	55	5
Ceylon	2	77	3
Jamaica	—	77	1
Philippines	−2	82	−2
Panama	−3	75	−4

Source: See table 2-1.
[a] For certain differences in time period and concepts, *see* footnotes to table 2-1.

The lack of association between saving and disposable income is hardly surprising. Variations among countries in the relative importance of unincorporated enterprises might be expected, in themselves, to weaken any such relationship, since the saving behaviour of these enterprises and of private households is determined by quite different considerations. But, in addition, there are strong reasons for expecting considerable differences among countries in the saving behaviour of private households, even though the disposable income of households, as a percentage of gross domestic product, might be the same. Mention has already been made of the possible influence of inter-country differences in the level of per capita real income. And to this must be added the effect on levels of saving of the differences among countries in the distribution of income by size. Since higher-income groups tend to save a larger proportion of income, it would be expected that the level of household saving would tend to be greater in countries where the share of the higher-income groups in total income is greater.

Direct information on distribution of income by size is not available for most countries. The data on the distribution of income by source, which is shown in table 2-11, do, however, offer some possible evidence of the effect of this factor, since there is usually some association between the distribution of income by size and the proportion of total income derived from property and entrepreneurship. The table is suggestive of a possible relationship. In Venezuela and Panama, for example, in contrast to the Congo and Honduras, the smaller share of income from property and entrepreneurship may have to some extent accounted for the lower level of household saving.

Table 2-11. Composition of Household Income, 1950-1959[a]

(Percentage)

Country[b]	*Compensation of employees*	*Income from property and entrepreneurship*	*Government transfers*
Trinidad and Tobago	58	41	1
Congo	57	42	1
Honduras	48	52	—
Rhodesia and Nyasaland	58	41	1
Venezuela	73	26	1
Costa Rica	63	37	−1
Colombia	38	61	1
Brazil	47	48	5
Spain	64	32	4
Ecuador	53	45	1
Ceylon	51	46	2
Jamaica	62	38	—
Philippines	44	56	1
Panama	72	29	−1

Source: See table 2-1.
[a] For certain differences in time period and concepts, *see* footnotes to table 2-1.
[b] Countries are arranged in descending order of household saving as a percentage of disposable income.

However, the data do not allow any firm conclusion, no doubt partly because the income of property and entrepreneurship does not refer to the income of private households only but is inclusive of the income of unincorporated enterprises. Some more direct information on size distribution of income is available for the Congo, Morocco and Rhodesia and Nyasaland; and this suggests that the large inequalities in the distribution of income in these countries have been a significant force behind the relatively high levels of household, and therefore of domestic, saving.[9]

[9] See United Nations, *Economic Survey of Africa Since 1950* (Sales No.: 59.II.K.1), pages 87 and 88.

It is also pertinent to note in this context that the distribution of income by size is not an unchanging phenomenon. Particularly in an inflationary situation when the upward movements in prices of goods and services and of the various factors of production may be divergent, the distribution of income may change appreciably, thus affecting the level of household saving. Rising prices commonly result in a relative shift of income from wage and salary earners, whose ability to save is generally small, to the recipients of profits who usually save more. Unless there are counteracting forces, such a shift is likely to result in higher levels of private saving. On the other hand, if the advance in prices is sustained for a long period, the process of adjustment in wages and salaries to rising prices may be accelerated. And in such an inflationary environment, since the spiral of rising prices and wages often tends to generate pessimism with regard to the purchasing power of money, saving levels may even decline. Although the limitations of data do not permit precise generalizations, the behaviour of institutional saving, while representing only one component of private saving, supports the impression that sustained and rapid inflation may have inhibited saving. The accumulation of saving deposits and life insurance premiums has been adversely affected in Argentina, Chile and Israel, for example, where continuous increases in cost of living may have diminished the desire to save.[10]

To sum up, the tendency for corporate and private saving to offset each other has probably reflected institutional differences among countries. Relatively high levels of corporate saving have largely occurred in countries where corporate enterprises dominate the export sector, though differences among countries in corporate dividend policy and government fiscal policy have also affected saving. The role of unincorporated enterprises has probably been of major importance in determining the level of household saving, but other factors, notably the distribution of income, have also been significant.

[10] These conclusions are based on institutional savings data from International Monetary Fund, *International Financial Statistics*, and from national sources.

Trends in saving

While much can be learned by analysing the differences in saving levels of individual countries for 1950-1959 as a whole, it is also instructive to examine the changes in the saving experience of countries over time. For the process by which saving levels are raised is at the heart of the problem of increasing capital formation and accelerating the pace of economic growth. The experience over the nineteen fifties is perhaps too brief to permit firm conclusions regarding the long-run process of change, but it may well throw some light on the factors which enable poor countries to move from relatively low to sustained higher levels of saving.

Between 1950-1952 and 1957-1959, only two out of every five countries increased their total net saving by 2 per cent or more of gross product, although in a few countries, such as Burma, Jamaica and Malta, the increases have been very large.[11] In the remaining countries, as is shown in table 2-12, the levels of total saving have generally shown no significant change; exceptions are the Congo, Indonesia, Morocco and the Union of South Africa, where they have declined sharply. The countries with relatively high average levels of saving have not necessarily been those which experienced large increases in these levels. For example, while in such high-saving countries as Rhodesia and Nyasaland, Malta, Jamaica and Burma, total saving has increased substantially, in the Congo and the Union of South Africa, it has declined significantly. On the other hand, in the low-saving countries, the tendency has been more general for total saving to increase.

Although the trends in total saving have shown no systematic relationship with their average levels, the changes over time, considered by themselves, have exhibited several significant patterns. Foreign saving, as can be seen from table 2-13, has been a factor of great importance in accounting for changes in the total supply of net saving. There has been a pronounced tendency for the under-developed countries to become increasingly dependent upon foreign saving. In over one-third of the countries, increases in foreign saving have amounted to 2 to 3 per cent of gross product. Indeed, in one-fourth of the countries, such increases have been even larger; in some cases they have been as high as 9 or 10 per cent. In countries where the level of total saving has increased, the increase in foreign saving has invariably been an important contributing factor; and where it has fallen, this has been generally due to a decline in domestic saving which has not been completely offset by foreign saving.

The most striking development over the period, however, has been the inability of the under-developed countries to raise the level of domestic saving. In more than two-thirds of the countries listed in table 2-13, the level of domestic saving has either declined or has barely changed; moreover, where it has declined, the magnitude has often been quite considerable.

The divergent trends in domestic saving cannot be

[11] In contrast to the treatment of industrial countries in chapter 1, where the 1950-1959 decade has been divided into halves for the analysis of changes over time, trends in the under-developed countries are analysed in terminal periods of 1950-1952 and 1957-1959, since this procedure brings out the changes in levels more clearly for this group of countries.

Table 2-12. Foreign and Domestic Saving: Levels in 1950-1959 and Changes in Levels from 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)

Country	Total net saving		Foreign saving		Domestic saving	
	Level	Change	Level	Change	Level	Change
Rhodesia and Nyasaland	23	3	9	7	14	−4
Venezuela	19	−1	3	4	16	−5
Congo	18	−10	2	9	16	−19
Malta	18	8	3	6	15	2
Trinidad and Tobago	16	—	6	—	10	—
Jamaica	15	10	9	2	5	8
Union of South Africa	15	−4	1	−3	14	—
Costa Rica	15	—	4	1	11	−1
Puerto Rico	14	1	18	8	−4	−7
Burma	13	7	−1	10	14	−3
Greece	12	4	8	2	4	3
China (Taiwan)	12	—	7	—	5	—
Brazil	11	—	1	−1	10	—
Portugal	11	−1	5	2	6	−3
Spain	10	—	2	1	8	−1
Morocco	10	−14	−1	−9	11	−5
Honduras	10	−2	2	2	8	−3
Argentina	10	—	−2	—	8	—
Turkey	10	3	2	−1	8	5
Ecuador	9	4	1	2	8	2
Colombia	9	−1	—	−1	9	—
Ceylon	9	−2	—	5	9	−7
Korea (Republic of)	8	1	9	2	−1	−2
India	8	5	1	3	7	2
Panama	6	4	6	2	−1	2
Philippines	4	2	2	1	2	1
Indonesia	3	−5	1	−1	2	−3
Chile	3	4	2	2	1	2

Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1.

explained by changes in any single component. The level of government saving has shown moderately declining or stable trends in most countries; but in countries where substantial declines in domestic saving have occurred, government saving has usually been an important contributing factor. The trends in the saving of the private sector as a whole have diverged more widely than those in government saving, and have also shown a closer relationship with changes in domestic saving. In countries where the level of domestic saving has risen, this has generally been accompanied by an increase in the level of private saving, and conversely. As a broad rule, the pattern of changes in the household and corporate components of private saving has been less clear-cut than in the case of total private saving. Only in a few instances have both components of private saving contributed to the over-all trend in the levels of private saving. In many countries, in fact, levels of corporate and household saving have moved in opposite directions.

CHANGES IN THE MAJOR COMPONENTS OF SAVING

Although increases in the flow of foreign saving have generally been dominant in raising or sustaining the total supply of saving in the under-developed countries, they have not been uniquely related to any single cause. A number of factors, sometimes domestic, but more often foreign in origin, have been responsible for the increases.

In most under-developed countries, the increased dependence on foreign resources has been related to the rising tempo of investment activity. The higher levels of investment could, of course, have taken place without additional reliance on foreign saving if domestic resources had been diverted from current consumption. But, except in a few countries, notably Ecuador, India and Panama, consumption has actually absorbed a larger share of gross product. While private consumption has risen in several countries, the more striking phenomenon has been the wide-spread increase in the level of government consumption. Increases in foreign saving have therefore been needed to finance not only higher levels of capital formation but, in many cases, greater consumption as well.

The increases in foreign saving which most countries have experienced are the counterpart of the trends in

Table 2-13. Change in Level of Saving, by Sector, 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)

Country	Total net saving	Foreign saving	Domestic saving	Government saving	Private saving: Total	Private saving: Corporate	Private saving: Household
Jamaica	10	2	8	2	6	2	4
Burma	7	10	−3	−3	—	...	...
India	5	3	2	—	2	...	...
Panama	4	2	2	—	2	3	−1
Greece	4	2	3	—	3	...	...
Ecuador[b]	4	2	2	4	−2	−1	−1
Chile[b]	4	2	2	1	1	...	...
Rhodesia and Nyasaland	3	7	−4	—	−4	−5	1
Philippines[b]	2	1	1	1	—	1	−1
Puerto Rico	1	8	−7	...	...	1	...
Korea (Republic of)	1	2	−2	—	−2	...	...
Spain	—	1	−1	—	−1	—	−1
Trinidad and Tobago	—	—	—	2	−1	4	−5
China (Taiwan)	—	—	—	—	—	...	...
Costa Rica	—	1	−1	−2	1	−1	2
Brazil	—	−1	—	—	1	1	—
Colombia	−1	−1	—	1	−1	1	−2
Portugal	−1	2	−3	1	−3	...	...
Venezuela	−1	4	−5	1	−6	1	−7
Ceylon	−2	5	−7	−3	−4	−2	−2
Honduras	−2	2	−3	−2	−2	1	−2
Union of South Africa	−4	−3	—	—	—	1	−1
Congo	−10	9	−19	−5	−14	−14	—
Morocco	−14	−9	−5	−2	−3	−1	−2

Source: See table 2-1.

[a] For certain differences in time period and concepts, *see* footnotes to table 2-1.

[b] Public corporations included in government sector.

their balances of payments on current account. In these countries, foreign balances deteriorated during 1950-1959, partly as a result of a larger expansion in the volume of imports relative to exports but mainly because of declines in the terms of trade.

Given the diversity of market conditions confronting under-developed countries, it is not surprising that there have been substantial variations in the extent of the deterioration in the terms of trade. In part, these variations have reflected differences in the changes in world demand and supply of the commodities exported by these countries. In recent years, world demand for some primary commodities relative to supply has lagged considerably behind that for others; the volume of world exports of petroleum, for example, expanded by 46 per cent between 1950-1952 and 1957-1959, while the volume of food and raw materials exports rose by 37 per cent. The disparate rates of growth in world demand have been reflected in considerable changes in the relative prices of various primary commodities. As may be seen from the table below, in relation to world export prices of manufactures, the price of fuels has remained practically unchanged, while that of textile fibres has declined by two-fifths. In turn, the changes in relative export prices have been associated with wide variations in the terms of trade; whereas the terms of trade of petroleum-exporting countries have improved or shown no deterioration, those for most under-developed countries have declined.

Ratio of prices of primary commodities to manufactured goods in world trade

Commodity	Index, 1957-1959 (1950-1952 = 100)
Fuels	100
Metal ores	92
Beverage crops	89
Non-ferrous metals	86
Fats, oils and oil-seeds	80
Cereals	76
Textile fibres	60

Source: United Nations, *Monthly Bulletin of Statistics*, September 1960.

Increases in foreign saving must, of course, be matched by identical changes in the total of short-term and long-term capital inflows and foreign exchange reserve movements. Over the nineteen fifties as a whole, changes in the flow of short-term funds have been of comparatively little importance, since over a long period increases usually tend to be offset by declines. But these funds have figured prominently in the two terminal periods taken separately. In Rhodesia and Nyasaland, for ex-

Table 2-14. Changes in Levels of Foreign Saving and its Principal Components, 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)

Country[b]	*Imports of goods and services*	*Exports of goods and services*	*Foreign saving*[c]	*Net flow of long-term funds*[c]		
				Total	*Private capital*	*Official capital and grants*
Burma	4	−6	10	4.4	0.6	3.8
Congo	5	−3	9	−2.4	−3.8	1.4
Puerto Rico	7	—	8	9.9	3.4	6.6
Rhodesia and Nyasaland	−2	−9	7	0.9	1.0	−0.1
Ceylon	1	−4	5	1.7	0.3	1.4
Venezuela	4	—	4	4.1	4.1	—
India	2	−1	3	—	—	—
Panama	—	−3	2	3.7	1.0	2.7
Korea (Republic of)	2	—	2	...	...	6.7
Ecuador	3	1	2	0.4	0.4	—
Chile	3	1	2	0.8	0.5	0.3
Greece	2	—	2	−1.0	0.8	−1.8
Honduras	1	−1	2	−2.3	−3.8	1.6
Philippines	−1	−2	1	−1.1	−0.1	−1.0
Costa Rica	−3	−3	1	2.2	0.1	2.2
Spain	1	−1	1	0.1	−0.1	0.1
Argentina	...	...	—	−0.1	0.1	−0.2
China (Taiwan)	4	4	—	—	−0.1	0.1
Brazil	−3	−3	−1	1.4	1.1	0.3
Turkey	...	...	−1	−0.5	—	−0.5
Colombia	4	5	−1	0.2	—	0.2
Indonesia	−7	−6	−1	0.2	—	0.2
Union of South Africa	−2	1	−3	−2.8	−2.3	−0.5
Morocco	−11	−2	−9	−3.6	−2.3	−1.3

Source: See table 2-4.

[a] For certain differences in time period and concepts, *see* footnotes to tables 2-1 and 2-4.

[b] Countries are arranged in descending order of the increase in the level of foreign saving.

[c] A positive change in foreign saving denotes a greater increase, or a smaller decline, in imports of goods and services relative to exports. A positive change in long-term funds denotes an increase in the net inflow.

ample, there was a large inflow of short-term private capital in 1957-1959, as against an outflow during the earlier period. On the other hand, in Burma, Ceylon, the Congo, Honduras and the Philippines, substantial additions were made to official reserves in the earlier years of the decade, but these were drawn down during 1957-1959 when large-scale deficits in the balance of payments were encountered.

In several countries, however, the increased inflow of foreign funds has not come about in passive response to changes in trade but has taken the form of long-term loans and grants for specified investment programmes. These long-term loans and grants, as can be seen from table 2-14, have made possible increases in the import surplus of Puerto Rico, Venezuela, Panama and the Republic of Korea, for example. Developments in both the recipient and the contributing countries have been a significant influence in bringing about a larger flow of long-term capital in 1957-1959. In order to achieve a higher rate of economic progress and higher consumption standards, governments in the under-developed countries have sought to define their developmental objectives more sharply and to strengthen administrative machinery for their attainment.[12] This has affected the outlook of both private investors and governments in the capital exporting countries. Private investors in North America, western Europe and Japan have begun to show greater interest in the under-developed countries as outlets for their funds. On their part, governments in the capital exporting countries have formulated measures to facilitate the flow of such private capital as well as to provide directly a larger supply of funds both bilaterally and through the international organizations. The Soviet Union and a number of other centrally planned countries have also stepped up their aid to the under-developed economies. As a result, the net annual flow of recorded long-term private capital and public funds to the twenty-four under-developed countries included in table 2-14 rose by over three-fourths between 1950-1952 and 1957-1959.[13]

[12] See United Nations, *World Economic Survey, 1959*, pages 80 to 83.

[13] Since this estimate is based on the balance of payments accounts of a limited number of recipient countries, it provides only a partial indication of the increase in the net flow of international private capital and public funds to the under-developed countries. More comprehensive data from the contributing countries indicate that the increase has been substantially larger.

However, despite the substantial increase in the net flow of long-term private capital, there has been no decline in the pronounced tendency for such funds to be concentrated in relatively few countries. By and large, countries receiving large flows of private capital have continued to be those producing export commodities in vigorous demand abroad, or those which have not only reached a higher stage of development but have also developed a large domestic market. Thus, as is shown in the accompanying table, while the small inflow of earlier years into countries with per capita incomes of less than 100 dollars has given way to an outflow, six countries with per capita incomes of more than 300 dollars have received over three-fifths of the expansion in the flow of long-term private capital.

Percentage distribution of the increase in foreign funds received by under-developed countries, 1950-1952 to 1957-1959[a]

Income group[b]	*Number of countries*	*Increase between 1950-1952 and 1957-1959 in the net annual flow of:* *Private long-term capital*	*Official grants and long-term capital*
Countries with per capita national income of:			
I. Less than 100 dollars	5	−6	29
II. 100 to 199 dollars	9	36	40
III. 200 to 299 dollars	4	9	10
IV. 300 dollars or more	6	61	20
TOTAL, UNDER-DEVELOPED COUNTRIES	24	100	100

Source: See table 2-4.

[a] For certain differences in time period and concepts, see footnotes to tables 2-1 and 2-4.

[b] *Group I:* Burma, China (Taiwan), Congo, India and Indonesia; *Group II:* Brazil, Ceylon, Colombia, Ecuador, Honduras, Morocco, Philippines, Republic of Korea and Rhodesia and Nyasaland; *Group III:* Costa Rica, Greece, Panama and Turkey; *Group IV:* Argentina, Chile, Puerto Rico, Spain, Union of South Africa and Venezuela.

The generalization that extractive industries and the size of the domestic market have continued to exert a strong influence on the flow of international private capital does not imply, of course, that other factors have been of no consequence. In some cases it is not unlikely that political factors have been a significant influence. Political considerations have at times been of some importance where changes in forms of government have generated uncertainty in the minds of investors with regard to official policies relating to foreign investment. The absence of favourable institutional arrangements in some recipient countries has been another deterrent.[14]

[14] In recent years, however, a number of governments in under-developed countries have sought to provide guarantees against nationalization and to ensure remittance of profits and the repatriation of capital. Many countries have offered such incentives as accelerated depreciation and reductions in taxes on profits. But the fact that in many countries the enactment of these and other measures has not resulted in any significant increase in the inflow of foreign private capital reinforces the importance of the economic forces discussed above.

Given the high degree of concentration of private capital flows, it is particularly significant that the bulk of the increase in official grants and long-term loans has been received by the lower-income countries. It is evident from the preceding table that over two-thirds of the increase in such public flows has gone to countries with per capita incomes of less than 200 dollars. As a result, the beneficial role of public funds in offsetting the marked concentration of private capital flows, which was already evident in the earlier years of the nineteen fifties, has become even more pronounced in recent years. Without this foreign aid, many development projects in such countries as Burma, Ceylon and India, which have received virtually no part of the increased total flow of private capital, might have been slower in reaching completion.

Impressive and encouraging as the increased availability of foreign saving is in many respects, it has also served to emphasize that a majority of under-developed countries have not been able to achieve appreciable expansions in the level of domestic saving to match the desired growth of investment.

While most governments have played an increasingly active role in the nineteen fifties in accelerating the pace of economic development, their own contribution in the form of an augmented supply of government saving has generally been very limited. It will be seen from table 2-15 that in only three out of twenty-two countries, namely, Ecuador, Jamaica and Trinidad and Tobago, did government saving increase by 2 per cent or more of gross domestic product between 1950-1952 and 1957-1959; and in another five countries the increase amounted to only one per cent. In the remaining countries, the level of government saving either remained roughly stable or even declined. The declines were substantial in Ceylon, Burma and the Congo.

A major influence in shaping the changes in the level of government saving has been government consumption. Among the countries where government saving has risen significantly, government consumption has either fallen or has not increased in relation to gross domestic product. In contrast, among the countries where government saving has fallen, the level of government consumption has generally increased sizably. In Burma, Ceylon and the Congo, for example, the increase in government consumption has ranged from 5 to 7 per cent of gross product. Since the levels of government disposable income have risen in both groups of countries in broadly similar proportions, it follows that the increases in consumption have been the principal deterrent to increases in government saving.

In general, the rising tempo of government consumption has been inherent in the process of economic and social change. Rapid increases in population in the under-developed countries during the nineteen fifties have been a major contributing factor. The expanding populations have demanded a larger volume and range

Table 2-15. Changes in Levels of General Government Saving, Consumption and Disposable Income, 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)

Country	Net saving	Consumption	Disposable income	Direct taxes: Total	Direct taxes: Household	Direct taxes: Corporate	Indirect taxes minus subsidies
Ecuador[b]	4	−2	2	2	1	1	2
Jamaica	2	—	2	2	—	2	—
Trinidad and Tobago	2	−2	—	—	—	—	—
Venezuela	1	1	4	3	1	2	−2
Philippines[b]	1	1	2	1	1	—	—
Portugal	1	1	2	1	1	—	1
Chile[b]	1	—	1	2	1	1	2
Colombia	1	—	1	1	1	—	—
Panama	—	—	1	1	1	1	—
Korea (Republic of)	—	4	4	1	1	—	3
Rhodesia and Nyasaland	—	2	2	—	1	−1	2
India	—	2	1	—	—	—	2
Spain	—	1	1	1	1	—	1
Brazil	—	1	—	1	1	—	2
Union of South Africa	—	—	—	−1	−1	—	1
Greece	—	1	1	1	1	—	—
China (Taiwan)	—	4	3	−1	−1	—	2
Costa Rica	−2	4	2	—	—	—	2
Honduras	−2	3	1	—	—	—	1
Ceylon	−3	5	2	1	...	...	2
Burma	−3	6	3	3	...	...	−1
Congo	−5	7	2	3	2	1	—

Source: See table 2-1.

[a] For certain differences in time period and concepts, *see* footnotes to table 2-1. Components of government disposable income other than taxes are omitted as the changes in the ratio of these items to gross domestic product were generally not significant.

[b] Including public corporate saving.

of services from governments; this has been further accentuated by the growth in urbanization, since public services generally tend to be greater in the cities than in the rural areas. Particularly prominent in the wider range of social services has been the provision of facilities for education. Increases in expenditures have come about not only to improve literacy but also to enlarge the supply of trained personnel required for achieving investment goals.

Furthermore, with the wide-spread adoption of plans or programmes of economic development, governments have undertaken greater responsibilities in providing essential economic and other services; as a result of these enlarged functions, government administrative activities have also expanded rapidly in most under-developed countries. The rise in investment outlays of the public sector has itself required corresponding increases in government consumption expenditure.

In addition to the rise in government spending on general administration, which has been common during this period, defence requirements also have made necessary significant expansions in government current expenditure in many under-developed countries. This tendency has been particularly strong in the newly independent Asian and African countries, following the transfer of responsibility for national security to national governments. In addition, increased concern about national security has prompted higher defence spending in a number of cases.

Of course, government disposable income has also generally increased between 1950-1952 and 1957-1959. This has partly reflected the efforts of governments to raise the levels of income to finance their expanded programmes of investment. But in many countries such increases have been barely sufficient to meet the increased consumption. In some cases, they have failed even to match the rising levels of consumption, with the result that the level of government saving has fallen. Among these countries are Burma and Ceylon, where the decline in government saving has in fact compelled the governments to curtail their investment programmes.

But the magnitude of the increase in government disposable income has not been markedly different among countries. This has largely been attributable to the broad similarities in the economic structure and the tax systems in the under-developed countries. It is striking that, in spite of the rapid expansion of income in most countries, revenue from direct taxes on households has tended to rise only slightly in relation to total output. This may have partly reflected the fact that, in general, tax systems in the under-developed countries have not been sufficiently progressive and, further, that comprehensive upward revisions in tax structures have not been made during the period under review. In fact, it appears that increases in revenue have often been largely the result of an improvement in tax collection and of the rapid expansion of the monetized sector.

Furthermore, the trends in government revenue from corporate taxes and customs duties have been greatly affected by divergent changes in foreign trade among countries. The influence of export trends on revenue from corporate taxes has been evident in many cases where export corporations are predominant in the corporate sector. Such revenue has increased substantially in Jamaica and Venezuela, for whose exports world demand has been buoyant. In the majority of countries, however, the increases in revenue from corporate taxes have been no more than proportionate to the increases in total output. Often sluggish trends in exports have been a significant contributing factor. In Rhodesia and Nyasaland, a sharp decline in corporate net income has reduced revenue in the absence of a general increase in the tax rate.

Although in some countries the levels of government revenue from customs duties have increased significantly, in many others there has been no significant upward trend. In the early nineteen fifties, when there were wide-spread increases in prices of primary commodities entering international trade, many governments successfully siphoned off the expanded purchasing power in the hands of the public through export duties or multiple exchange rates. But in the latter part of the decade when commodity markets generally weakened, revenue from these sources often tapered off. Revenue from import duties, too, has fallen in a number of countries, partly because governments have often sought to reorient their import structure in favour of capital goods and other essential articles on which duties are usually small.

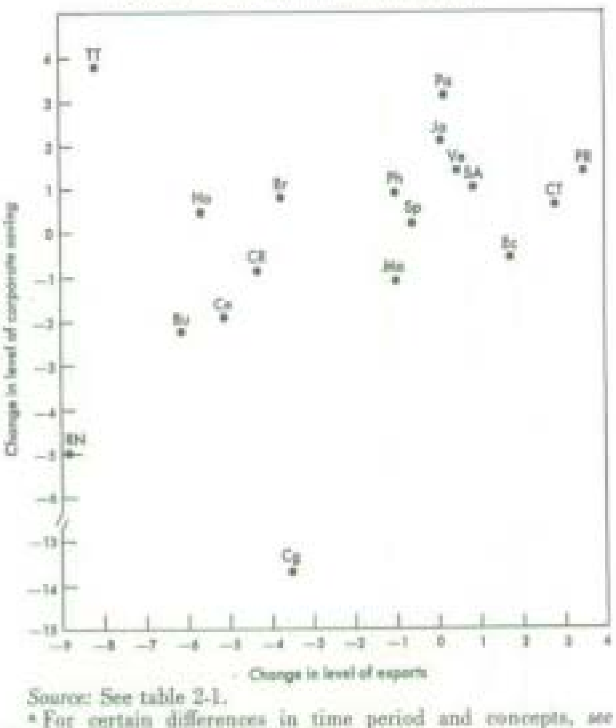
In order to offset the declines in revenue from customs duties, governments have sought to raise the level and range of indirect taxes on products sold in the domestic market. In numerous instances, excise and sales taxes have been levied on an expanded range of consumption goods. In many countries, rising levels of private consumption have also contributed to taxes. And, in some countries, such as Ceylon and India, the search for additional revenue has taken the form of new taxes, such as those imposed on expenditure, gifts and wealth.

To an even greater degree than in the case of government saving, the level of private saving has declined in most countries. In many instances changes in private saving have played an important role in shaping the trends in total domestic saving. Among the countries which have experienced considerable declines in domestic saving, the trends in private saving have generally been a major causal factor. Correspondingly, there have also been cases where increases in domestic saving have been entirely due to rising trends in private saving. Within the private sector, however, there has been no consistent pattern of change in corporate and household saving among countries. For example, as is shown in table 2-13, while the decline in the level of private saving has been substantial in both Rhodesia and Nyasaland and Venezuela, it has reflected a decline in corporate saving in the former but in household saving in the latter. The importance of the export experience of individual countries in accounting for their differing trends in corporate saving is again clearly revealed in chart 2-5. In Ceylon, the Congo, and Rhodesia and Nyasaland, for example, large declines in the level of exports have been mainly responsible for the unfavourable trends in corporate saving.[13] In contrast, increases in corporate saving in Jamaica, Puerto Rico and Venezuela have been related to the buoyant world demand for their exports.[14]

Household saving in relation both to gross domestic product and to disposable income has fallen signifi-

Chart 2-5. Relationship between Changes in Levels of Corporate Saving and Exports, 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)



Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1. For abbreviations, see chart 2-1.

[13] The exceptionally large decline in the level of corporate saving of the Congo, shown in chart 2-5, resulted in part from a substantial increase in corporate earnings remitted abroad.

[14] The differing trends in corporate saving among countries have also been affected by changes in government tax measures and in corporate policies relating to distribution of dividends, including earnings remitted abroad. However, owing to the lack of data in most countries, no generalization can be made concerning the experience of the entire group of countries under review.

Table 2-16. Changes in Levels of Household Saving, Household Disposable Income and Compensation of Employees, 1950-1952 to 1957-1959[a]

Country	Household saving: As percentage of gross domestic product	Household saving: As percentage of household disposable income	Rate of growth in per capita disposable income[b] (percentage per annum)	Compensation of employees as percentage of household income[c]
Jamaica	4	5	7	3
Costa Rica	2	2	2	−1
Rhodesia and Nyasaland	1	1	2	5
Brazil	—	—	—	5
Congo	—	−1	3	8
Union of South Africa	−1	−1	2	...
Philippines	−1	−1	3	—
Ecuador	−1	−2	2	3
Panama	−1	−2	1	4
Spain	−1	−2	4	−1
Honduras	−2	−2	1	2
Colombia	−2	−2	2	3
Morocco	−2	−2	1	...
Ceylon	−2	−3	—	2
Trinidad and Tobago	−5	−7	5	−4
Venezuela	−7	−13	5	1

Source: See table 2-1.

[a] For certain differences in time period and concepts, *see* footnotes to table 2-1.

[b] Compound rate, based on data in constant prices.

[c] Household income refers to personal income before taxes; it includes government transfers.

cantly in most countries during this period; in Trinidad and Tobago and Venezuela, the decline has been especially large.[17] Of the countries shown in table 2-16, increases in the level of household saving have taken place only in Jamaica, Costa Rica and Rhodesia and Nyasaland. While it seems clear that in these cases increases in real income have been an important contributing factor, the differences in the growth of incomes cannot account for the changes in household saving. Although incomes have shown similar increases in other countries, their levels of saving have actually fallen.

Many factors have contributed to this experience. Shifts in the distribution of income have been a dominant factor in accounting for the changes in levels of saving during the period. As is shown in table 2-16, there has been in most countries a tendency for the share of compensation of employees to rise relatively to that of incomes from entrepreneurship and property in household income.[18] This has been partly the result of increases in the number of wage earners, accompanied often by increases in wage rates. In many instances, this change has to some extent reflected reductions in the share of unincorporated enterprise income caused by an unfavourable export experience. Since wage earners generally tend to consume a larger proportion of income than recipients of entrepreneurial and property incomes, it is not surprising that declines in levels of saving have taken place.

The declining trend in household saving has also been influenced by the continued rapid urbanization in most countries. In fact, the enlargement of the wage-earner sector has been associated with a substantial movement of rural population to urban areas in search of employment and higher incomes. Growing urbanization has required additional expenditure in order to establish homes in the cities; also, material standards of living tend to be imitated and it is not unlikely that such imitation has induced higher levels of consumption.

[17] The proportion of disposable income to gross domestic product has generally fallen moderately, although in a few instances, such as in Jamaica and Colombia, the decline has been large. Sharp increases in the proportion have occurred in a few cases, such as in the Congo and Rhodesia and Nyasaland. In these countries, changes in corporate saving have been the main factor contributing to the changes in the ratio of income to product.

[18] The changes in transfers from the government to the household sector during the period do not affect these conclusions since they have generally been very small.

The supply of finance

Saving derives its importance from the fact that its level at prevailing prices determines the volume of resources available to realize investment. It is always possible, however, that though the community may be willing to release resources from consumption for investment, the particular entities which may wish to un-

Table 2-17. Level of Investment and Excess of Saving over Investment, by Sector, 1950-1952 and 1957-1959[a]

(Percentage of gross domestic product)

Country[b]	*Net investment*				*Excess of saving over investment*					
	Government		*Private*		*Government*		*Private*		*Foreign*	
	1950-1952	*1957-1959*	*1950-1952*	*1957-1959*	*1950-1952*	*1957-1959*	*1950-1952*	*1957-1959*	*1950-1952*	*1957-1959*
Jamaica	2	3	6	15	—	—	−7	−10	7	9
Burma	2	3	6	12	2	−2	3	−3	−5	5
India	2	5	4	5	—	−4	—	—	1	4
Panama	2	1	2	8	−1	1	−5	−9	6	8
Greece	2	4	8	10	—	−2	−6	−6	7	9
Ecuador	3	5	3	5	−1	1	3	−1	−1	1
Rhodesia and Nyasaland	7	7	14	16	−2	−2	−3	−9	5	12
Philippines	1	1	2	3	—	1	−1	−3	1	2
Korea (Republic of)	1	2	8	7	−5	−6	−2	−3	7	9
China (Taiwan)	2	3	10	9	−1	−3	−6	−5	8	8
Costa Rica	2	2	12	12	3	1	−6	−5	3	4
Brazil	3	4	11	6	—	−1	−5	2	2	1
Portugal	2	2	11	9	1	1	−6	−8	5	7
Venezuela	7	9	13	9	2	1	−4	−6	2	5
Ceylon	5	4	5	4	−2	−4	3	1	−1	4
Honduras	2	2	9	7	1	−2	−2	−1	1	3
Union of South Africa	2	3	15	11	1	1	−5	−1	4	—
Congo	5	7	17	5	1	−7	4	2	−4	5
Morocco	5	5	13	−1	—	−2	−5	5	5	−4

Source: See table 2-1.

[a] For certain differences in time period and concepts, see footnotes to table 2-1.

[b] Countries are arranged in descending order of the increase in total net investment as a percentage of gross domestic product from 1950-1952 to 1957-1959.

dertake investment may lack the financial funds to purchase the necessary resources. In most under-developed countries, there are vast differences in the ease with which investors can secure financial funds. An often-quoted example is the financial weakness of the peasant and his lack of access to lending institutions; this contrasts sharply with the strength of a large industrial organization or of government. Such differences, even when they do not limit the level of total investment, may well depress investment unduly in some fields of production.

The problem of securing the financial resources to undertake investment activity has not been confined in the under-developed countries to the private sectors of the economy. As noted earlier, a striking characteristic of the post-war growth of investment in the under-developed countries has been the rapid increase in investment by governments. Since, however, the level of government saving in relation to gross domestic product has generally been falling, the financing of government investment has increasingly required the transfer of resources from other sectors of the economy. While in the early nineteen fifties the government sector in the majority of countries listed in table 2-17 experienced either an excess of saving over investment or an approximate balance, by the end of the decade it was generally faced with a deficiency of saving.

The importance of the declining trend of government saving in contributing to the increasing gap between saving and investment can be seen in table 2-18. The countries in the table are listed in descending order of the increase in government net investment from 1950-1952 to 1957-1959; and it can be seen that the magnitude of the increase in the gap between saving and investment was, on the whole, not related to different rates of change in investment. In fact, among the countries in the lower half of the table, government investment generally remained stable or fell, but the gap between saving and investment generally increased. Only in a few countries have increases in government investment been more than offset by the greater increase in government saving. This was the case in Ecuador, Panama and the Philippines, where an excess of saving over investment was experienced in 1957-1959.

Part of the widening gap between government saving and investment has been financed by a larger inflow of foreign official loans and grants. The importance of these flows in many countries is also shown in table

Table 2-18. Change in Excess of Saving over Investment in Government Sector and in Net Inflow of Foreign Official Grants and Long-term Loans, 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)

Country[b]	Excess of saving over investment	Net inflow of foreign official grants and long-term loans[c]
India	−4	—
Venezuela	−1	—
Congo	−7	1.4
Ecuador	2	—
Greece	−2	−1.8
Korea (Republic of)	−2	6.7
China (Taiwan)	−2	0.1
Burma	−4	3.8
Jamaica	1	...
Brazil	−1	0.3
Portugal	—	...
Honduras	−3	1.6
Rhodesia and Nyasaland	—	−0.1
Union of South Africa	−1	−0.5
Philippines	1	−1.0
Costa Rica	−2	2.2
Morocco	−1	−1.3
Ceylon	−2	1.4
Panama	2	2.7

Source: See table 2-4.

[a] For certain differences in time period and concepts, see footnotes to tables 2-1 and 2-4.

[b] Countries are arranged in descending order of the increase in government net investment as a percentage of gross domestic product.

[c] A positive change denotes an increase in inflow.

2-18, although the comparison provides only a rough indication of orders of magnitude.[19]

But, as implied in table 2-18, domestic borrowing has also been an important source of government finance in most countries. The available data do not permit comprehensive statistical analysis of the sources of domestic funds, but the most important appears to have been credit expansion. However, in a few countries where governments have borrowed significant amounts of domestic funds other than from the banking system, the loans have been made principally by insurance companies, pension funds and various savings institutions. In Ceylon, Colombia, Ecuador and India, for example, these institutions are required by government regulation to maintain a certain portion of their portfolio in government securities. Generally, the scarcity of non-business private saving and the rudimentary nature of capital markets in most under-developed countries have militated against other types of domestic borrowing. In India, in particular, direct borrowing from the private sector has played a significant role. According to the estimates for the second five-year plan, the contribution of government saving to the finance of government investment, excluding government enterprises, was expected to fall from the 38 per cent level achieved under the first five-year plan to 13 per cent. While borrowing from the banking system was expected to increase from 23 to 33 per cent, drafts on private saving were to increase from 26 to 29 per cent and the use of foreign funds from 13 to 25 per cent. It is interesting that the third five-year plan appears to rely less on credit creation as a source of finance since it is proposed to cut borrowing from the banking system to about 10 per cent of government investment.

In most under-developed countries, however, saving in the private sector as a whole has fallen short of private investment. Rather than having an excess of saving over investment which could be utilized to finance part of government investment, the private sector has generally recorded a deficiency in saving. Moreover, in contrast to the government sector, the deficiency in private saving was generally no less evident at the beginning of the decade than at the end; in fact, in a number of countries, the deficiency was as large as 5 per cent of gross domestic product in 1950-1952.

The wide-spread tendency for the deficiency in private saving to increase can be seen from table 2-19. And it is notable that the tendency has by no means been confined to countries in which the level of private investment has increased. In some countries, such as Ceylon, Portugal, Venezuela and the Congo, a decline in the level of investment has been associated with an even larger decline in the level of saving.

Only in a few countries has the increased deficiency of saving been appreciably offset by an inflow of private foreign long-term capital. Although they can give only an impression of orders of magnitude, the data shown in table 2-19 reveal this clearly enough. As has been noted earlier, there has been a marked concentration of private capital flows in favour of countries with buoyant exports and countries with relatively high levels of per capita income.

Among the various branches of production within the private sector, there has been great diversity of experience with regard to the ease with which finance for investment could be secured. This has been true both among industries and as between the two broad sectors of industry and agriculture.

So far as industrial finance is concerned, there is little doubt that those branches of production which have been especially attractive to private foreign investors have encountered the least difficulty in obtaining resources. But the finance of investment in other new and growing

[19] This is because the net inflow of foreign official funds as finance for the government sector involves two important errors. First, some part of the funds, generally a relatively small proportion, has been used for financing investment in public corporations rather than in the general government sector proper; and in the present chapter investment by public corporations has been combined with investment of private corporations because of the lack of separate data. Secondly, foreign official funds may have been used for meeting government current consumption expenditure, as in the case of the Republic of Korea.

Table 2-19. Change in Excess of Saving over Investment in Private Sector and in Net Inflow of Foreign Private Capital, 1950-1952 to 1957-1959[a]

(Percentage of gross domestic product)

Country[b]	*Excess of saving over investment*	*Net inflow of private long-term capital*[c]
Jamaica	−3	...
Burma	−6	0.6
Panama	−4	1.0
Greece	—	0.8
Rhodesia and Nyasaland	−6	1.0
Ecuador	−4	0.4
Philippines	−2	−0.1
India	1	—
Costa Rica	1	0.1
Korea (Republic of)	−1	...
China (Taiwan)	1	−0.1
Ceylon	−3	0.3
Portugal	−2	...
Honduras	1	−3.8
Venezuela	−2	4.1
Union of South Africa	4	−2.3
Brazil	5	1.1
Congo	−2	−3.8
Morocco	10	−2.3

Source: See table 2-4.

[a] For certain differences in time period and concepts, see footnotes to tables 2-1 and 2-4.

[b] Countries are arranged in descending order of the increase in the ratio of private net investment as a percentage of gross domestic product.

[c] A positive change denotes an increase in inflow of private capital.

domestic industries has posed special problems. The rapid growth of old firms and the establishment of new ones have placed an increasing burden on traditional arrangements for providing outside finance and these have proven increasingly inadequate. Traditionally, the main component of external finance has been provided by the unorganized, rather than the organized, parts of the capital market. Apart from the high interest rates that prevail in most unorganized capital markets, the practice of lending and borrowing through personal acquaintances greatly restricts flexibility in the supply of investment finance. Recognizing this, practically all under-developed countries have been making serious efforts to enlarge and improve organized capital markets, both by broadening the market for securities and by establishing new lending institutions to encourage private investment in industry. For example, in the early post-war period, Mexico established a national securities commission for the purpose of facilitating the growth of the securities market. Another development, which has been intended to foster the growth of securities markets and has become increasingly important in a number of under-developed countries, has been the formation of investment trusts, as in Brazil, Colombia, Mexico and the Philippines. In a few countries, notably in India, governments have exercised control over new capital issues to ensure the channelling of private funds into investment in branches of production that have been accorded priority.

The growth of organized securities markets has so far been limited, however, and in most under-developed countries they are non-existent. Commercial banks have thus remained the most important institutional lenders to industry. Although their loans have tended to be restricted mainly to short-term credit, their lending policies have necessarily influenced private investment in industry. In many countries bank credit to the private sector as a percentage of gross domestic product increased from 1950 to 1958. Nevertheless, at the end of the decade the volume of such credit was still low in comparison with that of the industrial countries.[20] Though it is not possible to assess accurately the extent to which the increases in bank credit have been channelled into activities of special importance to economic development, it does seem that in countries such as Greece, India and Mexico, where industrial investment has grown at relatively high rate, the share of industry in the growth of bank credit has been rather high.

In many countries, government policy in the post-war period has encouraged or required commercial banks to devote a larger proportion of their resources to the financing of investment in productive industrial activities. Commercial banks in a number of countries, as for example, Colombia, Costa Rica and Mexico, have been permitted or required to allocate a larger proportion of their resources to the purchase of industrial securities.

Another channel through which governments have influenced investment finance has been monetary policy. Measures to implement monetary policy in the under-developed countries have mainly taken the form of selective credit controls rather than more comprehensive instruments, such as open market operations and changes in reserve requirements. Among the principal selective credit controls have been incremental reserve requirements against loans for purposes with low social priority, the permissive inclusion in reserves of investments of a type deserving encouragement, as well as credit ceilings and regulations concerning the composition of bank portfolios.

In addition to such measures, almost all countries have strengthened the means of providing special credit to the private industrial sectors, either through direct government lending by official credit institutions, or through lending by special private institutions. Direct government lending to privately-owned enterprises has been employed by a number of countries, particularly in the earlier years of the post-war period. Examples are provided by China (Taiwan), India, the Philippines and the Republic of Korea. In Burma, there have been a number of joint-venture corporations, in which the

[20] *See* U Tun Wai, "Interest Rates in the Organized Money Markets of Under-developed Countries", International Monetary Fund, *Staff Papers*, August 1958 (Washington, D.C.).

equity capital is divided between public and private ownership. There has been an increasing tendency, however, for government funds to be channelled through specialized official lending institutions, such as development banks. During the post-war period both the number of these institutions and the volume of credit granted have increased markedly. At the same time, development banks under private ownership have increased in importance. The most common service offered by these institutions has been the provision of medium-term and long-term finance, but some of them have also undertaken to seek out and promote new investment opportunities, to underwrite new issues of securities by private enterprises and to provide technical assistance. In certain cases, they have even operated enterprises. Their sources of funds have included central banks, other financial institutions and the private sector. They have sometimes also distributed to private firms loans obtained from foreign sources, such as the International Bank for Reconstruction and Development. In a number of countries they have received regular allocations of funds from governments. For example, in Brazil, the National Bank for Economic Development has financed the development of infrastructure from a percentage charge on revenue from personal income tax; and in Honduras, the National Development Bank has received allocations of government saving.

In Latin America, two notable special institutions for financing investment have been the Development Corporation in Chile and the Nacional Financiera in Mexico. Both have provided finance for a broad range of projects and have served as prototypes for similar institutions elsewhere. In Peru, resource limitations restricted the effectiveness of the official institutions during the nineteen fifties, although with the establishment of the private development banks in 1953, the scope for influencing development has been broadened. In Colombia, the first private development banks were founded in 1959. In Brazil and Costa Rica, the central banks have, in addition to their banking functions, also acted as development banks. During the nineteen fifties private investment banks expanded their activities in Brazil, and by 1959 the volume of their industrial lending had far outstripped the corresponding activity of the central bank. The National Bank for Economic Development, with funds derived from a portion of the personal income tax, had been organized a few years earlier to assist long-term financing of infrastructure investments.

Similar special institutions have also been established in other under-developed areas. The Industrial Finance Corporation of India, for example, was established in 1948 to furnish long-term finance to industry, and since that time a number of other specialized financial institutions have been created to provide long-term and medium-term finance to the private sector.

The activity of these development banks, as well as of commercial banks and other lending institutions, has not, of course, always been confined to the supply of finance for industry but has also embraced loans to the agricultural sector. The problems posed in the channelling of sufficient finance into investment in agriculture, however, are generally of a distinctly different nature to those encountered in industry. Special measures have, in fact, been taken by governments in numerous countries to facilitate the flow of finance into agricultural investment.

The distribution of investment between agriculture and the rest of the economy has recently become a matter to which particular attention is being paid. While data on the pattern of private investment are available only for a few countries, it is commonly recognized that the growth of private investment in agriculture has generally tended to lag behind that in other sectors during the last decade.[21] One rough indication has been the fact that the growth of agricultural output has generally been at a slower rate than that of gross domestic product. However, governments have become increasingly aware of the need for expansion of agricultural output, particularly of food production, if internal balance is to be maintained during the process of rapid industrialization.

The problems encountered in accelerating agricultural investment and output, however, have been as much non-financial as financial. In order to promote investment and output and to improve the efficiency with which the available resources for investment are used, governments have increasingly sought to deal with the problem of land ownership and tenure and to extend provision of basic services, such as irrigation works and educational services. At the financial level, attempts have been made to stimulate additional investment through the encouragement of lending by established financial institutions, such as those mentioned above, and through the establishment of special lending institutions for agriculture.

That an overwhelming share of agricultural investment in under-developed countries has been self-financed does not imply that the capacity for self-financing has been large in absolute terms. It is more correctly viewed as a reflection of a low level of investment as well as a still lower level of available external finance. The most common type of external finance has been credit from such non-institutional or unorganized sources as the landlord, money-lender or merchant, but this form of credit has generally been not only insufficient but also expensive.

While in most under-developed countries the commercial banks have contributed to the financing of agricultural investment, their loans have generally been of

[21] Among the countries under discussion, data on total gross capital formation by industrial use are available for five countries. Between the earlier and the later period, the relative share of agricultural investment in total investment declined in all these countries. In relation to total output, the decline amounted to one per cent in Portugal, 2 per cent in Greece, 4 per cent in Honduras and 8 per cent in Ecuador and India.

limited significance, whether considered in terms of volume, type or number. For those countries where data on the distribution of bank credit are available, the proportion of agricultural loans to total bank credit has generally been not only low—less than 10 per cent—but has hardly improved during the last decade. The proportion has been somewhat higher in those Latin American countries, such as Colombia, Costa Rica, Mexico and Peru, which have introduced policies of selective credit controls intended to improve the flow of credit to agriculture.

The inadequacy and unsuitability of normal commercial bank channels for agricultural financing has emphasized the need for direct and indirect governmental assistance. For example, in a majority of Asian countries direct government assistance has become the largest source of institutional credit to agriculture.

While specialized agricultural banks have mostly concentrated on the provision of short-term credit, rural mortgage banks and other institutions have been established especially to provide long-term finance. The main limitation of conventional land-mortgage banks from the viewpoint of productive investment has been their preoccupation with mortgages arising out of land purchases rather than land development. Accordingly, separate corporations for agricultural development have been set up in several countries of Africa and Asia, including Burma, the Philippines and the United Arab Republic (Egypt), while in a number of Latin American countries multi-purpose developmental institutions covering agricultural as well as non-agricultural financing have been established.

The most important link in the chain of institutional credit to the small farmer lies in the effective functioning of the local or village financing institution through which a large part of agricultural credit can be channelled. A favoured approach has been the co-operative method of rural financing. While the co-operative credit movement has been in existence in several countries of Africa and Asia for a number of decades, it is of more recent origin in Latin America and the Middle East. The degree of success achieved has been highly uneven, but in most countries the share of co-operative credit in agricultural finance has remained at less than 10 per cent of the total.

Thus, although the scope of institutional finance has expanded in many countries, its progress has not been sufficient to result in an effective displacement of the traditional sources of finance. However, although its quantitative impact still remains limited, its contribution in qualitative terms has been far from insignificant. Investment funds have been more efficiently channelled to the extent that the various credit institutions have adapted their credit supply to the investment needs of the farmer. On the whole, it may be said that many governments in recent years have made an important contribution through their efforts to expand the supply of institutional finance for agriculture.

Conclusion

The decade of the nineteen fifties witnessed an unprecedented intensification of the efforts of under-developed countries to eliminate mass poverty. That most of the countries reviewed in this chapter have registered annual rates of growth amounting to 4 per cent or more is indeed an impressive achievement. But high rates of growth have in general been attained only where a significantly larger proportion of resources has been devoted to capital formation. It is this common experience that impels under-developed countries to seek higher levels of investment.

Increases in total investment, however, must be accompanied by equal increases in the aggregate of domestic and foreign saving. A rather paradoxical development in the nineteen fifties has been that, while ever-increasing importance has been attached to the aim of accelerating economic growth, domestic saving in relation to gross domestic product has risen in no more than one-third of the under-developed countries. And even among these countries, the increase has usually been modest. In about half the countries, in fact, levels of domestic saving have declined.

In so far as export trends have exercised a profound influence on the several streams of domestic saving, certain changes have inevitably followed from forces beyond the control of individual countries. But domestic saving has also been affected by a number of other factors. Governments, for example, have everywhere been under pressure to step up their current expenditures to meet the needs of growing populations. Even though government income has risen in most countries, the advance has often been more than offset by the higher level of consumption expenditure. Further, government policies have not generally succeeded in preventing private consumption from absorbing a larger share of current output.

In the absence of an appreciable increase in the levels of domestic saving, the upward trend in the flow of foreign saving has been of crucial importance to the under-developed countries. It is indeed striking that in a number of countries this flow has increased by 5 per cent or more of gross domestic product. While in a few instances larger surpluses of imports over exports of goods and services have been made possible through the utilization of foreign currency reserves, the more common pattern has been that of increases in the flow of long-term private capital and public funds from other parts of the world.

Although the flow of foreign private capital to the under-developed countries has increased substantially during the nineteen fifties, the distribution of these funds has continued to be heavily concentrated in a rather small number of countries. Governed as it is by the profit motive, the increased flow of private capital has in the main gone into countries favoured with natural resources in strong world demand, as well as into the countries with relatively large and buoyant domestic markets. These economic forces have been so strong that even though many countries have sought to attract foreign private capital through a wide range of incentives and guarantees, foreign investors have continued to confine their activities to a relatively small number of under-developed countries.

The concentration in the flow of foreign private capital has to some extent been offset by official loans and grants. Since such foreign assistance is inevitably linked with political and other non-economic factors, both higher-income and lower-income countries have participated in the flow of international public funds. There has nevertheless been a perceptible tendency for the increased flow of these funds to be diverted towards the lower-income under-developed countries.

While foreign funds have brought benefits to the under-developed countries, they have also added to their present and future costs. In the nineteen fifties, public assistance has been increasingly provided in the form of loans rather than grants. The expanding volume of foreign official loans and private investments has entailed a larger outflow of interest and dividend payments. Since the exports of under-developed countries as a group have not risen as rapidly, this has meant that a higher proportion of current exports has been required to service foreign debt. It appears, moreover, that foreign exchange requirements for the servicing of international obligations will increase in the near future. In many countries, foreign investment and investment service requirements will continue to increase even without a fresh stream of capital from abroad. This is likely to happen through the ploughing back of profits, since the bulk of foreign private capital in the nineteen fifties has gone into direct investment. Further, many of the medium-term loans obtained by governments or public agencies in the under-developed countries are scheduled for repayment in the next few years. Thus, unless there is a marked and sustained improvement in their export earnings, under-developed countries are likely to find the burden of international indebtedness accentuated rather than diminished in the nineteen sixties. These considerations do not, of course, imply that under-developed countries should not assume more foreign liabilities, but they do emphasize the need for accelerated national efforts to meet the requirements of economic development.

In countries where incomes and standards of living are low, it may not be easy to save a large proportion of a constant income. But clearly, when income is growing, it should be possible to save a larger part of the increment to income. The evidence in the nineteen fifties shows that, despite wide-spread increases in real incomes, marginal rates of domestic saving have continued to be low in most under-developed countries. Governments, therefore, have an important task to perform in stimulating higher levels of domestic saving.

The needs of the under-developed countries are undoubtedly so great that governments have had to undertake large outlays on education, health and numerous other services. Some of these services are vital to programmes of economic development. But, since one way for governments to increase their saving lies in limiting current expenditure, careful scrutiny of current expenditure might reveal a number of activities which could yield precedence to more urgent tasks.

Governments also need to increase their revenue so as to aim at a closer balance between their investment and saving. While it is not possible to indicate a fixed target for government revenue in relation to national product, there can be little doubt that in many under-developed countries the level could be increased significantly. It is especially important for governments to secure substantial increases in revenue out of increments to national income. A number of governments have, of course, sought to finance their spending programmes through borrowing from central banks, but such experiments, when carried out on an extensive scale, have often had adverse repercussions. Where the result has been pressure on prices, the temporary advantages gained in the form of increased government absorption of resources, or increased private saving through a redistribution of incomes in favour of profits, have often been outweighed by a number of adverse effects. These effects have taken such forms as the creation of a speculative economic climate, a decrease in the tendency of households to save and pressure on the balance of payments.

An important deterrent to adequate growth in government revenue in many countries is the marked dependence of tax systems on foreign trade. In numerous instances revenue from indirect taxes, especially duties on exports, which often bulk large in government receipts, has been adversely affected by declines or sluggish growth in foreign trade. Revenue from corporate and other direct taxes has, for the same reason, frequently not expanded in line with increased government expenditure. Business taxes have, in fact, been decreased in some instances in line with government efforts to stimulate private investment.

Another serious shortcoming of fiscal systems that rely heavily on foreign trade has stemmed from the instability of the external sector. The consequent fluctuations in revenue have often led to pronounced year-to-year fluctuations in government saving. Inevitably, government investment plans have suffered; in some instances the construction of much needed facilities has had to be postponed. There is a need, therefore, not only to raise the level of total government revenue, but also to place greater reliance on taxes not directly dependent on foreign trade. Taxes within the domestic market offer a promising area for the enlargement of government revenues. With the growth of domestic economic activity it should be possible to increase revenue through appropriate taxes on the production and sale of goods and services, particularly those which do not impose an undue burden on lower-income groups. Such indirect taxes are also comparatively easy to administer.

While indirect taxes have many advantages for under-developed countries, the importance of enlarging revenue from direct taxes must be emphasized. The taxation of income in particular has been inadequately utilized in many countries. Apart from the serious problems entailed in the effective administration of income taxes, a significant shortcoming has been that tax systems have often failed to capture a sufficient portion of incomes. Frequently, exemptions have been set at too high a level; as a result, though incomes have generally increased, the growth in revenue has been small. Another common deficiency has been the failure to tax large incomes sufficiently owing to low tax rates and excessively liberal deductions.

Agriculture has generally been the least taxed sector in the under-developed countries. Often land assessments have not been revised for many years; in many instances, they do not even reflect the increases in land values resulting from improvements made by governments themselves through the provision of irrigation, transport and other facilities. Appropriately devised agricultural taxes, therefore, represent an important potential source of increased revenue in many countries.

Revenue can also be increased through modification of price structures of public enterprises which have frequently remained immune from the trends in prices elsewhere in the economy. Of course, charges for certain essential services, such as power and transportation of capital goods, may have to be kept relatively low in order to provide incentives to private investment. But in general, pricing in public enterprises may more appropriately be geared to the goal of higher domestic saving.

Policies to increase government revenue should not, however, lose sight of the fact that in some instances taxes may fail to raise aggregate domestic saving. This may occur where taxes act to reduce private saving and investment rather than consumption. While, therefore, tax measures have to be devised with care, the widespread existence of luxury consumption and the extensive non-productive use of private saving and wealth in the under-developed countries suggest that revenue could be increased without retarding private investment.

Governments in the under-developed countries can also promote enterprise saving through a climate of economic expansion and through the establishment of basic public facilities. Accelerated depreciation allowances and tax exemptions for re-invested profits, for example, can act as valuable inducements to the business sector. Difficult problems of choice may no doubt arise once again, but it may be necessary to strike a balance between higher government revenue and the incentives required to stimulate business saving.

While the expansion of household saving is related to increases in per capita income levels, governments can facilitate an increase in such saving. Monetary stability is clearly one contribution which governments can make to prevent a decline in the tendency to save. At the institutional level, the creation of savings banks and co-operative societies, the growth of securities markets, and the introduction of life insurance and provident funds are means by which household saving may be encouraged. These institutions, moreover, perform a vital role in channelling private saving into various types of investment.

Governments, then, have many means at their disposal to increase the flow of domestic saving and to insulate it partially from the uncertainties of foreign trade. Although the world climate has become more favourable to an expanded flow of international private and public funds to the under-developed countries—indeed there is great need for such funds to pay for a larger volume of imported machinery and other essential goods—in the final analysis economic development must rest on the cornerstone of domestic saving. Vigorous efforts to promote domestic saving are necessary if the under-developed countries are to secure higher and self-sustaining rates of economic progress.

Chapter 3

SAVING FOR ECONOMIC DEVELOPMENT IN THE CENTRALLY PLANNED ECONOMIES

Policies and problems in financing investment

The role of investment finance in the centrally planned economies differs from that in the private enterprise economies as analysed in the preceding chapters. In the latter economies the conditions governing the provision of investment finance have an important bearing on the volume and pattern of investment. In the centrally planned economies, on the other hand, the volume and pattern of investment are determined mainly on the basis of physical targets set by national economic plans. Financial plans, although indispensable, are wholly subordinated to the physical plans. Even foreign capital flows between the centrally planned economies are generally formulated first in physical terms and only subsequently in value terms. State ownership of most of the productive capacity and state control over the allocation of the output of state enterprises enable governments to establish investment projects largely on the basis of the availability of physical resources without concern for prior mobilization of financial means.

Financial planning is nevertheless important. The need for financial policies closely related to the general economic plans results from the fact that the planned economies are monetary economies in which the flow of goods is associated with corresponding money flows. It might be asked why money flows are not entirely dispensed with in centrally planned economies in view of the governments' ability to maintain direct control over the flow of goods. The retention of money flows is obviously not due to the need for a common measuring unit for the calculation of aggregate output and income data. This need could be served by an accounting unit expressed in terms of labour or money without resort to actual money transactions. The principal reason for the existence of money relationships is the belief that an economic system depending entirely upon the direct allocation of resources would, at least in the present stage of historical development, suffer from impairment of incentives to work. It is generally considered that direct allocation, involving a rationing of supplies for enterprises and consumers, would stifle their initiative and hamper the use of rewards and penalties for controlling and influencing their activities.

It is this same view that is largely responsible for the existence in these countries of important economic sectors not subject to direct administrative controls. Thus, labour is not directly allocated to various occupations, but is hired on a voluntary basis, and consumer goods may be freely purchased by the recipients of money income. A large part of the agricultural sector is not state-owned and is therefore much less subject to direct controls than are state enterprises. Collective farms and individual peasants are, in general, bound to deliver fixed amounts of goods to the state at fixed prices, but their production and investment programmes are not directly imposed upon them by state authorities. Even in the state sector, not all resources are directly allocated by supply agencies, and a substantial volume of transactions is concluded directly between enterprises.

The use of money rewards, however, is not considered to be a permanent feature of the centrally planned economies. According to the views prevailing in these countries, it would be desirable to abolish the system of money rewards for work. It is believed that this could be done, however, only if and when the abundance of goods and services would eliminate the need for a limit on demand by regulation of income payments and when a complete change in the psychology of individuals would make it unnecessary to retain income as an incentive to work. Although such changes are relegated to an undefined future, it is generally considered that the gradual extension of free services and free supplies of goods represents a trend in this direction.

It has sometimes been asserted that the retention of money relationships in centrally planned economies results only from the existence of two forms of ownership, state ownership on the one hand and collective farm ownership on the other. This is because the system of dual ownership prevents the application to the whole economy of direct controls over the allocation of resources, and therefore requires the retention of financial flows both between and within the two sectors. As indicated above, however, it is now more commonly felt that if the state sector were expanded and all other forms of ownership abolished, the retention of money flows would still be necessary, except perhaps at some future time. It is interesting to note that expansion of the state sector has not, in fact, reduced the role of finance in the centrally planned economies. On the contrary, it has been associated with a much greater emphasis, both in theoretical writings and in policy measures, on the increasingly important part played by finance in the development of these economies. Discussion of the laws of value and rejection of the idea that these laws do not apply to the relations within the state sector has had the practical implication that more reliance should be placed on the initiative of managers of state enterprises and on financial, rather than purely administrative, direction of the economy.

To facilitate the use of financial controls in conjunction with the more direct, purely administrative, methods of directing the economy, most state enterprises conduct their work on the basis of so-called "economic accounting", which means that they are set up as individual economic units that are assumed, in principle, to cover their current expenditure out of their current revenue and to earn profits.[1] Fixed and working capital are provided by budgetary grants at the time an enterprise is set up, and are subsequently augmented from a portion of the profit earned by the enterprises as well as by further budgetary grants and credits. The price received by an enterprise for its output consists of two components, the turnover tax (applicable mostly to consumer goods) and the enterprise price. The proceeds of the turnover tax, which is set by the central authorities largely on the basis of supply and demand, are transferred in their entirety to the government. The remaining current revenues of the enterprise depend on the enterprise price, which is also set by the central authorities. The excess of these revenues over the current expenses of the enterprise constitutes the enterprise's profit. The enterprise price is fixed on the basis of the average cost prevailing in or planned for the industry as a whole in the period used as a base for price-fixing, augmented by a percentage markup. As the prices received as well as paid by the enterprises are fixed by the government, any increase in profits or reduction in losses over and above the planned rates will generally indicate an improvement in the internal efficiency of the enterprise.[2] Of course, not all enterprises make profits. The fixing of prices on the basis of average cost may result in wide-spread differences in the profitability of enterprises, necessitating subsidies to cover whatever losses may exist. In some cases prices have been fixed below average cost, and in consequence, not only individual enterprises but entire industries have suffered losses.

Part of an enterprise's profit is transferred to the budget in the same manner as the turnover tax, while the remainder is left at the disposal of the enterprise and of higher industrial or regional bodies for investment in fixed and working capital and for other authorized purposes. The enterprises' requirements that are not covered by their retained profits and amortization allowances are covered by budgetary grants and credits. Thus the system of "economic accounting" in state enterprises enables the central authorities to supplement direct administrative controls with a much more flexible system of financial incentives and controls. Surveillance of an enterprise's financial flows facilitates supervision by higher authorities, while the retention of some profits for disposal by the enterprise, as well as the flexibility afforded by the system of financial flows, provides an incentive for efficient management.

The use of these financial methods has increased in recent years in keeping with the trend towards partial decentralization of administration, although even during the period of strict centralization an important role was played by financial planning. The tendency to make greater use of more aggregative methods of planning and to reduce the number of detailed production targets set for enterprises by the central authorities has enlarged the scope for decision-making within state enterprises, and thereby increased the importance of financial policies. But achieving the most appropriate blend of the detailed administrative method and the more general financial method of directing the activity of the enterprises has raised several problems, the final solution of which is still a subject of public debate.

While an increase in the role of financial methods has generally been considered desirable, it has been doubted whether excessive reliance on these methods alone could be successful in bringing about a desirable pattern of production in conditions of rapid economic growth and full utilization of resources. Secondly, and quite apart from this, the management of the economy by predominantly financial and fiscal methods could not be successful if prices and profits failed to reflect closely the relationship between supply and demand. Both these conditions have prevailed in the centrally planned economies, the latter condition particularly in the case of producer goods. Furthermore, it has been pointed out that the potential advantages to be derived from the substitution of financial controls for administrative controls may be offset by inadequacy of the response of enterprises to the authorities' financial policies. Thus, while the need to increase the role of financial planning has generally been recognized, the extent to which these methods should replace administrative controls has been subject to wide differences of opinion, and the changes in this direction have not been uniform and are still far from complete.

METHODS AND SCOPE OF FINANCIAL PLANNING

The financing of investment, like most other money flows in the centrally planned economies, is almost

[1] Not included in this group are enterprises which transfer all their proceeds to the budget and finance their current expenses by budgetary means, as well as those service enterprises the efficiency of which is not judged by their profitability and which therefore are not assumed to earn profits.

[2] A change in the prices fixed by the government would, as a rule, change both an enterprise's actual profits and its planned profits, since the latter are usually adjusted to the new price-cost ratios. As profit rates are not identical for all commodities, enterprises may be able to raise their profits above the planned level by altering their product mix without improving their actual efficiency. The controlling authorities discourage such practices.

entirely regulated by a number of co-ordinated plans. These take the form of revenue and expenditure accounts, and consist of the state budget, the aggregate financial plan of state enterprises, the credit plan and the cash plan. They are formulated by the government, are considered as state directives and are the principal means of bringing about a pattern of output and income in conformity with the goals set by the general plan of economic development. As a group, they reflect the financial relations between the budget, the state enterprises, the collective farms and the private sector, and are integrated into a single aggregate financial plan. This plan helps to ensure mutual consistency among the various plans both in their formulation and in their implementation.

The state budget

The state budgets in the planned economies differ considerably from those in the private enterprise economies, not only because they comprise a far greater share of the national income, but also because they have a much more important function in the process of economic development. State expenditure covers not only most national expenditure for health, education, insurance and other services, which in private enterprise economies may be largely financed out of private disposable income, but also most national investment expenditure, which is derived mainly from the turnover tax and the profits of state enterprises. Personal income taxes and taxes on agricultural producers make only a small contribution to state revenue. Budgetary revenue also includes receipts from foreign credits, payments by enterprises to the social security funds, receipts from the sale of government bonds, and current deposits of the savings banks, which are treated as temporary loans to the government.

In consequence, the major part of the economy's saving and investment is channelled through the budget, which, therefore, plays a decisive role in mobilizing saving and in allocating it to various economic sectors in accordance with the state economic plan. In this respect the budgets of the centrally planned economies fulfil a function similar to that of financial institutions in private enterprise economies. There is a difference, however, since the funds mobilized by the budget cease to belong to the enterprises which accumulated them, and their transfer to other producing units is made not in the form of credits but as budgetary grants. Another characteristic of budgetary methods in the centrally planned economies is the close link between the budget and the financial plans of state enterprises. This link consists of two parts: the flow of turnover taxes and part of the profits from the enterprises to the budget, and the reverse flow from the budget to the enterprises of funds for investment in fixed and working capital. Accordingly, the state budget and the financial plans of enterprises are directly related and must be prepared in conjunction with one another.

The aggregate financial plan of state enterprises

The aggregate financial plan of state enterprises is based on individual plans prepared by each enterprise as well as by associations of enterprises or regional economic councils. These plans, based on production and turnover programmes, are submitted to higher authorities and, after readjustment and co-ordination with the plans of other enterprises or sectors and their final co-ordination with the budget and credit plans, are approved by the higher authorities and become operational directives.

The financial plans of the enterprises exclude operational transactions and limit themselves to items which represent a kind of combined appropriation and capital account. These plans vary from country to country; a rough approximation to their general form can be illustrated as follows:

Sources of finance	*Uses of finance*
1. Net revenue	1. Investment in fixed capital
(a) turnover tax	
(b) profits	
2. Amortization earmarked for:	2. Change in "normative" working capital[a]
(a) investment	
(b) capital repair	
3. Mobilization of internal resources[b]	3. Capital repairs
4. Other[c]	4. Repayment of credits for introduction of new techniques
	5. Expenses for research and development, training and other outlays for education
	6. Payments into special enterprise funds
	7. Other[c]
Grants from the budget for:	Payments to the budget from:
(a) Fixed investment	(a) Turnover tax
(b) Change in "normative" working capital[a]	(b) Allocations from profits
(c) Social and cultural measures	

[a] "Normative" working capital represents the estimated minimum operational requirements of the enterprises for working capital. Seasonal or other requirements in excess of this minimum are usually financed by short-term credits; in many cases even part of the minimum requirements are financed by credits.

(Footnote continued on page 91)

In addition to the items listed above, the financial plans of enterprises also contain items covering financial transactions with supervisory bodies such as industrial boards and regional economic councils, which redistribute funds between the enterprises under their jurisdiction and in turn prepare their own plans based on the financial plan of these enterprises.

Investment outlays, the main item of expenditure in the financial plan of the enterprises, are not directly influenced by their revenues. They are formulated according to the tasks assigned to the enterprises; therefore, they affect both the amount of retained profits and amortization funds and the volume of budgetary grants necessary to finance these expenditures. The transfers of funds from and to the budget are not, however, determined merely by the relationship between the revenue and the planned expenditure of the enterprises. One could, of course, conceive of a system providing for the transfer to the budget of all the means of the enterprises in excess of its planned expenditure and providing for budgetary grants only in cases in which such means are insufficient to cover the expenditures. But in practice, the financial flows between the enterprises and the budget are much more intricate. The enterprises are compelled to transfer to the budget on a pay-as-you-go basis all the turnover tax and, in most countries, a statutory percentage of their profits, even if the plan provides for budgetary grants to finance part or all of their planned investment. This procedure has been adopted largely because the pay-as-you-go payments provide the supervisory authorities with convenient current indicators showing the degree to which output, sales, cost reduction and other plans are being fulfilled.

In the short run flows and counterflows also arise because the timing of an enterprise's investment programme may not coincide with the timing of the accumulation of financial means. In most of the centrally planned economies such short-term finance is usually provided in the form of budgetary grants rather than of short-term credits. Thus, if the investment outlays are concentrated in the early months of the year, before the enterprise has been able to accumulate sufficient depreciation and profits, the revenue side of its financial plan will include any necessary budgetary grants even if its transfers to the budget for the year as a whole are considerably greater than the grants.

In some countries, the volume of these flows and counterflows was formerly much greater than it is at present, since, in the earlier period of planning, almost all profits were transferred to the budget and almost all expenditures were financed by budgetary grants. This was largely because of a shortage of qualified personnel at the enterprise level and a lack of efficient means of control over the financial policy of the enterprises.

The credit plan

In the centrally planned economies all money flows among enterprises, the state, and its various institutions are transacted through the state banks which form a single integrated system entirely subordinate to the central authorities. All taxes, allocations of profits and other payments to the state are paid into the state budget accounts in the central bank. Similarly, all budgetary grants to enterprises are transferred from the state accounts to the accounts of the individual enterprises. The enterprises are required to keep all their funds in their bank deposits, with the exception of small amounts of cash for current expenditure.

The use of these deposits is controlled by the central bank in order to prevent the enterprises from using them in ways not corresponding to the provisions of their economic and financial plans. Since direct financial transactions between the enterprises are not permitted, the analysis of their bank accounts enables the banking authorities to estimate the degree of fulfilment of the plans before the final production data are available. As prices, the rate of planned profits and the allocations of profits to the budget are predetermined and transferred on a pay-as-you-go basis, the inflows of funds from individual enterprises into the banking system indicate changes in their output, cost of materials and wage bill. Moreover, the analysis of the enterprises accounts, especially the granting and repayment of short-term credits, signals changes in inventories on the one hand and the accumulation of idle financial resources on the other. Over the co-operative and private sectors, the control of the central bank is necessarily much more limited. Since neither the saving nor the investment outlay of these sectors depends directly on government decisions, the control of their activity by the central bank can be effective only through credit policy. Current information concerning their activity is available, however, since collective farms are compelled to transfer a proportion of their income to their "indivisible funds". These funds essentially represent the capital of the collective farms and may not be reduced by payments to

(Footnote continued from page 90)

[b] This item represents the amount of planned reduction in construction cost. In the financial plan, investment outlays are expressed in fixed prices, and any planned reductions of cost owing to internal economies are reflected only on the revenue side of the account. Together with the economies achieved by reducing requirements for equipment and construction materials, they indicate by how much the revenues derived from other sources can be reduced without upsetting the over-all balance of revenue and expenditure.

[c] This item includes on the revenue side: proceeds from the sale of discarded equipment, and payments not related to the current activity of the enterprise, such as parents' contributions for the maintenance of kindergartens. On the expenditure side, it includes losses on account of housing and other facilities provided by the enterprises.

the members. Moneys paid into the indivisible funds are earmarked for investment and deposited in the banks. Changes in these funds are therefore registered in the accounts of the banking system.

Almost complete control over financial transactions of the economy, complete integration of the banking system and its full subordination to the central authorities form the basis of credit planning in the planned economies. The principal instrument in this planning is the credit plan. This plan deals mainly with short-term credits extended by the central bank for the financing of investment in working capital. Long-term credits for fixed investment are usually extended by specialized banks which receive budgetary grants for this purpose.

In its most general form the credit plan is presented as an account showing the resources and allocations of funds of the central bank at the beginning and end of a given planning period. The allocations side of the account consists of the outstanding credits granted by the central bank to various borrowers. The so-called resources side includes the net balances of the deposit accounts of the budget, the state enterprises and credit institutions, collective farms, the social insurance fund, trade unions and other institutions and organizations, as well as the volume of currency in circulation. Taken together, these items constitute the total amount of money in circulation.

At any point in time the central bank's resources, which comprise the economy's money supply, necessarily equal the total of credit outstanding. Needless to say, any increase in the "resources" of the central bank is entirely dependent on a rise in credits and, therefore, the "resources" side of the account does not provide by itself any basis for credit policy designed to avoid imbalances between the supply of and demand for consumer goods. In fact, in the initial stage of planning, the resources and the credits are planned separately. Since both the credit requirements of the enterprises and the increases in all the component items of the resources side of the account are estimated on the basis of the economic plans, they should obviously balance, if properly calculated; any difference between the two sides of the credit plan would indicate the existence of discrepancies in the economic or other plans and call for correction. In planning credit policy in the centrally planned economies, the basic principle is that the amount of credit granted during a given period should be determined by the availability of goods, the acquisition of which is to be financed by these loans. Since the supply of goods and services purchased by the individual enterprises is planned and the credits extended to them by the central bank are limited by the amount of finance needed for these purchases, it is clear that as long as the plans are being fulfilled, the total of planned credits cannot exceed the supply of goods and services for the purchase of which they were granted.

These principles of credit policy apply only to the determination of the total amount of credit to be extended during a given period. In dealing with individual enterprises the central bank is not concerned with the supplies of goods required by any one of them. At this level its main concern is to speed up the turnover of goods, prevent the unwarranted growth of inventories, and restrict the accumulation of funds by the enterprises to the level justified by their actual needs as determined by the plans. The interest charged for credit is intended to facilitate this purpose by discouraging the enterprises from increasing their demand for funds unnecessarily, but this method of control is not considered to be sufficient and credits are granted to enterprises only for purposes in conformity with their planned requirements. The planned credits earmarked for financing stocks of finished goods, goods in process or in transit, and of stocks of raw materials are, as a rule, made available only if the bank ascertains that these changes in inventories have actually taken place in conformity with the plan. If enterprises request additional credits for purchases to increase their output above the planned quotas, credit is granted only if the bank finds that the proposed increases are desirable and that there is a sufficient supply of the required materials and labour.

The cash plan

The achievement of balance in the credit plan does not imply that extension of the planned credits would not result in inflationary pressure. In fact, one of the items on the resources side, the increase in currency in circulation, may not correspond to the actual need for cash and may reflect an excess demand for consumer goods. Since transactions between enterprises are almost exclusively achieved through bookkeeping entries in the banking system, any difference between changes in the central bank's resources and changes in credits granted could be due only to the withdrawal of cash (that is, currency) from the financial system into the hands of the population. This could happen only if the money income paid to the population is not entirely returned to the state sector through purchases of goods, taxes and other payments or through deposits in savings banks. As all of these payments give rise to bank deposits, the difference between the credits granted and the increase in deposits represents an increase in cash circulation. In the preliminary draft of the credit plan, this item may be obtained as a residual and treated as a balancing item. To check whether this residual is consistent with the projected flows of money income and expenditure and whether it would generate inflationary or deflationary tendencies, this component of the credit plan has to be checked by means of an account called the "cash plan". The cash plan, which in its preliminary form is established independently of the credit plan, is essentially an account of cash revenue and expenditure of the consolidated state sector, including enterprises, government and financial institutions. It depicts the money flows between this sector on the one hand and the households and collective farms on the other.[3]

The following table illustrates in general terms the form taken by the cash plan of the consolidated state sector:

Sources of finance	*Uses of finance*
Receipts from the sale of goods and services	Wages
Taxes, fees and the like	Expenditures on purchases of agricultural products
	Pensions, aid and the like
	Loans for private housing construction
Other	Other
Payments into the bank accounts of collective farms	Withdrawals from the bank accounts of collective farms
Payments into savings bank accounts	Withdrawals from savings bank accounts
Changes in cash balances of state banks	
Issue of currency	

Since the changes in cash circulation derived from the cash plan are based on estimates, on the one hand, of consumer purchases and of savings deposited in banks, and, on the other, of the disposable income of households, a comparison of this estimate of changes in currency in circulation with that appearing in the credit plan provides a test for consistency between the credit plan and the income and saving position of the collective farms and personal sector. In planning the net increase in cash circulation, the banking authorities take into account, apart from the variations in total income payments, the changes in the distribution of income between various groups with different velocities of circulation depending on the periodicity of wage payments in different trades and the timing of government purchases of agricultural goods.

In addition, and this is one of the principal functions of the cash plan, the estimate of changes in currency in circulation enables the authorities to avoid generating inflationary pressures.

Since consumer prices in state and co-operative trade are fixed by the government and, therefore, are unresponsive in the short run to changes in demand and supply, an accumulation of liquid savings by the population may indicate an inability to spend rather than a wish to save. Such an imbalance can be avoided by an increase in the supply of consumer goods or by modification of the credit plan. The required increase in the supply of consumer goods might be achieved by an upward revision of production plans, by increased imports, and by drawing on stocks of consumer goods. Modifications of the credit plan to restrict effective demand might be achieved through a cut in the credit granted to the enterprises so that their anticipated deposits and the currency issue would be reduced. But the same effect would obtain if, instead of reducing credits granted to the enterprises and, therefore, their deposits, the budget surplus were increased sufficiently to reduce the anticipated rise in the currency issue. This would be reflected in the accounts of the financial plan only in a rise in state deposits and in a decline in the anticipated currency issue, without affecting the credits received or the deposits of the enterprises. Needless to say, all of these changes are interrelated; revision of the planned supply of consumer goods would also be reflected in the various components of the credit plan, and changes in the credit and cash plans would affect the budget and the financial plan of the state enterprises, as well as the general plan of economic development.

