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DEPARTMENT OF ECONOMIC AFFAIRS

ECONOMIC SURVEY OF EUROPE IN 1949

Prepared by the

RESEARCH AND PLANNING DIVISION
ECONOMIC COMMISSION FOR EUROPE

GENEVA, 1950

E/ECE/116/Rev. 1
May 1950

United Nations Publications

Sales Number · 1950.II.E.1.

PREFACE

The *Economic Survey of Europe in 1949* is the third major report of its kind prepared by the Secretariat of the Economic Commission for Europe. Since the publication of the last SURVEY, the Secretariat has also undertaken the publication of the *Economic Bulletin for Europe*, providing a regular review of the European economic situation at quarterly intervals between the publication of the annual surveys. In the preparation of these reports, the Secretariat aims at serving the needs of the Commission, while also fulfilling its share of the general task of reporting on world economic conditions with which the Department of Economic Affairs has been entrusted by the Economic and Social Council of the United Nations.

The SURVEY is based primarily on official statistics of European and other countries, including not only regularly published materials but also special data which the statistical offices in many countries have kindly provided as part of their continuing co-operation with the Secretariat. The collation of these statistics and their analysis and interpretation have, however, been undertaken by the Secretariat on its own responsibility. The SURVEY cannot, therefore, be taken as representing the views of the Commission or of its member Governments. Its purpose is rather to provide an independent appraisal of the European economic situation.

In attempting to serve this purpose, the Secretariat has inevitably again found it impossible to limit the analysis to the European scene. While it is convenient to speak of "the European economy" and necessary to discuss "European economic problems", the limitations of these expressions must be appreciated. There are many questions in which European countries have a common interest and on which they should be able to work jointly with advantage— and, indeed, it is the purpose of the Economic Commission for Europe to facilitate their co-operative effort— but few of these questions have a purely European setting or significance. While the need is urgent to subordinate the national approach to economic problems to collaboration on a European basis, this need is scarcely more compelling than that for a still broader approach to the problems of a properly functioning world economy. In fact, the very urgency of a closer economic integration of European countries resides to a large extent in the obstacles to the normal development of their economic relations with important parts of the outside world. Even so, most European countries could never adapt themselves to an economic union in Europe created at the expense of their ties with overseas countries.

The SURVEY therefore repeatedly emphasizes that Europe's problems can be satisfactorily solved only within the framework of an expanding economy, not merely in Europe itself but in the world at large. Basically, it is, of course, only through the expansion of production that the living standards of European peoples can be raised from their present levels. The necessity for economic expansion is seen even more clearly, however, in connection with some of the specific issues now facing Europe. Part of the analysis in Chapters 4 and 5 is concerned, for instance, with the effects of the re-emergence of German competition on the exports and imports of other European countries, and it is also seen that similar problems will arise with the return of Japan to a more prominent share in world trade. There can be little disagreement with the view expressed that, if there is a sustained growth in world production and trade, these new competitive forces could be absorbed to the general advantage of other countries, but that the effects may be extremely disruptive if the struggle for world markets and supplies is conducted under conditions of economic stagnation or contraction.

As far as Europe itself is concerned, the opening chapters of the SURVEY provide a record of continued progress in production, investment, and trade in most countries, although in western Europe that progress has remained dependent on financial assistance from abroad. The SURVEY also contains a note of moderate optimism with regard to the possibilities of continued economic growth, if the necessary adjustments in overseas trade are made and if favourable conditions are otherwise preserved. In the last chapter, devoted to the analysis of past trends and future potentialities, the conclusion is reached that European industrial production could be increased by about 50 per cent during the next ten years, provided that employment and investment are maintained at high levels. Such a growth would be roughly equivalent to the rate of expansion during the more progressive decades preceding the First World War and in marked contrast to the unsatisfactory record of the inter-war period. If development is carried on at such a rate, many problems which now appear intractable would become far easier to solve, and a broader basis would be established for the whole process of economic development in later years.

The view is also expressed that Europe could participate, to its own advantage, in the economic development of overseas countries, not only through its exports of capital equipment but also through the provision of financing. This conclusion may encounter scepticism among those impressed by Europe's immediate difficulties and may, indeed, seem at variance with the analysis of Europe's overseas balance-of-payments problem given elsewhere in the present SURVEY. It must not be overlooked, however, that, as the study shows, Europe's industrial production and its overseas exports are already substantially higher than before the war ; that Europe's balance-of-payments problem is now more clearly than ever concentrated on its relations with the dollar area ; and that, even during the past several years, Europe has been supplying capital on a large scale to overseas countries, partly in the form of debt repayment and partly in the form of new funds. While this outflow of capital from Europe has entailed some disadvantages, which the report also considers, it has unquestionably made a major and urgently needed contribution to under-developed countries abroad, many of which have faced post-war problems no less serious than those in Europe.

The SURVEY is mainly concerned, however, with the immediate threats to the expansion in production and trade which is indispensable to the solution of Europe's problems. One of the most serious of these lies in the virtual stalemate in economic relations between eastern and western Europe—a question of particular concern to the Economic Commission for Europe. As stressed in Chapter 4, this is not so much an economic problem as a question of statesmanship whose ramifications extend far beyond the field of production and trade. The economic consequences, however, cannot be overlooked. Failure to receive a much greater volume of capital goods from western European sources could seriously retard economic development in eastern Europe, for which the initial years are of crucial importance in establishing the basis for further economic growth. For western European countries, the current low level of trade with eastern Europe limits the area within which trade can be expanded to solve the dollar problem and circumscribes the field of competition for exports of manufactures and imports of essential primary goods. This is only one of the costs of the cold war. Another, of which no analysis has been attempted in this SURVEY, is the growing burden of military expenditure, which threatens to stifle again, as it has so often in the past, the chances of economic progress in both East and West by diverting resources into the construction of armaments and the maintenance of military forces.

Another threat to economic growth lies in the failure of a number of countries to utilize their manpower resources effectively and to find ways of stabilizing employment at high levels. The under-employment of labour and other resources in certain countries not only hampers their own economic growth but also threatens the continuation of economic expansion and of internal and external balance in others. This risk is particularly important when serious attempts are being made to permit intra-European trade to develop more freely than it can under present controls.

Hitherto, the outstanding difference in the recovery of European production since the last war compared with the experience after the First World War lies in the fact that, on this occasion, relatively full employment has been maintained in almost all countries. This must also be the main hope of the future, if Europe and the world generally are to avoid the economic stagnation experienced in many areas during the inter-war period. The general maintenance of employment since the war is, to some extent, the effect of definite policies, or of basic changes in the structure and management of the economy, in different countries. It must be recognized, however, that, to an even greater extent in most countries, the ability to maintain employment and production at high levels has been the fortunate but largely accidental result of the play of market forces, which have not yet engendered a setback on the scale experienced shortly after the First World War. With the end of the sellers' market, enough signs of instability have already appeared to warn that the continuity of development may be interrupted. Chapter 3 of this SURVEY gives special attention to the situation in three countries – Belgium, western Germany, and Italy – where unemployment has become a serious problem, and various other parts of the report refer to the intensification of international trade and financial problems during the past year which resulted from the relatively brief and mild business recession in the United States.

The gravest menace to continued economic stability and growth in western Europe appears, however, to be its still unresolved overseas payments problem. The analysis in Chapter 6 indicates that the major development in this field during the past year—the devaluation of sterling and of many other European and overseas currencies—had become a necessary corrective to price inequalities, but it also concludes that devaluation is most unlikely to provide a solution to the central problem of the dollar shortage. Chapter 7 develops further the investigation begun in the two preceding SURVEYS and examines the international character of this problem and the role now played by dollar aid to Europe in financing a world pattern of trade and settlements which otherwise could not be maintained. It is now clearer than ever that to define the unbalance in world trade as a problem of making Europe viable is entirely inadequate—a view that was strongly emphasized already in last year's SURVEY.

From a review of the prospective earnings of European and third countries in trade with the United States, the conclusion is reached that a severe downward balancing of dollar transactions will be inevitable when the present extraordinary United States financial assistance to European and other countries comes to an end. The dependence of most European countries on imports from the United States is already very much smaller than it was in earlier post-war years, but a further heavy reduction appears to be unavoidable. Provided that appropriate and energetic steps are taken without delay to develop production in Europe and in other overseas supplying sources, most European countries may be able to adapt themselves to a lower level of dollar imports, although the balance is likely to be a precarious one. If, however, these adjustments are not undertaken promptly, the sudden curtailment of imports from the United States two or three years hence could produce a serious dislocation in production and consumption and impede Europe's possibilities of economic growth over a longer period.

If European countries have not yet proceeded far enough in the adjustments which will be necessary, this is perhaps partly because it has been difficult to believe that the United States would, in fact, be prepared to accept the changes in its own foreign trade and the adjustments in its domestic economy that will be necessary if European and other countries are compelled to reduce their imports of American goods in keeping with the prospective decline in the world supply of dollars. The concluding paragraph of Chapter 7 suggests that—in terms of physical possibilities—the United States, as well as most European countries, should be able to make these adjustments, although considerable difficulties may be encountered. It may be recalled that last year's SURVEY emphasized the disadvantages of this course from the standpoint of the United States.

Certainly, United States foreign economic policy in recent years appears to have been based on the assumption that the world supply of dollars would be adequate to permit the continuation of a relatively high level of American exports and to overcome the present dollar shortage experienced throughout most of the world. This is indicated, for instance, by its efforts to maintain foreign markets for American agricultural products, by its intervention on behalf of American business concerns when their foreign sales and other operations abroad appear to be adversely affected by measures taken in other countries to restrict their dollar outlay, and, more broadly, by the importance attached by the United States in its international economic engagements during and since the war to the restoration of multilateral trade and currency convertibility. The analysis in this SURVEY leads to the conclusion, however, that the assumption underlying these policies will have to be revised if it is, in fact, impossible to lower United States tariffs sufficiently to permit a large increase in imports, if subsidies to American shipping are to make it difficult for other countries to realize their greatest possibility of increasing dollar earnings on invisible account, and if neither public nor private American capital is likely to be invested abroad on a scale sufficient to compensate for the decline in United States Government grants now provided to many foreign countries.

It therefore appears that prospective developments in international trade require a new appraisal, and that national and international economic policies need to be reconsidered and reformulated. The danger must be faced, however, that little will be done in the time that remains either to modify the severity of the adjustment required through increasing the future flow of dollars from the United States above what now seems likely, or to hasten the process of adjustment in other countries through the development of substitute supplies for goods now coming from the dollar area. Unless actual developments prove to be much better than the prospects as seen in this report, there seems little to prevent the present dollar deficit from being succeeded by an extremely critical situation in international trade and finance only a short time ahead.

There is, of course, also the possibility that emergency measures may again be devised to prevent a real collapse of trade and production. This, however, is not the basis on which a sound and freely developing structure of trade can be built or on which satisfactory international economic relations can be created. The possibility of stop-gap measures only emphasizes the general insecurity and uncertainty in the present international position of many countries, both in Europe and overseas—the continuing basic disequilibrium in trade, its vulnerability to economic fluctuations, the lack of opportunities for migration except on a very small scale, the absence of anything resembling the old international capital market, the observed tendency of private capital funds to move in a perverse manner constituting a further disruptive force in time of strain, and the low level of official gold and dollar reserves to serve as a buffer against such strains. This basic instability in the present situation itself encourages national measures of autarky and self-protection and provides an additional impetus to the development of trade along bilateral lines.

The problem of the overseas deficit, as well as some of the other questions referred to above, primarily concerns western European countries. While the Secretariat has made every effort to give adequate treatment to economic developments and problems in eastern European countries, it is aware of a lack of balance in the present SURVEY from the standpoint of its geographic coverage and emphasis. This reflects the decrease in the amount of statistical information released by eastern European countries. The reduction in the amount of data published is the continuation of a tendency already evident when the last SURVEY was prepared, although it was still possible at that time to draw heavily on data available for earlier years. A further difficulty is that an important part of the material currently released is provided not in regular statistical or other publications but in speeches and reports of a summary character where it is not always possible to determine clearly the definition of the data or the relationship to previously published series. The Secretariat has attempted—but with little success—to enlarge the basis of the report by making special requests to eastern European countries for information needed for the SURVEY. The statistical data and analysis on eastern

Europe have therefore had to be severely limited, and occasionally it has been necessary to make extremely rough approximations for this group of countries in order to provide a general picture for Europe as a whole, as in the estimates of intra-European trade given in Chapter 4

The SURVEY is again primarily the work of the Research and Planning Division, now headed by Mr. Hal B. Lary as Director, aided by Mr. Charles Gifford as Assistant Director. The final chapter, however, has been prepared mainly by Mr. Ingvar Svennilson and embodies some of the preliminary results of a study of long-term European economic trends which he has undertaken under a grant by the Rockefeller Foundation and in close co-operation with the Research and Planning Division. The Division also had, during part of the work on the SURVEY, the active assistance and advice of its former Director, Mr. Nicholas Kaldor. While virtually every member of the Research and Planning Division has played a part in the preparation of the SURVEY, special recognition should be given to its Editor, Mr. Robert Neild, to the Division's Section Chiefs, Mr. Tibor Barna, Mr. Albert Kervyn, and Mr. Hans Staehle, and to the following other senior members of the staff for their share in the statistical and analytical work : Esther Boserup, Mogens Boserup, Machiel Jansen, Alfred Maizels, Bengt Metelius, Gizelle Podbielski, and Hubert Vauthier.

ECONOMIC COMMISSION FOR EUROPE

Geneva

May 1950

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Executive Secretary

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ECONOMIC SURVEY
OF
EUROPE IN 1949

SYMBOLS EMPLOYED

The following symbols have been used throughout this SURVEY .

..	=	not available
—	=	nil or negligible

In referring to combinations of years, the use of an oblique stroke—*e.g.*, 1948/49—signifies a 12-month period (say from 1 July 1948 to 30 June 1949). The use of a hyphen—*e.g.*, 1947–1949 signifies an average of the full period of calendar years covered (including the end years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of “billion” used throughout is one thousand millions. Minor discrepancies in totals and percentages are due to rounding.

In general, information received up to 1 April 1950 has been included in the SURVEY.

Chapter 1

TRENDS OF PRODUCTION

I. INDUSTRIAL PRODUCTION

In 1949, Europe's total industrial production increased at a rate that was lower than in previous years, but substantially higher than the normal improvement that might have been expected on the basis of pre-war experience. In the seventeen countries shown in Table 1, it was 14 per cent higher than in

1948 and 10 per cent above 1938.¹ The pre-war level was exceeded in every country except Germany and Greece and, if Germany is excluded, the average

¹ For reasons of statistical comparability, references to Europe exclude the U S S R throughout this chapter. Data on the U S S R are given at the end of each main section of the chapter.

Table 1
THE LEVEL OF INDUSTRIAL PRODUCTION
Index numbers based on 1938 and 1948

Country	Relative net value of production in 1938	1938 = 100			1948 = 100							
		1947	1948	1949 ^a	1948				1949			
					First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter ^a
Austria ^b	1.5	56	89	119	82	100	105	110	112	133	139	150
Belgium	3.2	106	114	116	98	98	101	103	106	104	95	102
Bulgaria	0.2	145	175	227	78	92	107	122	132		148	
Czechoslovakia ^b	3.4	87	103	110	95	102	94	107	105	108	100	119
Denmark	1.2	118	131	139	99	102	93	106	104	108	100	114
Finland	0.5	117	134	140	98	101	97	105	103	105	98	112
France	12.2	95	111	122	99	105	95	102	112	117	101	111
Germany : ^c Western zones	21.6	33	50	75	81	84	108	126	138	143	153	162
Soviet Zone	8.3	47	59	72	88	95	102	116				..
Greece	0.7	70	76	90	92	92	99	117	107	115	121	130
Ireland	0.4	120	138	148	93	103	99	106	98	107	106	116
Italy	7.0	93	98	104	91	99	103	106	97	111	108	109
Netherlands	2.6	94	113	127	93	99	97	108	107	111	109	121
Norway	0.9	115	129	138	100	107	89	104	111	111	93	112
Poland	2.7	104	135	166	96	101	97	106	119	124	118	131
Spain ^d	2.9	119	115	119	101	99	100	100	107	107	102	100
Sweden	2.9	141	149	153	98	101	100	103	103	103	101	104
United Kingdom ^e	25.8	115	128	137	100	100	95	105	107	107	102	112
Total of countries listed .												
including Germany	100.0 ^f	83	97	110	95	99	98	108	111	114	110	119
excluding Germany	70.1 ^f	103	116	125	98	101	97	105	107	110	104	113

Sources — The index numbers for each country (with the exception of Belgium and Greece) have been taken from official or semi-official sources, all of which are given in Appendix B.

NOTE — The indices for each country include manufacturing, mining and gas, water and electricity supply, but exclude building, with the following exceptions: the index numbers for France, Germany and Italy exclude the food industries, those for Sweden exclude chemicals, while the engineering industry is not represented in the Italian index.

With the exception of Sweden, the index numbers for each country have not been adjusted for seasonal movements. For details of adjustment for number of working days per month, see Appendix B.

For those countries in which there have been territorial changes since 1938, production in the post-war territory has been related to 1938 production in the pre-war area. The totals for all countries listed, however, have been adjusted to constant (post-war) territories for all years. For details, see Appendix B.

^a Provisional

^b The base of the annual index numbers is 1937

^c Excluding production of Berlin. The index of production for the Western sectors in 1949 is estimated to be 18 (1936 = 100). If Berlin were included, it would decrease the European total (including Germany) by one or two points.

^d The base of the annual index numbers is 1935

^e The annual indices for post-war years, which are based on 1946 weights, have been linked with 1938 by applying an index based on 1935 weights. If 1946 weights had been used throughout, the index number for 1949 would be 129 (1938 = 100) and would decrease the European total (including Germany) by two points.

^f Including net value of production for territory ceded to Poland, accounting for 2 per cent of the total.

increase over pre-war for other European countries was 25 per cent.¹ Western Germany, however, where recovery did not get under way until after the monetary reform in June 1948 and where industrial output was 50 per cent higher in 1949, was responsible for much of the improvement over 1948. Outside Germany the increase of 8 per cent over 1948 was significantly lower than in previous years.

The extent to which the upward movement in industrial production has been slowing down can easily be seen if production in each quarter over the last three years is expressed as a percentage of the production in the corresponding quarter of the previous year.

Industrial Production in Europe, excluding Germany
(corresponding quarter of the previous year = 100)

	1947	1948	1949
First quarter	116	121	110
Second quarter	117	112	109
Third quarter	112	109	107
Fourth quarter	112	111	107
Year	114	113	108

The fuel crisis in the first quarter of 1947 affects the comparability of the figures for that quarter and for the first quarter of 1948, but otherwise the annual rate of increase in production has been steadily falling. In the second half of 1949, however, it was still 7 per cent, which is considerably higher than the secular rate of increase before the war. These averages conceal, however, the varying experiences of different countries, which are shown by the quarterly figures in Table 2. In Germany, Austria and Greece, which had been slow to recover after the war, there were abnormally high rates of increase in industrial production compared with 1948, though in western Germany the improvement slowed down markedly in the second half of 1949. Among the countries where production had already exceeded pre-war levels in 1948, the rise in 1949 was greatest in Bulgaria, Poland and the Netherlands, while steady rates of increase were also maintained throughout the year in Czechoslovakia, Denmark and the United Kingdom.² On the other hand, there was little advance in Sweden, and

¹ The index numbers of production presented in this chapter are based on pre-war weights. If post-war weights were used, the indices would normally show a smaller increase in production compared with 1938.

² It should be noted that the figures for Poland are based on indices which relate output in the post-war territory to 1938 output in the pre-war territory. If the post-war output is related to the estimated output of the post-war territory in 1938, the level of industrial production in 1949 appears to be about 12 per cent above the 1938 level.

Table 2

**THE LEVEL OF INDUSTRIAL PRODUCTION
IN 1949 COMPARED WITH 1948 BY QUARTERS**

Index numbers — corresponding quarter of 1948 = 100

Country	First quarter	Second quarter	Third quarter	Fourth quarter
Austria	137	133	133	137
Belgium	108	106	94	99
Bulgaria	169		138	
Czechoslovakia	111	106	107	111
Denmark	104	105	108	108
Finland	105	104	101	107
France	113	111	107	108
Germany : Western zones	170	169	141	128
Greece	117	125	122	111
Ireland	106	104	108	110
Italy	106	112	105	103
Netherlands	115	112	113	112
Norway	111	103	104	108
Poland	124	123	122	123
Spain	106	108	102	100
Sweden	105	102	102	101
United Kingdom	107	107	107	107

Sources The index numbers are derived from the same sources as those in Table 1.

NOTE—The index numbers for Finland, Ireland and the United Kingdom are not adjusted for the variation in number of working-days per quarter due to public holidays. If a rough adjustment were made for the above-mentioned countries for the Easter holiday (which in 1948 occurred in the first quarter and in 1949 in the second), it would decrease the figures for the first quarter of 1949 by approximately 2 points while the indices for the second quarter of 1949 would be increased by the same amount.

in France, Italy and Spain the improvement fell away considerably after the second quarter, while in Belgium a recession in the second half of the year brought output below the 1948 level.

Employment and Productivity

The chief reason for the smaller rate of increase in industrial production in 1949 was the smaller expansion in industrial employment, which, as may be seen from Table 3, rose by only 3 per cent outside Germany, compared with 5 per cent between 1947 and 1948. In western Germany the increase was 8 per cent, but this again was only two-thirds as great as in the previous year. Industrial employment also rose sharply in Poland and Austria, but by 2 per cent or less in France, Sweden, and the United Kingdom ; in Finland and Italy it remained constant, and in both Belgium and Switzerland it fell by some 7 per cent. Only in Italy, western Germany, and Belgium, however, was there serious unemployment, and in most other countries the available labour force was fully utilized.

Table 3
THE LEVEL OF EMPLOYMENT IN INDUSTRY
Index numbers based on 1938 and 1948

Country	1938 = 100			1948 = 100							
	1947	1948	1949 ^a	1948				1949			
				First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter ^a
Austria ^b	121	139	154	96	99	101	105	105	109	112	115
Belgium ^b	117	120	112	101	100	100	100	97	96	92	90
Czechoslovakia ^b	98	104	108	99	99	99	103	104	103	104	107
Denmark ^c	131	138	144	98	102	96	105	102	107	98	112
Finland	124	130	130	100	101	100	100	100	101	101	100
France	106	109	111	98	100	101	101	102	102	102	102
Germany . Western zones	88	99	107	95	98	101	105	108	108	108	110
Ireland	118	124	128	99	100	100	101	102	103	103	104
Italy	105	105	104	100	101	101	99	98	99	100	99
Netherlands	129	145	152	97	99	101	103	105	105	106	107
Norway	132	143	148	97	100	101	102	104	104	104	106
Poland	120	136	158	96	97	100	107	109	112	118	125
Sweden	130	131	132	100	100	100	101	101	101	100	101
Switzerland	148	151	141	100	100	100	100	97	95	93	92
United Kingdom	108	113	115	100	100	100	101	101	101	101	102
Total of countries listed											
including Germany ^d	104	110	114	98	99	100	102	103	103	103	105
excluding Germany	108	113	116	99	100	100	102	102	102	102	104

Sources. The index numbers for each country have been taken from official or semi-official sources supplemented by estimates of the Research and Planning Division, Economic Commission for Europe. For details of the sources and the methods of computation, see Appendix B.

NOTE.—In general, the indices include both wage and salary earners in manufacturing (excluding building), mining and gas, water and electricity supply. Wage earners only, however, are included in the figures for Belgium, Denmark, and Poland, while employers and managers are included in the figures for Czechoslovakia and the United Kingdom.

The annual index numbers for Poland relate employment in the post-war territory to 1938 employment in the pre-war area. The totals for all the

countries listed, however, have been adjusted to constant (post-war) territories for all years. For details, see Appendix B.

For the weights used in arriving at the combined index numbers shown at the bottom of the table and the methods of estimating those weights, see Appendix B.

^a Provisional

^b 1937 = 100

^c Quarterly index numbers refer to man-hours worked

^d Western zones only

The increases in production achieved during 1949 have thus been chiefly due to a further increase in output per head, for which estimates for fourteen European countries based on the national production and employment indices given in Tables 1 and 2 are shown in Table 4. In Austria and Germany exceptionally large increases accompanied the belated recovery in production, but the level reached remained far below pre-war. In Czechoslovakia, Ireland, and the Scandinavian countries (other than Finland) the increase in output per head was only 2 to 3 per cent in 1949; but in all other countries, including the United Kingdom, where the pre-war level had already been substantially exceeded in 1948, it was between 5 and 9 per cent, which is substantially above pre-war

rates of increase.¹ Only in Belgium, western Germany and Italy, however, was the rate of increase higher than in 1948.²

In the years immediately following the war, when production was recovering from extremely low levels (as in Germany and Austria in the last two years), the large increases in productivity were chiefly the result of the gradual elimination of particular shortages in the supply of industrial raw materials and of

¹ It must be remembered that in some countries, working-hours have changed by comparison with pre-war, so that the figures of output per man employed shown in Table 4 do not necessarily indicate the changes that have taken place in output per man-hour.

² In western Germany the improvement began only in the second half of 1948, after the monetary reform.

Table 4

THE LEVEL OF OUTPUT PER MAN IN INDUSTRY

Index numbers based on 1935-1938, 1947 and 1948

Country	1935-1938 = 100			1947 = 100	1948 = 100
	1947	1948	1949	1948	1949
Austria ^a	47	65	76	138	116
Belgium ^a	81	85	93	105	109
Czechoslovakia ^a	89	100	102	112	102
Denmark	90	95	97	105	102
Finland	93	102	107	110	105
France	84	95	102	113	108
Germany : Western zones	39	52	72	137	138
Ireland	102	111	113	109	102
Italy	88	92	98	105	106
Netherlands	72	77	81	107	105
Norway	88	91	94	103	103
Poland ^b	87	99	105	114	106
Sweden	110	116	118	105	102
United Kingdom	106	113	118	107	105
Total of countries listed :					
including Germany ^c	79	88	96	111	109
excluding Germany	93	100	105	108	105

Sources : The figures are derived from Tables 1 and 3, adjusted to a 1935-1938 base unless otherwise indicated.

NOTE.—The index numbers for each country are the ratio of the index of industrial production and the index of employment in manufacturing industries, mining and gas, water and electricity supply.

For those countries in which there have been territorial changes, productivity in the post-war territory has been related to 1938 productivity in the

pre-war area. The totals for all countries listed, however, have been adjusted to constant (post-war) territories for all years.

^a 1937 = 100. The base of the index of production for Belgium is 1936-1938.

^b 1938 = 100.

^c Western zones only.

the general restoration of the economy. This phase of recovery had largely been passed by 1948 when, apart from the shortage of steel which was increasingly limited to some special products, the supply of materials was generally adequate. In 1949, the steel shortage ceased to be a general problem, and the only new difficulty was a shortage of hydro-electric power in south-west Europe, and particularly in Italy, owing to the drought.

In these more normal conditions, the increases in productivity from 1948 to 1949 therefore appear to have been mainly the result of technical improvements in industry. In many countries, the increases were nevertheless considerably greater than the annual increases in productivity in the inter-war period. While this may be partly due to higher rates of investment, it may also be due, as was suggested in last year's SURVEY,¹ to the continuing introduction into industry of technical improvements which accu-

mulated during the war, but which could not then be exploited. If so, high but declining rates of increase in productivity may be expected to continue until the interruption of technical progress in industry during the war is made good. The production plans which have been published for various countries appear to anticipate relatively high rates of increase in productivity in the next year or so consistent with such a development. For most countries in western Europe, where future increases in output must depend primarily on increases in productivity owing to the lack of any substantial reserves of man-power, industrial production is expected to increase from 5 to 8 per cent between 1949/50 and 1950/51. In eastern Europe, where in most countries there are greater possibilities of transferring man-power to industry and where higher rates of increase in productivity can be expected at the relatively low levels now prevailing, far larger increases in industrial output, mostly in the order of one-fifth, are planned to take place between 1949 and 1950.

¹ *Economic Survey of Europe in 1948*, Research and Planning Division, Economic Commission for Europe, Geneva 1949.

The General Pattern

The changes in levels of activity in some of the principal sectors of the European economy are summarized in Table 5. Except in Germany, the output of the heavy industries increased in Europe after the war at a considerably higher rate than the output of other industries. Thus, although outside Germany total industrial production was only 18 per cent higher in 1948 than in 1938, the output of crude steel was 27 per cent higher, of the engineering industries 33 per cent higher and of chemicals 44 per cent higher.¹ The consequent increase in the relative importance of heavy industry, which is largely due to the higher demand for capital goods at home and abroad and the loss of supplies from Germany since the war, is likely to be a permanent feature of the economy in these countries; but the process of expansion seems to have slowed down somewhat in 1949. The increase of 9 to 10 per cent in steel and engineering output barely exceeded the increase of 8 per cent in the general level of industrial production, and the increase of 4 per cent in chemical output was considerably below it. At the same time, textile production, which had lagged behind the general rate of recovery, increased by 6 per cent and for the first time exceeded the pre-war level.

In Germany, on the other hand, it is the engineering industry which has lagged behind the general recovery in production, so that, for Europe as a whole, engineering output is only slightly higher in relation to the output of other industries than it was before the war. If, however, further recovery in Germany is to lead to full employment and to an increase of exports on the scale that will be needed to balance her international payments, the output of her engineering industry may have to expand considerably.

The European motor-vehicle industry continued to expand rapidly in 1949, and for the first time since the war the increase in the output of passenger cars was substantially greater than in that of commercial vehicles, but the relative importance of the latter is still nearly twice as great as before the war. The output of rayon, and of staple fibre in particular, continued to increase relatively to that of other textiles. Energy consumption rose less than industrial production, and there was some evidence of the further substi-

tution of oil and electricity for coal. The general pattern of energy consumption is discussed in detail below.

There were few developments of note in European transport during 1949. While no comprehensive traffic statistics are available for road transport, the number of commercial vehicles registered rose from 2.21 millions in 1948 to 2.53 millions in 1949 and the proportion of goods moving by road probably continued to increase. As may be seen from Table 5, the weight of goods carried on the railways rose by 6 per cent in 1949 and exceeded the 1938 level by 9 per cent. Though the available volume of rolling-stock is still well below what it was in 1938, the higher level of traffic was handled without serious difficulty. This was made possible by the faster wagon turn-round, an increase in the average load and the more continuous use of equipment which before the war was partly idle. As a result of this greater operating efficiency, there was no longer a serious repair problem in 1949, though the proportion of unserviceable rolling-stock was still about twice as high as before the war.

The increased economic activity in western Germany caused a considerable recovery in inland water traffic, both in western Germany itself and on the transit waterways, particularly in the Netherlands. In general, however, the volume of traffic remained below the pre-war level, as may be seen from the following figures:

<i>Inland Water Freight Traffic</i>			
(millions of tons)	1938	1948	1949
Western Germany	.. ^a	52.5	62.3
Netherlands	90.1	53.3	59.8 ^b
France	45.0	37.3	39.4
Belgium	39.4	26.1	30.9

^a 133.1 million tons for the whole of Germany.

^b Provisional figures based on January–September traffic.