It is interesting to note that both the cash plan and the credit plan treat the deposits of the population in the savings banks somewhat differently from increases in cash circulation. In both plans, changes in cash circulation are balancing items, whereas savings deposits are treated in the same way as deposits of enterprises. Similarly, policy pronouncements have repeatedly indicated the desirability of increasing savings deposits. It is not entirely clear why currency and savings deposits are treated in different ways. The distinction may rest on the assumption that the holding of savings deposits is motivated by the wish to accumulate funds for emergencies, for old age, or for purchases of durables or semi-durables at a later date, while cash is kept for more immediate needs. But there is no doubt that in view of the ingrained habit of keeping savings in cash, the cash holdings are, apart from current transactional requirements, also determined by the same motives as the savings deposits. The difference in the treatment accorded to savings deposits and cash holdings is partly due to the conviction, perhaps based on experience, that depositors are more reluctant to withdraw their savings from bank accounts than to reduce their cash holdings.

The aggregate financial plan

The four basic instruments of financial planning, the budget, the financial plan of the enterprises, and the credit and cash plans, become state law after approval by the central authorities. To harmonize these plans, both during formulation and implementation, an integrated financial plan is prepared covering all aspects of financial planning. This plan is prepared simultaneously with the other plans and is used at each stage of their preparation to test their mutual consistency. This

[3] This account is to some extent the counterpart of the account of money income and outlay of the population; the main difference is that the latter excludes money flows between the collective farm sector and the state.

enables the planning authorities to detect any imbalances which were not apparent in the early stages of preparation of the individual plans. After a series of adjustments to all the financial and economic plans the aggregate financial plan takes its final form and serves as a guide-post for financial policy during the implementation of the set of plans. Since some departures from the original plans are inevitable in practice, financial planning continues during the implementation stage. The readjustments continually taking place in the various plans are incorporated into periodic reports on the implementation of the aggregate financial plan. These reports are prepared quarterly and, along with the over-all economic targets, serve as a basis for the financial plans of the following period.

The aggregate financial plan is usually presented in the following form:

Sources of finance

Turnover tax

Profits

Depreciation

Revenue from abroad

Taxes on agricultural producers and co-operatives

Revenue from insurance operations

Personal taxes

Net increase in savings bank deposits

Other revenue of the budget and of enterprises

Net issue of currency

Uses of finance

I. Productive sector

Fixed investment, change in inventories, and capital repairs of state enterprises

Subsidies for starting new productive processes

Operational expenses of enterprises and organizations wholly financed by the budget

Mineralogical prospecting

Expenditures abroad

Grants to finance credit for fixed investment in the collective farm and personal sector

Bonuses paid from profits of state enterprises

II. Non-productive sector

Social and cultural expenditure of the budget and state enterprises

This account, together with its appendices containing data broken down by industries, sectors, economic regions and various institutions, provides detailed information on the allocation of the profits and depreciation funds of the enterprises, of budget revenues from taxes and of private saving.

Since the aggregate financial plan deals essentially with the state sector, it does not include the retained profits of collective farms or investment finance from these sources. However, estimates of these items are included in the credit plan and its subsidiary documents because the retained profits of the collective farms are deposited in the banks and are included in the resources side of the credit plan. As these deposits are used exclusively for investment, an analysis of their fluctuations provides information on the self-financing of investment by the collective farms. While not included in the aggregate financial plan, this expenditure influences the plan indirectly through its effect on the profits of state enterprises.

The methods of financial planning described above have not been uniformly applied in all of the centrally planned economies. The efficiency of planning has varied from country to country and from period to period. The information needed for formulating the plans has frequently been inadequate. Accordingly, imbalances have sometimes arisen and have required drastic revisions to the plans in the course of their fulfilment. In some cases the inflationary pressure generated by these maladjustments could be relieved only by drastic alterations to the planned inventory change or by an unplanned increase in borrowing from abroad. In other instances, the inflationary pressure could not be curbed and was reflected either in an excessive accumulation of cash or in price increases.

Frequently the reason for such maladjustments was not faulty financial planning but an under-fulfilment or over-fulfilment of the physical plans in various sectors which upset the financial plans established on the basis of the original production targets. In many instances, carefully prepared financial plans were thrown out of balance when the enterprises were able to accumulate excess funds and raise their expenditure above the planned quotas or divert the funds at their disposal for purposes other than those planned. In the past such practices could not always be avoided because of insufficient control by the banks over the finances of enterprises. Frequently, departures from the financial plans have been tolorated when the supervisory authorities felt that the fulfilment of production targets took priority over financial stability.

In the early years of central planning, financial planning was generally limited to the preparation of the budget, which during this period was not always balanced. More elaborate and more comprehensive financial plans were introduced only at a much later period. Despite their shortcomings, financial plans and policies have generally proven useful in preventing the development of inflationary pressures despite conditions of rapid economic growth. Needless to say, the avoidance of inflation cannot be attributed to financial policies alone. In fact, the retention of direct administrative controls alongside financial controls has been motivated largely by the view that, within the existing institutional framework, the balanced growth of the economy requires measures of both types. The part played by direct state controls over wages, income payments to the peasants, and prices has been a no less important stabilizing factor than financial planning itself. In most of the centrally planned economies the general tendency has been to reduce the importance of administrative methods and to rely more extensively on the more flexible method of influencing the activity of the enterprises by fiscal and financial policies.

CHANGES IN FINANCIAL POLICY

The finance of state enterprises

In the preceding discussion of financial planning it was explained that the investment expenditure of the state enterprises is determined not by their income or saving but by the investment plan prepared under the supervision of higher authorities on the basis of national needs. In spite of this, it has long been recognized that in order to stimulate management incentive a link should be provided between the profits earned by the enterprises and the funds left at their disposal.

In the period when the main objective of government policy was the rapid expansion of basic industries, a process which in most countries necessitated entirely new lines of production and new plants, governments tended to mobilize the financial means of existing enterprises as fully as possible in order to finance the expansion. The emerging need for extensive control of the finances of existing enterprises, coupled with the lack of qualified and reliable personnel at the enterprise level, made it expedient to transfer to the budget even that part of their profits which subsequently was to be returned to them in the form of budgetary grants. The scarcity of investment goods needed for expansion of heavy industry prompted governments to restrict severely the supply of material resources made available to the less essential sectors for technical improvements, modernization and even capital repairs. In such circumstances it was hardly expedient to relate the amount of finance left at the disposal of the enterprises to their profits.

But even during that period the enterprises had a statutory right to retain a certain proportion of profits for the "director's fund", which would be used for bonuses, improvement of housing, health and cultural services for the staff and, in most countries, for improvement of production techniques. Payments into the director's fund consisted of a certain percentage of the enterprise's profits, and therefore provided an incentive to improve efficiency and increase profits.[4] Enterprises incurring losses were also permitted to make payments into their director's funds, the payments being larger if the losses were smaller than planned. While the benefits derived from the existence of the director's fund had a certain incentive effect, they did not provide much scope for the initiative of management as long as the amount of funds left at the disposal of the enterprise for further expansion was decided by higher authorities with little regard to the claims of the management of the enterprises and their profits. The lack of initiative of the management of individual enterprises, caused by over-centralization, resulted in deterioration of productive facilities in certain sectors and in lost opportunities to increase output with relatively small additional investment.

In recent years, in harmony with changes in the economic and political environment, reappraisal of older policies has been undertaken in all centrally planned economies. It is now generally believed that if the old system could in the past have been justified by the circumstances, it has lost its validity in the present stage of economic development and become an obstacle to further rapid growth. Apart from improvement in methods of control through the banking system and in the quality of administrative personnel, the decisive factor influencing the change in financial policies was the fact that, at the present level of economic development, the need for an almost exclusive concentration on the growth of certain basic industries, often at the cost of neglecting other sectors, gave way to the possibility of a more integrated growth of all sectors of the economy. After several years of extremely high rates of growth in industries producing investment goods and a considerable increase in their share of total output, production of investment goods has reached a level sufficiently high to support not only further expansion in that industry but also high rates of growth in other sectors. Moreover, during recent years greater emphasis has been placed on increasing the capacity of existing plants through modernization, replacement and capital repair, than on creation of new enterprises. This shift in policy has made it appropriate to reduce the proportion of the financial means which previously had to be transferred through the budget from some enterprises to others. Accordingly, it has become possible, not only to increase the share of these means left at the disposal of individual enterprises, but even to guarantee to enterprises the retention of a certain proportion of funds which they cannot normally be deprived of by the higher authorities.

The importance attached to methods of allocating funds for investment is partly based on the conviction that it is not a matter of indifference whether the enterprises do or do not retain certain rights to the disposal of their profits. Although investment targets may be

[4] The percentage deduction from profits in excess of the planned quotas was considerably higher than the percentage applied to planned profits.

achieved by either method, the efficiency of individual enterprises—and therefore the aggregate cost of output and investment—may be considerably influenced by the methods applied; a link between its profits and the volume of funds left at the disposal of an enterprise creates an incentive for greater efficiency of management.

Financial policies have been modified in accordance with these views. In some countries the new policies have been reflected only in a different attitude towards the role played by enterprise management in the formulation of the financial plan, but in others they have, in addition, been formalized in new regulations granting additional rights to the enterprises.

In the Union of Soviet Socialist Republics and most of the other countries, statutory changes have increased the number of enterprises entitled to director's funds (now re-named "enterprise funds")[5] and have also increased the percentage of profits to be retained. In addition, however, there have been important administrative changes. In practice, the supervisory organs now pay greater attention to the requirements of individual enterprises and tend to leave at their disposal, for investment purposes, a greater proportion of their profits than formerly. This "decentralization" has taken the form of considerable increases in the influence of the management of individual enterprises in the preparation of investment and financial plans rather than the form of greater autonomy in making independent investment decisions.

Poland and Czechoslovakia have moved further in the modification of financial policies than have the other countries of the group. In both these countries the tendency towards greater autonomy of the enterprises has taken the form of statutory provisions that normally assure the enterprises of the retention of a certain part of their profits, which cannot be reduced by *ad hoc* decisions of the higher authorities. In Poland, state enterprises were given the right to create development funds (apart from their enterprise funds) financed from their profits, the percentage being determined by their supervisory authorities. In addition, part of the profits is paid to the association's reserve fund for redistribution among the enterprises under its supervision. Profits in excess of these payments are transferred to the budget. A part of the development fund is used for financing increases in normative working capital and the remainder, together with the part of the depreciation fund left at the disposal of the enterprise, is used to finance capital repairs and new fixed investment. New investment financed out of this fund is, as in other countries, confined to technical improvements, rationalization, replacement and limited expansion; it does not include, as a rule, construction of new plants, which is financed from budgetary grants. Moreover, if the retained profits and the depreciation fund, calculated on the basis of existing regulations, exceed the financial requirements of the investment plan approved by the higher authorities, then the enterprise associations may temporarily freeze these sums. On the other hand, if retained profits and depreciation fall short of the authorized expenditure, the difference may be financed by short-term credit, or in some cases by budgetary grants.

It should be noted that the statutory right in Poland to retain a certain proportion of profits for expenditure of the enterprises is not absolute. It may be restrained by the higher authorities if it is found that such expenditure would compete with claims of other sectors of the economy. It has been stated, however, that while some restrictions may occasionally be imposed on account of the current situation, they should generally be avoided and gradually eliminated.[6] It should also be noted that payments to the development fund from profits exceeding the planned quotas are made according to a diminishing scale. This was done in order to avoid an excessive rise in the expenditure of enterprises over and above the planned quotas in case the rise in profits should exceed planned levels.

In Czechoslovakia, the change in the policies concerning the retention of profits was even greater than in Poland. Before 1959 enterprises were allowed to retain a certain share of planned profits and a larger share of any additional profits. The use of funds retained from planned profits was restricted to the financial plans of the enterprises, but the use of the additional funds was relatively free. One effect of this system was a tendency of the enterprises to understate their planned profits so as to derive greater benefit from any over-fulfilment of the plan. Under the new system, the amount of retained profits is related to the increase in total profits over the preceding year and is determined by the supervisory agency on the basis of the performance of the enterprise and its need for technical improvement. The most significant innovation is the fact that the percentage of retained profits is fixed for a long period—not less than five years—and that the retained profits and amortization funds, if not used during a given year, may be spent during the following years of the five-year plan. This enables the enterprises to plan their outlays in the most efficient way without fear that postponement of expenditure will result in larger transfers of profits to the budget.

The establishment of closer links between the profits earned by the enterprises and their expenditure on investment need not result in a disruption of the general financial plan. It means only that a larger proportion of the enterprises' financial requirements is taken as a datum by the higher authorities and cannot be deliber-

[5] In most countries, the enterprise funds do not differ essentially from the former director's funds.

[6] In the past, the practice of freezing or confiscating the funds not spent during a given year induced management to spend the sums on capital repairs or investment before the end of the year, even when it might otherwise have been more profitable to postpone the expenditure.

ately changed in the course of preparing the plan. Since these resources can generally be used only for technical improvement, rationalization, replacement and relatively limited enlargement of the enterprises, and since building of new plants is in any case financed by the budget, the planning authorities can, if need arises, keep the enterprises' total outlays under control by increasing or reducing the budgetary grants. Thus, as long as the accumulated profits and depreciation funds are used in accordance with the annual financial plans, no problem of imbalance need result from the increased autonomy of the enterprises. Revenues in excess of those planned for will not result in excess demand even if the enterprises are free to use them without prior approval of the higher authorities, provided that there are sufficient stocks of the required goods. In most cases, however, any upward revision of planned expenditure by the enterprises has to be approved by the higher authorities, which normally give their approval only if supplies are sufficient to meet the additional demand. Although, in general, over-plan demand has been rather limited, the relaxation of controls over the finances of the enterprises in Czechoslovakia and Poland resulted in a considerable increase in unplanned revenues and investment outlays in 1959. This imposed significant strains on the economies of these countries. In Czechoslovakia, the rising demand was met by an increase in supply, but in Poland the pressure resulted in a substantial increase in the cost of construction and prompted the imposition of restrictive measures on further investment expenditure.

Credit policy

At the inception of central planning, the financing of fixed investment by bank credit played a significant role in most of the centrally planned economies. In the Soviet Union in the early nineteen thirties, and in several other countries between 1945 and 1950, relatively substantial parts of fixed investment were financed by credit. In the Soviet Union, credit financing of state fixed investment was temporarily reintroduced during the Second World War and again abandoned at its end. In Eastern Germany, Hungary and Romania in 1948, in Bulgaria in 1951 and in Czechoslovakia in 1952, the financing of fixed investment by credit was eliminated and replaced by budgetary grants. In mainland China, however, the role of credit in the financing of fixed investment in the state sector was, and has remained, insignificant. The elimination of credit financing for fixed investment was then largely influenced by a trend towards centralization, restriction of the rights of individual enterprises and the reduction of funds left at their disposal.

More recently, the reversal of this trend has resulted in a reappraisal of the role of credit in the planned economies. Various proposals have been advanced, among which the most far-reaching would have replaced the budgetary grants for fixed investment with interest-bearing credits. According to these views, the obligation to repay the credits and to pay interest on invested funds would induce the management of enterprises to economize on capital outlays, avoid the accumulation of idle equipment, and base their investment proposals on a more careful calculation of the relative costs of various combinations of capital and labour.[7]

These suggestions did not imply, in most cases, any replacement of present methods of managing individual enterprises by a system in which the activity of the enterprises would be influenced solely by the credit and fiscal policy of the government. But even so they were not generally accepted, the prevailing opinion being that as long as centralized control over the plans of individual enterprises and centralized allocation of finance are required, budgetary financing is more effective than bank financing provided that certain defects in the present system are eliminated. Enterprises could be induced to economize investment by various means, including, if necessary, charges on capital which could be imposed by the state without resorting to bank credit.[8] It is, however, generally believed that while budgetary grants should continue to play the major role in external financing, they should be complemented by an enlargement of the scope of credit financing in order to make the system of investment finance more flexible.

Additional flexibility is desired largely in order to provide the enterprises with funds for financing investment expenditures not foreseen in the original plan. Credit requirements for these unforeseen expenditures are in most countries estimated only in the broadest terms, by the planning authorities, and the quantity of finance actually required for this purpose may exceed the originally estimated quotas, provided, however, that the financial means at the disposal of the banks are increased correspondingly. It has been argued that since the expansion of credits for fixed investment will result in an increase in demand for investment goods, the credits should not simply be estimated but should be carefully planned in conjunction with the planning of additional supplies of investment goods, in accordance with the general principles of the planning of fixed investment. In practice, however, such a method of planning could not be applied because the extension of credits is usually determined by the mobilization of additional materials resources, the amount of which is not known to the relevant authorities at the time of the preparation of the plan.

Although credit financing of fixed investment has been more extensively used in recent years, its scope has remained relatively limited in most of the centrally

[7] The problem of the determination of the interest rate or of differential interest rates was to be solved in a way similar to that used in the calculation of the coefficients of efficiency applied by the planning authorities to the choice between various investment projects. For more details, see United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1).

[8] It was also suggested that the planning and project boards which select projects for investment are able to estimate the relative efficiency of alternative projects more effectively than the managers of individual enterprises.

planned economies. In the Soviet Union, no credits are granted for the construction of new enterprises or for their equipment; state enterprises can receive credits only for investment to introduce new techniques, small-scale mechanization and rationalization. The granting of these credits is dependent upon the ability of the enterprise to repay them within three years or less[9] out of the additional revenue resulting from the improvements, provided that the improvements were not originally included in the plan.[10] In addition, in order to stimulate the output of consumer goods the enterprises may receive credits for expanding their production as well as for improving its quality. Credits may also be granted for improving such services to the workers as housing. The two latter types of credit are repayable within one year.

In each case the credits are granted for a fixed period and for strictly specified purposes and their utilization is controlled by the bank. They are interest-bearing and the rate of interest is sharply increased if they are not repaid on time. During 1957 and 1958 the total of credits granted for the introduction of technical improvements amounted to approximately 7.5 billion roubles, or about 2 per cent of total fixed investment.

In most of the other countries, where credit financing had been almost entirely eliminated by 1954, this type of financing was revived during that year, mainly in order to increase the production of consumer goods beyond the levels originally planned. During the subsequent period, credit financing was further extended for purposes similar to those in the Soviet Union, that is for technical improvements, rationalization and small-scale mechanization. In Eastern Germany and Hungary, credit was also used to finance investment tending to reduce import requirements or expand exports. The principles applied to the granting of credit in these two countries were similar to those in the Soviet Union, while the share of credits in total financing was somewhat greater than in that country. Only in Poland and Czechoslovakia has the role of credit in financing fixed investment increased more significantly.

In Czechoslovakia where, until 1952, credit financing played a much greater part than in the other centrally planned economies, this form of financing was almost completely eliminated during the following period. In 1955, as in the other countries, bank credits were extended to light industry and to the food industry to finance fixed investment designed to raise output above the planned quotas. During the following years, credit was also made available for mechanization and rationalization in all branches of industry. In consequence, between 1956 and 1958, the volume of investment credit outstanding rose considerably. The reform of the management of state industry introduced in 1958 resulted in a further extension of the role of credit financing. The new system provided for long-term investment credit to accelerate the expansion of state enterprises during the current five-year plan of economic development. Credits are granted for a period of from two to six years and are repaid from the additional profits resulting from the expansion which the credits make possible.

In Poland, investment for technical improvement and modernization of existing enterprises as well as for capital repair may, according to the new regulations, be financed in part by bank credits. The credits are granted for investment not included in the annual plan and may be used for purchases of machinery and equipment. They are repayable within three years of the termination of the projects financed by these credits.

Although the role played by credit financing has been greater in Poland and Czechoslovakia than in the other centrally planned economies, its share in the total fixed investment of the state sector has remained very small. On the other hand, the fixed investment of private and collective farms, and private housing in urban areas, is financed to a much greater extent by credits. These credits are extended by specialized banks which receive budgetary grants for this purpose.

Unlike its part in financing fixed investment, the role of credit in financing working capital is of considerable importance in all of the centrally planned economies.[11] Such credits are extended periodically to state enterprises for short periods of time and for definite purposes. Each enterprise is endowed by the state with normative working capital to cover its minimum operating requirements. Increases in normative working capital are generally achieved through deductions from retained profits of the enterprise and, if necessary, by budgetary grants. In some cases, however, a smaller or greater part of normative working capital is financed by credit. The need for additional funds arising from seasonal fluctuations in inventories and from changes in inventories caused by uneven distribution over time of purchases of raw materials or of shipments of goods produced by the enterprises, is covered by bank credit. Similarly, bank credit is available for financing goods in transit. Since in all planned economies commercial credit is forbidden in relations between enterprises, the value of goods shipped but not yet paid for also gives rise to credit financing.

The policy of keeping the working capital of enterprises at a minimum level and making extensive use of credits is largely based on the view that this method provides additional means of control over enterprises'

[9] For most industries the credits are granted for a period not exceeding two years. The three-year limit is applied to the following industries: coal, metallurgy, chemical, petroleum and engineering.

[10] Enterprises under local supervision may receive credits for the construction of new plants producing consumer goods. Where investment work is performed by the employees of a given enterprise, the expenditure on wages financed by credit cannot exceed 40 per cent of the credit granted.

[11] In the Soviet Union, for example, about half the working capital of the state sector is financed by bank credits; this includes the working capital of purchasing agencies and trade organizations, most of which is financed by credit.

use of their funds and is an inducement to greater efficiency. Since the enterprises pay interest on the loans and since the rate of interest increases if their repayment is overdue, credit financing of working capital should create an inducement to maintain stocks at a minimum level. In addition, the banking system has the right to refuse credits when stocks are considered excessive, provided that their accumulation has not been due to external circumstances. While most such credits are planned, the banks also finance the increased demand for working capital necessary for any over-fulfilment of the plans. In recent times such credits have been refused in several countries in order to prevent the over-fulfilment of production plans in cases when such increases were not called for by the demand for specific goods or when they would have created the risk of raising the wage bill above the level corresponding to the available supply of consumer goods.

Changes in saving and financing, 1950 to 1959

In analysing the pattern of saving and investment during the period 1950-1959, a number of conceptual and statistical problems have to be faced. The conceptual problems arise from the fact that the definitions of various sectors of the economy that are used in other countries are unsuitable in the centrally planned economies. The essential differences between state enterprises, collective farms and private producers make it inappropriate to combine these into a single enterprise sector. State enterprises differ from the others in that they transfer a considerable proportion of their revenue to the state budget and receive budgetary grants; their profits, saving and investment are planned and subject to direct control by the state. Collective farms differ from private producers in that they are compelled by statute to allocate a certain proportion of their income to an "indivisible fund" which is somewhat analogous to the familiar concept of undistributed profits. Therefore, state enterprises, collective farms and private producers are treated separately in this chapter. The latter are included in the private sector along with households, mainly for statistical reasons.[12] The state enterprise sector is defined to comprise all state and industrial co-operative enterprises established on the basis of "economic accounting", whether producing goods or services.[13]

Separate treatment of the state budget and the state enterprise sector may be questioned as being purely formal, since the decisions about saving and investment in these sectors are not only closely interrelated but are subject to a single plan. While this is true from the point of view of the economy as a whole, the differentiation between these sectors is important from the point of view of investment finance and therefore is maintained in this chapter. This distinction, however, is made only with respect to revenue and saving. The lack of data does not allow separation of investment in the state enterprise sector from general government investment, inclusive of reserve funds and stockpiling. Saving of these two sectors is not compared, therefore, with their respective investment.

Budgetary saving is defined as expenditure on fixed investment plus budgetary surpluses. Lack of information prevents the inclusion of budgetary grants for expenditure on working capital and other types of saving. Similarly, it has not been possible to take into account the influence on budgetary saving of subsidies paid to industries producing investment goods. The inclusion of these subsidies would probably result in a significantly greater value of investment and saving as defined in this chapter.

Saving of the state enterprise sector is defined as resources retained by the enterprises operating on "economic accounting" after deducting from their gross income all payments to the budget.[14] Gross income of the sector is defined as including the following items originating in this sector: total profits, the turnover tax, and the part of the amortization allowances not earmarked for capital repairs.[15]

The saving of collective farms is composed of money payments into their "indivisible funds" and of contributions to these funds in the form of labour of collective farmers spent on capital construction. The definition of private sector saving follows general usage. Lack of other information makes it necessary, however, to estimate private saving from data on investment from own resources, increases in savings bank deposits and cash holdings. Private equity saving includes the value of own labour contributed by the urban population (to the construction of their own homes, for example) but

[12] In many instances it was not possible to separate the saving and investment of households from those of private producers. Conceptually, the income of private producers, as distinct from that of state enterprises or collective farms, can be assimilated to the income of households.

[13] However, while data on gross income and saving cover all the enterprises mentioned above, those on value added exclude enterprises providing services to consumers which, according to the definition prevailing in the centrally planned economies, do not produce income. This difference in coverage is not very significant because only a relatively small proportion of such enterprises is established on the basis of "economic accounting".

[14] In the case of enterprises running a deficit, this includes also some budgetary grants for various funds of the enterprises. Such contributions to the "saving" of the enterprises were significant only in Poland.

[15] In the centrally planned economies amortization is divided into two parts, one earmarked for capital repairs and the other for investment. Since data on fixed investment do not include the sums spent on capital repairs, this item was also excluded from the gross income of the enterprise sector as defined in this chapter.

does not include the value of own labour in the construction of dwellings in rural areas because the latter data are unavailable.

The paucity of data and a lack of comparability between different series prevent presentation of the information in an integrated form. The relative importance of the saving of each sector could not be measured in relation to total saving but had to be ascertained by its ratio to total fixed investment. Moreover, data on the state enterprise sector are not sufficient for an analysis of changes over time. Thus, the discussion of this sector, which plays a predominant role in the national product of the centrally planned economies, had to be confined to a single year—1958—the only one for which a relatively consistent set of data could be derived.

The lack of adequate data on international capital flows makes it impossible to ascertain the part played by external financing in budgetary expenditure on investment. Long-term credits granted or received are as a rule included in the budgetary accounts, but in most cases they cannot be separated for lack of information. An attempt has been made, however, to assess the magnitude of foreign loans by relating them to total fixed investment.

In consequence, the statistical information presented below and derived from fragmentary and not always precisely defined data should be viewed with caution. It is believed, however, that notwithstanding these qualifications the following review approximates reasonably well the actual relationships between income, saving and investment in the centrally planned economies during the nineteen fifties.

BUDGETARY SAVING

Among the types of saving defined above, by far the most important in all of the centrally planned economies is budgetary saving. Strictly defined, budgetary saving should include grants to enterprises for financing fixed investment and increases in working capital, grants to the banking system, financing of state reserves and stockpiles, foreign loans and aid and budgetary surpluses. The paucity of data, however, makes it necessary to restrict the concept of budgetary saving used in the following discussion to its two main components: grants for financing fixed investment and budgetary surplus. These two items have probably accounted for over 80 per cent of total budgetary saving in most cases.[16]

For similar reasons it is necessary to restrict the concept of total national saving to national expenditure on fixed investment, which accounts, on the average, for about 80 per cent of total saving, the remaining 20 per cent consisting of investment in working capital, government reserves, stockpiling, and the like. In terms of these restricted definitions the ratio of budgetary saving to total saving varied from 67 to 74 per cent during the nineteen fifties as a whole, as is shown in table 3-1.[17]

Differences between countries in the ratio of budgetary saving to total saving thus seem to have been relatively small over the period as a whole. They were larger within the various sub-periods, partly reflecting different timing in the adoption of new practices in financing investment.

In most countries there was a downward trend in the ratio of budgetary to total saving. In mainland China, however, the ratio rose from about 64 per cent in 1950-1953 to 75 per cent in 1954-1957, and while it declined somewhat during the subsequent period, it has nevertheless remained considerably higher than in 1950-1953.

In most centrally planned economies the period between 1950 and 1953, when the share of budgetary saving was highest, was characterized by a considerable increase in the rate of investment, and an upward movement in the prices of consumer goods and the rate of turnover taxation.[18] These developments were obviously interrelated. The increase in the rate of investment partly conditioned the rise in prices, while the latter, in turn, tended to expand the role of the government budget in transferring profits[19] away from industries producing consumer goods in order to finance investment in the less profitable producer goods sector. Perhaps even more important at this time was the prevailing tendency towards overcentralization of control, implying great reliance on the controlling function of the state budget. It should be noted, however, that in most countries during that period, the bulk of investment consisted of new construction, the extension of existing facilities being relatively unimportant. Budgetary financing was particularly suited to investment of the former type.

After 1953 many of the factors which had enhanced the role of the budget in the financing of investment ceased to operate. The most important development tending to reduce this role occurred, however, only in the most recent period, with the introduction of measures tending to increase the quantity of funds left at the disposal of enterprises for financing their needs. The somewhat different trend in mainland China was attributable to the fact that the share of the state sector in the national economy continued to increase during most of the period, and the intense investment drive associated

[16] Data on budgetary surplus were used as reported in official statistics, including foreign borrowing and subscription loans to the state by the population. Whenever possible, however, an adjustment was made to exclude state borrowing from savings banks.

[17] The true proportion was probably not very different from that indicated in the text, since both the numerator and the denominator of the ratio were probably underestimated in the same order of magnitude.

[18] Except in the Soviet Union. *See* United Nations, *World Economic Survey, 1957* (Sales No.: 58.II.C.1), pages 112 ff., and United Nations, *World Economic Survey, 1959*.

[19] Including turnover taxes. For a discussion of the distinction between profits and turnover taxes on consumer goods, see *World Economic Survey, 1957*, page 113.

Table 3-1. Budgetary Saving in Relation to Total Fixed Investment, 1950-1959[a]

(Percentage)

Country and item	1950-1959	1950-1953	1954-1957	1958-1959
Bulgaria				
Grants for fixed investment, and surplus	66.6	98.0	57.9	46.7
Grants for fixed investment	52.0	64.9	51.5	40.3
China (mainland)				
Grants for fixed investment, and surplus	72.5	63.5	75.3	73.1
Grants for fixed investment	68.3	55.8	71.9	69.6
Czechoslovakia				
Grants for fixed investment, and surplus	67.8[b]	87.4[c]	75.4[d]	50.3[e]
Grants for fixed investment	65.0[b]	83.6[c]	70.9[d]	49.5[e]
Eastern Germany				
Grants for fixed investment, and surplus	70.0	98.5	60.0	64.7
Grants for fixed investment	60.4	77.1	56.0	55.6
Hungary				
Grants for fixed investment, and surplus	74.4[b]	77.9[f]	77.9[g]	58.8[h]
Grants for fixed investment	66.1[b]	74.2[f]	66.5[g]	52.4[h]
Poland				
Grants for fixed investment, and surplus	74.2	114.5	72.6	55.5
Grants for fixed investment	65.1	81.5	68.9	52.1
Romania				
Grants for fixed investment, and surplus	...	...	75.7[i]	71.6[e]
Grants for fixed investment	...	...	64.5[i]	56.8[e]
USSR				
Grants for fixed investment, and surplus	68.8	77.9	66.3	63.4
Grants for fixed investment	61.6	65.4	63.0	56.1

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data published in official sources.

[a] The data presented in this table and the following tables in this chapter are estimates derived in many cases from fragmentary or inadequately defined statistical series. They should, therefore, be considered only as broad approximations indicating the general order of magnitude and direction of change. "Total fixed investment" in this table and the following tables in this chapter designates the total national expenditure on fixed investment.

[b] Average of data covering the years indicated in the footnotes to other columns.

[c] 1953.

[d] 1956.

[e] 1959.

[f] 1950, 1953.

[g] 1954-1956.

[h] 1958.

[i] 1955.

with the construction of new enterprises and the setting up of new industrial centres continued well into the late nineteen fifties.

During the nineteen fifties, budgetary saving in most countries averaged between 22 and 27 per cent of budgetary revenue, as can be inferred from table 3-2. The proportion was considerably higher in mainland China —about 40 per cent—and lower in Eastern Germany—about 14 per cent. In interpreting these variations account needs to be taken of the fact that the ratio of budgetary revenue to national income, shown in table 3-2, also varied from country to country. For the period as a whole this ratio averaged 66 per cent in Eastern Germany, around 60 per cent in Bulgaria, Czechoslovakia and the Soviet Union, between 52 and 55 per cent in Hungary and Poland and 32 per cent in mainland China.

The relatively low ratio of budgetary receipts to national income in mainland China was largely due to the predominantly agrarian character of the country, which affected both the revenue and the expenditure sides of the budget. The expenditure side was influenced by the fact that national expenditure on services and its share of budget expenditure was much smaller in mainland China than in more urbanized countries, whereas budgetary receipts were relatively lower than in other countries because of the largely non-monetary character of agricultural income and the fact that agricultural taxes were mostly paid in kind.[25] But while budgetary appropriations of mainland China accounted for a smaller proportion of national income than in other countries, the proportion saved was higher, and in con-

[25] In addition, in mainland China, the budget both on the receipts and expenditure sides operated on a more "net" basis than in the other countries. Thus, differential payments (*see* footnote *24*), representing the difference between domestic and foreign prices, were much smaller in mainland China than in other countries. The same was true of subsidies paid to domestic producers, which were relatively insignificant in mainland China during most of the period although they have become more important in recent years.

Table 3-2. Budgetary Revenue and Budgetary Saving in Relation to National Income, 1950-1959

(Percentage)

Country and item	*1950-1959*	*1950-1953*	*1954-1957*	*1958-1959*
Bulgaria				
Budgetary receipts	62.2	63.2	61.9	61.9
Grants for fixed investment, and surplus	13.6	20.0	12.4	10.9
China (mainland)				
Budgetary receipts	31.6	27.1	32.6	33.8
Grants for fixed investment, and surplus	12.8	6.9	12.9	17.1
Czechoslovakia				
Budgetary receipts	61.6[a]	64.8[b]	64.4[c]	56.4[d]
Grants for fixed investment, and surplus	13.4[a]	14.7[b]	14.5[c]	11.3[d]
Eastern Germany				
Budgetary receipts	65.7	69.8	65.3	62.5
Grants for fixed investment, and surplus	9.0	10.5	7.4	10.0
Hungary				
Budgetary receipts	...	...	52.7[e]	42.1
Grants for fixed investment, and surplus	...	...	11.6[e]	8.8
Poland				
Budgetary receipts	53.3[a]	50.5[b]	53.3	53.0
Grants for fixed investment, and surplus	14.3[a]	17.0[b]	14.1	13.7
USSR				
Budgetary receipts	58.2	62.9	57.5	54.0
Grants for fixed investment, and surplus	14.8	15.5	14.0	15.4

Source: See table 3-1.

[a] Average of data covering the years indicated in the footnotes to other columns.

[b] 1953.

[c] 1956.

[d] 1959.

[e] 1954-1956.

sequence budgetary saving averaged about 13 per cent of national income, or only a little less than in most of the other countries.

In Eastern Germany, the proportion of national income appropriated by the budget was higher than in other countries, but this difference was not sufficient to offset the effect of lower ratios of budgetary saving to budgetary receipts. In consequence, budgetary saving amounted on the average to 9 per cent of national income, that is, to less than that in any other centrally planned economy.

In most of the centrally planned economies the proportion of budgetary revenue saved during more recent years was considerably lower than in 1950-1953, the opposite being true only for mainland China and the Soviet Union. On the other hand, the proportion of the national income appropriated by the budget declined between these two periods in several countries, although it rose in mainland China and Poland. The final result of these changes, varying in direction and intensity, was that budgetary saving in relation to national income declined during recent years in all countries except mainland China.[21]

One of the most important competing uses of budgetary revenue was current expenditure on the national economy.[22] Since in most cases the available statistics do not show current expenditure separately, it had to be estimated for table 3-3 and the following discussion, as the difference between total expenditure on the national economy and budgetary grants for fixed investment. It therefore includes, apart from current outlays, expenditure on working capital, government reserves and stockpiling. In spite of this, table 3-3 satisfactorily indicates the relative importance of current expenditure on the national economy because it is doubtful whether the included capital items exceeded, on the average, 5 per cent of total budgetary revenue.

In most countries current budgetary expenditure[23] on the national economy amounted on the average to be-

[21] In the Soviet Union, this ratio in 1958-1959 was at the same level as in 1950-1953, but higher than in 1954-1957.

[22] The budgetary statistics of the centrally planned economies are not classified into separate current and capital accounts. Total expenditure on the national economy, comprising both current and capital outlays, was the largest item in all countries, and in most of them accounted for more than one-half of total expenditure. Current expenditure on the national economy includes subsidies, expenditures on geological prospecting, research and development, training of manpower, adoption of new technology, outlays of enterprises whose current expenditure is financed by the budget, and the like. To the extent that some of these expenditures tend to lower the price of investment goods, the problem arises whether they should not be considered as saving. In this study, however, investment is valued at market prices rather than at actual cost and no attempt is made to evaluate the latter.

[23] Including investment expenditures other than for fixed capital.

Table 3-3. Distribution of Budgetary Expenditures, 1950-1959
(Percentage of total)

Country and item	1950-1959	1950-1953	1954-1957	1958-1959
Bulgaria				
National economy	51.6	46.9	52.4	55.9
Fixed investment	18.1	21.0	17.9	15.1
Other	33.5	25.9	34.5	40.8
Health, education and welfare	21.2	18.6	23.0	21.7
Defence	8.9	10.2	9.5	7.0
Administration	3.9	4.5	3.9	3.0
Other, including budgetary surplus	14.4	19.8	11.2	12.3
China (mainland)				
National economy	51.1	36.6	50.3	60.9
Fixed investment	38.5	22.3	37.8	48.2
Other	12.6	14.3	12.5	12.7
Health, education and welfare	12.6	13.2	14.0	10.6
Defence	19.7	30.5	21.2	11.2
Administration	8.0	11.7	8.2	5.4
Other, including budgetary surplus	8.7	8.0	6.3	11.9
Czechoslovakia				
National economy	53.0[a]	58.4[b]	53.4	47.7
Fixed investment	...	...	22.8	19.6
Other	...	...	30.6	28.1
Health, education and welfare	32.9[a]	27.1[b]	32.1	39.4
Defence	9.4[a]	8.0[b]	10.2	9.3
Administration	4.0[a]	4.8[b]	3.9	3.3
Other, including budgetary surplus	0.7[a]	1.7[b]	0.3	0.3
Eastern Germany				
National economy	39.4	37.3	41.0	...
Fixed investment	11.6	11.0	10.7	13.7
Other	27.8	26.3	30.3	...
Health, education and welfare	35.2	31.6	35.7	39.1
Defence[c]	7.8	10.8	4.6	2.1
Administration	7.9	9.7	7.6	6.1
Other, including budgetary surplus	9.7	10.4	11.1	...
Hungary				
National economy	54.2	53.0	54.7	54.6
Fixed investment	22.0	28.6	18.4	18.9
Other	32.2	24.4	36.3	35.7
Health, education and welfare	23.9	19.0	22.9	30.8
Defence	10.3	13.6	11.4	4.5
Administration	9.2	10.0	9.0	8.6
Other, including budgetary surplus	2.4	4.4	2.0	1.4
Poland				
National economy	53.8	44.6	57.0	55.1
Fixed investment	25.6	29.0	25.2	24.0
Other	28.2	15.6	31.8	31.1
Health, education and welfare	25.6	23.1	24.6	28.7
Defence	8.2	8.7	8.7	7.2
Administration	7.9	9.9	7.9	6.5
Other, including budgetary surplus	4.5	13.7	1.8	2.5
Romania				
National economy	56.2	52.1	58.4	57.2
Fixed investment	...	...	20.5	21.2
Other	...	...	37.9	36.0
Health, education and welfare	18.4	14.4	18.1	23.8
Defence	10.5	15.3	9.1	7.2
Administration	3.6	4.6	3.3	3.1
Other, including budgetary surplus	11.3	13.5	11.1	8.8
USSR				
National economy	40.6	36.5	41.8	44.1
Fixed investment	22.8	20.7	23.0	25.2
Other	17.8	15.8	18.8	18.9
Health, education and welfare	28.4	25.6	28.5	32.0
Defence	17.5	20.6	17.4	13.4
Administration	2.3	3.0	2.2	1.7
Other, including budgetary surplus	11.2	14.3	10.0	8.8

Source: See table 3-1.
[a] 1952-1959.
[b] 1952-1953.
[c] Including the cost of maintenance of occupation forces.

tween 28 and 35 per cent of budgetary revenue. The percentage was lower only in two countries – 13 per cent in mainland China and 18 per cent in the Soviet Union. It is notable that, unlike grants for fixed investment, these expenditures tended to account for an increasing share of budgetary expenditure over time. Only in very recent years and in a few countries had this ratio levelled off.

Expenditures on health, education and welfare were also important. They tended to be relatively higher in countries with a higher level of industrial development or urbanization. Their ratio to budgetary revenue in 1950-1959 ranged from 35 to 13 per cent, with the highest share in Eastern Germany, followed in descending order by Czechoslovakia, the Soviet Union, Poland, Hungary, Bulgaria, Romania and mainland China. In all these countries, except mainland China, the ratio tended to increase. Expenditure for defence, as reflected in budgetary statistics, absorbed between 8 and 10 per cent of budgetary revenue in most countries during the

Table 3-4. Distribution of Budgetary Revenue,[a] 1950-1959

(Percentage of total)

Country and item	*1950-1959*	*1950-1953*	*1954-1957*	*1958-1959*
Bulgaria				
Turnover taxes	30.3	25.0	33.4	31.1
Appropriations from profits	13.6	15.7	11.0	14.9
Contributions to social security	6.1	5.7	6.0	6.6
Personal income taxes	9.5	10.7	9.8	7.5
Other revenue	40.5	43.0	39.8	39.9
Czechoslovakia				
Turnover taxes	49.5	48.2	50.1	48.9
Appropriations from profits	19.2	25.6	17.1	15.7
Contributions to social security	15.1	16.2	14.4	...
Personal income taxes	11.3	9.9	11.5	11.8
Other revenue	4.9	0.1	6.9	...
Eastern Germany				
Turnover taxes	57.2	53.5	...	44.4
Appropriations from profits				15.4
Contributions to social security	16.3	16.9	16.3	15.3
Personal income taxes	6.6	7.8	6.3	5.8
Other revenue	19.9	21.8	18.2	19.1
Hungary				
Turnover taxes	52.6	52.8	59.7	34.8[b]
Appropriations from profits	19.2	28.1[c]	8.6	31.3[b]
Contributions to social security	...	...	7.2	6.9[b]
Personal income taxes	10.5	14.2	8.9	8.1[b]
Other revenue	...	...	15.6	18.9[b]
Poland				
Turnover taxes	...	...	39.8	33.6
Appropriations from profits	...	...	9.0	8.4
Contributions to social security	11.2	10.8	11.3	11.5
Personal income taxes	6.4	5.6	6.0	7.6
Other revenue	...	...	33.9	38.8
Romania				
Turnover taxes	37.4	41.3	37.8	32.0
Appropriations from profits	15.8	15.7	14.0	19.2
Contributions to social security	4.8	3.7	4.9	5.9
Personal income taxes	8.3	7.6	8.5	8.6
Other revenue	33.7	31.7	34.7	34.3
USSR				
Turnover taxes	46.7	51.1	44.5	44.2
Appropriations from profits	16.4	11.4	17.8	21.2
Contributions to social security	4.8	4.5	4.9	5.0
Personal income taxes	8.5	9.0	8.6	7.7
Other revenue	23.5	23.9	24.2	22.0

Source: See table 3-1.

[a] "Personal income taxes" include fees and miscellaneous taxes paid by the population. In Bulgaria and Poland "other revenue" includes "price differential" payments to the budget; in Romania and the Soviet Union equivalent payments are probably included in the same item; in Czechoslovakia and Hungary such payments are included in the turnover tax.

[b] 1959.

[c] Including depreciation allowances.

nineteen fifties, except in the Soviet Union and mainland China, where the percentages were 18 and 20, respectively. In all countries, the ratio tended to decline in the more recent years.

As budgetary receipts are generally not earmarked for specific uses, the sources of budgetary saving can be discussed only in terms of the financing of the whole of budgetary expenditure. The major sources of budgetary revenue are shown in table 3-4. The outstanding feature of these data is the greater inter-country variation in the pattern of budgetary revenue than in that of budgetary expenditure. Although the share of turnover taxes in total receipts was high in all countries, its average during the decade varied from 30 per cent in Bulgaria to 53 per cent in Hungary. Similarly, appropriations from profits contributed as much as 19 per cent of budgetary revenue in Czechoslovakia, but perhaps no more than half of this percentage in Poland. Revenue from personal taxes ranged from about 6 per cent of budgetary revenue in Poland to 11 per cent in Czechoslovakia.

Changes in revenue patterns also displayed dissimilarities from country to country. The share of budgetary revenue from turnover taxes tended to decline throughout the period in the Soviet Union and Romania, but to rise, at least up to around 1956, in Bulgaria and Hungary. In Czechoslovakia and Poland, the increase lasted up to 1954. In three of the last-mentioned countries the decline in the most recent years was modest; in Hungary, however, it was very considerable in 1959. The changes in the shares of other major components of budgetary revenue were no less diversified. Whereas in the Soviet Union the share of appropriations from profits has steadily been rising, the reverse has occurred in Czechoslovakia and Poland. In Bulgaria, Hungary and Romania, the share of appropriation from profits was lower in 1954-1957 than in 1950-1953 but it rose appreciably more recently. Contributions to the social security system grew more important in the Soviet Union, Romania, Poland and Hungary, but less important in Czechoslovakia and Eastern Germany. Finally, the share of personal taxes tended to rise in Czechoslovakia, Romania and Poland, but to decline in Bulgaria, Eastern Germany, Hungary and the Soviet Union.

The variation in the relative shares of the turnover tax and appropriations from profits largely resulted from variations in inter-sectoral pricing policy. For example, a rise in the price of producer goods relative to consumer goods would increase the cost of materials used by consumer goods industries. Assuming that prices to consumers would remain unchanged, revenue from the turnover tax on consumer goods would fall while profits in producer goods industries would rise. Another reason for variation in the relative shares of the turnover tax and appropriations from profits, as shown in table 3-4, lies in the fact that differential payments are combined with the turnover tax in Czechoslovakia and Hungary, while in the other countries they are included in the item "other".[24]

In mainland China, the pattern of budgetary income was quite different from that in other centrally planned economies (*see* table 3-5). Whereas in the latter 75 to 85 per cent of budgetary income was derived from state enterprises in the form of turnover taxes, appropriations from profits and contributions to the social insurance system, in mainland China state enterprises were much less important during the early part of the period. Another difference was that in mainland China most of the revenue from state enterprises consisted of such payments as appropriations from profits, transfer of allowances for amortization and reduction in working capital, rather than of commodity taxes. The relative importance of the latter tended to decline after 1953. In contrast, the share of appropriations from profits and similar payments increased continuously. The latter

[24] Differential payments arise from the difference between a basic price fixed by the state and the actual price, which in certain authorized transactions, particularly in foreign trade, may differ from the basic price. The difference is covered by transfers to or from the budget. In Poland and Bulgaria, the only countries for which information is available, differential payments to the budget accounted for nearly one-quarter of budgetary revenue. Combining these payments with the turnover tax in these two countries would raise its share of budgetary revenue to about 55 per cent—a ratio rather similar to that prevailing in Czechoslovakia and Hungary.

Table 3-5. Mainland China: Distribution of Budgetary Revenue

(Percentage of total revenue)

Item	*1950*	*1953*	*1956*	*1958*	*1959*[a]
State enterprises	34.1	62.9	74.5	83.9	87.9
Taxes	22.4	33.9	27.9	31.3	26.3
Appropriations from profits and other	11.7	29.0	46.7	52.6	61.6
Agriculture[b]	29.6	13.4	10.4	13.7	11.3
Private industry and trade	32.9	16.9	2.7		
Mixed share enterprises	—	1.2	5.6	2.4	0.8
Industrial and trade co-operatives	—	2.5	5.5		
All other	3.4	3.1	1.3		

Source: See table 3-1.
[a] Planned figures.
[b] Including taxes on individual farmers, collective farms and people's communes.

accounted for 62 per cent of all budgetary revenue in 1959.

SAVING OF THE STATE ENTERPRISE SECTOR

As indicated in the preceding section, the funds appropriated by the state budget for financing investment and social consumption were mostly derived from turnover taxes and appropriations from profits of the sector comprising state enterprises and industrial co-operatives. These appropriations, together with the retained profits and amortization funds of the enterprises, represented the gross income of the enterprise sector, which in the five countries for which data could be estimated amounted to between 31 and 43 per cent of total domestic product (*see* table 3-6).

Needless to say, these inter-country variations were influenced both by variations in the share of gross income in value added in the state enterprise sector, and in the share of this sector in domestic product. The latter factor was more important, as is indicated by the fact that the participation of this sector in domestic product ranged from 62 to 89 per cent while the ratio of gross income to value added in the sector varied from 44 to 51 per cent.

The validity of such inter-country comparisons should be qualified because of differences in price structure. This qualification is especially pertinent with respect to the centrally planned economies, in which the relationships among prices, wages, profits, taxes and subsidies are largely determined by governments and vary from country to country and from period to period. State ownership of the predominant sector of the economy makes it possible to avoid any direct relationship between producer and consumer prices and to change price ratios without altering a given relationship between real consumption and investment. Dissimilarities in the price structures will be reflected in differences in the relative profitability of different industries and in the relationship between profits and the turnover tax as well as in the ratios of gross income to domestic product.

The impact of government policy on these relationships can be demonstrated by the recent example of Hungary, where the 80 per cent rise in the prices of producer goods in 1959 resulted in considerable alteration of the price structure, and significant changes in the composition of value added in the state enterprise sector, in relation to domestic product, as shown by the percentages indicated below:

	1958	*1959*
Value added	67.3	73.5
Labour compensation	31.8	28.7
Social security contributions	2.8	6.1
Amortization allowances earmarked for:		
Capital repairs	3.4	5.1
Investment	1.8	4.3
Profits	2.7	15.0
Turnover tax	24.9	14.2
Gross income	29.4	33.5
Ratio of gross income to value added	43.7	45.6

The importance of the state enterprise sector in accumulating financial means in the centrally planned economies is shown by the fact that in 1958 gross income of this sector exceeded total national expenditure on fixed investment by 53 to 118 per cent.[23]

Since a substantial proportion of gross income of the enterprises is transferred to the budget, and in turn a large part of investment in the state sector is financed by budgetary grants,[24] the saving ratios of the state

[23] The ratio of gross income of the state enterprise sector to total national expenditure on fixed investment in 1958 was: Bulgaria, 153; Eastern Germany, 218; Hungary, 199; Poland, 161; Soviet Union, 192.

[24] Only part of budgetary saving is returned to this sector for investment purposes. Another part is used for investment in general government services, for increases in government reserves and for stockpiling.

Table 3-6. Value Added by State Enterprises and Industrial Co-operatives in Relation to Domestic Product in 1958[a]

(Percentage)

Item	*Bulgaria*	*Eastern Germany*	*Hungary*	*Poland*	*USSR*
Value added	62.2	69.6	67.3	71.8	88.7
Labour compensation	24.9	28.6	31.8	28.6	39.9
Social security contributions	3.5	6.1	2.8	4.5	2.5
Amortization allowances earmarked for:					
Capital repairs	2.2	3.7	3.4	3.8	3.5
Investment	3.2	—	1.8	3.4	2.0
Profits	8.1	5.9	2.7	5.4	15.2
Turnover tax	20.3	25.3	24.9	26.0	25.5
Gross income	31.6	31.2	29.4	34.8	42.7
Ratio of gross income to value added	50.8	44.8	43.7	48.4	48.1

Source: See table 3-1.

[a] Value added is defined here as income originating in material production plus allowances for amortization. Domestic product is the sum of value added in all sectors and is equal to national income plus allowances for amortization. Gross income comprises profits, taxes and the part of the amortization allowances earmarked for investment.

enterprise sector, as defined in this chapter, represented only a small fraction of this gross income. In the countries listed in table 3-7 the ratio of saving to gross income ranged from 7 to 19 per cent and the relative importance of sectoral saving in total saving, as measured by the ratio to total fixed investment, varied from 15 to 31 per cent in 1958.

Table 3-7. Saving of State Enterprises and Industrial Co-operatives in Relation to their Value Added, Gross Income, Profits and Total Fixed Investment in 1958

(Percentage)

Country	*Saving of state enterprises and industrial co-operatives in relation to:*			
	Sectoral			*Total fixed investment*
	Value added	*Gross income*	*Gross profits*[a]	
Bulgaria	9.6	18.9	53.0	29.0
Czechoslovakia	...	...	40.4	26.4
Eastern Germany	3.2	7.1	37.5	15.4
Hungary	4.6	10.6	70.2	21.1
Poland	7.8	16.1	63.4	25.8
USSR	7.9	16.3	40.5	31.3

Source: See table 3-1.
[a] Gross income less turnover taxes.

The only country for which similar data can be derived for other years is the Soviet Union. According to these data the ratio of the saving of state enterprises and industrial co-operatives to gross fixed investment averaged 27.4 per cent in 1952-1954, 29.9 per cent in 1956-1957, and 31 per cent in 1958. Thus, the ratio tended to rise somewhat throughout the period.

Although no precise data are available for the other eastern European countries, there is little doubt that the increase in the relative importance of the saving of the state enterprise sector was much greater there than in the Soviet Union. Until about 1955 in many of these countries amortization allowances earmarked for investment were transferred to the state budget; similarly treated in some countries were all profits except minor payments into the director's fund. It was only in connexion with the general tendency towards decentralization in the following years that entrepreneurial saving began to gain in importance. In Czechoslovakia, the changes introduced in 1959 brought about increases in the ratio of state enterprise saving to total fixed investment of from 26 per cent in 1958 to 33 per cent in 1959 and increases in that of net saving to fixed investment of from 4 to 13 per cent; in Poland, a change in policy had already occurred in 1958, raising these ratios to 26 and 10 per cent respectively with only slight further increases (to 28 and 13 per cent) in 1959. Similar changes took place in Hungary in 1959.

The considerable differences from country to country in the ratio of saving to gross income in the state enterprise sector may be due to several factors, only some of which can be analysed in this chapter. One of these may be the fact that the turnover tax is entirely transferred to the budget regardless of enterprises' financial requirements for investment. In fact, the magnitude of the turnover tax is not related in any way to the enterprises' production costs; it has no influence whatever on the amount of funds they retain or on their saving, and inter-country variations in its relative importance may be the effect of historical developments rather than of any differences in present conditions. The deduction of this tax from gross income may therefore eliminate a purely incidental cause of inter-country variations in saving ratios. As can be seen from the data in table 3-7, these variations are in fact somewhat smaller when saving is related to income net of turnover tax, that is, to gross profits.

But even with allowance for the effect of the turnover tax on the relationship between income and saving, the inter-country variations in the rate of saving are significant. They may, of course, reflect differences in government policy with respect to the proportion of profits transferred to the budget. They may also reflect differences in the profitability of enterprises related to their needs for investment funds. This is mainly because the share of its income that an enterprise retains is partly determined by its planned investment outlay. Consequently, all other conditions being equal, the aggregate saving ratio of the state enterprise sector at any given time may be influenced by variations in enterprises' profit-investment ratios.[27]

The lack of adequate data makes it impossible to analyse in detail the distribution of gross income, profits, saving and investment by sector and industry

[27] This effect may be explained by the following example. Assume two enterprises, each showing a profit equal to 100 units of currency. If the planned investment of each enterprise amounted to, say, 80 units, then it is likely that the amount of funds left by the state at the enterprises' disposal for investment would amount to 160 units. If, however, the plan provides 30 currency units for investment in one enterprise and 130 units in the other, the amount of funds left at the disposal of the first enterprise would be reduced to 30 units and the funds left in the other increased to 100 units, equal to its total profits, the difference between profits and investment being covered by the budget. In this case, total saving of these two enterprises would be equal to 130 currency units instead of 160 as in the first case and the aggregate saving ratio would fall from 80 per cent in the first case to 65 per cent in the second.

No change in aggregate saving ratio would occur, if, assuming no alteration in income of each enterprise, the decline in saving in one enterprise is entirely compensated by an increase in saving in the other. It is obvious that if, instead of the absolute figures used in this example, the analysis were conducted in terms of percentage rates of saving in each sector, the effect of these changes on the aggregate saving rate could be determined only by taking into account the relative share of each enterprise in the total profit and total saving of the group.

In practice, of course, the funds left at the disposal of the enterprises are not entirely determined by their investment requirements; part of the profits is transferred to the budget irrespective of the planned requirements of the enterprises and then returned to them in the form of budgetary grants. But since this policy is applied to all enterprises it could not be responsible for the differences in the saving ratios of individual enterprises.

and to ascertain their interrelationship. However, more detailed information, relating to industry only, is available for the Soviet Union. The data reproduced in table 3-8 show that in the Soviet Union, according to the plan for 1958, gross profits[28] were to be about equal to total investment in industry as a whole. They exceeded fixed investment by 31 per cent. But the distribution of profits and investment by industry was extremely uneven, indicating the extent to which investment in certain industries was financed by saving transferred from other industries. It will be recalled that in the centrally planned economies these transfers are not effected through bank credits; part of the enterprises' income is transferred to the budget and the portion used for investment grants to enterprises is included in budgetary saving as defined in this chapter. Only in three major branches—metal processing, light industry and the food industry—did gross profits substantially exceed investment requirements. The opposite was true in all other branches, particularly in those producing basic materials. In the coal industry, gross profits were actually negative even though investment in this industry constituted 13 per cent of total industrial investment.

As the rate of profit in Soviet industry was higher than that in most other countries and its distribution by industrial branch probably more equal, it is likely that the gap between investment requirements and profits in individual industries in other centrally planned economies is greater than in the Soviet Union. While it is certain that inter-country variations in the investment-profits ratios of the state enterprise sector contributed to the disparity between the aggregate rates of saving in different countries, the actual impact of this factor cannot be ascertained.

The foregoing discussion of the factors accounting for variations in the rate of saving of the state enterprise sector was conducted in terms of gross profits, saving being defined in this chapter as inclusive of amortization allowances earmarked for investment. However, it is of interest to consider the part played by amortization allowances in the formation of the gross profits and saving of the state enterprise sector and to ascertain its influence on the inter-country differences in saving ratios. The distinction between gross and net profits is particularly relevant in analysing these differences in recent years because of the general tendency, apparent in most centrally planned economies, to establish a closer link between the volume of funds retained by the enterprises and their profits.

As mentioned above, in 1958 amortization allowances were generally left with the enterprises or their supervisory administrative units; that is, they remained within the state enterprise sector.[29] The bulk of net profits, however, continued to be transferred to the budget. In consequence, the rate of gross saving was considerably influenced by the volume of the amortization allowances. These allowances were only remotely related to rates of net profit and the differences between countries in the ratio of amortization allowances to profits were very considerable.

The importance of this factor can be clearly seen from the percentage ratios of amortization allowances earmarked for investment to saving, gross profits, investment and value added indicated below:

	Sectoral			Total fixed investment
	Saving	Gross profits	Value added	
Bulgaria	54	29	5	16
Czechoslovakia	86	35	...	23
Eastern Germany	—	—	—	—
Hungary	58	40	3	12
Poland	61	39	5	16
USSR	29	12	2	9

[28] Inclusive of amortization allowances earmarked for capital repairs.

[29] The only country where a sizable part of the amortization allowances was redistributed through the budget seems to have been Czechoslovakia.

Table 3-8. Union of Soviet Socialist Republics: Comparison of Gross Profits with Investment in Industry, by Branch, According to the 1958 Plan

(Billions of roubles)

Industrial branch	Gross profits			Investment				Ratio of gross profits to fixed investment[a] (percentage)
	Total	Net profits	Amortization[a]	Total	Fixed investment	Increase in working capital	Capital repair	
Total industry	140.1	98.0	42.1	142.5	107.2	12.9	22.4	130.7
Metallurgy	13.8	6.8	7.0	23.5	19.4	0.8	3.3	71.1
Coal	−1.7	−5.6	3.9	18.5	15.8	0.2	2.5	−10.8
Oil and gas	8.0	3.3	4.7	15.9	14.0	0.2	1.7	57.1
Metal processing[b]	27.0	19.8	7.2	19.8	11.9	4.9	3.0	226.9
Lumber, paper and wood processing	6.5	4.4	2.1	10.1	7.8	0.5	1.8	83.3
Construction materials	2.2	0.8	1.4	6.3	4.8	0.7	0.8	45.8
Light industry	18.5	16.2	2.3	5.5	3.1	0.9	1.5	596.8
Food processing	17.1	14.3	2.8	6.0	3.7	0.7	1.6	462.2
Fishing and fish processing	2.5	1.2	1.3	3.9	2.7	0.1	1.1	92.6

Source: A. G. Zverev, *Voprosy Natsionalnovo Dokhoda I Finansy SSSR* (Moscow, 1958).

[a] Including amortization allowances earmarked for capital repairs.

[b] Including unspecified producer goods.

The lack of any recognizable pattern in the relations between these ratios reflects to a large extent the somewhat accidental character of the book valuation of assets, as well as inter-country differences in the accounting rates for amortization and in the share earmarked for capital repairs, the latter not being included in these data. This last factor explains the zero rate of amortization in Eastern Germany where the entire amortization fund was used for capital repairs.[30]

The exclusion of amortization from gross profits and saving shows that the inter-country variations in net saving were related to the differences in net profits. This is demonstrated by the following figures on net profits and saving in relation to value added in 1958:

	Net profits	*Net saving*	*Total saving*
USSR	17.1	5.6	7.9
Bulgaria	13.0	4.4	9.6
Eastern Germany	8.4	3.2	3.2
Poland	7.6	3.0	7.8
Hungary	4.0	1.9	4.6

The link between net profits and saving is indicated by the fact that the ranking of the countries is the same whether based on net profits or on net saving, but differs considerably if based on total saving. Although similar data are not available for Czechoslovakia, indirect evidence suggests that in this country the net saving of the state enterprise sector in relation to its value added was much smaller than might be expected on the basis of experience in the other countries. The ratio of net profits to value added in Czechoslovakia was among the highest, whereas the net saving ratio seems to have been the lowest.[31] This seems to reflect significant differences between Czechoslovakia and other countries with respect to policies on self-financing. The change in policy in Czechoslovakia in 1959, consisting of raising the share of profits left at the disposal of the enterprises, seems to have tripled the ratio of saving to value added and brought the relation between saving and profits into closer conformity with the pattern shown by the other countries.[32]

In most countries saving was earmarked for financing increases in working capital and fixed investment, the only exception being Eastern Germany, where investment in working capital was entirely financed from external sources: budgetary grants and bank credits. Data on the allocation of saving among alternative uses are available for only three countries and only for state enterprises. They indicate that in Czechoslovakia in 1959, 51 per cent of saving was used for financing fixed investment; and in Poland and the Soviet Union in 1958, 57 and 46 per cent, respectively.

The inter-country variations in the share of the state and co-operative enterprise sector in total fixed investment and the relative importance of various sources of financing are shown in table 3-9. The data presented in the table show that the share of this sector in recent years varied from 70 to 80 per cent of total fixed investment. From 35 to 45 per cent of the fixed investment of the sector was financed out of extra-budgetary funds.

Among non-budgetary sources, the largest was that part of the amortization funds earmarked for financing

Table 3-9. Sources of Finance of State Fixed Investment,[a] as Percentage of Total Fixed Investment

Country and item	*1957*	*1958*	*1959*
Bulgaria			
Budgetary grants	33.9	34.9	44.1
Amortization allowances[b]	14.4	15.7	12.9
Net saving	8.2	10.5	14.6
Other	11.6	9.1	
Total	68.1	70.2	71.6
Czechoslovakia			
Budgetary grants	...	...	49.4
Amortization allowances[b]	...	...	20.7
Net saving	...	...	6.8
Other	...	...	6.3
Total	80.9	84.6	83.2
Eastern Germany			
Budgetary grants	53.9	55.8	55.4
Amortization allowances[b]	—	—	—
Net saving	23.2	15.4	21.2
Other		3.2	
Total	77.1	74.4	76.6
Hungary			
Budgetary grants	...	52.4	...
Amortization allowances[b]	...	12.3	...
Net saving	...	15.4	...
Other	...		...
Total	...	80.1	...
Poland			
Budgetary grants	60.0	50.8	53.3
Amortization allowances[b]	16.0	15.7	14.8
Net saving	3.8	7.6	9.0
Other	—	3.4	0.7
Total	79.8	77.5	77.8
USSR			
Budgetary grants	60.2	55.6	56.4
Amortization allowances[b]	10.0	9.4	9.8
Net saving	10.1	12.2	12.5
Other	3.6	2.7	2.4
Total	83.9	79.9	81.1

Source: See table 3-1.

[a] Comprising investment of the state enterprises and the industrial co-operative sector and general government investment outlays.

[b] Excluding the share earmarked for capital repairs.

[30] The percentage share of the amortization fund used for capital repairs in other countries in 1958 was: Bulgaria–40; Czechoslovakia–54; Hungary–65; Poland–53; Soviet Union–62. (*See* table 3-6.)

[31] This is partly indicated by the fact that, whereas the ratio of net profits to total fixed investment ranked among the highest (46 per cent), the saving-investment ratio was the lowest (4 per cent).

[32] The increase in the degree of self-financing in Czechoslovakia did not require any increases in prices because of the high rate of profit in this country before the 1959 reform. During that year prices of producer goods were even reduced. In contrast, in Hungary the increase in self-financing most likely would not have been possible without the increase in the prices of producer goods which occurred in 1959.

fixed investment. Its share in the sector's total outlays on fixed investment ranged from 12 to 25 per cent. The share of other saving varied between 8 and 20 per cent, and that of miscellaneous resources between 3 and 13 per cent. The part played by amortization funds was most important in Czechoslovakia and least significant in the Soviet Union. The reverse was true of the part played by net saving. These variations in the share of amortization and net profits in the financing of fixed investment are obviously not related to any essential structural differences between various countries and are of no consequences from the point of view of investment finance in state and co-operative enterprises. Miscellaneous sources of finance, including bank credits, were important only in Bulgaria and Czechoslovakia. The exact composition of this item in these countries cannot, however, be ascertained with any degree of accuracy.

The relationships between the various sources of finance were quite different in the case of working capital. Scattered information indicates that in 1958 between 50 and 60 per cent of additions to working capital were financed by bank credits, about two-thirds of the remainder being covered by resources of the enterprises and one-third from budgetary grants. In Eastern Germany, however, where the saving of enterprises consists exclusively of expenditures on fixed investment, the share of budgetary grants in the financing of working capital was considerably greater.

SAVING OF COLLECTIVE FARMS

Unlike state enterprises, collective farms are usually not provided with budgetary grants for investment financing. Their only sources of finance are internal saving and bank credits. The role of the latter in financing fixed investment is much more important for collective farms than for the state enterprise sector. Moreover, the saving of collective farms is not directly determined, as in the case of state enterprises, by government decisions. Since their saving depends entirely on their income after taxes, in a sense it is analogous to entrepreneurial saving in private enterprise economies. However, the minimum proportion of the money income of collective farms which is to be saved—and in the Soviet Union the maximum proportion as well—is laid down by statutory regulation. This saving is transferred into "indivisible funds", which are earmarked for investment. Although the saving of collective farms is thus related to income, it is only indirectly dependent on cost and profitability. This is not only because statutory saving is related exclusively to gross money proceeds but also because costs are difficult to determine since labour compensation takes the form of income-sharing rather than wages. In this respect there is a similarity between the finances of collective farms and that of individual farmers. In both cases the concept of profit lacks precise meaning and saving therefore cannot be related to profit, but only to the gross or net proceeds of the farm.

Strictly speaking, the saving of collective farms should comprise the total addition to net worth gained from current economic activity. This would include the excess of current money income over current expenditure, the value of the labour performed by members of collective farms in constructing buildings and installing equipment, and the net increase in stocks of own produce, inclusive of livestock. However, in the following discussion it will be necessary, owing to lack of data, to confine the statistical description of saving of the collective farms to money payments into indivisible funds and to labour performed for investment, leaving out saving in the form of changes in liquid assets and the sums earmarked for repayment of long-term investment loans, as well as saving reflected in increases in stocks of own produce.[33] Saving out of money income approximates money payments into the indivisible fund in most countries, although in the Soviet Union the difference between them was significant.[34]

Data on the distribution of gross money income are given in table 3-10 below. Despite their incompleteness these statistics indicate a very considerable inter-country variation in the ratio of saving to money income. While no data are available for other countries, indirect evidence suggests that their ratios would fall within the range of 5 to 17 per cent, as indicated for Bulgaria and the Soviet Union respectively. There was relatively little variation over time except for a very sharp increase in the Soviet Union, and probably in Bulgaria, in 1958-1959.

The foregoing discussion, being confined to the distribution of money income, excludes the substantial volume of income in kind received by collective farmers, as well as the value of their labour devoted to investment projects.[35] A question arises as to whether the data shown for the distribution of the money income of collective farms can be considered reasonably representative of the distribution of total income. Unfortunately, only a highly tentative answer to this question is possible. Poland is the only country for which complete data on income in kind are available, but these statistics pertain only to 1957 and later years when most of the collective farms were dissolved. For Bulgaria and the Soviet Union, the only data are frag-

[33] The item is not unimportant. For instance, the increase in working capital in the Soviet Union in 1958, mostly comprising stocks, amounted to 11.1 billion roubles, or about 8.5 per cent of the total earnings of collective farms, including income in kind.

[34] For most countries the understatement is negligible. The net increase in liquid assets (increase in cash and deposits less increase in short-term debt) and the repayment of long-term loans were relatively important only in the Soviet Union, where they absorbed somewhat over 3 per cent of the gross money proceeds of collective farms on the average during the decade.

[35] The members of collective farms participating in construction work are generally paid in money and in kind according to the rules applied to the other members engaged in agricultural production. They are not paid out of the money resources of the indivisible funds although the investment brought about by their work, expressed in value terms, is added to the non-monetary part of the indivisible funds.

Table 3-10. Distribution of Gross Money Receipts of Collective Farms, by Type of Expenditure, 1950-1959

(Percentage)

Country and item	*1950-1959*	*1950-1953*	*1954-1957*	*1958-1959*
Bulgaria				
Operation expenditure	41.0[a]	53.3[b]	38.4	...
Labour remuneration	51.2[a]	42.1[b]	55.2	...
Social expenditure	2.8[a]	1.3[b]	3.4	...
Payments into indivisible funds	5.0[a]	3.4[b]	3.3	...
Czechoslovakia				
Operation expenditure	...	...	47.4[c]	48.2
Labour remuneration	...	...	42.0[c]	37.8
Social expenditure	...	...	3.2[c]	4.3
Payments into indivisible funds	...	...	7.6[c]	9.7
Poland[d]				
Labour remuneration	...	...	75.5[e]	79.7
Social expenditure	...	...	3.1[e]	2.2
Payments into indivisible funds	...	...	19.6[e]	17.9
USSR				
Operation expenditure	42.0[f]	46.9	41.5	37.5[g]
Labour remuneration	38.9[f]	34.1	41.6	37.9[g]
Social expenditure	1.9[f]	2.1	1.9	1.5[g]
Payments into indivisible funds	17.2[f]	17.0	15.0	23.1[g]

Source: See table 3-1.

[a] Rough estimation; in 1958/59 there appears to have been a steep increase in the proportion of income paid into the indivisible funds and a corresponding decline in the other components of expenditure.

[b] 1952-1953.

[c] 1957.

[d] In relation to the total of items listed below. Data on operational expenditure are not available.

[e] 1955-1957.

[f] 1950-1958.

[g] 1958.

mentary and of uncertain coverage. This information could be used, however, to estimate the distribution of total income net of operational expenses in these countries, as shown by the following percentage data:

	Labour pay	*Social expenditure*	*Payments into the indivisible funds*
Bulgaria			
1952-1954	90.1	1.0	8.9
1955-1957	90.9	2.4	6.6
Poland			
1955-1957	86.2	1.4	12.4
1958-1959	85.9	1.3	12.9
USSR			
1952-1954	76.8	1.8	21.5
1957-1958	75.5	1.7	22.8

These estimates, in comparison with the corresponding information on money income which can be derived from table 3-10, indicate that in Bulgaria the proportion of total net income[26] allocated to the indivisible funds was somewhat higher than the share of monetary allocation in net money income, but that in Poland and the Soviet Union the aggregate ratios were substantially lower than those relating money allocations to money income. These differences between the distribution of money and total income indicate that data on money income of other countries can be taken as representative of the distribution of total income only with considerable caution.

[26] Income in money and in kind, net of operational expenses.

The share of money income in total income of the collective farms and the share of the monetary allocation in the total allocation to indivisible funds differed substantially from country to country. This conclusion, although based on a combination of fragmentary data and indirect evidence, seems fairly certain. In all countries the share of money in total income was rising in recent years. Among the countries listed in table 3-10, the proportion of money income was largest in the Soviet Union and smallest in Bulgaria. These differences may reflect variations in government policy not necessarily dependent upon the stage of economic development. Thus, the rise in the monetary share of the contributions to the indivisible funds was influenced by the recent dissolution of state-owned machine and tractor stations, which had provided the farms with the services of machinery in exchange for payments in kind. Since, following the dissolution, the farms had to purchase their own machines with money, it was necessary to increase the money payments into their indivisible funds and thereby raise, with respect to these funds, the ratio of money payments to payments in kind. Since the payments in kind to the machine and tractor stations had been valued at very low prices, it was found expedient to facilitate the shift to the new system by raising the prices paid for collective farm output.[37] But a more lasting factor raising the share of the monetary part of the income of collective farms was the general tendency to substitute money payments for payments in kind to members of collective farms, which could only be brought about by a considerable increase in the sales of agricultural produce in relation to output of collective farms.

This tendency is a direct outcome of general economic changes which occurred in the process of economic growth. The rise in the per capita income of the collective farm members and the ensuing diversification of their needs increase the relative demand for goods produced in other sectors of the economy and therefore make it imperative to expand the share of money payments in their income, provided the supply of consumer goods produced in other sectors of the economy is sufficient to meet this additional demand. The relative fall in non-monetary additions to the indivisible funds of collective farms generally reflects a declipe in the share of contributions in the form of work on investment projects by the collective farm members. Since these projects consist chiefly of construction works, the decline may be the effect of mechanization of agriculture raising the ratio of machinery and equipment to construction in total investment of collective farms. The tendency towards greater mechanization of farm production has of course resulted in an increase in the role of monetary savings in the collective farm sector.

The importance of the saving of collective farms can be assessed in terms of its ratio to total fixed investment —a ratio which depends partly, of course, on the relative importance of collective farms in a nation's economic activity.[38] As may be seen in table 3-11, during 1950-1959 this ratio amounted to about 8 per cent in Bulgaria, 7 per cent in the Soviet Union, slightly over one per cent in Poland and probably the same in Hungary. The difference between Bulgaria and the Soviet Union on the one hand and Poland and Hungary on the other was largely due to the fact that, while collective farming was predominant in the first two countries, it was unimportant in the other two during most of the period. In Poland, the role of collective farms was further reduced in 1958 and 1959. In the Soviet Union and Bulgaria, the rise in the ratio of saving of collective farms to total investment was the result of the increases in recent years of the money incomes of collective farms.

[37] A rise in prices paid for agricultural deliveries may affect the share of monetary contributions to the indivisible funds but would not be reflected in any change in the ratio of the farms' money income to total income. Such a shift would occur only if the volume of sales increased in relation to output, since the general practice in centrally planned economies is to value income in kind at the average price received for marketed output.

[38] In more precise terms, the variation in the ratio of collective farm saving to total fixed investment will be determined by the ratio of saving to income in the collective farm sector, the share of this sector in national income, and the share of total fixed investment in national income.

Table 3-11. Shares of Agricultural and Collective Farm Investment in Total Fixed Investment, 1950-1959

(Percentage)

Country and item	*1950-1959*	*1950-1953*	*1954-1957*	*1958-1959*
Bulgaria				
Total fixed investment in agriculture	21.7	14.0	21.5	29.6
Collective farm investment	12.3	6.9	9.9	20.8
From own resources	7.8	5.1	5.9	13.1
Czechoslovakia				
Total fixed investment in agriculture	14.0	10.1	14.8	17.1
Collective farm investment	7.9	5.5	7.7	10.8
From own resources	...	...	...	...
Hungary				
Total fixed investment in agriculture	16.8[a]	11.3	22.2	18.3[c]
Collective farm investment	...	2.0	3.0[b]	...
From own resources	...	1.0	0.7	...
Poland				
Total fixed investment in agriculture	15.6	10.9	16.2	17.8
Collective farm investment	1.4	1.7	2.3	0.3
From own resources	1.0	1.1	1.8	0.1
USSR				
Total fixed investment in agriculture	17.3	17.0[d]	18.7[e]	16.8
Collective farm investment	9.3	8.7[d]	9.4[e]	10.0[f]
From own resources	6.5	5.4	6.4	7.7

Source: See table 3-1.
[a] 1950-1958.
[b] 1954-1956.
[c] 1958.
[d] 1951-1955.
[e] 1956-1957.
[f] Excluding the value of equipment purchased from the former machine tractor stations.

The fixed investment of collective farms was in all countries and throughout the period considerably higher than their saving. The comparison of saving with investment in the collective farm sector may throw some light on the part played by external sources in financing their fixed investment. In Bulgaria and the Soviet Union, throughout the period covered by the data, investment out of the farms' own resources amounted, respectively, to 65 and 70 per cent of their total fixed investment. In Poland, the average ratios were similar but during the last two years they fell drastically. In contrast, in the Soviet Union, the role played by the farms' own resources expanded significantly in 1958-1959. The remaining share of the fixed investment of collective farms in these countries was largely financed by bank credits. While this share did not amount to more than 30 to 35 per cent of their total fixed investment, it formed a much larger proportion of their monetary outlays on fixed investment. In Hungary and Poland, credit financing seems to have considerably exceeded the monetary expenditure on investment financed by collective farm saving. In Bulgaria and Czechoslovakia, the relative contribution of these two sources probably did not differ very significantly. Only in the Soviet Union did the saving of the farms play a much greater role than bank credits. These differences appear clearly in the ratios of long-term loans to investment financed by the monetary savings of collective farms shown below:

Country	*Period*	*Ratio of long-term loans to monetary saving*
Bulgaria	1950-1954	1.07
	1955-1959	1.09
Czechoslovakia	1953-1959	0.9
Hungary	1950-1956	1.7
Poland	1955-1959	3.6
USSR	1950-1953	0.42
	1954-1957	0.33
	1958-1959	0.15[a]

[a] Excluding loans for the purchase of machinery from machine tractor stations.

As these data refer to gross rather than to net credits, they tend to overstate the relative importance of external financing. In most countries, however, repayment of credits was relatively insignificant during the period under review, the only exception being the Soviet Union. In that country the repayment of long-term credits absorbed on the average during 1950-1956 nearly one-half of the value of loans received. If account is also taken of changes in bank deposits and in net short-term borrowing, the ratio of net external financing to own resources of collective farms seems to have amounted to about 4 or 5 per cent in 1950-1956 and to have been declining in the course of the period.

PRIVATE SAVING

Private saving as defined in this chapter includes the saving of households and individual producers. Following common usage, it is divided into increases in equities and increases in financial assets; the former are defined as gross fixed investment less net long-term borrowing and the latter as net increases in savings bank deposits, holdings of cash and freely cashable bonds.[39]

Data on private equity saving can be derived only for the four countries included in table 3-12. For another country, Czechoslovakia, an approximate notion of the relative importance of such saving is given by the figures on private investment presented in table 3-13. It would appear that in these countries during the nineteen fifties private equity saving absorbed on the average from 2 to 4 per cent of private money income. Measured in relation to national expenditure on fixed investment, the range was from 6 to about 11 per cent. In all these countries private equity saving was more important on the average in 1954-1957 than in 1950-1953. This rising trend has continued in the Soviet Union, Poland and Hungary, but has been reversed in Bulgaria and Czechoslovakia in very recent years.

In the countries for which data are available, private investment was mainly financed from private saving, the dependence on credit financing being generally slight. In the Soviet Union, the share of long-term loans in the financing of private fixed investment was negligible. In Bulgaria and Poland, the ratio of long-term borrowing to fixed investment in the private sector averaged around 15 per cent. But in these two countries the role of external financing was growing rapidly, raising its share of total private investment in Bulgaria from 3 per cent in 1950-1953 to 26 per cent in 1958-1959, and in Poland from 5 to 15 per cent. This expansion of the role of credits in private investment finance was associated with the increasing importance attached by the central authorities to private investment in general, a change in attitude that was expressed in more liberal credit policies and in the allocation of a greater proportion of investment goods to private use. This policy also had a direct impact on the rise in equity saving and was reflected in an increase in total private investment both absolutely and, what is more significant, in relation to total fixed investment.[40] The simultaneous rise in equity saving and credit financing can be clearly seen from the data on long-term borrowing, equity saving and private fixed investment shown in tables 3-12 and 3-13.

In the countries listed in these tables, private investment represented a relatively small share of total fixed investment. In Bulgaria, Czechoslovakia and the Soviet Union it was less than 10 per cent of the total in 1950-1959.