The improvement would have been greater but for the low water-levels on the Rhine in the summer and autumn, when freight rates were raised to compensate for the consequent reduction in the average barge-load, and as a result some traffic was diverted to the railways. The volume of goods passing the German-Netherlands frontier on the Rhine rose from 16.2 million tons in 1948 to 20.7 million tons in 1949, but was still far below the 1938 level of 56 million tons.

The volume of ocean freight handled at the main continental ports also rose by about 20 per cent in 1949, the greatest increases being at Gdynia and Rotterdam. Port activity at Le Havre was 50 per cent greater than before the war, chiefly as a result of

¹ These figures, which are based on Table 5, differ slightly from those shown in Tables 1 and 8. For details, see footnotes to Table 5.

Table 5

SUMMARY INDICATORS OF ECONOMIC ACTIVITY IN EUROPE ^a

Index numbers based on 1938 and 1948

Item	Including Germany				Excluding Germany			
	1938 = 100			1948 = 100	1938 = 100			1948 = 100
	1947	1948	1949	1949	1947	1948	1949	1949
<i>Industrial production</i>	87	101	114	113	105	118	127	108
Engineering	79	97	115	119	114	133	146	110
Chemicals	91	110	120	109	124	144	150	104
Textiles	75	87	99	114	88	98	104	106
<i>Building</i>	..	..	..	..	93	98	104	106
<i>Railway transport</i>								
Goods carried (tons)	90	103	109	106	99	111	114	103
Goods traffic (ton-kilometres)	109	123	131	107	122	134	141	105
<i>Fuel and power</i>								
Coal production	80	87	94	107	89	95	100	105
Lignite production	92	101	111	110	148	157	167	107
Coal and lignite consumption ^b	82	88	92	104	96	103	105	102
Oil consumption	118	138	150	109	132	151	161	106
Electric energy production ^c	124	138	146	106	142	157	163	104
Total energy consumption ^d	91	99	104	105	106	116	119	103
<i>Basic metals</i>								
Iron ore production	60	78	88	113	62	80	89	112
Pig iron production	63	87	100	115	91	118	129	110
Crude steel production	70	90	105	116	102	127	138	109
Finished steel production	72	91	107	117	102	124	136	110
Copper metal production	77	86	104	121	110	114	114	100
<i>Engineering products</i>								
Merchant ships (tons launched)	77	87	96	109	97	110	120	109
Motor vehicles :								
Passenger cars	52	69	103	150	65	84	115	138
Commercial vehicles	131	161	198	123	157	185	216	117
<i>Chemicals</i>								
Sodium carbonates	83	98	106	108	106	112	117	104
Sulphuric acid	78	94	102	108	93	111	116	105
Fertilizers ^e	95	119	132	111	118	142	157	111
<i>Building materials</i>								
Cement	73	93	110	119	94	114	127	112
Building bricks	52	65	74	113	59	69	71	103
<i>Textiles</i>								
Cotton yarn production	71	84	95	113	81	94	99	105
Cotton tissue production	..	..	..	..	76	88	92	105
Wool yarn production	93	104	113	109	103	113	114	102
Wool tissue production	..	..	..	..	72	84	86	102
Rayon filament yarn production	97	118	136	115	119	136	150	111
Rayon staple fibre production	77	102	151	148	160	182	228	125

Sources : The figures have been derived from Tables 1, 6, 7, 8, 9, in Chapter 1 ; V to VII, IX to XII, XIV, XV in Appendix C ; *Monthly Bulletin of Statistics*, United Nations ; trade publications and national statistics.

NOTE. — In order to make the figures comparable in coverage, Bulgaria, Poland, Spain and the Soviet Zone of Germany have been excluded from the index numbers of industrial production and engineering, chemical and textile production shown in this table since figures from these countries were not available for all four series. The index numbers shown for these industries, therefore, differ slightly from the totals shown in Tables 1 in Chapter 1 and V to VII in Appendix C.

^a Excluding the U.S.S.R.

^b Excluding coal and lignite consumed by electric power plants.

^c Including thermal electric energy.

^d Including consumption of coal, coke, lignite, mineral oil and electric power (converted to coal equivalent). For details, see Appendix B.

^e Comprising nitrogenous, phosphatic and potassic fertilizers.

the large increase in French imports of petroleum, and it also exceeded the pre-war level at Marseilles. The volume of goods handled in Low Country and north-German ports, on the other hand, is still very low compared with pre-war, though it increased considerably in 1949 as a result of the sharp increase in western Germany's foreign trade.

Output in Individual Industries

The production of hard coal in Europe rose from 505 million tons in 1948 to 543 million tons in 1949. As a result of this large increase, Europe west of the Soviet Union returned to the position of a net exporter of coal for the first time since the war. The greater part of her exports since the war has consisted of shipments from Poland to the Soviet Union, but in 1949 there was a moderate increase in exports to

overseas markets. The improvement in the net trade balance in coal during the year was, however, primarily the result of the reduction in imports from the United States from 17 million tons in 1948 to 9.5 million tons in 1949. These imports declined very sharply in the second half of the year and are not expected to continue on a significant scale now that European supplies are more adequate. As may be seen from Table 6, the greatest rates of increase in coal production were in western Germany and France. French output in 1949 rose by 7.9 million tons, but this increase partly reflects the low level of output in 1948, when some 5 to 6 million tons are estimated to have been lost owing to the prolonged strikes in the autumn. The volume of French output in 1949 of 51.2 million tons was 10 per cent above 1938, but still short of the record of 54 million tons in 1929.

Table 6
PRODUCTION OF COAL AND IRON ORE
Millions of tons

Country	COAL			IRON ORE		
	1938	1948	1949 ^a	1938	1948	1949 ^a
Austria	0.2	0.2	0.2	1.0	0.4	0.5
Belgium-Luxembourg	29.6	26.7	27.9	1.6	1.1	1.3
Czechoslovakia	15.8	17.7	17.0	0.5	0.5	0.5
France	46.5	43.3	51.2	10.9	7.6	10.3
Saar	14.4	12.6	14.2	—	—	—
Germany ^b	177.0	91.4	..	2.9	2.0	..
of which Western zones	138.5	88.6	104.8	2.7	1.9	2.4
Soviet Zone	6.0	2.8	..	0.2	0.1	..
Italy	1.5	1.0	1.1	0.5	0.3	0.3
Netherlands	13.5	11.0	11.7	—	—	—
Poland ^c	38.1	70.3	74.5	0.3	0.2	0.2
Spain	5.7	10.4	10.6	1.2	0.8	0.9
Sweden ^d	0.4	0.4	0.3	8.6	8.2	7.6
Turkey	2.6	4.0	4.1	—	0.1	0.1
United Kingdom	231.8	212.8	218.7	3.1	3.5	3.5
Other European countries	2.5	3.5	3.9	1.6	0.9	1.0
Total Europe (excluding U.S.S.R.)	580	505	543	32	25	29
United States ^e	352.2	586.1	427.0	14.5	51.5	43.3

Sources : The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations ; *Monthly Bulletin of Coal Statistics*, Economic Commission for Europe ; data furnished to the Power and Steel Division, Economic Commission for Europe, and national statistics.

NOTE. — Coal : The data refer to the net pithead production of coal (clean coal raised to the surface).

Iron ore : The data refer to the metal content of crude iron ores produced, including manganiferous iron ores but excluding pyrites. For percentages of metal content, see Appendix B.

^a Provisional.

^b Production data for 1938 relate to pre-war boundaries, excluding the Saar. Production of coal in the post-war area in that year was 144.5 million tons ; production of iron ore, 2.9 million tons. 210,000 tons of iron ore were produced in the territory ceded to Poland.

^c Production data for 1938 relate to pre-war boundaries. Production of coal in the post-war area amounted to 70.6 million tons in that year.

^d Coal production refers to coal equivalent of poor-quality brown coal.

^e A small amount of lignite is included in coal production. Iron ore figures relate to production of all usable iron ore averaging more than 50 per cent iron content.

The output of brown coal rose by 23 million tons to 259 million tons in 1949 compared with 234 million tons in 1938, so that, unlike the output of hard coal, it is now substantially above the pre-war level. The increase in output in 1949 came chiefly from Poland and Germany, where production rose considerably in both eastern and western zones.

The main development in iron-ore production in 1949,¹ which is also shown in Table 6, was an increase of nearly 3 million tons in French output as a result of the progress in the mechanization of

¹ The figures for iron ore are expressed in terms of iron content.

the Lorraine mines. The total output of iron ore in Europe rose from 25 to 29 million tons. This increase, together with the ending of the coke shortage, made possible an increase in European pig-iron production from 35 million tons in 1948 to 40 million tons in 1949, the greater part of the expansion taking place in western Germany and France. Scrap consumption also rose considerably in 1949, especially in western Germany, where scrap is extensively used in blast-furnaces as well as for steel-making. Nevertheless, there was also a large increase in German exports to other European countries; and, partly as a result of this, supplies were adequate in most countries.

Table 7

PRODUCTION OF PIG-IRON AND FERRO-ALLOYS, CRUDE STEEL AND PRODUCTION AND CONSUMPTION OF FINISHED STEEL

Millions of tons

Country	PIG-IRON AND FERRO-ALLOYS			CRUDE STEEL			FINISHED STEEL					
	Production			Production			Production			Consumption		
	1938	1948	1949 <i>a</i>	1938	1948	1949 <i>a</i>	1938	1948	1949 <i>a</i>	1938	1948	1949 <i>a</i>
Austria <i>b</i>	0.6	0.6	0.8	0.7	0.6	0.8	0.5	0.4	0.5	0.4	0.3	0.4
Belgium-Luxembourg	4.0	6.6	6.1	3.7	6.4	6.1	2.8	4.7	4.4	0.9	1.8	1.3
Czechoslovakia	1.3	1.7	1.7	1.9	2.7	2.7	1.3 <i>c</i>	1.8	1.8	1.1	1.6	..
France	6.0	6.6	8.4	6.2	7.2	9.2	4.1	5.1	6.2	3.2	5.4	6.1
Saar	2.4	1.1	1.6	2.6	1.2	1.8	1.9	0.8	1.2	12.8 <i>e</i>		
Germany <i>d</i>	15.7	4.8	..	20.1	5.8	..	13.4	..	..			
of which Western zones	15.2	4.7	7.1	17.9	5.6	9.2	11.7	3.8	6.5	..	3.6	5.8
Soviet Zone	0.1	0.2	..	1.7	0.3	..	0.9	..	..	..	..	..
Hungary	0.3	0.4	0.4	0.6	0.7	0.7	0.4	..	..	0.4	..	..
Italy	0.9	0.4	0.4	2.3	2.1	2.1	1.7	1.5	1.6	1.8	1.6	1.7
Poland <i>f</i>	0.9	1.1	..	1.4	2.0	2.3	1.1 <i>c</i>	..	..	1.6 <i>e</i>	..	..
Spain <i>b</i>	0.4	0.5	0.6	0.6	0.6	0.7	0.4	..	..	0.4	..	..
Sweden <i>b</i>	0.7	0.8	0.8	1.0	1.3	1.4	0.6	0.7	0.9	0.8	0.8	1.0
United Kingdom	6.9	9.4	9.7	10.6	15.1	15.8	6.6	10.3	11.3	5.8	9.0	10.0
Other European countries	0.6	1.0	1.2	0.7	1.5	1.7	0.8	1.1	1.2	3.0	3.7	3.7
Total Europe (excluding U.S.S.R.)	41	35	40	52	47	55	35	32	38	32	30	34
United States	19.1	55.4	49.2	28.8	80.4	70.6	21.4	62.8	54.4			

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; *Minerals Yearbook 1939*, United States Department of Interior; *Monthly Statistical Bulletin*, British Iron and Steel Federation; *Bulletin de la Chambre syndicale de la Sidérurgie française*; national statistics and data furnished to the Power and Steel Division, Economic Commission for Europe.

NOTE. — *Pig-iron and ferro-alloys*: The data refer to total production, both for steel-making and other purposes, of pig-iron, including direct castings, ferro-alloys (spiegeleisen, ferrous manganese, ferro-silicon, etc.) made in blast furnaces.

Crude steel: Production refers to the total production of steel ingots and direct castings, including special alloyed steels, whether for use by the maker or for sale. Wrought (puddled) iron is excluded.

Finished steel: The production data refer to hot-rolled products. Consumption of finished steel is apparent consumption — i.e. production of finished steel plus net imports of finished steel with no allowance for changes in stocks.

^a Provisional.

^b "Pig-iron and ferro-alloy production" includes pig-iron only.

^c 1937.

^d Production data for 1938 relate to pre-war boundaries, excluding the Saar. Production in the post-war area for that year was as follows (millions of tons): pig-iron and ferro-alloys, 15.3; crude steel, 19.6; finished steel, 12.6.

^e Apparent consumption of pre-war territory.

^f Production data for 1938 relate to pre-war boundaries. Production in the post-war area for that year was as follows (millions of tons): pig-iron and ferro-alloys, 1.3; crude steel, 1.9; finished steel, 1.9.

As a result of these improvements in the supply position, shortages of raw materials were no longer a serious limiting factor in steel production, and the total output of crude steel in Europe rose to 55 million tons in 1949 and exceeded the 1938 level for the first time since the end of the war. Production expanded in 1949 in all the main producing countries except Belgium and Luxembourg; and, as may be seen from Table 7, the total European output was 8 million tons higher than in 1948. Most of the increase was in western Germany and France, though in western Germany there was a temporary setback in the middle of the year owing to a decline in domestic demand. There was also a substantial increase in the United Kingdom, where output again exceeded the level planned for the year. In Belgium and Luxembourg, output declined steadily during the year, and in the fourth quarter was 550,000 tons lower than in the first quarter. The chief cause of the decline was the lack of effective demand in foreign

markets. During the year, Belgium lost ground to other European exporters, and even the considerable reductions in Belgian export prices did not compensate for the reluctance of foreign countries to buy steel for hard currency.

Figures for the output of the engineering, chemical, textile and building industries in the last three years are shown in Table 8. The highest rates of increase in the engineering industries in 1949 were in western Germany and Austria, but France and the Netherlands also showed increases of over 15 per cent. There was no improvement in Italy, where output is still far below pre-war, and in Belgium output declined slightly.

Excluding Germany, where production rose rapidly, the rate of increase of output in the chemical industry was much smaller in 1949 than in 1948; but there was some increase in all countries except France, where a small decline in total output reflected a heavy fall in the production of fertilizers, particularly superphosphates.

Table 8
THE LEVEL OF PRODUCTION IN SELECTED INDUSTRY GROUPS

Index numbers — 1938 = 100

Country	ENGINEERING			CHEMICALS			TEXTILES			BUILDING		
	1947	1948	1949	1947	1948	1949	1947	1948	1949	1947	1948	1949
Austria ^a	56	98	152	77	145	167	31	51	77	..	..	..
Belgium ^b	116	137	132	130	150	152	130	116	120	88	93	104
Czechoslovakia ^a	97	120	131	102	124	134	60	77	81	..	..	..
Denmark	140	156	163	100	114	126	108	134	140	116 ^c	119 ^c	128 ^c
Finland	178	209	234	141	159	164	103	121	138	107	111	..
France	98	120	141	109	128	124	89	102	101	122	123	125
Germany : Western zones	21	38	64	31	47	66	26	42	78	..	..	..
Greece	19	27	31	59	63	81	90	89	100	80	125	133
Ireland	143	215	206	103	109	122	139	152	167	83	90	95
Italy	80	80	79	85	93	99	92	91	101	85	87	..
Netherlands	93	122	146	83	105	110	87	105	122	80	108	135
Norway	130	148	149	117	116	155	124	144	154	122	124	136
Poland	..	..	..	147	215	..	97	125	145	..	..	..
Spain	..	..	..	..	..	..	92	81	41	..	..	..
Sweden	156	161	165	163	183	..	131	144	149	128	116	118
United Kingdom	132	151	164	161	184	189	81	95	102	78	85	89
Total ^d												
including Germany ^e	79	97	115	92	112	123	75	87	97	..	..	..
excluding Germany	114	133	146	122	144	151	87	97	102	93	98	104

Sources: The index numbers for engineering, chemicals and textiles are derived from Tables V to VII in Appendix C. For building, sources are given in Appendix B.

^a 1937 = 100.

^b For engineering, chemicals and building, the base of the index numbers is 1936-1938.

^c 1938/39 = 100.

^d The totals include only those countries for which index numbers are shown. However, if data for a particular country are not available for one year only, an estimate for that country has been included in the total for the year (except in the case of the building industry).

^e Western zones only.

Textile output rose by 85 per cent in western Germany from the previous low levels, all types of textile products sharing in the rise. The increase over 1948 in the rest of Europe was 5 per cent, and in the United Kingdom output rose above the pre-war level for the first time since the war. Only in France was there no change in the output of textiles compared with 1948, the chief increases elsewhere being 16 per cent in the Netherlands and over 40 per cent in Austria.¹

For the building industry the limited data available indicate that there was a general increase in activity between 1948 and 1949, and it appears that with the improvement in supplies of timber and certain types of structural steel, shortages of materials are no longer a serious limiting factor.

Energy Consumption

Europe's total consumption of the principal forms of energy, which about equalled the pre-war level in 1948,

¹ For more detailed figures on the production of textiles and other industrial commodities, see Statistical Appendix.

rose by about 5 per cent in 1949, or rather less than industrial production. Detailed figures by countries are shown in Table 9. Compared with pre-war there has been an increase of nearly 50 per cent in the consumption both of electric power and of petroleum products, and a fall of about 8 per cent in the consumption of hard coal, coke and brown coal outside electric-power plants. The consequent shift in the relative importance of the chief forms of energy is shown in the following table:

Relative Consumption of Principal Types of Energy
(in percentages of total energy consumption)

	1938	1948	1949
Coal, coke and brown coal ^a	77.2	68.4	67.9
Electric power	14.9	20.6	20.7
of which : thermal	9.1	11.9	12.8
hydro	5.8	8.7	7.9
Petroleum products	7.9	11.0	11.4
Total	100.0	100.0	100.0

^a Excluding consumption in electric-power plants.

Table 9
CONSUMPTION OF ENERGY
Millions of tons, coal equivalent

Country	COAL, COKE AND LIGNITE ^a			ELECTRIC POWER			MINERAL OIL			TOTAL		
	1938	1948	1949	1938	1948	1949	1938	1948	1949	1938	1948	1949
Austria	3.8	7.2	7.7	1.9	3.0	3.0	0.6	1.5	1.4	6.3	11.7	12.1
Belgium-Luxembourg	26.5	26.3	24.6	3.3	5.0	5.2	1.2	2.5	2.6	31.0	33.8	32.4
Czechoslovakia	19.7	26.8	28.0	2.6	4.7	5.2	0.6	0.6	..	22.9	32.1	33.9
Denmark	4.7	3.4	4.6	0.7	1.1	1.1	1.3	1.9	2.1	6.7	6.4	7.8
Finland	1.5	1.7	0.7	1.9	1.8	2.2	0.4	0.8	0.5	3.8	4.3	3.4
France	62.4	59.9	67.6	11.7	17.4	17.8	11.6	11.5	14.9	85.7	88.8	100.3
Germany	177.8	..	..	35.1	30.9	34.8	8.1	..	..	221.0	..	..
of which Western zones	..	73.4	83.6	21.1	21.1	24.7	..	3.4	5.3	..	97.9	113.6
Italy	13.6	8.7	8.4	9.7	14.3	13.0	3.7	4.1	4.6	27.0	27.1	26.1
Netherlands	10.6	10.7	11.3	2.2	3.2	3.8	2.3	4.4	4.3	15.1	18.3	19.4
Norway	2.7	1.6	1.1	6.2	7.8	9.6	0.9	2.2	2.2	9.8	11.6	12.9
Poland	24.3	36.9	38.6	2.5	4.7	5.0	0.8	..	..	27.6	..	..
Spain	6.3	10.8	11.0	1.7	3.8	3.1	0.5	1.6	1.9	8.5	16.2	16.0
Sweden	7.5	6.8	5.7	5.2	8.9	10.1	2.0	5.3	4.9	14.7	21.0	20.7
Switzerland	3.5	2.6	1.9	4.4	6.7	6.0	0.7	1.4	1.5	8.6	10.7	9.4
United Kingdom	178.3	172.7	172.4	15.3	29.2	30.9	17.0	28.4	27.7	210.6	230.3	231.0
Other European countries	15.4	17.0	16.3	3.8	5.5	6.0	5.6	7.5	8.9	24.8	30.0	31.2
Total Europe (excl. U.S.S.R.)	559	493	513	108	148	157	57	79	86	724	720	756
<i>Index numbers - 1938 = 100 :</i>												
<i>Total, including Germany .</i>	<i>100</i>	<i>88</i>	<i>92</i>	<i>100</i>	<i>137</i>	<i>145</i>	<i>100</i>	<i>138</i>	<i>150</i>	<i>100</i>	<i>99</i>	<i>104</i>
<i>Total, excluding Germany .</i>	<i>100</i>	<i>103</i>	<i>105</i>	<i>100</i>	<i>161</i>	<i>167</i>	<i>100</i>	<i>151</i>	<i>161</i>	<i>100</i>	<i>116</i>	<i>119</i>

Sources : The figures have been derived from data supplied by the Coal Division and the Power and Steel Division, Economic Commission for Europe, and national statistics. For details of the methods of computation, see Appendix B.

NOTE. -- The figures include the total consumption of coal, coke, lignite, electric power and mineral oil unless otherwise indicated. No adjustment has been made for fuelwood consumption. The figures for 1938 refer to pre-war territories ; those for the post-war years, to the post-war areas.

^a Excluding coal and lignite consumed by electric-power plants.

The corresponding changes in the consumption of the primary sources of energy, independently of the form in which they are used by the ultimate consumer, is shown below. The consumption of petroleum products, hydro-electric power and brown coal was considerably higher in 1949 than in 1938, while that of hard coal was almost the same.

Total Consumption of the Primary Sources of Energy

	Unit	1938	1948	1949
Coal	million tons	561	514	540
Brown coal	million tons	234	236	259
Hydro-electric power . .	billion kWh	65.2	99.7	94.6
Petroleum products . .	million tons	38.1	52.8	56.8
Total, in coal equivalent.	million tons	724	720	756

The most important general causes of the large increase in European petroleum consumption since the war have been the substantial expansion of the road haulage industry and the substitution of fuel oil for coal both for merchant shipping and in industry, where it was accelerated by the fuel shortage in the early post-war years. The consumption of motor spirit, however, is still well below pre-war owing to the restrictions on private motoring in many countries. In 1949, over half of the increase of four million tons in total petroleum consumption compared with 1948 occurred in France, where there was a substantial increase in fuel-oil consumption as a result of the general expansion in economic activity, and the consumption of motor spirit also rose after the abolition of petrol rationing in the summer. The substitution of fuel oil for coal appears to have been carried furthest in the coal-importing countries which suffered most from the coal shortage during and after the war. Plans drawn up before devaluation had provided for a further substitution of fuel oil for coal in many countries, but this may now be checked by the change in their relative prices.

The increase in the use of electric power since 1938 is common to all European countries. It has been greatest in the United Kingdom, where the relative importance of electricity as a source of energy was smaller before the war than in any other country shown in Table 9, and where it now accounts for 13 per cent compared with just over 7 per cent of total energy consumption, output having more than doubled between 1938 and 1949. There have also been increases of 50 per cent or more in France and Sweden and a number of other countries. Electricity now provides half of Sweden's total consumption of energy, and

an even larger proportion in Italy, Switzerland, Norway and Finland, where electric-power production has been highly developed by exploiting the large natural resources of water-power. In 1949, the output of hydro-electric power fell in south-western Europe owing to the drought, but there was a further sharp increase in output from thermal plants to about 50 per cent above the 1938 level.

These changes in the relative use of different types of fuel, involving as they do the development of the more efficient fuels, have contributed to the decline since the war in total energy consumption relatively to industrial output. As was shown in Table 5, total energy consumption in 1949 was only 4 per cent greater than in 1938, whilst industrial production had risen by 10 per cent. While this is partly due to the reductions in the domestic consumption of fuel that have been enforced in many countries in order to save fuel for industry, there has also been a genuine improvement in the efficiency of fuel utilization in industry in some countries, and a relative expansion, notably in the United Kingdom and Sweden, of industries with a low fuel consumption per unit of output.

Industrial Production in the U.S.S.R.

The volume of gross industrial production in the Union of Soviet Socialist Republics rose by 20 per cent between 1948 and 1949. Compared with the previous year, when production increased by 27 per cent, there was thus a moderate decline in the rate of increase in output similar to that in other European countries.

The quarterly indices of industrial production for the Soviet Union since the war are based on a comparison of production in the corresponding quarters of successive years, but it is possible to link these index numbers with pre-war and to express them as percentages of gross industrial output in 1940. Both series are given in the following table:

Quarterly Movement of Industrial Production in the U.S.S.R.

	(corresponding period of previous year=100)		(estimated production in 1940=100)	
	1948	1949	1948	1949
First quarter . . .	132	123	109	134
Second quarter . .	124	120	112	135
Third quarter . . .	123	117	121	141
Fourth quarter . .	128	120	128	153
Year . . .	127	120	118	141

Although the annual rate of increase declined in 1949, it remained substantially higher than before the war, and in the fourth quarter output was 53 per

cent greater than in 1940, thus exceeding the increase of 48 per cent planned for the year 1950. For 1949 as a whole the increase in output over 1940 was

Table 10
INDUSTRIAL PRODUCTION IN THE U.S.S.R.
Quantities and index numbers — 1940 = 100

Commodity	OUTPUT IN PHYSICAL QUANTITIES				INDEX NUMBERS (1940 = 100) ^a			
	Unit	Actual production		Planned production	Actual production			Planned production
		1938	1940	1950	1947	1948	1949	1950
<i>Energy</i>								
Coal	Million tons	133	166	250	111	126	142	151
Crude oil	Million tons	32	31	35.4	86	97	110	114
Electric power	Billion kWh	39.6	48.2	82.0	118	137	162	170
<i>Basic materials</i>								
Pig iron	Million tons	14.6	14.9	19.5	77	94	114	131
Crude steel	Million tons	18.0	18.3	25.4	73	93	115	139
Rolled steel	Million tons	13.3	13.2	17.8	76	97	124	135
Copper	Thousand tons	103	161	225	101	121	145	140
<i>Engineering products</i>								
Steam locomotives	Number	..	917	2,200	63	97	112	240
Electric motors	Thousands	..	..	633	..	..	250 ^b	..
Metal-cutting machine-tools	Thousands	39	50	74	..	..	..	148
Tractors	Thousands	32	31	112	92	187	300 ^b	360
Equipment for iron and steel mills	Thousand tons	17	28	103	162	315	400 ^b	368
<i>Chemicals</i>								
Mineral fertilizers	Million tons	..	2.6	5.1	62	89	115	196
Synthetic dyes	Thousand tons	35	..	43	..	..	..	..
Soap	Thousand tons	495 ^c	..	810	..	..	..	..
<i>Building materials</i>								
Cement	Million tons	5.7	5.8	10.5	82	114	143	181
Window glass	Thousand tons	60	44	80	..	..	..	182
Industrial timber	Million cubic metres	111 ^c	119	190	74	99	114	159
<i>Light industry</i>								
Cotton fabrics	Million metres	3,491	3,886	4,686	65	80	91	121
Wool fabrics	Million metres	114	112	159	81	103	122	141
Leather footwear	Million pairs	213	205	240	53	65	79	117
<i>Food products</i>								
Butter	Thousand tons	185 ^c	207	275	97	133	141	133
Vegetable oil	Thousand tons	495	..	880	..	..	..	..
Fish (catch)	Million tons	1.6	1.5	2.2	110	112	137	150
Sugar	Million tons	2.5	2.15	2.4	49	83	102	112

Sources: The figures are derived from official Soviet publications and Ministerial statements. For details, see Appendix B.

^a The level of production in post-war years is shown on a 1940 basis (rather than on a 1938 basis as for other countries) since the data available from Soviet sources are related to 1940 and are not directly linked to an earlier year.

^b Approximate figures, based on a statement by G. M. Malenkov, Deputy Chairman of the Council of Ministers of the U.S.S.R., reported in *Pravda*, 10 March 1950.

^c 1937.

41 per cent.¹ During the year the number of manual and office workers (excluding collective farmers and other self-employed workers) rose by 1.8 million, or a little over 5 per cent, and reached a total of 35 to 36 millions. While an increase in employment thus made a substantial contribution to the increase in industrial output, the greater part appears to have arisen from an increase in output per man, which, having exceeded the pre-war level for the first time in 1948, is officially estimated to have risen by 13 per cent in 1949.

The movement of production in some selected industries is shown in Table 10. The greatest rate of increase in output was again in the engineering industries, and it is in them that the largest expansion compared with pre-war is planned. Such basic industries as coal, oil, electric power, and steel fully main-

tained their rate of expansion, and several of them reached the level of output planned for 1950 in the last quarter of 1949. On the other hand, the rate of expansion in textiles was lower than in the previous year, and the output of both cotton fabrics and leather footwear in 1949 remained below the pre-war level. The total output of consumption goods, however, is stated to be higher than before the war.

Comparing the rates of expansion for the products of heavy and light industry, there thus appears to have been some tendency for the restoration of production in the Soviet Union to be accompanied by a further increase in the relative importance of heavy industries, whose development was already emphasized before the war. In addition, there has also been a substantial shift in the location of industry. By the last quarter of 1949 the over-all industrial output of the western areas occupied during the war had been restored to the 1940 level. At the same time, the industrial output of the remainder of the Soviet Union had risen to some 80 per cent above the pre-war level, and now represents about four-fifths of the total industrial output of the country, as against two-thirds in 1940.

¹ If 1938 is used as a base, as in the production indices of other European countries, the increase compared with pre-war is considerably greater. None of the current Soviet figures of industrial production, however, is linked to a pre-war year earlier than 1940; and the increase of 30 per cent between 1938 and 1940 shown in the pre-war figures is difficult to reconcile with the published figures for the increase in the output of basic commodities in that period, shown in Table 10.

2. AGRICULTURAL PRODUCTION

Agricultural production in Europe, which has recovered much more slowly since the war than industrial production, did not increase significantly in 1949, and for Europe as a whole remained at only 90 per cent of the pre-war level. There was a very bad harvest in Turkey owing to the drought, and, as may be seen from the indices in Table 11, there were moderate reductions in total agricultural output in a number of other countries, chiefly as a result of the poor potato harvest. Substantial increases in output of 10 per cent or more occurred only in Austria, Czechoslovakia and Germany, where production had previously recovered less rapidly than in other countries, and also in the Netherlands, where output is now substantially above the pre-war level. Apart from the Netherlands, the only countries where output in 1949 was substantially higher than before the war were Denmark, Sweden and the United Kingdom, all countries of north-western Europe. The decline in the potato crop in 1949 was partly the result of the summer drought; but in some countries, notably France, there was also a

reduction in the area under potatoes owing to the low price after the large crops of 1948. Only in Poland, where the 1948 crop was abnormally low, was there any substantial increase in output, and there the crop was still one-fifth below the pre-war average. Much land in the former German territories now incorporated into Poland, which were an important potato-growing area before the war, has been turned over from potatoes to cereals and other crops.