[39] Since current bank deposits held by individuals are either non-existent or negligible, they are omitted from the following discussion. Also omitted are the still negligible amounts of life insurance and similar types of saving.

[40] The rise in the supply of investment goods made available to the private sector would stimulate not only money saving for purchasing investment goods, but also the volume of "direct" investment in the form of work on construction, thereby increasing the volume of equity saving.

Table 3-12. Private Equity Saving and Increases in Saving Deposits in Relation to Money Income of the Population and to Total Fixed Investment, 1950-1959

(Percentage)

A. In relation to money income
B. In relation to total fixed investment

Country and item	*1950-1959*		*1950-1953*		*1954-1957*		*1958-1959*	
	A	*B*	*A*	*B*	*A*	*B*	*A*	*B*
Bulgaria								
Equity saving	2.4[a]	7.7	1.7[b]	6.8	2.8	8.7	2.2	7.0
Increase in savings deposits	2.8[a]	8.4[a]	0.5[b]	1.4[b]	2.2	6.8	4.4	12.7
China (mainland)								
Increase in savings deposits	0.8[a]	3.3[a]	0.9	5.1	0.7	2.7	...	...
Czechoslovakia								
Increase in savings deposits	...	...	...	...	2.2	7.8	2.6	8.0
Eastern Germany								
Increase in savings deposits	3.8[a]	16.5[a]	1.5[c]	7.9[b]	4.2	18.5	5.4	19.2
Hungary								
Equity saving	...	...	...	...	2.6	12.3	4.4[d]	19.9[d]
Poland								
Equity saving	3.5[a]	11.1[a]	1.1[c]	5.9	3.3	11.1	5.8[d]	17.9[d]
Increase in savings deposits	0.9[a]	2.9	0.2[c]	0.5	0.8	2.8	1.3	4.0
USSR								
Equity saving	2.0[a]	5.8[a]	1.6[f]	5.0[f]	1.7[g]	5.1[g]	3.1	7.8
Increase in savings deposits	1.4	4.1	1.2	3.8	1.6	5.0	1.3	3.2

Source: See table 3-1.
[a] Average of data covering the years indicated in the other columns.
[b] 1953.
[c] 1951-1953.
[d] 1958.
[e] 1952-1953.
[f] 1951-1955.
[g] 1956-1957.

In Bulgaria, Poland and the Soviet Union this share was higher at the end than in the beginning of the period, while in Czechoslovakia it was smaller. In that country, as well as in Bulgaria, the share of private investment fell in 1958-1959 as compared to the years 1954-1957, but in the Soviet Union and especially in Poland it increased substantially. A similar change seems to have occurred in Hungary. In each of the last two countries private investment exceeded at the end of the period 20 per cent of total national expenditure on fixed investment.[41] These variations were largely influenced by two factors—the degree of collectivization in agriculture and government housing policy.[42] An enlargement of the collective farm sector by the absorption of private farms obviously reduces the scope for private investment in agriculture. On the other hand, a rise in the resources allocated to housing in general was as a rule accompanied by encouragement to private housing construction in the form of an extension of credits and of an expansion in the supply of construction materials allocated to the private sector.

Private investment in agriculture played a considerable role in Poland, Hungary and probably also Romania, although no precise data are available for that country. The percentage ratios of total and private fixed investment in agriculture to total national expenditure on fixed investment are shown below:

Fixed investment in agriculture	*1950-1958*	*1950-1953*	*1954-1957*	*1958*
Hungary				
Total	16.8	11.3	22.2	18.3
Private	...	...	6.0	8.2
Share of private in total	...	...	27.3	44.8
Poland				
Total	15.2[a]	10.9	16.2	18.6
Private	8.9	4.6	9.2	14.1
Share of private in total	58.6	42.2	56.8	75.8

[a] Figure differs from that published in *World Economic Survey, 1959*, table 3-6, in that it is based on data in current prices.

It appears from these data that private fixed investment in agriculture accounted on the average for as much as 60 per cent of agricultural investment in Poland during 1950-1958, or for about 9 per cent of total national expenditure on fixed investment. In Hungary, the comparable figures, although substantial, were lower, perhaps by about one-half. In both countries the private share of total agricultural investment increased substantially in the course of the period.[43]

[41] In Hungary, for which no data on total private investment are available, equity saving alone was equal to about 20 per cent of total fixed investment in 1958.

[42] As defined here, housing excludes rural housing construction.

[43] Beginning in 1959, the collectivization of agriculture in Hungary was accelerated, thereby reversing the trend towards an increasing importance of private investment.

Table 3-13. Private Investment in Relation to Total Fixed Investment and Net Private Long-term Borrowing in Relation to Private Fixed Investment, 1950-1959

(Percentage)

Country and item	1950-1959	1950-1953	1954-1957	1958-1959
Bulgaria				
Private investment in relation to total fixed investment	9.1	7.1	10.3	9.4
Private housing construction	7.3	7.0	7.7	7.0
Net private borrowing in relation to private fixed investment	15.8	3.0	15.2	26.3
Czechoslovakia				
Private investment in relation to total fixed investment	7.0	5.7	9.0	5.3
Private housing construction[a]	6.2	4.1	9.0	5.3
Eastern Germany[b]				
Private housing construction[a]	...	...	3.3	5.2
Hungary[b]				
Private housing construction	5.5	2.4	6.2	11.7
Poland				
Private investment in relation to total fixed investment	12.8	6.2	12.9	21.1[c]
Private housing construction	3.7	1.6	3.6	6.0
Net private borrowing in relation to private fixed investment	13.4	4.5	14.4	15.1[c]
USSR				
Private investment in relation to total fixed investment	6.0	5.1[d]	5.4[e]	8.1
Private housing construction[a]	6.0	5.1[d]	5.4[e]	8.1
Net private borrowing in relation to private fixed investment	2.9	—	5.1	4.1

Source: See table 3-1.

[a] The share of private housing construction was derived on the basis of the proportion of private construction expressed in square metres of living space. Thus, the value per square metre was assumed to be the same in public as in private construction.

[b] Housing construction from private sources.

[c] 1958.

[d] 1951-1955.

[e] 1956-1957.

In the remaining three countries the major component influencing the relative importance of private investment was private housing construction. As shown in table 3-13, private housing construction accounted for between 3.7 and 7.3 per cent of total fixed investment in all the listed countries.[44] It was most important in Bulgaria, followed in order by Czechoslovakia, the Soviet Union, Hungary and Poland. In all of these countries, the share of private housing in total fixed investment tended to increase during the decade. But in Bulgaria and Czechoslovakia, this trend seems to have been arrested in 1958-1959, in line with the changes in total private equity saving in the countries noted above.

The preceding discussion did not include Eastern Germany or mainland China. While no precise data are available for these two countries, it appears certain that their experience differed considerably from that of the other countries. In the latter, the nationalization of industry was nearly or wholly completed by 1950 and in most of them agriculture was highly collectivized by 1953. On the other hand, in Eastern Germany and mainland China these developments occurred mainly at a later date, especially so in the case of mainland China. Although in these countries private equity saving seems to have been relatively more important on the average during the decade than in the other countries, it tended to decline over time. This fall was less drastic in Eastern Germany, where private equity saving had already declined by the beginning of the period and where its effect was partly offset by the increasing importance of private housing construction in recent years (see table 3-13). Rough estimates for mainland China indicate that private equity saving accounted for about 30 per cent of fixed investment on the average in 1950-1953, but was insignificant in 1958-1959.

In addition to equity saving, private saving as defined in this study includes changes in private financial assets, which comprise increases in savings bank deposits, cash holdings and holdings of freely cashable bonds. The available data on savings deposits in relation to the money income of the population and to total fixed in-

[44] It should be noted that in certain countries the available data on private construction exclude co-operative housing. To that extent, the figures appearing in the table understate the value of private construction.

vestment presented in table 3-12, show that savings bank deposits have been relatively small in most of the centrally planned economies. In fact, only in Eastern Germany did the ratio of savings deposits to fixed investment attain on the average a level as high as 17 per cent. In Bulgaria and Czechoslovakia, the level was about 8 per cent and in the other countries not more than 4 per cent. In relation to the money income of the population, savings bank deposits in mainland China, Hungary, Poland and the Soviet Union were in the neighbourhood of one per cent. In Bulgaria and Czechoslovakia, however, they accounted for around 3 per cent, and in Eastern Germany for about 4 per cent of money income.

The ratios shown in table 3-12 cannot be interpreted as indicating patterns of financial saving for non-transaction purposes. This is because the desire to accumulate funds for future purchases, emergencies or old age in the centrally planned economies is frequently satisfied by increases in private holdings of cash. The relative desire to hold savings deposits as compared with cash for these purposes may vary considerably from country to country and from period to period. In consequence, the volume of private saving for non-transaction purposes may have been greater in relation to the income of the population than that indicated in table 3-12. But even if this factor is taken into account, the total saving ratio still remains very small.

The small proportion of saving in relation to the income of the population may reflect both the relatively low per capita incomes as well as the fact that this income consists almost exclusively of wages, salaries and the remuneration of members of collective farms and does not include profits. In addition, the propensity to save of the population of the centrally planned economies is considerably reduced by the relatively limited need to save for future exigencies because of the absence of fear of unemployment, and the existence of comprehensive social security systems providing for health, disability and old age. At the beginning of the period, increases in the prices of consumer goods and fear of monetary reforms may also have tended to reduce the propensity to accumulate private saving.

In all countries, with the sole exception of mainland China, the proportion of money income saved in the form of bank deposits tended to increase over time. This rise can be mainly attributed to an increase in real income. But it is probable that a factor acting in the same direction was a rise in the supply of durable goods, a fall in their prices and the expectation of further price reductions. The rise in the ratio of savings deposits to money income does not necessarily indicate a corresponding increase in total saving of the population since it may be at least partly due to the shift from cash holdings to savings deposits. During the beginning of the decade which was characterized by inflationary pressures, a large proportion of savings accumulated by peasants or by urban speculators was not deposited in the savings banks but was preferably held in the more anonymous form of cash.

Before turning to the changes in cash saving during the nineteen fifties it is worth noting that in the centrally planned economies the proportion of cash held by the population may be influenced by certain factors which in private enterprise economies operate only in periods of rationing or price fixing. Since in the centrally planned economies prices of consumer goods are fixed by the state and are changed only occasionally, they may sometimes fail to reflect the actual relationships between supply and demand both in the aggregate and for specific goods. In consequence, a situation may arise in which the population retains a proportion of its money income not because of a wish to save but because of an inability to spend. It is true that in such a situation the prices of goods sold on free or illegal markets would rise, but this would result only in transfers of money from some individuals to others without affecting the volume of currency in circulation.[43]

Statistics on changes in cash holdings in relation to private saving during the nineteen fifties are available only for Poland and Eastern Germany, and are presented in table 3-14. Additions to cash holdings in both countries were small in relation to the money income of the population, amounting to about 1.3 per cent in Poland and to two-tenths of one per cent in Eastern Germany in 1951-1959. Throughout the period these ratios fluctuated considerably in both countries under the influence of such factors as the amount of cash held by the population at the beginning of the period, monetary reforms tending to reduce the amount of cash in the hands of the population, changes in the velocity of circulation associated with redistribution of income between groups with different velocities, and others which cannot be analysed within the scope of this report.

The part played by cash saving in total financial saving was much more important in Poland than in Eastern Germany. In fact, in 1951-1959 cash saving amounted to 60 per cent of total financial saving in Poland and to only 6 per cent in Eastern Germany. This difference has tended to decrease during recent years but none the less remained substantial in 1958-1959. The persistent difference between the ratios in these two countries probably results from differences in the habits of the Eastern German and Polish populations rather than from any differences in transaction requirements. Both the cash holdings and the savings deposits were much smaller in relation to total fixed investment in Poland than in Eastern Germany, amounting to about 7 per cent in the former and about 17 per cent in the latter.

[43] To the extent that such transfers result in a redistribution of income in favour of groups with higher propensities to save, the increase in cash could correspond to an actual wish to raise saving in relation to income. In the past, the influence of this factor has been insignificant.

Table 3-14. Total Financial Saving in Relation to Money Income of the Population and Fixed Investment, 1951-1959

(Percentage)

Country and item	1951-1959	1951-1953	1954-1957	1958-1959
Eastern Germany				
Total financial saving in relation to:				
Money income of the population	4.1	1.7	4.2	6.1
Fixed investment	17.5	9.2	18.2	21.8
Ratio of increase in cash holding to total financial saving	5.9	13.7	1.3	11.9
Poland				
Total financial saving in relation to:				
Money income of the population	2.2[a]	1.6[b]	2.5	2.0
Fixed investment	7.3[a]	5.3[b]	8.8	6.2
Ratio of increase in cash holding to total financial saving	60.0	90.6	68.3	35.4

Source: See table 3-1.
[a] 1952-1959.
[b] 1952-1953.

For other countries the available data are fragmentary. In Hungary, cash circulation in 1953 was at about the same level as in 1950, which means that no saving took the form of cash accumulation during that period. In 1954, cash in circulation rose by 25 per cent and continued to increase in subsequent years, but at a slower rate. The average proportion of cash saving to money income probably amounted to 1.5 per cent.

For Bulgaria and the Soviet Union an indication of the cash saving of the population can be derived from data relating to money flows to and from the banking system. These flows may indicate changes in the currency holdings of the population because the latter roughly approximate the difference between the increase in credits extended by the banks and the increase in deposits held by the Government, enterprises and other agencies. The banking statistics appear to imply that cash saving in relation to the money income of the population was negligible in both countries. It might even have been negative until around 1957 and have become significant only in 1958 and 1959.[46]

These findings, if correct, cannot easily be explained on the basis of other information. There are several factors that might account for the absence of any significant rise in the cash circulation during a period of rising money income and retail sales. A shift in the form of saving from cash to bank deposits, which may have taken place during that period, would tend to raise the velocity of circulation of cash and hence reduce the need for issues of currency for transaction purposes. Less likely possibilities would be a change in the desire to save and a reduction in the time intervals between successive payments of wages and other incomes. Another possible explanation would be the failure of consumer incomes to increase as rapidly as sales of consumer goods. This would have resulted in reductions of the cash holdings accumulated during the preceding period because of inadequate supplies of goods. The existence of such a money overhang in the Soviet Union would imply that the monetary reform of 1947 may not have entirely absorbed excess liquid assets. It is possible that the elimination of this overhang during subsequent years was slowed down by considerable price reductions, especially in the early years of the period. Despite a considerable increase in the volume of retail sales, their value may have failed to rise sufficiently to reduce the overhang. After 1954 the downward movement of prices came to an end, but it was not until 1958 and 1959 that money circulation seems to have expanded. While the nature of this expansion is difficult to assess, it seems that at least to a degree it was the counterpart of unplanned accumulation of inventories owing to the poor adaptation of supply to the structure of demand.[47] To the extent that this was the case, the rise in circulation may be considered as involuntary saving of the population. The situation in Bulgaria was in many ways similar to that in the Soviet Union. The limited information available for this country seems to indicate that, after the monetary reform of 1952, the amount of money in circulation did not increase and perhaps even contracted until 1957 when it began to expand and continued to grow in subsequent years.[48]

Despite the lack of precise information on cash saving in most countries, it seems possible to make some generalizations concerning private saving and its com-

[46] For the Soviet Union, the estimate was based on data relating to changes in credit outstanding, budgetary surpluses and bank deposits of the enterprises and organizations. For Bulgaria, only information on changes in credits outstanding and budget surpluses was available. The resulting data, especially those for Bulgaria, should be treated only as tentative approximations.

[47] Trade inventories rose by 51 billion roubles in the two years 1958 and 1959, or by 41 per cent above the level of 1957. The increases in credits extended to trade organizations in 1958 alone amounted to 20 billion roubles.

[48] It is notable that in 1959 credits increased by nearly 4 billion leva, that is by 28 per cent.

ponents. The value of private saving appears to have ranged from about 4 to 7 per cent of the money income of the population. The inter-country variations in the rate of saving were probably smaller than the variations in their components, because these tended to be mutually offsetting. In the course of the period, however, all components of private saving tended to increase in relation to private income.

The relative importance of private saving in the centrally planned economies is indicated by the fact that its ratio to total fixed investment probably ranged from some 12 to 25 per cent. These percentages would be somewhat lower if private saving were compared with total saving rather than with fixed investment.[49]

Apart from equity saving, cash saving and deposits in savings banks, a part of the money income of the population was absorbed in some countries by purchases of government bonds. However, holdings of these bonds differed in character from other forms of saving since they were not negotiable and were usually purchased under social pressure.[50] Because of these characteristics, the purchase of bonds resembled, in some respects, taxation rather than saving. On the other hand, since such purchases did not reduce the net assets of the population, so that their disincentive effect was smaller than that of taxation, the governments preferred to use this form of additional mobilization of resources rather than to increase taxes. In these circumstances, classification of these bonds as saving or taxes is necessarily somewhat arbitrary.

Sales of government bonds to the population were relatively most important in the Soviet Union, where bonds were offered for sale each year from 1950 through 1958. They averaged in these years about 4 per cent of the annual money income of the population, 12 per cent of fixed investment expenditure, and 4.4 per cent of budgetary income. In Hungary, bonds were issued each year during the period 1950-1955, representing about 3 per cent of the money income of the population, 10 per cent of fixed investment expenditure, and 3.6 per cent of budgetary receipts. In Bulgaria, subscriptions in 1951, 1952, 1954 and 1955, represented some 7 per cent of fixed investment expenditure and 2.5 per cent of budgetary income for these years. In Poland, the only mass subscription loan of 1951 amounted to 7.6 per cent of fixed investment and 2.7 per cent of budgetary income for that year. In Czechoslovakia, Eastern Germany and Romania, no bond sales of this type were made during the period under consideration.

FOREIGN SAVING AND INVESTMENT

The role of foreign saving was not analysed in the foregoing discussion because the available data are fragmentary and do not permit direct comparisons between domestic and foreign flows.[51] The following analysis is based mostly on two kinds of indirect evidence: balances of trade, and long-term credits extended but not necessarily utilized. Although both types of data suffer from important deficiencies as measures of capital flows, they nevertheless throw some light on the broader aspects of the subject.

Statistics concerning the trade balances of eight centrally planned economies are presented in table 3-15. In interpreting these statistics it should be remembered that trade balances may differ significantly from balances of payments on current account even though the share of invisibles seems to be smaller in most centrally planned economies than in the private enterprise economies.[52] Whether a centrally planned economy has been a net exporter or a net importer appears to have depended on its level of industrial development. The principal net exporters were the Soviet Union, Czechoslovakia and Eastern Germany, while the net importing countries were Bulgaria, Poland, Hungary, Romania and, for part of the period, mainland China. For the decade as a whole the Soviet Union's export surplus accounted for more than half of the total export surpluses, although its share in the total tended to decline during these years, falling to probably less than a third in 1958-1959. The counterpart of this shift was the rise in the export surpluses of Czechoslovakia and Eastern Germany, the former falling somewhat short of and the latter exceeding the Soviet Union's export surplus by the end of the nineteen fifties.

Among the net importing countries, mainland China appears to have had the largest cumulative deficit, one which, however, tended to decline over time. The trade deficit of Poland, second in order of magnitude, tended to rise throughout the period. The remaining countries,

[49] The ratios of private saving to fixed investment would be much smaller if, instead of gross saving, net saving were used. The percentages indicated in the text do not take into consideration depreciation of private housing, or, in the case of Hungary and Poland, depreciation of private fixed assets in agriculture. As the proportion of depreciation in these sectors to total depreciation was certainly significantly higher than their share in total saving, the importance of net saving by the private sector in total net saving was considerably lower.

[50] This refers to the so-called "mass subscription" loans, which were usually sold on an instalment basis and paid for by payroll deductions. These bonds were usually not cashable before maturity. In some instances, the maturity dates were extended far beyond the original dates and the interest rates were lowered by governments. In addition to these loans, which constituted the bulk of bond sales to the population, there were, in some countries, bonds offered for cash at the savings banks. These did not have to be held to maturity but could be cashed at any time. These, of course, may properly be classified with savings bank deposits.

[51] Foreign loans received and granted are included in budgetary revenue and expenditure but, except in mainland China, are not shown separately and thus cannot be derived from budgetary statistics.

[52] The share of invisibles may in some cases be quite significant. For instance, non-commodity transactions reduced the deficit of the Polish trade balance from 670 million zlotys to 372 million in 1958 and from 1,098 million zlotys to 744 million in 1959. The main item in the balance of invisibles was transport, communications and insurance. Its importance in the Polish balance of payments was the effect of geographical position and the role assumed by Poland in maritime freight transport, and cannot be considered as typical of most of the centrally planned economies.

Table 3-15. Trade Balances of the Centrally Planned Economies, 1950-1959[a]
(Millions of roubles)

Country	*Annual average*			*Total*
	1950-1953	*1954-1957*	*1958-1959*	*1950-1959*
Bulgaria[b]	−8.5	+101.8	−212.0	−51
China (mainland)	−814.0	−208.0	...[c]	−4,088[d]
Czechoslovakia	+200.8	+368.2	+561.5	+3,399
Eastern Germany	−7.5	+558.2	+678.0	+3,559
Hungary	+4.2	−154.5	+58.5	−484
Poland	−227.2	−360.5	−883.0	−2,112
Romania[e]	−152.0	−76.0	+14.0	−808
USSR	+1,051.2	+846.8	+630.5	+8,853

Source: See table 3-1.

[a] A plus sign denotes net exports and a minus sign net imports.

[b] Bulgaria's definition of imports and exports was changed in 1956 presumably in order to bring it closer to the concepts used in the other centrally planned economies. The data for the period prior to 1956 were not revised except for the year 1955 for which both series are available. The comparison of these data seems to indicate that if the new definition had been applied during the period of 1950-1954 the net imports would have been much greater than those shown above.

[c] Only partial data are available for 1958-1959. Estimates for these two years indicate an average annual net export of 258 million roubles.

[d] Total for 1950-1957. Estimated net imports during 1950-1959 amounted to 3,572 million roubles.

[e] All data estimated except for 1958-1959.

Romania, Hungary and Bulgaria, had substantial net imports during the period as a whole. Trends in the balance of trade varied from country to country. Although the trade balance of Bulgaria was negative most of the time, it was probably positive on the average between 1954 and 1957.[53] Hungary experienced a slight export surplus during most of the decade although a large deficit was incurred in 1957, with the result that the decade as a whole showed an import surplus. In Romania, the import surplus declined and in 1958-1959 there was a small export surplus.

The pattern of capital flows suggested by the preceding discussion of trade balances differs in many respects from the pattern implied by the available data on credits extended but not necessarily utilized. The data available on credits extended suffer from deficiencies as a measure of capital flows. These credits may differ considerably in any given period from credits utilized since long-term credit agreements generally stipulate only the value of goods to be delivered, the rate of utilization of the credits being subject to annual treaties which specify the deliveries scheduled for a given year. In addition, data on credits extended exclude repayments received by the lending countries.[54] Furthermore, estimates of credits extended have to be largely based on official pronouncements indicating the global figures presumably covering all loans extended during a given period. But the amount of loans which can be accounted for on the basis of information relating to individual countries and years is considerably smaller than the indicated totals, and the proportion of loans covered by these data seems to vary substantially for different countries and periods. This deficiency reduces the value of data on loans granted and received such as shown in table 3-16 which, being based on incomplete information, generally represent only the amount of credit accounted for by specific information rather than the actual totals, which would be higher. In the following discussion, the data in the table will be supplemented whenever possible by additional information having broader coverage.[55]

According to official pronouncements the total of credits extended by the Soviet Union from the end of the Second World War until 1960 amounted to some 46 billion roubles out of which about 32 billion went to the centrally planned economies.[56] During 1950-1959

[53] *See* footnote *b* to table 3-15.

[54] They also include grants and military aid that may be excluded from data on trade balances.

[55] This applies mostly to the Soviet Union and to mainland China. Estimates of credits granted and received by this latter country that are shown in the table are largely derived from announcements of the Soviet Union which do not always agree with the information derived from Chinese sources. The data based on Chinese sources were not included in the table but are shown separately because, unlike those for other countries, they were derived from budgetary statistics, expressed in domestic prices and related to actual flows of capital. Moreover, because they cover credits granted and received as well as repayment of loans, they provide information necessary to assess the net flows of capital of mainland China. In consequence, it is more convenient to discuss the capital flows of this country separately.

[56] The total of loans granted from 1945 to 1960 was derived from the following information: According to S. D. Sergeev, *Ekonomicheskoe Sotrudnichestvo I Vzaimopomoshch Stran Sotsialisticheskovo Lagerya*, page 110, the credits granted by the Soviet Union to the centrally planned economies since the war until the beginning of 1958 amounted to 28.7 billion roubles. This, together with the 3 billion roubles granted to centrally planned economies in 1958-1960, brings the total to about 32 billion roubles for the period 1945-1960. Credits granted during the same period to countries outside the centrally planned group amounted to about 14 billion roubles thus raising the total credits granted to all countries by the Soviet Union to about 46 billion roubles.

It is not known whether these figures include the value of the Soviet share of the joint companies in former enemy territories. According to A. M. Smirnov, *Mezhdunarodnye Valyutnye I Kreditnye Otnoshenia SSSR*, page 272, "In 1954 the Government of the Soviet Union ceded to the respective socialist countries, the Soviet share of these companies on advantageous conditions, providing for repayments over a period of several years." Such joint companies were established in Romania, Hungary, Bulgaria and mainland China. At the end of 1956 debts arising from the liquidation of joint companies were cancelled by the Soviet Union, at least in some of the countries.

Table 3-16. Credits Granted and Received by Centrally Planned Countries, 1947-1960[a]
(Millions of roubles)

Granting country and period	*Total*	*Receiving countries*								
		Albania	*Bulgaria*	*Czechoslovakia*	*Eastern Germany*	*Hungary*	*Poland*	*Romania*	*China (mainland)*[b]	*Mongolia, North Viet-Nam, North Korea*[b]
USSR										
1947-1949	2,636	49	423	132	...	...	1,912	120	...	...
1950-1953	4,616	373	120	...	485	103	400	...	1,200	1,935
1954-1957	6,264	191	610	54	1,120	975	1,624	540	520	630
1958-1959	1,696	526	250	...	110	710	...	...	...	100
1950-1959	12,576	1,090	980	54	1,715	1,788	2,024	540	1,720	2,665
1960	1,215		650[c]	...	...	...	...	...	...	565
Czechoslovakia										
1950-1953	320	...	320		...	...	...	...	...	...
1954-1957	684	...	...		...	102	460	...	...	122
1958-1959	361	...	...		111	...	250	...	...	...
1950-1959	1,365	...	320		111	102	710	...	...	122
1960	495	...	...		...	...	495	...	...	...
Eastern Germany										
1954-1957	1,143[d]	38	73	...		60	400	110	...	462
1950-1959	1,143	38	73	...		60	400	110	...	462
1960	254	...	...	...		...	254	...	...	...
China (mainland)[b]										
1950-1953	50	50	...	...	...	...	...	...		...
1954-1957	2,951	55	...	...	...	230	...	...		2,666
1950-1959	3,001	105	...	...	...	230	...	...		2,666
Other										
1947-1949	29	...	29	...	...	...	...	...	...	...
1950-1953	145	...	60[e]	...	...	...	...	...	...	85
1954-1957	77	...	...	...	...	47	...	30	...	...
1958-1959	...	...	...	...	...	...	...	...	...	...
1950-1959	222	...	60	...	...	47	...	30	...	85
1960	...	...	...	...	...	...	...	...	...	...
Total, all countries										
1947-1949	2,665	49	452	132	...	...	1,912	120	...	...
1950-1953	5,131	423	500	...	485	103	400	...	1,200	2,020
1954-1957	1,119	284	683	54	1,120	1,414	2,484	680	520	3,880
1958-1959	2,057	526	250	...	221	710	250	...	...	100
1950-1959	18,307	1,233	1,433	54	1,826	2,227	3,134[f]	680	1,720	6,000
1960	1,964	...	650	...	...	...	749	...	...	565

Source: United Nations, *Economic Survey of Europe in 1957* (Sales No.: 58.II.E.1), chapter VI; A. M. Smirnov, *Mezhdunarodnye Valutnye I Kreditnye Otnoshenia SSSR* (Moscow, 1960); S. D. Sergeev, *Ekonomicheskoe Sotrudnichestvo I Vzaimopomoshch Stran Sotsialisticheskovo Lagerya* (Moscow, 1959); I. A. Lysenko, *Ekonomicheskoe Sotrudnichestvo KNR So Stranami Sotsialisticheskovo Lagerya* (Moscow, 1960); A. K. Kakharov, G. M. Prokhorov, *Druzheskaia Pomoshch I Vzaimovygodnoe Sotrudnichestvo* (Moscow, 1959); national periodical publications.

[a] Credits granted to and received from countries other than centrally planned economies are not included. Based only on information on credits announced for individual countries and periods. The aggregate data announced by some countries are considerably larger than the total obtained by adding the credits accounted for in the table.

[b] Data on credits received and granted by mainland China and on loans received by other Asian centrally planned economies are considerably lower than the figures derived from the budgetary data of mainland China. For reasons stated elsewhere in this chapter, this information could not be integrated into the other available statistics.

[c] This loan was agreed upon at the end of 1960 and announced on 1 January 1961. In addition, the Soviet Union agreed to postpone the repayment of 160 million roubles due in 1961-1963. See *Ekonomicheskaya Gazeta*, 20 January 1961 (Moscow).

[d] Including 1.5 million roubles granted by Eastern Germany to Albania in 1951.

[e] Out of which 28.5 million roubles extended jointly by several eastern European countries for the construction of a bridge across the Danube.

[f] In addition, Poland had received from the United States loans amounting to 255 million dollars (1,020 million roubles) in 1957-1959 and 171 million dollars (684 million roubles) in 1960.

the total amount of credits extended by the Soviet Union to all countries equalled about 33 billion roubles.[57]

A tentative estimate of total loans granted during this period by all centrally planned economies to each

[57] The credits accounted for by data relating to individual countries for 1950-1959 amounted to 22 billion roubles, of which, as shown in table 3-16, 12.6 billion roubles were extended to the centrally planned economies. The additional 11 billion roubles unaccounted for by data for individual countries were estimated as follows: Out of the 46 billion roubles total credits for 1945-1960, mentioned in the text, the credits accounted for by data for individual countries for the period 1947-1960 amounted to about 28 billion roubles, leaving an unaccounted for difference of about 18 billion roubles. Since loans in 1945 and 1946 were not very significant, there does not seem to be too great an error in assuming that these 18 billion roubles were distributed uniformly over the period 1945-1960. This would add about 11 billion roubles for 1950-1959.

Out of the 33 billion roubles calculated in this manner, nearly 10 billion roubles were extended to countries other than centrally planned economies.

other and to under-developed and other countries located outside that area would be over 40 billion roubles out of which about 13 billion were granted to the latter countries.

The available information on loans received by the centrally planned economies (see table 3-16) shows that in eastern Europe the leading recipient country was Poland which between 1950 and 1959 received more than 4 billion roubles and between 1947 and 1960 some 7.5 billion.[58] The recorded loans received during 1950-1959 by other eastern European countries were considerably smaller, amounting to 2.2 billion roubles in Hungary, 1.8 billion in Eastern Germany, 1.4 billion in Bulgaria,[59] 1.2 billion in Albania and about 100 million and 700 million in Czechoslovakia and Romania, respectively. The loans received by mainland China from the Soviet Union, as reported in Soviet sources, amounted to about 1.7 billion roubles. The total recorded credits extended to Mongolia, North Korea and North Viet-Nam by all countries equalled 6 billion roubles. However, these statistics, which total about 19 billion roubles, are incomplete; the total of loans received during 1950-1959 by the centrally planned economies probably amounted to about 30 billion roubles.[60]

The following description of trends in the granting of credits is based mostly on data included in table 3-16, since the amounts indicated in the text but omitted from the table are not available on an annual basis. Credits granted by the Soviet Union appear to have increased until 1957 and to have levelled off and declined since then. Czechoslovakia and Eastern Germany seem to have become important lending countries only around 1955. Their foreign lending apparently increased in subsequent years. Mainland China extended loans to other countries as early as 1951. The principal credits extended to Poland by the other centrally planned economies during 1950-1959, amounting to 2.9 billion roubles, were made available in 1956 and 1958, much smaller credits being received in the following years. Since Poland also received long-term credits from the United States beginning in 1956 the situation in the last half of the decade differed considerably from that in the first half when foreign loans were only occasionally available. Somewhat similar were the changes in Hungary, which, except for a 103 million roubles loan from the Soviet Union in 1954, did not receive any credits until the end of 1956. The inflow of foreign loans beginning in November of that year, largely to deal with the difficulties created by the uprising, slowed down during 1957 and was brought to a complete standstill by the end of 1958. Bulgaria obtained considerable credits in 1951-1953. Further capital inflows began in 1956 and have continued since then. Eastern Germany received significant loans in 1953, 1954 and 1957. Mainland China obtained the bulk of its credits between 1951 and 1955.

As the Soviet Union was usually the major supplier of capital to the other centrally planned economies, the trends described above largely reflect the changes in the distribution of credits granted by this country. Between 1950 and 1955 the outflow of Soviet capital was mainly directed to the Asian centrally planned economies, especially mainland China. In 1956 and 1957 the major receivers of credits were the European centrally planned economies. Beginning in 1955, however, the flow of funds to less developed countries located outside of the area of the centrally planned economies began to increase and it has continued since then. In 1958 and 1959 these countries were by far the most important receivers of Soviet credits.

The slowing down of the flow of Soviet capital to other centrally planned economies in more recent years was partly offset by an increase in outflows from mainland China, Czechoslovakia and Eastern Germany. A significant portion of the Chinese capital outflow took the form of grants rather than credits; the major receivers were North Korea, Mongolia and North Viet-Nam. Besides credits and grants to the above Asian countries, mainland China granted loans to Albania and to Hungary. Less substantial grants and credits were also reported to have been extended by this country to Burma, Cambodia, Ceylon, Cuba and Nepal.

Czechoslovakia and Eastern Germany, in addition to supplying credits to the other, mostly European, centrally planned economies, have also stepped up their credit programmes for the less developed countries. While the share of less developed areas in total credits granted by these two countries rose very steeply in percentage terms, it has remained quite modest in absolute terms.

The periods during which these grants were at their highest were not necessarily those when the investment drive was most intense. Hungary received all and Poland most of its loans in periods marked by the pressure of consumer demand and wide-spread discontent. Eastern Germany received foreign credits in 1954 and 1957, when the investment drive was slowing down. In mainland China and in Bulgaria the inflow of capital was synchronized more closely with the acceleration of investment, although in the former country this was true only in the initial years of post-war development.

[58] Apart from loans granted by the Soviet Union, Czechoslovakia and Eastern Germany, these totals also include the loans granted to Poland by the United States amounting to over one billion roubles ($255 million) in 1957-1959 and about 684 million roubles ($171 million) in 1960. The effect of Soviet loans was partially offset by deliveries of Polish coal to the Soviet Union at reduced prices. In November 1956 the Soviet Union decided that Poland should be compensated for the resulting losses and cancelled the outstanding debt, which amounted at the time to 2.1 billion roubles.

[59] Credits received by Bulgaria from the Soviet Union between 1945 and 1960 amounted to over 2 billion roubles according to *Ekonomicheskaya Gazeta*, 20 January 1961.

[60] These totals contain a substantial amount of duplication since the credit-receiving countries, especially mainland China and Eastern Germany, also granted credits to other countries.

The forms in which credits were granted varied from time to time. In the reconstruction period immediately following Second World War, when the ability of the Soviet Union to supply goods was severely limited by the consequences of war devastation, credits granted to eastern Europe seem to have consisted largely of gold and hard currency loans. Beginning around 1950, credits were extended largely in the form of capital goods, and these played a very important role in the industrial development of the recipient countries. In 1956 and 1957, however, the credits extended to eastern European countries were mainly for the purpose of covering the trade deficits caused by an expansion in consumption. The character of foreign capital flows underwent another change in 1958 in connexion with the greater co-ordination of long-term planning achieved through the Council for Mutual Economic Assistance. This co-ordination took the form of agreements providing for inter-country specialization in various fields of economic activity and thereby affected the composition of foreign loans.

The preceding discussion on foreign loans and trade balances was based on statistics expressed in foreign trade prices of the centrally planned economies. These prices are entirely unrelated to domestic prices.[61] In consequence, to analyse capital flows in conjunction with domestic investment it is necessary to revalue the former in domestic prices.

This revaluation raises a number of conceptual and statistical problems, which for lack of adequate information cannot be entirely solved. Among the limited possibilities, the most appropriate would seem to be to convert net imports and credits received by the ratios of domestic to import prices, and net exports and credit granted abroad by the use of the ratios of domestic to export prices. Data on net trade revalued in domestic prices are related to fixed investment in table 3-17. Although these ratios can be considered only as broad approximations subject to error, they seem to indicate that from a purely quantitative point of view the foreign flows were not very important in relation to domestic fixed investment. Among net importing countries the ratio of net imports to fixed investment varied from 7 per cent in Poland to a negligible value in Hungary. Among net exporters, the Soviet Union, which was by far the most important capital exporting country, experienced an average ratio of only one per cent. In Eastern Germany, and probably also in Czechoslovakia (although price co-efficients are not available for this country) the ratio was about 5 per cent. In these two countries the ratio rose in the course of the decade, while in the Soviet Union it fell.

Table 3-17. Foreign Trade Balances as Percentage of Fixed Investment, 1950-1959[a, b]

Country	*1950-1953*	*1954-1957*	*1958-1959*	*1950-1959*
Bulgaria	−1.0	+5.9	−9.3	−0.7
China (mainland)	−13.2	−1.4	...[c]	−4.7[d]
Eastern Germany	+1.9	+9.6	+6.2	+5.0
Hungary	+1.0	−3.8	+2.7	—
Poland	−3.8	−5.6	−9.3	−6.8
USSR	+2.0	+0.9	+0.5	+1.1

Source: See table 3-1.

[a] In order to calculate these ratios it was necessary to have foreign balances expressed in domestic prices (for reasons, *see* footnote *61* to the present chapter). Data on this basis, however, were not available for the Soviet Union and for other countries could be derived only for a single year. For the Soviet Union, therefore, the foreign balances had to be revalued by a conversion coefficient calculated on the basis of official statements indicating that after the 1961 price and exchange rate reform, the new domestic prices, equal to one-tenth of the former prices, corresponded to world prices converted into national currency at the new exchange rate which raised the ratio of the rouble to foreign currencies 4.4 times. The coefficient obtained on this basis corresponds in general to information derived from a comparison of foreign and domestic prices of a number of commodities. For other countries separate conversion coefficients for imports and exports could be obtained for a single year by dividing trade data expressed in foreign prices by corresponding data expressed in domestic prices.

In order to obtain coefficients for other years the available ratios had to be extrapolated by means of indices of the ratio of domestic to foreign prices. The indices were obtained separately for imports and exports. For any country, the index for exports (imports) is a weighted index of the domestic prices of consumer and producer goods divided by the world index of export (import) prices. The domestic price index was weighted by the composition of exports (imports) in 1953. The estimated conversion coefficients for net imports and net exports, respectively, for the average of 1950-1959 are as follows: Bulgaria, 2.38 and 2.23; Eastern Germany, 1.27 and 1.95; Hungary, 1.84 and 3.59; Poland, 6.70 and 6.41; Soviet Union, 2.43 and 2.43. The same coefficients were used for converting data on the foreign lending and borrowing of the centrally planned economies.

[b] A plus sign denotes net exports and a minus sign net imports.

[c] Estimated ratio for 1958-1959 was equal to +0.7.

[d] Total for 1950-1957. Estimated ratio for 1950-1959 amounted to −2.3.

An evaluation of the relative importance of foreign loans as estimated from credits extended or received differs considerably from the evaluation based on foreign trade statistics. The value of credits granted by the Soviet Union in 1950-1959 expressed in domestic prices amounted to about 2.6 per cent of its fixed investment,[62] that of Eastern Germany to 3.3 per cent. The latter country received credits amounting to some 3.1 per cent of its fixed investment, so that its net foreign lending was insignificant. In Bulgaria the ratio

[61] Data on foreign trade and on foreign loans are as a rule based on world prices and converted into roubles or into national currencies of individual countries at the official exchange rates. World prices are meant to be those prevailing in the private enterprise economies. As the official exchange rates are in most cases entirely unrelated to the ratios between domestic and world prices, the data on foreign transactions even if expressed in national currency cannot be compared with those relating to the domestic flows without appropriate adjustment. The problem of adjustment is complicated by the fact that in the centrally planned economies prices of producer goods are determined on an entirely different basis from those of consumer goods. In consequence, the domestic price ratios of consumer and producer goods are entirely different from those prevailing on the world market.

[62] Unless otherwise stated, the ratios used in the following discussion are based on the incomplete data on foreign lending and borrowing recorded in table 3-16, supplemented by the information on loans granted to under-developed areas. If, instead of the data included in the table, information on the total credits granted by the Soviet Union is used, the ratio of total credits granted abroad to fixed investment seems to have amounted to 3.5 per cent during the decade.

of credits received to fixed investment was about 9.5 per cent, and in Hungary about 7.4 per cent. A comparison of these ratios with those based on foreign trade balances shows, as one would expect, very great differences in magnitude.[63] Poland was the only country for which the ratios to fixed investment of credit granted and of net imports were similar, about 6.3 per cent.

The available data for mainland China are more complete than for any other centrally planned economy, since they permit the measurement of net capital flows on the basis of loans actually utilized or disbursed, and of repayments. It is therefore possible to supplement the cursory references to this country in the preceding discussion with further analysis. Between 1950 and 1957 the Soviet Union was the only country extending credits to mainland China. According to Soviet sources, the credits extended totalled 1,720 million roubles, although there exists an estimate of credits received by mainland China amounting to some 5.5 billion roubles.[64] This discrepancy is so large that it can hardly be attributed to any possible errors in the estimated conversion coefficients, and suggests, rather, that the Soviet data have more limited coverage, and may exclude, for instance, loans for non-economic purposes and short-term commercial loans.[65]

Chinese data expressed in domestic prices are not subject to uncertainty arising from the conversion rates. These indicate that between 1950 and 1957 the loans received by mainland China amounted to 5.3 billion yuans while the loans extended by mainland China to other, mostly Asian, centrally planned economies equalled 3.9 billion yuans, net borrowing thus amounting to only 1.4 billion yuans. As the budgetary statistics of mainland China make it possible to estimate repayments of foreign loans, the net flows can be derived. After allowing for repayments there was a net outflow of some 200 million yuans in 1950-1957 but this became more pronounced in 1958-1959. Taking into account recorded loans in 1959, it appears that during the decade as a whole there was a net outflow of capital amounting to at least some 1.6 billion yuans, but, if allowance is made for the estimated loans extended in 1958, the net outflow might have been as much as 2.8 billion.[66]

During the first three years of the decade, in 1950-1952, the excess of credits received over credits granted was very substantial, amounting to 1.9 billion yuans, but the loans of about 1.6 billion yuans extended in 1953, mostly to North Korea, only partly offset by further loans from the Soviet Union, reduced the cumulative net inflow of capital to only 700 million yuans for the period 1950-1953. During the two following years mainland China continued to receive a net import of capital but the repayment of loans beginning in 1954, together with the decline in foreign borrowing and the continuation of foreign lending, resulted in a continuous net outflow of capital beginning in 1956. The importance of these flows measured in relation to total fixed investment is indicated in the following data on capital flows as a percentage of fixed investment:

	Loans received		*Loans granted*	*Net flows*[a]
	Gross	*Net of repayment*		
1950-1952	16.6	16.6	2.1	14.5
1950-1953	11.1	11.1	8.0	3.1
1954-1957	4.5	1.9	3.4	−1.5
1950-1957	6.4	4.5	4.7	−0.2
1958-1959	—	−1.5	0.5[b]	−2.0[b]
1950-1959	3.5	1.8	2.8[b]	−1.0[b]

[a] Net flows are equal to loans received from abroad, net of repayments, less loans extended abroad. Minus sign indicates a net outflow of capital.

[b] These data on loans extended and on net flows are understated because they do not include the loans extended in 1958, for which no data are available. The inclusion of the estimated value of these credits would raise the ratio of net outflows for 1953-1959 to between 3 and 4 per cent of fixed investment and for the decade of 1950-1959 to between 1.4 and 1.9 per cent.

[63] This difference may be due to several factors. Apart from the difference between loans extended and loans utilized, the data on credits granted or received are gross in two other respects: they represent totals granted during a given period without any allowance for the value of loans repaid and for loans granted to other countries. They may also include grants and in some cases military aid, which seems to be excluded from trade balances. On the other hand, the data on trade balance do not include invisibles, which in some countries and during some periods could have been significant.

[64] A recent publication of the Institute of Sinology of the Soviet Academy of Sciences quoted the sum of 1,720 million roubles alongside that of 5,294 million yuans as granted to mainland China (see *Ekonomicheskoe Sotrudnichestvo KNR So Stranami Sotsialisticheskovo Lagerya* (Moscow, 1960)). Unlike the information published by other centrally planned economies concerning loans granted but not necessarily utilized, the data on mainland China refer to actual disbursements or receipts as recorded in the state budgets of that country. These data are presumably expressed in domestic prices, and therefore can be compared directly with domestic investment expenditure expressed in the same prices. But little is known about the relation between domestic and foreign prices expressed in yuans although it is generally assumed that these differences are not very large and in any event much smaller than in other centrally planned economies. Moreover, the actual yuan-rouble exchange rate applied during 1950-1959 is not known although there are reasons to believe that that rate fluctuated. The Soviet bulletins on exchange rates cover the other centrally planned economies and most other countries, but do not contain any data on yuans. The official rate of exchange announced several years ago was two roubles to the yuan. The cross rate obtained by relating the yuan to the rouble and to the pound sterling indicates a ratio of 1.7 roubles to the yuan. But the rate derived from the comparison of the value of Soviet-Chinese trade expressed in roubles and in yuans, during recent years indicates a ratio of 1.04 roubles to the yuan. This rate was used to convert into roubles the loans received by and extended to mainland China during the period under review.

[65] It is possible that the totals announced by mainland China include part of the value of the Soviet shares in the joint Soviet-Chinese companies which, after their dissolution, were to be reimbursed over a period of several years. (*See* the joint Soviet-Chinese communiqué published by *Izvestia* (Moscow), 12 October 1954.)

[66] During 1958-1959 mainland China did not receive any additional credits from abroad. The repayment of foreign loans amounted to about one billion yuans during these two years. The data on credit granted were available only for the year 1959 and amounted to 350 million yuans. The net outflow accounted for so far was equal to 1,350 million yuans, which, together with the 200 million yuans indicated in the text for 1950-1957, brings the total net outflow during the decade to 1,550 million yuans, exclusive of credits extended by mainland China in 1958. A tentative estimate of these credits yielded a figure of 1,280 million for 1958. Adding this amount to the sum indicated above, one arrives at a total of 2.8 billion yuans.

It appears from these data that net foreign borrowing in relation to domestic investment was very important only in 1950-1952 when it amounted to more than 14 per cent. In the course of the following years this ratio fell considerably and, after 1956, became negative. During the decade as a whole the net outflow of capital amounted to between one and 2 per cent of domestic fixed investment. Despite the deficiencies of and differences between measures of capital flows based on statistics of credits and grants extended, on the one hand, and trade balances, on the other, the foreign trade data indicate a roughly similar trend to that just mentioned: a considerable net import during the early years of the decade followed by a steep decline in the surplus in subsequent years, and a net export in 1958-1959.

The increasing importance of loans extended by the centrally planned economies to under-developed countries makes it pertinent to present some additional information on these capital flows, which began around 1954.[67] Very modest at that time, the extended loans rose almost continually from year to year reaching an amount of 3.4 billion roubles in 1959. The total amount of credits granted from 1954 to the latter part of 1960 was equal to about 18.4 billion roubles. The distribution of these loans over time is shown below (in billions of roubles):

1954-1955	1.4
1956-1957	4.0
1958-1959	7.4
1960	5.6

The Soviet Union was by far the most important lending country in the group. It provided over 75 per cent of the total credits extended. Mainland China participated in the aid to under-developed countries in the amount of 720 million roubles, a large proportion of which consisted of grants.[68] Eastern European centrally planned economies granted some 3 billion roubles to under-developed areas, Czechoslovakia and Eastern Germany being the most important lenders.

The expansion of lending was accompanied by a substantial increase in the number of countries receiving financial aid from the centrally planned economies. Up to 1957 almost all the credits were granted to five countries: Afghanistan, Egypt, India, Indonesia and Yugoslavia; by the middle of 1960 this number had increased to twenty. The percentage distribution of credits and aid extended by the centrally planned economies to less developed countries is shown below by area:[69]

Asia	39.6
India	20.2
Middle East	23.2
United Arab Republic	17.0
Africa	6.1
Latin America	7.0
Europe	24.1

These loans were usually granted at low interest rates of 2 or 2.5 per cent and were repayable in from ten to thirty years, depending on the purpose and size of the loan. In cases where the loans were extended for the construction of a specific project, the repayment was to begin only after its completion. As a rule the debtor country was entitled to repay the loans in domestic currency or by export of domestic products to the creditor country. Credits were only exceptionally granted in hard currency. In most cases credits consisted of goods necessary for specific projects, and frequently of assistance in preliminary programming and surveying. As these preliminary stages are time consuming, perhaps no more than 25 per cent of the total credits extended to under-developed countries between 1954 and 1960 had been actually utilized by the end of the decade.

[67] The data on these flows could not be presented in table 3-16 because of lack of adequate information on their distribution by lending countries.

[68] In contrast to the Soviet Union, the aid of which consisted almost exclusively of credits.

[69] Based on information from the receiving countries. Most of the credits originally offered to Yugoslavia were indefinitely postponed by the Soviet Union and other eastern European countries.

Conclusion

Although an insufficiency of data has precluded an integrated analysis of changes in sectoral saving and investment, the foregoing discussion affords a basis for a few general conclusions about the sectoral pattern of investment finance in the centrally planned economies in the nineteen fifties.

The most evident conclusion is that budgetary saving, which on the average was the largest source of funds for financing investment, accounted for a declining share of saving during the course of the decade. This shift, as well as inter-country variations in the share of budgetary saving in total saving, was largely influenced by variation in government policies with respect to state enterprises, collective farms and the private sectors.

The decline in the share of budgetary saving in the total was associated with a rise in the saving and in the degree of self-financing of the state enterprise sector, reflecting important alterations in government policy. At the beginning of the decade, most of the profits were transferred to the budget regardless of the financial needs of the enterprises, which were served instead by budgetary grants. This policy, tending to maintain strict, centralized control over the finances of the enterprises, was subsequently altered so as to leave a much greater portion of the profits at the disposal of the enterprises. An important factor influencing this change was the increased emphasis placed on expansion of output through technical improvements in the existing enterprises rather than through new construction. This policy reduced the need to transfer funds from old to new enterprises through the state budget. The increase in the share of the saving of the state enterprise sector in total saving was also influenced by price reforms which, by eliminating deficits or increasing the profits of enterprises, reduced their reliance on budgetary grants.

The state enterprise sector was not the only beneficiary of shifts in the sectoral distribution of saving; the collective farms and the private sector also substantially increased their share of total saving. In the collective farm sector, this change came about largely through a rise in money earnings and in the undistributed revenue of the collective farms resulting from increases in the prices paid by the state purchasing agencies. The rise in private saving was influenced by several factors: a substantial improvement in real personal income, an increase in the availability of durable consumer goods and—probably most important—an increase in the supply of investment goods allocated by the state authorities to private housing construction. As a result of all these changes, the sectoral distribution of saving was quite different at the end of the period from that at the beginning. While data limitations prevent a statistical description of these changes in some of the centrally planned economies, sufficient information is available to indicate that in five countries in 1958-1959 budgetary saving amounted to only about a half or less of total saving. In some countries private saving, and in others the saving of the state enterprise sector, ranked second in importance. The saving of collective farms was generally less significant, ranging from a negligible proportion in Poland to about 11 per cent of the total in Bulgaria.

Although variations in the sectoral distribution of saving were due in large part to variations in government policies, they also reflected changes in the share of national income devoted to investment. During the earlier period of development, the mobilization of an increasing share of the national income for productive investment in the state enterprise sector had as its counterpart a considerable restriction on the growth of the income of collective farms and households and on the supply of physical resources allocated to their investment. Subsequently, when the investment drive slackened, a change in this policy had the direct effect of increasing private and collective farm saving. Similarly, the rate of saving in state enterprises increased as a result of modifications to methods of their financing which were associated with a deceleration in the growth of investment.

The directions taken by international capital flows were largely but not entirely influenced by the differences in the level of industrial development among the various centrally planned economies. The bulk of the foreign loans was received by the less industrialized European and Asian countries. Among the lending countries, by far the most important was the Soviet Union, but substantial loans were also granted by Czechoslovakia and Eastern Germany and, rather surprisingly, by mainland China. Although the credits received by the latter country from the Soviet Union were very considerable, the loans granted by mainland China to other countries were not much smaller, and if account is taken of the repayment of loans, mainland China, the least developed country of the group, appears as a net exporter of capital.

The flow of credits was not always synchronized with the intensity of the investment drive in the receiving countries. In some cases most of the credits were received during periods characterized not by an expansion of investment but by rising claims for consumer goods.

The share of foreign loans in total saving both in lending and in borrowing countries was relatively small throughout the period, especially if calculated on a net basis. But the actual impact of the inflow of foreign capital on the development of the receiving countries was at times considerably greater than would appear from the quantitative ratios relating to the whole decade. The loans received in the form of machinery and equipment for strategically essential industries played a considerable role in the post-war recovery of several countries, and in the initiation of their industrialization. In the subsequent period, the loans were largely used by receiving countries to overcome specific shortages that impeded their further economic growth or stability.

Part II

CURRENT ECONOMIC DEVELOPMENTS

Chapter 4

RECENT TRENDS IN INDUSTRIAL COUNTRIES

The year 1960 was characterized by diverging trends in demand and output in North America on the one hand, and in western Europe and Japan on the other. At the beginning of the year demand was buoyant throughout the industrial countries. In the United States the rapid recovery from the impact of the steel strike led to expectations that 1960 would be another boom year. In several western European countries, in contrast, there was a likelihood that expansion might be slowed down by the growing pressure on productive capacity and by the increasing tightness of labour supply. In fact, demand in the United States faltered in the second quarter of 1960 and a mild recession developed during the second half of the year. The level of output for the year as a whole nevertheless surpassed that for 1959, though the rate of increase was, of course, substantially lower than in the preceding year. In most western European countries and Japan, supply proved to be more elastic than had been anticipated; and as total demand continued to rise in 1960, output generally expanded at a higher rate than in 1959. However, because of the setback in North America, the over-all rate of growth for industrial countries declined from 6 per cent in 1959 to 4 per cent in 1960 (*see* table 4-1).

Table 4-1. Industrial Countries: Gross National Product, 1958-1960[a]

(Indices at constant prices; 1957 = 100)

Year	*Industrial countries*	*North America*	*Western Europe*
1958	100	99	102
1959	106	105	106
1960	110	108	113

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from replies of Governments to the United Nations questionnaire of November 1960 on economic trends, problems and policies; Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris), and official national sources.

[a] Regional totals are derived from country data at prices and exchange rates of 1954. Total for industrial countries includes Japan, for which data refer to fiscal years beginning in April.

The 1960/61 recession in the United States was initiated by a sharp fall in the rate of inventory accumulation, which more than offset the expansionary effect of advances in other demand components, notably in exports and public consumption. In the first quarter of 1961, however, there was also a small decline in the volume of final purchases of goods. In Canada, the upswing was brought to an end at about the same time, when inventory accumulation, fixed investment and exports declined simultaneously. But domestic expansion soon resumed its strength and consequently output in the fourth quarter of 1960 recovered to a level above that of the first quarter. Unemployment, which had failed to decline in line with the recovery of output after the 1957-1958 recession, rose substantially both in Canada and in the United States.

In most western European countries the rise in total output attained peak rates in the early part of 1960. During the rest of 1960 output continued to advance but, generally, more slowly; in a number of countries, however, rates of expansion tended to stabilize towards the end of the year. The principal factors in the expansion of 1960 were an upsurge of industrial investment in plant and equipment and the continuing buoyancy of consumer demand for durables and other manufactures. Early in the year the expansion was also enhanced to some extent by stockbuilding, although in view of their high import content, changes in inventories tended to have a more limited effect on domestic output in the western European countries than in the United States. The decline in the rates of growth in the course of 1960 resulted partly from a weakening of demand for exports, particularly to the United States, and to some extent also from measures of restraint which several countries had introduced at the height of the upswing early in the year. The impact of these measures was especially evident in the slackening of the pace of residential construction, which had contributed largely to the upswing of activity in 1959. In addition, government consumption and public construction were held down in several countries for the purpose of reducing pressure on resources. The main features of the 1958-1960 upswing are shown in table 4-2.

The expansion in western Europe in 1960 was accompanied by rising demand for labour and further reductions in the level of unemployment. Many countries experienced a growing shortage of skilled labour, especially in the construction and engineering industries, but there was generally no over-all labour shortage. Tightening labour markets in western Europe brought about some acceleration of wage increases, which began to exert pressure on prices in the latter part of the year when the rise in output slowed down. Price increases, however, remained moderate. The relative stability of prices in 1960 reflected in part a decline in import prices for industrial materials and foodstuffs, as well as satisfactory crops in the majority of countries, which helped to keep domestic food prices stable.

Table 4-2. Gross National Product and its Major Components, 1957-1960[a]

(At constant prices; as percentages of 1957 gross national product; for 1958-1960, increments from preceding year)

Country and year	Gross national product	Personal consumption	Government consumption	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
Western Europe[b]								
1957	100.0	64.8	13.7	19.4	1.7	0.3	23.5	23.1
1958	2.1	1.5	0.2	0.5	−0.5	0.5	0.7	0.3
1959	4.4	2.4	0.6	1.3	−0.1	0.1	2.2	2.1
1960	6.4	3.6	0.7	2.0	1.4	−1.2	2.6	3.7
Austria								
1957	100.0	65.4	12.0	22.1	1.5	−1.0	28.4	29.4
1958	3.3	2.7	0.5	0.7	—	−0.6	0.2	0.8
1959	3.9	3.4	0.4	1.1	0.5	−1.5	2.6	4.0
1960	9.0	4.9	0.2	3.0	...	−3.4	3.6	7.1
Belgium								
1957	100.0	71.4	9.8	15.4	1.4	−2.0	35.6	33.7
1958	−1.8	−1.8	0.2	−0.8	−1.4	1.9	1.2	−0.8
1959	2.5	3.6	0.3	0.6	0.3	−2.3	1.7	4.0
1960	4.8	...	...	...	...	...	...	...
Denmark								
1957	100.0	68.1	12.5	16.3	2.1	0.9	35.3	34.4
1958	2.8	3.1	0.2	1.1	−2.6	1.0	3.2	2.2
1959	5.5	4.0	0.6	3.0	3.3	−5.3	2.0	7.2
1960	5.8	4.5	0.5	2.2	−0.3	−1.1	3.2	4.4
Finland[c]								
1957	100.0	63.2	11.7	25.5	...	−0.4	22.6	23.0
1958	0.2	−2.2	0.3	0.2	...	1.9	−0.4	−2.3
1959	6.5	4.2	1.0	1.9	...	−0.6	3.5	4.1
1960	8.2	5.2	0.6	4.7	...	−2.3	4.2	6.5
France								
1957	100.0	67.3	14.2	18.7	1.9	−2.1	13.9	16.0
1958	1.3	0.1	−0.5	0.3	0.3	1.1	0.5	−0.6
1959	2.1	0.6	0.5	0.1	−1.1	2.0	1.5	−0.5
1960	5.2	2.9	0.7	1.0	0.7	−0.1	2.3	2.3
Germany (Federal Republic)								
1957	100.0	59.6	12.3	21.5	2.6	4.1	25.5	21.4
1958	3.3	2.8	1.0	1.3	−0.8	−1.1	1.1	2.2
1959	6.9	3.5	1.2	2.5	0.4	−0.8	3.7	4.5
1960	8.8	5.1	1.0	2.9	0.5	−0.8	3.9	4.7
Italy								
1957	100.0	66.6	11.1	21.7	0.5	—	15.3	15.3
1958	4.4	2.0	1.1	0.3	0.1	1.0	0.7	−0.2
1959	6.9	3.4	0.2	1.8	0.1	1.3	2.7	1.3
1960	7.4	4.6	0.7	3.4	1.1	−2.3	3.7	6.0
Netherlands								
1957	100.0	61.3	13.0	25.0	2.8	−2.1	53.3	55.4
1958	1.7	0.4	−0.6	−2.8	−2.5	7.2	4.4	−2.8
1959	5.7	2.0	−0.3	2.8	1.6	−0.5	6.5	6.9
1960	9.9	3.8	0.4	2.7	3.3	−0.2	6.8	7.2
Norway								
1957	100.0	59.7	12.0	28.7	0.9	−1.2	44.0	45.3
1958	−0.2	0.1	0.4	1.4	−1.8	−0.4	1.2	1.5
1959	4.3	3.0	0.6	−1.2	−0.3	2.2	3.9	1.7
1960	7.0	3.7	0.3	0.8	3.0	−0.8	4.4	5.2
Sweden[d]								
1957	100.0	61.4	16.6	20.0	2.2	−0.2	24.8	25.1
1958	0.9	1.6	0.6	1.8	−2.4	−0.8	−0.2	0.4
1959	5.6	2.4	1.0	2.5	−0.5	0.3	1.5	1.3
1960	2.7	1.3	0.6	0.7	1.5	−1.4	3.2	4.7

Table 4-2. Gross National Product and its Major Components, 1957-1960[a]
(continued)

(At constant prices; as percentages of 1957 gross national product; for 1958-1960, increments from preceding year)

Country and year	Gross national product	Personal consumption	Government consumption	Fixed investment	Change in inventories	Exports and imports of goods and services: Balance	Exports	Imports
United Kingdom								
1957	100.0	67.6	15.4	15.4	1.3	0.3	27.1	26.7
1958	1.3	1.7	−0.1	0.2	−0.7	0.2	—	—
1959	2.8	2.8	0.3	0.9	0.2	−1.3	0.7	2.0
1960	4.8	2.5	0.5	1.6	2.2	−2.0	1.2	3.1
North America								
1957	100.0	65.3	16.5	17.1	0.4	0.7	6.9	6.2
1958	−1.0	0.7	0.7	−1.2	−0.5	−0.8	−0.7	0.1
1959	6.2	3.7	0.4	1.3	1.4	−0.6	0.2	0.8
1960	2.7	1.7	0.1	0.3	−0.7	1.1	0.8	−0.2
Canada								
1957	100.0	67.4	12.3	25.0	0.6	−5.3	22.5	27.7
1958	1.1	2.1	0.6	−1.3	−1.9	1.9	0.4	−1.5
1959	3.2	3.0	−0.3	−0.3	2.1	−2.1	0.4	2.7
1960	2.2	2.1	0.1	−1.1	0.4	0.9	0.7	−0.4
United States								
1957	100.0	65.3	16.8	16.5	0.3	1.1	6.0	4.8
1958	−1.2	−0.6	0.7	−1.2	−0.3	−1.0	−0.8	0.2
1959	6.5	3.8	0.4	1.3	1.5	−0.5	0.1	0.7
1960	2.7	1.7	0.1	0.5	−0.7	1.1	0.9	−0.2
Japan[e]								
1957	100.0	59.9	9.9	25.8	4.6	−0.1	13.7	13.8
1958	3.6	3.4	1.0	2.7	−4.3	0.7	0.1	−0.6
1959	18.3	4.4	0.8	6.7	8.6	−2.2	2.1	4.3
1960	13.3	5.0	1.6	9.4	−1.1	−2.4	1.5	3.9

Source: See table 4-1.

[a] Data conform as far as possible to the OEEC system of national accounts. Regional totals are derived from country data at prices and exchange rates of 1954.

[b] Excluding Austria and Belgium.

[c] Personal consumption includes changes in inventories.

[d] Exports include net services; imports refer to merchandise only.

[e] Fiscal year beginning 1 April of year stated.

Despite the downturn of demand in North America, the trade of industrial countries rose to a peak level in 1960. As import demand declined in North America an import boom of unprecedented magnitude developed in western European countries, which gave fresh impetus to the expansion of world trade. This upsurge of demand supplied the main stimulus to a recovery of exports from the United States and to a further expansion in the exports of primary producing countries. It also led to a considerable acceleration of trade within western Europe, especially among the members of the European Economic Community.

The expansion of exports from western Europe was arrested after the first quarter of 1960 when United States imports began to decline, and trade balances deteriorated progressively during the rest of the year. The deterioration occurred principally in trade with the United States, where the trade balance recorded a corresponding improvement. But despite this shift in external balances, the rate of reserve accumulation accelerated in western Europe, while the United States reserve position deteriorated no less than in 1959. This development resulted primarily from a large outflow of short-term funds from the United States during the latter part of the year, chiefly to western European financial centres.

Relying primarily on credit policy to restrain the upsurge of demand, several western European countries, notably the Federal Republic of Germany and the United Kingdom, raised discount rates early in 1960. As the pace of activity slackened in the United States and credit was eased, interest rate differentials widened and United States funds were attracted to western Europe. The re-emergence of large-scale movements of "hot money" as a major source of payments disequilibrium was facilitated by the elimination of payments restrictions in the major European financial centres. The outflow of United States funds was also enhanced by speculation on a possible realignment of exchange rates, and it occasioned a substantial drain of the United States gold reserve. To stem the inflow of United States funds, and in an effort to co-operate in preventing a further deterioration of the United States balance of payments, discount rates were lowered in the Federal Republic of Germany and the United Kingdom late in 1960 despite continuing domestic demand pressure.

The experience of 1960 has focused attention on the limitations of credit policy, as a regulator of domestic economic activity. In view of inevitable differences in the timing of cyclical changes in the major industrial countries, reliance on the interest rate as the principal instrument of anti-cyclical policy is liable to give rise to interest rate differentials, which may set in motion international flows of short-term funds. So long as basic balance of payments disequilibria persist in some of the major industrial countries, "hot money" movements can be expected to produce recurrent payments crises. While the elimination of structural imbalance remains the chief goal of government policy in the field of international payments, increasing consideration is also being given to the question of appropriate domestic anti-cyclical policies.

Domestic developments

THE DOWNTURN IN NORTH AMERICA

The decline of output in the United States which began in the second quarter of 1960 brought to an end the shortest of the post-war upswings. The rise in industrial production had lasted only twenty-five months when the downturn began, compared to thirty-five months of expansion during the years 1954-1957, and forty-five months in 1949-1953. A comparison of the cycle of 1957-1960 with the preceding one sheds some light on the factors that have accounted for the brevity and lack of vigour of the recent upswing. As table 4-3 shows, the average annual rate of growth in gross national product was higher during the period 1957-1960 than in 1953-1957, but the expansion of final demand in the private sector slackened considerably between the two cycles. The factors which accounted for the more rapid growth in 1957-1960 were to some extent accidental: an abnormally high rate of inventory accumulation in the first quarter of 1960 after the termination of the steel strike, which raised the 1957-1960 growth rate; and cutbacks in defence expenditure during the period 1953-1957, which depressed the over-all growth rate of that period. But the more important fact is that the growth

Table 4-3. United States: Average Quarterly Changes in Selected Economic Indicators During Recent Business Cycles[a]

(Percentage)

Item	*During expansion*		*During contraction*			*During entire business cycle*	
	1954-1957	*1958-1960*	*1953-1954*	*1957-1958*	*1960-1961*	*1953-1957*	*1957-1960*
Gross national product	1.0	1.4	−0.9	−2.4	−0.7	0.6	0.7
Final purchases[b]	1.0	1.1	−0.5	−1.4	−0.1	0.6	0.6
Private purchases[c]	1.3	1.2	−0.2	−2.0	−0.4	0.9	0.6
Personal consumption	1.1	1.2	—	−0.8	−0.4	0.9	0.8
Durables	1.5	2.1	−1.0	−5.4	−3.6	0.9	0.7
Gross private fixed investment	0.8	1.4	0.1	−4.8	−2.2	0.8	0.2
Producer durables	1.4	1.9	−1.5	−9.5	−3.3	0.7	−0.3
Government purchases	−0.1	0.4	−3.0	1.6	1.2	−0.8	0.7
Manufacturing production	1.6	2.8	−2.3	−5.1	−2.8	0.5	0.7
Durables	1.7	3.2	−3.7	−7.4	−3.6	0.2	0.3
Non-agricultural employment	0.7	0.7	−0.8	−1.5	−0.7	0.3	0.1
Manufacturing[d]	0.4	1.0	−2.9	−4.0	−2.7	−0.5	−0.4
Durable goods industries	0.7	1.3	−3.9	−5.6	−3.6	−0.6	−0.6
Unemployment[e]	−1.7	−1.9	3.3	3.6	1.6	1.0	0.8
Total personal income	1.7	1.6	±	−0.1	0.1	1.2	1.2
Wage and salary disbursements in manufacturing	2.0	2.1	−2.1	−2.8	−2.0	0.9	0.8
TOTAL TRANSFER PAYMENTS	2.4	1.0	3.4	6.1	3.1	2.7	2.4

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from United States Department of Commerce, *Survey of Current Business*, *Business Statistics* and *U.S. Income and Output* (Washington, D.C.).

[a] Changes computed from seasonally adjusted monthly or quarterly data. For the monthly data, three-month averages centred on the month of business cycle turning point have been used. The turning point months (July 1953, August 1954, July 1957, April 1958 and May 1960) and quarters (second quarter 1953, second quarter 1954, third quarter 1957, first quarter 1958 and second quarter 1960) up to May (second quarter) 1960 are according to the National Bureau of Economic Research. February (first quarter) 1961 is the latest period for which data are included in the table.

[b] Gross national product less change in inventories.

[c] Final purchases less government purchases of goods and services.

[d] Production workers only.

[e] Absolute change in unemployment as a percentage of civilian labour force. For example, the averages for August 1954 and July 1957 were 6.0 and 4.3 per cent, respectively, and the change shown in the table for 1954-1957 is −1.7.

of final demand has become less vigorous during the recent cycle, measured from peak to peak, than during the previous one. In particular, private fixed investment, and especially investment in machinery and equipment, has expanded less rapidly, owing in part at least to the existence of considerable excess capacity.

The setback in 1960 was nevertheless relatively mild. Gross national product in real terms declined less during the first two quarters of recession than in the corresponding period of earlier recessions, and final demand even recorded a moderate advance. Unemployment, none the less, rose sharply. The decline of total output during the second quarter of 1960 was preceded by a period of stagnation in total manufacturing production and of rapidly declining output in the primary metals sector.

Although a number of factors combined to bring the upswing to an end and to reverse the trend of production, its immediate cause was, as noted earlier, a sharp decline in the rate of inventory accumulation after the first quarter of 1960 (*see* table 4-4). Throughout the upswing of 1958-1960 inventory movements had strongly influenced its course. Stockbuilding, for its part, was affected by the strike in the steel industry in 1959. In the first half of 1959 intensive stockbuilding in anticipation of the strike contributed to an acceleration of the pace of expansion. The strike, which extended over most of the second half of the year, was accompanied by inventory liquidation in the durable goods sector. The settlement of the strike in November 1959 was followed by an upsurge of inventory investment as steel using industries rebuilt their depleted stocks of materials, and restocking also took place throughout the channels of

Table 4-4. North America: Gross National Product and its Major Components, by Quarter, 1958-1960

(Change from preceding quarter; seasonally adjusted annual rates)

Country, unit and period	*Gross national product*	*Change in business inventories*	*Final demand*	*Personal consumption*		*Gross fixed investment*[a]			*Government expenditure*[a]	*Balance of goods and services*
				Total	*Durables*	*Total*	*Residential construction*[b]	*Machinery and equipment*		
United States (billions of 1954 dollars)										
1958										
Third quarter	8.5	2.8	5.7	3.6	0.3	0.2	0.9	−0.4	1.4	0.4
Fourth quarter	11.2	4.2	7.0	4.6	2.6	2.3	1.6	0.9	1.5	−1.3
1959										
First quarter	8.6	3.9	4.7	4.5	1.7	2.1	1.5	0.2	−0.4	−1.6
Second quarter	11.3	3.3	8.0	6.1	2.3	2.8	1.2	1.7	0.1	−1.1
Third quarter	−7.9	−10.1	2.2	0.8	−0.4	0.1	−0.8	0.2	−0.7	2.1
Fourth quarter	2.8	3.8	−1.0	2.0	−0.1	−1.1	−1.3	0.5	−2.0	0.2
1960										
First quarter	11.4	6.0	5.4	2.0	0.7	0.8	—	0.2	1.1	1.4
Second quarter	1.7	−5.0	6.7	3.5	0.1	1.6	−0.1	1.8	0.7	0.8
Third quarter	−4.2	−4.2	—	−1.4	−1.7	—	−0.2	0.2	—	1.5
Fourth quarter	−1.0	−3.0	2.0	0.7	1.0	−0.7	−0.4	−0.6	0.8	1.2
Canada[c] (billions of Canadian dollars at current prices)										
1958										
Third quarter	0.30	0.21	0.09	0.28	0.08	−0.08	0.04	−0.04	0.10	−0.29
Fourth quarter	0.48	−0.07	0.56	0.48	0.10	0.07	0.08	0.09	—	−0.15
1959										
First quarter	0.56	0.55	0.01	0.32	0.06	−0.37	−0.07	−0.08	0.09	−0.22
Second quarter	0.61	−0.24	0.85	0.16	0.04	0.30	−0.08	0.26	0.17	0.17
Third quarter	0.31	0.31	—	0.30	−0.04	0.13	−0.03	0.15	−0.21	−0.27
Fourth quarter	0.44	−0.28	0.72	0.33	—	−0.06	0.04	−0.12	0.06	0.38
1960										
First quarter	0.51	0.57	−0.06	−0.02	—	−0.08	0.08	0.05	0.09	0.12
Second quarter	−0.45	−0.33	−0.12	0.48	−0.01	−0.53	−0.24	−0.16	0.13	−0.30
Third quarter	0.28	−0.56	0.84	0.04	−0.09	0.12	0.05	−0.04	0.21	0.54
Fourth quarter	0.60	0.35	0.24	0.52	0.30	0.15	−0.02	0.15	0.09	−0.45

Source: Canada, Dominion Bureau of Statistics, *National Accounts Income and Expenditure*, fourth quarter and preliminary annual, 1960 (Ottawa); United States Department of Commerce, *Survey of Current Business*, and *Economic Report of the President*, January 1961 (Washington, D.C.).

[a] Public investment included in government expenditure.

[b] Residential non-farm construction for the United States; new residential construction for Canada.

[c] Changes in gross national product include "residual error", which is not shown separately in the table.

distribution for durable goods in anticipation of a strong advance in final demand. When this process came to an end in the second quarter of 1960, the rate of accumulation was sharply reduced. Business policies regarding inventories became more cautious as the year progressed and the growth of final demand failed to come up to expectation. By the last quarter of the year inventory liquidation was wide-spread.

Final demand, which had slackened during the strike, made a good recovery in the first half of 1960. After the middle of the year, however, domestic demand in the private sector declined, further advances in final demand being confined to the public and external sectors. The contraction of final demand began with a sharp decline in consumer expenditure on durables during the third quarter of the year, and subsequently spread to business fixed investment.

Personal consumption played an important part throughout the cycle of 1958-1960. During the 1957-1958 recession, personal income had declined little, and when it began to advance in the second quarter of 1958, consumer spending, especially on durables, was stepped up, partly as a result of the early recovery of residential construction. The rise in personal consumption was slowed down considerably after mid-1959 with the levelling off of consumer income during the steel strike. Modest increases in consumer spending during the second half of 1959 occurred at the expense of personal saving. The subsequent recovery of income in 1960 was accompanied by a rise in the rate of personal saving, as consumption expanded less rapidly than income.

During the second half of 1960 income from employment in the private sector declined steadily in consequence of rising unemployment and a shortening of the work week. Other income components, including labour income in the public sector and personal interest income, continued to advance, and transfer payments played their stabilizing role. The level of total consumer income was therefore not affected by the contraction of the private wage and salary bill, but as the buildup of savings continued in the third quarter of the year personal consumption declined. The relative sluggishness of consumption during the first half of 1960 was a development that had not been foreseen. It led in the first instance to over-stocking and subsequently contributed to the sharp decline in the rate of inventory accumulation. Business outlays for plant and equipment, which had started to recover later than other demand components in 1958, continued to rise vigorously in the first half of 1960. But as the inventory cycle began to turn downwards and consumer demand slackened, the existing productive capacity proved more than adequate and investment programmes were curtailed.

Housing construction in the United States, which had reached a peak early in 1959, declined continuously until the second half of 1960. Its level in 1960 was 7 per cent below that in 1959 and the number of new housing starts fell by 17 per cent. Tight credit conditions that prevailed in the latter part of 1959 and during a good part of 1960 were the main contributing factor. In the second half of 1960, the situation in the mortgage market was eased and borrowing costs were lowered as a result of government anti-cyclical measures. The response to these stimuli was, however, not immediate. But in the fourth quarter of the year there was a sign of some recovery, as reflected, for example, in the increase of the number of applications for mortgage backing by the Federal Housing Administration and the Veterans Administration.

During 1959, government expenditure declined, partly in accordance with the federal programme for a balanced budget and partly as a result of a retardation of construction by local and federal authorities during the steel strike. Public construction recovered early in 1960 and the decline in federal expenditure was reversed late in the year. Government expenditure therefore was a mildly expansionary force in 1960. The part played by the public sector in bolstering demand was not confined to its own outlays on goods and services. As noted earlier, transfer payments also advanced rapidly, and, in addition, disbursements by the Commodity Credit Corporation to farmers increased in the second half of 1960.

Export demand began to recover in the latter part of 1959, and its vigorous expansion during the first nine months of 1960 acted as a brake on the decline of final demand. The factors responsible for the recovery are analysed in a later section.

Variations in demand affected chiefly industrial production in the United States. Total manufacturing production rose by 20 per cent from the first quarter of 1958 to the second quarter of 1959. Following the setback during the steel strike it recovered by the first quarter of 1960 to a level slightly above the pre-strike peak. This level was maintained up to the middle of the year. The decline of demand during the second half of 1960 was reflected in a 7 per cent reduction in industrial output between June and December. Output of durable goods contracted more sharply than the production of non-durables, the latter being less affected by the reduction in inventory accumulation.

The decline of demand in the United States had serious repercussions on the steel industry. After the restocking was completed, orders and output declined rapidly. The seasonally adjusted production index for the iron and steel industry declined from 114 (1957 = 100) in the first quarter of 1960, to 92 in the second quarter, 76 in the third quarter and 68 in the last quarter of the year. During most of the second half of 1960 capacity utilization did not exceed 50 per cent.

However, despite the general slackening of demand, 1960 was a relatively good year for the motor-car industry. Production exceeded the previous year's level by 1.1 million units, but about two-fifths of the rise in output went into inventories which were rebuilt early in 1960 and remained high throughout the year. Part of the rise in sales represented a displacement of foreign cars, imports of which declined by about 175,000 units from their 1959 level.

In Canada signs of recession began to appear in the first quarter of 1960, when final demand declined as the result of a reduction in consumer spending and of a further drop in residential construction which had been falling since the beginning of 1959. In the second quarter recessionary tendencies became more widespread, extending to industrial fixed investment and inventory accumulation. In addition, contractive forces which began to gain ground in the United States spread to Canada through the decline in United States import demand, which was reflected in a sharp drop in Canadian exports in the second quarter of the year. The rising trend of demand in Canada was sharply reversed in that quarter and gross national product fell by 1.5 per cent. However, personal consumption showed considerable strength during the downturn in the second quarter, and it continued to rise during the rest of the year. Although inventory liquidation continued, fixed investment recovered in the second half of 1960. Total demand consequently began to recover in the third quarter and continued to advance more rapidly in the last quarter of the year when the inventory movement was reversed.

In Canada unemployment increased as entrants into the labour force exceeded the growth of employment opportunities. Total civilian employment recorded only a brief setback early in 1960, and subsequently resumed its slow advance. In the United States the decline of activity reduced civilian employment by around one million or 1.5 per cent between June and December 1960, and unemployment rose from 5.5 per cent to 6.8 per cent of the civilian labour force. The unemployment rate in this country and the average duration of unemployment have been higher at each successive cyclical peak since 1953, as shown in the following table:

Unemployment and duration of unemployment in the United States

Peak quarter	*Unemployment as percentage of civilian labour force*	*Average duration of unemployment (weeks)*
1953:		
Second quarter	2.3	8.3
1957:		
Third quarter	3.9	9.8
1960:		
Second quarter	5.4	12.5

Source: United States Department of Labor, *Monthly Labor Review* (Washington, D.C.).