The main feature of the slow recovery of agriculture up to 1948 was the low level of output of animal products. As can be seen from Table 12, the output of cereals, potatoes and sugar beet was restored to within 5 to 10 per cent of the pre-war level by 1948. The output of meat and milk, the two main animal products, remained, however, far below pre-war. This trend was to some extent reversed in 1949, when there was an increase of 10 per cent in the output of both milk and meat, while the production of cereals increased by less than 2 per cent and that of potatoes declined by more than 10 per cent.

Table 11

THE LEVEL OF AGRICULTURAL PRODUCTION

Index numbers based on 1934-1938 and 1948

Country	Relative net value of production in 1934-1938	1934-1938 = 100		1948 = 100
		1948	1949	1949
Austria	1.9	72	85	118
Belgium-Luxembourg .	1.8	91	96	106
Bulgaria	1.6	95	96	101
Czechoslovakia	4.1	76	88	115
Denmark	2.0	107	112	104
Finland	1.0	95	97	102
France	16.1	89	87	98
Germany ^a	14.6	84	94	112
Greece	1.8	74	70	94
Hungary	2.9	95	94	99
Ireland	1.3	101	91	90
Italy	10.3	93	101	109
Netherlands	2.5	100	112	112
Norway	0.6	107	101	95
Poland	10.5	64	70	109
Portugal	1.5	89	91	102
Rumania	3.1	91	96	105
Spain ^b	5.3	79	74	94
Sweden	2.0	108	109	101
Switzerland	1.3	101	97	97
Turkey	4.5	106	75	71
United Kingdom	6.0	127	119	94
Yugoslavia	3.3	92	88	96
Total of countries listed:				
including Germany ^a	100.0	89	91	102
excluding Germany .	85.4	90	90	100

Sources: The index numbers have been calculated by the Research and Planning Division, Economic Commission for Europe, on the basis of data supplied by the Food and Agriculture Organization of the United Nations. For details of the methods of computation, see Appendix B.

NOTE.—The indices refer to the calendar year January-December. They have been computed by combining estimates of the output of animal products during the calendar year with crops harvested during the crop year (July-June) beginning in the same calendar year.

All indices refer to post-war territories.

In many instances, the indices given in the table differ considerably from those published by individual countries. Where this difference does occur, it can be attributed mainly to variation in methods of calculation.

^a Four zones of occupation.

^b 1931-1935 = 100.

Major Agricultural Products

Although the total output of cereals in Europe did not increase substantially between 1948 and 1949, there were significant increases in the output of bread grains in some countries. As may be seen from Table 13, the improvement was most marked in Czechoslovakia and Poland, where the pre-war level of output was nearly reached, and in western Germany where it was exceeded. In France the

Table 12

PRODUCTION OF MAJOR FOODSTUFFS

IN EUROPE ^a

Millions of tons

Commodity	1934-1938	1948	1949 ^b
Bread grain	65.4	59.6	60.8
Coarse grain	58.8	54.6	54.0
Total grain	124.2	114.2	114.8
Potatoes	134.9	136.1	121.4
Sugar beet (sugar content) .	6.6	6.9	6.9
Meat ^c	12.2	7.7	8.5
Milk ^d	102.7	75.6	82.8
Butter ^d	1.7	1.1	1.3
Cheese ^d	1.5	1.1	1.2
Eggs ^e	2.3	2.0	..
Fish	4.8	5.5	5.2

Source: Food and Agriculture Organization of the United Nations.

NOTE.—The figures for crops refer to harvest years beginning in July of the years mentioned. Data on livestock products refer to calendar years. All figures refer to the post-war boundaries of Europe.

^a Excluding the U.S.S.R.

^b Provisional.

^c Dressed carcass weight, excluding poultry but including offals. Production of meat in Turkey is not included.

^d Excluding production of Turkey.

^e Excluding production of the Soviet Zone of Germany.

harvest was sufficient to provide a small surplus for export in 1950. These increases in the production of bread grains were, however, offset by the severe fall in output in Turkey owing to the drought, and by the small reductions in output in a few other countries, including the United Kingdom. The output of coarse grains also fell heavily in Turkey and, since the expansion elsewhere was less pronounced than that of bread grains, the European total declined slightly.

The failure of cereal output to regain its pre-war level does not appear to be attributable to low yields. Largely owing to the increased use of fertilizers and agricultural machinery, average crop yields per hectare have been rapidly restored since the war, and were slightly above the pre-war level in 1949, though the average yield in eastern Europe is still far below that in western Europe, partly owing to differences in soil and climate, and partly to a smaller use of fertilizers and less advanced methods of cultivation. The basic reason for the lower level of cereal production in relation to pre-war is the reduction in the area devoted to these crops, which in 1949 was about

Table 13
PRODUCTION OF MAJOR AGRICULTURAL CROPS
Millions of tons

Country	BREAD GRAIN			COARSE GRAIN			SUGAR BEET ^a			POTATOES		
	1934-1938	1948/49	1949/50	1934-1938	1948/49	1949/50	1934-1938	1948/49	1949/50	1934-1938	1948/49	1949/50
Austria	0.96	0.55	0.72	0.90	0.45	0.62	0.18	0.05	0.07	2.85	2.07	2.23
Belgium	0.87	0.53	0.69	0.75	0.56	..	0.24	0.26	0.35	3.17	2.13	1.91
Czechoslovakia	3.08	2.52	2.91	2.49	2.09	2.45	0.63	0.63	0.63	9.64	6.58	6.26
Denmark	0.65	0.65	0.77	2.91	3.16	3.36	0.19	0.27	0.31	1.35	2.94	1.79
Finland	0.48	0.46	0.45	0.83	0.85	0.79	0.01	0.02	0.02	1.11	1.95	1.25
France	8.91	8.27	8.51	6.19	5.11	4.76	0.97	0.96	0.86	17.16	17.54	10.42
Germany : Western zones ^b	5.65	4.71	5.99	4.91	3.33	4.27	0.51	0.62	0.60	19.98	23.72	21.00
Soviet Zone . .	3.63	2.94	2.95	2.62	1.24	..	0.78	0.68	0.56	13.63	12.41	12.50
Greece	0.81	0.81	0.75	0.56	0.53	0.46	—	—	—	0.14	0.30	..
Hungary	2.92	2.37	..	3.18	3.89	..	0.12	0.24	0.26	2.13 ^c	2.12 ^c	2.72
Ireland	0.18	0.42	..	0.71	0.91	0.79	0.08	0.09	0.10	2.58	3.33	2.64
Italy	7.40	6.25	7.07	3.76	2.97	2.93	0.34	0.45	0.50	2.63	3.01	2.61
Netherlands	0.93	0.69	0.94	0.47	0.45	0.61	0.24	0.28	0.38	2.72	5.87	4.61
Norway	0.07	0.08	0.06	0.32	0.28	0.23	—	—	—	0.89	1.45	1.07
Poland	8.82	7.92	8.60	4.46	3.41	..	0.95	0.70	0.83	38.01	26.76	29.50
Portugal	0.58	0.45	0.54	0.43	0.53	0.43	—	—	—	0.56	0.99	..
Rumania	2.77	..	..	5.16	..	..	0.07	0.11	0.12	1.24 ^c	1.63 ^c	1.77
Spain	4.92 ^d	3.45	3.04	3.77 ^d	2.79	2.77	0.31 ^d	0.27	0.18	4.95 ^d	3.40	3.80
Sweden	1.11	1.02	0.99	1.72	1.56	1.71	0.31 ^e	0.29	0.28	1.85	2.28	1.66
Switzerland	0.19	0.22	0.22	0.03	0.12	0.13	0.01	0.03	0.02	0.74	1.14	0.85
Turkey	4.08	5.37	2.75	2.91	3.20	2.21	0.06	0.13	0.15	0.18	0.46	..
United Kingdom	1.75	2.45	2.23	2.80	5.07	4.96	0.47 ^f	0.63	0.50	5.01	11.99	9.00
Other European countries .	4.63	4.71	4.73	6.87	6.62	5.99	0.10	0.17	0.16	2.36	1.99	2.26
Total Europe (excluding U.S.S.R.) . . .	65.40	59.60	60.80	58.75	54.60	53.95	6.55	6.90	6.90	134.90	136.10	121.40
Index numbers : 1934-1938 = 100	100	91	93	100	93	92	100	105	105	100	101	90

Sources: The figures have been taken from *Food and Agricultural Statistics*, Food and Agriculture Organization of the United Nations; *Sugar*, C. Czarnikow, Ltd., London, and national statistics.

NOTE.—“Bread grain” include wheat and rye. “Coarse grain” include barley and oats in all instances. In addition, they include maize for Austria, Czechoslovakia, France, Greece, Hungary, Italy and Portugal and

mixed grain for Denmark, Germany, Norway and Sweden. All figures refer to the crop year, July-June, and to post-war boundaries.

^a Sugar content.

^d 1931-1935.

^b Including the Saar.

^e 1935-1939.

^c Main crop only.

^f 1935-1938.

10 per cent less than before the war. This may be seen from Table 14, in which the figures have been adjusted to allow for the changes in Europe's frontiers. The reduction appears to be primarily the result of changes in crop policy as a result of the emphasis which has been given to the production of root crops, vegetables, fruit, oleaginous crops and animal feeding-stuffs other than cereals. This further diversification of production through the development of high-value or “more intensive” products is in conformity with the long-term trends in the pattern of

Table 14
AREA, OUTPUT AND YIELD OF GRAIN IN EUROPE,
EXCLUDING TURKEY

Index numbers—1934-1938 = 100

	WHEAT AND RYE		BARLEY AND OATS ^a		MAIZE	
	1948/49	1949/50	1948/49	1949/50	1948/49	1949/50
Area . . .	92	91	88	88	98	90
Yield . . .	95	103	98	105	103	99
Output . .	88	94	86	93	101	89

Sources: *Food and Agricultural Statistics*, Food and Agriculture Organization of the United Nations.

NOTE.—The figures refer to the harvest years beginning in July of the years mentioned. Data for the U.S.S.R. are not included in the table.

^a Excluding mixed grain.

European agriculture and reflects the relative advantages offered by the present structure of agricultural prices.

As has already been mentioned, the number of livestock is still lower than before the war owing to the heavy losses during the war and the slow rate at which herds can be rebuilt. It rose substantially, however, in 1948/49, as may be seen from Table 15. The greatest increases, of about 20 per cent, were in pigs and poultry; and in some countries, such as Denmark, further increases are limited by available supplies of feeding-stuffs and particularly of coarse grains. The number of sheep and cattle increased by 7 to 8 per cent, and nearly reached the pre-war level.

Table 15

**NUMBERS OF LIVESTOCK AND POULTRY
ON FARMS IN EUROPE ^a**

Millions

Type of animal	1934-1938	1947/48	1948/49	1948/49 as percentage of 1934-1938	1948/49 as percentage of 1947/48
Horses ^b	25.7	22.8	23.2	90	102
Cattle	109.6	99.7	106.7	97	107
Sheep ^c	169.2	149.0	160.9	95	108
Pigs	79.6	50.1	61.7	78	123
Poultry	725.6	518.1	619.1	85	119

Sources: Food and Agriculture Organization of the United Nations.

NOTE.—All figures refer to the present boundaries of Europe. For post-war years, the figures for individual countries, from which the European totals are derived, are based on national censuses taken in different seasons.

^a Excluding the U.S.S.R.

^b Including mules and asses in countries where they are numerous.

^c Including goats in countries for which figures are available.

Only in eastern Europe was the number of cattle still far below pre-war in 1949, while in southern Europe there was a substantial increase owing to the rise in the number of cattle in Italy. The number of horses, on the other hand, is still 10 per cent lower than before the war, though the position varies considerably between different areas. In north-western and western Europe, which are relatively well supplied with tractors, the number of horses declined slightly in 1948/49; but it is still rising in southern and eastern Europe, where war losses were high and where there is now a shortage of tractive power. Here too, however, it is likely to decline in the long run as a result of competition from the tractor.

The increase in animal numbers, better pastures, and the improved supply of feeding-stuffs resulted in a considerable improvement in the output of livestock products in 1949, as shown in Table 12. Milk production was some 10 per cent higher than in 1948, but was still some 20 per cent lower than the 1934-1938 average. Output rose in western Germany but still remained about one-third below pre-war. There were also substantial increases in Denmark, France and the Netherlands, but in Denmark output was one-tenth lower than before the war. Similarly, the output of meat, although one-tenth higher than in 1948, was still about 30 per cent below the pre-war level both in eastern and western Europe. The low output of animal products in relation to the number of animals, which, as has been shown, is approaching the pre-war level, is characteristic of periods when the number of cattle is increasing rapidly. Meat production tends to fall owing to the lower rate of slaughtering, and the lower average age of dairy cows causes a reduction in milk yield. Later, as age distribution becomes more normal, the output of animal products may be expected to rise faster than the number of livestock.

Agriculture in the U.S.S.R.

In the Soviet Union the gross value of agricultural production is officially stated to have reached the pre-war level in 1948 and to have exceeded it in 1949. Figures showing the actual value of output in these years, however, are not available. Compared with 1948 there was an increase of about 4 per cent in the area under crops, which, however, fell short of the pre-war level by 5 per cent. The grain crop is estimated at 124.5 million tons, which represents an increase of some 8 to 9 million tons over 1948 or of about 5 per cent over 1940. The output of other major crops such as cotton, flax, sunflower seeds, sugar beet and potatoes also exceeded the pre-war level, in some cases substantially. Comparing the crop estimates with the area under cultivation, crop yields per hectare in 1949 appear to have been higher than in 1940. The amount of machinery on farms increased considerably, and there are indications that in 1949 the stock of tractors was about as large as before the war. The supply of fertilizers also improved, and further progress was made with the introduction of crop rotation systems. No statistics on total livestock numbers in the country have been published,

and detailed comparisons with pre-war therefore cannot be made. The available information indicates, however, that the war losses have largely been made good and that the increase in animal numbers was larger than in previous years as breeding programmes were no longer limited by the supply of feeding-stuffs. During the year 3,700 square kilometres were planted with trees to form shelter belts which, together with the construction of irrigation systems, are designed to improve soil conditions in the steppe and forest-steppe areas of the European part of the Soviet Union.

* * *

In order to summarize the over-all development of production in Europe in the past year, estimates have been made of the value in constant prices of the aggregate net output of industry, building, agriculture, forestry and fishing and of the supply of commodities available for home use after allowance for foreign trade. These estimates are presented in detail in the Statistical Appendix. A summary of the estimates of total output is given in the form of index numbers in Table 16 opposite, which show that commodity output has been restored to the pre-war level in all European countries for which figures are available except Germany.

Table 16
THE LEVEL OF COMMODITY PRODUCTION
Millions of dollars in 1938 prices and index numbers

Country	Pre-war (millions of dollars)	Index numbers (pre-war = 100)		
		1947	1948	1949
Austria	699	57	80	104
Belgium-Luxembourg . . .	1,214	101	109	111
Bulgaria	268	87	115	128
Czechoslovakia	1,552	79	93	101
Denmark	643	111	121	128
Finland	404	102	107	103
France	5,822	92	105	111
Germany	12,971	39	49	65
Ireland	316	102	115	113
Italy	3,344	90	94	101
Netherlands	1,131	91	109	123
Norway	388	109	121	127
Poland	2,153	82	100	114
Sweden	1,322	124	129	132
United Kingdom	8,698	109	122	129
Other European countries .	5,873	100	110	112
Total Europe ^a				
including Germany . . .	46,798	82	93	102
excluding Germany . . .	33,827	98	110	116

Sources : The figures are derived from Table IV in Appendix C.

NOTE. — "Commodity production" includes the output of industry, building, agriculture, fishing and forestry.

The figures for the pre-war years refer to pre-war territories ; the post-war figures to post-war territories.