Apart from the lower rate of growth in total output, factors such as shifts in demand and industry location, technological development including the spread of automation and changes in population growth also contributed to the rising rate of unemployment in the United States. The general decline in coal mining, sectors of the metal manufacturing industry and the textile industry has made for much higher than average unemployment in areas that are heavily dependent on these industries. Furthermore, the rising trend of the average age of the labour force which prevailed during most of the nineteen fifties is in the process of being reversed, as a result of the high post-war birth-rate. The number of annual entrants into the labour market has already begun to increase, but the steepest rise is yet ahead.

Wage increases were moderate both in Canada and the United States, but their impact on costs became more marked as activity declined and idle capacity increased (*see* table 4-5). Prices in 1960 were relatively stable, reflecting a decline in the prices of durables offset by moderate advances in those of non-durable manufactured goods and foodstuffs.

In the United States monetary and credit measures which had been introduced as early as August 1958 to check a possible over-expansion, and which had been tightened in 1959, were reversed after the first quarter of 1960. Interest rates fell throughout 1960, partly as a result of two reductions in discount rates from 4 to 3 per cent, undertaken in the summer of 1960. Reserve requirements of banks were eased in September and December, and the margin requirements for purchases of stocks were reduced from 90 to 70 per cent.

During the fiscal year 1959/60 the federal budget attained a surplus of $1.2 billion after a deficit of $12.4 billion in the preceding fiscal year. The improvement in the budgetary outcome resulted from rising revenues during the upswing of activity and from some reductions in expenditures. The progressivity of the income tax and lower unemployment compensation disbursements strengthened the cash position automatically. After the first quarter of 1960 these "built-in stabilizers" slowly began to reverse their course. In the first quarter of 1961 a number of steps were taken to accelerate the transfer of purchasing power from the Federal Government to consumers.

Residential construction, which had tapered off after the middle of 1959, was stimulated in 1960 by measures leading to a considerable easing of the federally controlled mortgage market. At the beginning of 1961 the maximum rate on mortgages issued by the Federal Housing Administration was reduced by one-quarter of one per cent. The Federal National Mortgage Association increased its sale prices on mortgages more than its purchase prices in order to attract funds to the mortgage market. In May 1961, the maximum rate on federally issued mortgages was again lowered by one-quarter of one per cent. Highway construction was stepped up in the second half of 1960, and other federal

Table 4-5. North America: Employment, Production, Wages and Prices, 1958-1960

Item	*Canada* 1958	1959	1960 First half	1960 Second half	*United States* 1958	1959	1960 First half	1960 Second half
Unemployment as percentage of civilian labour force[a]	7.1	6.0	6.6	7.5	6.8	5.5	5.2	6.0
	(Percentage change from preceding period)							
Total civilian employment[a]	−0.5	2.8	0.7	0.6	−1.6	2.5	1.0	0.1
Manufacturing production[a]	−2.7	7.0	0.9	−2.7	−7.3	13.7	4.9	−3.5
Output per man-hour in manufacturing[a]	1.8	4.8	2.5	−0.9	4.2	5.5	5.5	−0.5
Hourly earnings in manufacturing	3.1	3.6	1.6	1.4	2.9	4.2	2.8	0.4
Consumer prices:								
All items	2.6	1.1	0.1	1.1	2.7	0.9	0.6	0.9
Food	3.0	−0.8	−1.2	2.5	4.2	−1.7	0.2	1.7

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

[a] Half-yearly data are seasonally adjusted.

building projects were started earlier than usual, as funds became available.

In Canada, government transfer payments in 1960 advanced more sharply than in 1959 as a result of increased disbursements on account of unemployment insurance benefits, old-age pensions and family allowances. The Government also took measures to reduce seasonal unemployment during the winter of 1960/61 by advancing the starting date of the Municipal Winter Works programme and by extending its coverage to include additional types of projects. An easing of credit was reflected in a decline of interest rates on short-term securities from a post-war peak late in 1959 to a low point in September 1960 which equalled that reached during the recession of 1957-1958.

THE COURSE OF THE EXPANSION IN WESTERN EUROPE AND JAPAN

In western Europe the main factors sustaining the expansion in 1960 were business fixed investment, especially in machinery and equipment, and private consumption. The rise in exports, which had contributed to the expansion in the course of 1959, levelled off after the first quarter of 1960. Inventory accumulation accelerated from mid-1959 to mid-1960, but subsequently slackened, except in countries such as the United Kingdom where an involuntary accumulation of stocks of finished products occurred. The building up of stocks of intermediate products and finished goods, which had enhanced the rise in output in 1959, probably became less important as an expansionary factor in 1960.

Despite a general similarity in the pattern of changes in demand and supply in the various western European countries during the upswing of 1958-1960, differences in timing and in rates of growth in total output became particularly marked in 1960. An indication of these inter-country differences is provided by the movements of the index of industrial production which are shown in table 4-6. In the Federal Republic of Germany, Italy and the Netherlands, where activity had slackened only briefly in 1958 and where expansion in 1959 had been rapid, growth rates in 1960 were once again above the average for the area. Of the two other countries where there was also a boom in 1959, Denmark did not achieve any further advance in the rate of expansion in 1960, and the upswing in Sweden slowed down appreciably, partly as a result of vigorous government measures to restrain demand. In the remaining countries, where the upswing had got under way somewhat later, trends in total output in 1960 varied. Austria and Norway recorded high rates of growth throughout 1960, but the expansion in Belgium, France and the United Kingdom, though appreciable for the year as a whole, was somewhat irregular.

In the Federal Republic of Germany, the current expansion had started as an investment boom and had spread in the course of 1959 to all sectors of the economy. Towards the end of that year, investment in machinery and equipment and export demand rose particularly rapidly. Since the country had experienced no significant recession in 1958, the continuous expansion in demand led to a shortage of labour and the full utilization of productive capacity in many industries earlier than in other industrial countries. In 1960 the investment boom continued under the influence of optimistic expectations in the business sector and the stimulus provided by shortages of labour. At the same time, private consumption rose more rapidly than in the two preceding years, reflecting mainly increases in wages. Gross national product rose by 8.8 per cent in 1960, as compared with 6.9 per cent in 1959. By the end of 1960,

Table 4-6. Quarterly Changes in Industrial Production, 1959 and 1960

(Percentage change from preceding quarter; seasonally adjusted)

Country	*1959*				*1960*			
	First quarter	*Second quarter*	*Third quarter*	*Fourth quarter*	*First quarter*	*Second quarter*	*Third quarter*	*Fourth quarter*
Austria	1	—	2	3	3	1	2	4
Belgium	—	4	2	5	−1	2	—	...
Denmark	−1	5	4	3	—	−1	1	1
France	—	4	2	5	−1	2	4	1
Germany (Federal Republic)	1	2	3	5	3	2	—	3
Italy	3	−1	3	8	4	2	2	2
Japan	6	8	7	6	9	2	6	4
Netherlands	3	3	1	3	6	5	−3	3
Norway	−1	4	1	1	2	4	—	1
Sweden	2	−1	2	5	1	—	3	1
United Kingdom	2	3	3	4	2	1	1	−1

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from Organisation for European Economic Co-operation, *General Statistical Bulletin* and from Ministry of International Trade and Industry, Japan.

the pressure on capacity appeared to have somewhat eased as a result of additions to plant and equipment in the course of the year.

Expansion in the Netherlands had many features in common with that in the Federal Republic of Germany. Capacity became rather fully employed before the summer of 1960 and labour shortages were felt in most sectors. The very strong expansion of 1959 none the less continued in 1960 with undiminished vigour. Substantial wage increases produced an upsurge of consumer demand, especially for durables, and the industrial investment boom which had been in progress since mid-1959 continued for a second year. These factors more than offset the slackening of export demand, which had been an important expansive factor in 1959 and early in 1960.

In Italy, as in the Federal Republic of Germany and the Netherlands, the major factor in the expansion was industrial investment and consumer expenditure on durables. Since the level of consumption of durables in Italy is low by European standards, the country's current prosperity has produced an upsurge of demand for durables that has become an increasingly important expansionary factor. Export demand, which had enhanced the upswing in 1959 and early in 1960, levelled off in the later part of the year. In contrast to the experience of the other countries in this group, Italy's labour supply remained ample, but the scarcity of skilled labour in the industrial regions of the North became more acute in the course of 1960. Its large manpower resources enabled Italy to achieve the highest rate of expansion of industrial output in western Europe. The Italian Government maintained a somewhat expansionary policy throughout 1960, giving free reign to imports to ease any strain that developed.

In Denmark and Sweden the expansion was affected in varying degree by anti-cyclical policies. In Denmark the previous year's housing boom was brought under control in 1960 by a tightening of building restrictions, and the rise in fixed investment was consequently slowed down in spite of an acceleration of investment in the manufacturing sector. The expansion of demand for consumer durables was also slackening. In Sweden demand pressures had become intense in the closing months of 1959 and the Government applied a wide range of restraining measures. Consumption was held back by the introduction early in 1960 of a 4 per cent sales tax, and fixed investment was affected by a postponement of public construction programmes and by credit restraints.

In Austria, Finland and Norway the expansion in 1960 followed more or less the same pattern as that in most western European countries. There was an upsurge of fixed investment in the manufacturing sector accompanied by rapid increases in consumption, particularly of durables. Total fixed investment in Norway, however, rose less than in the other two countries, owing to reductions in investment in the shipping sector. All three countries benefited from good or excellent harvests which contributed to the growth of total output.

In France the stabilization programme adopted in December 1958 did not produce an immediate stimulating effect upon the economy, but the upsurge of exports led to a vigorous expansion of industrial production after the first quarter of 1959. In 1960, while exports began to level off in the spring of the year, fixed investment and private consumption expanded to provide the main stimulus to the economy. For the year as a whole the gross national product rose substantially faster than in 1959, but the increase was significantly lower than that of the majority of western European countries. A relatively low rate of growth was also recorded in Belgium. The slackening of export demand, combined with the effect of restrictive measures introduced for balance of payments reasons, curtailed sharply the expansion of total demand in the latter part of 1960.

In the United Kingdom, the growth of output in 1960 was the highest in a decade. The upswing, which had started at the end of 1958, attained peak rates in the winter of 1959/60. The growing labour shortage and pressure on capacity in some key sectors of industry led the Government to introduce various measures of restraint, including a tightening of hire-purchase conditions and of bank credit. Total output levelled off after the second quarter of 1960, and declined slightly in the last quarter. The decline in United States import demand and the deterioration of export earnings in the overseas sterling area brought the expansion of United Kingdom exports to an early end, and resulted in a significant setback to production in export-oriented industries, such as the motor-car industry. Import demand was buoyant throughout 1960 and the United Kingdom experienced a very substantial deterioration in its current account balance in the second half of the year.

In Japan vigorous expansion continued in 1960; its rate of growth was again the highest among the industrial countries. In the second half of 1958 and in 1959 inventory accumulation played the dominant role in stimulating expansion in total output. In 1960, a very substantial increase in investment in machinery and equipment, reflecting largely the accelerated effort of the Japanese industries to absorb technological innovations, became the main force in sustaining the continued expansion. This was reinforced by steady increases in private consumption and exports. Gross national product rose by 11 per cent in 1960. The average rate of capacity utilization in manufacturing rose continuously from the middle of 1958 until the early part of 1960 and stabilized at a level of about 85 per cent during the rest of the year.

The total volume of fixed investment increased from 1959 to 1960 in all the western European industrial countries, as well as in Japan. While fixed investment continued to be the main expansionary force in most countries, there were significant shifts in the role played by its various components.

During the 1957-1958 recession and the early phase of recovery, public investment had been stepped up to offset declines in fixed investment in the business sector. Residential construction has been increasingly used in the post-war years by governments as a target for counter-cyclical measures; thus its cyclical pattern has tended to be the reverse of that of the general business cycle. The volume of residential construction, which had been slowed down considerably in 1958 by restrictive policies introduced in the later stages of the previous upswing, was subsequently stimulated by anti-cyclical measures, and it became the most buoyant component of fixed investment in 1959 (*see* table 4-7). The boom in residential construction again slowed down in 1960 in most western European countries. In Denmark, for example, housing completions levelled off in 1960, reflecting chiefly the impact of restrictive measures taken

Table 4-7. Gross Domestic Fixed Investment and its Major Components, 1958-1960[a]

(At constant prices; percentage change from preceding year)

Country and item	*1958*	*1959*	*1960*
Western Europe			
Gross domestic fixed investment	3	7	10
Machinery and equipment	2	5	13
Housing	1	7	3
Austria			
Gross domestic fixed investment	3	4	13
Machinery and equipment	3	3	18
Housing	2	7	...
Belgium			
Gross domestic fixed investment	−5	4	6
Machinery and equipment	7	−2	12
Housing	−23	17	6
Denmark			
Gross domestic fixed investment	7	17	11
Machinery and equipment	7	11	13
Housing	−6	28	3
Finland			
Gross domestic fixed investment	1	8	17
Machinery and equipment	4	13	...
Housing	−12	5	...
France			
Gross domestic fixed investment	2	—	6
Machinery and equipment	4	−1	...
Housing	1	2	3
Germany (Federal Republic)			
Gross domestic fixed investment	6	11	12
Machinery and equipment	7	10	18
Housing	8	10	—
Italy			
Gross domestic fixed investment	1	8	14
Machinery and equipment	−6	8	29
Housing	2	7	−1
Netherlands			
Gross domestic fixed investment	−11	13	11
Machinery and equipment	−16	14	15
Housing	−5	6	−2
Norway			
Gross domestic fixed investment	5	−4	3
Machinery and equipment	8	−2	2
Housing	−7	−1	3
Sweden			
Gross domestic fixed investment	9	11	3
Machinery and equipment	8	8	6
Housing	8	5	−1
United Kingdom			
Gross domestic fixed investment	1	6	9
Machinery and equipment	2	3	6
Housing	−6	14	13
Japan[b]			
Gross domestic fixed investment	10	24	27
Machinery and equipment[c]	...	48	21
Housing	9	23	8

Source: See table 4-1.

[a] The difference between changes in gross domestic fixed investment and those in the sum of the two components indicated reflects offsetting changes in components not shown. *See also* footnote *a* to table 4-2.

[b] Fiscal year beginning 1 April of year stated.

[c] Fixed investment in manufacturing industry.

by the Government in February; in Italy house-building declined partly as a result of reduced outlays on public housing. In Austria, the Federal Republic of Germany and the Netherlands, however, the housing boom was adversely affected by labour shortage and consequently there was little or no increase in investment in housing in 1960.

The United Kingdom was the only country where residential construction continued to advance rapidly in 1960, in spite of credit restriction and a scaling down of public housing programmes. In France and Norway, where housing construction had stagnated in 1959, it began to advance in 1960, as a result of an easing of credit in the case of France, and of the abolition of licensing requirements for housing construction in Norway.

During the early phase of the upturn, business fixed investment had played only a minor part in stimulating demand. The increase in investment in machinery and equipment generally lagged behind that of total investment in 1959, except in the Federal Republic of Germany, Finland, Italy, the Netherlands and Japan, where the upturn had begun relatively early. In 1960, however, business fixed investment, particularly in machinery and equipment, accelerated throughout western Europe and Japan, partly in response to the upswing of final demand and the consequent need for increased productive capacity. An additional, and perhaps even more important, contributing factor was the growing labour shortage which made increased productivity a prerequisite for further expansion.

In western Europe inventory accumulation was substantial, but rates differed from country to country. In Norway and Sweden additions to stocks in 1960 more than offset the previous year's decline. Rates of accumulation also advanced significantly in Italy, the Netherlands and the United Kingdom. In the United Kingdom, stockbuilding early in 1960 affected chiefly raw materials and works in progress, but later in the year there was some involuntary accumulation of finished products, notably of passenger cars and other durables, resulting from falling exports and from declining domestic demand owing to hire-purchase restrictions. In the Federal Republic of Germany, however, stockbuilding, which had been an expansionary factor of some significance in 1959, slowed down in the course of 1960.

Although personal consumption in the western European countries expanded somewhat less rapidly than national product in 1960, its accelerated rise in the latter part of the year gave impetus to the expansion when the rate of increase of some of the other demand components began to slacken.

The vigorous advance of consumption in 1960 reflected a rapid rise in real personal disposable income which was associated with rising employment and with wage increases; in a few countries increased transfer payments also contributed to the rise in consumer incomes (*see* table 4-8). While increases in consumption in most countries were in line with those of disposable income, in Sweden and the United Kingdom consumption rose more slowly than income. In both countries, as noted earlier, consumption was held back by government measures designed to restrain the growth of demand.

In the majority of western European countries the growth of consumption reflected a rapid advance of expenditure on consumer durables, especially on passenger cars, for which there was still some backlog of

Table 4-8. Personal Disposable Income and Personal Consumption, 1958-1960[a]

(At constant prices; percentage change from preceding year)

Country	*Personal disposable income*			*Personal consumption*								
				Total			*Clothing*			*Durables*[b]		
	1958	*1959*	*1960*	*1958*	*1959*	*1960*	*1958*	*1959*	*1960*	*1958*	*1959*	*1960*
Western Europe	...	...	...	2	4	5	...	...	...	6	10	7
Austria	4	5	6	4	5	7	−3	5	5	9	7	...
Belgium	1	3	...	−3	5	...	−16	8	...	−4	7	...
Denmark	4	7	...	5	6	6	1	6	8	5	20	10
Finland	−1	6	8	−4	7	8	−19	14	15	−4	16	9
France	—	1	4	—	1	4	−5	—	3	−3	1	7
Germany (Federal Republic)	5	6	7	5	6	8	−2	4	8	7	8	9
Italy	...	...	...	3	5	6	1	4	6	13	10	21
Netherlands	2	4	8	1	3	6	−2	4	10	—	9	14
Norway	−7	6	9	—	5	6	−1	10	7	−4	2	10
Sweden	1	3	6	3	4	2	2	3	1	5	13	−1
United Kingdom	2	5	6	3	4	3	—	4	7	16	20	2
Japan[c]	6	12	10	6	7	7	2	9	9	...	...	...

Source: See table 4-1.

[a] *See* footnote *a* to table 4-2.

[b] For Belgium, Finland, the Netherlands and Norway, household durable goods only.

[c] Fiscal year beginning 1 April of year stated.

demand (see table 4-9). The rise in domestic purchases of passenger cars was facilitated by easier supply conditions in the major producing countries which resulted from the decline in exports to the United States and by the import liberalization measures adopted in the two preceding years.

Table 4-9. Consumer Expenditure on Motor-cars, 1958-1960[a]

(Percentage change from preceding year)

Country	1958	1959	1960
Austria	14	10	18
Denmark	7	49	22
Finland	−20	47	11
France	11	−4	13
Germany (Federal Republic)	31	16	21
Italy	7	21	51
Japan	8	59	75
Netherlands	−13	41	29
Norway	10	4	54
Sweden	8	15	3
United Kingdom	30	16	25

Source: See table 4-1.

[a] Data are generally based on sales or registration of new passenger cars.

The rates of increase in expenditure on durables in 1960 varied among countries. In many western European countries it rose more rapidly than in 1959. The accelerated rise in France was to some extent the result of an easing of hire-purchase restrictions, which was put into effect chiefly for the purpose of stimulating domestic sales of passenger cars to compensate for failing exports to the United States. The sharp upturn in this component of demand in Norway was associated with the elimination of import restrictions on passenger cars, as well as with the inception of a regular television service. The upsurge of consumption of durables in Italy and the Netherlands reflected boom conditions in both countries; in the Netherlands it was reinforced by very large increases in wages.

The rates of expansion in consumption on durables dropped considerably in Denmark, Finland and the United Kingdom; in Sweden consumption of durables for 1960 as a whole actually declined a little. It should be noted, however, that the rise in expenditure on durables in Sweden as well as in Denmark had been accelerated in 1959 by several non-recurrent factors. In Sweden the announcement of the imposition of a sales tax as of 1 January 1960 resulted in an upsurge of purchases in the closing months of 1959, which depressed sales in 1960. Moreover, both Denmark and Sweden started television broadcasts in 1959, and in both countries import liberalization also had its greatest impact in that year.

The acceleration of consumption was not confined to durables. In most countries consumer expenditure on textiles and clothing rose more rapidly than in 1959, and frequently at rates exceeding those for the national product. The increase in domestic consumption in 1960 gave support to the recovery of the textile industries as exports to North America and other overseas markets levelled off. The buoyancy of consumer demand also stimulated intra-European trade in textiles which expanded by over 30 per cent.

Taken as a whole, total supply and total demand in the industrial countries have been remarkably well balanced since 1958. The rise in domestic output and imports has in general been sufficient to meet the increased demand without significant advances in the price level. Most sectors of the economy benefited from the rising trend of demand but the bulk of the increase in output was accounted for by manufacturing production. In most countries manufacturing contributed between 50 and 70 per cent of the increase of gross national product from 1958 to 1960. Agricultural production generally rose relatively little during the upswing, while most service industries continued their steady, though rather slow, expansion.

Recovery in manufacturing after the 1958 recession generally started in consumer goods and spread gradually to other sectors. In the course of 1959 the main emphasis shifted to capital goods industries. In 1960 production in consumer goods industries increased further in western Europe but at a reduced rate. In most western European countries output of metals and metal products rose at peak rates during the second half of 1959 and the first half of 1960 (table 4-10). The subsequent slackening of the expansion was partly attributable to capacity limitations.

The steel industry had a boom year in 1960 with a 13 per cent rise in output. Strong home demand and rising exports resulted in virtually full utilization of capacity. Demand for heavier grades used in construction and heavy engineering remained strong throughout 1960, while demand for steel sheet and other products required in the manufacture of consumer durables eased off in the latter part of the year.

Output in metal products industries continued to expand rapidly, reflecting the high level of fixed investment and particularly the shift in 1960 towards machinery and equipment investment. In engineering, the picture was somewhat mixed. Output of machine tools and electrical equipment rose rapidly, while production of consumer durables eased off towards the end of 1960 in many countries. The pace of motor-car production was slowed down in France and the United Kingdom by the decline in automobile exports to the United States. In the United Kingdom, domestic sales were also adversely affected by a tightening of hire-purchase restrictions in April 1960.

Shipbuilding has continued to be weak in 1960. The total launchings in 1960 were only some 5 per cent less than in 1959, but the world total (the centrally planned

Table 4-10. OEEC Member Countries: Manufacturing Production, 1958-1960[a]

(Percentage change from preceding period)

Item	1958	1959 First half	1959 Second half	1960 First half	1960 Second half
Total manufacturing production	2.3	3.0	5.7	5.4	2.9
Food, beverages and tobacco	2.5	0.8	1.6	1.9	1.9
Textiles	−7.0	0.5	5.6	4.0	−0.9
Chemicals	6.2	7.7	8.0	8.0	6.1[b]
Base metals	−4.1	2.9	11.4	8.0	1.8
Metal products	2.1	3.8	6.7	5.0	1.8[b]

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 2 (Paris, 1961).

[a] Data are seasonally adjusted.

[b] July-November.

economies excluded) for gross tonnage under construction or on order declined about 20 per cent during 1960. The average capacity utilization probably did not exceed 70 per cent in 1960, as against some 80 per cent in 1958.

Depression continues also in coal mining, but the situation did not deteriorate further during 1960. The sharp decline in consumption of solid fuels in western Europe in 1958-1959 was halted in 1960 and turned to a slight increase as a result of the growth of steel production and of the increased needs of power stations. Output of coal declined somewhat from 1959 to 1960, but the large pithead stocks were considerably reduced.

For the textile industries, the period from 1959 to mid-1960 was one of strong recovery, but thereafter the rate of growth slowed down. The rise was largely accounted for by man-made fibres, which have become increasingly popular in various uses. The chemical industry has been the most buoyant of the major sectors of manufacturing throughout the 1958-1960 business cycle; its production has risen more than twice as fast as total industrial production in the last four years. The greatest increases have been recorded for plastic and other synthetic materials.

The development in labour markets varied considerably in 1959 according to the timing and vigour of the upturn of activity in the individual western European countries. In several countries the decline of employment had continued in the first half of the year, and it was not arrested until late in 1959 or the early months of 1960. In 1960, however, employment was generally rising (table 4-11), and in some cases unemployment was reduced to the point where a shortage of labour began to slow down the expansion in some sectors.

Labour markets gradually became tight in Austria, Denmark, the Federal Republic of Germany and the Netherlands, while Finland, Norway, Sweden and the United Kingdom experienced specific shortages of skilled workers in most industries. At times the number of unfilled vacancies approached or exceeded the number of unemployed. In France and Belgium, where the upswing began later, the supply of labour was adequate even in 1960. The total supply of labour remained ample in Italy and Japan, enabling both countries to achieve exceptionally rapid increases in industrial production.

The distribution of changes in employment among industries has in the last three years shown both secular and cyclical traits. Commercial and service trades have usually increased their employment at least partly at the expense of agriculture, coal mining and, in the highly industrialized countries, manufacturing. Within manufacturing, there has been a shift in employment towards rapidly growing branches like chemicals, while the relative decline in textiles has continued. The higher demand for investment goods and consumer durables has made it possible for the metal manufacturing, mechanical engineering and allied industries to acquire an increasing share of the available workers. In these branches the employment increases were generally substantially greater in 1960 than in 1959 in spite of the growing shortage of labour.

During the present cycle as in earlier ones, employment changed less than production. To some extent this can be explained by variations in the average work week. In Denmark, Norway and Sweden the standard working time was reduced at the beginning of 1959, and in most countries the number of hours was limited by collective contracts to a greater extent in the boom years 1959 and 1960 than during the recession.

In a few western European countries a lower net emigration in 1959 and 1960 helped to increase the supply of labour. The increased use of workers from southern Europe has alleviated manpower shortages in France and the Federal Republic of Germany. In Sweden, about one-fourth of the one per cent increase in the labour force in 1960 was also accounted for by net immigration.

Wages in manufacturing had risen at a declining rate in 1958 in almost all industrial countries. Because of the inherent inertia in wage structures, the rate of increase in most countries in 1959 was similar to that of

Table 4-11. Employment and Unemployment, 1958-1960

Country and period	Total civilian employment (percentage change from corresponding period of preceding year)			Unemployment[a] (percentage)		
	1958	1959	1960	1958	1959	1960
Austria						
January-June	0.8	1.2	2.2	6.6	6.2	4.8
July-December	0.1	1.5	1.9	4.1	3.4	2.6
Belgium						
January-June	−1.1	−2.2	—	8.7	11.4	8.8
July-December				8.3	7.6	6.2
Denmark						
January-June	1.1	5.2	4.0	11.8	7.2	5.0
July-December				7.4	5.0	3.6
Finland						
January-June	−1.0	−0.6	3.1	3.2	2.6	2.0
July-December		−0.2	5.0	3.0	1.8	1.1
France						
January-June	2.2	−1.7	0.2	1.0	1.6	1.6
July-December	0.3	−1.3	0.8	0.8	1.2	1.0
Germany (Federal Republic)						
January-June	0.4	3.1	2.4	3.8	2.2	1.0
July-December	2.6	3.1	1.4	3.2	1.6	0.9
Italy						
January-June	...	...	1.7	9.4	9.2	8.4
July-December	2.3	2.2	2.4	8.7	8.2	7.5
Japan						
January-June	1.2	0.3	1.9	4.5	4.3	3.4
July-December	0.1	0.8	2.7	4.1	2.9	2.4
Netherlands						
January-June	−0.4	2.0	2.0	2.6	2.2	1.4
July-December				2.2	1.6	1.0
Norway						
January-June	0.1	0.2	1.4	2.6	2.6	2.0
July-December	−1.1	0.8	1.6	2.0	1.8	1.3
Sweden						
January-June	—	0.5	2.0	3.2	2.6	1.8
July-December				1.8	1.4	0.9
United Kingdom						
January-June	−0.4	−0.1	1.7	2.1	2.6	1.9
July-December	−0.7	1.1	1.8	2.4	2.0	1.6

Source: Division 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*, and from national sources.

[a] Data generally refer to the ratio of registered applicants for work or of surveyed unemployed to the total civilian labour force or to the civilian labour force available for hire. They are not, however, comparable among countries owing to differences in definition.

1958, and lower than the rate of increase in output per man-hour (see table 4-12 and chart 4-1). The tightening of labour markets in western European countries speeded up wage increases in 1960. In 1958 and 1959 wage cost per unit of output developed favourably in almost all countries as a result of higher capacity utilization and the comparatively slow increase in wages. In 1960 it declined more slowly or increased as capacity became more fully utilized.

A distinguishing feature of the recent upswing and boom was the relative stability of prices (see table 4-13). Prices generally increased only moderately in each of the years 1958 to 1960 and less than during the corresponding phases of the preceding cycle. In several instances the increases were due to fortuitous factors such as poor harvests in 1959 or policy measures aimed at easing direct economic controls. The recent trend towards greater price stability reflects an improving balance between supply and demand in the industrial countries. The gradual disappearance of shortages and inflationary expectations has made precautionary stockpiling of raw materials less necessary and, at falling

Table 4-12. Cost Components and Wholesale Prices of Manufactured Goods, 1958-1960

(Percentage change from preceding year)

Country and year	*Hourly earnings*	*Import prices of raw materials*[a]	*Wholesale prices of manufactured goods*
Austria			
1958	6	−11	...
1959	8	−3	...
1960	10	13	...
Belgium			
1958	5	−11	−4
1959	2	−1	−1
1960	4	4	3
Denmark			
1958	4	−12	−1
1959	8	−6	−2
1960	7	6	2
Finland			
1958	5	14	10
1959	6	−6	—
1960	6	2	2
France			
1958	12[b]	−4	7
1959	6[b]	2	7
1960	7[b]	6	4
Germany (Federal Republic)			
1958	7	−11	1
1959	6	−3	−1
1960	9	4	1
Italy			
1958	4	−19	−3
1959	2	−6	−2
1960	5	6	1
Japan			
1958	—	−13	−7
1959	7	−7	1
1960	8	5	4
Netherlands			
1958	5	−7	−2
1959	2	−3	—
1960	8	2	—
Norway			
1958	4	...	−3
1959	9	—	—
1960	4	−1	2
Sweden			
1958	6	−7	—
1959	4	−6	—
1960	6	6	2
United Kingdom			
1958	4	−13	1
1959	4	−3	—
1960	8	3	1

Source: Division 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*, from Organisation for European Economic Co-operation, *General Statistical Bulletin*, and from national sources.

[a] Unit values. The commodity coverage of national data varies; fuels and lubricants are generally excluded.

[b] Hourly wage rates.

prices, even undesirable. In western Europe, the liberalization of trade may also have restrained producers and employees from increasing prices and wages to an extent that might impair the competitive position of their industries.

As the expansion gathered momentum in 1959 and 1960, policies of varying, but generally increasing, restraint were applied in the majority of western European countries and in Japan. As in the preceding upswing, the main emphasis in 1959 and 1960 was on monetary and credit measures. The discount rate, which had been widely and effectively used before 1958 as a regulator of domestic activity and which was so used again in 1959-1960, proved a rather inflexible policy instrument in the recent upswing in view of its undesirable impact on the international flow of funds.[1] New methods of credit control have therefore been applied in some countries in the recent past. Fiscal and budgetary policies have also been increasingly used in conjunction with monetary measures to regulate the pace of economic activity.

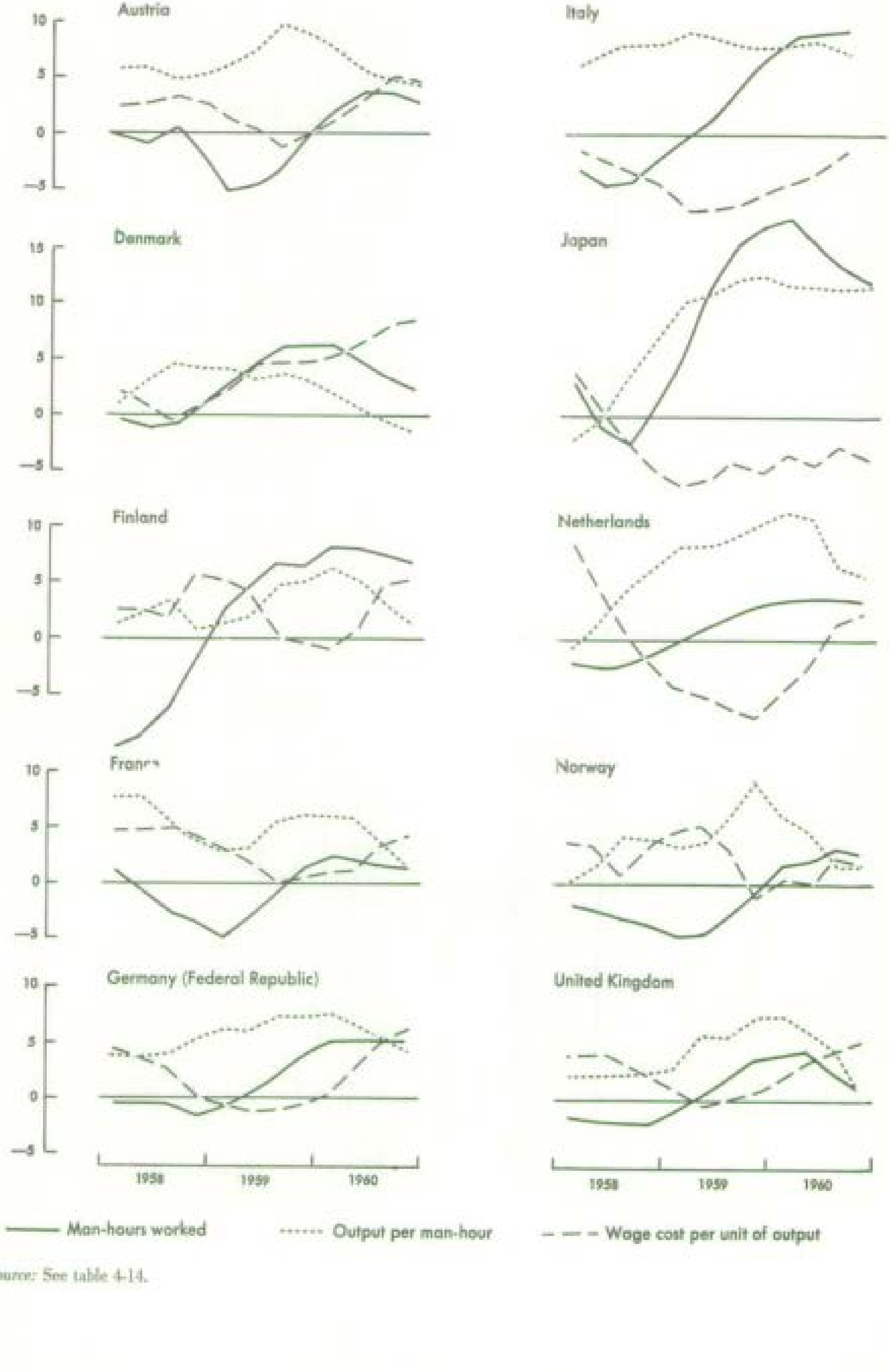
In the United Kingdom, money markets were easy during 1959, but in the first half of 1960 credit policy was tightened. Not only was the discount rate raised in two instalments but the liquidity of the banks diminished by a new system of special deposits, and hire-purchase restrictions which had been discontinued in October 1958 were reimposed. Budget policy aimed at neutrality from a cyclical point of view. Some taxes were reduced, however, as a means of moderating wage claims. Partly as a result of the tightening of credit, the index of industrial production levelled off after April, having risen by about 10 per cent in the preceding twelve months. In spite of continuing pressure in various sectors of the economy and a deterioration in the current account balance, the discount rate was reduced late in 1960. The purpose of this step was to narrow the differential between United States and British rates, but the stimulating effect on output was a favourable by-product. Falling exports of automobiles induced the authorities to ease hire-purchase restrictions at the beginning of 1961.

In the Federal Republic of Germany, almost exclusive reliance on monetary measures did not succeed in checking the very strong expansion of credit in 1960 because of the inflow of short-term funds. To stem this inflow the central bank followed the United Kingdom in reducing the discount rate in November 1960 and January 1961. The revaluation of the Deutsche mark by 4.75 per cent in March 1961 was expected to reduce domestic demand pressure and simultaneously reverse the inflow of funds. Budgetary developments had no noticeable effect on domestic demand. To reduce pressure in the construction sector, restrictions were placed on public building in the second quarter of 1960.

[1] For a discussion of the impact of monetary policy on external balances, *see* page 157 below.

Chart 4-1. Employment, Output and Wage Cost, 1958-1960

(Percentage change from corresponding quarter of preceding year; three-quarter moving averages)



Source: See table 4-14.

Table 4-13. Consumer Price Indices, 1958-1960

(Percentage change from preceding year)

Country	*All items*			*Food*		
	1958	*1959*	*1960*	*1958*	*1959*	*1960*
Austria	2	1	2	1	—	2
Belgium	1	2	—	1	1	1
Denmark	1	2	1	2	5	1
Finland	7	2	3	5	2	4
France	14	7	4	19	3	4
Germany (Federal Republic)	4	2	2	3	2	2
Italy	3	—	3	4	−3	1
Japan	−1	2	4	−2	1	4
Netherlands	2	2	3	—	2	3
Norway	5	2	—	8	2	−1
Sweden	5	1	3	3	2	7
United Kingdom	3	1	1	2	1	−1

Source: Division 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.*

The timing of the French cycle, which differed from that of other European countries, also affected the timing of economic policy measures. The rate of discount was lowered both in 1959 and late in 1960. Production was given a variety of credit stimuli in 1960. Fiscal policy which had been rigorous in 1959 became somewhat less restrictive in 1960. In response to a fall in car exports, hire-purchase restrictions were eased in October 1960. Reductions in public price control led to increases in French housing costs and food prices both in 1959 and 1960. In Italy, the emphasis was on expansion throughout 1959 and 1960; an uninterrupted growth seemed feasible in view of large manpower resources.

Among the smaller western European countries, Austria, Belgium and Finland relied mainly on central bank policy in controlling expansion. In Denmark, monetary measures were supplemented by tax reductions to forestall inflationary wage increases and by extensive limitations of residential and road construction. In Norway and Sweden, the relatively easy credit conditions during 1959 were tightened at the beginning of 1960, mainly by raising the liquidity requirements of monetary institutions. The Norwegian authorities tried to modify wage demands by higher food subsidies at the beginning of 1960. In Sweden, a general turnover tax of 4 per cent, which became effective on 1 January 1960, absorbed some purchasing power from the consumer. At the end of the year considerable tax reductions were offered to firms for funds temporarily sterilized with the central bank. Public construction was curtailed in favour of industrial investments.

In the Netherlands the supply of productive resources became so strained that tax concessions to investment were reduced in May 1960. The Netherlands was also the only country to tighten the hire-purchase market in the autumn of 1960. In June 1959 the Government introduced a more flexible system of controlling wages, which took into account the productivity of individual enterprises. It would seem to be less of an obstacle to substantial increases in earnings than the old scheme of uniform wage revisions, judging by the experience of it during 1960. Controlled rents and food prices were also allowed to rise towards a free market level.

Developments in trade and payments

TRENDS IN TRADE

The outstanding feature of the trade of industrial countries in 1960 was its resiliency in the face of the contractive influences emanating from the United States. In contrast to the situation in 1957-1958, when the North American recession had its counterpart in a marked slackening of the pace of expansion in western European countries and Japan, the 1960 recession remained confined to the United States and Canada. The imports of other industrial countries, instead of declining simultaneously with those of the United States as they had done during the previous recession, continued to advance at an increasing rate in 1960. Thus, despite the decline in the imports of North America, the combined imports of industrial countries rose by some 12 per cent from 1959 to 1960, attaining a record level of $82 billion (table 4-14).

Although the expansion of exports from western Europe slackened considerably during the course of 1960, their level for the year as a whole was 14 per cent, or some $6 billion above that of 1959. At the same time, the accelerated rise of the import demand of western Europe and Japan led to a vigorous recovery of exports from North America, which increased by 15 per cent

Table 4-14. Value, Quantum and Unit Value of Trade and Change in Official Gold and Foreign Exchange Reserves, 1957-1960, by Region

Region and year	Value of trade			Change in reserves[a]	Quantum		Unit value	
	Exports	Imports (billions of dollars)	Balance		Exports	Imports (indices, 1958 = 100)	Exports	Imports
North America[b]								
1957	24.6	20.6	4.0	0.8	114	100	101	104
1958	21.4	19.8	1.6	−2.9	100	100	100	100
1959	21.7	23.0	−1.3	−1.6	100	117	101	99
1960	24.9	22.4	2.5	−3.0	114	113	101	100
Western Europe[c]								
1957	40.6	47.3	−6.7	0.9	98	99	103	108
1958	40.4	44.2	−3.8	3.6	100	100	100	100
1959	43.7	46.7	−3.0	1.9	113	110	96	97
1960	50.0	55.3	−5.3	4.4	127	130	98	97
Japan								
1957	2.8	4.3	−1.5	−0.4	96	122	107	115
1958	2.9	3.0	−0.2	0.3	100	100	100	100
1959	3.4	3.6	−0.1	0.5	119	126	100	95
1960	4.1	4.5	−0.4	0.5	132	157	104	92
All industrial countries								
1957	68.0	72.2	−4.2	1.3	103	100	102	106
1958	64.7	67.0	−2.4	1.0	100	100	100	100
1959	68.8	73.3	−4.5	0.8	109	112	98	96
1960	79.0	82.2	−3.2	1.9	124	126	99	96

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

[a] Data for 1959 exclude transfers to the International Monetary Fund in connexion with quota increases. Totals for North America include short-term liabilities of the United States to foreign official institutions.

[b] Excluding "special category" exports of the United States.

[c] In this table and in subsequent tables in this chapter, the term western Europe refers to OEEC countries.

or $3.2 billion. These advances, together with a substantial rise in the exports of Japan added up to an increase of $10 billion for the combined exports of industrial countries. The rate of increase of 15 per cent was the highest for any single year since the beginning of the nineteen fifties.

The trade balances of industrial countries reflected the inter-country differences in the phasing of the cycle, which were noted earlier. In western Europe, where imports rose rapidly throughout the year, the trade balance deteriorated progressively as the expansion of exports slackened. In the full year 1960, the import balance was $2.3 billion larger than in 1959. This deterioration had its counterpart in an improvement of the balance of North America by $3.8 billion (on a c.i.f. basis). Of this, $3.6 billion was accounted for by the balance of the United States. While the trade balance shifted in favour of North America and against western Europe and Japan, its impact on reserves was offset by a change in the opposite direction of the capital balance. Thus, western Europe was able to accumulate reserves in 1960 at a substantially higher rate than in the previous year. But in North America the outflow of both long-term and short-term capital led to a net loss of gold and dollars which exceeded that of 1959. These developments in the balance of payments are further examined in a later section.

The 1959-1960 upswing proceeded without any major change in either export or import prices of industrial countries (table 4-14). Despite the growing pressure on capacity in western Europe and wage increases in all the industrial countries, their export prices advanced only fractionally in 1960. Import prices, after a limited increase in the latter part of 1959 and the early months of 1960, eased off in the course of the year. As their average level in 1960 was the same as in 1959 there was little change in the terms of trade, which had shifted in favour of industrial countries both in 1958 and 1959. The absence of any deterioration in the terms of trade during a major boom reflected mainly developments in world markets for primary products. The expansion of capacity in the primary producing sector in response to shortages and high prices during the early post-war years had exceeded the long-term growth of demand for primary products, especially after 1953, when the growth in the United States slowed down appreciably. The 1957-1958 recession had led to a considerable increase in the accumulation of inventories in producing countries and further weakened commodity prices in the world markets. These trends were, however, not reversed by the upswing in industrial countries during the period 1958 to 1960 partly because the recovery of United States and western European import demand did not coincide in time. The expansion of North American imports from primary producing countries attained peak rates around the middle of 1959, while western European imports only advanced relatively slowly; and when the imports of western Europe and Japan accelerated in the last quarter of 1959 and the beginning of 1960, United States imports began to fall off. Commodity prices recovered somewhat around the turn of the year 1959, but even at that time only a few commodities, notably rubber, tin and jute, regained their pre-recession levels. After the first quarter of 1960 commodity prices resumed their downward course, as the following figures indicate:

Import prices of OEEC countries
(1957 = 100)

	Foodstuffs	*Raw materials*
1959:		
First quarter	92	96
Second quarter	92	98
Third quarter	93	98
Fourth quarter	92	99
1960:		
First quarter	90	101
Second quarter	91	99
Third quarter	91	96
Fourth quarter	88	93

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, March 1961.

The large advance of the level of trade of industrial countries from 1959 to 1960 reflected primarily the rapid expansion of trade, which began in the latter part of 1959 and attained peak rates in the first quarter of 1960. The rate of expansion slackened considerably thereafter, and in the second half of the year it was less than half the rate for the first quarter for both exports and imports (*see* table 4-15). While the growth of all trade flows slackened, the decline of exports to North America, which occurred after the first quarter of the year, was the most important single factor accounting for the retardation.

The contribution of the various markets to changes in the trade of industrial countries over the entire cycle from 1957 to 1960 is shown in table 4-16. Three facts are clearly indicated by these data: the steady growth of demand in western Europe, both in 1959 and 1960, in contrast to the relatively large variations in the North American market; the high elasticity of import demand in industrial countries, notably of their demand for products entering their mutual trade, and the lagging growth over the entire cycle of the imports of primary producing countries compared with those of industrial countries.

The rise in the imports of western European countries—by 18 per cent from 1959 to 1960—affected, in the first place, the area's imports from North America, which rose by nearly two-fifths, and, secondly, intra-European trade, which advanced by 18 per cent. The rise in the imports of western Europe from primary producing countries, which averaged almost 13 per cent, in terms of quantum was appreciable, but much of it occurred in the first quarter of the year, when manufacturers throughout Europe were rebuilding inventories. Thereafter it slackened considerably.

The decline in the import demand of North America affected all its trading partners in some degree. Although it was relatively slight—3.5 per cent on the average for the year, imports fell from a peak in the first quarter of 1960 to well below their previous year's level in subsequent quarters. The year-to-year decline averaged 5 per cent for imports from western Europe and 3.5 per cent for the mutual trade of Canada and the United States; but since imports from Japan continued to advance, the total decline of imports from industrial countries was of the order of 3 per cent. The decline in imports from primary producing countries, which began as early as the first quarter of 1960, was somewhat larger.

The imports of primary producing countries began to recover in the latter part of 1959 and continued to rise in 1960. The revival of import demand in primary producing countries gave support to the expansion of exports from western Europe and Japan, and it contributed to some extent to the recovery of United States exports. However, as the rise in the exports of primary producing countries slowed down in the course of 1960, their import demand slackened. The average rate of increase of exports to them was 11 per cent, compared to a 15 per cent rise in the mutual trade of industrial countries. Over the entire upswing since 1958 the disparity was even greater.

THE EXPANSION OF TRADE IN WESTERN EUROPE AND JAPAN

It was noted earlier that the upswing of 1958-1960, in contrast to that of 1953-1957, proceeded without significant price increases and that supply proved adequate to meet the rising demand. The absence of inflationary price developments reflected a combination of factors, including the relative stability of raw material prices since 1958. A factor of varying but generally very considerable importance, which contributed to the maintenance of domestic balance, was the very rapid advance in the quantum of imports. During the cyclical upswing of 1953-1957, balance of payments considerations had, in most countries, placed a limit on the extent to which imports could be permitted to expand in response to the rise in domestic demand; the growing pressure on domestic resources was consequently reflected in rising prices.

By the end of 1958, the external balance and foreign exchange reserves of most western European countries

Table 4-15. Quantum of Trade by Areas of Destination and Origin, 1958-1960

(Percentage change from corresponding period of preceding year)

Area and period	Exports to: World	North America	Western Europe	All industrial countries[a]	Primary producing countries	Eastern Europe[b]	Imports from: World	Primary producing countries
North America[c]								
1959	—	9	−1	5	−7	...	16	8
1959:								
Third quarter	4	8	7	8	−3	...	22	17
Fourth quarter	4	8	9	10	−6	...	10	2
1960:								
First quarter	20	11	43	27	6	...	7	−6
Second quarter	13	−7	46	16	8	...	−3	−1
Third quarter	13	−10	36	15	10	...	−7	−5
Fourth quarter	14	−8	31	12	15	...	−11	−4
Western Europe								
1959	13	37	16	20	1	12	10	6
1959:								
Third quarter	12	40	16	20	−2	15	10	5
Fourth quarter	16	23	23	23	3	26	15	10
1960:								
First quarter	25	22	27	26	21	40	25	24
Second quarter	11	−11	17	11	10	34	17	11
Third quarter	10	−17	17	10	8	23	17	14
Fourth quarter	6	−14	12	7	4	12	12	4
All industrial countries[a, c]								
1959	9	22	13	16	−1	10	12	8
1959:								
Third quarter	10	23	14	17	−1	16	14	10
Fourth quarter	13	16	19	19	2	27	15	10
1960:								
First quarter	23	16	30	26	15	46	22	16
Second quarter	12	−7	22	13	10	37	11	8
Third quarter	11	−11	20	11	10	25	11	9
Fourth quarter	9	−9	16	9	8	20	6	2

Source: See table 4-14.
[a] Including Japan.
[b] Exports from North America to eastern Europe are included in the total but are not shown separately because of extreme variations in the small amounts of this trade.
[c] Excluding "special category" exports of the United States

Table 4-16. Demand for Exports in Major Areas of Destination, 1958-1960

(Percentage change from preceding year)

Item	Area of destination: North America 1958	1959	1960	Western Europe 1958	1959	1960	Primary producing countries 1958	1959	1960
Change in demand[a]	−1.0	6.2	2.5	1.8	4.1	6.0	−2.4	7.8	3.7
Quantum of exports									
Area of origin:									
Industrial countries	—	22	−3	−4	13	22	−2	−1	11
Western Europe	11	37	−5	−1	15	18	4	1	11
North America	−7	9	−4	−17	−1	39	−10	−7	7
Japan	18	49	6	6	10	42	−3	6	11

Source: See table 4-14.
[a] For North America and western Europe, change in gross national product; for primary producing countries, change in import capacity—that is, value of merchandise exports from primary producing countries plus inflow of foreign capital and grants minus net payments for services, the total being divided by unit value of imports of primary producing countries.

had been sufficiently strengthened to allow imports to rise to the extent required for the maintenance of domestic balance. Import demand did in fact rise substantially faster during the two years of expansion following the setback of 1958 than in the corresponding period of the preceding upswing (table 4-17). The contribution of imports towards meeting the rise in domestic demand in 1959 and 1960 exceeded substantially that of the previous cyclical peak of 1956 or 1957 as the following ratios of increments in imports to those in total domestic demand[2] indicate:

1955 to 1956	0.29
1956 to 1957	0.28
1957 to 1958	0.09
1958 to 1959	0.45
1959 to 1960	0.48

The greater buoyancy of total import demand in 1959 and 1960 than in the previous upswing was primarily accounted for by demand for manufactures. As table 4-17 shows, apart from some differences in the timing of its advance, import demand for industrial materials followed a similar course in both cycles, but the import coefficient for manufactures rose substantially faster both in 1959 and 1960 than in the corresponding stages of the previous cycle. In 1959 manufactures accounted for the major part of the increase in non-food imports; and their accelerated rise in 1960, together with the cyclical upswing of raw material imports, resulted in an unprecedented advance in imports.

The unusual vigour of the rise in western Europe's imports of manufactures both in 1959 and 1960 was partly attributable to the fact that the 1959-1960 upswing was preceded and accompanied by the dismantling of payments restrictions and a substantial liberalization of imports of industrial products from other European countries and the United States. Consequently rising domestic demand was allowed for the first time in post-war years to exert more fully its impact on the external sector. Moreover, the transition to relatively unrestricted trade and payments itself tended to enhance imports especially in 1959, through the effects of some backlog of demand for previously restricted items, inventory purchases by distributors of newly available products and similar temporary factors. Furthermore, deliveries of long-lead items, for which orders had been placed in consequence of import liberalization, became more substantial in the latter part of 1959 and especially in 1960. This was notably true of imports of United States capital equipment. The expansion of trade within Europe, which consists primarily of manufactures, was also enhanced by the establishment of the European Economic Community at the beginning of 1959 and by the acceleration of its integration timetable in 1960.

The timing of the recovery of raw materials imports varied to some extent with the upturn of production in individual countries. For western Europe as a whole, imports rose slowly up to the middle of 1959. The expansion accelerated in the last quarter of 1959 and attained peak rates during the first half of 1960. The rapid rise of raw materials imports in 1960 reflected not only the growing consumption of manufacturing industry, but also the rebuilding by manufacturers of their raw material stocks. Variations in rates of inventory accumulation generally account in large part for the cyclical instability of the raw materials imports of western European countries. In periods of slackening demand for their products, manufacturers tend to let their inventories run down, replenishing them as activity

[2] This is equal to the sum of personal consumption, public consumption and gross domestic capital formation, in constant prices.

Table 4-17. Western Europe: Indicators of Import Demand, 1953-1960

Year	Imports as percentage of gross national product[a]					Imports as percentage of components of total domestic expenditure[b]		
	Total	Food	Industrial materials[c]	Capital equipment	Other manufactures[d]	Machinery and equipment	Consumer durables[e]	Textiles and clothing
1953	15.5	4.3	7.1	1.7	2.4	20.4	4.6	6.2
1954	16.0	4.0	7.5	1.6	2.9	19.2	5.4	6.7
1955	17.6	4.4	8.3	1.8	3.1	18.9	5.6	6.8
1956	17.5	4.6	7.9	1.9	3.1	20.2	5.7	6.9
1957	17.8	4.3	8.3	1.9	3.2	21.0	5.8	7.4
1958	17.5	4.5	7.7	1.9	3.4	20.6	6.1	7.0
1959	18.6	4.5	8.0	2.0	4.0	21.5	6.9	8.0
1960	20.6[f]	4.4	8.9	2.4	4.3	24.0	...	9.1

Source: See table 4-14.
[a] At 1954 prices.
[b] At current prices.
[c] Crude materials, fuels and base metals.
[d] Excluding base metals.
[e] Based on data for countries and commodities listed in table 4-19.
[f] Imports for full year 1960. Components are based on annual rate for January-September and do not add up to total.

picks up.[3] This was the case in 1958 when raw materials imports fell sharply although manufacturing activity was maintained. The decline in imports was enhanced by the fact that recession had set in at a time when stocks of raw materials, built up after the Suez crisis, were exceptionally high in many of the European countries. For this reason several countries did not begin to rebuild inventories until the latter part of 1959, when the upswing of activity was already well under way. After the middle of 1959, inventory purchases combined with the rising current requirements of manufacturing industry to produce correspondingly high rates of increase in imports, which were maintained up to the middle of 1960. Thus, as chart 4-2 indicates, the fluctuations of raw materials imports considerably exceeded those of total manufacturing production.

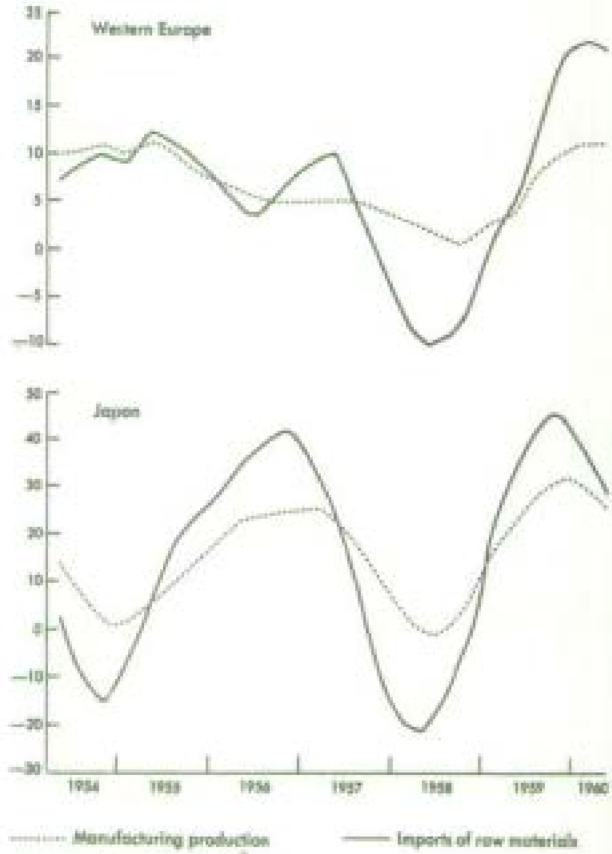
Both the decline and subsequent recovery of raw materials imports were enhanced during the 1957-1960 cycle by conditions in the textile industry which is a large consumer of imported materials. The recession of 1958 was more severe in the textile industry than in other branches of manufacturing, and recovery did not gather momentum until the latter part of 1959. Since textile fibres account for between one-quarter and one-third of the imports of raw materials other than fuels of western European countries, the development of demand for textiles has a considerable impact on total imports of industrial materials.

During the two years following the recession of 1958, imports of manufactures by western European countries increased by over two-fifths in terms of quantum, nearly three times as fast as manufacturing production in the area. In 1959, the impetus to the expansion came primarily from rising consumption expenditure, notably on durables; and, as noted earlier, it was reinforced by trade liberalization and the impact of European integration movements. In 1960 when an industrial investment boom of major proportions developed throughout most of western Europe, the emphasis in the further advance of imports shifted towards capital equipment; at the same time, imports of durables, notably of passenger cars, increased at an accelerated pace. The rise in imports of miscellaneous manufactures, on the other hand, slackened in 1960 after the initial post-liberalization spurt of import demand had spent itself (*see* table 4-18).

Throughout the post-war period, demand for durables was extremely buoyant in western European countries,

Chart 4-2. Changes in Manufacturing Production and Imports of Raw Materials, 1954-1960

(Percentage change from corresponding quarter of preceding year; three-quarter moving averages)



Source: See table 4-14.

and it exerted considerable pressure on both domestic resources and external balances, especially during periods of rising activity. Restrictions on imports were generally severe, and up to 1957 liberalization had made relatively slow progress. Consequently, the shift in policy towards freer trade, which occurred in 1958 and 1959, was bound to have a very considerable impact on imports of commodities, such as passenger cars and other major durables, which had remained subject to stringent quotas in most of the European countries. As early as 1958, when demand for durables was relatively slack, imports advanced rapidly in the wake of the first liberalization measures and accounted in large part for the modest rise in imports of manufactures in that year. Imports accelerated in 1959 as liberalization progressed, notably among the members of the European Economic Community, and attained peak rates in 1960, when imports of passenger cars rose by over one-quarter.

In the smaller European countries, where a high proportion of the total supply of passenger cars and other major items is imported, consumption was to an important extent determined during the nineteen fifties by the degree of restrictiveness of import controls (*see* table 4-19). In these circumstances, the liberalization

---

[3] The following data illustrate the development of manufacturers accumulation of inventories of raw materials over the 1957-1960 cycle in the United Kingdom:

(*Millions of pounds sterling, in 1954 prices, quarters or quarterly rates; seasonally adjusted*)

1957	1958	1959		1960	
		First half	*Second half*	*First half*	*Second half*
12	−21	−2	19	38	56

Source: National Institute of Economic and Social Research, *National Institute Economic Review* (London, March 1961).

Table 4-18. Western Europe: Imports of Manufactures, 1958-1960[a]

Item	From world			From United States		
	1958 (millions of dollars)	Percentage change		1958 (millions of dollars)	Percentage change	
		1958 to 1959	1959 to 1960[a]		1958 to 1959	1959 to 1960[a]
Total, excluding base metals	14,189	9.4	21.4	1,720	17.5	50.1
Capital equipment	5,409	9.8	25.7	933[b]	1.1	80.6
Chemicals	2,164	16.0	22.3	414	12.1	33.4
Passenger cars	614	22.0	25.9	...	...	...
Textiles and clothing	1,849	17.0	22.8	53	28.3	69.1
All other	4,153	17.0	14.3	320	70.6	9.2
Base metals	3,448	9.2	39.1	296	−30.1	157.9

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series B (Paris).

[a] 1960: January-September at annual rate.

[b] Including passenger cars.

measures of the past two years had a considerable impact on both the volume and pattern of consumption: it produced a shift towards imported commodities which had previously been relatively scarce, and it contributed to the upsurge of consumption in 1959. Well over half of the total rise from 1957 to 1959 of consumption expenditure on durables in this group of countries was in imported supplies, and the commodities involved accounted for more than one-third of the total increase of imports of manufactures other than base metals. Available data indicate that the development of 1958-1959 continued in 1960: imports of passenger cars rose by more than 30 per cent in 1960, and accounted by themselves for around one-fifth of the total increase of imports of manufactures of the group since 1959.

In the larger countries, where imports are marginal and quotas for major durables had previously been small, liberalization or significant quota increases produced an upsurge of imports which raised their share in total consumption from 1.8 per cent in 1957 to 2.7 per cent in 1959. Product differentiation—especially important in the case of passenger cars—was the major factor in the advance of import demand in 1958 and 1959, as there was no significant pressure on domestic capacity in either year. Although the increase in imports was relatively large, the amounts involved were a less significant factor in the rise of the imports of this group in 1959 and 1960. Moreover, there were considerable variations in the extent to which individual countries liberalized imports. The Federal Republic of Germany

Table 4-19. Imports of Consumer Durables, by Group of Western European Countries, 1953 and 1957-1960

(Millions of dollars)

Country group and item	1953	1957	1958	1959	1960
Major importing countries[a]					
Passenger cars	179.8	323.7	346.4	379.4	499.5
Motor cycles and bicycles	26.4	37.5	27.0	31.1	...
Sewing machines	16.4	27.9	21.0	34.0	...
Household appliances	25.3	56.8	56.2	64.6	...
Radios, television sets and record players	35.1	104.1	125.2	154.2	...
Furniture and fixtures	9.6	19.9	21.3	24.7	33.5
TOTAL	292.6	569.9	597.1	688.0	...
Ratio of imports to consumption of durables	18.3	22.6	24.1	25.5	...
Net exporting countries[b]					
Passenger cars	22.0	52.5	83.2	150.7	208.8
Motor cycles and bicycles	7.8	28.9	23.4	38.5	...
Sewing machines	11.2	16.2	15.1	17.6	...
Household appliances	17.9	30.0	33.8	43.8	...
Radios, television sets and record players	11.3	42.4	61.1	71.2	...
Furniture and fixtures	4.8	17.0	21.4	30.3	39.7
TOTAL	75.0	187.0	238.0	352.1	...
Ratio of imports to consumption of durables	1.1	1.8	2.2	2.7	...

Source: See table 4-14.

[a] Belgium-Luxembourg, Netherlands, Norway, Sweden.

[b] Federal Republic of Germany, France, Italy, United Kingdom.

was the first to admit a growing volume of durables of foreign make and its imports advanced rapidly throughout the nineteen fifties, so that by 1960 the demand for imported durables had already begun to become less buoyant. In France, Italy and the United Kingdom, on the other hand, import liberalization was of more recent date, and import demand advanced especially in 1959 and 1960.

Imports of capital equipment advanced relatively slowly in 1959, when the recovery of investment was primarily in residential and other construction. Demand for imported equipment was none the less more buoyant than total demand for equipment, and imports contributed more than a third to the advance of investment (*see* table 4-20). Most of the supplies at that time were obtained from within Europe where capacity was still adequate to the demands made upon it. Late in 1959 and in 1960 the shift of emphasis in investment to industrial re-equipment and expansion produced an upsurge of demand for machinery which the major European producers found increasingly difficult to meet. Thus, as the contribution of imports to the rise in investment increased further, in 1960 demand shifted to the United States. As table 4-20 indicates, imports from the United States accounted in 1960 for one-fifth of the estimated total increase of investment in machinery and equipment. However, it should be noted that imports from the United States in 1960 were somewhat abnormal owing to a concentration of shipments of United States jet aircraft. But apart from these aircraft sales, the share of United States machinery in the rise of industrial investment was considerably higher than it had been even at the peak of the previous upswing in 1955 and 1956, when pressure on industrial capacity in western European countries was no less severe than in 1960. The elimination of restrictions on dollar imports has no doubt been of major importance in this development, but the character of the investment boom of 1960 is also likely to have favoured United States products. Many of the European economies had reached the point where future growth of output depended to a greater extent than in earlier years on advances in productivity, in view of the growing scarcity of labour. The industrial investment boom of 1960 was therefore to an important extent motivated by the need for reducing labour requirements in manufacturing and services industries. In these circumstances there was a strong demand for types of equipment in which the United States had not only a substantial lead in terms of design but also ample capacity to fill orders promptly.

The expansion of Japanese imports differed from that of western European countries. While in western Europe imports rose at a higher rate than gross national product in both 1959 and 1960, in Japan the increase in imports was only roughly in proportion to the advance of gross output in 1960. As shown in the accompanying table, the import coefficient in 1960 was in fact considerably below that reached during the preceding cyclical peak in 1957.

	Ratio of imports to gross national product (in constant prices)
1954	10.9
1955	11.3
1956	13.9
1957	14.3
1958	10.5
1959	11.3
1960	11.6

In Japan, apart from the influence of the more restrictive import policy, the explanation for the relatively slow advance in imports lies in the fact that finished manufactures, which contributed largely to the acceleration of imports into western Europe, amount to less than 15 per cent of Japanese imports (*see* table 4-21). The only class of finished manufactures that constitutes a significant proportion of imports is machinery and transport equipment. But despite the vigorous advance of industrial investment both in 1959 and 1960, imports of machinery barely rose in 1959 and they appear to

Table 4-20. Western Europe: Indicators of Import Demand for Producer Equipment, 1953-1960

Year	*Investment expenditure on equipment (annual percentage change)*[a]	*Imports as a percentage of domestic expenditure on equipment*		*Change in imports as a percentage of change in expenditure on equipment*	
		Imports from world	*Imports from United States*	*Imports from world*	*Imports from United States*
1953	5.4	20.4	3.9	—	—
1954	12.2	19.2	3.3	7.9	−2.1
1955	13.7	18.9	3.6	16.7	4.9
1956	7.0	20.2	3.7	32.1	5.5
1957	5.2	21.0	3.9	28.5	5.6
1958	2.2	20.6	3.4	15.3	−5.2
1959	5.2	21.5	3.3	37.8	1.4
1960	(13)	(24)[b]	(5)[b]	(43)[b]	(20)[b]

Source: See table 4-14. Figures within parentheses are preliminary estimates.

[a] At constant prices.

[b] Based on import data for January-September at annual rate.

Table 4-21. Japan: Composition of Imports, 1957-1960

Item	*1957 (billions of dollars)*	*Percentage change*			*Percentage distribution of total change*	
		1957 to 1958	*1958 to 1959*	*1959 to 1960*	*1958 to 1959*	*1959 to 1960*
Total imports	4.3	−29.2	18.7	24.0	100	100
Food	0.6	−7.3	−9.4	12.9	−10	9
Crude materials and semi-manufactures	3.0	−37.1	31.0	27.5	104	84
Manufactures	0.6	−13.8	6.3	18.2	6	8
Capital equipment	0.3	18.4	3.2	14.2	2	4

Source: Japanese Government, Economic Planning Agency, *Japanese Economic Statistics* (Tokyo), January 1961.

have risen less rapidly than investment in 1960. Furthermore, imports of industrial materials rose considerably faster than manufacturing production from 1958 to 1959 when inventories were being rebuilt and when the country's textile industry was recovering from a major recession. In 1960 they advanced only in line with manufacturing activity.

The outstanding feature of the development of exports in 1960 was the relative ease with which the majority of western European countries overcame the adverse effect on their exports of the decline in the import demand of the United States.

Although the reduction of exports to North America was quite moderate for the year as a whole, it amounted to as much as 15 per cent in the second half of 1960 as compared with the corresponding period of 1959 (*see* table 4-15). The decline was largely confined to the commodities that had recorded the largest increases in 1959; passenger cars and steel accounted in fact for the bulk of the total decline during the first nine months of 1960.

In spite of the reduction of exports to North America, the total exports of western European countries in the second half of 1960 exceeded the level of the corresponding period of 1959 by 8 per cent. Intra-western European trade rose further, and substantial gains were made in exports to eastern Europe. On the other hand, the rate of expansion of exports to primary producting countries fell from 15 per cent in the first half of 1960 to only 4 per cent in the last quarter of the year.

The impact of the decline in exports to North America on individual countries in western Europe differed according to the importance of passenger cars and steel in their exports to the United States, and the extent to which they were able to offset losses by increased sales of other commodities. A few countries, notably the Federal Republic of Germany, Italy and Sweden, were even able to increase total exports to the United States in 1960. The United Kingdom, on the other hand, experienced a significant setback in the United States market, not only with its exports of passenger cars, but also with various other manufactures. The buoyancy of intra-European trade compensated to an important extent for losses in the North American market. But in this respect, too, the United Kingdom was less favourably placed than the other major exporters which belong to the European Economic Community. The growing cohesiveness of the group and the high growth rate of most of its members provided a better alternative outlet for exports of the six EEC countries than was available to the United Kingdom. The latter did not enjoy any preferential treatment in EEC markets, while its major export markets in the Oversea Sterling Area were adversely affected by the decline of commodity prices.

The expansion of intra-European trade began to reflect, at least in some degree, the effects of the formation of two separate trading groups within Europe. As shown in table 4-22, EEC intra-trade rose by 25 per cent in 1960, while total trade within Europe rose by only 19 per cent. This fact can be readily explained by above-average growth rates in several of the EEC countries. However, it appears that actual and prospective preferences have begun to affect trade within western Europe. This is suggested by the fact that total imports, as well as imports of individual classes of commodities by EEC members from each other, increased more than their imports from the United Kingdom and other non-members. On the other hand, the establishment of the European Free Trade Association is of too recent date to have affected the group's trade to any significant extent in 1960. In fact, taking the year as a whole, members of EFTA increased their imports from EEC countries faster than their mutual trade. But in the third quarter of 1960, when the first of the tariff reductions under the agreement establishing EFTA went into effect, the growth of trade among the members of EFTA accelerated, while that of the group's imports from EEC member countries continued to slacken.

Thus far the booming demand throughout western Europe has offset any losses to trade that might have resulted from preferences already applied within the two groups, and the net effect of the integration movements has been to create trade rather than to divert it from its normal channels. But after the second EEC tariff cut of January 1961, which applies to intra-group

Table 4-22. Intra-European Trade, 1958-1960

(Percentage change in value from corresponding period of preceding year)

Item	*1959*	*1960* First quarter	*1960* Second quarter	*1960* Third quarter	*1960* Fourth quarter
Total trade among OEEC countries	11	29	20	18	13
Trade among EEC countries	19	40	28	21	16
Exports from EEC countries to EFTA countries	10	29	21	20	12
Exports from EFTA countries to EEC countries	8	18	12	11	9
Trade among EFTA countries	8	22	13	15	11

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series A (Paris).

trade only, and which is to be followed in July by a similar one in the EFTA countries, formal discrimination will be considerably increased. Changes in trade patterns may thus become more significant in the future, especially if, as seems likely, import demand in western European countries becomes less buoyant.

THE DEVELOPMENT OF TRADE IN NORTH AMERICA

The decline of the imports of the United States accelerated in the course of 1960 as the economy passed from expansion in the first quarter to recession in the rest of the year. Although the decline was small for the year as a whole, it reflected a significant weakening in the country's import demand. As table 4-23 indicates, the import coefficient, which had advanced during the 1957-1958 recession, declined in 1960 almost as much as in the more severe recession of 1953-1954.

In 1960 the decline in the demand for imports affected chiefly industrial materials and passenger cars. The normalization of steel imports after the settlement of the steel strike accounted partly for the reduction of demand for industrial materials, while the decline in passenger car imports resulted from a shift in consumer purchases to domestic "compact" cars. The decline in imports of industrial materials other than iron and steel reflected the downturn of manufacturing production after the first quarter of the year, and the sharp drop in the rate of inventory accumulation which had initiated the recession in the second quarter of 1960. However, as table 4-24 shows, decline of imports became wide-spread in the second half of the year and affected the bulk of imports of manufacturers as well as of industrial materials.

The recovery of United States exports, after almost eighteen months of stagnation at the level to which they had fallen in 1958, began in the second half of 1959 and accelerated in 1960. For the full year 1960, total non-military exports were 19 per cent above their previous year's level and somewhat higher in value though not in quantum than in 1957.

The recovery was closely linked to the boom conditions which prevailed in western Europe and Japan. These countries accounted for over two-thirds of the rise in United States exports from 1959 to 1960, although their share in the 1959 total was less than one-third. United States exports are generally highly sensitive to

Table 4-23. United States: Indicators of Import Demand

Year	*Imports as percentage of gross national product*[a] Total	Food	Industrial materials	Manufactures	*Imports as percentage of components of total domestic expenditure*[b] Consumer manufactures[c]	Passenger cars	Textiles and clothing
1953	3.0	0.9	1.3	0.7	1.8	0.3	2.1
1954	2.8	0.8	1.2	0.7	1.9	0.3	2.0
1955	2.8	0.8	1.3	0.8	2.1	0.4	2.5
1956	3.0	0.8	1.3	0.9	2.6	0.8	2.6
1957	3.0	0.9	1.3	0.9	2.8	1.8	2.5
1958	3.2	1.0	1.2	1.0	3.3	3.5	2.5
1959	3.6	1.0	1.4	1.2	4.0	4.1	3.1
1960	3.4	1.0	1.2	1.2	4.0	2.9	3.3

Source: United States Department of Commerce, *Survey of Current Business* and *Total Export and Import Trade of the United States* (Washington, D.C.).

[a] At 1954 prices.

[b] At current prices.

[c] Ratio of imports of finished manufactures, other than newsprint and passenger cars, to consumption expenditure, other than expenditure on food, passenger cars and gasoline.

Table 4-24. United States: Composition of Imports, 1959 and 1960

Item	1959 (billions of dollars)	1960 (billions of dollars)	Percentage change in 1960[a] Year	First half	Second half
Total	14.99	14.65	−2.3	4.3	−8.5
Food	3.42	3.29	−3.9	−3.6	−4.3
Coffee	1.10	1.00	−8.5	−9.5	−7.4
Meat, etc.	0.48	0.38	−18.9	−23.3	−14.0
Industrial materials	6.40	6.11	−4.6	1.9	−11.0
Iron and steel	0.58	0.50	−12.6	45.4	−50.7
Non-ferrous metals	1.31	1.32	0.9	10.3	−7.8
Petroleum	1.54	1.54	0.5	−6.2	8.7
Finished manufactures	5.17	5.26	1.7	13.2	−8.3
Automobiles	0.84	0.63	−25.6	−3.3	−48.3
Machinery	0.66	0.71	8.4	17.2	0.6
Textile manufacture	0.84	0.93	11.2	21.0	2.5
All others	2.83	2.99	5.5	15.3	−2.5

Source: United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 6 March 1961.

[a] Change from corresponding period of preceding year.

cyclical changes of activity in the other major industrial countries, which tend to draw heavily on United States supplies of industrial materials and equipment during periods of rapid expansion when their own productive capacity proves inadequate to meet the rising demand. The instability of this marginal demand[4] has contributed significantly to the wide fluctuations of United States exports in recent years. Western Europe and Japan accounted for over half of the decline of United States exports in 1958, and for a similar proportion of the preceding increase. Demand conditions in these countries have also tended to affect the exports of the United States indirectly through their effect on the ability of the countries concerned to supply third markets where their products compete with United States exports.

The recovery of exports in 1960 was more narrowly confined to western Europe and Japan than the previous upswing (table 4-25) owing to the slackness of demand in Canada and Latin America which account for nearly half of total United States exports. In Canada, as in the United States, growth was halted in 1960, while the Latin American market was adversely affected by the continuing decline of commodity prices since the 1957 recession, as well as by political factors. Thus, the embargo on exports to Cuba in mid-1960 involved a reduction of United States exports to Latin America of over $200 million for the full year 1960.

[4] The following coefficients for the imports of western European (OEEC) countries from the United States indicate the extent of cyclical swings in the area's demand for United States products:

Year	Imports from United States (as a percentage of gross national product)
1953	1.5
1954	1.6
1955	1.9
1956	2.1
1957	2.1
1958	1.6
1959	1.5
1960	1.9

Source: Based on data from Organisation for European Economic Co-operation, *General Statistical Bulletin*, January 1961.

Table 4-25. United States: Exports[a] by Area, 1955-1960

Area	1955 (billions of dollars)	Percentage change 1955 to 1957	1957 to 1958	1959 to 1960
Total	14.2	36.1	−16.0	19.4
Western Europe and Japan	4.8	32.2	−23.3	38.9
Canada	3.2	20.7	−12.4	—
Latin America	3.2	41.1	−10.6	−1.1
Australia and Union of South Africa	0.5	4.6	−11.7	45.5
Other	2.5	41.9	−13.4	27.8

Source: United States Department of Commerce, *Total Export and Import Trade of the United States* (various issues).

[a] Excluding "special category" exports.

United States exports made significant gains in the developed countries of the Oversea Sterling Area, where they benefited from the elimination of payments restrictions. In some countries in the Middle East, as well as in India and other Asian countries, there were large shipments of agricultural surpluses. But these markets are as yet small in relation to total United States exports.

In view of the predominant role of industrially developed countries in the recovery and the nature of their import demand, a relatively narrow range of commodities accounted for a large part of the export gains. Thus, iron and steel, non-ferrous metals and cotton contributed two-fifths of the rise in export receipts. These commodities had also been prominent in the upswing of exports in 1955-1957 as well as in their decline in 1958 (*see* table 4-26). The fact that their share was even greater in the 1960 upswing than in the preceding one

Table 4-26. United States: Composition of Exports, 1955 to 1960

Item	1955 (millions of dollars)	Percentage change			Percentage distribution of change		
		1955 to 1957	1957 to 1958	1959 to 1960	1955 to 1957	1957 to 1958	1959 to 1960
Total exports	14,165	36	−16	19	100.0	−100.0	100.0
Food	1,942	29	−5	9	10.9	−3.8	7.3
Iron and steel	816	62	−50	58	9.8	−21.4	10.0
Non-ferrous metals	319	40	−23	144	2.5	−3.3	13.4
Cotton	469	123	−37	119	11.3	−12.7	17.1
Aircraft	140	91	−19	247	2.5	−1.6	12.5
SUB-TOTAL	1,744	77	−39	115	26.2	−39.0	52.9
Coal	495	71	−37	−4	6.8	−10.1	−0.5
Petroleum	527	65	−47	4	6.7	−13.2	0.5
Machinery	2,891	37	−7	10	21.1	−9.4	12.2
Automobiles and parts	1,240	5	−17	6	1.3	−7.1	2.3
Chemicals	1,078	28	−2	12	5.8	−1.1	5.8
Pulp, paper and manufactures	292	11	−6	24	0.6	−0.6	2.6
Rubber and manufactures	62	98	126	14	1.2	5.0	1.4
Textile manufactures	616	8	−10	9	1.0	−2.2	1.9
SUB-TOTAL	6,179	26	−6	11	31.1	−15.4	26.2
All other	3,278	28	−14	11	18.3	−18.5	13.5

Source: United States Department of Commerce, *Total Export and Import Trade of the United States* and *Foreign Commerce Weekly*, 6 March 1961.

was to some extent accidental: strikes in the United States metal industries had reduced exports of iron and steel and copper below normal levels in 1959 and the resumption of production late in the year enhanced the rise of exports in 1960. Cotton exports in 1959 were likewise abnormally low owing to the fact that textile manufacturers abroad had postponed purchases in anticipation of a reduction in the United States Government's export price. After the announcement of the new price in September 1959 there was a rush of orders which affected shipments in 1960. The rise in United States exports was also enhanced by the bunching of deliveries of jet aircraft which had been ordered by the major foreign airlines several years earlier.

Although the 1959-1960 recovery had some of the marks of a cyclical spurt which might subside as demand pressure eased in other industrial countries, it was in fact more broadly based, as far as exports to the industrial countries of western Europe are concerned, than the upswing of 1955-1957. While the rise of exports to western Europe from 1959 to 1960 was greater than that of 1955-1956 or 1956-1957, the contribution of commodities for which demand has tended to be most unstable—notably of iron and steel, copper and coal—was less significant. As a result of the changing pattern of European fuel consumption, exports of coal did not rise at all in 1960 and the combined share of the three other commodities was not as large as it had been during the 1955-1957 upswing. If one also allows for the fact that the level of exports of iron and steel, copper and cotton was abnormally low in 1959 owing to the special factors mentioned above, the evidence that the export recovery in 1960 was more solidly based than the earlier upswing is further strengthened. It remains to be seen, however, whether the rise in the exports of a number of other industrial materials and semi-manufactures, which contributed significantly to the upswing in 1960, can be maintained in the future. It may well be that exports of commodities, such as synthetic rubber and other synthetic materials, pulp and paper products and various chemical substances, did well in the European market because productive capacity has thus far lagged behind the rising demand for some of these relatively new products. If capacity is built up in western Europe to meet normal requirements, the United States may ultimately become a marginal supplier of some of these commodities as well.