The pre-war data for agriculture and forestry, upon which the figures are based, relate to the average of the years 1934-1938; for industry, building and fishing, they refer to 1938.

^a Excluding the U.S.S.R.

Chapter 2

THE ALLOCATION OF RESOURCES

1. CHANGES IN REAL INCOME

As was shown in the preceding chapter,¹ the total output of commodities in Europe, measured in terms of 1938 dollars, slightly exceeded the pre-war level in 1949. Estimates of the corresponding changes in real income based on national statistics are shown for seventeen countries in Table 17. Real income in almost all European countries increased still further

in 1949 and has reached or surpassed the pre-war level, in some cases substantially.² Except in Czechoslovakia and Poland, however, the population has

general, the estimates are derived from calculations of the national income in terms of constant pre-war prices. This normally yields higher percentage increases than calculations in terms of constant post-war prices, owing to the fact that the relative prices are normally lower in those sectors of the economy which show the greatest increases in production. Thus the Polish national income in 1948 is estimated at 96 per cent of 1938 in terms of 1937 prices; if re-calculated in terms of 1947 prices, the 1948 national income is only 83 per cent of 1938, owing to the fact that agricultural prices rose much more than industrial prices over the period, while the structure of the economy changed in favour of industry. There is of course no reason to assume that either pre-war or post-war national prices correspond to world prices on which the calculations in Table 16 are based.

¹ See Table 16 and Statistical Appendix, Table IV.

² The estimates in Table 17 follow the definition of national income adopted in each country. This definition excludes government administration and services not connected with the distribution of commodities in the Soviet Union, Bulgaria, Hungary and Poland; in so far as these services have not increased as fast as commodity production, this should be taken into account in making comparisons between countries. In

Table 17
THE LEVEL OF REAL INCOME
Index numbers—pre-war year = 100

Country	Pre-war year	Total real income			Real income per head		
		1947	1948	1949	1947	1948	1949
Bulgaria	1939	..	110	..	..	97	..
Czechoslovakia	1937	84	97	..	105	121	..
Denmark	1938	111	113	119	101	102	106
Finland	1938	100	107	109	93	99	100
France	1938	93	100	103	94	100	101
	1929	82	88	91	83	88	89
Germany: Western zones ^a	1936	..	..	102	..	..	83
Greece	1939	64	64	74	61	59	67
Hungary	1938	..	..	124	..	..	123
Italy	1938	84	90	97	80	86	92
Netherlands	1938	92	106	114	83	94	100
Norway	1938	114	122	129	106	112	117
Poland	1938	78	96	109 ^b	115	140	157 ^b
Spain	1939	132	130	..	122	120	..
	1929	97	96	..	82	80	..
Sweden	1938-1939	125	129	130	115	118	118
Turkey	1936	149	174	..	124	143	..
U.S.S.R.	1940	..	116	136	..	..	..
United Kingdom	1938	115	119	125	110	113	118

Sources: The indices are derived from national statistics supplemented by estimates of the Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—The data in this table are particularly subject to error and must be treated with caution. Estimates of real national income are based, in general, on estimates of national output expressed in constant prices. For Denmark, Sweden, Turkey and the United Kingdom, they are based on esti-

mates of national expenditure expressed in constant prices. Apart from statistical differences, the two concepts differ in so far as the second, but not the first, makes allowance for changes in terms of trade. This difference, however, is small in relation to total national income.

^a Excluding Berlin.

^b Plan figure.

increased¹ and the rise in real income per head is correspondingly smaller. In Norway, Sweden and the United Kingdom, real income per head is about one-sixth above the pre-war level. In France and several other countries it reached the 1938 level, but in France it is still one-tenth below the 1929 peak. In Italy, real income per head is still below pre-war by about one-tenth; in western Germany and Spain (in comparison with 1929) by about one-fifth; and in Greece by about one-third. The substantial rise in the national income of the Soviet Union cannot be translated into income per head as no comparative data on population changes are available.

In interpreting these estimates as a measure of changes in economic well-being, three important factors must be borne in mind. First, the composition of the national income is different from pre-war; in general, industrial output has expanded relatively to agricultural production, and within industry the sectors producing capital goods have expanded relatively to those producing consumers' goods. Second, the allocation of the national income has changed; the share of capital formation has everywhere risen substantially and in most countries the share of government consumption has also risen, but more moderately, while the share of personal consumption has generally fallen. Finally, the distribution of incomes has changed; in most countries, the share of wages in the national income has risen and the inequality in personal incomes has been reduced.

Some of these changes were the inevitable result of the war, while others were deliberately fostered by the policies of governments. Their combined effect, however, has been to intensify the inflationary pressure with which governments have had to contend, because the volume of goods and services available to satisfy individual needs remained lower than pre-war at a time when the community's propensity to spend had been increased by the more equal distribution of income. However, with the gradual improvement in the supply of consumers' goods, and of necessities in particular, and the continued improvement in the budgetary position, the inflationary pressure, as is shown in Chapter 3, has largely been overcome.

Changes in the Composition of the National Income

The main change in the composition of European production since the war is the rise in the proportion

derived from industry. This is partly a legacy of the wartime expansion of certain industries, but in several countries it also reflects the continuation at an accelerated rate of the process of industrialization, and even more, the failure of agriculture to regain pre-war levels of output. Compared with industry, the recovery of agriculture in Europe has been slow; in some countries, the destruction of agricultural capital was large while industry actually expanded during the war. In most countries, the rise in real income is the result of a considerable rise in industrial production which has more than offset a fall in agricultural output.

With the exception of western Germany, the contribution of industry (including manufacturing, mining, handicrafts and building) to the national income has increased in all countries, the magnitude of the change being indicated by the following figures:²

Net Output of Industry as a Percentage of the National Income

	1938	1949
Bulgaria	17	28 ^a
Denmark	28	32
Finland	32	39 ^a
France	35	41
Western Germany ^b	52	45
Greece	20	24
Hungary	39	44
Italy	32	35
Netherlands	32	35
Norway	43	46
Poland	34	44
Sweden	49 ^c	56

^a 1948.

^b 1936 and 1948/49.

^c 1938-1939.

The increases were greatest in the eastern European countries (in Poland this was partly the result of territorial changes), but were also substantial in the three Scandinavian countries, France and Finland. It is to be noted that, as measured by the proportion of the national income derived from industry, the degree of industrialization in Norway, Poland and Hungary now appears to be higher than in France or Italy.

² National income figures were here adjusted to uniform definitions and the proportions are calculated in terms of pre-war prices. To the extent that the internal price structure of the different countries (particularly as between industry and agriculture) differed before the war, the proportions shown for the different countries are not strictly comparable. Unless detailed estimates were available, the figures were obtained by extrapolating pre-war data with the aid of index numbers of industrial production and index numbers of real income.

¹ For details, see Statistical Appendix, Table I.

The Allocation of National Income

The allocation of the national income between major categories—personal consumption, government consumption, capital formation and the balance of payments—is shown in percentages for twelve countries in Table 18.¹

Since the end of the war, most countries of western Europe have been able, partly owing to the help given them by the United States and partly by drawing on their reserves of foreign exchange, to finance large deficits in their international transactions on current account and so increase their resources available for use at home. In 1949, with the improvement in their trading position and the need to minimize any further inroads on their reserves, the volume of these additional resources declined. Except in Norway, balance-of-payments deficits were reduced relatively to the national income, especially in Belgium, Sweden and France. They remained, however, as high as 7 per cent of net national income in the Netherlands, 14 per cent in Norway and 20 per cent in Austria. The decline in balance-of-payments deficits was chiefly reflected in the level of personal consumption, which, while increasing in absolute terms, generally declined as a percentage of net national income, again with the exception of Norway. Outside Germany, the percentage in 1949 ranged from about 70 in the Netherlands and the United Kingdom to 79 in Italy, for the countries for which figures are available.

The share of government consumption remained roughly unchanged in 1949, but variations between countries were considerable, the proportion of net national income for which it accounted ranging from 10 per cent in Finland² to 26 per cent in Austria. Detailed figures of government expenditure and revenue, in which there were no major movements, are given in the Statistical Appendix. Compared with pre-war, the share of government consumption has increased substantially in the United Kingdom, the

Netherlands and the Scandinavian countries, partly because public authorities now provide some services which before were provided privately. In Italy it has fallen considerably from the inflated level of 1938, and it shows little change elsewhere. After the war, it was hoped that expenditure on defence would fall compared with pre-war to an extent that would more than offset the cost of expanding social services. These hopes have not been realized, and in most countries defence expenditure now accounts for a larger percentage of the national income than in a normal pre-war year. In 1949 the percentage was tending to rise rather than to fall.³

Except in Belgium, Sweden, France and the United Kingdom, the share of the national income devoted to capital formation continued to rise in 1949; and, except in Sweden, where it has been sustained at a high rate over a long period, it is substantially higher than before the war. As a percentage of net national income, net capital formation in 1949 varied from 7 per cent in Belgium to 19 per cent in the Netherlands and 26 per cent in Norway.

Changes in the Distribution of Incomes

In most European countries there has been a shift compared with pre-war in the distribution of income in favour of the lower-income groups. This is the combined result of increases in the general level of wages in relation to other incomes, of changes in the wage structure in favour of the lower-paid workers, of the expansion of social security benefits, of food and housing subsidies and rent control, and of the expansion of social services such as health and education. The necessary increase in government expenditure for social services has largely been financed by taxation which falls less than proportionately on wage-earners.

One indication of this shift is the rise in the real earnings of wage-earners shown in Table 19. The real earnings of manual workers have risen by about one-quarter or more in the United Kingdom, Switzerland, the Scandinavian countries, Hungary, Czechoslovakia and Poland. In France and Italy, where social services have been greatly expanded, particularly in the form of family allowances, the position is more complicated. In both countries the real incomes of single wage-earners are lower than before the war, but those of married wage-earners with children are

¹ No new information as regards the percentage allocation of the national income has become available for the countries of eastern Europe. Corresponding figures for 1948 and earlier years for Czechoslovakia, Hungary and Poland were given in last year's SURVEY, Table 32, page 45. It can be assumed, however, that investment as a percentage of the national income continued to increase in these countries, because industrial production continued to increase relatively to agricultural production and because there is a close connection between investment activity and total industrial output.

² Excluding reparations deliveries.

³ See Statistical Appendix, Table III.

Table 18

THE ALLOCATION OF NATIONAL INCOME

Percentages of net national income at factor cost in current prices

Country and year	Personal consumption	Government consumption	Domestic capital formation			Balance of payments	Net national income
			Gross	Less depreciation, etc.	Net		
Austria 1937	69	26	13	8	5	—	100
1949	77	26	26	9	17	-20	100
Belgium 1938	75	16	13	7	6	3	100
1947	81	15	19	8	11	-7	100
1948	78	15	17	7	10	-3	100
1949	74	17	15	8	7	2	100
Denmark 1938	80	10	22	13	9	1	100
1947	80	14	23	14	9	-3	100
1948	78	13	25	15	10	-1	100
1949	77	13	27	15	12	-2	100
Finland 1938	70	12	27	10	17	1	100
1947	60	12	36	13	23	5	100
1948	62	10	39	13	26	2	100
France 1938	84	14	16	14	2	—	100
1948	78	15	26	13	13	-6	100
1949	75	15	24	13	11	-1	100
Germany : 1936	58	25	26	9	17	—	100
Western zones 1948/49	60	25	31	12	19	-4	100
Italy 1938	69	25	18	11	7	-1	100
1947	85	14	23	14	9	-8	100
1948	83	13	22	14	8	-4	100
1949	79	13	24	13	11	-3	100
Netherlands . . 1938	77	13	21	13	8	2	100
1947	79	21	30	15	15	-15	100
1948	74	18	31	14	17	-9	100
1949	70	18	33	14	19	-7	100
Norway 1939	74	11	37	22	15	—	100
1947	75	17	45	22	23	-15	100
1948	71	15	44	21	23	-9	100
1949	73	15	47	21	26	-14	100
Sweden . . 1938-1939	77	11	31	19	12	—	100
1947	76	15	37	21	16	-7	100
1948	74	15	34	21	13	-2	100
1949	72	16	32	22	10	2	100
Turkey 1936	64	28	..	..	5	3	100
1947	63	33	..	..	5	-1	100
1948	76	22	..	..	5	-3	100
United Kingdom 1938	79	15	17	9	8	-2	100
1947	71	23	21	10	11	-5	100
1948	71	18	22	11	11	—	100
1949	69	20	22	11	11	—	100

Sources: The figures have been derived from official and semi-official sources and have been adjusted to a common definition wherever possible. The details of estimation are given in Appendix B.

NOTE.—In general, it has been assumed that all indirect taxes and subsidies fall on personal consumption. For Denmark, France and the United Kingdom, however, indirect taxes have been distributed over all items. Expenditures on armaments and warlike stores have been included in government consumption. The figures for capital formation at home for all countries include stocks, with the exception of Finland and Turkey, where stocks are included in personal consumption.

The figures for balance of payments exclude receipts from private donations, personal remittances and official grants; whereas, the commodities and services imported on account of such grants are included in expenditure. Likewise, the exports of commodities on account of war reparations enter into receipts without being offset by a corresponding entry in expenditure. Consequently, the figures for the balance of payments on current account do not indicate net lending or borrowing abroad but rather the net exports of goods and services plus net income from investment abroad.

Table 19
THE LEVEL OF REAL EARNINGS
Index numbers—1938 = 100

Country	Type of worker	1947	1948	1949
Czechoslovakia ^a	All employees	96	103	..
	Manual workers	111	125	..
Denmark	Manual workers	108	114	119
Finland	Manual workers	..	126	..
France ^b	Manual workers			
	Earnings :			
	Net of taxes and contributions	..	..	80-104
	Including family allowances	..	..	92-119
	Including social services	..	..	93-120
Germany : U.K./U.S. Zone	All employees : net earnings ^f	..	..	67
	Industrial workers	..	..	78 ^c
Hungary	Industrial workers	98	122	133
Italy ^d	Industrial workers : married	89	108	115
	unmarried	79	96	99
	Agricultural workers : married	..	122	134
	unmarried	..	124	133
	Industrial salaried employees : married	65	82	87
	unmarried	59	75	79
	Civil servants : married	..	..	71
Netherlands ^b	Manual workers : Gross earnings	104-114	106-116	101-112
	Gross earnings including family allowances	110-120	112-123	107-118
Norway	Industrial workers	115	126	132
Poland	All employees	..	..	126
Sweden	Industrial workers	127	132	135
Switzerland ^e	Manual workers	123	125	127
United Kingdom	Manual workers : Gross earnings	126	126	129
	Net earnings ^f	119	120	121
	Manual workers, including unemployed :			
	Net earnings ^f	125	125	126
	Net earnings including family allowances	127	129	130

Sources: The figures have been derived from national statistics. For details, see Appendix B.

NOTE.—All figures show average gross earnings unless otherwise indicated. "All employees" refers to both manual and non-manual workers. "Industrial workers" includes only manual workers in industry.

^a 1937 = 100.

^b Index numbers computed on the basis of cost-of-living indices having 1938 and current weights, respectively.

^c Based on *index* of wages and not on *average* earnings.

^d The 1949 figures refer to October.

^e 1939 = 100.

^f Net of taxes and contributions.

higher and, where the family is large, substantially higher. A comparison of Table 19 with Table 17 shows that the rise in real earnings was substantially greater than that in real income per head in all countries with the exception of western Germany,

where both real wages and real income per head are considerably below pre-war, and also of Czechoslovakia and Poland, where the rise in real income per head reflects also the shift from rural to the higher-paid urban occupations.