Prospects in the European market for United States exports of other manufactures, including machinery, textiles and other consumer goods, which had previously been limited by European import restrictions, may prove to be more favourable in the long run. United States textiles and mass-produced clothing, as well as a wide range of miscellaneous manufactures, may benefit from the same factors that have attracted a growing volume of European consumer goods to the United States in recent years. Moreover, the need for raising the productivity of European industry is unlikely to diminish, and consequently demand for United States equipment can be expected to continue growing.

In view of the small share of exports in total United States output, the export boom did not contribute as much to the maintenance of demand in the United States as the previous year's upsurge of European exports had done in that area. But it gave useful support to production in a number of individual industries, notably in machine tools, where the rise in export shipments very largely offset the decline in domestic demand in the second half of 1960.

BALANCE OF PAYMENTS DEVELOPMENTS

As indicated earlier, the continuing expansion in western Europe and the moderate contraction in the North American economies during 1960 resulted in a deterioration of trade balances in western European countries and an improvement of the trade balance of the United States.

A tendency towards deterioration of trade balances was present in most western European countries in 1960 (table 4-27), but it was particularly marked in Italy and the United Kingdom, which together accounted for two-thirds of the $2.3 billion rise in the import balance of western Europe. The only countries which recorded some improvement in balances were Belgium and France, where expansion had been relatively slow in 1960. In the majority of countries the deterioration was quite moderate and created no significant payments difficulties; in fact, most countries were able to add to their gold and foreign exchange reserves.

Changes in rates of reserve accumulation were less uniform than changes in trade balances, and in several cases they were largely unrelated to the development of current transactions. For western Europe as a whole, the rate of accumulation of official gold and foreign exchange reserves in 1960 was $2.5 billion higher than in 1959, in spite of an increase in the area's merchandise import balance of $2.3 billion. The shift in the capital balance in favour of western Europe thus appears to have been of the order of $4.8 billion.[5]

The improvement in the capital balance of western Europe had a counterpart in a deterioration of that of the United States. As table 4-29 below shows, the outflow from the United States on capital account together with the shift in the balance of unrecorded transactions increased by $3.8 billion.

The bulk of the capital outflow from the United States and of the capital inflow into western European countries consisted of short-term funds which United States banks and individuals had transferred to the main financial centres of western Europe, where short-term interest rates were higher than those in the United States. The transfer of funds was to some extent also motivated by speculation on a possible readjustment of exchange rates. The principal European recipients of these funds were the Federal Republic of Germany and the United Kingdom, and, to a less extent, the Netherlands and Switzerland. As table 4-27 indicates, it was chiefly in these countries that a deterioration of trade balances in 1960 was accompanied by an acceleration of reserve accumulation.

The disparity between short-term rates in western European countries and the United States had resulted from differences in the pace of economic activity and from the use of credit policy as a regulator of activity in these areas. Thus, as the expansion accelerated in western Europe, a number of governments raised discount rates early in 1960. In the United States the downturn in the second quarter of the year led to an easing of credit and a reduction of short-term rates in July. During the third quarter of the year the differential between the United States and western European rates amounted to 2 per cent in the case of the Federal Republic of Germany and Sweden, and to as much as 3 per cent in the case of the United Kingdom (table 4-28).

The restoration of currency convertibility has greatly increased the international mobility of funds. In these circumstances, interest rate differentials tend to give rise to movements of short-term funds, which may defeat the domestic purpose for which the monetary measures had originally been introduced. Furthermore, in view of the persistence of basic disequilibria in the current and long-term capital transactions of some of the major industrial countries, "hot money" movements may have a seriously disruptive effect on the international payments system. In consequence of the experience of 1960 some governments have shifted the emphasis from monetary to fiscal policies and to more selective and flexible forms of credit control. Efforts have also been intensified in 1960 to reduce basic disequilibria in the external balances of the United Kingdom, the United States and the Federal Republic of Germany.

The conflict between domestic and external policy objectives is particularly acute in the case of the United Kingdom in view of the weakness of its external balance and the need for more rapid growth that is felt in many quarters.

Throughout most of the post-war years the external balance of the United Kingdom has been under considerable strain. This strain has resulted very largely from the structure of its external transactions. The traditional pattern of the United Kingdom's external transactions was one where a surplus from service transactions served to finance an import balance on merchandise account and a substantial outflow of long-term capital as well as various government expenditures abroad. After the war the surplus on service transactions was considerably reduced in relation to payments for imports and the level of capital transfers and other expenditures to be financed. It therefore became the first aim of government policy to reduce the structural imbalance of the country's merchandise trade, by furthering the expansion of its exports and by restraining the growth of its imports.

Throughout the nineteen fifties, the expansion of British exports lagged behind that of the other major west-

[5] The actual improvement of western Europe's capital balance is overstated by this figure, which does not allow for the rise in United Kingdom sterling liabilities amounting to $0.6 billion, and for a reduction in the foreign exchange assets of commercial banks.

Table 4-27. Trade and Changes in Official Gold and Foreign Exchange Reserves,[a] 1959-1960

Country and year	Total trade: Quantum (indices, 1958 = 100): Exports	Total trade: Quantum (indices, 1958 = 100): Imports	Total trade: Trade balance[c] (millions of dollars)	Changes in official gold and foreign exchange reserves[b]
Austria				
1959	107	111	−181	21
1960	121	134	−296	19
Belgium-Luxembourg				
1959	114	112	−147	−118
1960	125	124	−145	200
Denmark				
1959	108	120	−221	70
1960	113	131	−331	−37
France				
1959	119	98	528	1,008
1960	139	118	585	350
Germany (Federal Republic)				
1959	113	121	1,439	−211
1960	131	143	1,257	2,184
Italy				
1959	123	111	−446	878
1960	150	161	−1,054	126
Netherlands				
1959	114	113	−331	−34
1960	131	131	−503	398
Norway[c]				
1959	111	109	−506	13
1960	116	128	−583	22
Sweden				
1959	108	105	−200	−48
1960	124	125	−309	48
Switzerland				
1959	108	111	−228	5
1960	122	130	−348	262
United Kingdom				
1959	104	107	−1,495	−333
1960	109	120	−2,484	492
All OEEC countries				
1959	113	110	−3,000	1,900
1960	127	130	−5,300	4,400
Canada				
1959	103	111	−956	−72
1960	108	108	−681	−40
United States[d]				
1959	99	119	−394	−1,562
1960	118	114	3,228	−2,922

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, *International Financial Statistics* (Washington, D.C.); from Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series A, and *General Statistics*, part 1 (Paris), January 1961, and from United States Department of Commerce, *Total Export and Import Trade of the United States*.

[a] Based on exports f.o.b. and imports c.i.f. Import data for Canada and the United States have been adjusted to c.i.f. basis by adding 10 per cent to f.o.b. values.

[b] Excluding transfers in 1959 to the International Monetary Fund in connexion with quota increases.

[c] Imports of ships excluded from quantum indices, but included in balance.

[d] Excluding shipments of military supplies.

Table 4-28. Rates of Discount of Central Banks, 1958-1961

(Percentage per annum)

Country	End of June 1958	Net change from: July 1958 to June 1959	July 1959 to June 1960	July to September 1960	October 1960 to May 1961	End of May 1961
Western Europe						
Austria	5.00	−0.50	0.50	—	—	5.00
Belgium	4.00	−0.75	0.75	—	1.00	5.00
Denmark	5.00	−0.50	1.00	—	1.00	6.50
Finland	7.25	−0.50	—	—	—	6.75
France	5.00	−1.00	—	—	−0.50	3.50
Germany (Federal Republic)	3.00	−0.25	2.25	—	−2.00	3.00
Italy	3.50	—	—	—	—	3.50
Netherlands	3.50	−0.75	0.75	—	—	3.50
Norway	3.50	—	—	—	—	3.50
Sweden	4.50	—	0.50	—	—	5.00
United Kingdom	5.00	−1.00	2.00	—	−1.00	5.00
Japan	7.67	−0.73	0.37	−0.37	−0.37	6.57
North America						
Canada[a]	1.97	3.39	−2.04	−1.37	1.69	3.64
United States (New York)	1.75	1.75	—	−0.50	—	3.00

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

[a] Based on the rate prevailing in the last week of the period stated.

ern European countries. This was partly the result of their predominant orientation towards the more slowly growing overseas markets in the primary producing countries of the sterling area, while continental European countries benefited to a greater extent than the United Kingdom from the rapid expansion of import demand in western Europe itself. But, in addition, United Kingdom exports also lost ground in their traditional markets.[6] In the earlier post-war years they had benefited from discriminatory import restrictions in the Oversea Sterling Area, as well as from tariff preferences. The elimination of the restrictions and the gradual erosion of tariff preferences opened up sterling area markets to the products of other European countries as well as to those of the United States and Japan, and stiffened the competition which United Kingdom exports had to meet. The growing difficulties in export markets have repeatedly forced the Government to protect the external balance by means of domestic policies of restraint. The consequent slow and intermittent expansion of the British economy inhibited the growth of its productivity which, in turn, contributed significantly to the greater cost increases in the United Kingdom than in some of the other European countries with whose products British exports have to compete.

[6] The extent of the United Kingdom's loss in sterling area markets is indicated by the following figures:

	Percentage shares of exports of manufactures to Oversea Sterling Area: 1954	1958	1959	1960
United Kingdom	60.7	53.3	51.0	46.3
EEC countries	18.1	23.6	23.3	23.5
United States	12.9	13.2	14.5	17.0
Japan	8.3	9.9	11.2	13.3

Source: National Institute of Economic and Social Research, *National Institute Economic Review*, March 1961.

In 1959 and 1960 the United Kingdom economy resumed its expansion after more than three years of virtual stagnation. During the period 1956-1958 the trade gap had been virtually eliminated (table 4-29), reserves had risen appreciably and the position of sterling had strengthened sufficiently for the Government to make sterling freely convertible into dollars for current transactions. But the elimination of the trade gap had been achieved primarily by means of restraining imports. For although exports expanded, they failed to keep pace with the growth of exports from the rest of Europe. Moreover, there was no basic improvement in the rest of the country's external transactions. Net earnings from invisibles were no higher during the years 1956-1958 than earlier in the nineteen fifties, while net government expenditures and the long-term capital outflow had increased. In these circumstances, any significant easing of restraints was soon bound to upset the precarious external balance.

In 1959 the expansion of the United Kingdom economy was moderate and, moreover, the external balance benefited from a combination of favourable circumstances: booming United States demand for British manufactures and the existence within the country of adequate stocks of raw materials which moderated import demand until the latter part of the year. The acceleration of growth in the latter part of 1959 and early in 1960 resulted in a sharp increase in import demand for industrial materials, as well as for manufactures. As the boom of exports to the United States came to an end, the trade balance of the United Kingdom deteriorated sharply after the middle of 1960, and as net earnings from invisibles also declined the commercial current account went into deficit. This was further accentuated

Table 4-29. Federal Republic of Germany, United Kingdom and United States: Summary of Balance of Payments, 1952-1953 to 1960

(Billions of dollars)

Country and year	Trade balance	Invisibles, net (excluding government)	Current commercial balance	Government: Current expenditure (net)	Government: Capital and grants	Private long-term capital	Balance of current and long-term capital transactions	Short-term capital and errors and omissions (net)	External reserves and short-term liabilities: Gold and foreign exchange assets (increase −)	External reserves and short-term liabilities: Short-term liabilities[a] (decrease −)
Germany (Federal Republic)										
1952-1953, average	0.7	−0.1	0.6	0.2	—	—	0.8	—	−0.8	—
1956-1957, average	0.8	0.1	0.9	0.6	−0.8	—	0.8	0.3	−1.1	—
1958	1.4	−0.2	1.2	0.9	−0.7	−0.1	1.1	−0.4	−0.8	—
1959	1.3	−0.6	0.7	1.0	−0.9[b]	−0.3	0.5	−0.3	−0.1	—
1960	1.2	−0.4	0.8	1.0	−0.8	0.1	1.1	1.0	−2.1	—
United Kingdom[c]										
1952-1953, average	−0.5	1.2	0.7	−0.4	0.2	−0.4	0.1	0.2	−0.1	−0.1
1954	−0.5	1.5	1.0	−0.4	—	−0.6	—	—	−0.2	0.3
1955	−1.0	1.2	0.2	−0.4	−0.1	−0.4	−0.7	0.5	0.6	−0.4
1956-1957, average	−0.1	1.2	1.0	−0.4	—	−0.6	—	0.3	−0.1	−0.2
1958	0.2	1.3	1.5	−0.5	−0.3	−0.4	0.3	0.3	−0.7	0.1
1959	−0.2	1.0	0.8	−0.5	−0.5[b]	−0.4	−0.6	0.2	0.2[b]	0.2[b]
1960	−1.0	0.9	−0.1	−0.7	−0.4	−0.3	−1.5	1.4	−0.5	0.6
United States[d]										
1952-1953, average	1.9	1.4	3.3	−2.2	−2.4	−0.6	−1.9	0.4	0.4	1.2
1956-1957, average	5.4	2.0	7.3	−3.1	−2.6	−2.3	−0.7	0.4	−0.6	0.8
1958	3.3	1.8	5.1	−3.4	−2.8	−2.5	−3.6	0.1	2.3	1.2
1959	0.9	1.5	2.4	−3.1	−2.2[b]	−1.7	−4.6	0.7	0.7[b]	3.1[b]
1960	4.7	1.5	6.2	−3.0	−2.9	−2.0	−1.7	−2.1	1.7	2.1

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.); and from national sources.

[a] For United States, short-term liabilities and foreign purchases of United States government securities; for United Kingdom, sterling liabilities.

[b] Excluding transfers to International Monetary Fund in connexion with quota increases.

[c] Owing to revisions of basic data, the distribution of private capital flows as between long-term and short-term for the years 1958 to 1960 is not strictly comparable with that of earlier years.

[d] Excluding exports of military supplies and services under grants.

by a considerable increase in 1960 of net government expenditure abroad. As a result, the over-all balance of current and long-term capital transactions deteriorated by $1 billion. The impact of this deterioration on reserves was cushioned by the inflow of short-term funds, which was noted earlier. The rise from 1959 to 1960 in the recorded inflow of short-term capital together with that of unrecorded receipts totalled $1.2 billion. This inflow enabled the United Kingdom not only to finance the increased deficit of other transactions, but also to add to its gold and dollar reserves. Some of these funds appeared to have been invested in longer-term securities, but the bulk of them were highly volatile and apt to be withdrawn, should interest rates cease to favour the United Kingdom, or should a loss of confidence in sterling occur.

In order to reduce the wide disparity between United Kingdom rates and those prevailing in the United States and in the continental financial centres, the Bank of England reduced its discount rate from 6 per cent to 5.5 per cent in October 1960 and further to 5 per cent in December of that year, but even at this level United Kingdom interest rates have an edge over those prevailing in other financial centres. Since mid-1960, growth of domestic economic activity has again been arrested as a result of the decline in foreign demand for British exports and the imposition of restraining measures. Under such circumstances, to stimulate the economy by means of monetary policy is rendered more difficult by the need to avoid a large-scale withdrawal of short-term funds.

In some respects the basic problem of external balance in the United States is similar to that of the United Kingdom. In both countries government expenditures abroad are large in relation to their commercial surplus, and both are major exporters of long-term capital. External transactions in both cases were partly financed by building up substantial short-term liabilities to the rest of the world. In the case of the United States, however, the persistent sizable over-all deficit throughout most of the nineteen fifties related to government foreign aid policies, which were designed to make available to the rest of the world the physical and financial resources necessary for the maintenance of growth and a high level of trade. In addition, the maintenance of military establishments on foreign soil also contributed to the growing strain on the United States external balance, particularly since large cash disbursements abroad were in no way tied to purchases of United States products. Thus, any adverse shifts in the balance of current commercial transactions, which may arise from a decline of demand in export markets or from rising import demand in periods of domestic boom, have to be financed out of reserves or by further additions to short-term liabilities. The drain on the external reserves of the United States in 1959 had resulted from such a development. With external commitments normally in excess of the commercial surplus, impact of the shift in the current account balance had to be borne by a decline in reserves and an increase in short-term liabilities (table 4-29).

In 1960, however, the trend in the United States current account position was reversed. This was, as noted in an earlier section, the result of the slackening of United States demand for imports and of the rise of its exports which was stimulated by the boom conditions in western Europe and Japan. The merchandise trade surplus on an f.o.b. basis rose from under $1 billion in 1959 to $4.7 billion in 1960. Since changes in invisibles were relatively minor and mutually offsetting, the current account surplus rose by a corresponding amount. Other things being equal, this shift would have sufficed to eliminate the need for any further drawings on the United States gold stock or for further additions to its short-term liabilities. However, much of the gain was offset by the large outflow of short-term funds to which reference was made above. But even apart from these financial transactions, not all of the gain from the improvement in the United States current account would have benefited reserves. The slackness of the United States economy discouraged foreign long-term investment in the United States, which dried up after mid-year, involving for the year as a whole a decline in United States receipts of over $200 million compared with 1959 (*see* table 4-30). At the same time United States private long-term capital moved in increasing amount into investments in western Europe.[7] Thus, despite a reduced outflow to Canada and other areas, total United States private direct investment advanced by some $200 million. There were also some other independent offsets, notably reduced repayments on United States government credits, which had been accelerated in 1959 to ease the United States balance of payments position in that year.

The recorded outflow of short-term capital rose by $1.1 billion from 1959 to 1960, and the shift in unrecorded transactions from net inflow in 1959 to net outflow in 1960 also reflected a change in the short-term capital position of the United States of the order of $1.7 billion.

The outflow of short-term funds began in the second quarter of 1960, and accelerated in the third and fourth quarters after discount rates were raised in the Federal Republic of Germany and the United Kingdom. The outflow rose from a seasonally adjusted annual rate of $1.2 billion in the first quarter to $2 billion in the second, $3.6 billion in the third, and $4.7 billion in the

[7] This outflow was enhanced by the acquisition of the minority shareholding of the British subsidiary of a United States motor-car manufacturer in the last quarter of the year.

Table 4-30. United States Balance of Payments, by Half-year, 1959 and 1960

(Billions of dollars; seasonally adjusted)

Item	*1959*		*1960*	
	First half	*Second half*	*First half*	*Second half*
Merchandise (f.o.b.)				
Exports	7.8	8.5	9.5	9.9
Imports	−7.5	−7.8	−7.6	−7.1
Balance	0.3	0.7	1.9	2.8
Private services and donations	0.7	0.6	0.6	0.8
Current commercial balance	1.0	1.3	2.5	3.6
Government				
Military expenditures	−1.6	−1.5	−1.5	−1.5
Grants and credits	−1.5	−1.5	−1.6	−1.8
Repayments on loans extended	0.4	0.6	0.3	0.3
Private capital				
Direct investment	−0.7	−0.6	−0.5	−1.0
Foreign long-term capital	0.2	0.3	0.3	—
Balance of above transactions	−2.2	−1.4	−0.5	−0.4
Other private capital	−0.4	−0.6	−0.6	−1.3
Unrecorded transactions	0.5	0.3	−0.2	−0.7
Change in gold reserve and dollar liabilities (inflow −)	2.0	1.8	1.3	2.5

Source: United States Department of Commerce, *Survey of Current Business*, March 1961.

last quarter of the year. The rise in the last quarter was entirely in unrecorded transactions.

It should be noted, however, that the transfer of funds was not solely motivated by interest rate differentials but involved also speculation on a possible change of the dollar's gold parity. For instance, Switzerland, whose interest rates are among the lowest in Europe, received a dollar inflow estimated at $400 million in the second half of the year. Gold sales by the United States began to rise significantly in the third quarter of the year, when substantial foreign private dollar holdings were sold to central banks, notably in the United Kingdom, Switzerland and the Netherlands, which normally take a large part of their reserve gains in gold. As such sales increased in the last quarter of the year, the drain of the United States gold stock accelerated. That period was characterized by an upsurge of demand in the London gold market, where the gold price rose to a peak of $41 per fine ounce in October 1960. During the last quarter of the year an estimated $500 million of gold passed into private ownership. Some of this gold is thought to have come from central bank reserves which released gold in order to stabilize its open-market price. The firm position taken by the new United States Administration in the matter of the gold parity of the dollar, helped to damp down the speculative flurry. Although the United States continued to lose gold in January and February 1961, the outflow of gold tapered off, and was reversed in March.

In the case of the Federal Republic of Germany, the inflow of short-term funds considerably aggravated the problems arising from the structural surplus of the external balance. For almost a decade the inflow of foreign exchange which resulted from a persistent balance of payments surplus has produced a tendency towards excessive liquidity. The country's basic surplus, which arises from merchandise trade, is enhanced by outlays of the United States Government for its military establishment in the Federal Republic of Germany totalling close to $1 billion.

The Government has dealt with the domestic problem of excessive liquidity through the sterilization of funds. On the external side, efforts to reduce the country's structural surplus on current account have been largely confined to a rapid dismantling of import and payments restrictions during the nineteen fifties and to tariff reductions. More substantial progress was made in offsetting the surplus through increased capital transfers in the form of indemnification payments, accelerated debt repayment, advance payments for armaments ordered abroad and a growing volume of credits to underdeveloped countries.

After 1957 the Federal Republic of Germany's current account surplus began to decline, and in both 1958 and 1959 reserve accumulation fell short of receipts from United States military expenditures. Despite some increase in the current surplus in 1960, reserve accumulation would not have exceeded these receipts had it not been for the inflow of short-term funds. The basic flows have clearly come closer to over-all balance in the latter part of the nineteen fifties. But the balance continues to be primarily based on government capital transactions and unilateral transfers, some of which are of limited duration, while others are single transactions. The net outflow of private capital has remained very small in view of substantial foreign investments in the booming economy of the country.

The Government of the Federal Republic of Germany proceeded to revalue the Deutsche mark by 4.75 per cent in March 1961. The revaluation may be expected to reduce the export surplus in some degree, and is likely to lead to a withdrawal of short-term funds as well as to some sale of longer-term securities, which had been purchased by non-residents in anticipation of an exchange rate adjustment. Advance debt repayments, suggested by the German authorities for 1961, will further contribute to a reduction of the surplus, but measures of this kind would have a once-for-all effect, leaving the basic position unchanged. For the long run, the solution of the German surplus remains with a high and rising level of capital exports, so long as receipts from military expenditures continue to flow into the country. Apart from these receipts, the surplus would readily be absorbed even by the current level of capital transfers.

Outlook[8]

In the industrial countries of western Europe and in Japan, a continuation of expansion with declining growth rates is indicated. No substantial acceleration of economic activity is foreseen in any of the countries, nor is any serious recession envisaged. The upswing of business investment, especially in machinery and equipment, may be expected to continue in many countries, at least until the second half of the year. Consumer spending is likely to rise further in view of substantial increases in disposable personal incomes. Growing pressure on costs and profit margins and some price increases are anticipated in several countries. Export demand, which had weakened in the course of 1960, may become more buoyant in the course of 1961.

In North America, indicators point to a moderate recovery from the mild recession which had developed in the middle of 1960. The recession had obviously passed its trough by the end of the first quarter of 1961. It is

[8] Based in part upon replies of Governments to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

generally assumed that considerable under-utilization of both labour force and productive capacity will persist for some time to come.

SLOWER GROWTH IN WESTERN EUROPE AND JAPAN

On the supply side, no significant difficulties are anticipated in 1961 in the industrial countries of western Europe or in Japan. Output will probably become somewhat less flexible in 1961 as full employment levels are reached or approached and capacity is fully utilized in many countries. Considerable inter-country differences exist, however. In a few countries, supply limitations are likely to contribute significantly to a retardation of growth rates. This applies particularly to Austria, the Federal Republic of Germany and the Netherlands, where considerable labour shortages developed and an exceptionally high degree of capacity utilization was attained in 1960. Sectoral and regional labour shortages, especially in construction, are also anticipated in Denmark, Norway, Sweden and the United Kingdom. In other western European countries, as well as in Japan, the supply position appears to be less strained. Although the supply factors will reduce the growth rates in some countries, a rise in total output of some 3 to 5 per cent is considered possible in all western European industrial countries.

Demand in western European countries and Japan is generally expected to rise more slowly in 1961. In view of the relatively large wage and salary increases which have already been negotiated or are expected in most countries, consumption expenditure is likely to rise significantly. The growth of personal consumption, together with industrial investment, will remain major expansionary factors in a number of countries. A relatively large share of the increase in consumption will probably be devoted, as in 1960, to consumer durables, particularly to automobiles. Public expenditure will be increased in almost all countries and will give additional support to demand.

Although no detailed information on inventory movements is available, it seems likely that this component of demand will play a relatively minor part in the expansion in 1961. Changes in the volume of residential construction will generally also be rather small. Most countries, however, anticipate relatively large increases in business investment, notably in plant and equipment in manufacturing industry. In many western European countries the continuation of the investment boom will in part be related to the expansion of markets, as the tariff levels are reduced within the European Economic Community and the European Free Trade Association.

In the foreign sector, export demand is expected to continue to rise in 1961 probably somewhat faster than in the latter part of 1960. On the other hand, the rise in imports is likely to slow down as the pace of the expansion slackens, and demand pressure is eased. External balances may record some further deterioration in the early part of 1961, but for the year as a whole they are expected to be similar to those of 1960.

While the expansion of economic activity will continue in western Europe in 1961, most countries anticipate that growth rates will be lower than in 1960. For western Europe as a whole, the increase in total output may fall from 6 per cent to 4.5 per cent and that of industrial production from 9 to 6 per cent[9] (*see* table 4-31). In the six countries which recorded increases in total output of 7 per cent or more in 1960, the rates of expansion are expected to decline to around 4 to 5 per cent in 1961. In Austria, the Federal Republic of Germany and the Netherlands, where labour markets became tight in 1960, these lower rates may represent a return to more normal full employment growth rates. Growth rates of 5 per cent are anticipated in Finland and Italy.

Table 4-31. Real Gross National Product and Industrial Production, 1960 and Official Estimates for 1961

(Percentage change from preceding year)

Country	*Gross national product* 1960 (actual)	*Gross national product* 1961 (estimated)	*Industrial production* 1960 (actual)	*Industrial production* 1961 (estimated)
Western Europe[a]	6	4.5	9	6
Netherlands	9	4	13	6
Austria	8	5	8	...[b]
Finland	8	5	11	10
Germany (Federal Republic)	8	5.5	11	9
Italy	7	5	15	...[b]
Norway	7	4	7	...[b]
Belgium	5	...[b]	7	...[b]
Denmark	5	...[b]	5	...[b]
France	5	5	11	6
United Kingdom	5	3	6	5
Sweden	3	4	8	4.5
Japan	11[c]	9[c]	26	15

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on data from replies of Governments to the United Nations questionnaire of November 1960 on economic trends, problems and policies; from "La Situation économique de la Communauté et les perspectives pour 1961", *Journal officiel des Communautés européennes* (Brussels), 22 April 1961, and from national sources.

[a] Countries in western Europe are arranged in descending order of the rate of increase in gross national product in 1960.

[b] Further increase, but at a lower rate than in 1960.

[c] Fiscal year beginning 1 April.

The prospects for the remaining western European countries in 1961 are more varied. Growth of total output in these countries in 1960 was below the average for western Europe. In 1961 only Sweden anticipates a

[9] The Commission of the European Economic Community has estimated the increase in the volume of gross national product of that area in 1961 at 4.5 to 5 per cent as compared with the increase of 7 per cent in 1960, and that of industrial production at 6 to 7 per cent as compared with 12 per cent in 1960.

significant acceleration in the expansion of output. While the pace of expansion in France is expected to be maintained, a slackening is likely to occur in Belgium, Denmark and the United Kingdom. In the United Kingdom the slight decline in total output in the latter part of 1960 appears to have been reversed recently after the relaxation of hire-purchase restrictions in January 1961. However, restraints on the expansion of domestic demand will remain necessary in view of the substantial deterioration of the external balance in 1960.

The prospect for Japan in 1961 is similar to that for most western European countries. The exceptionally high rate of growth in total output in 1960 will not be maintained in 1961, but the slackening will be only moderate. A slower growth of exports is expected to be the principal retarding factor.

While the rates of growth in western Europe and Japan are likely to be lower in 1961, the pressure on prices, which was evident in many countries during 1960, may become stronger. Wages are generally expected to rise at approximately the same rate as in 1960, and in a few countries greater increases are considered possible. The only country where wages are likely to rise significantly less than in 1960 is the Netherlands, which experienced an unusually large upward shift in labour incomes after the relaxation of government control of wages and salaries in mid-1959. With the rapid disappearance of unused productive capacity, the rate of increase in output per man-hour, which started to fall in most countries in the latter part of 1960, may decline further, resulting in larger increases in unit wage costs. The decline in the prices of imported raw materials in the course of 1960, combined with a good harvest, which had contributed in a number of countries towards moderating increases in the general price level in 1960, were fortuitous factors that cannot be counted upon in 1961.

In most western European countries cautious restraint will remain the keynote in government economic policy for 1961. In countries such as the Federal Republic of Germany, the Netherlands and Sweden, where supply limitations have been increasingly felt, the Governments have introduced in recent months additional measures to moderate the growth of demand pressures. In the Federal Republic of Germany, for instance, the Government decided to postpone many public building projects. The upward revaluation of the Deutsche mark in March 1961, which was undertaken mainly for the purpose of checking inflows of short-term funds, should facilitate the task of relieving the pressure of demand on resources by discouraging exports and encouraging imports. In the Netherlands, the guilder was also revalued at the same time; monetary policy became more restrictive after the beginning of the year. No relaxation of government restraints is expected in 1961, in view of the fact that new wage contracts will be negotiated later in the year and the current budget has already made conditional arrangements for reducing direct taxes by the middle of the year. In Sweden, the Government has already curtailed the public building programme and the issuance of private building permits. At the same time, the budget for 1961/62 aims at an over-all surplus comparable to that of the current fiscal year.

The emphasis of government policy in the United Kingdom will also remain restrictive in 1961, mainly for balance of payments reasons. The relaxation of hire-purchase restrictions in January 1961 was introduced for the purpose of stimulating production in the consumer durable goods industries which had suffered as a result of a decline in exports. In countries with spare capacity and adequate manpower, as in France and Italy, policies are expected to remain or become more expansionary in 1961.

The gross national product of the United States, on a seasonally adjusted basis, fell in real terms by about 1.5 per cent from the fourth quarter of 1960 to the first quarter of 1961. Most of the decline was due to the continued cutback in inventories, although for the first time during the recession personal consumption also slipped slightly. The total decline from the peak in the second quarter of 1960 was thus about 2.5 per cent.

However, in the second quarter of 1961 there were signs indicating that the worst of the current recession might have been over. There was an upturn in inventory movements in the durable goods sector. But more important was the development in the field of industrial production. After a fall of 7 per cent from May 1960 to February this year, the index of industrial production rose by one-half of one per cent in March and by another 2.5 per cent in April. In addition, there was some evidence of even stronger improvement in May, particularly in the steel and automobile industries, which had accounted for most of the increase in April. It seems possible that steel production, which was running at about half of capacity during the preceding winter months, may increase to 75 per cent of capacity before the middle of the year. As shown in table 4-32, many other economic indicators also gained strength by April.

Furthermore, according to the survey conducted jointly by the United States Department of Commerce and the Securities and Exchange Commission in late January and February of 1961, a modest rise in business outlays on plant and equipment is expected in the second half of the year, although for the year as a whole the level will be 3 per cent lower than in 1960. The actual development may prove to be more favourable than had been anticipated at the beginning of the year. According to the McGraw-Hill Survey of late March and early April, businessmen had slightly increased their investment plans since October 1960, and intended to reduce expenditure on plant and equipment on the average by only one per cent in 1961 (*see* table

Table 4-32. United States: Recent Changes in Certain Economic Indicators

(Based on seasonally adjusted series)

Item	*Low month in 1960-1961 recession*	*Percentage decline from 1960 peak to low*	*Percentage increase from low to April 1961*
Industrial production	February 1961	−7.3	2.9
Steel produced	December 1960	−48.6	32.3
Cars assembled	March 1961	−43.6	29.1
Non-agricultural employment	December 1960	−1.8	1.2
Average hours worked in manufacturing	December 1960	−4.5	3.1
Total personal income	February 1961	−0.9	1.0
Wage and salary disbursements in manufacturing	June 1960	−1.9	2.0
Retail sales	January 1961	−5.8	1.1
New orders for durable goods	January 1961	−12.8	12.4
Private housing starts	December 1960	−28.0	25.9

Source: United States Department of Commerce, *Survey of Current Business*; Joint Economic Committee, *Economic Indicators* (Washington, D.C.).

4-33). This would involve a considerable increase in the second half of 1961.

In Canada, trends in production followed broadly those in the United States. Fixed investment, according to a survey conducted at the end of 1960, is expected to rise by one to 2 per cent in 1961. But this will be entirely due to increases in expenditure for housing and institutional services, since business fixed investment is expected to decline somewhat. Exports may show a moderate increase in 1961.

Table 4-33. United States: Plans for Capital Spending

(Billions of dollars)

Item	*1960 (actual)*	*1961 (planned)*	*Percentage change, 1960 to 1961*
Manufacturing	14.48	14.09	−3
Mining	0.99	1.03	4
Railroads	1.03	0.69	−33
Other transport and communications	5.07	4.80	−5
Electric and gas utilities	5.68	6.13	8
Commercial	8.44	8.61	2
TOTAL	35.69	35.35	−1

Source: "Business Plans for New Plant and Equipment, 1961, 1964", *Fourteenth Annual McGraw-Hill Survey* (New York) 28 April 1961.

Unemployment still remains high in both countries; on a seasonally adjusted basis, it amounts to nearly 7 per cent of the labour force in the United States and to 8 per cent in Canada. The immediate outlook is that a considerable degree of unemployment will persist during 1961, but in the United States it is expected to fall to about 6 per cent of the labour force by the end of the year.

Up to January 1961, the United States had relied mainly upon expansionary monetary measures to achieve a recovery of economic activity. Subsequently, steps were taken to speed up activity on federal projects, to accelerate the return of funds to the private sector and to lower interest rates on housing loans. Congress passed legislation providing for a temporary extension of unemployment compensation benefits, and for an increase in the legal minimum wage. A number of long-term measures which will have a stimulating effect on the economy were also proposed. These include a tax reform to stimulate plant investment, programmes for aid to education, urban renewal and a liberalization of social security benefits. Moreover, the problem of structural unemployment is receiving increased attention. A federal loan-grant programme to help depressed areas attract new industries has passed Congress, and a programme for the retraining of manpower displaced by automation has been introduced.

Chapter 5

RECENT TRENDS IN PRIMARY EXPORTING COUNTRIES

After two years in which external developments had exercised a preponderant influence upon the course of economic policy and events in the primary exporting countries, 1960 opened with domestic decisions playing the determining role in shaping the course of internal economic developments. The change reflects the fact that the cyclical upswing in the industrial countries had brought with it an expansion in demand for raw materials in consequence of which primary commodity prices—and the average export unit values of the primary exporting countries—had inched upwards throughout 1959. It also reflects the fact that by dint of severe restraint on imports, the primary exporting countries had restored their over-all deficit on the balance of trade to manageable proportions, so that after two years of sharp contraction foreign exchange reserves had been augmented, at least slightly, in 1959.

With external pressures thus relaxed, most of the primary exporting countries allowed domestic expenditure to rise significantly in 1960. In most instances this was achieved through an increase in investment, though in some countries tax concessions or a loosening of import control brought about a marked rise in consumption. While domestic production rose appreciably in most of the primary exporting countries, the growth in agricultural output was generally less favourable than in the previous year. The combined result of a substantial rise in investment, a proportionately smaller but wide-spread rise in consumption and a tendency for domestic agricultural production to lag was the building up of an unprecedented demand for imports.

While internal circumstances were thus inducing a major expansion in imports, world markets for most of the saleable products of the primary exporting countries had begun to weaken. With the failure of the upswing in economic activity in North America, the effect of the boom in western Europe and Japan on markets for most raw materials was not sufficient to sustain prices: after a rise of about an eighth between the end of 1958 and mid-1960, the price index of raw materials in international trade began to recede again, without having regained the pre-recession average of 1957. The rise in raw material prices was not sustained long enough to offset decisively the continuing downward drift of food prices under the influence of large stocks and a further accumulation of surpluses of several major commodities. As a result, the price index of all primary commodities moving in international trade had barely regained the end of 1958 figure when, early in 1960, it started to slide downwards again.[1]

The failure of the average commodity price index to register any advance in 1960, compared with 1959, had grave implications for most of the primary exporting countries. Instead of being able to finance the upsurge in imports by means of a parallel rise in export earnings, most of these countries found their trade balances deteriorating rapidly. The result was a spate of overseas borrowing, a considerable rise in foreign short-term liabilities and a drawing down of the exchange reserves that had been accumulated in the previous year. By the end of 1960 the problem of financing the trade deficit was again the principal determinant of internal policy and many of the primary exporting countries were putting into effect measures designed to reduce the demand for imports. Where foreign credits were not available this often involved a cut in the rate of growth in investment.

[1] The world primary commodity situation in 1960 is discussed in some detail in United Nations, *Commodity Survey, 1960* (Sales No.: 61.II.D.1).

The impact of external developments

The growth of export earnings

The expansion in world demand for the products of the primary exporting countries, so marked in 1959, began to slow down early in 1960. North American imports from the primary exporting countries showed little if any further growth; imports into western Europe increased vigorously in the first half of the year but then began to slacken. In very few cases was the expansion in demand sufficient to put any strain on supplies; for most of the export products of the primary exporting countries, capacity remained in excess of rates of consumption. The increase in demand, therefore, was achieved with relatively small changes in price: only in the case of rubber and non-apparel fibres did supplies lag to such a degree that prices registered a rapid upswing. The price index of all primary commodities moving in international trade rose by about 3 per cent between the beginning of 1959 and the middle of 1960; and that gain was lost in the second half of 1960. The unit value of exports from the primary exporting countries recorded an even smaller rise and that too was reversed in the second half of 1960: by the third quarter this index had dropped below the corresponding 1959 level, 9 per cent below the 1957 average.

As a result of the slackening in the rate of expansion in demand for the products of the primary exporting countries, the aggregate volume of the latter's exports increased by only half as much between 1959 and 1960 as it had between 1958 and 1959 when a gain of almost 8 per cent was registered. The decline in the rate of increase was sharpest in Latin America and Oceania: the export quantum index rose only slightly in Latin America while in Oceania it was virtually the same in 1960 as in 1959. In Africa and southern and south-eastern Asia the quantum of exports registered a further substantial rise between 1959 and 1960—almost 7 per cent—but in both regions this was less than the rise recorded in the previous interval. Only in the Middle East was there an acceleration: at about one-eighth, the expansion between 1959 and 1960 was about half as much again as between 1958 and 1959. Compared with the pre-recession index of 1957, the 1960 quantum of exports was about a third greater in the Middle East, about a sixth greater in Africa, an eighth greater in Latin America, a tenth greater in Oceania and only about 2 per cent greater in southern and south-eastern Asia.

The southern and south-eastern Asian region, however, was the only one to enjoy an average unit value of exports higher than in 1957. In Africa and the Middle East unit values hardly recovered at all in 1959/60 and the average for 1960 was almost 10 per cent below the pre-recession level. In Latin America and Oceania there was a more marked recovery in 1959, but it followed a sharper decline in 1958 and it was not sustained in 1960: in both regions the 1960 average was an eighth or more below the 1957 average (*see* chart 5-1).

In relation to the pre-recession level, the export earnings of the primary exporting countries reached their lowest rate in the second quarter of 1958, almost $600 million below the corresponding 1957 figure. The subsequent recovery carried them to a peak in the second quarter of 1960, about $600 million above the corresponding 1957 figure. Thereafter, the dip in unit values and the faltering in volume combined to reverse the upward trend in earnings. The slowing down in the rise in export earnings was common to all major groups of exporters: in the aggregate the countries exporting mainly raw materials — fibres, rubber and metals — or tropical foodstuffs earned less in the second half of 1960 than in the second half of 1959. This reflects chiefly the drag on earnings exerted by the downward price trend of rubber, wool and the beverage crops: rubber prices declined steeply in 1960 from the 1959 peak, wool prices in the last quarter of 1960 averaged about 8 per cent below the corresponding 1959 figure, while throughout 1959 and 1960 the quarterly price index of coffee and cocoa moving in international trade remained below the corresponding figure in the preceding year (*see* chart 5-2).

The export earnings of the temperate food group remained remarkably stable in 1958 and 1959, but began to expand significantly in the fourth quarter of 1959 under the influence of an upsurge in shipments from Spain—in the wake of a major currency devaluation—and to a less extent from Lebanon, Ireland, Israel and Portugal. The earnings of this group reflect the relative price stability of many of the temperate foods, particularly fruit, and the continuation of the upward movement in meat prices: in 1960 these averaged 15 per cent above the 1953 level and 55 per cent above the 1950 level.

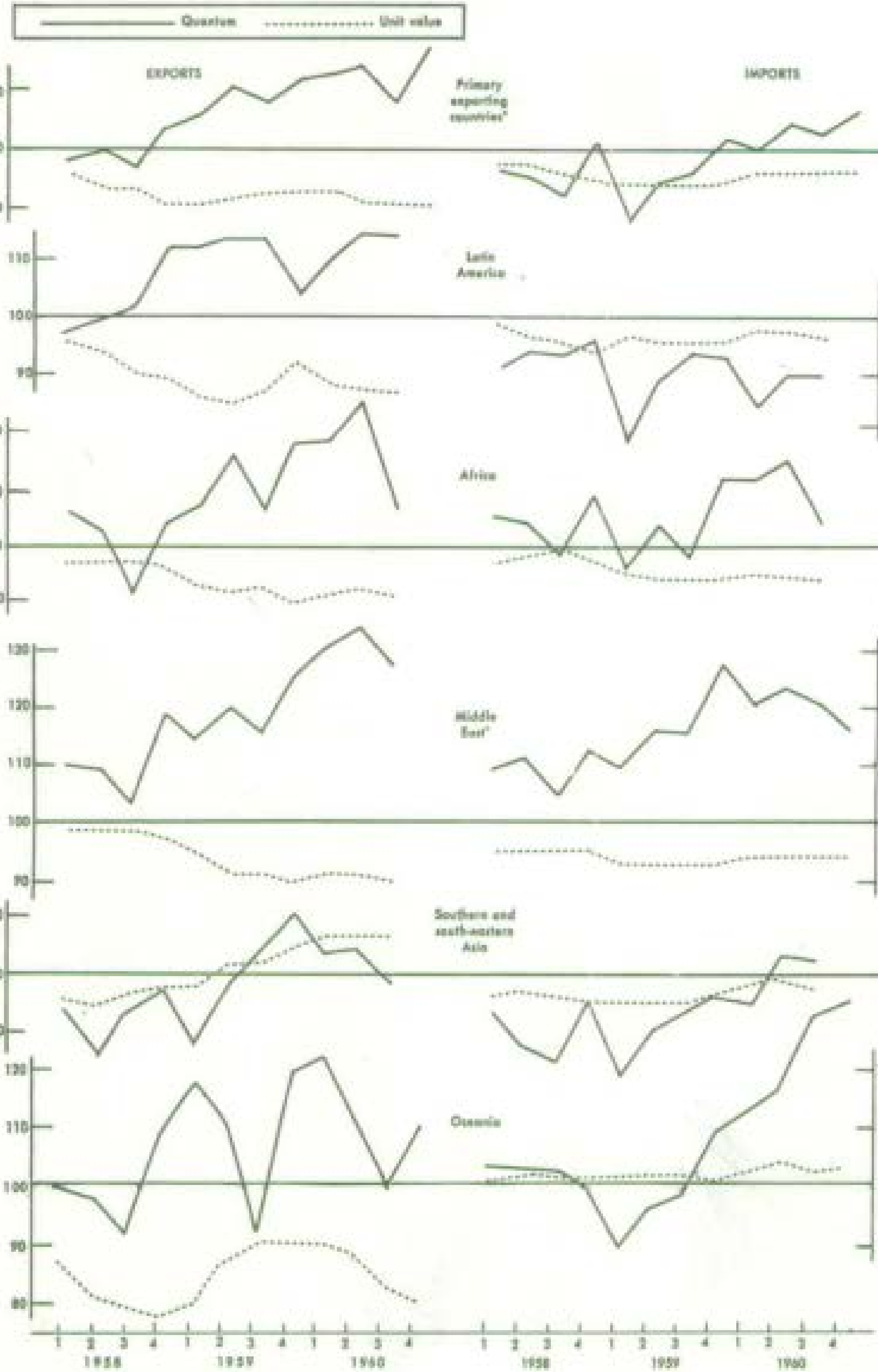
A steady decline in fuel prices throughout the 1957 to 1960 cycle tended to offset the expansion in the volume of shipments from the petroleum exporting countries. Aggregate earnings, which had declined in 1959, rose again in 1960, but at a rate which diminished in the second half of the year.

As implied above, the widest swings in earnings were those of the countries exporting mainly raw materials: these registered the sharpest decline in 1958, the most marked rise in 1959 and a notable shrinking of the rate of increase in 1960. In the case of the fibre exporting group, changes in aggregate earnings, reflecting the course of the textile industry cycle, conformed closely to movements in the price index of wool and cotton moving in international trade: after rising steadily in 1959, this index tailed off rapidly in 1960—cotton prices remaining stable but wool prices receding again—and in the final quarter of the year it was actually below the corresponding 1959 level. Changes in the prices of non-apparel fibres exercised a moderating effect in 1960: the prices of hard fibres remained relatively firm and high while the poor 1959/60 jute crop caused raw jute prices to soar. However, the resultant increase in the value of exports from Pakistan was insufficient to prevent the total earnings of the fibre exporting group from dropping below the corresponding 1959 level in the last quarter of 1960.

The metals, ores and rubber exporting group—influenced most strongly by changes in the level of activity in the durable goods industries in the industrial countries—registered swings of the greatest amplitude. The rise in earnings was well sustained in 1959, but tapered off rapidly after the first quarter of 1960. This reflects the trend of the price of rubber in international trade which affected the course of earnings in the group to a greater extent than did the relatively modest fluctuations in the price index of non-ferrous base metals and ores. The latter, however, also lost momentum in the second half of 1960, and by the last quarter was below the corresponding 1959 level.

Chart 5-1. Primary Exporting Countries: Indices of Foreign Trade Quantum and Unit Value

(1957 = 100)



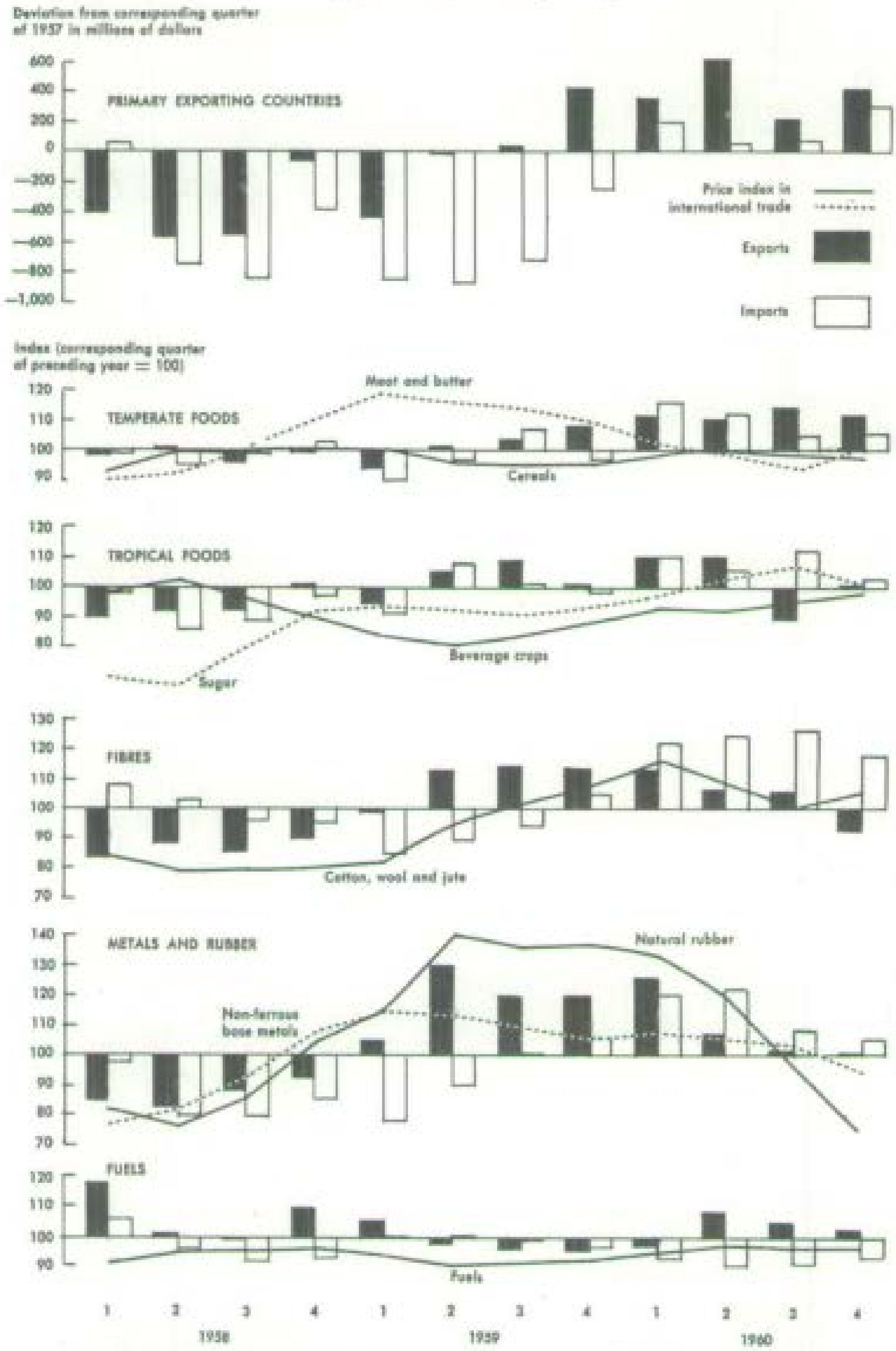
Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

a Sum of regions indicated.

b Continental area.

c Including Turkey and north-east Africa; import unit values and quantum are partly estimated.

Chart 5-2. Changes in Prices of Selected Commodities and in Export Proceeds and Import Expenditure of Groups of Countries Exporting Them[a]



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

[a] The countries included are listed in the footnotes to table 5-2.

The temperate food group comprises the exporters of meat, tobacco, fruits and wines.

The tropical food group comprises the exporters of rice, sugar, coffee, cocoa, tea and oil-seeds and oils.

The fibre group comprises the exporters of vegetable fibres and wool.

The metals and rubber group comprises the exporters of metals and ores and rubber.

The fuels group comprises the exporters of crude petroleum (primary) and petroleum products (secondary).

THE SOURCE AND DISTRIBUTION OF INCREASES IN EXPORT PROCEEDS

Notwithstanding the slackening in the rate of growth of export volume and the reversal in the 1959/60 upward creep in average unit value, the relative gain in total earnings of the primary exporting countries was just over 5 per cent between 1959 and 1960. Between 1958 and 1959, the increase was just under 7 per cent. The proportion of countries registering a decline between 1959 and 1960—about a third of the eighty-seven for which data are available—was somewhat lower than in the previous interval, but among them were rather more of the major traders, including Australia, Brazil and Indonesia. In a third of the countries whose earnings declined, however, the reduction was only marginal. In only about a fifth of the primary exporting countries were earnings down by more than 3 per cent and these were predominantly the smaller traders, accounting for less than an eighth of total exports. Less than a tenth of the primary exporting countries experienced reductions of more than 10 per cent in their export proceeds: these were all small traders—responsible for little more than one per cent of the total exports of the primary exporting countries—that had expanded their exports markedly in 1959 (Barbados and Bolivia, for example) or had had poor export crops in 1959/60 (Mauritius, Nicaragua, Paraguay and Tunisia, for example).

At the other end of the scale, increases of a fifth or more were scored by about a sixth of the primary exporting countries under review—a larger proportion than in 1959 but, because it included fewer of the major traders, accounting for a smaller proportion of total earnings (*see* table 5-1). Among the countries registering significant—over 10 per cent—increases in their export proceeds between 1959 and 1960 there was less of a commodity concentration than in the previous interval. Higher rubber earnings played an important part in the gains of the Federation of Malaya, North Borneo and Thailand and higher metal and ore earnings in those of Jamaica, the Republic of Korea, Peru, the Federation of Rhodesia and Nyasaland and Sierra Leone. However, there were also large increases among fibre exporters such as Pakistan, Tanganyika and the United Arab Republic (Egypt), petroleum exporters such as Kuwait and Trinidad, rice exporters such as Cambodia and the Republic of Viet-Nam and fruit exporters such as Lebanon and Spain. In addition, several of the countries that had experienced a sharp dip in exports between 1958 and 1959—Costa Rica, Haiti, Réunion and Uruguay, for example—registered correspondingly sharp gains between 1959 and 1960.

Only three groups earned less in 1960 than in 1959: those whose exports consisted principally of cocoa, tobacco or refined petroleum. In the cocoa group the reduction was due entirely to the decline in cocoa prices. This was offset by a major expansion in volume in the case of Ghana but not in the case of Cameroun. Reductions in unit value and quantum were about equally responsible for the decline in the earnings of the tobacco and secondary petroleum groups. In the tobacco group the reduction occurred mainly in Turkey; in the secondary petroleum group the principal factor was a decline in shipments from the Netherlands Antilles and Sarawak.

In most of the other groups, quantum gains played a larger part than price increases in raising total proceeds (*see* table 5-2). This was generally true of the food exporting groups as well as those exporting mainly crude petroleum, rubber or wool: among these groups

Table 5-1. Primary Exporting Countries: Distribution of Changes in Exports and Imports

Ratio (previous year = 100)	*Exports f.o.b.*				*Imports c.i.f.*			
	Number of countries		*Export receipts (billions of dollars)*		*Number of countries*		*Import expenditure (billions of dollars)*	
	1959	*1960*[a]	*1959*	*1960*[a]	*1959*	*1960*[a]	*1959*	*1960*[a]
Less than 90	10	8	2.5	0.4	21	5	8.6	3.0
Less than 95	16	16	3.8	2.8	30	10	10.8	4.1
Less than 100	32	27	6.7	8.6	43	18	13.9	6.0
100 or more	55	60	24.3	24.0	44	69	19.7	31.0
More than 105	37	39	15.2	13.3	23	59	8.3	26.8
More than 110	23	28	8.8	8.0	12	47	2.7	21.1
More than 120	13	15	5.3	3.2	4	20	1.1	9.0
More than 130	6	7	2.0	1.6	2	5	0.8	1.2
TOTAL[b]	87	87	31.0	32.6	87	87	33.6	36.9

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

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

[b] For list of countries included, see footnotes to table 5-2; for statistical convenience former French Equatorial Africa and former French West Africa have been incorporated as single entities; Hong Kong and Singapore have also been included.

Table 5-2. Primary Exporting Countries: Indices of Export and Import Quantum, Unit Value and Terms of Trade[a]

(Corresponding portion of preceding year = 100)

Country group exporting mainly	*Exports f.o.b.* Quantum 1959		Unit value 1959		*Imports c.i.f.* Quantum 1959		Unit value 1959		*Terms of trade* 1959	
	1959	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*
Cocoa[b]	116	118	90	84	119	111	99	101	91	83
Rice[c]	118	114	98	97	109	110	98	103	99	94
Petroleum, crude[d]	106	110	95	97	104	90	99	102	95	95
Oil-seeds and oils[e]	100	105	104	98	94	116	99	101	105	97
Fruits and wines[f]	107	125	91	97	101	109	98	100	93	98
Sugar[g]	100	101	93	99	91	91	98	101	95	98
Wool[h]	109	101	106	100	94	121	100	102	106	98
Rubber[i]	102	109	121	99	101	120	97	101	124	98
Tobacco[j]	131	97	89	97	118	116	100	98	89	99
Coffee[k]	119	102	85	99	104	110	97	98	87	101
Petroleum, secondary[l]	98	96	95	97	103	97	89	95	107	102
Metals and ores[m]	112	103	103	104	93	110	99	102	104	102
Vegetable fibres[n]	108	101	96	107	94	115	99	105	97	103
Meat[o]	99	104	103	105	93	113	96	102	107	103
Tea[p]	106	95	100	108	111	106	98	100	101	108
Average, countries listed	107	105	98	100	99	109	98	101	100	99
Average, under-developed areas[q]	108	104	96	101	99	106	98	102	98	99

Source: Division of General Economic Research and Policies of the United Nations Secretariat; Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics*.

[a] Group indices are derived from country indices weighted by the current dollar value of exports or imports; 1960 figures are preliminary, based on less than twelve months' trade in some countries.

[b] Cameroun and Ghana.

[c] Burma, Cambodia and Thailand.

[d] Brunei, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, Trinidad and Tobago and Venezuela.

[e] Former French West Africa, Libya, Nigeria and the Philippines.

[f] Algeria, Ecuador, Honduras, Israel, Lebanon, Panama, Portugal and Spain.

[g] Barbados, British Guiana, China (Taiwan), Cuba, Dominican Republic, Fiji, Guadeloupe, Martinique, Mauritius and Réunion.

[h] Australia, New Zealand, Union of South Africa and Uruguay.

[i] Federation of Malaya, Indonesia, North Borneo and the Republic of Viet-Nam.

[j] Greece and Turkey.

[k] Angola, Brazil, Colombia, Costa Rica, El Salvador, Ethiopia, Guatemala, Haiti and Madagascar.

[l] Aden, Bahrain, Netherlands Antilles and Sarawak.

[m] Bolivia, Chile, Congo, Cyprus, Federation of Rhodesia and Nyasaland, Jamaica, Jordan, Morocco, Peru, Republic of Korea, Sierra Leone, Surinam and Tunisia.

[n] British East Africa, former French Equatorial Africa, Mexico, Mozambique, Nicaragua, Pakistan, Sudan, United Arab Republic (Egypt) and United Arab Republic (Syria).

[o] Argentina, Ireland and Paraguay.

[p] Ceylon and India.

[q] Latin America, Africa (excluding the Union of South Africa), Middle East (excluding Turkey), southern and south-eastern Asia, weighted by the value of trade in 1953.

price movements were all downward, though only slightly in the majority of cases. The most notable exception was the tea group in which India enjoyed an appreciable rise in average export unit value, partly through an increase in the price of high-grade tea but also through a substantial recovery in burlap prices in the wake of the jute shortage referred to earlier in this chapter. The meat exporting group was also an exception: it registered a 5 per cent rise in average unit value as well as a somewhat smaller rise in export quantum.

In contrast to the changes among most of the food exporting groups, increases in unit value contributed more than increases in volume to the rise in the export earnings of the groups exporting mainly metals and ores or vegetable fibres. These groups earned between 7 and 8 per cent more in 1960 than in 1959, the bulk of the gain stemming from higher prices.

For most of the food exporters the decline in average unit value of exports between 1959 and 1960 was the second one in succession; for the coffee, sugar, fruit and wine and tobacco exporting groups it was the third successive decline. It was also the third successive decline for the petroleum exporters. For the rubber, wool and oil-seeds exporters, on the other hand, the decline in 1960 followed a marked recovery in the preceding year. In the vegetable fibre group the recovery came in 1960 followed a marked recovery in the preceding had dropped sharply in the recession, the rise between 1959 and 1960 was the second in a row. For the meat exporting group it was also the second increase.

In most countries the changes in export prices between 1959 and 1960 were smaller than those that had occurred in the two preceding intervals. On balance it was a very slight upward movement, in contrast to the decline between 1957 and 1959. The overwhelming bulk of the increment in total export proceeds between 1959 and 1960, however, came from the expansion in volume.

THE UPSWING IN IMPORTS

As has happened in previous cycles, the course of imports into the primary exporting countries conformed closely to that of export earnings, but with a distinct lag. The reversal in the downward movement in export earnings came in mid-1958, that in imports not until well into 1959. The upswing in earnings faltered in the second half of 1960; import expenditure continued to increase: having been cut back sharply in 1958, it did not regain 1957 rates until the beginning of 1960.

As in the case of export earnings, the most decisive cyclical swing in import expenditure was registered by the raw material exporters. Imports into the fibre exporting countries, having declined steadily in 1958/59, rose correspondingly in 1959/60, reaching a peak rate of expansion in the third quarter of 1960 when imports were a fourth above the corresponding 1959 level. The rate of increase of imports into the rubber and metal exporting group of countries began to taper off somewhat earlier, but expansion continued throughout 1960. This was true of the food exporting group, too, although —as suggested above—both the cuts in 1958 and 1959 and the increase in 1960 were relatively smaller (*see* chart 5-2).

In contrast to the upswing in imports into most of the primary exporting countries in 1959 and 1960, there was no recovery in the case of the petroleum exporting group: import expenditure was reduced further in 1960. The dominant element in this downward trend was Venezuela whose imports had been particularly high in 1957. A decline in refining activity in the Netherlands Antilles also contributed to the reduction in the group's total imports. Only in Aden, Iraq, Qatar and Trinidad was there a marked expansion in imports and this was insufficient to offset the contraction elsewhere.

While price changes played a major role in reducing export earnings in 1958 and holding them back in 1959, they contributed rather less to the reduction in import expenditures: while the volume of exports rose fairly continuously between mid-1958 and end-1960, the volume of imports dipped steeply in 1958 and, though rising strongly thereafter, was only about 3 per cent above the 1957 level in 1960. Between 1957 and 1958 and again between 1958 and 1959, import expenditure was reduced by almost twice as much—somewhat less than 6 per cent and 3 per cent respectively—as import volume. And between 1959 and 1960, the upturn in prices added between one and 2 per cent to the cost of imports, the volume of which expanded by almost 9 per cent.

The trend of import price changes was broadly similar in the main geographical regions; the downswing was most marked and the upswing least marked in Africa, while Oceania registered the smallest changes (*see* chart 5-1). The course of import quantum differed to a much greater extent. At the one extreme was the upsurge of imports into Oceania in 1959 and 1960 which carried the average quantum index for 1960 to about a fifth above the 1957 level. At the other extreme was the continuance of the downward drift of imports into Latin America, as a result of which the average quantum index in 1960 was about an eighth below the 1957 level. Imports into southern and south-eastern Asia barely regained the 1957 level in 1960. In the Middle East there was a much steadier growth in the volume of imports. In Africa, too, the 1958-1959 decline was less pronounced, but the rapid rise in the second half of 1959 was not sustained throughout 1960 and for the year as a whole the volume of imports was only about 9 per cent above the 1957 level.

As indicated above, the increase in import expenditure in 1960 was wide-spread: about four-fifths of the countries for which data are available imported more in 1960 than in 1959. Between 1958 and 1959 the proportion registering increases was only one-half (*see* table 5-1). The proportion of countries reducing their imports by 10 per cent or more dropped from 24 per cent to 6 per cent and the proportion of trade accounted for by such countries dropped in a comparable fashion. There was a corresponding change at the other end of the scale: well over half of the primary exporting countries increased their imports by 10 per cent or more in 1960 compared with less than a seventh of the countries in 1959, while the trade for which these countries accounted rose even more sharply—from 8 per cent to over 57 per cent.

The only important trading countries to register reductions of more than 10 per cent in import expenditure between 1959 and 1960 were the Netherlands Antilles and Venezuela (which bore the brunt of the readjustment to surplus conditions in the world petroleum market), Cuba and the Dominican Republic (which bore the brunt of the readjustment in world sugar trade that followed in the wake of the political changes in which they were involved) and the Congo, where constitutional changes were accompanied by economic breakdown in parts of the country. There was a cutback of just under 10 per cent in Spain where retrenchment was part of a drastic stabilization programme.

In contrast to these were a number of countries in which imports rose by a fourth or more, including (in descending order of relative increase) Pakistan, Uruguay, Cambodia, Australia, Peru, China (Taiwan) and Indonesia. These were generally among the countries which had enjoyed a substantial rise in export earnings in the second half of 1959 and the first half of 1960.

In the groupings of countries according to their principal export (*see* table 5-2) only two—the sugar and the petroleum exporting groups—spent less on imports in 1960 than in 1959. In the case of the sugar group the reduction was entirely the result of the upheaval in Cuban trade consequent upon the break in relations with the United States. In the case of the petroleum producing group the reduction was largely a reflection of the severe cut in imports into Venezuela, referred to above, though some of the Middle East producers also imported somewhat less than in 1959. In the case of the refining group, it was the course of petroleum trade itself which resulted in a reduction in imports: prices of crude were lower and, as indicated above, imports into the Netherlands Antilles and Sarawak were also smaller in volume.

For the rest there was a sizable expansion in imports: in terms of quantum it ranged from less than 10 per cent in the case of the tea, rice and fruit and wine exporting groups to over 20 per cent in the case of the rubber and wool exporting groups. Except in the case of the secondary petroleum group, discussed above, import prices did not diverge much from the 1959 level. Having dropped measurably and almost universally between 1958 and 1959—partly as a result of declining freight rates—there was a tendency for the price of imports to average somewhat more in 1960. The unit value of manufactures in international trade was about 3 per cent higher than in 1959 and this offset—and in most groups more than offset—the further decline in food and fuel prices. Apart from the secondary petroleum group, the coffee, fruit and tobacco exporting groups were the only ones to register a lower import unit value in 1960: the decline was most marked in Brazil, Greece and Spain. The vegetable fibre exporting group registered the largest increase—a reflection, in part, of higher import prices reported by Mexico.

MOVEMENTS IN THE TERMS OF TRADE

Total manufacturing production outside the centrally planned countries rose by 11 per cent between 1958 and 1959 and by 5 per cent between 1959 and 1960. These increases—and the concomitant rise in demand for industrial materials—were largely responsible for an improvement in the terms of trade of the raw material exporting countries: by about 6 per cent in 1959 and about one per cent in 1960. These gains were more or less offset by a comparable deterioration in the terms of trade of the food and fuel exporting countries. Thus for the primary exporting countries as a whole the terms of trade in 1959 and 1960 remained approximately at the 1958 level. In 1959 there was a slight decline in both export and import unit values; in 1960 there was a slight rise (*see* table 5-2).

The principal exceptions to the pattern in 1960 were the tea, meat and coffee groups among the food exporters, whose terms of trade improved, and the wool and rubber groups among the raw material exporters, whose terms of trade deteriorated after their sharp rise in 1959. The meat and tea exporters were the only groups to register a steady improvement in their terms of trade throughout the 1957 to 1960 cycle. For most of the food exporters, however, the terms of trade worsened between 1959 and 1960 as they had between 1958 and 1959. In the case of the sugar group, indeed, this was the third successive decline in the purchasing power of its exports. The coffee exporters registered a slight improvement in 1960 after two years of rapid decline: between 1959 and 1960 the average cost of its imports dropped slightly more than the average price of its exports. The sharpest reduction in 1960 was in the cocoa exporting group whose terms of trade had also worsened in 1959—but only after a considerable rise—against the trend—following a poor harvest in 1957/58.

Like the sugar group the petroleum exporters also experienced the third successive deterioration in their terms of trade between 1959 and 1960. The group was divided, however: the countries exporting mainly crude oil suffered a second decline of 5 per cent in their terms of trade while—partly as a result—the exporters of refined products enjoyed a second, though smaller, improvement in their terms of trade.

Among the raw material exporters, the metals group registered an appreciable improvement both in 1959 and in 1960. The terms of trade of the fibre group, though declining just as sharply in 1958, rose only slightly in the recovery phase. This reflects, for the most part, differences in the movements of cotton and wool prices. Between 1958 and 1959 wool prices rose, while the average export unit value of the vegetable fibre group declined. Between 1959 and 1960 the position was reversed: the unit value of exports of the wool group was barely maintained, while that of the vegetable fibre group—benefiting from higher prices for sisal as well as for long staple cotton—was somewhat higher.

THE DESTINATION OF EXPORTS

The expansion in the trade of the primary exporting countries between 1959 and 1960 was widely distributed. In absolute terms, by far the largest increase was in shipments to western Europe, but there were also major gains in exports to southern and south-eastern Asia, Japan, the Union of Soviet Socialist Republics and eastern Europe and Oceania. There were smaller gains in exports to the West Indies, Africa, the Middle East and mainland China. The only reductions were in trade with the western hemisphere: shipments to North America were about 2 per cent—$136 million—below the 1959 level and shipments to Latin America were also somewhat lower—largely because of a 3 per cent contraction in trade among the twenty republics themselves.

Apart from an expansion of almost $200 million to western Europe, the most notable development in the pattern of Latin American trade was a switch from North America to the centrally planned countries: largely as a result of the realignment of the Cuban sugar trade, exports to North America dropped by about $108 million while exports to the Soviet Union and eastern Europe increased by almost the same amount. Latin America was the only region to export less to Japan in 1960 than in 1959 (*see* table 5-3). More than half of the increase in the value of exports to the primary exporting regions was accounted for by shipments to the West Indies—largely crude petroleum moving from Venezuela to Trinidad.

About half of the increase in the earnings of Africa from expanded trade with western Europe was offset by the reduction in the proceeds of North American trade. Far behind the gain in exports to western Europe in absolute terms was a large proportionate increase in exports to southern and south-eastern Asia, of which purchases by India—of copper from Northern Rhodesia and cotton from East Africa—were major elements. There was also a sizable increase in exports of maize by the Union of South Africa to the Philippines where the local 1959 crop had been a poor one. In contrast to Latin America, trade within the region was greater than in 1959 (by about 6 per cent); as in Latin America, however, this trade remained less than 10 per cent of the region's total exports. African exports to the Soviet Union and eastern Europe, though less than 2 per cent of the total, also rose sharply in 1960, reflecting increased sales of copper from the Federation of Rhodesia and Nyasaland, cocoa from Ghana, and wool from the Union of South Africa.

The Middle East increased its trade to a greater extent than any of the other primary exporting regions. Shipments to western Europe—largely of petroleum—accounted for about a third of the increment and shipments to Japan for about a sixth. Unlike most of the other regions, the Middle East increased its earnings from shipments to North America, notwithstanding a marked decline in the average price of crude petroleum between 1959 and 1960. About 10 per cent of the increment in earnings came from trade with southern and south-eastern Asia; cotton and rice contributed to this—Egyptian cotton exports to India were double the 1959 volume—though the bulk of the gain was accounted for by petroleum. There were smaller increases in exports to each of the other regions with the exception of Latin America where development of local petroleum resources in Argentina and Brazil further reduced import demand.

By far the largest absolute increase in the value of exports between 1959 and 1960 was that recorded in southern and south-eastern Asia: at about $530 million it accounted for about 40 per cent of the expansion in

Table 5-3. Primary Exporting Countries: Distribution of Exports, by Region

(Value, millions of dollars, f.o.b.; index, 1959=100)

Exporting region and period	Value of exports in					
	World[a]	*North America*	*Western Europe*	*Japan*	*Centrally planned countries*	*Primary exporting countries*
Primary exporting countries[b]						
Value: 1959	29,619	6,878	12,515	1,573	1,114	7,109
Index: 1960	104	98	104	112	116	108
Latin America						
Value: 1959	8,318	3,825	2,515	251	153	1,562
Index: 1960	103	97	107	95	173	102
Africa						
Value: 1959	5,066	494	3,550	85	87	691
Index: 1960	104	87	104	113	132	111
Middle East						
Value: 1959	4,705	428	2,355	261	294	1,223
Index: 1960	108	110	106	126	113	107
Southern and south-eastern Asia						
Value: 1959	7,159	1,241	1,982	665	473	2,767
Index: 1960	107	104	106	111	97	111
Oceania						
Value: 1959	2,828	357	1,542	291	106	490
Index: 1960	99	84	95	116	116	114
Other[c]						
Value: 1959	1,543	532	572	21	1	375
Index: 1960	102	99	105	120	44	101

Source: Statistical Office of the United Nations.

[a] Including exports whose destination was not reported.

[b] Sum of regions indicated; Greece, Ireland, Portugal, Spain and Turkey are not included.

[c] Mostly the West Indies.

the combined earnings of the primary exporting countries. Well over half this increase came from exports to primary exporting countries, most notably those within the region. Most of the countries participated in this upsurge in intra-regional trade: in terms of total value the largest increases were in the entrepôt trade of Hong Kong and Singapore, the rice and tin ore exports of Thailand, the tin and rubber shipments of the Federation of Malaya to Singapore and India and the raw jute exports of Pakistan. Proportionately, however, there were also major increases in the exports of Cambodia and the Republic of Viet-Nam—mainly of rice—and of China (Taiwan), the Philippines and Sarawak. Only Burma, India and Indonesia sold less within the region in 1960 than in 1959.

About a fifth of the increase in the combined earnings of the countries of southern and south-eastern Asia came from exports to western Europe and about an eighth from exports to Japan. Like the Middle East, the region sold more to North America in 1960: though there were reductions in exports to the United States of some major products—notably rubber and copra—these were more than offset by increases in a number of other items, including in particular tin and copper, sugar (the Philippines filling part of the gap left by the ending of the Cuban quota), jute burlap and, significantly, a range of manufactured cotton and rayon textiles, sales of which rose from about $70 million to over $100 million.

Southern and south-eastern Asia also increased its exports to other primary exporting regions, especially Oceania, receipts from which were almost a fourth greater than in 1959. In contrast to the other regions, however, it sold less to the Soviet Union and eastern Europe: largely because of the decline in the price of rubber, the value of exports to these destinations dropped back by about 3 per cent in 1960.

Oceania was the only region to export less in 1960 than in 1959. The principal decline was in receipts from western Europe but there was also a reduction in sales to North America and to mainland China. Exports to other regions were all higher, especially in the case of Japan whose purchases of wool were at a record level and, on a smaller scale, the Soviet Union which re-entered the Australian auctions in 1959/60, switching its purchases from Latin American suppliers. Trade within the region also registered a sharp—20 per cent—increase as Australia raised the level of its exports to New Zealand.

In the aggregate the expansion in exports from the primary exporting countries in 1960 was distinguished by the slackening in trade with the industrial countries and the revival of trade among the primary exporting countries themselves. Between 1958 and 1959, notwithstanding a decline of about 4 per cent in average price, the value of exports to North America and western Europe had risen by about 6 per cent; between 1959 and 1960 it rose by less than 2 per cent. Between 1958 and 1959 trade among the primary exporting countries had remained virtually stationary in total value; between 1959 and 1960 it rose by more than 8 per cent. The rate of growth of exports to Japan—though, at 12 per cent, still relatively high—was only half the previous figure. Exports to the centrally planned countries, on the other hand, expanded by 12 per cent between 1958 and 1959 and by 16 per cent between 1959 and 1960, exceeding 4 per cent of total primary exporting countries' exports for the first time.

Notwithstanding the lag in North American demand and the considerable expansion in trade among the primary exporting countries themselves, the industrial countries again absorbed the bulk—about 70 per cent—of the exports from these countries. The main component of the increase in this trade between 1959 and 1960 was raw materials: thus after a decline of a sixth between 1957 and 1958—as industrial demand receded—and a partial recovery in 1959, earnings from raw material exports to the industrial countries reached a new peak in 1960, about 7 per cent above the highest pre-recession figure of 1956.

To judge from the value of imports into the industrial countries in the first three quarters of the year, the largest gain in earnings from raw material exports from the primary exporting countries accrued to southern and south-eastern Asia: this region received more than half the total increment, a rise of a fourth on the corresponding 1959 figure (*see* table 5-4). The relative size of this gain probably diminished as 1960 progressed, for in the second half of the year raw material prices were declining, very sharply in the case of rubber, a major source of the region's earnings. It is probable that the large rise in the earnings of Oceania from raw material exports was similarly reduced by lower wool prices in the final quarter of the year; and to a less extent the smaller gains in Africa (about 10 per cent) and Latin America (about 6 per cent) may also have been somewhat lower on the basis of a full year comparison.

Next to raw materials, manufactures—mostly non-ferrous metals and textiles—yielded the largest increment in proceeds from exports to the industrial countries. All regions, with the exception of Oceania, gained substantially from this source. In the aggregate the increase in the first three quarters of the year was as much as a fourth but as the prices of non-ferrous metals were rising in the final quarter of 1959 and declining in the final quarter of 1960, the increase in the full year was probably smaller.

Among the major components of the rise in earnings from manufactures was a very large increase in shipments from Latin America to western Europe, chiefly of copper and other metals, sales of which were over 50 per cent higher in 1960. There was also a marked rise—of over a third—in shipments from southern and south-eastern Asia, both to western Europe and to North America. High jute prices played a part in this rise but

Table 5-4. Exports of Selected Categories of Goods to Industrial Countries

(Value, millions of dollars in the first three quarters of 1959; index, 1959 figure = 100)

Exporting region and period	*Foodstuffs*	*Raw materials*[a]	*Fuels*	*Manufactures*[a]
Primary exporting countries				
Value: 1959....	6,061	5,389	3,767	1,562
Index: 1960....	96	113	103	125
Latin America				
Value: 1959....	2,666	1,147	1,146	351
Index: 1960....	101	106	95	133
Africa[b]				
Value: 1959....	1,580	1,585	178	545
Index: 1960....	91	110	79	115
Middle East				
Value: 1959....	268	343	2,332	95
Index: 1960....	71	91	108	123
Southern and south-eastern Asia				
Value: 1959....	687	1,459	105	484
Index: 1960....	107	125	131	136
Oceania				
Value: 1959....	861	855	6	87
Index: 1960....	91	116	221	98

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D.

[a] Metals are included with "manufactures".

[b] Including dependencies of western European countries in the Caribbean and South East Asia. The coverage in 1960 differs slightly from that of 1959; as a result the fuel index is understated.

it also reflects a considerable expansion in the exports of tin and cotton cloth.

Manufactures have thus been the most dynamic element among the exports of the primary exporting countries in recent years: though still constituting only 10 per cent of the total shipped to industrial countries, in 1960 they earned about a third more than in 1957, an increase of about four times the average. This reflects not only a more rapid growth in volume than in the case of primary products but also a significant difference in price trend: while prices of non-ferrous metals in 1960 were slightly above the 1957 average and the price level of other manufactures had remained relatively stable, the price index of primary products moving in international trade had dropped by about 9 per cent.

Between 1959 and 1960 the increase in earnings from fuel exports to the industrial countries was only about a third of that derived from manufactures. The value of shipments to Japan was about a fourth higher, to western Europe about 4 per cent higher, to North America slightly below the 1959 level. In the aggregate the increase in fuel earnings was between 3 and 4 per cent, slightly greater than in the preceding interval. As the average price was about 3 per cent less than in 1959, the increase in the quantum of exports was almost 7 per cent.

The most notable proportionate gains in fuel exports were in shipments to Japan: the value of petroleum shipments from the Middle East was about 22 per cent above the 1959 level, shipments from southern and south-eastern Asia almost doubled, while shipments of coal from Australia almost trebled. In absolute terms, however, the expansion in exports to western Europe was far larger: most of the increase in receipts accrued to the Middle East but exports from Africa, southern and south-eastern Asia and the Caribbean islands were all appreciably higher; only Latin America supplied less. In its quantitatively more important trade with North America, on the other hand, Latin American petroleum earnings were slightly greater than in 1959.

In contrast to the expansion in earnings from raw materials, fuels and manufactures exported to the industrial countries, the primary exporting countries earned less from sales of foodstuffs in 1960 than in 1959. This was the second year of decline in foodstuff earnings: after rising fractionally between 1957 and 1958 they declined by one per cent between 1958 and 1959 and by almost 4 per cent between 1959 and 1960. The principal factors in the most recent decline were lower cocoa and *robusta* coffee prices which reduced African earnings, poor grain harvests which reduced the earnings of exporters in the Middle East and North Africa, lower cattle slaughter and lower beef and butter prices which reduced the earnings of Oceania.

The decline was concentrated largely on North America: western European imports from the primary exporting countries were only fractionally lower and Japanese imports were almost 5 per cent higher. Only southern and south-eastern Asia sold more food to North America in 1960 than in 1959, largely as a result of the increase in the Philippine sugar quota following the break between the United States and Cuba. Exports from other regions were substantially less than in 1959. The smallest relative loss—but the largest in absolute terms—was registered by Latin America, affected not only by a switching of a portion of the United States sugar quota out of the region but also by lower coffee and cocoa prices and reduced beef and cattle shipments. Fruit and nuts were the only major categories to yield higher receipts in 1960 than in 1959, and for the year as a whole Latin American exports of foodstuffs to the United States were 7 per cent below the 1959 level.

The reduction in Latin American exports to North America was just about offset by increased shipments to western Europe—chiefly of cereals and to a much smaller extent fruit and coffee. The only other region to earn more from food exports to western Europe was southern and south-eastern Asia which supplied more tea and more rice than in 1959. Imports from Oceania were about 4 per cent below the high 1959 level, while imports from Africa and the Middle East declined again, less sharply than in 1959 in the case of Africa but more sharply in the case of the Middle East.

Though Japan again reduced its imports of rice, having become virtually self-sufficient in this crop, it purchased more wheat and maize and more sugar than in 1959. The increases came in approximately equal shares from southern and south-eastern Asia, Latin America and Africa and in the aggregate the primary exporting countries earned about 5 per cent more from their food exports to Japan.

THE SOURCE AND COMPOSITION OF IMPORTS

Apart from the general and substantial increase in trade among the primary exporting countries themselves, there was a large and widespread increase in the value of goods drawn from the industrial and centrally planned regions. In the aggregate imports from the industrial countries rose by about an eighth, and imports from the centrally planned countries by somewhat more.

In Latin America the change in the pattern of exports noted above was paralleled by a change in the source of imports. The principal increase was in imports from western Europe. There was a large increase in imports from the Soviet Union, accompanied by a reduction in imports from North America. Japan also supplied a much larger quantity of goods. Notwithstanding the realignment of Cuban trade, and the expansion in the European and Japanese share of the Latin American market, almost half of the region's imports continued to come from North America.

The most notable changes in the distribution of African imports were a further rise—of almost 10 per cent—in purchases from western Europe and a decline of about a fifth in purchases from Japan. The latter, however, was more than accounted for by changes in the delivery of ships for Liberian registry; Japanese exports to the rest of Africa were considerably higher than in 1959, especially to Nigeria, British East Africa, Ghana and the Union of South Africa. On a smaller scale imports from the other regions all rose, but over two-thirds of the region's imports again came from western Europe.

Like Africa, the Middle East drew the bulk of the increment in its external supplies from western Europe. With the exception of eastern Europe and the Soviet Union—which furnished more or less the same amount as in 1959—imports from the other regions also rose, most substantially in the case of North America.

Southern and south-eastern Asia was distinguished not only by the massive increase in its total imports—about a sixth above the 1959 level—but also by the fact that the largest element in this increase came from the United States. The largest relative expansion, however, was in goods drawn from Japan: this flow rose by almost a third, to constitute about a seventh of the region's total imports in 1960.

Both Oceania and the West Indian region increased their imports from almost all sources, but especially from western Europe and North America, and on a smaller scale from Japan. The expansion was particularly large in the case of trade between Oceania and Japan: between 1959 and 1960 Japan's share of the exports of Oceania rose from about 10 per cent to 12 per cent and of the imports from 4 per cent to nearly 7 per cent.

In total, well over three-fourths of the increment in imports into the primary exporting countries between 1959 and 1960 originated in the industrial countries: of this, substantially more than half came from western Europe, rather less than a third from North America and the remainder from Japan. Of the increase in imports from the industrial countries—to judge by trade returns for the first three quarters of the year—almost half consisted of machinery and transport equipment and rather less than a third of other manufactured goods—including steel and other metal semi-manufactures. The remaining fourth was divided more or less equally between chemicals, raw materials and foodstuffs. For the year as a whole it is probable that the proportion of imports drawn from North America and the proportion consisting of foodstuffs were both somewhat higher: United States grain exports to the primary exporting countries rose substantially in the last quarter of the year, approaching $1.0 billion in 1960, compared with less than $0.7 billion in 1959.

The most notable concentration on imports of capital goods was in Africa and Latin America. In Africa all major categories of imports from the industrial countries—with the exception of fuel—registered an increase between 1959 and 1960, but over 60 per cent of the increment comprised machinery and vehicles. The bulk of the expansion was in supplies from western Europe but the largest relative increase was in the equipment, other than ships, drawn from Japan (*see* table 5-5).

In Latin America the whole of the net increase in imports from the industrial countries was accounted for by capital goods: there were also increases in imports of chemicals and raw materials, but these were offset by reductions in imports of food and fuel and in manufactures other than machinery and vehicles. As in the case of Africa, the bulk of the increment in capital goods came from western Europe: though North America continued to supply about half of the total, there was little change in this flow between 1959 and 1960. Latin American imports of machinery from the United States were actually slightly lower in 1960 than in 1959, though this reduction was offset by an increase in imports of vehicles, especially aircraft.

In the Middle East the largest increase in imports from the industrial countries in the first three quarters

Table 5-5. Imports of Selected Categories of Goods from Industrial Countries
(Value, millions of dollars in the first three quarters of 1959; index, 1959 figure = 100)

Importing region and period	Foodstuffs	Raw materials[a]	Fuels	Manufactured goods: Total	Chemicals	Machinery and vehicles	Other manufactures[a]
Primary exporting countries							
Value: 1959	1,746	605	374	12,157	1,523	5,608	5,025
Index: 1960	109	131	101	115	113	117	113
Latin America							
Value: 1959	428	160	97	3,801	516	1,952	1,333
Index: 1960	97	120	95	105	107	109	97
Africa[b]							
Value: 1959	530	112	163	3,085	313	1,279	1,493
Index: 1960	102	134	100	118	116	130	109
Middle East							
Value: 1959	232	102	50	1,635	176	774	686
Index: 1960	113	93	80	104	104	101	107
Southern and south-eastern Asia							
Value: 1959	513	175	49	2,597	406	1,111	1,080
Index: 1960	123	154	133	122	115	121	125
Oceania							
Value: 1959	43	56	15	1,039	113	492	434
Index: 1960	120	153	110	140	133	132	150

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D.

[a] Metals are included with "other manufactures".

[b] Including dependencies of western European countries in the Caribbean and South East Asia. The coverage in 1960 differs slightly from that of 1959.

of the year was in the category of manufactures other than machinery and vehicles. This increase came almost entirely from western Europe. Imports of capital goods may have registered a greater expansion later in the year: exports from the United States in 1960 were about 8 per cent above the 1959 level. Much greater, however, was the expansion in food shipments from the United States: these increased by almost a third in value between 1959 and 1960, a major expansion in grain far outweighing a contraction in other food items.

There was a similar upsurge in United States grain exports to southern and south-eastern Asia: these totalled almost \$0.5 billion in 1960 compared with less than \$0.3 billion in 1959. There was also a doubling—to nearly \$0.2 billion—of raw cotton shipments from the United States as well as a large increase in shipments of capital goods and most other manufactures. In southern and south-eastern Asia, indeed, imports in the first three quarters of the year were appreciably higher in all major categories and from each of the industrial regions.

There was a comparable general expansion in imports into Oceania, though this was concentrated to a far greater extent on manufactures.

The balance of payments

In many ways the most notable development in the primary exporting countries in 1960 was the upsurge of imports examined in the previous section. Though, as indicated above, there was a further increase in export earnings, it was far outpaced by this increase in import expenditure. As a result the merchandise balance again deteriorated. As in past years much of the deficit was met by long-term borrowing and—on a more selective basis—by an inflow of private investment capital. In this the major institutions, international as well as national, again played an important part.

But the need for the means of payment tended to outrun the resources available from exports and long-term capital. The result was an increase in short-term debt. A good deal of this was in the form of a further expansion of commercial credit, but a number of countries had recourse to the International Monetary Fund (IMF) whose lending activities, after a notable reduction between 1958 and 1959, increased again in 1960.

Apart from these external resources, the primary exporting countries drew on their own production of gold and on their reserves of foreign currencies to finance the growing deficit. Gold production increased by between 5 and 6 per cent, putting about \$935 million at the disposal of the primary exporting countries, mostly in the Union of South Africa. Nevertheless, total official gold and foreign exchange holdings were drawn down in the course of the year by about $429 million.

As the year advanced the strain on the balance of payments in a number of countries began to mount. In some the slackening in the upward movement of export earnings was the major factor, in others an outflow of private capital was more significant. In most, however, it was the rapid rise in import expenditure that exerted the strongest pressure on external accounts. The result was a reversal of the trend towards relaxation that had set in during the second half of 1959 in the wake of improving balances. By the end of the first quarter of 1961 there had been a number of devaluations (mostly implicit), import controls were being reimposed or made more stringent, exchange restrictions were being tightened up, fiscal and monetary restraints were being re-introduced in order to curb internal demand, efforts were being made to postpone the repayment of old debts and to raise new loans and new incentives were being offered both to encourage exports and to attract foreign capital. How to finance the external deficit was again the question of most immediate concern to a majority of the primary exporting countries.

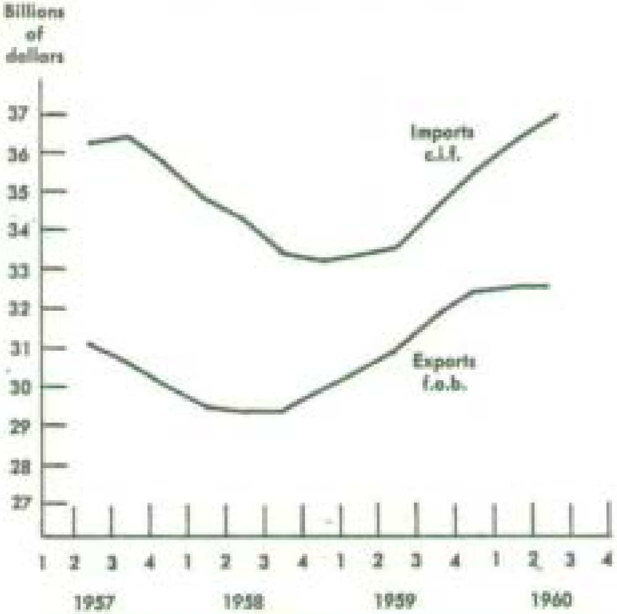
THE WIDENING OF THE PAYMENTS GAP

The trend in export earnings of the primary exporting countries, vigorously upward throughout 1959, levelled off in 1960. Import expenditure, on the other hand, having been cut back in 1958, did not resume its upward trend until the second half of 1959. Thereafter, imports rose more rapidly than exports and showed little sign of levelling off in 1960 (*see* chart 5-3). Consequently, having reached its lowest level in the first half of 1959, the merchandise trade deficit of the primary exporting countries increased steadily during the recovery phase of the cycle. By the second half of 1960 the deficit—exports f.o.b. minus imports c.i.f.—was approaching the annual rate of $5 billion. This was close to the rate obtaining in the first half of 1958, though well below the mid-1957 rate of $6 billion that precipitated the payments crisis of 1957/58.

Between 1959 and 1960 the export earnings of the primary exporting countries rose by over $1.6 billion. Expenditure on imports—measured c.i.f.—rose by about twice that amount, however, so that there was a net increase in the passive balance of trade from about $2.6 billion to about $4.3 billion. The increase in the deficit derived almost entirely from southern and south-eastern Asia and Oceania—in equal proportions—and Africa. In each of these regions there was a considerable widening of the trade gap, the great expansion in import expenditure having been insufficiently supported by an increase in export earnings. In the Middle East and among the primary exporting countries of Europe, exports rose more than imports, increasing the surplus in the former and reducing the deficit in the latter. In Latin America, on the other hand, the expansion in imports exceeded that in exports and the passive balance—which had been greatly reduced in 1959 was widened slightly in 1960.

Chart 5-3. Primary Exporting Countries: Moving Four-quarter Average of Exports and Imports

(Billions of dollars, annual rates)



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

The only commodity-based groups among the primary exporting countries whose trade gap did not widen between 1959 and 1960 were those exporting mainly petroleum, sugar and fruit and wine. In the sugar group the principal factor was a cutback in imports—in Cuba and the Dominican Republic—as a result of which the group's passive balance was reduced to less than 4 per cent of its total trade. In the fruit and wine group the rise in export receipts was both general and large enough to surpass a notable increase in imports. In the petroleum group, the rise in the active balance derived from a simultaneous expansion in exports and contraction in imports; the expansion in export receipts however was confined largely to the crude group, where it was universal; the secondary petroleum exporters did not share in it (*see* table 5-6).

Apart from the crude petroleum group the only other one with an active balance of trade was that whose principal export is rubber. In contrast to the petroleum group, however, the rubber exporters registered a sizable reduction in their over-all trade surplus: in the wake of the remarkable rise in incomes they had enjoyed in 1959 came a 21 per cent increase in imports in 1960. In absolute terms this was double the amount by which export receipts increased.

Table 5-6. Changes in the Balance of Trade of Selected Groups of Countries

Country groups[a] exporting mainly	Change between 1959 and 1960 (millions of dollars)			Balance of trade as percentage of total trade		Number of countries in which, in comparison with 1959, the balance of trade in 1960					
	Exports f.o.b.	Imports c.i.f.	Balance of trade	1959	1960	Was more active	Moved from passive to active	Was less passive	Was less active	Moved from active to passive	Was more passive
Petroleum, crude	412	−268	680	27	34	5	—	—	2	—	1
Rubber	139	278	−139	16	10	2	—	—	1	—	1
Sugar	3	−107	110	−8	−4	—	2	1	—	1	6
Metals and ores	198	344	−146	−4	−6	3	1	2	—	1	6
Cocoa	−3	48	−51	−1	−7	—	—	—	1	—	1
Petroleum, secondary	−91	−124	33	−7	−7	—	—	1	2	—	1
Coffee	19	206	−187	−3	−7	—	1	4	—	2	2
Rice	60	89	−29	−6	−7	—	—	1	—	1	1
Meat	127	242	−115	−7	−10	—	—	1	—	2	—
Imported goods[b]	127	215	−88	−12	−13	—	—	—	—	—	2
Wool	46	1,015	−969	−3	−13	—	—	—	1	—	3
Oil-seeds and oils	45	253	−208	−9	−15	—	—	—	—	—	4
Vegetable fibres	204	615	−411	−11	−16	—	—	2	2	—	5
Tea	46	140	−94	−18	−19	—	—	1	—	—	1
Fruits and wines	347	291	56	−35	−30	—	1	—	1	—	6
Tobacco	−34	133	−167	−30	−38	—	—	—	—	—	2
Total, eighty-seven countries	1,645	3,370	−1,725	−4	−6	10	5	13	10	7	42

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

[a] For country composition of groups, *see* footnotes to table 5-2

[b] Hong Kong and Singapore.

Among the remaining groups of primary exporting countries there was an increase—and generally a substantial increase—in the merchandise deficit between 1959 and 1960. In all cases the cause of the increase was the expansion in import expenditure. Only in the tobacco and cocoa groups was the effect of the upswing in imports enhanced by a reduction in export receipts; in all the other groups the widening of the gap took place despite a rise in exports. Proportionately, the widening was greatest in the case of the cocoa, wool and coffee exporting groups, but there was also a large increase in the relative deficit of the oil-seed, meat, vegetable fibre and metal exporting groups, in the face of appreciably higher export earnings.

The widening trade gap was a fairly general phenomenon. Between 1959 and 1960 the trade balance in over two-thirds of the primary exporting countries became less active or more passive; this was more than twice the proportion recorded between 1958 and 1959. In 1959 the largest category—44 per cent—comprised countries whose trade balance was less passive than in the previous year; in 1960 the largest category—48 per cent—was of countries whose balance had become more passive. Though the proportion of countries with an active balance was much the same in 1960 as in 1959—between a fourth and a third of all the primary exporting countries—the relative size of the balance was significantly smaller.

This violent swing in the balance of trade—from an improvement of over $2.3 billion between 1958 and 1959 to a deterioration of about $1.7 billion between 1959 and 1960—was accentuated by changes in income payments from foreign-owned assets. The 1958 recession had resulted in a marked reduction in profit transfers in 1959, particularly from mineral and rubber companies; by the same token the recovery in demand and prices in 1959 was followed by a sizable increase in dividend payments in 1960.

Among the few countries in which the earnings transmitted by foreign investors did not increase between 1959 and 1960 were Australia, Colombia and Indonesia. In Australia the outflow of investment income was at a peak—£A 145 million or 13 per cent of import expenditure, measured c.i.f.—in the fiscal year ending in mid-1960; it declined somewhat in the second half of 1960. In Colombia net payments on foreign investment, which had dropped back sharply in 1959 from a 1958 peak, receded further in 1960. In Indonesia where estate production has tended to decline—in the case of rubber by about a fifth between 1955/56 and 1959/60—the net outflow of investment income was also somewhat lower in 1960 than in 1959.

THE MOVEMENT OF CAPITAL

In the aggregate the flow of long-term capital from the industrial to the primary exporting countries does not appear to have increased very markedly between 1959 and 1960. The movement of public funds continued at a high rate but there were potent factors militating against an increase in the flow of private funds, including, in particular, the upsurge in investment opportunities in western Europe and Japan and the continued existence of idle capacity in many fields of primary commodity production.

The movement of private capital was also affected by the emergence or intensification of political or economic uncertainty in a number of important trading countries —including the Congo, Cuba, the Union of South Africa and Venezuela and on a smaller scale Ecuador, the Federation of Rhodesia and Nyasaland, Honduras and Kenya. In these countries not only was the amount of new foreign investment greatly reduced but there was also a flight of capital, domestic as well as foreign-owned. The result in most of these cases was a net outflow of private capital.

This outflow was offset by the movement of private capital to other primary exporting countries—most notably into Argentina, Australia and Brazil and, on a smaller scale, into such countries as Colombia, Greece, Israel, the Philippines, Thailand and New Zealand—with the result that on balance long-term capital movements seem to have been sustained more or less at the 1959 level.

From the United States the net outflow of private long-term capital to the primary exporting countries was of the order of $0.7 billion. This was much the same as in 1959 in total, though more of it—especially in the case of funds moving to Latin America—was in the form of subscriptions to new issues and less of it in the form of the direct investment of United States corporations and other long-term capital movements. Direct private investment in the primary exporting countries was less than $0.3 billion in 1960, having dropped progressively from its 1956-1957 average of over $1.0 billion when petroleum investment in Venezuela was at its peak. Since there was an appreciable increase in total direct private investment between 1959 and 1960, the movement towards the industrial countries noted in the previous interval was evidently still running strongly.

In contrast to the contraction in direct private investment in the primary exporting countries, long-term lending by the United States Government continued to expand: it was about 6 per cent greater in 1960 than in 1959, and as repayments were sizable in both years, the increase in net advances was somewhat larger than that. Of the net amount of $0.6 billion in 1960, substantially less—a fifth in 1960 compared with twice that proportion in 1959—went to Latin America and correspondingly more to other primary exporting countries. These countries—notably India and Pakistan as well as others in the Middle East and southern and south-eastern Asia —also gained from the supply of surplus commodities in exchange for local currencies. The amount involved in 1960—about $0.4 billion—was considerably greater than in the previous year. Though essentially a form of short-term liability in the first instance, a large proportion of the local currency holdings of the United States was intended for re-lending within the country in question, thus being converted to longer-term borrowing.

Substantially larger than public lending was the total of public grants: excluding military transfers, these amounted to about $1.3 billion in 1960, slightly more than in 1959. The largest recipients of United States public capital—loan and grant—were, in descending order, India, the Republic of Korea, the Republic of Viet-Nam, Pakistan, the United Arab Republic and Turkey, but sizable amounts also went to other Asian and Middle Eastern countries as well as to Argentina, Brazil and Morocco.

Though aggregate figures are not available, it would appear that the investment boom in western Europe militated against any great increase in the outflow of private capital to the primary exporting countries. While public capital movements appear to have been on a somewhat larger scale than in 1959, the total flow was probably not much above the 1959 figure. There was a small increase in official capital transfers from the United Kingdom to the rest of the sterling area, including a £6 million rise in government grants to the dependent territories. Net private long-term investment, however, dropped further—from £184 million in 1958 to £154 million in 1959 and £136 million in 1960—whereas the income from past investment recovered from its 1959 decline. The outflow of private capital from France to the primary exporting countries also declined. This was not fully offset by public capital, for while grants to franc zone countries were somewhat greater than in 1959, new lending was on a reduced scale. The principal increase appears to have come from the Federal Republic of Germany: investments in the under-developed countries by the Reconstruction Loan Corporation rose from DM 270 to DM 580 million and there was also an increase—from DM 240 to DM 280 million—in reparation payments to Israel. The level of multilateral aid through the European Economic Community (EEC) was also substantially higher in 1960 than in 1959: the total amount committed rose from the equivalent of $67 million in March 1960 to $126 million in March 1961.

The role of selected institutions

Over and above the funds flowing to the primary exporting countries by way of direct private investment or government grant or loan arranged bilaterally, access to foreign exchange was also obtained through borrowing from one or other of the international financial institutions. Most important among these institutions from the point of view of long-term finance was the International Bank for Reconstruction and Development (IBRD).

With the renewal of expansion in many primary exporting countries in the course of 1959/60, borrowing from the IBRD rose sharply between 1959 and 1960: new loans—at $473 million—were almost back at the record 1958 level. The increase inactivity was facilitated by the enlargement of the Bank's own resources—capital and borrowing powers—but in most lending countries the capital market remained tight and loan charges continued at the higher rates introduced in 1957.

Partly as a result of the decline in new commitments in 1959, actual disbursements of the IBRD in the primary exporting countries were somewhat lower in 1960 than in 1959: $344 million, or about 15 per cent below the 1958 peak. Since repayments were about $28 million higher than in 1959, moreover, the net outflow of funds from the Bank to the primary exporting countries—at $220 million—was about 13 per cent below the 1959 level.

As in 1959 the main recipients of new funds in 1960 were in Africa and southern and south-eastern Asia. Net African receipts in 1960 totalled $88 million, somewhat less than in 1959. These figures, however, include a large switch in the transactions of the Union of South Africa with the Bank: from borrowings of $21 million in 1959 to repayment of $12 million in 1960. Net drawings of the rest of Africa amounted to $100 million in 1960, 40 per cent above the 1959 figure. The largest disbursements in Africa in 1960 were in Algeria and the Federation of Rhodesia and Nyasaland; sizable amounts went to the Congo, Gabon, Nigeria and the Sudan, and smaller amounts to a number of other countries. As in 1959, the principal new loan was for mineral development: in 1959 it was in Algeria and Gabon, in 1960 in Mauritania where new iron ore deposits are being opened up.

Net disbursements in southern and south-eastern Asia in 1960 totalled $84 million, less than two-thirds of the 1959 figure. The bulk of the funds went to India, though Pakistan and Thailand also drew substantial amounts on earlier loans and there were smaller disbursements to Burma, the Federation of Malaya and other countries. India and Pakistan were the largest new borrowers in 1960: at the end of the year about $155 million was available in undisbursed loans to the former and about $136 million to the latter. These two amounts were by far the largest of those still to be drawn on: together they accounted for almost a fourth of the total credit still available to all borrowers from past loans.

Gross disbursements to Latin America were widespread: no less than thirteen of the twenty republics were in receipt of funds from the Bank in 1960. But only in the case of Brazil, Colombia and Ecuador did the amounts exceed $10 million and as repayments were relatively large, the net outflow of funds to Latin America was only about $31 million, $3 million below the 1959 figure. In the Middle East, Iran and the United Arab Republic were the principal recipients of Bank funds in 1960; on a much smaller scale disbursements were also made to Lebanon and Turkey. Repayments reduced the net receipts considerably but—at $34 million—they were substantially greater than in 1959. As in 1959, Australia repaid a portion of earlier loans.

In the primary exporting countries in the aggregate, the sum of new loans negotiated in 1960 exceeded the amount disbursed in the course of the year by about $129 million. As a result, the total of prospective funds standing to the credit of borrowers at the beginning of 1961 was in excess of $1 billion.

On a much smaller scale were the operations of the International Finance Corporation (IFC). Disbursements on investments made by the IFC in the primary exporting countries amounted to about $14 million in 1960 compared with only $8 million in 1959 and less than $6 million in 1958. Most of the enterprises in which the Corporation participated in 1960 were in Latin America, the largest amounts going to Brazil, Peru and Venezuela. Among the commitments of $14 million undisbursed at the end of the year, however, were participations in industries in other regions, including India, Iran and Tanganyika.

Among the major national institutions, the Export-Import Bank of Washington was a much less important source of funds in 1960 than in 1959. This reflects a marked slowing down in the number and size of loans negotiated in the fiscal year 1959/60 as well as a marked increase in the volume of repayment. The main contraction in net disbursements between 1959 and 1960 was in Latin America: the amount paid out in other regions—though relatively small—rose considerably, from about $25 million to almost $59 million. The chief recipients were India and Spain. Net disbursements in Latin America declined from $156 million in 1959 to less than $5 million in 1960. Only Argentina drew a net amount of much the same order as in 1959: $41 million as against more than $58 million. Mexico received considerably less, Brazil's receipts were entirely absorbed by repayments and the other main borrowers—Chile, Colombia and Peru, whose combined net drawings had amounted to $88 million in 1959—paid back a net sum of $45 million in 1960.

In contrast to the contraction in net disbursements, the amount of new Export-Import Bank lending to primary exporting countries in 1960 was more than double the 1959 figure. New loans were negotiated with Indonesia, Iran and the United Arab Republic (Egypt) bringing the total made available to the Middle East up to $53 million (compared with $17 million in 1959) and to southern and south-eastern Asia up to $134 million (compared with a mere $12 million in 1959). Similarly, new loans arranged for Latin American countries—at about $418 million—far exceeded the $239 million negotiated in the previous year. Significantly, of the total of $727 million committed, over $530 million was arranged in the second half of the year. This represents a notable stepping up of operations in respect of Latin America and, on a smaller scale, Africa and the Middle East and it reflects both the increase in pressure on the balance of payments of a number of countries and a marked easing in the lending policy of the Bank. The latter was most noticeable in the case of Latin America where the problem of current account imbalances was accentuated by the heavy 1960/61 schedule for repayment of earlier loans. The Bank helped to meet the situation not only by negotiating new loans but also by re-phasing repayments, most notably for Brazil.

Of rapidly increasing importance as a source of United States credit has been the Development Loan Fund (DLF). Though the loans arranged for primary exporting countries totalled somewhat less in 1959/60 than in the previous fiscal year, there was—as in the case of the Export-Import Bank—a marked acceleration in the second half of 1960: the amount negotiated in this period was not far short of the total for the whole of 1959/60. While lagging far behind the amount negotiated, disbursements rose more steadily—from less than $66 million in 1958/59 to almost $203 million in 1959/60 and an annual rate of $243 million in the second half of 1960. By the end of 1960, after three years of operation the Fund had allocated about $1.84 billion; of this about $1.37 billion had been obligated but less than $0.4 billion actually disbursed.

Well over half of the amount disbursed by the DLF in 1959/60 was in southern and south-eastern Asia, much of it in India where the Fund has been an important vehicle for the United States contribution to the external support of the development programme. Smaller sums were paid out in the Middle East (about $38 million, including Greece), Latin America ($25 million) and Africa ($8 million). Concentration on southern and south-eastern Asia was even greater in the second half of 1960—$82 million of the total of about $108 million disbursed in primary exporting countries. New lending to the other regions was stepped up sharply: $172 million was committed in the Middle East, $72 million in Latin America and $44 million in Africa. But the actual release of funds in these regions remained relatively small—about $16 million in the Middle East, $5 million in Latin America and rather less than that in Africa.

THE INCREASE IN SHORT-TERM DEBT

A large proportion of international trade is financed by relatively short-term commercial credit, and in a number of primary exporting countries changes in the flow of imports in 1960 were reflected in changes in the volume of outstanding foreign liabilities accumulated in the banking system. Thus a decline in such liabilities—as reported in Ceylon, Cuba, the Dominican Republic and Venezuela, for example—was associated with a reduction in imports. More commonly, however, with the wide-spread expansion of imports there was a rise in foreign liabilities. In a number of countries—including Haiti, the Philippines, the Republic of Korea, the Republic of Viet-Nam, South Africa and the Sudan—foreign liabilities followed the course of imports downwards in 1959 and upwards in 1960. In others—the Federation of Malaya and Ghana, for example—these movements were upward in both years. Larger imports in 1960 were also reflected in increased short-term debt in such countries as Brazil, Chile, Ecuador, El Salvador, Iraq and the United Arab Republic.

One of the instruments through which the volume of short-term borrowing has been expanded is the system of export credit guarantee insurance. The extension of this system continued in 1960: more countries set up machinery to assist exporters in this way, in several countries the nature and number of insurable risks were enlarged and there was a tendency to lengthen the period for which credit would be granted, especially to importers of the heavier capital goods.

In the United States the Export-Import Bank introduced—in May 1960—a scheme for insuring exporters against non-payment brought about by political developments. This provided 180-day cover and was the Bank's first essay in short-term guarantees: by the end of 1960 about $120 million of United States exports had been insured in this way. In April 1961 the Bank enlarged its operations further by extending its facilities to government-owned petroleum companies, which had not previously been eligible.

A counterpart to the increase in foreign liabilities in many of the primary exporting countries in 1960 was the growth in short-term capital movements from most of the industrial countries. From the United States to the primary exporting countries, for example, there was an increase from less than $0.2 billion to over $0.6 billion in the outflow of private short-term funds and an increase from less than $0.3 billion to nearly $0.5 billion in the outflow of government short-term funds. Much of the latter reflects the expansion in sales of surplus wheat and rice for local currency, as well as an increase in loans—particularly through the DLF—repayable in local currency. In addition to the rapid rise in short-term credits in 1960 there was a rapid decline in short-term debits: in 1959 the primary exporting countries' short-term claims on the United States increased by about $0.7 billion, in 1960 they increased by only $0.4 billion.

In some primary exporting countries short-term liabilities were reduced by a process of consolidation and deferment which converted them, by agreement with creditor countries, into longer-term loans. To some extent this has occurred in the case of the local currency claims accruing to the United States from its surplus disposal programme, though in recent years such currency has been acquired much more rapidly than it has been re-lent. In 1959/60 Brazil, China (Taiwan), India, Israel, Pakistan, the Republic of Korea and Spain were among the countries receiving food or cash loans in return for local currency, and commodity sales alone yielded the equivalent of over $400 million in the currencies of the recipient countries. In the case of India, agreement was reached in 1960 on the disposition of the Rs. 4,600 million ($966 million equivalent) counterpart fund that had been built up as a result of Public Law 480 shipments in the period 1956-1959: Rs. 2,420 million to be lent to the Government, Rs. 1,000 million to be given to the Government as a grant, Rs. 730 million to be used for local expenditure by the United States, and Rs. 450 million to be reserved for loans to business enterprises in India, both Indian and United States-owned.

Notwithstanding the deferment of short-term debt and other adjustments to the capital account in a number of primary exporting countries, problems of financing the current account remained. With imports continuing to rise, and export prices beginning to fall again, pressure on reserves tended to mount as the year advanced. The result was recourse to the IMF by a number of countries. In the first half of the year stand-by arrangements were sought by Guatemala, Honduras and Venezuela; in the final quarter of the year, Argentina, Colombia, El Salvador, Haiti, Iran, Nicaragua and Paraguay joined the list of such countries. The amount of credit available in terms of stand-by agreements stood at $356 million at the end of 1960, compared with $183 million a year earlier.

In the course of the year twelve primary exporting countries drew on the Fund's resources—the same number as in each of the previous two years, but the amount borrowed ($273 million) was substantially greater than in 1959 ($180 million) or 1958 ($184 million). The largest drawings in 1960 were by Argentina ($70 million), the United Arab Republic ($49.8 million), Brazil ($47.7 million) and Iran ($45 million); smaller amounts were drawn by Bolivia, the Dominican Republic, El Salvador, Honduras and Paraguay. The only operations outside Latin America and the Middle East were drawings of $12.5 million by Pakistan and the Union of South Africa and a smaller amount by the Philippines. In southern and south-eastern Asia, Burma, India and Indonesia all made repayments and the net return of funds from the region amounted to almost $80 million. Though several other countries made repayments on previous loans—among them Chile, Colombia, Haiti, the Sudan and Turkey—the other regions all increased their net drawings and for the primary exporting countries as a group the net accommodation afforded by the Fund—at $98 million—approached the level of the recession year 1958. This provides a sharp contrast with the low level of net drawings in 1959: repayments of $107 million by other primary exporting countries had almost offset the amounts drawn by Argentina and Spain in conjunction with their stabilization programmes.

The higher rate of drawing continued into the new year. In the first quarter of 1961 Chile, Colombia and the Union of South Africa borrowed sizable amounts and new stand-by arrangements were entered into with Peru and Turkey as well as Chile. And in April, Australia called on the Fund—for the first time since 1952—drawing $175 million and arranging a stand-by credit of $100 million to meet possible needs in the following twelve months.

STRAINS ON RESERVES

The combined effect of the almost universal upsurge in expenditure on imports by the primary exporting countries, the increase in profits earned and transmitted by foreign investors from some of these countries and the flight of capital from these and others was considerable pressure on the over-all external balance. And notwithstanding the support provided by a continuing net inflow of private capital, an appreciable increase in movements of public capital, both loan and grant, and an even more substantial expansion in short-term credits, commercial and official, the primary exporting countries had to draw on their reserves to finance the payments deficit. The decline of 1957 and 1958, which had been reversed in 1959, was thus resumed in 1960.

The largest losses in reserves in 1960 were registered in Oceania, Africa and Latin America; there was a small decline in the Middle East (excluding Kuwait and Saudi Arabia, where they probably rose) while in southern and south-eastern Asia and, even more, in the primary exporting countries of Europe reserves were augmented again (*see* table 5-7). The rise in reserves in this European group was largely the result of developments in Spain where the stabilization programme, with its accompanying devaluation and external borrowing, was associated with major improvement in the balance of trade. In southern and south-eastern Asia, on the other hand, the increase in reserves was more a reflection of capital movements: there was a rise in long-term borrowing and a considerable increase in other forms of credit which helped to finance the expansion in imports and the resultant worsening of the merchandise balance.

Oceania also enjoyed a further influx of long-term capital and a major increase in short-term credit connected with a similar upsurge in imports. But the bulk of the deterioration in the balance of trade was financed from domestic reserves: these were drawn down to the low level they had reached after the 1955 import boom.

In Africa, excluding the Portuguese and former French territories, about three-fourths of the large increase in the trade deficit between 1959 and 1960 was paid for from reserves, the remaining fourth by an increase in the net inflow of capital. The bulk of the 1960 trade deficit was accounted for by South Africa where, along with a massive outflow of capital, it absorbed not only $748 million of newly mined gold but also $184 million of official foreign exchange reserves.

In Latin America as in Africa, the outflow of capital was fully offset; in contrast to the situation in 1959,

Table 5-7. Primary Exporting Countries: Regional Changes in Trade Balances and Reserves
(Millions of dollars)

Region	*Balance of trade*[a]			*Change in official reserves*			*Net movements in other items*		
	1958	*1959*	*1960*	*1958*	*1959*	*1960*	*1958*	*1959*	*1960*
Latin America	−890	−115	−144	−695	−205	−115	195	−90	29
Excluding Venezuela	−1,612	−907	−1,361	−310	147	40	1,302	1,054	1,401
Excluding Venezuela and Cuba	−1,487	−842	−1,441	−236	263	161	1,251	1,105	1,602
Africa[b]	−808	−152	−565	118	27	−300	926	179	265
Excluding South Africa	−220	124	−109	106	−84	−116	326	−208	−7
Excluding South Africa and Congo	−264	−57	−308	96	50	−92	360	107	216
Outer Europe[c]	−1,099	−1,069	−921	8	238	373	1,107	1,307	1,294
Excluding Spain	−713	−775	−925	48	86	1	761	861	926
Middle East[d]	−513	−541	−559	34	25	−55	547	566	504
Southern and south-eastern Asia	−1,824	−1,197	−1,947	−241	441	124	1,583	1,638	2,071
Oceania	−530	20	−730	−172	176	−456	358	156	274
Total, above regions	−5,664	−3,054	−4,866	−948	702	−429	4,716	3,756	4,437
Excluding Oceania	−5,134	−3,074	−4,136	−776	526	27	4,358	3,600	4,163
Excluding Oceania, Europe and South Africa	−3,447	−1,729	−2,759	−796	177	−162	2,651	1,906	2,597
Excluding Oceania, Europe, South Africa, Venezuela and Cuba	−4,044	−2,556	−4,056	−337	645	114	3,707	3,201	4,170

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

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

[b] Excluding Algeria, former French Equatorial Africa, former French West Africa and Portuguese and Spanish territories; changes in official reserves of United Kingdom dependencies ($25 million in 1958, $9 million in 1959 and −$93 million in 1960) have been allocated to Africa.

[c] Greece, Ireland, Portugal and Spain.

[d] Ethiopia, Iran, Iraq, Israel, Jordan, Lebanon, Sudan, Turkey and the United Arab Republic.

the decline in reserves in 1960 was smaller than the over-all trade deficit. This over-all change was compounded of opposite movements, however: in Venezuela a large improvement in the balance of trade was accompanied by a large outflow of capital, while in the rest of the region a corresponding worsening in the trade account was more than offset by the inflow of capital. Outside Cuba and Venezuela, indeed, there was an appreciable increase in official reserves, notwithstanding a trade deficit almost as large as that incurred in 1958.

In the aggregate, less than 10 per cent of the trade deficit of the primary exporting countries was financed from official reserves; for the under-developed group of countries the proportion was only 6 per cent. These aggregates, however, tend to conceal the nature and magnitude of the change between 1959 and 1960: they reflect the net result of a number of unusually large transactions, particularly on capital account. Among these was not only the outflow of funds from such countries as the Congo, Cuba, the Dominican Republic, the Union of South Africa and Venezuela, referred to above, but also a major inflow of funds into such countries as Argentina, India and Pakistan.

A comparison of end-of-year figures also tends to hide the severity of the drain on reserves in the second half of the year when the rapid expansion in imports continued in the face of declining export prices. After a gain of over $300 million in the first half of 1960, official reserves were drawn down by about $840 million —or almost 5 per cent—in the second half of the year.

In 1959 almost two-thirds of the primary exporting countries had added to their reserves; in 1960 about 60 per cent of the primary exporting countries had to finance a balance of payments deficit by drawing down their reserves. Nor was the reduction a small one: 40 per cent of the primary exporting countries lost more than 10 per cent of their reserves and one-fourth lost more than 20 per cent, well over double the proportion of countries in these categories in 1959. At the other end of the scale, the proportion of countries increasing their reserves by more than 20 per cent dropped from a third to an eighth. In total, reserves were increased by about 4 per cent in the course of 1959 and reduced by about 3 per cent in 1960.

By the beginning of 1961 the over-all ratio of reserves to import expenditure at current annual rates had dropped well below a half, to a post-war low. In view of the large and continuing increase in the accumulated debt of the primary exporting countries and the growing burden of servicing and repaying it, international liquidity had again become a pressing problem, posing a serious threat to economic development programmes in a number of countries.

ADJUSTMENTS IN TRADE AND PAYMENTS POLICIES

In general the principal cause for the rise in short-term liabilities, the running down of foreign exchange reserves and the re-emergence—towards the end of 1960 —of balance of payments strains was the expansion in imports. This expansion was largely the result of events and decisions of 1959: the reversal of the 1958 downswing in primary commodity prices and the holding back of imports had, by the end of 1959, restored external equilibrium and replenished reserves to the

Table 5-8. Elements in the Balance of Payments of Selected Primary Exporting Countries

(Millions of dollars)

Group and country[a]	Trade balance[b]		Net transactions[c] with: IBRD		IMF		Export-Import Bank		Other transactions, net balance		Change in reserves[d]	
	1959	1960	1959	1960	1959	1960	1959	1960	1959	1960	1959	1960
Balance of trade became less active or more passive												
Entirely because of an increase in imports:												
Argentina	16	−110	—	—	73	49	58	41	73	329	220[e]	309[e]
Israel	−247	−276	—	—	—	—	5	−6	273	388	31	106
Morocco	−3	−59	—	—	—	—	—	—	9	120	6[e]	61[e,f]
Philippines	−72	−148	8	2	−6	3	7	9	61	164	−2[e]	30[e]
Viet-Nam (Republic of)	−150	−155	—	—	—	—	—	—	165	193	15	38
Mozambique	−52	−53	—	—	—	—	—	—	51	53	−1[e]	—[e]
Lebanon	−221	−262	4	3	—	—	—	—	235	271	18	12
Korea (Republic of)	−264	−297	—	—	—	—	—	—	265	307	1	10
Uruguay	−62	−115	6	—	—	—	−1	−1	64	128	7[e]	12[e,f]
China (Taiwan)	−74	−133	—	—	—	—	—	—	75	137	1	4
Pakistan	−32	−260	18	8	—	13	−1	−1	101	248	86	8
Haiti	−2	−3	1	1	2	−1	—	—	2	3	3[e]	—[e]
British West Indies[h]	−84	−94	—	—	—	—	—	—	56	100	−28[i]	6[i]
Jordan	−103	−109	—	—	—	—	—	—	102	110	−1	1
Réunion	−15	−15	—	—	—	—	—	—	15	15	[j]	[j]
Algeria	−774	−874	−1	50	—	—	—	—	775	824	[j]	[j]
Portugal	−183	−219	—	—	—	—	—	—	215	205	32[e]	−14[e]
Martinique	−12	−15	—	—	—	—	—	—	12	15	[j]	[j]
Singapore	−153	−196	...	...	—	—	—	—	153	196	[j]	[j]
British East Africa and Aden	−15	−34	−1	−1	—	—	—	—	10	23	−6[i]	−12[i]
British West Africa[k]	−55	−135	8	7	—	—	—	—	25	105	−22[i]	−23[i]
Former French Equatorial Africa	−37	−55	4	9	—	—	—	—	33	46	[j]	[j]
Ghana	−30	−68	—	—	—	—	—	—	8	52	−22	−16[f]
Guadeloupe	−7	−13	—	—	—	—	—	—	7	13	[j]	[j]
Mexico	−257	−426	1	1	—	—	10	3	287	402	41[e]	−20[e]
Hong Kong	−292	−337	—	—	—	—	—	—	290	334	−2[e]	−3[e]
Ecuador	34	33	8	9	—	—	−2	−2	−35	−43	5	−3
India	−671	−791	88	59	—	−73	12	33	654	628	83	−144
Iraq	280	279	—	—	—	—	—	—	−275	−343	5	−64
El Salvador	13	−6	−1	1	6	6	—	—	−18	−12	—	−11
New Zealand	174	65	—	—	—	—	−1	—	−103	−138	70	−73
Union of South Africa	−274	−456	21	−12	−36	13	−13	−13	413	284	111	−184
Cambodia	−10	−26	—	—	—	—	—	—	5	17	−5[e]	−9[e]
Largely because of an increase in imports:												
Sudan	28	1	20	7	1	—	—	—	20	19	69	27
Honduras	−2	−19	1	3	4	1	1	—	−1	17	3	2

Indonesia	413	265	—	—	−9	−19	−5	—	−316	−205	83[e]	41[e]
Greece	−363	−499	—	—	—	—	−1	−1	405	517	41	17[f]
Tunisia	−11	−72	—	—	—	—	—	—	54	70	43	−2[f]
Brazil	−92	−193	12	7	−20	48	−8	1	84	122	−24	−15
Surinam	−5	−12	—	—	—	—	—	—	5	12	[i]	[i]
UAR (Syria)	−71	−119	—	—	—	15	—	—	90	99	19	−5
Burma	1	−42	5	2	−4	−4	—	—	17	29	19	−15
Chile	82	−10	5	5	—	−12	23	−6	−44	7	66	−16
Panama	−80	−98	—	—	—	—	1	2	71	90	−8	−6
Colombia	58	−51	−1	7	−15	−15	18	−21	−8	21	52[e]	−59[e]
Australia	−121	−746	−8	−17	—	—	−1	−1	236	381	106	−383
Paraguay	—	−11	−1	—	−2	—	2	—	4	9	3[g]	−2[g]
Libya	−102	−153	—	—	—	—	—	—	113	141	11[g]	−12[g]
Entirely because of a decrease in exports:												
Bahrain	32	27	—	—	—	—	—	—	−32	−27	[i]	[i]
Turkey	−115	−147	−1	−3	−3	−3	−2	−1	93	137	−28[e]	−17[e]
Largely because of a decrease in exports:												
Qatar	96	91	—	—	—	—	—	—	−96	−91	[i]	[i]
Cameroun	26	13	—	—	—	—	—	—	−26	−13	[i]	[i]
Nicaragua	−2	−17	—	−1	−2	—	1	5	4	13	1	—
Bolivia	−8	−18	—	—	2	−2	—	—	12	14	6	−6[f]
Mauritius	1	−31	—	—	—	—	—	—	−1	31	[i]	[i]
Balance of trade became more active or less passive												
Entirely because of an increase in exports:												
Peru	19	55	1	−2	−10	—	47	−19	−42	−15	15	19
Guatemala	−27	−23	—	−1	—	—	−1	−1	20	35	−8	10
Thailand	−68	−38	10	9	—	—	6	5	57	84	5	60[f]
Federation of Malaya	240	252	1	3	—	—	—	—	−92	−117	149	138
Borneo territories[l]	113	112	—	—	—	—	—	—	−71	−59	42[j]	53[j]
Former French West Africa[m]	−39	−24	−1	−1	—	—	—	—	40	25	[i]	[i]
Ireland	−229	−207	—	—	—	—	—	—	242	206	13	−1
Rhodesia and Nyasaland	49	82	28	16	—	—	—	—	−63	−123	14[e,f]	−25[e,f]
UAR (Egypt)	−181	−84	—	31	−3	25	—	9	141	−76	−43	−95
Largely because of an increase in exports:												
Spain	−294	4	—	—	50	—	7	21	389	347	152[e]	372[e]
Ethiopia	−18	−2	4	3	—	—	−1	—	10	3	−5	4
Kuwait	650	765	—	—	—	—	—	—	−651	−765	−1[g]	—[g]
Costa Rica	−26	−22	2	1	—	—	2	—	16	19	−6	−2
Iran	109	160	2	3	−12	45	10	—	−149	−238	−40	−30
Dominican Republic	−5	75	—	—	—	9	—	—	−5	−94	−10	−10
Ceylon	−53	−27	1	1	—	—	—	—	9	−15	−43	−41
Saudi Arabia	515	592	—	—	—	—	−3	—	−461	−685	51[g]	−93[g]

(Continued on following page)

Table 5-8. Elements in the Balance of Payments of Selected Primary Exporting Countries (*continued*)

(Millions of dollars)

Group and country[a]	*Trade balance*[b]		*Net transactions*[c] *with* *IBRD*		*Net transactions*[c] *with* *IMF*		*Net transactions*[c] *with* *Export-Import Bank*		*Other transactions, net balance*		*Change in reserves*[d]	
	1959	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*
Balance of trade became more active or less passive												
Entirely because of a decrease in imports:												
Angola	−6	6	—	—	—	—	—	—	6	−6	[j]	[j]
Madagascar	−44	−37	—	—	—	—	—	—	44	37	[j]	[j]
Fiji	−10	−9	—	—	—	—	—	—	10	9	[j]	[j]
Netherlands Antilles	−227	−170	—	—	—	—	—	—	234	160	7[g]	−10[g]
Congo[n]	181	199	10	10	—	—	—	—	−325	−233	−134[e]	−24[e]
Cuba	−65	80	—	—	—	—	5	—	−56	−201	−116	−121
Largely because of a decrease in imports:												
Cyprus	−62	−56	—	—	—	—	—	—	62	56	[j]	[j]
Venezuela	772	1,217	—	—	—	—	1	3	−1,125	−1,375	−352	−155
TOTAL, countries listed	−2,575	−4,304	254	220	16	98	176	59	2,927	3,546	798	−381

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics;* United States Export-Import Bank, *Semi-Annual Report to Congress* (Washington, D.C.); Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.); United Kingdom Colonial Office, *Digest of Colonial Statistics* (London); replies to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

[a] Within each group countries are arrayed according to change in reserves, from greatest relative rise to greatest relative decline.

[b] Exports f.o.b. minus imports c.i.f.; estimated in some countries on the basis of less than twelve months' data in 1960.

[c] For each institution, disbursements minus repayments.

[d] Gold and foreign exchange holdings of monetary authorities, other official entities and deposit money banks except as noted.

[e] Excluding deposit money banks.

[f] Provisional estimate.

[g] Change in short-term liabilities of United States banks to foreigners.

[h] Barbados, British Guiana, Jamaica and Trinidad.

[i] Changes in sterling balances.

[j] Change in reserves included in "Other transactions".

[k] Gambia, Nigeria and Sierra Leone.

[l] Brunei, North Borneo and Sarawak.

[m] Excluding Guinea.

[n] Including Ruanda-Urundi.

degree thought necessary, in many countries, to warrant some relaxation of restraint on domestic demand, particularly for investment, and on import expenditure. Where imports were still under quantitative control, there was a general tendency for quotas and currency allocations to be on a more liberal scale in 1960 than in the previous two years. In other countries—particularly those exporting rubber or tin or, to a less extent, wool or copper—the rise in prices and earnings in 1959 was sufficient to ensure that, in the absence of controls, imports would expand in 1960.

Import expenditures rose between 1959 and 1960 in almost 80 per cent of the primary exporting countries. And in 80 per cent of these countries the rise in imports contributed entirely (45 per cent), largely (25 per cent) or partly (10 per cent) to a deterioration in the balance of trade (*see* table 5-8).

Not all the countries in which the trade balance deteriorated—because expenditure on imports rose to a greater extent than income from exports—had to draw upon their reserves. Half of them, indeed, entered 1961 with larger holdings of foreign exchange than they had had at the beginning of 1960. In many cases this reflects the results of borrowing, though in several countries donations and other receipts also helped to finance the additional imports. There was an increased flow of private capital into Argentina, China (Taiwan), Jordan, Pakistan and the Philippines, and these countries, as well as Israel, Morocco, the Republic of Korea and the Republic of Viet-Nam, also received more in the way of grants and other invisibles than in 1959. Lebanon's invisible earnings rose also. Notwithstanding the rise in reserves, measures to restrain imports became common in this group as 1960 advanced, especially in those countries in which the expansion in foreign exchange holdings was largely the result of additional borrowing.

Pakistan and the Philippines were among the countries deliberately increasing imports, at least at one stage in the year. In Pakistan import quotas in the second half of 1960 were the most generous since the institution of control in 1952; raw materials for local industry were particularly favoured but there was a large increase in allocations for consumer goods, too, intended to be disinflationary. In the Philippines the special import tax on United States goods was reduced early in the year and in May a general relaxation of credit was accompanied by a substantial reduction in advance deposit requirements for importers. At the same time a devaluation of the peso buying rate was designed to stimulate exports. The upsurge in imports was checked to some extent towards the end of the year, however, when, as part of a decontrol programme, the proportion of imports granted quotas at the low official rate was greatly reduced. With foreign exchange holdings declining steadily from a September peak, the proportion of imports eligible for the preferred rate was again reduced in March 1961.

Adjustments of the effective exchange rate were also used by other countries in this group, both to stimulate exports and to curb imports. The Republic of Korea devalued the hwan in February 1960 and again, more sharply, in January 1961. Efforts to encourage exports also took other forms: in April restrictions on trade with Japan were relaxed, in July an exchange retention scheme, medium-term credit facilities and selective subsidies were all offered as export incentives. A more liberal investment law was enacted early in 1960 in order to attract foreign capital. In China (Taiwan) there was also an increased inflow of capital following the promulgation of a more favourable foreign investment law in 1959 and the granting of further concessions to investors in September 1960. However, largely as a result of a poor 1959/60 rice harvest, exports lagged until late in the year when a better 1960/61 crop provided supplies for a recovery; in the meantime imports were discouraged to some extent by a 10 per cent devaluation of one of the selling rates of the NT dollar in July. In Israel a 20 per cent premium was offered on foreign currency brought in by immigrants and tourists and in the course of the year there were several substantial increases in duties on imports. The Republic of Viet-Nam also used duties along with a "stabilization surtax" to keep imports in check as well as to increase the protection of local industries.

Argentina and Uruguay had devalued and simplified their exchange structures in 1959. Though in both countries the free market rate fluctuated only within relatively narrow limits during 1960, adjustments were made to the effective rate from time to time by altering the rate of tax on major exports and the category and rate of surcharge on imports. One such adjustment in Uruguay was a reduction of the retention tax on wool, late in the year: this boosted shipments which had been lagging since the opening of the 1960/61 season with lower world prices. Even with these adjustments import expenditure increased to a much greater extent than export earnings in both countries. The fact that reserves continued to rise reflects the results of incoming capital; it also hides the rise in short-term and medium-term obligations. This rise and the impending maturity of debts incurred earlier forced both countries to seek new credits towards the end of the year. Argentina arranged with the IMF to defer repayment of its 1958 borrowing of \$42.5 million to March 1963 and to have repayment of its 1959 borrowing of \$100 million stretched out over five years. This, along with accommodation arranged with other creditors, including the "Paris Club" of European exporters, served to reduce the 1961 repayment burden from \$375 million—more than half of end-1960 reserves and a third of 1960 export earnings—to about \$75 million. Uruguay negotiated an increase in its line of credit from United States banks, from \$28 million to \$52 million. It also arranged a stand-by credit of \$30 million with the IMF but was not able immediately to comply with the financial conditions governing eligibility.

Among the remaining countries in which the expansion in imports was entirely responsible for a deterioration in the balance of trade, capital inflow and net receipts from sources other than trade were not sufficient to prevent a reduction in reserves. In this group, indeed, were several countries from which there was a capital outflow.

Most notable among them was South Africa where—the merchandise deficit being covered by gold production—the loss of reserves in 1960 was wholly accounted for by an outward movement of private capital, much of which took the form of the purchase of foreign-owned shares in local concerns. In August interest rates were raised to narrow the gap between local and European rates; the administration of exchange control on resident's capital movements was tightened; in November it was decided to reduce quite drastically—at least in respect of other than capital goods—import quotas to be allocated in 1961; a small credit was negotiated with the IMF late in 1960 and a larger one ($25 million) early in 1961.

Similarly, though on a much smaller scale, capital flight from Kenya was a factor in reducing the external reserves of the British East African territories, though in this case the rise in imports and the decline in *robusta* coffee prices and earnings played the major role. In Ecuador the merchandise balance remained active though imports expanded to a somewhat greater extent than exports. Banana shipments contributed most to the rise in receipts but some encouragement was given to minor items by an increase in the proportion eligible for conversion at the free rate of exchange, which averaged about a sixth above the official buying rate during the year. Fears of inflation in the wake of declining prices for cocoa and coffee exports and rising investment expenditures in the public sector seem to have contributed in some measure not only to the expansion in imports but also to the outflow of capital. A more significant stimulant of imports, however, was a reduction, in April, from 50 per cent to 25 per cent, in the prior deposits required for a number of items.

Private capital also registered a small net outflow from India; its effect, however, was far outweighed by increased donations. With reserves falling steeply in the first three quarters of the year and with a growing appreciation of the foreign exchange gap in the financing of the third development plan due to start in 1961, increasing efforts were made to improve the balance of trade. August saw the abolition of export controls on about seventy items, while import allocations for the six months beginning in October were severely cut. Allocations for the following period, in 1961, were reduced still further. To attract more foreign private capital the 1961/62 budget—while providing for a sizable increase in total tax revenue—reduced the rates of tax applicable to certain income accruing to foreign-owned companies and to foreign technicians. At the same time a consortium representing the IBRD, the Federal Republic of Germany, the United Kingdom and the United States began marshalling the credit necessary to finance a prospective external deficit of $6.5 billion over the next five years. The Soviet Union, having provided the equivalent of $378 million in 1960, offered a new credit of about $126 million for industrial projects to be financed largely in 1961. Contributions of $80 million by Japan and $56 million by Canada raised the amount available from the IBRD consortium to $2.23 billion for the next two fiscal years and to at least $3.5 billion over the five years of the plan.

The rise in imports into Iraq and New Zealand reflects, in part, the relaxation of import controls imposed in 1959. Developments in 1960 prevented this process from being extended, however, and later in the year it was the decline in reserves that dominated policy. In Iraq the external balance was affected by the weakness of petroleum prices and by the poor domestic harvest which made it necessary, in the third quarter, to prohibit the export of barley and arrange for additional imports of wheat. Trade agreements negotiated towards the end of the year offered dates and cement in exchange for selected imports. In New Zealand a precipitous decline in reserves in the second half of the year—as imports continued to rise, in the face of falling export prices—induced a tightening of domestic credit policy, an increase in import duties and an effort to raise external loans.

Concern about external balance influenced the policies pursued by most of the other countries in this group. In Mexico, though the decline in foreign reserves was reversed in the last quarter of the year, the relationship between dollar assets and dollar liabilities was far less favourable at the beginning of 1961 than it had been at the beginning of 1960. The Government was given authority to adjust tariffe and establish import controls in order to protect industry and minimize the inhibiting effect of the payments position on internal industrial development. In Cambodia laws relating to foreign investment were liberalized in an effort to attract new capital. In Ghana, in the face of lower export prices, discrimination against dollar and Japanese goods was ended in a move to reduce import prices. In Nigeria funds were borrowed from the United Kingdom under the new system of "Exchequer loans" and there was a general increase in tariffs, partly for revenue purposes, partly to protect new industries and partly to slow down the rate of increase in imports in the light of the lower cocoa prices.

Most of the countries in the group experiencing both an expansion in imports and a contraction in exports (*see* table 5-8) registered a decline in foreign exchange holdings. These were generally countries in which inflationary pressures had been—and in some cases still were—particularly strong and in which efforts to correct the external imbalance were complicated by the lack of internal balance. At the one extreme of this group were some of the Latin American countries—notably Brazil, Chile, Colombia and Paraguay—while at the other end were the United Arab Republic (Syria), Tunisia, Burma and Australia.

In Brazil, 1960 opened with an effort to encourage secondary exports by allowing their proceeds to be converted at the free market rate—about 200 cruzeiros per dollar—of which 130 cruzeiros was in cash, the remainder in the form of a negotiable bill on the central bank. The import rate for fuel, wheat and equipment was held at 100 cruzeiros, though the auction rate for other imports was bid up steadily—by a weighted average of 32 per cent in the course of the year. With imports rising and export receipts tending to lag, the free rate of exchange depreciated in the second half of the year. To compensate for rising costs, the export rate for coffee and cocoa was raised from 76 to 90 cruzeiros per dollar. In 1958 and 1959 the effect of the growing imbalance on the country's foreign exchange holdings had been masked by a sizable inflow of private capital and further official borrowing which together had financed more than a third of total imports. In 1960, however, the imbalance was greater and the inflow of capital smaller. By the end of the year delivery of foreign exchange bought at auction was having to be deferred. As in the case of Argentina, the crisis was precipitated by the heavy 1961 schedule for repayment of external debt: against earnings of less than $1.3 billion in 1960, reserves of about $440 million and a passive balance of trade, debts of over $1 billion were falling due in 1961. The situation was met in part in March 1961 by a further devaluation, the most significant aspect of which was the abandonment of the auction system for importers' exchange requirements in favour of the free market and a change in the preferential rate for essential imports from 100 to 200 cruzeiros per dollar. At the same time negotiations began for the consolidation and stretching out of the various segments of the country's debt—to the IMF, to the United States Government, and to commercial creditors in the United States, Europe and Japan —and for new credits to restore the inflow of capital to at least its 1959 level. A third element in the programme was the opening up of new markets, if necessary by means of bilateral agreements such as those with the Soviet Union in 1959, with Czechoslovakia and Poland in 1960 and with Yugoslavia in April 1961.

Colombia, like Brazil, had a passive balance of trade in 1960 and a smaller inflow of private capital. Nevertheless the decline in reserves was not much greater than the amount by which commercial indebtedness was reduced. In an effort to preserve the external balance, the domestic restraints of the 1959 stabilization programme were continued and the export peso was devalued by about 6 per cent in May. Exports were also expanded by means of coffee and cotton barter agreements with the Federal Republic of Germany, Japan, the Soviet Union and the United Kingdom. Coffee sales were stimulated late in the year by a reduction in export tax. A contribution to export earnings was also made by beef, shipments of which were no longer prohibited. With imports rising to a record level in 1960, however, reserves declined steadily throughout the year. A new stand-by agreement was entered into with the IMF in November, and early in 1961 $25 million was drawn in support of the balance of payments.

Chile also drew on its IMF stand-by credit early in 1961, after a year in which reserves had fallen rapidly, in the wake of a record rate of importation. The expansion in imports was an element in the domestic stabilization programme: it was induced by a relaxation of quantitative control, a reduction in the prior deposits required from importers and a further movement towards control by tariff.

In Australia internal demand pressures were relatively much milder than in the Latin American countries in this group, and disinflationary policies were followed, at least in the second half of the year. None the less, in combination with a general relaxation of import control in February 1960, they helped to induce a tremendous upsurge in imports. Though tax and other incentives were offered to exporters, the steady decline in export prices was sufficient to prevent earnings from increasing. Despite a further large inflow of capital, the result was a dramatic running down of reserves that had been accumulated in 1959. The drain continued into 1961 and, adhering to its more liberal trade policy, the Government had recourse to the IMF while further tightening domestic credit conditions.

In the United Arab Republic (Syria) the expansion in imports in 1960 from the relatively low level of 1959 was financed in part by arrangements under Public Law 480 of the United States. Since, in the wake of another poor harvest, however, export earnings receded further, to the lowest level since 1950, reserves bore a large proportion of the strain. The free rate for the pound depreciated, despite stricter import controls and restraints on domestic credit. Exchange holdings were boosted by borrowing from the IMF in the last quarter of the year, but the external balance remained under stress and in February 1961 general exchange controls were imposed.

The rise in imports into Burma came in the wake of increased export earnings in 1959; whereas earnings fell away in the second half of 1960, however, imports rose still further as a result of some selective increases in import licences released in mid-year in an effort to reverse the upward movement in the cost of living. This objective was achieved but only by drawing heavily on reserves. The inflow of private capital seems to have been somewhat less than in 1959, despite the passage in February 1960 of a new investment law designed to attract foreign enterprises. Receipts of aid, however, were somewhat greater than in 1959, partly as a result of a decision, taken in April, to accept grants from the United States. The decline in exports in the second half of the year reflects movements in rice sales: shipments of other commodities, encouraged by an exchange retention scheme inaugurated earlier in the year, were generally well maintained.

In Tunisia, in the face of a poor olive crop and a 60 per cent drop in olive oil shipments, imports rose vigorously from the low 1959 level, reflecting a marked increase in investment both in light industries in the private sector and under the Government's expanding "equipment budget". The increase in the trade deficit was more or less covered by a comparable increase in donations and official capital receipts: although French military disbursements were further reduced as local establishments were scaled down, there was a more than compensating rise in funds from the United States. As a result, reserves—which had been greatly strengthened by the import restraints in 1959—were drawn down only marginally.

Among the few primary exporting countries whose reserves were higher at the end of 1960 than at the beginning, despite an expansion in imports and a contraction in exports, Indonesia and the Sudan derived part of the increase from an active balance of trade, Honduras reinforced its exchange holding by borrowing from the IMF, and Greece had a larger inflow of public capital and non-trade income.

Indonesian reserves rose rapidly after the devaluation of August 1959 and under the influence of high rubber prices. After reaching a peak in March 1960—the highest since that of the Korean boom—they were drawn down slowly during 1960 as imports increased and export receipts turned downwards. A reorganization of the exchange control system early in the year gave export and import-saving industries the highest claim to import allocations. Later, in August, however, the system was relaxed in respect of certain consumer goods, in order to hold down the urban cost of living. For the same reason sugar exports were suspended in the wake of a smaller domestic crop. Against this, however, reserves seem to have gained more from the net movement of capital in 1960 than in most recent years.

In the Sudan the strong recovery in exports in 1959 greatly increased the country's reserves and made possible a general relaxation of economic controls both internal and external. Though earnings in 1960 were appreciably below the 1959 level, many import duties were reduced in the middle of the year and a substantial addition was made to the list of items not subject to special licence.

In Greece the deterioration of the merchandise balance was more than offset by larger net receipts from shipping, transport and tourism. Reserves were also reinforced by a net inflow of public capital appreciably higher than the low 1959 figure. The effect of this was largely offset, however, by a decline in the amount of foreign private capital invested in Greek industries under the recently enacted incentive scheme and by the purchase of foreign-owned assets in the electricity industry.

There were relatively few countries—about 10 per cent of the primary exporting group—in which a reduction in export proceeds was exclusively or even partly responsible for a worsening of the external balance. The weakening of the petroleum market caused the reduction in Bahrain and Qatar; the decline in cocoa prices was the principal factor in Cameroun. In Mauritius, sugar production was severely cut by cyclone damage. In Bolivia tin exports slumped badly and foreign exchange holdings, after having been built up by higher exports in 1959, were drawn down rapidly, despite an increase in the inflow of private capital. There was a similar decline in reserves in Nicaragua, following a very poor cotton crop and a halving of cotton export earnings, though in this case the drain was checked by an increase in oversea borrowing as well as a reversal in private capital movements.

In Turkey export receipts were lower in 1960 than in 1959 for almost all major items, most seriously for tobacco, shipments of which dropped back a further 13 per cent to the smallest volume since 1952. The lag in tobacco sales—most notable in the first quarter of 1960—was to some extent the result of the exclusion of tobacco from the devaluation of export rates in August 1959; in the course of 1960, the tobacco rate was raised from its parity of 5.60 liras per dollar, partly in February and completely in August when a unified 9.00 rate was established. The failure of export earnings to rise in 1960 necessitated a reversal of import policy: a considerable liberalization in the first half of the year was followed by a sharp cutback in the second half, accompanied by new restraints on domestic demand. Official holdings of foreign exchange declined for the third successive year, and with foreign liabilities substantially higher and a large amount of foreign debt maturing, a refinancing operation became necessary. Early in 1961 a sizable stand-by credit was negotiated with the IMF and maturing debts owing to creditors in the Organisation for European Economic Co-operation (OEEC) were consolidated and extended.

About a third of the primary exporting countries strengthened their merchandise balance between 1959 and 1960. For almost three-fourths of this group, the improvement stemmed from increased export earnings. The improvement in the trade balance in these countries, however, was not always accompanied by an increase in reserves; indeed a majority of them registered a decline in their foreign exchange holdings.

A few countries managed to increase their exports to a degree that enabled them to finance both an expansion in imports and an addition to reserves. In this group were British North Borneo, the Federation of Malaya, Sarawak and Thailand all of which substantially increased their earnings from rubber and tin. The group also included Peru, where the coming into production of the new Toquepala copper mine added very considerably to total exports, as well as Guatemala where there was a major recovery in banana exports.

In Guatemala and Thailand, the inflow of private capital also seems to have been greater in 1960 than in 1959. This was encouraged in Thailand partly by a revision of customs tariffs early in 1960, which lowered duties on investment goods and raw materials and raised them on consumer manufactures, partly by the exemption for various periods of new or expanding or export industries from a recent increase in corporate and dividend taxes and stamp duties and also by a simplification and relaxation of exchange controls. Rationalization of the tariff in favour of local industry also played a part in encouraging investment in Peru, and to a less extent in the Federation of Malaya.

In the Federation of Rhodesia and Nyasaland—as in Peru and the Federation of Malaya—there was an increase in the trade surplus despite an expansion in imports. Nevertheless, reserves were drawn down as the result of a net outflow of private capital—enhanced by an increase in dividend payments by mining companies, following the 1959/60 rise in copper prices. The third quarter of 1960 brought some monetary restraints on internal demand, but the capital outflow continued until, in February 1961, a system of exchange controls was introduced to protect the external balance.

In the United Arab Republic (Egypt) 1960 opened with a heavy drain on reserves associated with several major non-commercial payments—chiefly compensation to the shareholders of foreign concerns that had been nationalized and to the Sudan for the flooding of the area upstream from the Aswan Dam. These payments accentuated the effect on the balance of payments of the relatively low prices for long staple cotton prevailing in 1958 and 1959 and the poor rice crop in 1958/59. As a result, exchange holdings reached their lowest level in March 1960. With cotton prices recovering somewhat in 1960 export earnings rose much faster than imports and the trade deficit was halved. Suez Canal earnings were about an eighth above the 1959 figure and loans from the IBRD, the IMF and the Export-Import Bank all helped to raise the level of reserves as the year progressed. The payments position was also strengthened by a decline in the proportion of exports moving in bilateral accounts. At the end of 1960, however, holdings of convertible currencies were still a fifth lower than a year earlier. As the cotton market recovered, the discount quoted on the cotton export pound was gradually reduced: from 23 per cent at the beginning of the 1959/60 season it had been cut to 6 per cent at the beginning of the 1960/61 season. The premium on the import pound was reduced more or less in step—from 27.5 per cent in September 1959 to 10 per cent in July 1960.

Among the countries whose balance of trade was improved not only by expanding exports but also by a contraction in imports, Ethiopia, Kuwait and Spain registered a rise in reserves, while Ceylon, Costa Rica, the Dominican Republic, Iran and Saudi Arabia all registered a decline.

Ethiopia gained chiefly from a large increase in coffee shipments, but there was also an inward movement of private capital, in contrast to the outward movement in 1959. Spanish reserves continued the rapid rise which had commenced after the promulgation of a stabilization programme in 1958: in 1959 foreign borrowing and import cuts had played the largest role; in 1960 the expansion in exports predominated. Restraints on imports were gradually relaxed: in the second half of 1960 import expenditure was almost back to the corresponding 1959 level and by April 1961 three-fourths of imports were reported to be unrestricted. The inward movement of private funds also appears to have accelerated, part of it representing a repatriation of previous flight capital under an amnesty arrangement in force early in 1960. As a result, exchange controls were also relaxed during the year.

The major influence on the external balance of the Dominican Republic was a capital flight: despite a \$45 million increase in exports, a \$30 million cut in imports and a draft of \$9 million on the IMF, foreign exchange holdings at the end of 1960 were \$10 million less than at the end of 1959. Reserves were also drawn down in Iran, despite a sizable increase in the trade surplus, and in Ceylon, despite a sizable reduction in the trade deficit. This was the second year of drain on reserves in Iran and the fourth year in Ceylon; hence, in both countries a primary aim of economic policy in 1960 was to dampen further the demand for imports. Credit restraints were intensified, import duties raised and a system of advance deposits introduced. In Ceylon the export duty on rubber was lowered as its price fell, foreign exchange allowances for travel were cut and efforts were made to attract foreign capital into approved industries.

In about a tenth of the primary exporting countries trade balances were improved entirely or largely as a result of a reduction in imports. In this group, however, changes in the trade balance were generally less significant than developments on capital account. It was largely as a result of an outflow of capital that reserves were drawn down in most of the countries in this group, most notably in the Congo, Cuba and Venezuela.

In the Congo there was a net outflow of capital for the third year in succession: as a result official holdings of gold and convertible currencies, which had stood at \$338 million at the end of 1956, had dropped to \$221 million at the end of 1958, \$87 million at the end of

1959 and an estimated $63 million at the end of 1960, despite a further decline in imports. In Cuba the decline which had started in 1956 accelerated markedly in the wake of political changes: the loss in reserves in successive years was $16 million, $45 million, $74 million, $116 million and $121 million.

In Venezuela changes in reserves, which had been due to large transactions in the petroleum sector in 1957-1959, were influenced more by developments in other sectors in 1960. There was a large outflow of capital which was slowed down only in the final quarter of the year with the institution of exchange control. This was accompanied by a measure of selective devaluation: secondary exports—particularly coffee and cocoa—became eligible for a more favourable rate of exchange. In addition, more private transactions were to be effected on the free market where, by the end of the year, the bolivar had depreciated to 4.28 per dollar, compared with the official rates of 3.35 for most imports, 3.33 for iron ore and 3.09 for petroleum. Under the influence of a large active balance of trade and control over exchange transactions, reserves recovered rapidly after the turn of the year: by the end of March official exchange holdings were 7 per cent above the corresponding 1960 figure. The stand-by credit of $100 million negotiated with the IMF in April 1960 had not been used.

Internal balance

There were wide-spread increases in production in the primary exporting countries between 1959 and 1960. In total, however, they probably amounted to a slightly smaller rate of increase than was recorded between 1958 and 1959. The principal reason for the slackening in the rate of growth was a somewhat poorer out-turn of a number of important crops in some major countries, as a result of which total agricultural output registered a smaller gain than in the previous period.

In the other sectors, by contrast, gains between 1959 and 1960 were generally greater than in the preceding interval. Furthermore, since the lag in agriculture was offset by a sizable increase in imports of foodstuffs, the expansion in total available supplies was appreciably greater than between 1958 and 1959.

The rise in imports not only supplemented local production of foodstuffs and supported the expansion of domestic industry, but it also provided a much larger volume of capital goods. This reflects the change in policy which occurred in many primary exporting countries towards the end of 1959: the restraints on demand that were imposed in 1958, having reduced imports and relieved the pressure on the balance of payments, were generally relaxed and in the course of 1960 there was a renewed buildup of import demand, particularly for investment goods.

By the end of the year the strains which, as indicated in the previous section, had re-emerged in the area of external payments, were also showing signs of reappearing in the domestic economy in a number of countries. Efforts to restrain demand were again in evidence; in most instances these were aimed at relieving the external balance by reducing the demand for imports but in many cases the need for restraint reflects the failure of domestic production to keep up with the growth of purchasing power released by the new higher level of investment. With reserves falling and the terms of trade again moving against the primary exporting countries, relief by way of a further increase in imports became less feasible and by early in 1961 disinflationary actions were being taken in many places.

EXPANSION IN SUPPLIES

Domestic production increased between 1959 and 1960 in most primary exporting countries; in the aggregate, however, the expansion was probably slightly less than in the preceding interval. The proportion of countries in which per capita output failed to rise between 1959 and 1960 was about one-third—somewhat greater than between 1958 and 1959. The principal reason for the slackening in the rate of growth was the changing agricultural situation: 1957/58 was a year of poor crops, so that the recovery in 1958/59 yielded a much larger increase—relative to the preceding year—than did 1959/60.

Thus, although production of the basic food crops continued to rise, it was at a much slower pace. Among the cereals, increases in the rice crop—of about 4 per cent—and, to a less extent, the wheat crop were offset in some measure by rather smaller crops of the coarse grains. There was a further advance in sugar production in the primary exporting countries but it was only a slight one, made in the face of cutbacks by some of the major exporters, notably in Australia and Latin America.

Though the expansion in cereal production was fairly general, there were significantly smaller crops in Ceylon, China (Taiwan) and India in the case of rice, in the Mediterranean countries and the southern hemisphere exporters in the case of wheat, in Argentina, the United Arab Republic (Egypt) and Indonesia in the case of maize and in Australia and North Africa in the case of barley. These cereal results reflect, in large measure, the incidence of poor weather, the consequence of which also shows up in the fact that reductions in total food output were concentrated largely in Latin America and the Mediterranean region, the most notable occurring in Argentina and Spain—from record levels in 1958/59. Food production also dropped sharply from a record level in Australia, while Iraq, Ireland and Tunisia experienced their second successive decline and in the United Arab Republic (Syria) production dropped further from the low level to which it had been reduced by drought in 1958 and 1959. In southern and south-eastern Asia the only country[a] not enjoying a higher level of food production in 1959/60 was China (Taiwan) where typhoon damage affected both sugar and, less severely, rice output.

Apart from the basic foodstuffs, the overwhelming bulk of which is consumed domestically, most of the other agricultural crops—among which export products are more prominent—registered a wide-spread increase between 1958/59 and 1959/60. The largest over-all gains were in respect of coffee (27 per cent), cocoa (12 per cent) and tobacco (10 per cent), but there were also increases in the output of tree oils, wool and the agaves, though these were generally small in the aggregate. Against this, however, the out-turn of several of the major industrial crops was lower in the primary exporting countries in 1959/60. Both India and Pakistan reaped poor jute crops and total production was down 8 per cent. There were significant reductions in the output of cotton in India and Central America, not fully offset by expansion elsewhere and total production was down 5 per cent. A drastic decline in Indonesia was largely responsible for the fact that natural rubber output in 1960 was 5 per cent below the 1959 level.

As a result of the relative lag in food production and the decline in vegetable fibre and rubber production, the over-all increase in agricultural output was very small. The proportion of primary exporting countries registering a reduction rose from a fourth between 1958 and 1959 to a third between 1959 and 1960 while at the other end of the scale the proportion with increases in excess of 10 per cent declined from about 18 per cent to about 4 per cent. In consequence the over-all increase in agricultural production dropped from about 6 per cent to less than one per cent (see table 5-9).

In contrast to agriculture, mining production increased to an appreciably greater extent between 1959 and 1960 than in the preceding interval. Among the major minerals only copper registered a smaller gain than between 1958 and 1959.

The most significant increase was in petroleum, production of which rose by 11 per cent in the primary exporting countries compared with about one per cent in the industrial countries. The expansion was general, but there was a marked contrast between the Middle East, where the increase was 14 per cent, and Latin America, where it was only 5 per cent. And within Latin America there was a marked contrast between the countries seeking to raise local production in order to reduce imports and those whose output moves mainly into world markets. With a 44 per cent increase in production, Argentina moved into third place as a regional producer, and there was a 26 per cent increase in Brazil. In Colombia on the other hand output was only 4 per cent higher and in Venezuela less than 4 per cent higher. The most dramatic increase—at least in relative terms—was again in Africa where many new wells were brought into production and total output rose from less than 3 million to over 10 million tons.

Partly as a result of the increase in petroleum production and consumption, coal output declined in a

Table 5-9. Primary Exporting Countries: Indicated Change between 1959 and 1960 in Total Supplies and Selected Components[a]

Group and country[b]	*Gross domestic product*	*Agriculture*	*Manufacturing*	*Mining*	*Electricity*	*Distribution*	*Imports*	*Total supplies*[c]
Group I								
Argentina	A	−B[d]	B	F	B	B	E	B
Chile	A	−B	−B	B	...	B	E	B
Australia	B	−B	C	C	C	B	E	C
Mexico	C	B	C	B	C	B	C	C
Portugal	B	−B	C	−B	C	A	E	B
Union of South Africa	B	A	B[e]	C	C	B	D	C
Israel	C	C[f]	D	E	F	C	D	C
Venezuela	A	C	−B[e]	B	C	−B	−F	−B
Puerto Rico[g]	C	B[h]	D	...	D	C	D	C
Group II								
Brazil	B	A[d]	C	D	C	C	D	C
Spain	−B	−C	C	B	B	...	−B	−B
Philippines	B	B	B	−B	D	C	D	C
Turkey	B	B	B	−C	D	C	A	B
Colombia	B	B	B	C	D	C	E	B

(Continued on following page)

Table 5-9. Primary Exporting Countries: Indicated Change between 1959 and 1960 in Total Supplies and Selected Components[a] (*continued*)

Group and country[b]	*Gross domestic product*	*Agri-culture*	*Manufac-turing*	*Mining*	*Elec-tricity*	*Distri-bution*	*Imports*	*Total supplies*[c]
Group II (continued)								
UAR (Egypt)	C	B	D	E	...	C	A	C
Ecuador	C	C[d]	C[i]	A[j]	...	C	C	C
China (Taiwan)	B	−B	D	D	D	B	F	B
Greece	B	−C	C	...	D	C	F	B
El Salvador	B	B	C	...	C	C	E	C
Morocco	B	A	C	B	C	B	E	C
Peru	C	B	C	F	C	D	F	D
New Zealand	C	B	C	C	B	C	E	D
Ireland	B	−B[f]	C	A	D	B	C	B
Congo[g]	C	C	B	F	...	C	−B	C
Rhodesia and Nyasaland	B	B	C	C	C	C	B	B
Group III								
Algeria	...	B	C	F	C	...	C	...
Kenya	B	A[h]	C[e, i]	...	B	B	F	C
Iran	...	−C	...	B[j]	...	...	−B	...
Indonesia	A	A	...	C	...	B	F	B
India	B	−B	D	D	D	B	C	B
Uganda	C	C	...	F	E	C	B	C
Pakistan[g]	B	B	B	B	...	B	F	C
Korea (Republic of)	B	B[k]	B	F	A	B	D	B
Cambodia	D	D[l]	F	...	E	F	F	E
Viet-Nam (Republic of)	D	D	F	...	C	D	B	C
Iraq	C	−B	...	D[j]	E	...	E	C
Nigeria	C	C	...	...	F	D	F	C
Sudan	B	B[d]	...	...	...	B	C	B
Ivory Coast	C	B	...	...	...	B	B	C
Thailand	C	B[h]	...	F	...	C	B	C
Ghana	D	E	...	B	D	D	E	D
Guatemala	B	B	B	...	B	B	B	B
Tanganyika	B	B[h]	C	D	C	C	D	C
Burma[m]	B	B[k]	...	B	...	D	F	C
Tunisia	A	−B	C	−B	C	A	F	B
UAR (Syria)	A	−C	B	...	−B	B	F	C
Federation of Malaya[n]	C	C[k]	E	F	F	C	C	C
Panama	...	A	...	...	C	...	C	...
Ceylon	B	B	...	...	D	B	−B	B
TOTAL	B[o]	A[p]	C[p]	C[p]	C	C[p]	D[q]	B

Source: Division of General Economic Research and Policies of the United Nations Secretariat; Statistical Office of the United Nations, *Monthly Bulletin of Statistics;* Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome); replies to the United Nations questionnaire of November 1960 on economic trends, problems and policies; national publications.