The changes in the share of wages and salaries in the national income are available for a number of countries and are shown by the following figures :

<i>Total of Wages and Salaries as a Percentage of the National Income</i>	<i>1938</i>	<i>1948</i>
Austria ^b	56	56
Belgium	59	59
Czechoslovakia : (wages and salaries) . .	59	69
(wages only)	25	38
Finland	51	61
France	50	50
Western Germany	54	54 ^c
Netherlands	50	56
Norway	57	60
Switzerland	48	59
United Kingdom : (wages and salaries) .	62	70
(wages only)	39	47

^a Including employers' contribution to social insurance, except in Czechoslovakia. Figures for wages (that is, earnings of manual workers) are available separately for the United Kingdom and Czechoslovakia only.

b 1937 and 1949.

c First half of 1949.

It must be remembered that the share of wages in the national income is influenced by the proportion of wage-earners in the population, as well as by changes in relative rates of remuneration. It seems that in the United Kingdom about half of the rise in real wages can be accounted for by the rise in real incomes in general, and the other half by the shift in favour of wage-earners in the distribution of the national income. In France, there was no significant change in the share of labour if employers' contributions to social insurance funds are included with wages, but it

fell from 48 to 43 per cent of the national income if these are excluded. In western Germany, if allowance is made for the lower proportion of wage-earners in the population, there appears to have been a rise since 1938 in the share of wages in the national income which has partly made good the considerable fall which occurred in the 1930's. In Finland, the whole rise in real wages resulted from a shift in the distribution of income in favour of wage-earners ; while in Czechoslovakia and Poland, although the share of labour in the national income has risen, the proportion of wage-earners in the population has risen even faster, so that real wages show a smaller rise than real income per head. It is probably true that in most cases there has been a relative shift of real income within the working classes in favour of the lower-paid workers, while the shift in favour of the working classes as a whole was probably largest in the eastern European countries, where before the war the inequality of incomes was greatest.

In the last year or two, however, the increase in real earnings has slowed down in several countries, and in the Netherlands has even been reversed. There has also been a tendency in the Scandinavian countries, the United Kingdom and the Netherlands towards a less equal distribution of incomes as a result of the abolition or reduction of subsidies.¹ This tendency may have been accentuated by devaluation.

¹ See Statistical Appendix, Table III.

2. THE LEVEL AND PATTERN OF CONSUMPTION

The General Level of Consumption

Some indication of the extent of the recovery in consumption is given in Table 20, which summarizes available data on the volume of consumption and on consumption per head. Consumption per head is generally at about pre-war levels. Only in two countries, Sweden and Czechoslovakia, is it significantly higher than before the war, while in Germany, Bulgaria, Austria and Italy it is considerably lower. The figures indicate, moreover, that in countries like Belgium, the Netherlands, the United Kingdom, Denmark, Norway and Sweden, where the pre-war level had been largely restored by 1947, there has been no further improvement in the last few years. However, since the data do not reflect changes in the content of consumption, they almost certainly underestimate the progress made in the last two years.

compared with the immediate post-war period.² The relatively high levels of consumption shown for 1947 for these countries are due to the sharp rise in expenditure on less essential goods and services, such as tobacco, entertainments, and railway travel, while the supply of necessities and particularly of food and housing, remained below pre-war. Although consumption standards in food and housing are still appreciably below pre-war, the supply of necessities has improved considerably over the last two years, while in several countries expenditure on non-essentials has fallen. This is particularly true of the United Kingdom and Czechoslovakia.

² Index numbers of consumption are generally based on pre-war prices. Index numbers based on post-war prices would give less favourable results because the prices of commodities, the consumption of which has fallen, have risen more than other prices. Also, when the price and the volume of consumption do not correspond to each other, as for example under rationing and rent control, the usefulness of the index numbers may be considerably diminished.

Table 20

VOLUME OF CONSUMPTION

Index numbers — pre-war year = 100

Country	Pre-war year	TOTAL CONSUMPTION			CONSUMPTION PER HEAD		
		1947	1948	1949	1947	1948	1949
Austria	1937	..	..	91	..	..	86
Belgium	1938	(100)	(105)	(100)	(100)	(105)	(100)
Bulgaria	1939	..	90	..	..	(80)	..
Czechoslovakia ^a	1937	99	104	..	124	130	..
Denmark ^b	1938	114	114	117	102 ^c	103	104
Finland	1938	..	105	..	..	97	..
France	1938	87	93	98	89	93	97
Germany : Western zones ^d	1936	..	..	104	..	..	85
Italy	1938	83	90	97	80	86	92
Netherlands	1938	107	113	112	96	100	98
Norway	1938	111	110	113	104	101	103
Sweden	1938-1939	122	125	125	113	114	113
United Kingdom	1938	103	104	105	99	99	99

Sources : The index numbers are derived from official or semi-official sources supplemented by estimates of the Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE. — All figures in this table must be treated with particular caution ; they indicate trends rather than accurate results. Figures in brackets are rounded approximations.

^a Post-war figures are likely to be overestimated by about 10 per cent.

^b Including Government consumption.

^c Including an allowance for refugees.

^d Excluding Berlin.

Food Consumption

Food is unquestionably the most important item in consumption, accounting in European countries for about one-quarter to one-half of consumers' expenditure. Changes in the level and pattern of food consumption since the war are shown in Tables 21, 22 and 23. Table 21 shows food consumption in terms of nutrients, Table 22 in terms of the value of the food consumed, and Table 23 in terms of quantities of the most important foodstuffs.

As Table 21 shows, there are no great differences either in terms of calorie intake or in terms of protein consumption per head between the different European countries. Compared with pre-war, the level of calorie and protein consumption has fallen in Germany and some of the poorer countries, but the richer countries have more or less maintained their position. There are greater variations between countries, however, in the consumption of animal protein and of fats. Thus in terms of calorie intake the differences between countries before the war ranged from Denmark, with a calorie intake of 20 per cent above the European average, to Greece and Turkey, with a calorie intake about 10 per cent below the average. The gap between the richest and poorest countries is now a little wider, but still does not compare with differences in income

levels which are of the order of 5 to 1 or 6 to 1. The same is true of aggregate protein consumption. The intake of animal protein, on the other hand, varied before the war from about 20 to 25 grammes per person per day in south-eastern Europe to about 50 grammes in north-western Europe, and the differences are now somewhat larger. Similarly, the consumption of fats is about twice as high in north-western as in southern Europe. Thus, as one would expect, the consumption of calories or proteins per head is fairly constant in relation to income, but, as will be illustrated in more detail below, an increase in incomes causes large changes in the composition of the diet.

The improvement in food supplies is reflected in an 8 per cent increase in calorie intake and a 9 per cent increase in protein consumption in 1948/49 compared with the previous year, but the intake of calories is still 8 per cent below the pre-war level. Compared with pre-war, the deficiency is about 10 to 15 per cent in Germany, Italy and Spain, and is probably also great in Bulgaria and Turkey, while in no country has there been any improvement. The consumption of both animal proteins and fats increased at about the same rate as total calorie intake in 1948/49, but remained further below the pre-war level. The average

Table 21

THE LEVEL OF FOOD CONSUMPTION IN EUROPEAN COUNTRIES IN TERMS OF NUTRIENTS

Number of calories and grammes per person per day

Region and country	CALORIES (numbers)			ALL PROTEIN (grammes)			ANIMAL PROTEIN (grammes)			FATS FROM ALL SOURCES (grammes)		
	1934- 1938	1947/48	1948/49	1934- 1938	1947/48	1948/49	1934- 1938	1947/48	1948/49	1934- 1938	1947/48	1948/49
<i>North-western Europe</i>												
Denmark	3,420	3,050	3,060	91	108	102	57	64	57	150	121	116
Ireland ^a	3,390	3,260	3,350	99	104	98	48	50	49	106	108	109
Norway	3,160	2,900	2,970	86	90	101	46	48	52	116	108	105
Sweden	3,120	2,870	3,070	95	92 ^b	95	59	59 ^b	60	118	112	120
United Kingdom	3,100	2,970	3,030	82	89	91	45	46	46	123	103	105
<i>Western Europe</i>												
Belgium	2,970	2,670	2,730	83	79	81	36	34	36	97	88	99
France	2,880	2,550 ^c	2,740	88	76	99	37	30	39	84	69	81
Netherlands	3,010	2,690	2,880	77	78	83	37	35	40	115	86	92
Switzerland	3,170	3,050	3,100	95	93	94	54	47	50	106	97	104
<i>Central and north-eastern Europe</i>												
Austria	2,920	2,180	2,640	92	69	76	42	21	25	97	54	68
Czechoslovakia	2,720	2,440	2,660	74	73	82	27	28	32	75	65	65
Finland	3,000	2,620	2,850	95	91	93	44	41	43	88	72	86
Germany	2,960	..	..	83	..	..	40	..	..	113	...	..
Western zones ^d	..	2,150	2,530	..	74	81	..	22	27	..	36	51
Soviet Zone ^d	..	1,900	2,390	..	61	67	..	14	14	..	31	35
Hungary	2,770	2,430	..	82	73	..	25	16	..	71	47	..
Poland	2,710	2,360	2,630	79	66	75	23	17	21	62	40	46
<i>Southern and south-eastern Europe</i>												
Bulgaria	2,900	2,260	..	97	72	..	21	17	..	56	44	..
Greece	2,580	2,270	2,460	77	68	74	23	18	14	70	62	61
Italy	2,640	2,250	2,350	86	71	75	20	16	19	61	52	49
Rumania	2,760	2,350	..	88	84	..	21	17	..	53	51	..
Spain ^e	2,760	2,180	2,380	88	68	75	29	18	21	77	75	69
Turkey	2,560	2,170	..	79	68	..	12	12	..	49	46	..
Yugoslavia	3,020	2,960 ^f	2,900 ^f	95	65	..	22	11	..	61	34	..
Average of countries listed . . .	2,870	2,420	..	85	75	..	32	25	..	87	62	..
Average, 17 countries ^g . . .	2,890	2,470	2,660	84	76	83	35	28	31	93	66	71
Average of countries listed, ex- cluding Germany	2,850	2,490	..	85	76	..	31	27	..	81	68	..
Average, 16 countries ^g . . .	2,870	2,570	2,700	84	77	85	34	30	33	87	74	77
United States ^h	3,160	3,240	3,190	90	99	95	52	63	60	127	136	53

Sources: Food and Agriculture Organization, United Nations. For details, see Appendix B.

NOTE.—The figures refer to human consumption. The accuracy of the data is not uniform, and the margin of error is especially large in countries where the consumption by farmers of their own produce is important.

^a The 1948/49 figures refer to 1948 only.

^b Revised by the Research and Planning Division, Economic Commission for Europe.

^c Including an allowance for unreported production.

^d Including sectors of Berlin.

^e The pre-war figures refer to 1930-1934.

^f Official estimates. For 1947/48, the Food and Agriculture Organization estimated a calorie consumption of 2,140.

^g The average for less than the total of European countries listed is also given in order to show the movement between 1947/48 and 1948/49 for countries where data are available for all years and all items.

^h The pre-war figures refer to 1935-1939.

consumption of animal proteins in Europe is still about one-eighth lower than before the war, while that of fats is one-quarter lower. The fall in fat con-

sumption extended to most countries and was particularly large in Austria, Germany, Italy, Poland, the Netherlands and the United Kingdom.

Table 22

THE VALUE OF FOOD CONSUMPTION IN EUROPEAN COUNTRIES

Index numbers based on consumption per head valued in Swiss francs, 1936/37 prices

Region and country	INTER-COUNTRY COMPARISON			TIME COMPARISON ^a		Swiss centimes per 1,000 calories	
	Index numbers (Denmark = 100)			Index numbers (1934-1938 = 100)			
	1934-1938	1947/48	1948/49	1947/48	1948/49	1934-1938	1948/49
<i>North-western Europe</i>							
Denmark	100	100	100	100	97	45	48
Ireland	87	89	89	102	99	39	39
Norway	81	75	81	92	97	40	40
Sweden	79	86	89	109	110	38	43
United Kingdom	87	81	82	93	92	43	40
<i>Western Europe</i>							
Belgium	73	72	80	99	106	37	43
France	84	72	89	85	102	45	48
Netherlands	75	67	75	89	97	38	38
Switzerland	95	86	86	90	88	45	41
<i>Central and north-eastern Europe</i>							
Austria	80	55	60	69	74	42	34
Czechoslovakia	63	57	69	90	106	35	38
Finland	70	61	71	87	99	35	34
Germany	84	..	..	..	..	43	..
Western zones ^b	..	47	56	57	69	..	35
Soviet Zone ^b	..	42	49	51	58	..	31
Hungary	63	47	..	74	..	35	30 ^c
Poland	58	51	57	87	94	33	32
<i>Southern and south-eastern Europe</i>							
Bulgaria	61	47	..	78	..	32	32 ^c
Greece	55	48	53	88	93	33	32
Italy	56	50	55	88	95	32	34
Rumania	58	38	..	66	..	32	25 ^c
Spain	68	53	60	77	85	38	37
Turkey	54	47	..	86	..	32	33 ^c
Yugoslavia	59	56	56	94	92	30	28
United States	96	107	109	111	109	46	50

Sources : Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE. — Average retail prices in Switzerland in 1936/37 have been applied to twelve groups of commodities, including sugar, pulses, all grains, potatoes, fats and oils, milk, cheese, fruits, eggs, vegetables, fish and meat.

The estimates refer to human consumption of these commodities in all forms. The accuracy of the data is not uniform, and the margin of error is especially large in countries where the consumption by farmers of their own produce is important.

^a The average for all European countries listed for 1947/48 is 81. For the 18 countries for which data are available for all years, the index number for 1947/48 is 82 and the index for 1948/49 is 89.

The average for all European countries listed, excluding Germany, for 1947/48 is 86. For the seventeen countries for which data are available for all years, the index number for 1947/48 is 90 and the index for 1948/49 is 95.

^b Including sectors of Berlin.

^c 1947/48.

In Table 22 an attempt is made to measure differences in the value of food consumption per head between different countries. These estimates ¹ were obtained by dividing total food consumption into

¹ For details of estimation, see Appendix B. A similar calculation at Dutch post-war prices gives broadly similar results.

twelve broad groups of foodstuffs and applying the pre-war Swiss prices to each. Differences in quality within the groups could not be taken into account, so that the figures do not fully reflect the differences in cost due to buying more or less expensive kinds of foods. They show clearly, however, that the value of food consumption per head varies much more widely

than the calorie intake, the expenditure per head in the richest countries being 80 to 90 per cent greater than in the poorest countries. For Europe as a whole, the value of food consumption per head in 1948/49, measured in pre-war prices, was about 8 to 9 per cent higher than in 1947/48, but was 10 to 11 per cent lower than before the war. This fall is greater than the fall in calorie consumption, and the difference reflects a deterioration in the composition of the diet. Among western European countries the deterioration was confined to the United Kingdom and Switzerland, but it was more widespread in central and eastern Europe, and was greatest of all in Germany.

Table 23, which contains estimates of cereal, potato, meat, milk and cheese and sugar consumption, brings out even more clearly how the pattern of consumption varies from one country to another in response to differences in wealth and climate. With the exception of Germany, the general character of these differences is much the same as before the war. In north-western and western Europe, the consumption of cereals per head is about 115 kilogrammes per year compared with about 140 kilogrammes in the rest of Europe, and even up to 200 kilogrammes in the Balkan countries, the difference having been rather greater before the war. The consumption of potatoes, whose costs of transport are heavy, is largely determined by local production. Consumption is around 125 kilogrammes in north-western Europe, where it has increased compared with pre-war, and rises to about 140 kilogrammes in western Europe and to about 200 in parts of eastern Europe. In south-eastern Europe, however, it is very low owing to the dry climate.