[a] Based on preliminary official estimates of the national accounts or on "indicators" derived from official or semi-official statistics of production, trade and transport. Where "indicators" were used, changes in gross domestic product and its components reflect changes in the output of all the items of goods and services for which data were obtainable, combined in accordance with weights derived from national accounts of recent years. Changes in the output of distribution services were measured by indicators of trade (foreign and domestic) and transport and communications (gasoline consumption, ton-miles of railway freight, cargoes handled, postal-telegraph-telephone budgets). The indicated changes are necessarily tentative, being based in some cases on less than a full year's figures, both for the sectors shown and for other sectors for which estimates were made. The symbols indicate a percentage range of increase or decrease (−): A = −1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 and over.

[b] Countries have been grouped in three broad categories reflecting the relative contribution of manufacturing to the gross domestic product: group I is the most "industrialized", group III the least. Within each group countries are arrayed in ascending order of "import-dependence", as measured by the average ratio of import expenditure to gross domestic product in the period 1957-1959.

[c] Gross domestic product plus imports.

[d] Including livestock.

[e] Including construction.

[f] Including livestock and fishing.

[g] Year ending 30 June.

[h] Including livestock, fishing and forestry.

[i] Including mining.

[j] Petroleum only.

[k] Including fishing and forestry.

[l] Including livestock and forestry.

[m] Year ending 30 September.

[n] Including Singapore.

[o] Based on the countries for which symbols are indicated, weighted by average net national product in dollars in 1952-1954.

[p] Based on the countries for which symbols are indicated, weighted by the average output of the sector in question in dollars in 1952-1954.

[q] Based on countries for which symbols are indicated, weighted by 1960 value in dollars.

number of countries, most notably Algeria, Ireland, Morocco, New Zealand and Nigeria. Coal production was also cut back in Southern Rhodesia, as the demand for electricity was switched from thermal stations to the newly opened Kariba hydrostation. Among the major coal producers, however, production continued to expand, as in India where there was a 10 per cent increase, or resumed its earlier growth, as in Australia and the Union of South Africa, where 1960 output was up 11 per cent and 4 per cent respectively. There were also gains among some of the smaller producers—such as China (Taiwan), Mexico, Pakistan, the Republic of Korea and Spain—and, in total, production in the primary exporting countries was 6 per cent above the 1959 level.

Production of the major non-ferrous metals increased appreciably more than between 1958 and 1959, except in the case of copper, output of which had risen dramatically in 1959 in the wake of recovering demand in the metal-using industries and lengthy strikes among United States producers. In the primary exporting countries, the increase in copper production between 1959 and 1960 was about 6 per cent, a slight decline in Chile—occasioned by strikes—having been more than offset by expansion elsewhere, relatively modest in the Congo (7 per cent) and the Federation of Rhodesia and Nyasaland (5 per cent), but spectacular in Peru where the Toquepala mine came into operation raising output from about 35,000 tons a year to 165,000 tons. Peru was the main contributor to an over-all increase of about 5 per cent in the production of lead and zinc, also; there were small gains in Australia and Spain but these were offset by a decline in Mexican production.

With the removal of export quotas and a recovery in world demand, mine production of tin rose by about an eighth. The increase was concentrated very largely in South East Asia: there were gains of almost 40 per cent in the Federation of Malaya, 25 per cent in Thailand and 5 per cent in Indonesia. African production rose also—a Nigerian increase making good a small reduction in the Congo—but there was an 18 per cent decline in Bolivia whence most of the 1959 expansion had come. Even this increase left total production about an eighth below the pre-recession level.

The output of iron ore in the primary exporting countries in 1960 was almost a fifth above the 1959 level. This was largely the consequence of the rise in import demand in the industrial countries; the most notable expansion occurred in Venezuela, the Federation of Malaya and Peru and on a smaller scale, Algeria, Chile and Spain. However, there was also a large—one-third—increase in India, based on the increase in domestic requirements.

This expansion in the output of the major minerals is reflected in changes in the over-all level of mining activity. Between 1958 and 1959 mining production failed to increase in about one-third of the primary exporting countries and increased by more than 10 per cent in another third. Between 1959 and 1960 the proportion of countries registering no increase was only about a sixth and the proportion registering an increase of over 10 per cent had risen to 40 per cent.

The acceleration in the growth of manufacturing industry noted in 1959[2] continued in 1960. Though the proportion of primary exporting countries in which manufacturing output increased by more than 10 per cent was much the same—about a fourth—in 1960 as in 1959, the proportion in which output was no greater than in the preceding year dropped from 27 per cent to 6 per cent. As a result there was a doubling in the average rate of increase: from 4 per cent between 1958 and 1959 to about 8 per cent between 1959 and 1960. As in the previous interval the rate of growth between 1959 and 1960 seems to have been greatest (over 11 per cent) in southern and south-eastern Asia and least (under 4 per cent) in Latin America.

The lagging industries in Latin America were textiles and paper: these showed no increase in production in 1960. In the case of textiles, 1960 was the fourth successive year of decline. This was also a lagging industry in southern and south-eastern Asia: after a 5 per cent increase in 1959 it dropped back to a 2 per cent increase in 1960, affected by the shortfall in the Indian cotton crop and the poor jute out-turn which forced the closing of a substantial number of mills as a method of rationing supplies.

The output of the non-metallic minerals industries also registered very little increase in Latin America. A major factor in this was the decline in construction in Venezuela, though cement production was only slightly higher in Chile, Guatemala and Peru. In southern and south-eastern Asia, output of these industries rose by a further 9 per cent; cement production was an eighth above the 1959 level, having declined only in Thailand. Cement production increased substantially in the other regions also: by 4 per cent in Africa, 7 per cent in Oceania, and by 10 per cent in the Middle East. Only in Spain, Tunisia, Uganda and the United Arab Republic (Syria) was production lower than in 1959, and the over-all rate of expansion in the primary exporting countries was about 7 per cent, approximately the same as in the two previous years.

The contrast between Latin America and southern and south-eastern Asia was even more marked in the basic metals industries: production increased by over 30 per cent in the Asian region but only moderately in Latin America. One of the reasons for the vigorous growth in southern and south-eastern Asia was the coming into operation of more iron and steel making capacity in India: in 1960 the output of pig-iron in India exceeded 4 million tons for the first time. There was

[2] *See* United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1), page 204.

also a substantial increase in pig-iron production in Australia (15 per cent) and the Union of South Africa (11 per cent) and, on a smaller scale, in steel production in Turkey (24 per cent) and in Argentina where a rise of 29 per cent from the depressed 1959 level carried output to an eighth above the 1958 record. In the aggregate, steel production in the primary exporting countries increased by about 13 per cent between 1959 and 1960, somewhat more than in the previous interval and rather more than it increased in the industrial countries.

In general, the growth in manufacturing was greater than that in agriculture. This was almost invariably the case in the less developed, predominantly agricultural, countries in which the industrial base is relatively narrow. Among the few exceptions were Guatemala and Turkey—countries in which disinflationary policies, put into effect in 1959 to protect a deteriorating external balance, exerted a depressing influence on local industry during most of 1960. Chile and Venezuela were the principal exceptions among the countries in which industry is relatively more important: there was a decline in manufacturing production in Chile and in the construction industry in Venezuela. These declines were also largely a by-product of stabilization measures, aggravated in the case of Chile by labour strikes.

Among the countries in which industry makes a relatively large contribution to total production, increases in manufacturing in Argentina, Australia and Portugal helped to offset the effect on the gross domestic product of lower agricultural output. This also happened in several of the countries in which manufacturing is less developed—notably China (Taiwan), Greece and India—in which there were particularly large gains in the industrial sector, and to a less extent in Kenya, Morocco and Tunisia.

Electricity production in the primary exporting countries increased by about 10 per cent between 1959 and 1960, as it had done in the previous interval. The increase was virtually universal and though it was often closely related to industrial and mining expansion it showed a steadier and more uniform rate of growth. This was associated to some extent with a rapid extension and expansion of residential consumption, particularly in urban areas, but also—and increasingly in some countries—among rural and village populations.

The distributive sector—as measured by the turnover of foreign and domestic trade, railway and port traffic, the consumption of motor-spirit and the budgeted expenditures of government communications departments—also registered a substantial increase between 1959 and 1960. Its growth stemmed largely from increasing total domestic production but in many of the primary exporting countries it was strongly affected by movements in foreign trade which were generally more expansionary, partly in moving a larger export output and partly in handling the upsurge in imports.

This upsurge in imports added substantially to the volume of supplies available for internal use in most of the primary exporting countries. The proportion of countries in which total supplies failed to increase between 1959 and 1960 was only about half of the proportion in which domestic production failed to increase. Correspondingly, while about one-third of the primary exporting countries registered an expansion in domestic production of more than 5 per cent, the proportion of countries in which total supplies so increased was almost 60 per cent.

In about three-fourths of the primary exporting countries the relative increase in import quantum exceeded the relative growth of domestic production. The exceptions were some of the countries in which the external balance was under heavy strain and some of the countries in which the expansion in local production was particularly large. Among the latter were the Ivory Coast, Republic of Viet-Nam, Thailand and Uganda where there was only a modest increase in imports. Among the former, imports were under restraint in Iran, Turkey and the United Arab Republic (Egypt), and, less directly, in Guatemala and Venezuela. In Ceylon they dropped back from the record 1959 level as liquidity declined and in the Congo (in 1959/60) they were reduced by political uncertainties as well as by capital outflow.

The principal reinforcement to available supplies brought by imports was in the category of capital goods. As indicated earlier in this chapter, well over half of the increment in imports from the industrial countries comprised machinery and transport equipment, while a sizable proportion of the large increase in imports of other manufactures consisted of metals and metal goods and other products for use in construction and other industrial activities. From the industrial countries, particularly North America, there also came a substantial volume of food, supplementing imports drawn from other primary exporting countries, notably the rice producers of South East Asia and the wheat and maize producers of the southern hemisphere. Raw material supplies, especially cotton and synthetic rubber, were also augmented by imports from the industrial countries, while there was a further increase in movements of fuel among the primary exporting countries themselves.

While the expansion in imports of machinery and vehicles was widely distributed, the expansion in imports of foodstuffs, raw materials and fuels was much more selective, reflecting in some cases a shortfall in domestic production. By means of trade with the rest of the world, the primary exporting countries were thus able to compensate to some extent for the relatively low rate of increase in their combined agricultural output. Imports not only supplemented local supplies of food but also furnished some of the raw materials for increasing the output of local industry. At the same time, most of the primary exporting countries provided themselves with the capital goods necessary for stepping up their rate of investment.

INCREASES IN CONSUMPTION AND INVESTMENT[3]

The effect on domestic expenditure of the slight slackening in the average rate of growth in production in the primary exporting countries was offset by a contrary movement in external trade. On the one hand, as indicated in the preceding section, the addition to supplies from imports in 1960 was much greater than in 1959. On the other hand, the volume of goods sold abroad increased to a significantly smaller extent than in 1959. As a result gross domestic expenditure increased between 1959 and 1960 rather more than in the preceding interval and rather more than gross domestic production.

The proportion of countries in which expenditure failed to rise above the previous year's level dropped from a third in 1959 to a tenth in 1960. Conversely, the proportion of countries registering an increase in expenditure of more than 5 per cent almost doubled, to over 40 per cent. The countries in which expenditure declined or was barely held at the 1959 level were countries in which austerity stabilization programmes were in operation—as in the case of Spain and Venezuela, for example. These were among the countries in which domestic production had failed to increase as fast as population (see table 5-10).

Not all countries in which production failed to rise were forced to keep expenditure down to or below the 1959 level, however. In a number of cases expenditure was sustained by imports, as in Chile, Indonesia, Kenya and the United Arab Republic (Syria). In some—notably the United Arab Republic (Syria) and to a less extent India and Turkey—a cut in exports also played an important part in maintaining, or even increasing, the level of supplies retained for domestic use, in the face of a very modest expansion in domestic production.

Notwithstanding the smaller average increase in agricultural output, consumption in the primary exporting countries rose to a somewhat greater extent between 1959 and 1960 than in the previous interval. The proportion of countries registering a decline in per capita consumption dropped from about a third in 1959 to about a sixth in 1960, while the proportion registering a rise of more than 3 per cent doubled to well over a third.

The countries in which per capita personal consumption declined between 1959 and 1960 were mostly those in which domestic production failed to expand—Argentina, Kenya, Spain and the United Arab Republic (Syria), for example. But there was also a reduction in a few countries in which output was higher—Greece and Tanganyika, for example, and to a less extent Portugal: in these cases the increase in production went largely into exports and the increase in imports largely into capital formation. Conversely, not all countries in which production failed to rise registered a decline in per capita private consumption. In Chile and Venezuela, for example, consumption was just about sustained—with the aid of imports in the case of Chile, from local farm and factory output and from inventories of imported goods in the case of Venezuela. In these countries investment fared less well. In Indonesia, the expansion in imports not only sustained per capita consumption but facilitated a recovery in investment from the low figure of 1959.

Among the countries in which domestic production increased more or less in line with population, there was a similar rise in total personal consumption. In Guatemala and the Republic of Korea the maintenance of per capita private consumption involved the cutting back of both current public consumption and total

[3] This section is based largely on tentative figures of "indicated change"; the conclusions are thus suggestive rather than definitive.

Table 5-10. Primary Exporting Countries: Indicated Change between 1959 and 1960 in Expenditures on Gross Domestic Product[a]

Group and country[b]	*Consumption*	*Gross capital formation*		*Gross domestic expenditure*	*Exports*	
		Fixed investment	*Rate of stock accumulation*		*In 1959 prices*	*In import equivalent*
Countries in which per capita production						
Declined:						
Venezuela	B	−E	—	−B	C	B
Spain	−C	B	...	−B	I	I
Argentina	A	C	...	B	A	C
Indonesia	B	C	+	B	B	−B
Chile	B	A	...	B	−B	−B
Kenya	B	B	...	B	B	A
UAR (Syria)	A	E	+	C	−D	−C

(Continued on following page)

Table 5-10. Primary Exporting Countries: Indicated Change between 1959 and 1960 in Expenditures on Gross Domestic Product[a] (*continued*)

Group and country[b]	*Consumption*	*Gross capital formation*		*Gross domestic expenditure*	*Exports*	
		Fixed investment	*Rate of stock accumulation*		*In 1959 prices*	*In import equivalent*
Countries in which per capita production (continued)						
Remained constant:						
China (Taiwan)	B	D	—	B	C	B
Korea (Republic of)	A	−B	+	B	H	H
Guatemala	A	−B	...	A	B	C
India	B	D	—	B	−C	B
Sudan	B	G	+	C	−F	−D
Colombia	B	C	+	B	−B	−C
Portugal	B	B	—	B	C	C
Greece	A	F	+	B	B	C
Rose slightly:						
Ceylon	B	B	...	B	B	B
Turkey	B	D	...	B	−B	−C
Rhodesia and Nyasaland	C	−C	...	B	C	C
Ireland	B	C	—	B	D	D
Philippines	B	B	+	B	B	B
Australia	C	D	+	C	A	−B
Tanganyika	A	D	...	B	E	D
Union of South Africa	B	B	+	B	B	B
El Salvador	C	D	...	C	B	B
Pakistan[c]	B	D	—	B	G	I
Mexico	C	C	...	C	−B	−C
Brazil	C	B	—	C	A	B
Rose substantially:						
UAR (Egypt)	B	F	—	B	E	F
Thailand	B	B	...	B	E	D
Federation of Malaya, and Singapore	C	F	+	C	A	C
Congo[c]	C	−E	...	B	F	F
Ecuador	C	D	+	C	D	B
Israel	C	A	...	C	F	E
Burma[d]	C	A	—	C	F	E
Ivory Coast	C	E	...	D	D	A
Puerto Rico[c]	C	C	...	C	E	...
Iraq	B	C	...	C	D	D
Viet-Nam (Republic of)	C	C	...	C	E	C
New Zealand	D	F	+	D	B	B
Peru	B	D	+	C	F	G
Ghana	C	G	+	D	E	A
Cambodia	C	I	+	D	E	C
TOTAL	B	C	...	B	C	C

Source: Division of General Economic Research and Policies of the United Nations Secretariat; replies to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

[a] In the absence of official figures many of the symbols in this table are based on "indicators" derived from national statistics of trade, production and public finance. Where "indicators" were used, changes in expenditure reflect "apparent disappearance" (production minus exports plus imports, with due allowance for inventory changes whenever possible). Consumption was measured by the apparent disappearance of major food items, major textile items and major consumer durables. Fixed capital formation was measured by the apparent disappearance of cement, steel, machinery and major producer durables. In some countries an index of construction activity was also used in assessing investment changes. In most cases the "indicators" were computed in real (physical) terms; where values were used, they were reduced to a constant (1959) price basis by means of the most appropriate available deflator. Where official estimates were used, they were preliminary figures. In general, the "indicators" were based on a comparison of figures for at least the first three quarters of 1960 with those for the corresponding period in 1959. The symbols indicate a percentage range of increase or decrease (−): A = −1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 to 30; G = 31 to 40; H = 41 to 50; I = 51 to 59; J = 60 and over.

[b] Within the group the countries are arrayed in ascending order of increase in total supply as indicated in table 5-9.

[c] Fiscal year ending 30 June 1960.

[d] Fiscal year ending 30 September 1960.

fixed capital formation. In China (Taiwan) and India the cost of maintaining consumption levels was a reduction in exports and a drawing down of inventories; but in these countries fixed investment was raised to a greater extent than in 1959. Colombia and Turkey also maintained personal consumption levels and increased the rate of investment; part of the latter, however, reflects the accumulation of export crops and a decline in the volume of material sold abroad.

Apart from Tanganyika, the countries in which domestic production rose moderately between 1959 and 1960 all registered comparable increases in consumption. Except in the case of Ceylon, these countries received a substantial accretion of supplies from imports. This enabled most of them to raise the level of investment to a greater extent than consumption and generally to a greater extent than in 1959. The exception was the Federation of Rhodesia and Nyasaland where capital moved out and investment again declined. The higher level of both consumption and investment in Australia and Mexico was achieved, in part, at the expense of exports, which were at a lower level than in 1959. To a less extent this was also the case in Brazil and the Union of South Africa: exports absorbed a very small fraction of the increment in total supplies. In Pakistan a notable rise in private consumption—following a reduction in 1959—was offset to some extent by a cutback in current public expenditure; but the Government was largely responsible for a sizable increase in investment, reversing the 1959 decline. Pakistan also registered the largest increase in exports in this group. This was from the low level to which exports had fallen in 1958 and 1959, however, and it was achieved in part by drawing down stocks, particularly of jute, current output of which was well below the 1958/59 figure.

Among the countries in which domestic production expanded most, there was a general and substantial rise in consumption. Available supplies increased by at least 5 per cent in each of the countries in this group, and only in Iraq, Peru, Thailand and the United Arab Republic (Egypt) did personal consumption rise by less. Foreign trade was particularly buoyant in this group: not only did the increment in imports add considerably to total supplies but in general the volume of exports as well above the 1959 level. In some countries in the group, indeed, it was expansion in export industries that contributed most to the growth in domestic production—coffee in Ecuador, cocoa in Ghana and the Ivory Coast, petroleum in Iraq, copper and other minerals in Peru and cotton in the United Arab Republic (Egypt). The only countries in which the quantum of goods shipped abroad was little if at all greater than in 1959 were the Federation of Malaya and New Zealand: in these countries the large increment in supplies went into consumption—especially private consumption—and investment, both in new fixed capital and in inventories.

Investment rose vigorously in most other countries in this group as well. The only countries in which investment increased by less than 6 per cent were Burma, the Congo, Israel and Thailand. In Burma the lag was in the private sector notwithstanding the Government's declared intention of giving more scope to indigenous enterprise. In Thailand it was in the public sector: private investment rose substantially as the industrial encouragement measures taken in 1958 began to show tangible results. In Israel a decline in outlay on agriculture and public housing was only just offset by increased investment in transport, particularly in the marine sector. In the Congo capital formation in 1959/60 showed a further sharp decline as funds continued to flow out of the country.

In the other countries in the group much of the increase in investments was in the public sector, as in the Federation of Malaya, the Ivory Coast and the United Arab Republic (Egypt), or at least partly in response to government action designed to stimulate private investment. This was the case in Ghana, where special "tax holiday" provisions were extended, in New Zealand, where the tax on retained profits was lowered and more rapid depreciation permitted, and in Cambodia, where the interest charged on development loans from the National Equipment Fund was cut to 3 per cent for agriculture and 4 per cent for industry.

The expansion in fixed capital formation between 1959 and 1960 was by no means confined to the countries in which domestic production rose most decisively: there were significant increases in investment even among the countries whose output failed to keep pace with the growth of population, as in the case of Argentina, Indonesia and the United Arab Republic (Syria). The year thus brought a reversal of the downward movement so noticeable in 1959. The proportion of primary exporting countries in which fixed investment failed to rise above the level of the previous year dropped from 50 per cent in 1959 to 20 per cent in 1960, while the proportion in which fixed investment increased by more than 5 per cent rose from less than 30 per cent to more than 60 per cent.

DOMESTIC ADJUSTMENTS TO EXTERNAL IMBALANCE

The higher level of economic activity in 1960 was associated in most of the primary exporting countries with a further increase in the supply of money. As indicated in the first portion of this chapter, however, there was a marked contrast between 1959 and 1960 in the impact of developments in the external sector. In 1959 the wide-spread improvement in the balance of trade generally had the effect of increasing the supply of money from this source. In 1960, on the other hand, there was a general deterioration in the trade balance and the effect of this on the money supply was significant in many of the primary exporting countries and in a few, predominant.

The widening of the trade gap was bridged to a large extent by an increased inflow of foreign capital and credit. While this—by providing additional international liquidity—lessened the impact of the deficit on the gold and foreign exchange reserves of the primary exporting countries, it resulted in a sizable expansion in foreign liabilities. The accumulation of these liabilities reduced the contribution of foreign exchange receipts to the domestic supply of money. Thus in 70 per cent of the primary exporting countries movements in net foreign assets—a measure of the impact of foreign transactions on domestic currency—were relatively contractionary in 1960: in a third of the countries an expansion in 1959 turned to a contraction in 1960, in a fourth the expansionary effect was less in 1960 than in 1959, and in a tenth the contractionary effect was enhanced. In the remaining 30 per cent of the primary exporting countries, movements in net foreign assets were expansionary or less contractionary than in 1959. In about half of these cases, however, the change was not the result of mercantile transactions—on which the balance actually worsened—but of an increase in foreign donations with no associated liability.

The swing in the external sector was thus the principal cause of change in the monetary situation in most of the primary exporting countries. In 1959 the proportion of countries registering an expansionary (or less contractionary) change in money supply was double the proportion in which there was a contractionary (or less expansionary) change. This distribution was reversed in 1960: the contractionary changes were twice as numerous as the expansionary (see table 5-11). In 1959 the concentration of expansionary changes was largely (75 per cent) among the countries in which the relative contribution of foreign assets to total money supply had risen. Conversely, in 1960 the concentration of contractionary changes was largely (83 per cent) among the countries in which the relative contribution of foreign assets had declined. Moreover, where the change in foreign assets was a factor, its contribution to the change in total money supply was itself a large one: in both years it accounted for more than half the change in more than two-thirds of the countries.

Notwithstanding the restraining influence of the external sector, the money supply rose in 80 per cent of the primary exporting countries in 1960—as against 92 per cent in the previous year. With industrial activity generally at an appreciably higher level than in 1959 and investment increasing sharply, both the private and the public sector tended to borrow more from the banking system. Credit to the private sector expanded in all but an eighth of the countries and that to the public sector in all but a fifth.

Government borrowing from the banking system added to the money supply rather more frequently in 1960 than in 1959. And the proportion of countries in which this was an important factor in the increase

Table 5-11. Primary Exporting Countries: Distribution According to Changes during 1959 and 1960 in the Supply of Money and in Foreign Assets[a]

Ratio of change in foreign assets during the year to money supply at the beginning of the year	*Number of countries in which, in relation to the preceding year, the index of money supply was*			*Total*
	Lower	*Similar*	*Higher*	
Lower than in preceding year				
1959	8	1	6	15
1960	15	10	3	28
Higher than in preceding year				
1959	4	3	18	25
1960	3	3	6	12
Total				
1959	12	4	24	40
1960	18	13	9	40

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

[a] Money represents holdings of notes and coin outside the monetary system and demand deposits of the private sector in commercial and central banks. Foreign assets represent as far as possible the domestic monetary effects of foreign transactions; net of foreign liabilities in the majority of cases, gross in the remainder.

in the money supply rose sharply—from 37 per cent to 63 per cent in the aggregate and from 31 per cent to 50 per cent among the countries in which money supply rose by 15 per cent or more. On the other hand, among the countries in which the supply of money declined in 1960, a reduction in credit to the public sector was the chief cause in as many cases as a reduction in foreign assets.

On the whole, the expansion in the supply of goods available in the primary exporting countries was sufficient to accommodate the rise in demand generated by the increase in investment and other economic activity, so that movements in price levels were not abnormally large. In rather more than a fourth of the primary exporting countries the cost of living remained more or less stable or registered a decline (see table 5-12). In rather less than a fourth the cost of living continued to climb in 1960 at much the same rate as in 1959. And in a slightly smaller proportion there was a measurable slowing down in the rate of increase. However, the proportion of countries in which the cost of living began to rise or rose more rapidly—about 29 per cent in all—was appreciably greater than the proportion in which there was some deceleration of a previously rising trend.

In the critical group of countries—about 40 per cent of the total—in which prices rose by 6 per cent or more in either year,[4] the distribution was not much more

[4] In addition to the fifteen countries indicated in table 5-12, there were nine countries in which the cost of living rose by 6 per cent or more in 1959 but by less than 6 per cent in 1960.

Table 5-12. Primary Exporting Countries: Distribution of Change in the Cost of Living

Trend in 1960[a]		Number of countries in which the index in the last quarter of 1960 was					
		98 or less	99 to 101	102 to 105	106 to 110	111 to 120	120 or over
		(corresponding quarter of 1959 = 100)					
Stable	11	—	11	—	—	—	—
Decline began	4	3	1	—	—	—	—
Decline decelerated	2	—	2	—	—	—	—
Rise began	9	—	1	6	2	—	—
Rise continued at 1959 rate	14	—	4	7	2	1	—
Rise decelerated	13	1	5	4	—	1	2
Rise accelerated	9	—	—	2	4	2	1
TOTAL	62	4	24	19	8	4	3

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

[a] Change between the last quarter of 1959 and the last quarter of 1960 is compared with the change between the last quarter of 1958 and the last quarter of 1959.

decisive, though the proportion in which there was deceleration (46 per cent) was slightly greater than the proportion in which a rise began or accelerated (42 per cent). And perhaps more significant, in the small group—about a sixth of all the primary exporting countries—in which prices rose by more than 10 per cent in the course of 1959 or 1960, there was some evidence of the effects of disinflationary policies: in almost three-fourths of these countries there was a discernible slackening in the rate of increase. In this group the most notable change occurred in countries such as Argentina, Chile, Peru and Turkey in which the rate of price increase was reduced from these upper brackets in 1959 to a more manageable figure in 1960.

*
* *

The countries in which the price level remained more or less stable in 1960 were for the most part countries in which there was a moderate increase in domestic expenditure, sustained to a degree by a larger volume of imports which helped in all cases to raise the available volume of supplies at least 6 per cent above the 1959 level. The consequence was a general deterioration in the balance of trade, except in Tanganyika and the United Arab Republic (Egypt)—where exports rose sharply—and a smaller increase in the money supply than in 1959, except in Israel, where the inflow of aid and other funds was a major item (*see* table 5-13).

Except in El Salvador, government expenditure was an expansionary force, especially in the United Arab Republic (Egypt) where, under the influence of government development plans, fixed investment registered a major increase. The resultant increase in consumer demand was contained by an increase in imports, notably grain, and later in the year by a better domestic rice crop. Import supply was not only greater in volume but, by virtue of successive reductions in the premium payable on foreign exchange, it was also lower in local currency cost.

In Israel, where investment remained at much the same level as in 1958 and 1959, there was a general rise in wages in mid-year following an adjustment of the cost of living allowance. Partly as a result of this, prices began to edge upwards somewhat more than seasonally in the second half of 1960. There was also a rise in wages in Ghana—a substantial one of about 17 per cent in the case of the effective rate for unskilled labour—the immediate effect of which was borne by employers as the wage measure was followed by a freeze of the prices of essential goods.

In the Union of South Africa the principal expansionary stimulus came from the budget of March 1960 which contained a variety of tax concessions—both for consumers and for business—including, in particular, an increase in depreciation allowances intended to encourage private investment. In the course of the year there was a general rise in unskilled wage rates, but developments on the external sector continued to reduce liquidity; and in August interest rates were raised in an effort to slow down the outflow of capital.

*
* *

Among the countries in which the retail price level declined in 1960 there were signs of recession. Investment was reduced or rose only slightly above the 1959 level and, with imports lower in real terms—except in Tunisia where there was an increase large enough to sustain the per capita level of supplies in the face of smaller domestic crops—available supplies registered only a small increase. In the Dominican Republic the money supply recovered from its 1959 decline, in the wake of an increase in export receipts and government borrowing; but imports declined again—to the lowest level since 1954—and though there was a large outflow of capital, the private sector borrowed less from the banking system as economic activity slackened. In Guatemala, on the other hand, the principal deflationary influence was the Government's austerity programme,

Table 5-13. Primary Exporting Countries: Changes in Domestic Expenditure, Cost of Living, Balance of Trade and Money Supply and its Components[a]

Country and cost of living trend	Change between 1959 and 1960 in			Difference between change during 1960 and change during 1959[b]			
						Credit to	
	Domestic expenditure	Balance of trade[c]	Cost of living[d]	Money supply	Foreign assets	Government sector	Private sector
Stable[e]							
Kenya	B	−C	A	...			
Uganda	...	−B	A	...			
Union of South Africa	B	−C	B	−C	−	+	+
Mauritius	...	−F	B	...			
Tanganyika	B	C	A	...			
Honduras	...	−D	−B	−B	−	+	−
Ghana	D	−C	A	A	−	+	+
UAR (Egypt)	B	C	A	−B	+	+	−
El Salvador	C	−C	A	−C	−	−	+
Singapore	...	−B	A	...			
Israel	C	−B	A	D	+	+	−
Decline began[f]							
Hong Kong	...	−B	−B	...			
Ceylon	B	B	−B	−C	+	−	+
Guatemala	A	B	A	−C	+	−	+
Dominican Republic	...	F	−B	F	+	+	−
Decline decelerated[g]							
Tunisia	C	−F	−B	...			
Haiti	...	−B	−B	−B	−	+	+
Rise began[f]							
Federation of Malaya	C	A	A	−C	−	+	+
Ecuador	C	A	A	−B	−	+	+
Ireland	B	B	A	B	−	+	−
Costa Rica	...	B	A	...			
Viet-Nam (Republic of)	C	−B	A	A	+	+	−
Nicaragua	...	−D	−B	B	−	+	+
Thailand	B	B	−B	C	+	−	+
Sudan	C	−C	A	B	−	+	+
Burma	C	−C	D	−E	−	−	−
Rise continued at 1959 rate[e]							
Lebanon	...	−D	B	−C	−	+	+
Portugal	B	−B	B	...			
Greece	B	−E	A	A	−	−	+
Cyprus	...	B	A	...			
New Zealand	D	−C	A	B	−	+	+
Trinidad and Tobago	...	A	B	...			
Netherlands Antilles	...	B	B	...			
Puerto Rico	C	B	B	...			
Rhodesia and Nyasaland	B	B	B	...			
Iraq	C	A	B	−F	−	+	+
Korea (Republic of)	B	−D	C	...			
Colombia	B	−D	B	−B	−	−	+
Iran	...	B	C	−B	+	+	−
Bolivia	...	−C	D	−E	−	−	−
Rise decelerated[g]							
India	B	−B	B	A	−	−	+
Spain	−B	F	A	...			
Uruguay	...	−F	G	−D	−	−	−
Pakistan	B	−G	C	B	−	+	+
Cameroun	...	−C	C	...			
Brazil	C	−B	G	−B	−	+	+
Venezuela	−B	D	B	−B	+	−	+
Algeria	...	−C	B	...			
UAR (Syria)	C	−E	B	−C	−	+	+
Peru	C	C	C	−D	−	−	+

(Continued on following page)

Table 5-13. Primary Exporting Countries: Changes in Domestic Expenditure, Cost of living, Balance of Trade and Money Supply and its Components[a] (*continued*)

Country and cost of living trend	*Change between 1959 and 1960 in*			*Difference between change during 1960 and change during 1959*[b]		*Credit to*	
	Domestic expenditure	*Balance of trade*[c]	*Cost of living*[d]	*Money supply*	*Foreign assets*	*Government sector*	*Private sector*
Rise decelerated[e] (continued)							
Turkey	B	−B	C	D	+	+	+
Chile	B	−C	D	...			
Argentina	B	−B	F	−E	−	−	+
Rise accelerated[e]							
Morocco	C	−C	B	...			
Cambodia	D	−D	C				
Australia	C	−D	B	−C	−	−	+
Paraguay	...	−E	D	−E	−	−	−
Jamaica	...	B	B	...			
China (Taiwan)	B	−D	E	−B	+	+	−
Philippines	B	−C	B	−C	+	−	−
Mexico	C	−C	B	−B	−	+	+
Indonesia	B	−D	F	H	−	−	+

Source: Division of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics*; tables 5-7 and 5-9.

[a] The symbols indicate the following percentage intervals: A = −1 to 1; B = 2 to 6; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 to 30; G = 31 to 40; H = 41 to 50.

[b] Computed for each year as the ratio (percentage) of the change during the year to the money supply at the beginning of the year.

[c] Difference between the balance of trade (exports f.o.b. minus imports c.i.f.) in 1960 and the balance of trade in 1959 expressed as a percentage of total trade (exports plus imports) in 1959.

[d] Monthly average; in many instances in principal cities.

[e] Countries are arrayed in ascending order of difference between the change in the cost of living during 1959 and the change during 1960.

[f] Countries are arrayed in ascending order of change in the cost of living during 1960.

instituted in 1958 to protect the balance of payments in the face of the decline in coffee prices. In 1960 the foreign sector was again expansionary, but investment was cut back further and though import duties had been raised in 1959 their impact was more than offset by the slackening of demand.

The government sector in Ceylon was also less expansionary in 1960 than in 1959. It became increasingly concerned about the continuing decline in reserves: in August interest rates were raised and selective credit controls imposed with restraint on imports their main object. Import duties were raised on a wide range of consumer goods but the dominant influence on the cost of living was the price of rice: on the free market this declined in the first half of the year and in April the subsidy on rationed rice was increased. Despite an increase in borrowing, fixed investment in the private sector lagged, however, and unemployment continued to rise: the number of applicants for work was a fifth greater at the end of 1960 than a year earlier.

* * *

The feature common to the countries in which prices began to rise in 1960, after having been stationary or declining in 1959, was a stepping up in their rate of capital formation; in a number of cases—Ecuador, the Federation of Malaya and the Sudan, for example—this had been cut back between 1958 and 1959. In most of these countries—with the exception of Burma, Ireland and the Republic of Viet-Nam—there was some relaxation of credit to the private sector late in 1959 or early in 1960. Governments also tended to increase their borrowing, except in Burma and in Thailand where—in contrast to the other countries in the group—investment in the public sector did not increase and tax rates were raised at the beginning of 1960. In Burma, where the increase in prices—by far the sharpest in the group—occurred largely in the first half of the year under the combined influence of tight import controls, relaxed price controls and a recovery in fixed investment in the public sector, a number of policies were reversed in July: certain prices were again subjected to control, railway rates were cut and import licences increased. The result was a stabilization of the cost of living but sharp deterioration in foreign exchange reserves.

Concern about the impact of rising domestic demand on the external balance began to influence fiscal and monetary policy in some of the other countries in the group as the year advanced and—as in Ecuador, the Federation of Malaya and Nicaragua—export prices declined. The Federation of Malaya tightened credit conditions in July by raising interest rates and the reserve requirements of commercial banks. But liquidity was also reduced in Ecuador where the Government also cut back its investment plans in order to slow down the rate at which domestic demand was expanding.

*

* *

In almost all the countries in which prices continued to rise in 1960 at much the same rate as in 1959, the external sector played a restraining role. Only in the case of Cyprus, the Federation of Rhodesia and Nyasaland and Iran did exports rise more—or fall less—than imports, and in these countries other factors provided restraint: in the Federation of Rhodesia and Nyasaland a large drain on capital and in Iran disinflationary government action. New Zealand was the only country in the group to register a more expansionary movement in money supply in 1960 than in 1959.

The rise in imports facilitated a higher level of investment in most of these countries—the chief exceptions being the Federation of Rhodesia and Nyasaland and the Republic of Korea—and although domestic demand continued to press heavily on available supplies, it was only in Bolivia, Iran and the Republic of Korea that the strain was reflected in a rate of retail price increase of more than 5 per cent. Nevertheless, most of these countries took restraining action at some stage during the year, especially when the expansion in domestic demand became a threat to external equilibrium.

The Federation of Rhodesia and Nyasaland entered the year with the reflationary policies of 1959: credit conditions were further relaxed and bank reserve requirements lowered. These measures were reversed in the second half of the year, not because of any undue rise in internal demand—fixed capital formation was actually below the 1959 level—but because of the deterioration in the external accounts occasioned by a continuing outflow of capital. As indicated earlier in this chapter, this was finally countered—in March 1961—by the imposition of exchange controls.

In Colombia, changes in policy were in the opposite direction: the tight control of credit carried over from the 1959 stabilization programme was relaxed somewhat in the second half of 1960. Thus the deflationary influence of a sharp deterioration in the balance of trade and a slight reduction in government borrowing from the banking system was more or less offset by an upsurge in private credit, accentuated towards the end of the year by the financing of the coffee crop. The pressure on prices was contained partly by an appreciable increase in available supplies—both domestic and imported—and partly by the fact that the stabilization programme itself was aimed largely at curbing consumer demand, particularly for imports, and had resulted in a reduction in the wage earners' share of the national income.

The deflationary effect of an expansion in imports was also offset in varying degree by the growth of domestic credit in Greece, Iran, Iraq and New Zealand. In Bolivia, on the other hand, the effects of the stabilization programme started in 1958 were still predominant: the rate of expansion in both public and private credit was again reduced. This was also the case in the Republic of Korea where, in February, a ceiling was placed on total bank advances and investment was cut back.

In Iraq there was a large increase in public capital expenditure under the interim economic plan, especially in the fields of housing and transport. The threat posed to price stability by another poor harvest was met by a ban on barley exports and a considerable increase in imports of grain. Greece also registered a large increase in investment, especially in the public sector; although this and a rise in payments under the wheat support scheme contributed to a sizable government deficit, this was smaller than in 1959. On the other hand, partly under the influence of lower interest rates, private borrowing expanded to a greater extent than in 1959.

In New Zealand, where personal disposable incomes had been raised by tax concessions in the 1959/60 budget and by higher export prices in the 1959/60 season, the central bank began to exert pressure on the high level of commercial bank liquidity early in the year. The primary object was to reduce the demand for imports, increasingly so as the year progressed and the external balance grew more precarious. But fixed investment which had declined in 1959 recovered strongly in 1960, with the Government also borrowing more from the banks. The demand liability-reserve ratio was raised to a very high figure—from 22 per cent to 38 per cent—in the course of 1960, and in March 1961 interest rates were raised and government expenditure cut in a further effort to restrain demand.

In Iran the main attack on the inflationary rise in import demand was made in the course of the second half of the year. It started with restraints on borrowing by importers but was extended to a ban on borrowing by government departments and local authorities and on lending by the Mortgage Bank and by the Ministry of Industry and Mines as well as to a cut in public expenditure in the 1961 budget.

*

* *

As indicated above, one of the most notable features of 1960 was the increase in the number of primary exporting countries in which there was a measurable slowing down in the rate at which prices had been rising. This was partly a by-product of the upsurge in imports—in contrast to the effect of import cuts in the previous year—but it also reflects the result of various stabilization programmes. Most of these involved restraints on domestic demand; but many of them had started in 1958 or 1959 with a devaluation, the effects of which on the internal price structure had been largely absorbed before 1960. There were thus some particularly sharp contrasts between price trends in 1959 and price trends in 1960.

In Spain and Venezuela, the deceleration in the price rise was not the result of any increase in the availability of imported goods; it was brought about by a reduction in domestic expenditure, largely in consumption in Spain, in investment in Venezuela. With the recovery in external reserves in Spain there was a change in policy in the second half of the year: credit conditions were eased in an effort to stimulate the lagging economy. Unemployment increased rapidly, however, and at the beginning of 1961 the number of registered unemployed was more than a third greater than a year earlier. In Venezuela there was also a substantial increase in unemployment, and when, with the aid of exchange control, the outflow of capital was halted in the final quarter of 1960, a programme of public works and credit relaxation was promulgated in order to hasten the recovery of the construction industry.

Restraints on domestic expenditure also played an important part in the deceleration in price increases in Argentina and the United Arab Republic (Syria), where per capita consumption declined, and in Chile where fixed investment was held back. In these countries the problem was complicated by the inadequacy of the growth of local production.

In the United Arab Republic (Syria) local crops were again very poor and domestic consumption would have dropped more sharply had not supplies been significantly augmented by imports. This imposed additional external strain and it was largely to meet this that monetary and exchange policy was directed in the second half of 1960. Though the liquidity base of the commercial banks was reduced by the removal of funds belonging to semi-public bodies and by an increase in reserve requirements, the expansion of credit to the private sector was greater than in 1959. The Government also borrowed more, to finance a higher rate of investment.

There was little growth in production in Argentina, but significant gains in one or two import-saving industries—notably petroleum—combined with a large inflow of capital helped to increase the supply of investment goods without imperilling external equilibrium. Internally, perhaps the most hopeful sign was a further reduction in the Government's cash deficit—from 34 per cent of the money supply in 1958, before the stabilization programme was inaugurated, to 18 per cent in 1959 and a mere 2 per cent in 1960—even though part of this was achieved by deferring debt payments. This deferment had a restraining effect on the Government's domestic creditors whose liquidity was also reduced by the rise in prices and wages that followed the devaluation in 1959. The tight money policy in force throughout 1959 and 1960 did not prevent a further large rise in bank lending to the private sector and, in order to lessen the inimical effects on production of any shortage in working capital, the credit base was enlarged to some extent late in 1960 by a reduction in the reserve requirements of the commercial banks.

Inadequate gains in production also hampered the stabilization effort in Chile where the effect of high levels of unemployment and frequent strikes was aggravated by the disastrous earthquake that occurred in May which not only disrupted communications and hampered agriculture but also helped to unbalance the government accounts. Some of the strikes reduced export output and, together with the downturn in copper prices, this had the dual effect of weakening both the external balance and government revenue. Wage increases granted in the second half of the year and early in 1961 also tended to complicate the stabilization effort.

There was also a notworthy slowing down of price increases in some of the other Latin American countries —particularly Brazil, Peru and Uruguay—in which inflationary pressures have been extremely powerful in recent years. Though there was again a large monetary expansion it was appreciably less than in 1959, restrained by a decline in foreign assets in Brazil and by a reduction in government borrowing in Peru and Uruguay. The gain in stability was most convincing in Peru where it was underpinned by a large increase in domestic production and exports which made possible a considerable expansion in imports, a sizable growth in reserves and a major rise in capital formation.

In Brazil there was a more satisfactory growth in domestic production than in 1959—particularly for local use — and a substantial increment in supplies from abroad. Against this, however, private credit again increased considerably and—even more important—there was a greater expansion in government borrowing, accentuated by the need to finance another large coffee surplus. Though the rise in retail prices was somewhat less rapid in 1960 than in 1959, it was again very steep and an increase of 60 per cent in minimum wages was decreed in October. Partly as a result of this there was a jump in the cost of living towards the end of the year. With the pressure of domestic demand as strong as ever, the importance of increasing—or at least maintaining—the flow of goods from abroad became crucial. As indicated earlier in this chapter, the crisis of external disequilibrium was met early in 1961 by a consolidation of debts, new borrowing and a devaluation. This had a stabilizing impact on the domestic economy, absorbing some of the excess purchasing power through increased availability of imports and higher cruzeiro costs.

In Uruguay, where costs had been raised by the devaluation of December 1959, the deflationary effect of a substantial expansion in imports and an enlargement of the budget surplus was more than offset by production losses through strikes and drought. Higher costs and increases in wages in several sectors were followed by a rapid rise in the provision of credit to the private sector.

In contrast to the course of private credit in the other countries in this group, however, the rise in Uruguay was less in 1960 than in 1959.

Among the remaining countries in this group an expansion in imports in 1960 also played a strategic role in restraining the rise in prices. In India and Pakistan the result was a levelling off in the cost of living trend, despite a considerable increase in investment, especially in the public sector. In Pakistan a good wheat crop also helped: in April it was possible to end rationing in the western province. In March, however, both India and Pakistan took steps to limit the expansion of credit to the private sector. In India, credit was tightened further in May and again in October, but relaxed somewhat towards the end of the year. In Pakistan, the restraints having been directed chiefly against importers, some stimulus was later provided to private investment through a reduction of corporate taxes and other tax concessions granted in the mid-year budget. In both countries private credit expanded to a greater extent than in 1959 in line with the increase in trade and investment.

Imports were also of crucial significance in Turkey in 1960 though they did not rise much above the high level of the previous year. An appreciable increase in domestic food supplies was supplemented by receipts of Public Law 480 wheat from the United States and the cost of living was held more or less constant—compared with an increase of about a fifth in 1959. After a temporary relaxation of credit conditions in July 1960, restrictive measures were reintroduced in the second half of the year: government investment was cut by about 7 per cent of the budgeted figure and interest rates—to other than agricultural borrowers—were substantially raised.

* * *

In most of the countries in which there was a measurable acceleration in the rate of increase in retail prices, the rise in 1960 took place in the face of a greatly enlarged inflow of imported goods. Local production was generally higher than in 1959 and with the resultant increase in the volume of supplies available there was a considerable rise in investment and a smaller—but appreciable—rise in consumption. In contrast to this expansion in activity, the rate of increase in money supply was generally lower than in 1959, largely because of the decline in foreign assets but also—in some cases—in response to restraints on government borrowing and on private credit, generally imposed in order to protect the external balance.

In Cambodia the policy of granting low-interest loans to encourage agricultural and industrial development was continued, and investment—public as well as private—was considerably higher than in 1959. In China (Taiwan) investment was also increased substantially, partly in terms of a new four-year development plan which began in mid-1960; crops were generally poor in 1959/60 but the inflationary impact of this was softened by a sharp cut in rice exports and an increase in food imports.

In the other countries in the group there was a further sizable increase in fixed capital formation, especially in the private sector in Australia and in the public sector in Mexico. This was accompanied by a relaxation of control over imports, dampened to some extent in Paraguay and the Philippines by devaluation. The process of relaxation continued in the Philippines, foreign exchange reserves having recovered by July to the highest point since early 1957. As domestic credit conditions were eased, prices began to rise more rapidly, reflecting not only the growth of demand but also the rise in the peso cost of imports.

In Australia the rise in liquidity was restrained by a spectacular decline in foreign reserves in the second half of the year and it was largely to protect the external balance that monetary and fiscal policy was directed. An effort was made to check the flow of credit to importers, and tax measures were enacted to discourage the demand for motor-cars and the use of hire-purchase arrangements. With the supply of imported goods greatly augmented and a better out-turn of domestic agriculture, the rise in the cost of living slackened again towards the end of the year. Wage pressure also eased somewhat as unemployment—which had dropped to an October figure that was the lowest since 1956—began to rise again: by February 1961 it was above the corresponding 1960 level. By that stage the wholesale price of domestic goods had also receded from its August peak to below the corresponding 1960 figure.

In Indonesia the monetary reform of August 1959 which cut the volume of notes in circulation by about a third proved to have had only a very temporary effect: prices rose steeply in the first half of 1960. A marked slackening in the second half of the year was largely the result of a major increase in imports, though it was facilitated by a notable change in the Government's cash position: this followed a substantial increase in revenue from higher taxes—particularly on petroleum—and from state trading activities. An effort was made to reduce liquidity by raising the reserve requirements of the commercial banks, but lending to the private sector continued to increase, exerting a powerful expansionary impulse on the supply of money.

Changes in the rate of increase in retail prices provide only an inadequate measure of the variation in inflationary pressures. Nevertheless they are related to the state of internal balance, not only to the extent that they may indicate changes in the relationship between consumer demand and the available supply of goods, but also because in many countries they are an important determinant of official economic policy, especially where there is a close link between wage rates and the cost of living and where urban populations are gaining in size and political influence. For this reason some significance attaches to the fact that 1960 saw a diminution in the extent to which the cost of living in the primary exporting countries was protected from adverse developments.

There was, for example, a greater readiness than in previous years to accept the consequences of devaluation as far as internal prices are concerned; thus the local currency cost of imported goods tended, on the whole, to become more realistic even though this entailed a more or less immediate rise in the domestic wholesale, or even retail, price index. Similarly, the tendency to shelter the users of particular products or services—notably those operated by government, such as transport, power and communication—from inflationary forces in the rest of the economy was much less in evidence. The desire to reduce budgetary deficits and bring the liquidity of the economy as a whole under better control tended to prevail more frequently over the fear of the consequences of lowering subsidies and raising prices in key sectors. The pursuit of a better budgetary balance also led to a widening or deepening of the tax structure in a number of instances.

This increase in the willingness of governments to risk actions, the initial effect of which was likely to be a rise in the cost of living, reflects in part the working out of stabilization programmes adopted earlier. In most cases the primary objective of these programmes was the improvement of the external balance and in varying degree this involved some curbing of the demand for imports. A rise in consumer prices would contribute to that end provided it did not adversely affect production. This was not always achieved, for in several countries the rise in prices provoked strikes as workers resisted the implied threat to real wages. However, in many countries the risk seemed somewhat smaller in 1960 than it had in 1959 when reserves were generally low and imports widely restricted. With reserves higher and imports rising, the chances of absorbing part of the impact of such action seemed more favourable, at least in the earlier part of the year. As 1960 advanced, however, the scope for action to improve internal balance was steadily narrowed: increasingly, policies had to concentrate on the deteriorating external situation. By the end of the year the criterion for action was again its potential effect on exchange reserves rather than on domestic production.

Outlook[3]

By the end of 1960 the primary exporting countries as a group were approaching one of the limits to their collective rate of growth, namely, the means of international payment. Reserves had been drawn down; debts —short-term as well as long-term—had been piled up. Continuation into 1961 of the relatively high average rate of growth that characterized 1960 is predicated in the first instance on a concomitant expansion in the means of payment. Economic trends and developments in the early months of 1961 suggest that such an expansion is not impossible: though a rise in the total proceeds likely to be derived from the exports of the primary exporting countries is contingent on a recovery in demand in North America, the volume of capital available to supplement export earnings seems likely to be appreciably greater than in 1960.

The claims likely to be made on the available means of payment will depend on the course of local production, the size and distribution of incomes and the controls—fiscal or quantitative—exercised over the pattern of imports. On all these scores 1961 claims are likely to be more productive of economic growth than those made in 1960. Domestic food crops are reported to be generally better in 1960/61 than they were in 1959/60 and the prospects for a higher output of many industrial goods in 1961 should reflect the higher level of investment of 1960. In many countries the import demand of the export sector is likely to be lower than it was in 1960. And the rationalization of tariffs in a number of countries, along with the reimposition or tightening up of import controls, will probably tend to favour raw materials and capital goods over consumer goods. Moreover, claims on the means of payment arising from capital flight will probably be at a much lower level in 1961 than they were in 1960.

EXPORT PROSPECTS

The foreign exchange earnings of the primary exporting countries depend overwhelmingly on the import demand for primary commodities of the industrial countries. The course of events in the first quarter of 1961 suggests that for the year as a whole this demand is unlikely, in the aggregate, to fall below the 1960 level. One of the reasons for this lies in the fact that 1960 saw North America drop out of phase with western Europe and Japan in terms of business cycle timing. In 1960 the consequence was the petering out of the recovery in commodity prices that had begun in 1959. In 1961 the consequence may well be that the resumed recovery in North American demand will compensate for such slackening in demand in the other industrial countries as may be caused by either the changed inventory position or a slowing down in the high rates of growth that characterized 1960. Thus the over-all stability in primary commodity prices that emerged

[3] This section is based in part on replies received from Governments to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

from the gentle rise in 1959 and the equally gentle decline in 1960 may well continue through 1961.

A consideration of supply conditions and policies leads to a similar conclusion. On the one hand, supplies —in being or potential from existing capacity—are generally appreciably in excess of probable consumption. On the other hand, where the imbalance is greatest, the rate of capacity utilization and the flow of supplies to world markets are generally under the firmest control. Thus while the possibility of a marked rise in average price is reduced by the availability of supplies—from stocks, if not from current production—the possibility of a substantial fall is reduced by marketing policies which in general have been internationally accepted, tacitly if not in terms of a formal agreement.

Over-all stability of price and an average rate of offtake at least up to the 1960 level would serve to set a floor to the total receipts of the primary exporting countries. But this would not ensure stability or expansion in the receipts of individual countries: here, prospects are by no means uniform, differences in market conditions among the various traded commodities being compounded by the usual diversity in production outcome and domestic demand.

By and large, the degree of uniformity is highest among the countries exporting mainly foodstuffs, partly because total demand for food fluctuates less than total demand for industrial materials and partly because it is among the major food items that the largest surpluses have recently been accumulating. But even among the food exporters prospects differ widely.

In the case of *cereals* there are now more net importers than net exporters among the primary exporting countries and crop changes are of more consequence in terms of local food supply than in terms of their repercussions on foreign exchange earnings. Moreover, in view of the large and still increasing stocks—held predominantly in North America—the possibility of a significant rise in price is virtually ruled out. The chief determinants of the course of cereal earnings in 1961 are the size and quality of the wheat and barley crops in western Europe—as the major importing region —and in the principal sources of supply among the primary exporting countries. Subject to a different set of forces, but not wholly unrelated, is the market for rice in Asia.

The European import demand for wheat is likely to be appreciably greater in 1961 than it was in 1960, the 1960/61 crop having been about 3 million tons (7 or 8 per cent) below the 1959/60 level and, because of the wet weather, of a generally poorer quality. This reduction has been accentuated by a relatively poor out-turn of spring crops. It is probable, however, that the shortfall will be made good by North America: among the primary exporting countries the principal exporters of Latin America and North Africa have had poor crops and only Australia and Turkey are likely to increase their wheat earnings to any substantial extent.

A larger European barley crop and the use of a larger proportion of local wheat as feed will tend to reduce import demand for the coarse grains. Both Argentina and the Union of South Africa have more maize to sell but, as production outside the centrally planned countries was up a further 3 per cent in 1960/61, prices are likely to be lower. Australia, Iraq and Turkey may export more barley, but probably also at somewhat lower prices. As in the case of wheat, the market for coarse grains will continue to be affected by the existence of huge stocks, but support policies pursued by major producers are likely to keep prices relatively stable.

The changes in rice production between 1959/60 and 1960/61 are likely to induce a higher rate of consumption but a smaller volume of international trade: the reductions in output are concentrated mainly in the exporting countries, notably Burma, Cambodia, mainland China, the Republic of Korea and the United Arab Republic (Egypt); the importers have all reaped an appreciably larger harvest. The principal exception is Pakistan where the crop is somewhat below the high 1959/60 level; this may tend to raise import requirements since the wheat crop—because of drought in the West—also promises to be smaller than in 1960. The principal unknown in the rice situation is the impact of the crop reductions in mainland China: to meet domestic needs some 2 million tons of wheat and a large quantity of barley were purchased—from Australia and Canada—early in 1961.[6] About 400,000 tons of rice were also ordered from Burma; but this may be used—at least in part—to ship against previous commitments to other countries. Exports from mainland China had dropped back in 1960 from a high level of the previous year, but this did not prevent an appreciable decline in price; in view of the larger crops in most deficit countries, a further reduction in net exports from mainland China may not greatly affect the market. Nevertheless, as in the case of wheat and barley, prices in the first quarter of 1961 were slightly above both the corresponding 1960 level and the average for the preceding quarter.

Sugar exporters face an unusually uncertain situation in 1961. The most definite development is one that is likely to depress the international market: a bumper European crop in 1960/61 will greatly reduce import demand. The impact of this will be softened, however, to the extent that purchases of Cuban sugar by the centrally planned countries represent a net addition to total demand and are not offset by a rise in exports.

[6] In May 1961 Canada agreed to provide mainland China with 6 million tons of wheat and barley over a period of two and one-half years. These purchases, though large, need to be compared with the end-of-season stocks in the hands of major exporters if their impact is to be assessed: in mid-1960 such stocks totalled 66 million tons, with a further large increase in prospect for 1960/61.

Production outside Europe is also well above the 1959/60 level and free market prices in the first quarter of 1961 were below the average for both the preceding quarter and the corresponding quarter of 1960. For Cuba, therefore, unit values in 1961 are likely to be appreciably less than in 1960. By the same token, unit values for the countries that have obtained a larger share of the protected United States market—particularly Peru, Mexico, Brazil, China (Taiwan), the Federation of the West Indies and British Guiana and the Philippines, as well as India and Australia which have been allotted quotas for the first time—will be higher than in 1960. Commonwealth exporters—notably Australia, Fiji, Mauritius and the West Indies—will also earn more from sales to the United Kingdom as the result of a slight increase in the negotiated price, but this may well be offset if the free market price falls lower.

Exporters of *meat* and dairy products are unlikely to earn much more from this trade in 1961 than they did in 1960. The state of herds in Oceania is such that no great increase in the volume of exportable meat is expected; in Latin America an increase in Argentina will probably be offset to a degree by a reduction in Uruguay; and with local supplies still rising in the United States a further increase in beef prices seems unlikely. In the case of *butter*, the market has weakened substantially under the pressure of large stocks and an imbalance between production and domestic consumption in many European countries: in the first quarter of 1961 international prices were about 30 per cent lower than in the first quarter of 1960. In these circumstances the earnings of the primary exporting countries from butter in 1961 are not expected to reach the 1960 level.

The pressure of stocks is also likely to be felt by the beverage crop exporters. In the case of *coffee*, however, these stocks have been successfully isolated by the principal producers, and prices—at least of *arabica* types—are likely to be sustained in 1961 as they were in 1960. The fact that the 1960/61 Brazilian crop was a third smaller than the preceding one should not prevent coffee earnings from being fully maintained: stocks on hand are in excess of a normal year's world trade. North American imports, which receded in 1960 from their high 1959 level, may well rise again, thus increasing Latin American earnings. However, a further increase in African production—of about 8 per cent—may bring *robusta* prices, which weakened considerably in 1960 and early 1961, under added stress, notwithstanding the agreement to limit exports. In expectation of this, some countries reduced the prices paid to growers for the 1960/61 crop.

While *arabica* coffees were yielding much the same price in the first quarter of 1961 as a year earlier, *cocoa* was yielding about a fourth less. In 1960, cocoa exporters were able to maintain their earnings by increasing the amount shipped; but the resultant increase in importers' stocks has made a repetition of this very unlikely. Though an appreciable—7 to 10 per cent—rise in consumption is forecast, a large surplus will remain from the record 1960/61 crop—even though the mid-year crops are reported to be smaller than in 1960—keeping prices and earnings below the 1960 level. As in the case of coffee, growers' prices have been reduced—very sharply in Nigeria.

Compared with coffee and cocoa stocks, stocks of *tea* are at normal levels and, with production and consumption both expected to register a moderate increase in 1961, export proceeds may well exceed the 1960 figure. Prices in the first quarter of 1961 were about 5 per cent above the corresponding 1960 average.

Earnings from *oil-seeds* and vegetable oils are likely to be higher in 1961 than in 1960: this reflects a continuing growth of demand, especially in Europe, a larger output in several of the primary exporting countries—notably ground-nuts in West Africa and copra in the Philippines—smaller stocks of soya beans in the United States and the radically changed position of mainland China. The failure of crops in several areas converted mainland China early in 1961 from an increasing seller on world markets to a large buyer. The immediate impact was on soya beans, the price of which in the first quarter of 1961 averaged a fifth or more above the corresponding 1960 figure. But Chinese purchases also included ground-nuts, rapeseed, sesame seed and linseed oil—prices of which all rose well above the level of the fourth quarter of 1960—and their repercussions are likely to be felt throughout the soft oil market and perhaps to some extent in the market for hard oils, where prices, after declining rapidly in 1960, levelled out at about the low 1957 average in the early months of 1961.

A further small increase is expected in total consumption of *tobacco* and several primary exporting countries should benefit. Production is higher in the Federation of Rhodesia and Nyasaland, Greece and Turkey, for example; the Salisbury auctions have opened with higher prices than they did in 1960, though in Turkey prices have been lower; Greek tobacco earnings should gain from that country's access to the European Common Market when arrangements for association are completed.

Earnings from raw material exports are subject to much more erratic impulses from the demand side than are those derived from food but, as suggested earlier in this section, the differences in cyclical phasing among the industrial countries may provide an unusual degree of stability in 1961.

In the case of the fibres, the rate of growth of the textile industry outside the centrally planned countries slackened measurably in the course of 1960, output in the fourth quarter actually falling below the corresponding 1959 level. Despite this, net *cotton* earnings of in internal demand. Although this generated strong pressures on the external balance and some countries were forced to apply restraints towards the end of the year, it was by no means exhausted; if liquidity difficulties do not supervene, the expansion of domestic expenditure will again be a dominant influence in 1961.

Whatever its magnitude, the structure of domestic expenditure in 1961 may differ somewhat from what it was in 1960, especially in its impact on import demand. The expansion in 1960 followed a lengthy period—up to two years in some countries—of more stringent controls over imports; as a result, part of the demand in 1960 was for replenishment of inventories of most types of imported goods. The expansion also came in the wake of a marked rise in the incomes of several groups of exporters—most notably the producers of rubber and to a smaller extent the producers of long staple cotton, wool, butter and copra—whose expenditure in 1960 helped to shape the pattern of imports. The size and pattern of imports was also influenced by the fact that 1959/60 crops—particularly food crops—were generally very little above those of the previous year.

In all these respects the forces influencing demand are different in 1961. Inventories of imported goods are generally high. Apart from jute growers, few producer groups have enjoyed any substantial rise in income, while several important groups—notably those producing wool, rubber, butter and *robusta* coffee—have experienced a sharp decline. And, by and large, food, fuel and raw material requirements will be met to a greater extent from domestic production. In one respect, however, the trend in 1960 is likely to be reinforced in 1961: in most of the primary exporting countries fixed capital formation—and hence the demand for investment goods from abroad—is being stepped up, especially in Asia and the Middle East.

New development plans go into effect in several countries in southern and south-eastern Asia, including most notably, the Federation of Malaya, India, Indonesia, Pakistan and Thailand. In India, the third five-year plan entails an increase of between 6 and 7 per cent in public investment in 1961 and private investment is also expected to increase. In Indonesia, 1961 is the first year of an eight-year development plan which embodies a wide-spread expansion in investment. A similar sectoral balance—with some emphasis on rural development in public spending—is being aimed at in the new five-year plan in the Federation of Malaya, as well as in the new six-year plan in Thailand which seeks to raise the over-all rate of growth in production from 4 to 5 per cent a year. In Pakistan the second five-year plan involves a greater effort than the first: the increase in fixed capital formation, for example, is to be 50 per cent larger than it was under the original plan and there will be a somewhat greater concentration on agricultural improvement.

Among most of the other countries in the region a further expansion of investment is contemplated. Cambodia is in the second year of its five-year plan of economic diversification, one of the main purposes of which is to reduce the country's dependence on imports. In China (Taiwan) and in the Republic of Korea an 11 per cent increase in gross capital formation is predicted. In the Philippines the relaxation of credit restrictions in 1960 is expected to result in an appreciable rise in private investment in 1961. In the Republic of Viet-Nam, where 1961 marks the end of the first five-year plan, the budget has provided for increased expenditure on public works and communications, while in the private sector investment is expected to continue its expansion, except in the case of rubber where the 1960 price decline has acted as a deterrent. In Burma, where investment had slackened in 1960, some recovery is in sight, arising partly from a strengthening of the Economic Development Fund for agricultural improvement, and partly from new railway expansion, financed largely by an IBRD loan.

A general increase in investment is also foreseen in the Middle East and the Mediterranean region. A wide-spread expansion is scheduled in the United Arab Republic (Egypt) where a new five-year plan—aiming at a 40 per cent increase in national income—came into operation in the second half of 1960. In Greece, the state investment programme involves an increase in public expenditures of about a fourth between 1960 and 1961, with a somewhat greater emphasis on secondary industry. In Iraq increases in investment in housing and transport scheduled under the 1959-1963 Interim Economic Plan may be exceeded as a new development programme gets under way in the course of 1961. In Israel a further 10 per cent rise in fixed capital formation is predicted: the development budget provides for increased expenditure in several fields, notably irrigation and transport. Morocco plans an appreciable rise in public investment, chiefly in low-cost housing and other construction. In the Sudan, where the development budget doubled between 1960 and 1961, rural investment continues to predominate. Public investment is also being increased substantially in the United Arab Republic (Syria) where a new five-year development programme —with emphasis on transport and communications and irrigation—has been inaugurated. In Turkey a rise of more than a fifth is predicted for total capital formation: it is expected that a large increase in public investment will be accompanied by a smaller increase in the private sector.

In this region the only country likely to register a reduction in capital formation in 1961 is Iran: here a deflationary policy was adopted in the second half of 1960 and, in an effort to stabilize both the internal and the external balance, public investment was cut back. In Tunisia it is probable that new fixed capital formation will remain more or less at the 1960 level: public capital expenditure is due to rise, but most of the increase is to be devoted to the acquisition of French-owned farmland and shares in private phosphate concerns.

In the other regions expansion is less likely to be as nearly universal as plans indicate it will be in the Middle East and southern and south-eastern Asia. In Oceania, for example, the deterioration of the external balance seems likely to have a restrictive effect on the course of domestic capital formation. In Australia, credit restraints are aimed at reducing total demand, and government capital expenditure in the year ending in mid-1961 has been budgeted at a lower figure than in the previous year. In New Zealand, the budget for the year ending in March 1961 provided for a sizable increase in capital expenditure, but here again, disinflationary measures began to dominate towards the end of the period.

In Latin America efforts to restore external equilibrium also exercised a strong influence over policies at the beginning of 1961. In Ecuador planned government capital expenditure was cut back; in Guatemala the rate of public investment under the 1960-1964 development plan was reduced below the level of the previous plan, while in Brazil it is reported that "some decline in the rate of growth is probable" at least until the purchasing power of the cruzeiro has been stabilized.

Elsewhere in Latin America, however, investment is planned to recover or increase further. In Argentina, road and house-building and private manufacturing are likely to be the leading areas of expansion. In Chile where investment lagged in 1960, a 55 per cent increase in gross fixed capital formation is the target for 1961; this is within the framework of a ten-year development programme, adopted in November 1960, which is designed to raise, permanently, the proportion of resources devoted to investment, with considerable emphasis in the early stages on agriculture. Venezuela also plans to raise investment from the low level of 1960, chiefly by expansion in construction. In Colombia the 1961 capital budget indicates a 16 per cent rise in investment; as in Chile this is part of a longer-term plan to raise the ratio of capital formation to gross product. In Cuba a five-year plan, inaugurated early in 1961, has set targets in a number of sectors; this should raise investment above the 1960 level despite reported shortages of some materials and components occasioned by the disruption of established trade patterns. Mexico intends to maintain the rate of expansion of recent years; the pace is set by public investment plans, but the outcome for the year will also depend on the volume of foreign capital available.

In Africa, prospects are clouded not only by the balance of payments strains generated by high import expenditure and a drastic decline in key export prices—for cocoa, *robusta* coffee and merino wool, in particular—but also by the flight of capital and by other economic repercussions of the profound constitutional and administrative changes that occurred in 1960 or are due in 1961. In East Africa it is probable that more will be invested in 1961 than in 1960: capital budgets for the year ending in mid-1961 were appreciably above the level of the preceding year in Kenya and Uganda and considerably higher in Tanganyika, while for the 1961/62 fiscal year substantial aid has been promised by the United Kingdom. Ethiopia reports that "drawings on foreign credits in 1961 are likely to be much higher" than in 1960; and this presages a higher level of capital formation. In West Africa the immediate trend in investment is more obscure. The fall in cocoa price has severely reduced the flow of development funds in Ghana and Nigeria. In Ghana, where external reserves declined in 1960 to the lowest level since 1952, the Volta power and aluminium project is being integrated into the existing development programme and this may result in some temporary slowing down in 1961. In the former French territories an indication of trend is given by the fact that French aid—which supports the development budgets in these countries—appears in the regular French budget for 1961 at much the same figure—NF 670 million—as in 1960.

In southern Africa the outflow of capital had been brought under control by early in 1961; but an increase in domestic investment seems far from assured. Budgeted figures indicate a lower rate of public capital formation in 1961 both in the Federation of Rhodesia and Nyasaland and in the Union of South Africa. In South Africa railway investment is being reduced, but the impact of this may be offset by an expected rise in the capital expenditure of other publicly-owned corporations, particularly in energy and steel. The budget introduced in March 1961 provided special incentives to private investment, including a reduction in corporation tax rates and provision for accelerated depreciation, but the strain on the external account may prevent this policy from exercising its intended effect: in May interest rates were raised and the liquidity of the commercial banks reduced.

IMPLICATIONS FOR INTERNAL BALANCE

The wide-spread growth in development expenditures planned for 1961 is likely to increase still further the magnitude—both absolute and relative—of imports of capital goods. It will also increase total domestic demand and, hence, in some cases, reinforce the strains on internal equilibrium. As a result of earlier deflationary policies, better food crops and an enlargement of industrial capacity, some primary exporting countries may find it less difficult to contend with such strains in 1961 than in earlier years. The extent to which supplies can be increased, however, remains the critical factor. An adequate increase in domestic output is by no means assured, especially in those countries in which the attempt to curb the growth of excessive monetary demand has tended to inhibit economic activity. Inflationary forces remain powerful in many of these countries and not all of them have had satisfactory harvests.

The scale of any supplementary flow of supplies from abroad depends on the state of external balance and in most primary exporting countries this remains precarious. With the means of payment severely limited and with the highest priority being accorded to imports of materials to keep the economy running and equipment to expand and extend its productive capacity, the scope for increasing the flow of goods to match the rise in money incomes is closely circumscribed. Hence, the state of internal balance is also likely to remain precarious.

Chapter 6

RECENT TRENDS IN CENTRALLY PLANNED ECONOMIES

The average pace of economic expansion in the centrally planned economies slackened somewhat in 1960 as compared with 1959, but it remained at approximately the level of the latter part of the nineteen fifties. The slackening was due largely to a decline in the rate of growth of national income in mainland China, Bulgaria, Hungary and Romania. In Poland and the Union of Soviet Socialist Republics, national income increased at virtually the same rate as in 1959 and in Czechoslovakia, at a higher rate.

The rate of growth in industrial production increased in Czechoslovakia, Hungary, Poland and Romania, but it declined slightly in the Soviet Union and to a greater degree in Bulgaria, Eastern Germany and especially mainland China. The latter country, nevertheless, continued to record the highest rates of growth among the centrally planned economies.

Developments in agricultural output were far less favourable than those in industrial production. Farm production declined in mainland China and Hungary and the rate of increase in output was considerably reduced in Bulgaria. In the Soviet Union, where output had remained stationary in 1959, and in Poland and Czechoslovakia, where it had fallen somewhat, production increased in 1960.

Investment activity decelerated in most countries; an exception was Romania where it accelerated substantially. In the Soviet Union, the rate of increase in fixed investment remained almost unchanged. In some countries the rise in retail sales also slackened very substantially, but in the Soviet Union and Romania, it increased at a higher rate than in 1959.

The over-all balance between supply and demand improved in some countries and prices of consumer goods were consequently reduced; in most of the other countries, the balance was generally maintained, though in some certain pressure continued to be felt, either on total supplies or on supplies of specific goods. At the same time, the supply of some goods exceeded demand and involuntary stock accumulation occurred. In mainland China, the pressure of demand upon supply seems to have increased in 1960, especially with respect to food.

Agricultural production

In spite of bad weather in the early part of the year and heavy rains during the harvest season, gross agricultural output increased in 1960 in Bulgaria, Czechoslovakia, Poland and the Soviet Union. It fell, however, in mainland China, Hungary and apparently also in Eastern Germany. In general, the results attained were much better in crop production than in the production of livestock and animal products (*see* table 6-1).

In the Soviet Union the small increase in agricultural output was due to the recovery of crop production from its 1959 decline. This increase was far below the average annual rate of almost 8 per cent foreseen by the seven-year plan. Since the annual rate during the first two years amounted to about one per cent, the fulfilment of the seven-year plan for agriculture would require an average annual rate of increase in output of more than 10 per cent during the remaining five years of the plan.

In mainland China, where output had increased in 1958 and 1959, the fall in 1960 was attributed largely to natural calamities. Crops on over half of the area under cultivation were reported partly or wholly destroyed by unprecedented drought, typhoons and floods.

A common feature in 1960 was the generally better performance in production of crops than of livestock and animal products. In Czechoslovakia and Poland, crop production increased by 12 per cent and 9 per cent, respectively, whereas the output of livestock and animal products expanded by only about one per cent in both countries. Similarly, in Eastern Germany the performance of crop production seems to have been better than that of animal husbandry. In the Soviet Union the rise in crop production appears to have been accompanied by a slight fall in the output of livestock and animal products, while in Hungary the former apparently declined less than the latter.

Data relating to the production of major crops are presented in table 6-2. In three countries, Bulgaria, Hungary and Romania, grain output fell. In Poland it remained at about the peak level attained in 1959, and in Czechoslovakia and the Soviet Union it increased by about 4 and 5 per cent, respectively. In the latter country, grain output nevertheless remained more than 10 per cent below the peak level reached in 1958. The output of sugar-beets generally rose steeply in 1960, exceeding

Table 6-1. Indices of Agricultural Production
(Preceding year = 100)

Country and item	*1956*	*1957*	*1958*	*1959*	*1960*
Bulgaria					
Gross agricultural output	93.6	116.5	99.3	118.0	102.0
Crops	91.4	122.5	93.6	125.8	...
Livestock and animal products	98.0	105.3	111.4	104.4	...
Czechoslovakia					
Gross agricultural output	102.4	99.4	102.6	98.9	107.0[a]
Crops	99.2	96.1	104.6	95.2	112.0[a]
Livestock and animal products	106.6	103.5	100.3	103.4	101.2[a]
Eastern Germany					
Gross agricultural output	96.6	117.1	109.2	103.7	...
Hungary					
Gross agricultural output	87.5	113.4	105.5	106.0	95.0
Poland					
Gross agricultural output	107.4	104.1	103.0	99.0	105.4
Crops	108.1	101.9	102.0	98.6	108.8
Livestock and animal products	106.4	107.6	104.3	99.7	100.7
Romania					
Gross agricultural output	80.3	124.4	85.2	121.1	...
Crops	74.7	134.8	78.4	128.8	...
Livestock and animal products	93.5	104.9	101.7	106.8	...
China (mainland)					
Gross agricultural output	105.0	103.5	125.0	117.0	...
USSR					
Gross agricultural output	113.5	102.1	110.7	100.0	102.0[b]
Crops	114.8	98.5	114.6	95.6	104.0[b]
Livestock and animal products	110.6	110.7	104.6	106.3	99.0[b]

Source: Reports on fulfilment of plans; national statistical yearbooks and statistical bulletins.

[a] Data announced in the report on the fulfilment of the plan for 1960. However, according to the reply of the Government of Czechoslovakia to the United Nations questionnaire of November 1960 on economic trends, problems and policies, agricultural output rose by 6.5 per cent, crops by 6.8 per cent and livestock and animal products by 2.3 per cent.

[b] Estimated on the basis of incomplete data.

the previous year's production by as much as 40 per cent in some countries. The potato harvest in Czechoslovakia and the Soviet Union was poorer than in 1959, but in Poland it was higher. Data on output of crops are not available for Eastern Germany but average yields of most crops increased substantially.

Statistics concerning crops yields are presented in table 6-3. In Hungary and Poland, in contrast to Eastern Germany, Czechoslovakia and Bulgaria, the yields of wheat per hectare declined in 1960, although they remained far above the average for the period 1954-1959. Sugar-beet yields increased markedly as compared with

Table 6-2. Output of Major Crops
(Thousands of tons)

Country	*Grains*[a]			*Sugar-beets*			*Potatoes*		
	Average 1954-1958	*1959*	*1960*	*Average 1954-1958*	*1959*	*1960*	*Average 1954-1958*	*1959*	*1960*
Bulgaria	3,700	5,000	4,800	900	1,400	1,600	250	400	...
Czechoslovakia	4,962	5,515	5,760	6,012	4,946	8,404	8,240	6,334	5,254
Eastern Germany	5,944	5,948	...	6,086	4,659	...	13,261	12,436	...
Hungary	3,228	3,702[a]	3,311[b]	2,012	2,680	...	2,364	2,366	...
Poland	12,558	14,123	14,242	7,342	5,975	10,220	34,128	35,698	37,766
Romania	8,699	10,632	9,800	1,740	3,440	3,400	2,703	2,896	...
USSR	113,200	125,900	133,200	35,489	43,942	56,900	83,425	86,561	84,000

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins; *Pravda* (Moscow), 21 January 1961.

[a] Wheat, rye, barley, oats and corn.

[b] Excluding corn.

Table 6-3. Yield of Major Crops

(Quintals per hectare)

Country	Wheat			Sugar-beets			Potatoes		
	Average 1954-1958	1959	1960	Average 1954-1958	1959	1960	Average 1954-1958	1959	1960
Bulgaria	14.2	17.3[a]	19.0[a]	166.0	216.7	238.5	80.6	102.7	...
Czechoslovakia	19.3	22.9	23.1	270.4	205.6	347.0	132.3	108.7	92.3
Eastern Germany	29.7	32.5[a]	35.6[a]	282.3	198.9	298.4	164.2	161.3	192.4
Hungary	13.8	17.1	16.9	191.3	219.5	...	101.3	102.8	...
Poland	14.8	17.3	16.9	201.0	159.0	285.0	125.6	128.0	131.0
Romania	9.9	13.4	...	131.3	171.1	...	103.3	103.6	...
USSR	13.1[a]	15.2[a]	...	174.0	159.0	...	90.0	91.0	...

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.
[a] Winter wheat only.

both 1959 and the 1954-1958 average. Potato yields fell in Czechoslovakia but rose in Eastern Germany and Poland.

The rise in livestock production in 1960 was restrained in most countries by a shortage of fodder. This shortage resulted from the drought that had affected the area for two consecutive years, particularly in Hungary and Eastern Germany. In addition, in the countries accelerating the collectivization drive, especially the two countries just mentioned, output may also have been affected by initial difficulties in organizing animal husbandry on the collective farms. In the past, the initial phase of collectivization was commonly accompanied by a temporary fall or deceleration in the rate of growth of livestock production owing to increased rates of slaughtering of privately owned stock and to the reduced care given to the collectively owned stock by the peasants joining the collective farms.[1]

In Hungary the number of cattle fell by about 2 per cent, the number of pigs by 14 per cent and the number of horses by more than 12 per cent, but that of sheep rose by 16 per cent (*see* table 6-4). In Czechoslovakia the number of cows and sheep fell, but the number of all cattle rose by about 2 per cent and that of pigs by 5 per cent. In Eastern Germany the increase in the number of cattle was greater than that in Czechoslovakia and that of pigs smaller, while the number of sheep fell. In Bulgaria, Poland and the Soviet Union, the number of cattle rose by 5, 4 and 2 per cent, respectively, and the number of pigs increased by 8, 13 and 10 per cent.

The output of livestock products increased substantially only in Romania, where the production of meat rose by 7 per cent and that of milk by 14 per cent. Meat output rose by 2 per cent in Poland and 3 per cent in Czechoslovakia, but fell by 8 per cent in Bulgaria and 2 per cent in the Soviet Union. Milk output remained almost stationary in all countries except Romania.

The changes in the volume of agricultural produce procured by the government agencies were, in most countries, not directly influenced by changes in output. As shown in table 6-5, the procurement of grain in Czechoslovakia rose by 5 per cent in 1960—that is, by somewhat more than the 4 per cent rise in output—but in Hungary it increased by 6 per cent, although output

[1] The timing of slaughtering may be an important factor. If the dates of slaughtering are advanced, the live weight of the slaughtered livestock will fall.

Table 6-4. Indices of Livestock Numbers and Production of Animal Husbandry, 1960

(Preceding year = 100)

Country	Number of				Production of		
	Cattle[a]		Pigs[a]	Sheep[a]	Meat	Milk	Eggs
	Total	Cows					
Bulgaria	105.4	104.1	108.0	101.6	91.7	100.0	127.7
Czechoslovakia	102.0	98.8	104.8	88.9	103.0	101.6	104.4
Eastern Germany	104.8	100.8	103.5	93.0	...	...	...
Hungary	98.3	98.6	86.0	116.1	...	...	...
Poland	104.1	97.7	112.5	96.9	101.7	100.0	107.8
Romania	...	...	...	...	106.6	113.6	...
USSR	102.1	103.0	109.7	97.6	97.7	99.5	103.1

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.
[a] Livestock data based on livestock counts during the following months: Eastern Germany, September; Hungary, March; Poland, June; USSR, Czechoslovakia and Bulgaria, January.

Table 6-5. Indices of Procurement of Major Agricultural Products

(Preceding year = 100)

Country	Grain		Meat		Milk		Eggs	
	1959	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*
Bulgaria	...	...	104	82	142	116	97	164
Czechoslovakia	...	105	103	107	...	103	106	103
Eastern Germany	...	...	...	110	...	105	105	123
Hungary	107	106	114	103	106	103	112	86
Poland	116	85	94	100	107	100	120	115
USSR	82	98	132	105	113	105	127	114

Source: See table 6-1.

declined. In the Soviet Union, where output increased by about 5 per cent, procurement was 2 per cent lower than in 1959, while in Poland it fell by 15 per cent, despite the fact that there was no change in the level of output. The reduction in procurement relative to the output of grain in the Soviet Union and Poland was partly determined by a wish to increase the proportion of grain left on the farms, in order to increase the supply of fodder and thus raise the output of livestock and animal products. In the Soviet Union, for example, certain regions were temporarily exempted from the obligation to deliver grain to the state agencies.

Bulgaria was the only country in which meat procurement was lower in 1960 than in 1959, the decline amounting to 18 per cent as compared with a fall of only 8 per cent in the volume of output. This was due largely to a government decision to reduce delivery quotas in order to avoid a fall in livestock numbers and to lay the ground for acceleration in the growth of meat output in the future. In Poland the procurement of meat remained at the same level as in 1959, while output rose. In the other countries, where meat procurement increased, the output of meat either fell, or increased by a smaller percentage than procurement. In most countries the procurement of milk and eggs increased in relation to output, the rise being considerable in the case of eggs. Czechoslovakia and Hungary were exceptions, procurement of eggs rising by less than output in the former country and falling by 14 per cent in the latter.

The supply of producer goods to the agricultural sector increased during 1960 in all centrally planned economies. The amount of fertilizer made available rose by 5 per cent in Czechoslovakia and by 15 per cent in Poland. In most countries there were also significant increases in the quantity of machinery and equipment delivered to agriculture. In Romania, for example, the number of tractors supplied to agriculture increased by some 53 per cent, from 7,250 in 1959 to 11,500 in 1960. Czechoslovakia reported a 20 per cent increase in the quantity of farm machinery delivered to agriculture. In Poland the stock of tractors rose by more than 8 per cent. Similarly, the supply of agricultural machinery and equipment increased substantially in Eastern Germany, where the tractor stock of the state and collective farms increased by 50 per cent over 1960. Although a large part of this increase may reflect only the transfer of tractors from private to collective ownership, there is little doubt that the total stock rose, even if to a considerably smaller degree. In the Soviet Union the number of tractors delivered to agriculture rose by 13 per cent, from 234,000 in 1959 to 266,000 in 1960, while deliveries of tractor-drawn seeders more than doubled. On the other hand, deliveries of trucks, harvesters and tractor-drawn ploughs and cultivators fell.[2]

The difficulties encountered in raising agricultural production in accordance with government plans were reflected in policy measures designed to accelerate the expansion of agriculture or to reduce the effect of natural calamities. In mainland China the efforts intended to overcome the effect of the fall in the harvest included an enlargement of the acreage under late autumn crops, transfer of manpower from the cities to the countryside and bringing new land under the plough. During the first half of 1960 the cultivated land was increased by at least 3.3 million hectares or about 3 per cent. There was also a further reappraisal of the policy of collectivization, continuing a trend which began in 1959. The role played by the "communes" was further restricted in favour of "productive agricultural brigades", essentially similar to the collective farms existing in other countries. Brigades which formerly were to be closely integrated into the "communes" became independent economic and financial units. The manpower employed by the communal enterprises was considerably reduced and the released workers were transferred back to the brigades. In order to stimulate incentives to work, the members of the brigades were to receive about 70 per cent of their pay in money and were to be permitted to retain small plots of land for raising food for their own consumption.

In the Soviet Union the efforts to accelerate agricultural production were directed towards increasing agri-

[2] The number of trucks delivered fell from 77,000 in 1959 to 66,000 in 1960; that of harvesters from 57,000 to 54,000; ploughs from 144,000 to 141,000 and cultivators from 122,000 to 80,000. Deliveries of seeders rose from 52,000 to 107,000; of grain combines from 52,000 to 55,000 and of tractor-drawn rakes from 15,000 to 24,000.

cultural investment and creating additional incentives for agricultural producers. According to official opinions expressed during recent meetings of the Central Committee of the Communist Party, the slow rate of increase in agricultural production cannot be attributed exclusively to adverse weather conditions in 1959 and 1960. Other reasons were the short supply of machinery, building materials and fertilizer, as well as inadequate incentives for agricultural producers. In order to stimulate agricultural investment and output, several measures tending to raise the profitability of collective farms were prepared. Prices charged on sales to collective farms of agricultural machinery, equipment and fertilizer were lowered in degrees ranging from 9 per cent for tractors to 40 per cent for spare parts and gasoline. It was decided to increase the supply of agricultural machinery and fertilizer substantially beyond the amounts foreseen in the seven-year plan. At the same time it was decided to grant substantial tax reductions to agricultural producers, to lower interest rates on long-term and short-term loans, and to defer for five years the repayment of loans previously granted to collective farms. The anticipated cumulative effect of these measures has been estimated at about 9 billion roubles per year, or some 7 per cent of the gross money income of collective farms in 1959. In addition, a far-reaching reorganization of supply agencies is to improve the delivery of machinery, repair parts, fertilizers and other goods to collective farms. In order to eliminate those elements of instability in the work of collective farms that are caused by the annual changes in their delivery quotas, and to enable them to plan their output for longer periods, it was decided that the contracts for delivery of agricultural produce should encompass a period of up to five years. It should also specify the volume of deliveries and their timing, the officially fixed prices, and the advances to be extended to the collective farms during the period of the contract.

The collectivization drive, which in several countries was intensified in 1959, continued in 1960. In Eastern Germany the share of state and co-operative farming rose from about 36 per cent of the total area in 1958 to 46 per cent in 1959 and about 90 per cent in 1960. In Hungary the share of the state and co-operative sectors, which declined in 1957, rose from 29 per cent in 1958 to 53 per cent in 1959 and reached about 80 per cent in 1960. Similarly, in Romania the proportion of land cultivated by the state and collective farms rose from 55 per cent in 1958 to 74 per cent in 1959 and 84 per cent in 1960. In Bulgaria and Czechoslovakia, where these two sectors had already accounted for more than 85 per cent of the cultivated area, further increases in their share in 1960 were relatively small. In Czechoslovakia, the structural changes consisted mostly of further agglomeration of the collective farms into larger units.

Industrial production

Unlike agricultural output, industrial production continued to increase rapidly in all centrally planned economies in 1960. The rates of growth, as indicated in table 6-6, ranged from 8 per cent in Eastern Germany to 19 per cent in mainland China. The average rate of increase in the European centrally planned economies was only slightly lower than in 1959.

In mainland China, although the rate of increase in

Table 6-6. Indices of Industrial Production[a]
(Preceding year = 100)

Country	*1957*	*1958*	*1959*	*1960*	*1960 (planned)*
Bulgaria[b]	115.9	115.0	120.4	113.4	115.3
Czechoslovakia	110.2	111.3	110.9	111.7	110.2
Eastern Germany	107.7	111.2	112.0	108.3	107.9
Hungary	111.8	112.9	110.8	112.5	108.0
Poland	109.5	109.8	109.0	110.9	107.6
Romania	108.5	109.5	110.2	116.9	114.0
USSR	110.0	110.0	111.0	110.0	108.1
Total, above countries	109.8	110.3	111.1	110.3	...
China (mainland)	107.1	166.2	139.3	119.0[c]	129.0

Source: Reports on the fulfilment of plans; national statistical yearbooks and bulletins.

[a] For the Soviet Union, China (mainland), Eastern Germany and Czechoslovakia, total industry; for Bulgaria, Poland and Romania, state and co-operative industry; for Hungary, state industry only. Group indices are weighted averages of country indices. The weights used were the averages of the ratios of output of electric energy and industrial employment in each country in 1956 to the totals of the group. These indices should be considered only as broad approximations of the changes in aggregate output.

[b] The indices for the years 1957 to 1959 refer to total industry and are not comparable with the indices for 1960, which refer only to "planned industry" since 1960 data for total industry are not available. The announced percentage increases for industrial production in "planned industry" in 1959 was 24.9 per cent.

[c] According to *People's Daily* (Peking), the average rate of increase of industrial output in the period 1958-1960 amounted to 40 per cent annually. Since the ratios in 1958 and 1959 were known to be 66.2 and 39.3 respectively, it follows that the rate of increase was in 1960 approximately 19 per cent.

industrial production declined by as much as 20 percentage points in 1960, it nevertheless remained the highest of the group. In most countries industrial production exceeded the planned quotas; but in Bulgaria and, even more so, in mainland China, it failed to achieve the targets set for 1960—in the latter country by 10 percentage points. This discrepancy between plans and achievements in mainland China resulted in part from exceptionally poor weather, which impeded the growth of all sectors of the economy but was especially important in industries depending on agricultural raw materials. The output of consumer goods, as shown in table 6-7, rose by only 8 per cent as compared to the 24 per cent increase set by the plan.

As in the preceding years the output of producer goods increased everywhere at a higher rate than that of consumer goods, although the difference between the relative rates of increase in these two sectors was in most countries smaller than a year earlier. Among countries for which complete data are available, the only exceptions were mainland China and the Soviet Union, where the reverse was true. In the latter country, however, it was decided towards the end of 1960 to accelerate the rate of expansion of consumer goods output relatively to that of producer goods.

A common characteristic of industrial growth in the centrally planned economies was the tendency for the output of engineering, chemicals and, in most countries, construction materials to expand at a substantially higher rate than producer goods as a whole (compare table 6-8 with table 6-7). As compared with the preceding year, the growth of output in the engineering industries accelerated significantly in Hungary, Poland and Romania but slackened in Bulgaria and Eastern Germany. The output of the chemical industry expanded at a faster rate than in 1959 in the Soviet Union, Hungary and Poland. In all countries, the output of fertilizer increased substantially in 1960.[3] Within the engineering industries, the pattern of change in 1960 varied considerably from country to country. In Eastern Germany the highest rates of increase were achieved in the

[3] In Bulgaria by 34 per cent, in Eastern Germany (phosphate fertilizer) by 19 per cent and in Poland by 11 per cent.

Table 6-7. Indices of Output of Producer and Consumer Goods

(Preceding year = 100)

Country and item	*1956*	*1957*	*1958*	*1959*	*1960*	*1960 (planned)*
Bulgaria						
Producer goods	116.7	112.3	117.0	126.0	...	118.0
Consumer goods	113.3	119.0	113.5	116.0	...	113.0
China (mainland)						
Producer goods	142.0	112.0	203.0	143.3	126.0[a]	132.0
Consumer goods	122.0	102.0	134.0	134.0	108.0[a]	124.0
Czechoslovakia						
Producer goods	110.8	110.1	111.8	112.9	113.1	112.0
Consumer goods	108.1	110.3	110.6	107.7	109.6	107.1
Eastern Germany						
Producer goods[b]	108.5	107.5	112.3	114.2	108.7	...
Consumer goods[c]	103.2	107.8	109.6	109.4	...	103.4
Hungary						
Producer goods[b]	93.1	109.0	118.4	112.7	114.3	110.0
Consumer goods[c]	89.0	115.0	106.8	107.8	109.5	106.0
Poland						
Producer goods	110.6	107.8	109.1	113.2	111.5	107.9
Consumer goods	107.2	112.2	110.8	104.9	110.3	107.2
Romania						
Producer goods	114.3	109.4	110.1	114.4	...	114.6
Consumer goods	106.2	106.7	108.8	104.4	...	113.0
USSR						
Producer goods	111.9	111.0	111.0	112.0	111.0	108.8
Consumer goods	109.4	108.0	107.0	110.3	107.0	106.4

Source: See table 6-1.
[a] Estimated.
[b] Heavy industry.
[c] Light industry.

Table 6-8. Indices of Output of Some Major Branches of Producer Goods

(Preceding year = 100)

Country	Industry: Engineering[a] 1959	Engineering[a] 1960	Chemical 1959	Chemical 1960	Construction materials 1959	Construction materials 1960
Bulgaria	143.2	124.0	126.0	118.0	144.4	115.6
Czechoslovakia	116.0	116.0	116.0	114.2	116.5	116.5
Eastern Germany	118.5	110.4	110.0	...	...	...
Hungary	114.7	119.2	113.0	118.4	118.3	110.6
Poland	113.3	116.0	118.5	120.0	113.5	109.0
Romania	115.6	122.0	120.4[b]	116.0[b]	104.0	...
USSR	115.0	116.0	109.0[b]	112.0[b]	123.0	118.0

Source: See table 6-1.

[a] For Bulgaria, Eastern Germany, Romania and the Soviet Union, engineering and metal-working industries.

[b] Chemical and rubber industries.

production of consumer durables.[4] In Czechoslovakia, Hungary and Poland the greatest expansion occurred in the output of industrial and electrical machinery.[5] In the last two countries particular attention was devoted to the production of machinery and equipment for export. In Hungary these exports increased by 24 per cent in 1960 and accounted for about half of the increment in export receipts during that year, while in Poland they accounted for 22 per cent of the increment. In the Soviet Union, in accordance with the priorities assigned by the five-year plan, the highest rates of increase were attained in the output of chemical equipment, in equipment for oil extraction and in consumer durables. The output of several kinds of agricultural equipment declined for a third consecutive year, but that of tractors, self-propelled grain combines, winnowers and tractor-drawn mowing machines increased by from 5 to 12 per cent. In Bulgaria, the high rates of growth in output of agricultural machinery were largely influenced by the further mechanization of agriculture and the desire to reduce the country's dependence on imports of agricultural equipment.

In most cases the expansion of output of fuels, power and basic materials, indicated in table 6-9, proceeded at a smaller rate than that of engineering and chemicals. In the eastern European countries the rate of expansion of coal and crude oil remained practically unchanged in 1960, the rate for coal amounting to about 1 to 2 per cent. The output of natural gas expanded in both 1959 and 1960 at a much higher rate than the total output of fuel and power, and its rate of increase accelerated during the last year both in the Soviet Union and in the other countries taken as a whole. In the Soviet Union the rate of expansion of the coal industry has declined during the last three years, reflecting a shift in priority towards oil and natural gas. The share of these latter two fuels in the total fuel supply of the Soviet Union rose from 34.5 per cent in 1959 to 38.2 per cent in 1960.[6] In mainland China the output of coal increased by about 20 per cent in 1960, reaching a total of 420 million tons. Although this rate of increase approximately equalled that of total industrial production, it remained substantially below the rising fuel requirements of the producer goods industries and of other sectors of the economy. Pig-iron production increased in the Soviet Union by 9 per cent in 1959 and again in 1960, while in the remaining countries the rate of increase fell from about 12 per cent in 1959 to 10 per cent in 1960. In contrast, the rate of growth in the output of rolled steel accelerated in these countries in 1960, whereas in the Soviet Union it decelerated slightly.

Table 6-9. Indices of Output of Fuel, Power and Selected Basic Materials

(Preceding year = 100)

Item	USSR 1959	USSR 1960	Other eastern European countries 1959	Other eastern European countries 1960
Coal	102	101	101.8[a]	102.2[a]
Crude oil	114	114	102.4	102.3
Natural gas	125	127	111.8	113.6
Electric power	112	110	109.8	110.3
Pig-iron	109	109	111.5	109.6
Rolled steel	109	108	108.5	112.0
Cement	116	117	114.0	114.8
Mineral fertilizer	104	107	116.0	...

Source: See table 6-1.

[a] Hard coal, brown coal and lignite on a ton-to-ton basis.

The changes in the output of selected consumer goods shown in table 6-10 indicate that both in 1959 and in 1960 the highest rates of increase were achieved in the production of durables. The decline in the output of

[4] The output of television sets, refrigerators and washing machines in Eastern Germany was higher in 1960 than the combined output in 1955-1958.

[5] In Poland the highest rates of increase were achieved in the production of the following items: shipbuilding, 36 per cent; agricultural machinery, 39 per cent; electro-technical equipment, 23 per cent; transport equipment, 20 per cent.

[6] The seven-year plan foresees that the share of crude oil and gas in the fuel balance should increase to 51.3 per cent by 1965. The output of oil and gas in the first two years of the plan increased in accordance with the planned schedule.

Table 6-10. Indices of Output of Selected Consumer Goods, 1959 and 1960

(Preceding year = 100)

Item	*USSR*		*Other eastern European countries*	
	1959	*1960*	*1959*	*1960*
Passenger cars	102	111	126	123
Motor cycles	125[a]	. . .	115	113[b]
Bicycles	90	. . .	109	. . .
Washing machines	134	132	128	124
Radios	103	103	96	89
Television sets	131	135	169	143
Refrigerators	118	124	142	141
Sugar	111	106	91	105[b]
Meat	112[c]	105[c]	99	102
Butter	110[c]	102[c]	102	108[b]
Shoes	109	107	129	109[d]
Cotton fabrics	107	105	108	104
Woollen fabrics	108	106	107	103
Silk fabrics	96	102	108	105

Source: Reports on fulfilment of plans; national statistical bulletins.

[a] Including motor scooters.

[b] Excluding Eastern Germany, for which data for 1960 are not available.

[c] Industrial output only.

[d] Excluding Romania, for which data for 1960 are not available.

radios as well as the reduction in the rate of increase in the production of textiles and shoes seems to have resulted from government decisions taken in anticipation of changes in demand for these goods.[7]

In most countries the rise in industrial production was achieved mainly or entirely through substantial increases in output per man (*see* table 6-11). In Eastern Germany and Poland industrial employment remained stationary and the rise in production was achieved almost entirely through increases in output per man. Only in Bulgaria did employment increase at a much higher rate than output per man. In the Soviet Union, these two factors contributed about equally to the increase in production; both increased by about 5 per cent. However, output per man-hour increased by 10 per cent, the difference being due to a 5 per cent reduction in average working hours. In Poland and Romania the rate of increase in output per man rose from about 7 per cent in 1959 to 11 per cent in 1960. In the remaining eastern European countries the growth of output per man either slowed down or exceeded only slightly the rate achieved in 1959.

In mainland China, judging from the transfer of manpower from industry to agriculture, there was apparently an increase in the output per man of industrial workers. In 1958 and 1959 the rapid increase in industrial employment seems to have been associated with a

[7] By and large, the production targets for these goods were achieved in most countries.

Table 6-11. Indices of Industrial Employment and Output per Man

(Preceding year = 100)

Country and item	*1956*	*1957*	*1958*	*1959*	*1960*	*1960 (planned)*
Bulgaria						
Industrial employment	105.2	115.1	107.0	116.9	110.7	109.0
Output per man	107.2	99.3	107.1	103.0	102.7[a]	105.7
Czechoslovakia						
Industrial employment	102.4	103.7	103.6	103.5	104.4	102.7
Output per man	106.8	106.3	107.4	107.1	106.9	107.3
Eastern Germany						
Industrial employment	96.7	103.6	102.6	102.1	100.1	. . .
Output per man	109.9	103.9	108.7	110.0	108.2	. . .
Hungary[b]						
Industrial employment	102.1	100.9	104.0	106.1	106.5	104.0
Output per man	89.0	111.3	108.0	104.7	105.6	104.0
Poland						
Industrial employment	104.2	103.5	101.0	101.4	100.1	100.1
Output per man	104.7	105.8	108.4	107.6	110.8	107.0
Romania						
Industrial employment	101.6	100.2	103.6	103.8	105.3	103.0
Output per man	108.7	108.2	105.8	107.0	111.0	111.0
USSR						
Industrial employment	104.0	103.0	102.6	103.4	104.8	. . .
Output per man	107.0	106.5	106.0	107.4	105.0	105.0

Source: See table 6-1.

[a] Output per production worker.

[b] State industry.

fall in average output per man resulting from lack of skill on the part of newly employed labour; in many instances the new workers served as trainees rather than as production workers. But even apart from this, the number of workers hired during that period considerably exceeded requirements. The reduction of this redundant labour force seems to have been a factor raising the average output per man in industry in 1960.

National income, investment and retail trade

The rate of increase in national income in 1960 was the same as in 1959 in the Soviet Union but it was higher in Czechoslovakia and lower in all other countries. The decline in growth rate was very small in Poland but more significant in Hungary and Romania, and especially marked in Bulgaria. In mainland China, for which comprehensive data are not available, the slackening in the expansion of industry and the fall in agricultural production probably reduced the rate of increase in national product very sharply. In all countries, except in Czechoslovakia, the actual rates of increase achieved in 1960 were lower than the rates planned for that year. These differences were significant in Hungary and Romania, and especially great in Bulgaria and mainland China (*see* table 6-12).

In most countries, fixed investment increased at a considerably slower rate than in 1959, the greatest deceleration occurring in Bulgaria and in Hungary—by 27 and 31 percentage points, respectively. In the Soviet Union, the rate of increase in investment remained practically unchanged. The only country where investment accelerated in 1960 was Romania, where the rate of increase rose from about 17 per cent in 1959 to 26 per cent in 1960. A slackening in the rate of growth in investment was provided for in the plans of most countries, but, in fact, the rates actually achieved were in most cases lower than anticipated. In the Soviet Union and in Romania, the plan for 1960 provided for an acceleration of investment; in the former country the difference between planned and actual increase in investment was slight, but in the latter, it was significant. In the Soviet Union, the slight under-fulfilment of the investment plan was largely due to the fact that deliveries of machinery and equipment were 5 per cent lower than planned; the construction targets came close to being fulfilled.

The allocation of investment by industrial branch underwent significant changes in most countries in 1960. In the Soviet Union the changes in the rates of increase in investment in 1959 and 1960 are shown by the following indices (preceding year = 100):

	1959	*1960*
Chemical industry	159.0	133.0
Metallurgical industry	122.0	112.0
Oil and gas industry	114.0	110.0
Electric power stations	104.0	104.0
Machine building industry	139.0	123.0
Building materials	...	116.0
Timber, paper and wood-working industries	117.0	106.0
Light industry and food industry	134.0	115.0
Transport and communications	121.0	112.0
Agriculture[a]	87.0	119.0
Cultural and health services	118.0	120.0

[a] State investment, excluding investment of collective farms.

There was a sharp deceleration in the growth of investment in the chemical and metal industries, as well as in engineering, light industry and food production. State investment in agriculture increased by 19 per cent in 1960, whereas in 1959 it fell by about 13 per cent. It should be noted that, despite the deceleration in investment in almost all industries listed in the table,

Table 6-12. Indices of National Income, Retail Sales and Investment[a]

(Preceding year = 100)

Country	National income				Retail sales				Investment[b]		
	1958	*1959*	*1960*	*1960 (planned)*	*1958*	*1959*	*1960*	*1960 (planned)*	*1958*	*1959*	*1960*
Bulgaria	106.8	121.6	107.0	121.5	110.7	118.9	111.6	114.2	114.5	148.0	121.2
Czechoslovakia	107.9	106.0	108.8	106.0	101.1	107.2	107.4	102.7	113.7	119.6	112.6
Eastern Germany[c]	110.9	108.5	...	...	109.6	110.2	107.0	...	116.9	115.4	109.0
Hungary	106.2	108.0	105.5	109.9	104.6	112.6	110.0	105.2	115.3	140.8	110.0
Poland	105.6	105.3	105.0	105.7	105.4	110.4	102.0	105.0	110.7	117.2	106.5
Romania	103.4	113.1	108.0	112.5	98.3	106.0	115.7	106.0	109.1	116.7	126.4
USSR	111.3	108.0	108.0	109.0	106.2	108.0	111.0	107.0	113.6	112.0	111.5

Source: National statistical yearbooks; reports on fulfilment of plans and replies of Governments to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

[a] In constant prices except where otherwise indicated.

[b] For Bulgaria, centrally planned investment; for Czechoslovakia, Eastern Germany and Poland, total investment; for Hungary, Romania and the Soviet Union, state and co-operative investment. Figures for Czechoslovakia are of a somewhat narrower coverage than those given in United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1).

[c] In current prices.

total state investment increased at approximately the same rate in 1960 as in 1959.[a]

Changes in the rates of increase of investment in various industries in other centrally planned economies are shown in table 6-13. It appears from these data that, as in the Soviet Union, the share of agriculture in total investment increased in Bulgaria, Hungary and Poland, but it fell in Romania and Czechoslovakia. In the first two countries and in Romania, there was also an increase in the share of housing. The share of industry increased in Hungary and Romania, but fell in Bulgaria, Czechoslovakia and Poland.

The volume of retail trade increased at a lower rate than in 1959 in Bulgaria, Eastern Germany, Hungary and Poland. In Czechoslovakia, the rate of increase was virtually unchanged, while in the Soviet Union and in Romania it exceeded the rate of 1959. In several countries, the actual increases in sales were greater than planned, but Bulgaria and Poland failed to fulfil their plans for the expansion of retail sales. In most countries the rise in retail sales was associated with continuing shifts in demand from food to non-food consumer goods. This is clearly indicated by the indices of retail sales shown below (preceding year = 100):

	Food		*Non-food*	
	1959	*1960*	*1959*	*1960*
Czechoslovakia	106.4	102.4	109.0	113.9
Eastern Germany	107.8	104.3	114.6	110.3
Hungary	110.7	109.8	114.4	110.2
Poland	105.8	105.3[a, b]	116.4	96.7[a]
Romania	102.0[b]	111.0[b]	108.0	120.0

[a] Computed on the basis of the first nine months of the year.
[b] Excluding public catering.

In most countries for which data are available, the sales of consumer goods other than food increased in both 1959 and 1960 at a considerably higher rate than sales of food. During preceding years, a similar trend was noticeable in the Soviet Union and Bulgaria, for which countries no data are available for 1960.

The indices of national income, retail sales and gross fixed investment assembled in table 6-12 do not provide information sufficient for estimating changes in the allocation of national product in any detail. For Czechoslovakia, apart from the data on gross fixed investment and retail sales, there are also available indices of personal consumption, indicating an increase of 9 per cent in 1960 or about the same rise as in national product.

The only two countries for which more detailed information on the allocation of national income could be derived from available statistics were Bulgaria and Poland. In Bulgaria, as shown in table 6-14, total consumption increased by about 5 per cent, accumulation[9] by about 3 per cent and national income by 7 per cent, the higher increase in national income being accounted for by a decline in net imports. The difference between the 12 per cent increase in retail sales and the 5 per cent increase in consumption may have been due to a shift from on-the-farm consumption to the purchase of food from co-operatives and the state network of trade.[10] The difference between the 21 per cent increase in gross fixed investment, as depicted in table 6-12, and the 3 per cent increase in accumulation in table 6-14 is not easily explainable owing to lack of data.[11]

In Poland, consumption in 1960 increased only slightly less than retail sales; net fixed investment rose

[a] The apparent discrepancy cannot be readily explained owing to lack of adequate data relating to other industries, notably coal, housing and local industries. The rise in investment in agriculture could not compensate for the decline in other sectors because of its relatively low share in the total.

[9] Accumulation is defined as net fixed investment plus capital repairs and changes in inventories.

[10] It should be noted that data on consumption in 1960 relate to total consumption, which includes personal as well as social consumption. Personal consumption might have increased somewhat more than 5 per cent.

[11] Gross fixed investment relates only to outlays of centralized funds, whereas accumulation includes total net fixed investment plus capital repairs and changes in inventories. The difference between the two figures may, therefore, be due to changes in inventory accumulation and to lower rates of growth of outlays from non-centralized funds in the state as well as in other sectors of the economy.

Table 6-13. Indices of Gross Fixed Investment, by Sector

(Preceding year = 100)

Sector	*Bulgaria*		*Czechoslovakia*	*Hungary*		*Poland*		*Romania*	
	1959	*1960*	*1960*	*1959*	*1960*	*1959*	*1960*	*1959*	*1960*
Industry	144	119	112	135	113	117	104	109	129
Agriculture[a]	177	159	112	211	132	107	114	131	110
Trade	...	...	...	140	96	135	103	...	...
Transport and communications	129	112	107	150		126	116	...	...
Housing			...	116	121	110	100	110	150
Public utilities	161	124	...	115	90	137	102	...	...
Social and cultural services			122[b]			128	113	119	111
TOTAL	148	121	113	137	110	117	107	117	126

Source: Reports on fulfilment of plans; *Rocznik Statystyczny*, 1960 (Warsaw); *Statisztikai Havi Közlemenyek*, No. 2, 1961 (Budapest).

[a] Excluding private and collective farms.
[b] Health and social security only. Investment in education, physical culture and the like increased by 18 per cent.

Table 6-14. Bulgaria and Poland: Allocation of National Income

Item	Bulgaria 1958 (billions of leva at 1957 prices)	Bulgaria 1959	Bulgaria 1960[a]	Bulgaria Increase from 1959 to 1960[a] (percentage)	Poland 1958 (billions of zlotys at 1958 prices)	Poland 1959	Poland 1960	Poland Increase from 1959 to 1960 (percentage)
Consumption	27.3	30.5	32.0	5	255.3	271.6	275.7	1.5
Personal consumption	25.2	28.1	...	...	230.6	244.1	...	...
Social consumption	2.1	2.4	...	...	24.7	27.5	...	...
Accumulation	6.5	13.1	13.5	3	77.5	84.1	89.1	6.0
Net investment	...	...	...	...	53.8	62.9	64.8	3.0
Increase in stock	...	...	...	...	23.7	21.2	24.3	14.6
Total, above items	33.8	43.7	45.5	4	332.8	355.7	364.8	2.5
Balance of foreign trade	0.5	−2.0	−0.9		−11.5	−17.4	−9.6	
National income	34.3	41.7	44.6	7	321.3	338.3	355.2	5.0

Source: *Trybuna Ludu* (Warsaw), 9 February 1961; *Rabotnichesko Delo* (Sofia), 17 December 1960, 28 January 1961; *Rocznik Statystyczny*, 1960; *Statisticheski Godishnik na Narodna Respublica Bulgaria*, 1960 (Sofia).

[a] Estimates of components of national income in 1960 were derived from data on national income, accumulation and the balance of trade in foreign trade prices which has been revalued in domestic prices. Consumption was derived as a residual. The estimated figures are to be viewed as approximations showing the direction of changes rather than indicating their exact magnitude.

by about 3 per cent and the change in inventories by 15 per cent, bringing about a 6 per cent increase in accumulation. The sum of investment and consumption increased much less than national income, reflecting a sharp fall in net imports. Accumulation increased in 1960 in relation to both national income and consumption.

The effect of these changes in the allocation of national income on the supply and demand situation cannot be ascertained, owing to lack of data on disposable personal income. It seems, however, that in most countries the increases in income payments and the demand for consumer goods did not exceed the rise in supply. In some countries, restrictions imposed on the growth of income seem to have reduced or even eliminated the pressure that had developed in the preceding year. In other centrally planned economies, however, certain pressure continued to be felt, either on total supplies or on supplies of specific goods. As in the preceding year, the rising demand for meat could not be fully satisfied in several countries, owing to a less than proportionate increase in supply.

In most countries, a factor restraining the rise in demand in relation to supply of consumer goods was the fact that average money wages were not allowed to increase as rapidly as output per man. As shown in table 6-15, Bulgaria was the only country in which money wages rose more than output per man. The rise in output per man relative to wages was most significant in Hungary and Poland. In the latter country, output per man rose in 1960 by almost 11 per cent, while average money wages increased by only about 2 per cent. The total wage bill, which in 1959 increased by about 11 per cent, rose in 1960 by about 3 per cent. But since the total of pensions, subsidies and social security benefits declined slightly in 1960, total non-farm income increased less than the wage bill. Money income of the agricultural population derived from sales to the state purchasing agencies does not seem to have increased more than non-farm income, since deliveries of grain declined and those of meat and milk remained at their 1959 level. It appears, therefore, that total money incomes rose only slightly more than supplies of consumer goods. Prices in state and co-opera-

Table 6-15. Indices of Output per Man and of Money and Real Wages in Industry[a]

(Preceding year = 100)

Country	1958 Output per man	1958 Money wages	1958 Real wages	1959 Output per man	1959 Money wages	1959 Real wages	1960 Output per man	1960 Money wages
Bulgaria	107.1	102.2	102.4	106.2	103.5	104.5	102.7	106.9
Czechoslovakia	107.4	102.1	102.1	107.1	102.2	104.6	106.9	103.0[b]
Eastern Germany	108.7	103.2	104.9	110.0	...	...	108.2	105.0
Hungary	108.3	101.3	101.0	104.7	103.0	104.3	106.2	101.7
Poland	108.4	105.6	103.8	107.6	107.8	103.7	110.8	102.1
Romania	105.8	111.0[b]	...	107.0	105.0[b]	...	111.0	109.0[b]

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.

[a] Wages relate to average earnings per worker.

[b] Average earnings in all sectors of the economy.

tive retail trade, as well as on the free market, increased, on the average, by about one per cent. Demand for certain goods, however, caused substantial pressure on supply; thus food prices in state trade rose by about 5 per cent and prices of meat on the free market increased as much as 12 per cent. The cost of living of a worker's family appears to have increased more than 2 per cent and real wages seem to have been slightly reduced.

In Hungary, as in Poland, the much smaller rise in wages than in output per man was a factor tending to restrain the demand for consumer goods in relation to the supply. Average wages in state industry increased by less than 2 per cent, but real wages may have risen even less because of increases in the cost of living which in the Budapest area amounted to 1.4 per cent. The changes in the money income of the farm population cannot be ascertained owing to lack of adequate data. As in Poland, the pressure of demand for particular foods was reflected in price increases on the free market, as indicated by the 14 per cent rise which occurred in 1960 in Budapest.

In Bulgaria, unlike Poland and Hungary, average money wages in industry increased in 1960 more than output per man, tending to raise demand relatively to supply. Average wages for the economy as a whole seem to have risen about 8 per cent. The rise in the total wage bill was even greater, probably exceeding the 12 per cent advance in retail sales. But money income of agricultural producers seems to have increased less, partly in connexion with population shifts from agriculture to non-agricultural occupations. It seems, nevertheless, that total money income of the population derived from the sale of goods and services to the State rose in 1960 more than retail sales, although the magnitude of this difference cannot be ascertained. The pressure of demand upon supply of consumer goods, or more specifically, on food, was reflected in price increases on collective farm markets which, after falling in 1959, rose in 1960, as shown by the following indices (preceding year = 100):

	1959	*1960*
First quarter	95.0	105.7
Second quarter	98.8	114.5
Third quarter	90.4	113.1

These increases indicate that supplies of particular foods, especially meat, did not increase in line with rising demand. The difficulties encountered in increasing the supply of meat in Bulgaria are best indicated by the fact that, while the 1960 plan provided for a 17 per cent increase in sales of meat, actual sales in state and co-operative trade in the first six months of 1960 increased by only 3.3 per cent as compared with the corresponding period in 1959.

In Czechoslovakia and Romania, the supply and demand situation seems to have improved substantially, bringing about a reduction in the prices of consumer goods. In Czechoslovakia the savings to consumers due to price reduction amounted to 1.8 billion korunas, or some 2 per cent of retail sales. Average real earnings of wage and salary earners increased by more than the 3 per cent rise in money wage rates. Apart from the rise in wages, the real income of the urban population was augmented through increases in pensions and reductions in certain school fees. The personal money income of agricultural producers increased substantially in 1960 as a result of higher output and increased sales. The average remuneration of members of collective farms (in cash and in kind) rose in 1960 by 10 per cent.

In Romania also, the improvement in the supply of consumer goods relative to demand was reflected in a reduction in retail prices in state and co-operative trade. Average money wages increased by 9 per cent and real wages by 11 per cent. In addition, pensions were raised on the average by 26 per cent in 1960.

In the Soviet Union, the real average per capita income of the working population increased by 5 per cent in 1960. This increase included, however, not only the money earnings of urban and rural workers (net of taxes) but also income in kind, pensions and aid, and the computed value of housing subsidies and state-provided services such as education and health. It is probable that the real income of the urban population increased by more, and that of the rural population by less, than the 5 per cent average. This is suggested by the fact that agricultural output increased by less than 5 per cent. Since the number of agricultural producers does not seem to have changed appreciably and since prices received for sales of agricultural products, as well as the share of income distributed among members of collective farms, seem to have remained relatively stable, it is probable that the per capita income of agricultural producers did not increase more than the total output of agriculture.

Foreign trade

The turnover of foreign trade (exports plus imports) of all the centrally planned economies excepting mainland China expanded by 8 per cent in 1960 (*see* table 6-16). Although considerably less than the rate of growth of 19 per cent experienced in 1959, the 1960 growth rate was none the less higher than that of 1958 and was about equal to the average for the second half of the nineteen fifties.

The deceleration was common to all countries of the group except Romania, where the rate of increase in

Table 6-16. Foreign Trade Turnover[a]

Country	1958	1959 (Indices, preceding year=100)	1960	Value of trade 1960 (millions of roubles)[b]
Bulgaria	105.3	141.4	115.7	4,847
Czechoslovakia	104.6	115.9	112.4	15,238
Eastern Germany	104.1	115.2	106.0	17,440
Hungary	112.3	118.3	117.3	7,391
Poland	102.6	112.1	109.0	11,282
Romania	105.0	107.8	111.1	4,556
USSR	103.9	121.5	105.0	44,159
TOTAL, COUNTRIES LISTED ABOVE	104.5	118.5	108.5	104,913

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins; *Statisztikai Havi Közlemenyek*, No. 2, 1961.

[a] Exports plus imports. Indices for 1958 and 1959 differ from those in United Nations, *World Economic Survey, 1959* because of revision of data.

[b] Converted into roubles at official rates of exchange.

foreign trade turnover in 1960 was 3 percentage points greater than in 1959. The slackening in the rate was greatest in Bulgaria, where a 41 per cent increase in 1959 gave way to a 16 per cent increase, and in the Soviet Union, where the increase in 1960 was only 5 per cent as compared with 21 per cent in the preceding year. These were the two countries that had experienced the greatest acceleration in the rate of advance in 1959. Eastern Germany was another country where the slackening of growth in foreign trade turnover was considerable in 1960. In Czechoslovakia, Hungary and Poland, the rate of advance was between one and 3 percentage points lower than in 1959.

Table 6-17. Exports and Imports
(Millions of roubles)

Country and item	1958	1959	1960
Bulgaria			
Exports	1,494	1,869	2,321
Imports	1,467	2,319	2,526
Balance	27	−440	−205
Czechoslovakia			
Exports	6,053	6,908	7,976
Imports	5,429	6,410	7,262
Balance	624	498	714
Eastern Germany			
Exports	7,559	8,486	...
Imports	6,719	7,969	...
Balance	840	517	...
Hungary			
Exports	2,767	3,102	3,506
Imports	2,554	3,196	3,885
Balance	213	−94	−379
Poland			
Exports	4,238	4,581	5,303
Imports	4,907	5,678	5,978
Balance	−669	−1,097	−675
Romania			
Exports	1,873	2,090	...
Imports	1,927	2,007	...
Balance	−54	83	...
USSR			
Exports	17,191	21,763	...
Imports	17,398	20,293	...
Balance	−207	1,470	...

Source: See table 6-16.

Separate data on imports and exports are available for only four countries, three of which improved their trade balances in 1960. Bulgaria and Poland, each of which experienced trade deficits in 1959 amounting to 24 per cent of exports, succeeded in expanding their exports in 1960 at a greater rate than imports, thereby reducing their deficits by 50 and 40 per cent respectively (*see* table 6-17). In Hungary, on the other hand, the relatively minor deficit of 1959 increased fourfold in 1960 because of a considerable rise in imports. In Czechoslovakia, exports advanced more than imports, with the result that net exports, which had declined in 1959, rose substantially in 1960.

Data on changes in the commodity composition of the trade of the centrally planned economies in 1960 are available for only three countries (*see* table 6-18). These data indicate a further increase in the share of machinery in the exports of all three countries, as well as in the imports of Czechoslovakia and Hungary. The increasing importance of trade in machinery and equipment seems to be common to all the centrally planned economies and is partly attributable to the general tendency towards a greater division of labour among them, which has been reflected in increased national specialization in the production of different types of machinery and equipment.

In Czechoslovakia and Hungary the increase in the share of machinery and equipment in exports was associated with a decline in the aggregate share of food, agricultural raw materials and manufactured consumer goods. In Poland, however, the share of manufactured consumer goods continued to rise whereas that of fuels and industrial raw materials declined.

Changes in the geographic distribution of trade among the centrally planned economies in 1960 cannot be adequately assessed because of limitations of the available data. Concerning countries for which data are available,

Table 6-18. Commodity Composition of Foreign Trade of Centrally Planned Economies, Selected Countries

(Percentages of total exports and total imports)

Country and item	1958	1959	1960
Czechoslovakia			
Exports:			
Machinery and equipment	43.4	44.1	44.6
Fuels and industrial raw materials	31.1	29.1	29.5
Food and agricultural raw materials	7.1	6.5	5.5
Manufactured consumer goods	18.4	20.3	20.4
Imports:			
Machinery and equipment	18.7	20.3	21.6
Fuels and industrial raw materials	54.7	53.0	53.1
Food and agricultural raw materials	23.1	23.9	22.0
Manufactured consumer goods	3.5	2.8	3.3
Hungary			
Exports:			
Machinery and equipment	35.8	34.6	37.9
Fuels and industrial raw materials	23.5	23.6	23.1
Food and agricultural raw materials	22.8	22.7	20.8
Manufactured consumer goods	17.9	19.1	18.2
Imports:			
Machinery and equipment	16.8	25.4	26.7
Fuels and industrial raw materials	70.1	60.9	59.7
Food and agricultural raw materials	8.5	9.0	8.5
Manufactured consumer goods	4.6	4.7	5.1
Poland			
Exports:			
Machinery and equipment	26.8	26.3	28.0
Fuels and industrial raw materials	50.8	49.0	43.8
Food and agricultural raw materials	16.9	18.2	18.1
Manufactured consumer goods	5.5	6.5	10.1
Imports:			
Machinery and equipment	26.7	27.5	27.1
Fuels and industrial raw materials	53.9	48.5	51.5
Food and agricultural raw materials	11.0	16.9	16.0
Manufactured consumer goods	8.4	7.0	5.4

Source: See table 6-16.

the share of the Soviet Union in the trade of Eastern Germany declined from about 46 to 42 per cent of the total and in the trade of Czechoslovakia from about 36 to 34 per cent. In Czechoslovakia the shift was both towards trade with the other European centrally planned economies and with the rest of the world (*see* table 6-19). The geographic pattern of Polish and Hungarian trade remained virtually unchanged in 1960, except for a slight increase in the share of the rest of the world in the trade of the latter country. In the aggregate, the proportion of the trade of these four countries that is conducted with the Soviet Union fell from about 37 per cent in 1959 to 35 per cent in 1960.[12]

A comparison of data on the total trade of the European centrally planned economies shown in table 6-19 with the indices of the trade of these countries with the rest of the world shown in table 6-20, indicates that the share of the rest of the world increased in the total trade of both the Soviet Union and the other European centrally planned economies. Thus, whereas the total trade of the Soviet Union in 1960 was 5 per cent higher than in 1959, its trade with the rest of the world was greater by some 22 per cent. Similarly, the total trade of European centrally planned economies other than the Soviet Union rose by 11 per cent while their trade with the rest of the world rose by 16 per cent.

The trade of all centrally planned economies with the rest of the world expanded in 1960 at a considerably greater rate than in 1959 and its percentage increase was greater than that of world trade as a whole. The acceleration in the rate of growth from 6.5 per cent in 1959 to over 16 per cent in 1960 was due in large part to the expansion of the trade of eastern European countries at a rate of increase which was about twice that of 1959. The acceleration in the trade of the Soviet Union with the rest of the world was considerably smaller but none the less substantial. On the other hand, the trade of mainland China with countries not belonging to the group of centrally planned economies, which had fallen by 10 per cent in 1959, rose by about 6 per cent in 1960.

Whereas in 1959, for the group as a whole, the rate of growth of exports to the rest of the world came quite close to the rate of growth of imports, in 1960 it was significantly lower. In effect, net imports rose from about \$43 million in 1959 to \$230 million in 1960. This increase resulted from the emergence of a deficit in Soviet trade and a rise in the trade deficits of the other eastern European countries, which were only partly offset by the small export surplus of mainland China. The deficit incurred by the Soviet Union was brought about mainly by a fall in its net exports in trade with western Europe and a rise in its import surplus in trade with Latin America; the deficit in its trade with Asia and the Far East declined. The larger trade deficits of other eastern European countries were due mainly to higher net imports in trade with Canada and the United States and with Asia and the Far East. The slight export surplus of mainland China reflected mainly a fall in its net imports in trade with western Europe and an increase in its net exports in trade with Asia and the Far East.

The very considerable expansion of trade with the rest of the world was associated with some changes in

[12] In 1959 the total trade of these four countries accounted for about 88 per cent of the total trade of "other eastern Europe" and for about 80 per cent of the group's trade with the Soviet Union.

Table 6-19. Geographical Distribution of Trade of Centrally Planned Economies

(Exports plus imports in millions of roubles)

Country and year	Centrally planned economies: USSR	Centrally planned economies: Other eastern Europe	Centrally planned economies: China and other Asia	Rest of the world[a]	Total
Bulgaria					
1958	1,575	848	78[b]	460	2,961
1959	2,185	1,118	78[b]	807	4,188
1960	...	...	...	...	4,847
Czechoslovakia					
1958	3,796	3,221	912	3,553	11,482
1959	4,741	3,763	976	3,838	13,318
1960[c]	5,126	4,731[d]	841[e]	4,540	15,238
Eastern Germany					
1958	6,160	3,172	1,037	3,909	14,278
1959	7,644	3,854	1,009	3,948	16,455
1960	7,400[f]	...	...	...	17,440
Hungary					
1958	1,429	1,737	427	1,729	5,322
1959	1,853	2,013	404	2,028	6,298
1960	2,195	2,384	402	2,410	7,391
Poland					
1958	2,397	2,238	479	4,031	9,145
1959	3,061	2,703	473	4,022	10,259
1960	3,422	2,967	467	4,426	11,282
Romania					
1958	1,957	775	190	878	3,800
1959	1,939	1,033	274	851	4,097
1960	...	...	...	...	4,556
USSR					
1958		18,103	7,001	9,485	34,589
1959		21,879	9,377	10,800	42,056
1960		...	...	...	44,159
Total, above countries					
1958	17,314	30,094	10,124	24,045	81,577
1959	21,423	36,363	12,591	26,294	96,671
1960	...	...	...	...	104,913

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.

[a] Including trade with Yugoslavia.

[b] China (mainland) and North Korea only.

[c] Data on distribution estimated on the basis of eleven months.

[d] Because of the lack of adequate statistics, the trade with "other Asian countries" and Yugoslavia is included. In 1959 the volume of the Czechoslovakian trade with Yugoslavia was equal to 131 million roubles and with "other Asian countries" (Mongolia, North Korea and North Viet Nam), 184 million roubles. The corresponding figures for 1958 were 160 and 122 million roubles.

[e] Mainland China only.

[f] Derived from the article in *Ekonomicheskaya Gazeta* (Moscow), 24 February 1961, according to which the trade of Eastern Germany with the Soviet Union is to attain 1.9 billion new roubles in 1961, or 13 per cent more than in 1960. The implied value of trade in 1960, expressed in old roubles, amounts to 7,400 billion roubles.

its geographical distribution. These were brought about by more than proportional increases in trade with Canada, the United States, Latin America, Africa and Yugoslavia, and less than proportional increases in trade with the Middle East, Asia and the Far East and Finland. Trade with western Europe, Australia and New Zealand expanded at only a slightly higher rate than total east-west trade.

A particularly high rate of increase was achieved in trade with Canada and the United States. Trade with this region had risen substantially in 1958 but the expansion came to a virtual halt in 1959. The 50 per cent advance in 1960 reflected an 87 per cent rise in imports while exports remained practically unchanged. Imports by European centrally planned economies, other than the Soviet Union, from Canada and the United States, already relatively substantial in 1959, rose by 75 per cent, while the less significant imports of the Soviet Union and mainland China rose about two and five times, respectively. Trade with Latin America also expanded at a very high rate but its exact magnitude cannot be ascertained because of lack of data on exports to Cuba. Trade with Africa rose 25 per cent, or at a somewhat

Table 6-20. Trade of Centrally Planned Economies with Rest of the World[a]

(Millions of dollars)

Area and year	Soviet Union		Other eastern European countries[b, c]		China (mainland)[b]		Total	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Canada and United States								
1958	19.3	22.9	54.6	113.5	5.7	7.3	79.6	143.7
1959	30.6	20.7	62.0	106.0	5.2	1.7	97.8	128.4
1960	26.1	46.5	67.2	185.0	5.6	8.7	98.9	240.2
Latin America[b]								
1958	19.1	48.3	81.4	99.4	2.4	11.4	102.9	159.1
1959	28.2	44.1	100.7	104.4	0.2	2.3	129.1	150.8
1960	18.1	114.7	91.1	131.9	0.7	18.0	109.9	264.6
Middle East								
1958	117.6	129.0	191.1	133.8	22.5	43.8	331.2	306.6
1959	114.2	113.8	153.2	138.2	26.0	39.3	293.4	291.3
1960	102.4	130.9	150.0	142.8	35.7	58.6	288.1	332.3
Western Europe[c, d]								
1958	601.7	472.8	1,078.8	1,008.3	183.4	452.4	1,863.9	1,933.5
1959	738.2	484.6	1,163.9	1,186.5	213.0	393.9	2,115.1	2,065.0
1960	869.9	710.0	1,372.8	1,304.2	252.9	370.4	2,495.6	2,384.6
Finland								
1958	129.2	133.7	54.0	50.7	3.9	8.4	187.1	192.8
1959	147.3	140.0	55.5	40.2	4.7	16.5	207.5	196.7
1960	148.0	140.0	60.0	44.8	6.0	5.5	214.0	190.3
Yugoslavia								
1958	57.8	36.6	136.9	87.0	1.5	4.6	196.2	128.2
1959	57.6	47.2	112.5	100.2	2.6	1.4	172.7	148.8
1960	57.2	52.8	155.6	127.5	0.5	1.2	213.3	181.5
Asia and the Far East								
1958	100.4	146.2	53.0	68.9	437.6	208.8	591.0	423.9
1959	113.8	253.2	62.5	83.6	354.2	170.9	530.5	507.7
1960	158.8	225.0	71.7	132.0	376.0	178.0	606.5	535.0
Australia and New Zealand								
1958	1.5	1.9	10.3	55.1	9.4	29.8	21.2	86.8
1959	1.0	12.3	7.8	57.0	8.4	37.0	17.2	106.3
1960	1.2	39.4	9.7	54.0	11.7	31.0	22.6	124.4
Africa								
1958	5.0	24.5	42.1	18.0	24.2	12.7	71.3	55.2
1959	9.3	48.8	46.0	18.0	21.4	21.5	76.7	88.3
1960	30.0	65.8	48.0	24.5	12.0	25.9	90.0	116.2
Total								
1958	1,051.6	1,015.9	1,702.2	1,634.7	690.6	779.2	3,444.4	3,429.8
1959	1,240.2	1,164.7	1,764.1	1,834.1	635.7	684.5	3,640.0	3,683.3
1960	1,411.7	1,525.1	2,026.1	2,146.7	701.1	697.3	4,138.9	4,369.1

Source: United Nations, *Direction of International Trade*, Statistical Papers, Series T, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development (Sales No.: 60.XVII.12); estimates of the Division of General Economic Research and Policies of the United Nations Secretariat; Statisches Bundesamt, *Wirtschaft und Statistik*, No. 3, 1961 (Mainz).

[a] Exports from and imports to the centrally planned economies, as derived from data published by their trading partners outside the group; data relate to the whole year. In some cases estimates were made on the basis of several months of 1960.

[b] Imports from Cuba in 1960 estimated on the basis of the sugar trade exclusively. Exports to Cuba not included in 1960.

[c] Including trade between Eastern Germany and the Federal Republic of Germany.

[d] General exports included for the United Kingdom.

lower rate than in the preceding year. This expansion reflected a 30 per cent increase in imports and a 17 per cent rise in exports. The 23 per cent growth in trade with Yugoslavia resulted about equally from increases in exports and imports, and stemmed mainly from a 33 per cent rise in trade with the eastern European countries other than the Soviet Union.

Trade with western Europe, the most important trading region, rose by about 17 per cent, reflecting an increase of 18 per cent in exports and of 15 per cent in imports. These changes differed significantly from those in the preceding year, when exports rose by about 14 per cent but imports by only 7 per cent. Soviet exports to western Europe, which rose by 23 per cent in 1959, were 18 per cent higher in 1960 but imports grew by 47 per cent as compared with 3 per cent in the preceding year. Opposite changes occurred in the trade of the other eastern European countries; the rate of growth of their exports accelerated from 8 to 18 per cent, but the growth rate of imports decelerated from 18 to 10 per cent. Mainland China expanded its exports to the area at a slightly greater rate than in the preceding year, while its imports continued to decline, although at a lower rate. Trade with Australia and New Zealand, having shown a 14 per cent increase in 1959, increased by 19 per cent in 1960 as a result of an increase in trade of the Soviet Union that was only partly offset by a decline in the trade of the other centrally planned economies.

The rate of growth of the trade of the centrally planned economies with Asia and the Far East, which expanded at a less than average rate, accelerated from 3 per cent in 1959 to about 10 per cent in 1960. This rise was mainly accounted for by the trade of eastern Euopean countries other than the Soviet Union, which enlarged their imports from that area by 58 per cent and their exports by 15 per cent. Soviet exports to Asia and the Far East rose by 40 per cent but imports fell by 11 per cent. Mainland China's exports to this area advanced by 6 per cent and imports by 4 per cent. The imports of all the centrally planned economies from this area rose by over 5 per cent and exports by more than 14 per cent. Trade with the Middle East, following a decline of 8 per cent in 1959, rose by 6 per cent in 1960; this was due to a 14 per cent increase in imports, the effect of which was partly offset by a 2 per cent contraction of exports. Trade with Finland, which had risen by about 6 per cent in 1959, remained constant in 1960.

Table 6-21. Composition of Trade of Centrally Planned Economies with Rest of the World[a]
(Millions of dollars)

Item and year	*Soviet Union*		*Other eastern European countries*		*China (mainland)*		*Total*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Foodstuffs								
1958	47.9	50.1	150.6	93.9	32.0	6.5	230.5	150.5
1959	103.3	35.3	162.7	90.8	26.1	0.3	292.1	126.4
1960	83.4	43.0	205.2	121.1	50.6	3.4	339.2	167.5
Fats and oils								
1958	0.2	4.0	2.0	12.0	5.5	—	7.7	16.0
1959	0.4	3.3	2.9	10.4	3.3	0.1	6.6	13.8
1960	2.5	4.1	5.3	7.5	11.3	2.3	19.1	13.9
Raw materials								
1958	78.6	31.1	50.9	135.2	29.8	47.2	159.3	213.5
1959	102.3	21.7	57.6	113.7	57.6	15.6	217.4	151.0
1960	138.2	63.6	85.8	147.9	108.7	61.5	332.8	273.1
Mineral fuels and lubricants								
1958	94.3	—	75.6	1.7	—	—	169.9	1.7
1959	133.5	0.2	79.5	1.2	0.4	0.1	213.4	1.5
1960	155.0	—	83.1	2.2	4.5	0.2	242.7	2.4
Chemicals								
1958	12.6	13.0	39.9	42.8	5.5	34.8	58.0	90.6
1959	12.9	11.1	44.5	51.2	4.9	42.5	62.4	104.9
1960	23.8	28.1	59.2	69.1	5.0	54.9	87.9	152.1
Machinery and transport equipment								
1958	18.0	73.9	66.9	76.3	0.3	10.1	85.2	160.3
1959	14.3	98.2	63.9	98.1	—	24.0	78.2	220.3
1960	19.6	174.0	86.4	131.3	0.5	23.4	106.5	328.7
Other manufactured goods								
1958	73.4	105.4	110.2	162.8	24.3	24.4	207.9	292.6
1959	59.7	98.3	115.8	156.1	19.5	97.1	194.9	351.5
1960	79.1	175.6	166.1	223.5	48.5	140.6	293.7	539.7
Total								
1958	325.0	277.5	496.1	524.7	97.4	123.0	918.5	925.2
1959	426.5	268.1	526.8	521.5	111.7	179.8	1,065.1	969.5
1960	501.7	488.4	691.1	702.7	229.0	286.3	1,421.8	1,477.0

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D, January-June 1960.

[a] Exports from and imports into the centrally planned economies, as recorded by their trading partners, during January-June of each year. Trade between Eastern Germany and the Federal Republic of Germany not included.

Data on changes in the commodity composition of the trade of the centrally planned economies with the rest of the world (*see* table 6-21) are available only for the first half of 1960. They are based on information from a limited number of partner countries, the trade of which with the centrally planned economies amounted to only about three-quarters of total east-west trade. Notwithstanding these limitations, the available information permits a few general conclusions about the composition of this trade, although the precise magnitudes might perhaps have been different if more complete data had been available. The most significant change in the composition of commodity trade during the first half of 1960 as compared to the corresponding period of 1959 was a decline in the share of foodstuffs and a rise in that of raw materials in both the imports and the exports of the centrally planned economies. Another significant change was a fall in the share of mineral fuels and lubricants and a corresponding rise in the share of miscellaneous manufactured goods in the exports of the centrally planned economies to the rest of the world.

In 1960 the centrally planned economies were again, as in 1959, net importers of chemicals, machinery, transportation equipment and other manufactured goods and net exporters of foodstuffs, raw materials and especially mineral fuels and lubricants. Changes in the trade balances of specific commodity groups as measured by their relation to exports were most significant, during the period under review, in the trade of the raw materials group; the export balance fell in absolute terms, while its ratio to total exports of raw materials declined from 30 per cent in the first half of 1959 to about 18 per cent in the corresponding period of 1960. Net exports of food increased slightly and their ratio to total food exports fell. Whereas imports of fats and oils exceeded exports during the first six months of 1959, a net export balance was experienced in the first half of 1960. Net imports of chemicals and other manufactured goods increased substantially in absolute terms, while net imports of machinery and equipment rose sharply.

Plans for 1961

The plans for economic development in 1961 provide for a slowing down of the rate of expansion in industrial production in all the countries listed in table 6-22.[13] In the Soviet Union, the planned deceleration is very small, amounting only to about one percentage point, but in Poland and Romania the planned rate is about 3 percentage points, and in Hungary and Bulgaria, nearly 5 to 6 percentage points, below the rate actually achieved in 1960. Within the industrial sector, output of producer goods is generally planned to rise at a higher rate than that of consumer goods. The difference between the planned rates of increase in these two sectors is quite considerable in most countries but in Romania it is negligible.

[13] Data are not available for mainland China and Eastern Germany.

The advances in industrial production are to be achieved largely by further increases in output per man and to a much smaller extent by higher levels of employment. In Bulgaria, however, the planned rise in output per man is only slightly to exceed that scheduled for employment. By contrast, in Poland, employment is to be only one per cent higher while output per man is planned to grow by over 6 per cent. In most of the centrally planned economies, industrial employment is

Table 6-22. Planned Targets for 1961
(Indices, 1960 = 100)

Item	Bulgaria	Czechoslovakia	Hungary	Poland	Romania	USSR
National income	111.6	...	107.0	105.0	115.0	109.0
Gross fixed investment	105.0	107.9	100.0	109.2	124.0	112.5
Retail sales	107.1	104.2	104.6	104.3	115.0	105.8
Industrial production	107.8	109.3	107.8	107.7	113.5	108.8
Producer goods	110.0	...	109.5	108.9	113.8	109.5
Consumer goods	105.2	...	105.3	106.4	113.0	106.9
Industrial employment	103.5	102.6	102.3	101.1	104.1	102.6
Output per man in industry	104.1	106.5	105.6	106.4	109.0	106.0
Agricultural production	...	107.1	108.0	104.3	119.0	...
Housing construction	...	114.0	110.0	...	132.0	114.0
Foreign trade turnover	108.9	109.8	112.5	108.7	111.0	106.5
Exports	111.1	109.8	117.0	111.0	...	...
Imports	106.7	109.8	108.6	107.8	...	...

Source: Plans for 1961; replies of Governments to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

planned to advance at a slower rate than in 1960. The rise in output per man is planned to accelerate in Bulgaria and the Soviet Union, to remain unchanged in Czechoslovakia and Hungary and to decelerate in Poland and Romania.

All plans for 1961 place special emphasis on the expansion of agricultural production, especially animal husbandry. In the Soviet Union, the area under cultivation is planned to increase by 3 million hectares or about 1.5 per cent and grain production is expected to exceed the record crops for 1958. Very high rates are planned for meat, milk and wool, whose output is to be raised by 18, 13 and 12 per cent, respectively. State investment in agriculture is to rise by about 13 per cent over 1960. In Bulgaria, the plan for 1961 provides for a further shift from bread grains to fodder and industrial crops. While output of bread grains is to be about 2 per cent higher, output of fodder is planned to rise by 14 per cent, that of tobacco by 38 per cent and that of grapes by 49 per cent. Considerable advances are also planned for animal husbandry; cattle numbers are to be 9 per cent larger and output of milk and meat 16 and 10 per cent higher, respectively. Agricultural production is to increase by 4 per cent in Poland, 7 per cent in Czechoslovakia and 8 per cent in Hungary. The highest over-all rate of growth in agricultural production in 1961 is planned by Romania; the planned expansion amounts to 19 per cent. In almost all countries, national income is planned to grow in 1961 at a higher rate than in the preceding year; the sole exception is Poland, where the planned rate remains unchanged. The planned acceleration is particularly large in Romania, where the rate is to rise from 8 to 15 per cent, and in Bulgaria, where it is to rise from about 7 to 12 per cent. In both countries the acceleration seems to reflect the accelerated rates of expansion planned for agriculture and sectors other than industry, since industrial production is scheduled to advance at a slower rate than in 1960.

Gross fixed investment is planned to increase at a lower rate than in 1960 in most countries. In Poland, however, and to a less extent in the Soviet Union, the percentage increase in fixed investment scheduled for 1961 is greater than that achieved in 1960. Hungary, on the other hand, does not provide for any increase in state fixed investment. A common characteristic of investment plans for 1961 is the concentration of outlays on completion of projects already under construction.

The expansion in supply of consumer goods as reflected in retail sales is scheduled to slow down in all countries with the exception of Poland. In the Soviet Union the deceleration is planned to amount to more than 5 percentage points, and in Hungary and Bulgaria to about 3 and 4 percentage points, respectively.

In the Soviet Union, as in the preceding year, real per capita income of the working population[14] is planned to expand by 5 per cent. In Bulgaria, real per capita income is to rise by 9 per cent. No information is available on planned increases in real wages except for Hungary; there they are scheduled to be about 2 per cent higher in 1961. The efforts to improve the housing situation are to be continued and in all countries which have announced their targets for 1961 the planned rate of increase in construction is to be accelerated.

Foreign trade turnover is planned to increase at a higher rate than national income in Hungary and Poland, and apparently also in Czechoslovakia, but at a lower rate in the remaining countries. In most countries the rate of growth in foreign trade turnover planned for 1961 is lower than that achieved in 1960. In the Soviet Union, however, the foreign trade turnover is scheduled to accelerate and in Romania the rate is to remain unchanged. The foreign trade plans of Bulgaria, Hungary and Poland, which in 1960 had substantial trade deficits, provide for much greater expansion of exports than of imports. Net imports are planned to be reduced by about 70 per cent in Hungary, by some 40 per cent in Bulgaria and by about 17 per cent in Poland.

[14] As already stated, this concept includes money earnings, income in kind, pensions, aid and the computed value of state services such as education, health, housing subsidies and others.

Economic situation in Yugoslavia

In accordance with the national economic plan, Yugoslavia's national income rose in 1960 at a considerably lower rate than in the previous year, the rate dropping from 18.7 per cent in 1959 to 8 per cent in 1960 (*see* table 6-23). This slackening was due mainly to a fall in agricultural output after the exceptionally good harvest of 1959. Though agricultural output was expected to be lower than in the preceding year, the fall was larger than planned; instead of the 3 per cent decline foreseen in the plan, it amounted to over 6 per cent. The actual changes in 1960 as compared to the planned changes for different branches of agriculture can be seen from the following indices (preceding year = 100):

	1960 (planned)	*1960 (actual)*
Total agricultural output	97	94
Crops	93	90
Fruit	72	61
Vines	116	89
Animal husbandry	119	108

It should be noted that, although the total output of agriculture fell in 1960, it was still 54 per cent higher than the average level in 1951-1955. Whereas the output of crops declined, the output of livestock and animal

Table 6-23. Yugoslavia: Selected Indices of Economic Activity
(Preceding year = 100)

Item	*1958*	*1959*	*1960*	*1960* (*planned*)	*1961* (*planned*)
National income	101.8	118.7	108.0	108.1	112.6
Personal consumption	105.4	114.5	104.0	106.1	108.0
Gross fixed investment	117.2	117.2	108.0	111.0	105.0
Volume of retail sales	105.6	116.1	110.9	110.0	...
Value of retail sales	108.9	117.3	118.7	...	...
Cost of living index	103.2	102.0	111.0	...	...
Industrial production, total	110.9	113.3	115.1	114.0	112.0
Producer goods	113.1	116.9	119.6	119.0	...
Semi-manufactured goods	110.6	111.5	112.8	...	...
Consumer goods	109.7	114.7	116.8	110.0	...
Electric power	117.7	110.2	110.2	...	...
Coal	105.4	111.2	106.0	...	...
Employment in industry	109.8	108.0	106.8[a]	106.0	...
Output per man in industry	101.0	105.0	107.8[a]	107.5	...
Agricultural output	...	132.0	94.0	97.0	115.1

Source: Reply of the Government of Yugoslavia to the United Nations questionnaire of November 1960 on economic trends, problems and policies; *Indeks*, No. 2, 1961 (Belgrade); *Statisticki Godisnjak*, 1960 (Belgrade).

[a] January-November.

products rose in 1960, although to a smaller extent than had been planned.

Industrial production, in contrast to agricultural output, slightly exceeded the amount planned, increasing by more than 15 per cent as compared with the 14 per cent envisaged in the plan.

Personal consumption in 1960 advanced at a slower rate than national income, the increase in 1960 amounting to 4 per cent as compared with 8 per cent for national income. On the other hand, the rise in the volume of gross fixed investment kept pace with that in national income. In the distribution of investment, a shift towards the industrial sector occurred in 1960: the share of industrial investment in total investment expenditure advanced from 41.1 per cent in 1959 to 45.0 per cent in 1960, and that of agricultural investment declined from 21.3 per cent to 17.3 per cent.[15]

As in previous years, the rate of expansion in output of producer goods exceeded that of consumer goods, but the discrepancy between the indices became relatively smaller.

Employment in industry, contrary to the experience in previous years, rose less rapidly than output per man. The price level in 1960 was markedly higher than in 1959, partly because of the deliberate government policy of raising prices of services, which were considered excessively low, and partly because of pressure of demand. The retail price index rose by 6.7 per cent over 1959 and food prices alone increased by almost 10 per cent. Rents for residential housing, however, were raised by 150 per cent, and this, together with considerable increases in prices of other services, such as transport and electricity, lifted the cost of living by about 11 per cent.

The rise in the cost of living index was more than offset by an increase in nominal wages, amounting on the average to 13 per cent, which raised real wages by 2 per cent.[16] In spite of a fall in agricultural output, the real income of the peasant population remained more or less constant, owing to an 8 per cent increase in the prices paid for agricultural procurements. The value of turnover in retail trade rose by 19 per cent in 1960, while the volume was about 11 per cent higher.

Imports and exports both expanded in 1960 by approximately 20 per cent (*see* table 6-24), and the trade deficit increased correspondingly. Significant changes occurred in 1960 in the structure of imported goods. The share of food products in imports declined considerably, from 19 per cent in 1959 to 9 per cent in 1960, while the share of machinery and transport equipment rose from 28 per cent to 37 per cent. The structure of exports, however, did not change significantly. The share of agricultural products in total exports advanced from 21 per cent in 1959 to 23 per cent in 1960, mainly because of a sharp increase in meat exports, while the share of industrial products declined slightly.

The Yugoslav plan for 1961 foresees a rise of 12.6 per cent in national income. Industrial output is planned to grow by 12 per cent and the output of agriculture by 16 per cent. The plan also foresees an expansion of 8 per cent in the volume of personal consumption and of 11 per cent in social consumption. State and co-

[15] According to the 1961 plan, this shift will continue in the current year; the share of industrial investment is planned to amount to 46.2 per cent in 1961 and that of agricultural investment to decline to 16.8 per cent of total investment outlays.

[16] Data on money and real wages as indicated in the reply of the Government of Yugoslavia to the United Nations questionnaire of November 1960 on economic trends, problems and policies. The data apply to all wage and salary earners; real wages in industry and mining seem to have increased more than the average.

Table 6-24. Yugoslavia: Balance of Payments
(Billions of dinars)[a]

Item	1958	1959	1960	1961 (planned)
Exports of goods	132.4	143.0	171.1	181.0
Imports of goods	205.5	198.4	241.4	243.5
Balance of merchandise trade	−73.1	−55.4	−70.3	−62.5
Balance of other transactions on current account	26.1	19.2	21.7	23.2
Total balance on current account	−47.0	−36.2	−48.6	−39.3

Source: Reply of the Government of Yugoslavia to the United Nations questionnaire of November 1960 on economic trends, problems and policies.

[a] In foreign prices converted into dinars at official exchange rates.

operative investment are to increase by 5 per cent and agricultural investment at a greater rate.

Foreign trade is planned to expand at a lower rate than in 1960, when exports as well as imports rose by 20 per cent over 1959. In 1961 imports are planned to remain virtually unchanged and exports are to increase by about 6 per cent. During 1961 the foreign trade of Yugoslavia will be influenced by the recently introduced currency and foreign trade reforms. The system of multiple exchange rates, which was effective until 1960, is being replaced by a unitary exchange rate of 750 dinars to the dollar. Since the multiple exchange rates for foreign trade transactions varied from 500 to 1,200 dinars to the dollar, the effect of the reform on foreign transactions will be the same as that of a revaluation on goods previously sold at a rate higher than 750 dinars to the dollar and of a devaluation on goods sold at a lower rate. One of the goals of the reform is to abolish direct government controls over foreign currency allocation and to induce enterprises to base their export and import decisions on profitability at the prevailing prices and customs duties.

On the import side, a customs tariff originally applying only to capital goods is being extended to all imported goods, and fixed duties will be introduced during the current year. Concerning exports, the system of subsidies paid by the State to exporting enterprises will also gradually be abolished, and the exporting enterprises will have to prove their competitiveness at the existing rate of exchange by cutting costs. In order to facilitate these reforms, the International Monetary Fund, the United States and some western European countries have extended credits to Yugoslavia amounting to $275 million.

DISTRIBUTORS FOR UNITED NATIONS PUBLICATIONS

ARGENTINA
Editorial Sudamericana, S.A., Alsina 500, Buenos Aires.
AUSTRALIA
Melbourne University Press, 369 Lonsdale Street, Melbourne C. 1.
AUSTRIA
Gerold & Co., Graben 31, Wien, 1.
B. Wüllerstorff, Markus Sittikusstrasse 10, Salzburg.
BELGIUM
Agence et Messageries de la Presse, S.A., 14-22, rue du Persil, Bruxelles.
BOLIVIA
Librería Selecciones, Casilla 972, La Paz.
BRAZIL
Livraria Agir, Rua Mexico 98-B, Caixa Postal 3291, Rio de Janeiro.
BURMA
Curator, Govt. Book Depot, Rangoon.
CAMBODIA
Entreprise khmère de librairie, Imprimerie & Papeterie Sarl, Phnom-Penh.
CANADA
The Queen's Printer, Ottawa, Ontario.
CEYLON
Lake House Bookshop, Assoc. Newspapers of Ceylon, P.O. Box 244, Colombo.
CHILE
Editorial del Pacífico, Ahumada 57, Santiago.
Librería Ivens, Casilla 205, Santiago.
CHINA
The World Book Co., Ltd., 99 Chung King Road, 1st Section, Taipeh, Taiwan.
The Commercial Press, Ltd., 211 Honan Rd., Shanghai.
COLOMBIA
Librería Buchholz, Av. Jiménez de Quesada 8-40, Bogotá.
COSTA RICA
Imprenta y Librería Trejos, Apartado 1313, San José.
CUBA
La Casa Belga, O'Reilly 455, La Habana.
CZECHOSLOVAKIA
Československý Spisovatel, Národní Třída 9, Praha 1.
DENMARK
Ejnar Munksgaard, Ltd., Nørregade 6, København, K.
DOMINICAN REPUBLIC
Librería Dominicana, Mercedes 49, Ciudad Trujillo.
ECUADOR
Librería Científica, Casilla 362, Guayaquil.
EL SALVADOR
Manuel Navas y Cía., 1a. Avenida sur 37, San Salvador.
ETHIOPIA
International Press Agency, P.O. Box 120, Addis Ababa.
FINLAND
Akateeminen Kirjakauppa, 2 Keskuskatu, Helsinki.
FRANCE
Editions A. Pédone, 13, rue Soufflot, Paris (Ve).
GERMANY
R. Eisenschmidt, Schwanthaler Str. 59, Frankfurt/Main.
Elwert und Meurer, Hauptstrasse 101, Berlin-Schöneberg.
Alexander Horn, Spiegelgasse 9, Wiesbaden.
W. E. Saarbach, Gertrudenstrasse 30, Köln (1).
GHANA
University Bookshop, University College of Ghana, Legon, Accra.
GREECE
Kauffmann Bookshop, 28 Stadion Street, Athènes.
GUATEMALA
Sociedad Económico-Financiera, 6a Av. 14-33, Guatemala City.
HAITI
Librairie "A la Caravelle", Port-au-Prince.
HONDURAS
Librería Panamericana, Tegucigalpa.
HONG KONG
The Swindon Book Co., 25 Nathan Road, Kowloon.
ICELAND
Bokaverzlun Sigfusar Eymundssonar H. F., Austurstraeti 18, Reykjavik.
INDIA
Orient Longmans, Calcutta, Bombay, Madras, New Delhi and Hyderabad.
Oxford Book & Stationery Co., New Delhi and Calcutta.
P. Varadachary & Co., Madras.
INDONESIA
Pembangunan, Ltd., Gunung Sahari 84, Djakarta.
IRAN
Guity, 482 Ferdowsi Avenue, Teheran.
IRAQ
Mackenzie's Bookshop, Baghdad.
IRELAND
Stationery Office, Dublin.
ISRAEL
Blumstein's Bookstores, 35 Allenby Rd. and 48 Nachlat Benjamin St., Tel Aviv.
ITALY
Libreria Commissionaria Sansoni, Via Gino Capponi 26, Firenze, and Via D. A. Azuni 15/A, Roma.
JAPAN
Maruzen Company, Ltd., 6 Tori-Nichome, Nihonbashi, Tokyo.
JORDAN
Joseph I. Bahous & Co., Dar-ul-Kutub, Box 66, Amman.
KOREA
Eul-Yoo Publishing Co., Ltd., 5, 2-KA, Chongno, Seoul.
LEBANON
Khayat's College Book Cooperative, 92-94, rue Bliss, Beirut.
LUXEMBOURG
Librairie J. Trausch-Schummer, place du Théâtre, Luxembourg.
MEXICO
Editorial Hermes, S.A., Ignacio Mariscal 41, México, D.F.
MOROCCO
Centre de diffusion documentaire du B.E.P.I., 8, rue Michaux-Bellaire, Rabat.
NETHERLANDS
N.V. Martinus Nijhoff, Lange Voorhout 9, 's-Gravenhage.
NEW ZEALAND
United Nations Association of New Zealand, C.P.O. 1011, Wellington.
NORWAY
Johan Grundt Tanum Forlag, Kr. Augustsgt 7A, Oslo.
PAKISTAN
The Pakistan Co-operative Book Society, Dacca, East Pakistan.
Publishers United, Ltd., Lahore.
Thomas & Thomas, Karachi.
PANAMA
José Menéndez, Agencia Internacional de Publicaciones, Apartado 2052, Av. 8A, sur 21-58, Panamá.
PARAGUAY
Agencia de Librerías de Salvador Nizza, Calle Pte. Franco No. 39-43, Asunción.
PERU
Librería Internacional del Perú, S.A., Casilla 1417, Lima.
PHILIPPINES
Alemar's Book Store, 769 Rizal Avenue, Manila.
PORTUGAL
Livraria Rodrigues y Cia, 186 Rua Aurea, Lisboa.
SINGAPORE
The City Book Store, Ltd., Collyer Quay.
SPAIN
Librería Bosch, 11 Ronda Universidad, Barcelona.
Librería Mundi-Prensa, Castello 37, Madrid.
SWEDEN
C. E. Fritze's Kungl. Hovbokhandel A-B, Fredsgatan 2, Stockholm.
SWITZERLAND
Librairie Payot, S.A., Lausanne, Genève.
Hans Raunhardt, Kirchgasse 17, Zürich 1.
THAILAND
Pramuan Mit, Ltd., 55 Chakrawat Road, Wat Tuk, Bangkok.
TURKEY
Librairie Hachette, 469 Istiklal Caddesi, Beyoglu, Istanbul.
UNION OF SOUTH AFRICA
Van Schaik's Bookstore (Pty) Ltd., Church Street, Box 724, Pretoria.
UNION OF SOVIET SOCIALIST REPUBLICS
Mezhdunarodnaya Knyiga, Smolenskaya Ploshchad, Moskva.
UNITED ARAB REPUBLIC
Librairie "La Renaissance d'Egypte", 9 Sh. Adly Pasha, Cairo.
UNITED KINGDOM
H.M. Stationery Office, P.O. Box 569, London, S.E. 1 (and HMSO branches in Belfast, Birmingham, Bristol, Cardiff, Edinburgh, Manchester).
UNITED STATES OF AMERICA
Sales Section, Publishing Service, United Nations, New York.
URUGUAY
Representación de Editoriales, Prof. H. D'Elía, Plaza Cagancha 1342, 1° piso, Montevideo.
VENEZUELA
Librería del Este, Av. Miranda, No. 52, Edf. Galipán, Caracas.
VIET-NAM
Librairie-Papeterie Xuân Thu, 185, rue Tu-do, B.P. 283, Saïgon.
YUGOSLAVIA
Cankarjeva Založba, Ljubljana, Slovenia.
Državno Preduzeće, Jugoslovenska Knjiga, Terazije 27/11, Beograd.
Prosvjeta, 5, Trg Bratstva i Jedinstva, Zagreb.

[61E1]

Orders and inquiries from countries not listed above may be sent to: Sales Section, Publishing Service, United Nations, New York, U.S.A.; or Sales Section, United Nations, Palais des Nations, Geneva, Switzerland.

Printed in U.S.A.
15030–June 1961–5,375

Price: $U.S. 3.00; 21/- stg.; Sw. fr. 13.00
(or equivalent in other currencies)

United Nations publication
Sales No.: 61.II.C.1
E/3501/Rev. 1
ST/ECA/68