Meat is comparatively expensive and, before the war, consumption per head was high in north-western and western Europe, where it ranged from 40 to 75 kilogrammes per year. It was high also in Austria at 54 kilogrammes, and in the rest of Europe it ranged from 18 kilogrammes in Rumania and Turkey to 36 kilogrammes in Hungary. Since the war there have been heavy reductions in consumption in some of the richer countries, and the geographical differences are no longer so large. Differences in the consumption of sugar, which is still regarded as a luxury in many countries, were even larger. In north-western and western Europe, consumption per head before the war ranged from 24 kilogrammes per head in France to 51 kilogrammes in Denmark. In central Europe it varied between 9 and 24 kilogrammes, while it fell as low as 5 kilogrammes in the Balkan countries.

Since the war, these differences have been reduced, but are still considerable. The consumption of milk and cheese was about twice as high in the richer countries as in the poorer, though there were great variations within each group. For example, before the war, consumption was much lower in the United Kingdom than in Scandinavia, though differences have since diminished. There is also a strong tendency for milk consumption to fall as one goes from north to south.

Generally speaking, the consumption of meat and sugar follows the pattern of income levels, while milk and potatoes are more affected by differences of climate. If climatic conditions are suitable, however, the consumption of milk is likely to be higher in the richer countries and the consumption of potatoes higher in the poorer countries. The consumption of cereals tends to fall as income levels rise.¹ It may be noted that consumption in the United States, for which figures are given for comparison, conforms to this pattern. With the higher level of incomes the consumption of meat and sugar is more than twice that in Europe; the consumption of milk and cheese is twice as great; and the consumption of cereals and potatoes is substantially lower, being about 60 and 35 per cent of the European average, respectively. The most important change in dietary standards since the war has been the sharp fall in meat consumption, for which the wealthier countries of western Europe other than Switzerland have been able to compensate by increasing their consumption of milk, cereals and potatoes in a way that has not been possible in the poorer countries of southern and eastern Europe. Ireland, Czechoslovakia, Belgium and France are the only countries which have regained their pre-war levels of meat consumption per head. In Norway, Switzerland and the United Kingdom it has fallen by 30 per cent; in Austria and the Netherlands by about half, and in Germany by more than two-thirds. There was little or no improvement in 1948/49. On the other hand, the consumption of cereals, milk and sugar showed sharp increases in 1948/49 over the previous year, particularly in France, and the consumption of cereals, milk, cheese and

¹ There are similar differences within countries. In France, meat consumption in the west was 20 per cent above the national average in December 1948, and in the south-east 15 per cent below it. At the same time, the consumption of urban employers was 10 per cent above the average, and of the rural population 5 to 10 per cent below it. Similarly, in Italy the consumption of cereals in the industrial north was lower than in the agricultural south.

Table 23
THE LEVEL OF FOOD CONSUMPTION IN EUROPEAN COUNTRIES IN TERMS OF SELECTED COMMODITIES
Kilogrammes per person per year

Region and country	CEREALS			POTATOES			MEAT			MILK AND CHEESE			SUGAR		
	1934-1938	1947/48	1948/49	1934-1938	1947/48	1948/49	1934-1938	1947/48	1948/49	1934-1938	1947/48	1948/49	1934-1938	1947/48	1948/49
<i>North-western Europe</i>															
Denmark	94	108	108	109	131	137	75	66	64	173	180	191	51	34	33
Ireland	131	132	135	195	197	195	55	60	54	240	234	241	38	26	33
Norway	119	114	122	122	123	136	38	26	27	175	218	236	37	24	22
Sweden	95	82	86	122	129	129	49	43	42	255	267	243	46	42	44
United Kingdom	94	110	113	79	107	116	60	48	42	110	147	159	49	38	40
<i>Western Europe</i>															
Belgium	122	109	104	169	143	141	44	44	45	93	78	88	28	26	28
France	121	102	126	155	158	143	52	47	54	89	60	89	24	15	19
Netherlands	98	108	100	133	155	142	40	23	21	134	158	228	34	26	39
Switzerland	110	117	112	91	111	96	56	39	40	249	229	243	39	36	39
<i>Central and north-eastern Europe</i>															
Austria	132	128	142	85	45	113	54	25	23	198	108	130	24	9	23
Czechoslovakia	130	126	139	160	148	145	33	32	34	109	134	126	24	17	20
Finland	128	135	148	181	154	184	33	23	27	263	279	298	28	15	24
Germany	113	..	..	176	..	..	51	..	..	141	..	..	24	..	..
Western zones ^a	..	128	124	..	156	219	..	15	18	..	103	121	..	15	21
Soviet Zone ^a	..	105	141	..	206	218	..	12	13	..	62	71	..	14	23
Hungary	164	175	..	112	58	..	36	23	28	105	62	..	10	13 ^b	17 ^b
Poland	134	127	149	285	273	240	26	17	19	128	81	117	9	13	16
<i>Southern and southeastern Europe</i>															
Bulgaria	222	171	..	9	3	..	22	19	..	78	66	..	3	5	..
Greece	157	139	158	13	30	31	20	13	11	52	31	29	11	9	9
Italy	177	150	154	37	37	38	20	14	17	42	38	50	7	7	10
Rumania	202	180	..	42	24	..	18	14	..	103	96	..	5	5	..
Spain ^c	146	113	127	109	75	72	28	20	23	62 ^d	57 ^d	59 ^d	12	5	9
Turkey	191	162	..	3	9	..	18	18	..	35	35	..	5	6	..
Yugoslavia ^b	227	218	209	55	82	92	21	20	18	133	79	95	5	6	7
Average of countries listed	139	131	..	121	113	..	39	27	..	109	93	..	21	16	..
Average, 18 countries ^e	131	125	133	133	127	135	41	28	29	113	98	114	23	17	21
Average of countries listed, excluding Germany	144	133	..	110	101	..	36	29	..	102	93	..	20	16	..
Average, 17 countries ^e	135	125	134	123	116	115	39	31	32	107	99	115	23	18	21
United States ^f	90	82	78	64	57	49	64	78	75	177	213	192	49	47	51

Sources: Food and Agriculture Organization, United Nations. For details, see Appendix B.

NOTE.—The figures refer to human consumption of cereals, potatoes, meat, milk and cheese and sugar in all forms. The accuracy of the data is not uniform, and the margin of error is especially large in countries where the consumption by farmers of their own produce is important.

^a Including sectors of Berlin.

^b Official figures.

^c Pre-war figures refer to 1930–1934. The Food and Agriculture Organization states that the figures for 1948/49 should be considered extremely tentative.

^d Including milk from goats, ewes and buffaloes.

^e The average for less than the total of European countries listed is also given in order to show the movement between 1947/48 and 1948/49 for countries where data are available for all years and all items.

^f Pre-war figures refer to 1935–1939.

potatoes has now regained or exceeded pre-war levels. Such indications as are available for 1949/50 suggest that the European consumption of meat and dairy products has risen, so that the diet is now less dependent on cereals and potatoes.

Housing

Data of a sufficiently reliable or comprehensive nature to enable an assessment of European housing standards to be made with real confidence are not available. Various attempts have been made to measure housing needs in order to compare them with the available supply, but in the absence of precise units of measurement they can do no more than

indicate in broad terms the order of magnitude of the housing problem. Some available data on housing standards in Europe are shown in Table 24. Considerable caution is required in interpreting these figures. For inter-country comparisons, the data on the number of persons per room are probably the most indicative of differences in standards, but the definition of a room differs from country to country, and differences in size and quality are ignored. With these limitations, however, the figures show that in 1939 there was less than one person per room in the United Kingdom, about one in Sweden, Belgium, the Netherlands and Switzerland, and rather more than one in other western European countries. In the rest of Europe the number of persons per room was significantly higher, varying

Table 24
HOUSING

Region and country	Persons per room	Persons per dwelling		Square metres per person
	1939	1939	1949	1949
<i>North-western Europe</i>				
Denmark	1.12	3.37	3.39	21
Ireland	1.16	4.60	4.74	17
Norway	1.10	3.98	4.16	..
Sweden	1.00 ^a	3.28	3.02	23
United Kingdom	0.72 ^b	3.63	3.75	..
<i>Western Europe</i>				
Belgium	0.95	3.32	3.43 ^c	15
France	1.09	3.15	3.40 ^c	23
Netherlands	1.00 ^a	4.23	4.65	..
Switzerland	1.00	3.78	3.80	..
<i>Central and north-eastern Europe</i>				
Austria	1.56 ^d	3.34	3.75	11 ^d
Czechoslovakia	..	3.89 ^c	3.19	..
Finland	..	4.65	4.58 ^c	..
Germany : U.K./U.S. Zone	..	3.61	5.35	..
Soviet Zone ^e	..	3.31	4.33	..
Hungary	1.50 ^a	3.79	3.95 ^c	..
Poland	1.76	4.25	4.29 ^c	..
<i>Southern and south-eastern Europe</i>				
Greece	1.96	3.94	5.05	16 ^c
Italy	1.30 ^a	4.17	4.56	12
U.S.S.R.	..	..	..	5 ^f

Sources: The figures have been taken or derived from "The European Housing Problem," Industry and Materials Division, Economic Commission for Europe, released on 1 October 1949, and national statistics. For details, see Appendix B.

NOTE. — The definition of "room" varies from country to country. For Hungary, the Netherlands and Sweden, the published figures have been revised to include kitchens and for Italy to exclude minor rooms not included for other countries.

^a Estimate, subject to especially large margin of error.

^b Excluding Scotland.

^c Estimate.

^d Estimate for Vienna only.

^e Pre-war figures refer to 1937; post-war figures refer to 1946.

^f Approximate figure, for urban areas only.

between one-and-a-half and two.¹ A similar comparison for 1949 in terms of living-space per person shows variations of from over 20 square metres in France, Denmark and Sweden to between 10 and 15 square metres in Belgium, Austria and Italy, and as little as 5 square metres in the urban areas of the Soviet Union. The urban population of the Soviet Union has risen so rapidly in the last thirty years that the building industry could barely provide accommodation for the increase even at present standards.

The number of persons per dwelling tends to reflect the size of the family, and therefore is not very useful for inter-country comparisons. For any given country, however, changes in it through time can give some indication of changes in housing standards. Thus the figures in Table 24 for 1939 and 1949 reveal a deterioration almost all over Europe. The only exceptions are: Sweden, where construction continued during the war ; Czechoslovakia, where the population is now much smaller and war damage was slight ; and Finland, where there was a small improvement. The deterioration was greatest in Greece and in the western zones of Germany, where the effects of wartime destruction were aggravated by the influx of refugees, and the number of people per dwelling has increased about 50 per cent. In Austria, the Netherlands and Italy, the increase in the number per dwelling was about 10 per cent, and in other countries it was comparatively small. One of the worst features of the situation is that, on the whole, it is the countries where housing standards are lowest which were the worst hit by the war. Most of the older industrialized countries have a serious modernization problem owing to the existence of a large stock of old houses which would have been replaced before now if there had been an adequate volume of house construction in the past. Their difficulties, however, are small compared with those which face the less developed countries of eastern Europe, where the rapid expansion planned in industry tends to aggravate the problem through the consequent increase in the urban

population. Even if it soon proves possible to remove the final traces of war destruction and to keep pace with increases in the number of urban families, the analysis of housing construction in a later section of this chapter suggests that in these countries it will be some years at least before any real improvement in housing standards can be effected.

Clothing Standards

Table 25 shows the consumption of cotton, wool and rayon textiles in kilogrammes per head in the different European countries in 1938, 1947 and 1948. The figures give only an approximate indication of clothing standards because they include the industrial use of textiles, which is important in some countries, and make no allowance for stock changes or for differences in quality. Neither do they indicate how far the need for clothing is influenced by climatic conditions. They show, however, that if Germany is excluded, where in 1948 the consumption of all three materials was less than half the pre-war level, the European consumption of cotton and wool textiles per head was almost exactly the same in 1948 as in 1938, while that of rayon textiles was over 50 per cent higher. In terms of all three materials taken together (as shown in the last three columns of the table) the United States' consumption of 19 kilogrammes per head in 1948 was over three times the European average and more than half as much again as that of Sweden, which, with Belgium and Switzerland, now shows a higher consumption per head than the United Kingdom.

Among European countries, consumption per head before the war ranged from about 2½ kilogrammes in Spain and Rumania, to over 9 kilogrammes in Sweden and Belgium, and over 12 kilogrammes in the United Kingdom. In 1948, the dispersion was, if anything, even wider : from 2 kilogrammes in Rumania and about 2½ in Yugoslavia and the Soviet Union, to about 11 kilogrammes in Sweden, Belgium, Switzerland and the United Kingdom. Compared with 1938 there have been notable increases in western and south-western Europe, and decreases elsewhere, with the exception of Sweden among the Scandinavian countries, and Poland and Czechoslovakia in central Europe.

¹ It is of course impossible to estimate from such figures the degree of overcrowding without knowing how the population is distributed between dwellings of various sizes. In post-war Paris, for instance, there were 35,000 families of 3 to 5 persons living in one-room dwellings and 26,000 families of 1 to 2 persons living in five- to six-room dwellings.

Table 25
CONSUMPTION OF SELECTED TEXTILES
Kilogrammes per person per year

Region and country	COTTON			WOOL			RAYON			TOTAL		
	1938	1947	1948	1938	1947	1948	1938	1947	1948	1938	1947	1948
<i>North-western Europe</i>												
Denmark	4.6	3.0	2.8	2.0	1.7	1.6	0.55	0.67	0.69	7.2	5.4	5.1
Ireland	2.3	2.0	1.4	1.7	1.6	1.5	0.40	0.56	0.40	4.4	4.2	3.3
Norway	4.0	4.5	3.6	1.8	1.5	1.6	0.42	1.03	1.03	6.2	7.0	6.2
Sweden	6.6	7.1	6.2	1.7	3.2	3.0	0.70	2.23	2.26	9.0	12.5	11.5
United Kingdom	8.2	6.2	6.7	3.1	2.7	2.7	0.97	1.38	1.53	12.3	10.3	10.9
<i>Western Europe</i>												
Belgium	6.1	6.6	7.7	2.6	2.7	2.5	0.57	1.62	1.11	9.3	10.9	11.3
France	4.6	4.8	5.2	1.8	2.1	2.3	0.58	1.23	1.48	7.0	8.1	9.0
Netherlands	5.6	4.0	4.6	2.0	2.7	2.8	0.58	0.91	1.26	8.2	7.6	8.7
Switzerland	5.5	7.5	7.1	1.4	3.0	2.5	0.61	1.75	1.61	7.5	12.3	11.2
<i>Central and north-eastern Europe</i>												
Austria	4.1	0.9	1.3	1.5	0.3	0.3	0.36	0.57	1.48	6.0	1.8	3.1
Czechoslovakia	3.8	3.4	3.5	1.0	1.4	1.2	0.28	1.52	1.85	5.1	6.3	6.6
Finland	4.6	2.6	2.4	1.1	0.6	1.0	1.19	1.62	1.75	6.9	4.8	5.2
Germany	3.4	1.3	1.4	1.5	0.5	0.7	3.30	0.74	1.60	8.2	2.5	3.7
Hungary	2.7	1.6	2.3	0.6	0.3	0.4	0.45	0.15	0.17	3.8	2.1	2.9
Poland	2.0	2.3	2.8	0.5	0.5	0.5	0.31	0.49	0.71	2.8	3.3	4.0
<i>Southern and south-eastern Europe</i>												
Bulgaria	3.5	1.8	2.1	1.0	0.8	0.8	—	—	—	4.5	2.6	2.9
Greece	3.7	2.6	2.7	1.0	0.7	0.8	0.04	0.07	0.10	4.7	3.4	3.6
Italy	2.0	3.4	3.0	0.6	1.1	0.9	1.55	1.20	0.54	4.2	5.7	4.4
Portugal	2.1	3.1	3.3	0.8	0.8	0.8	0.16	0.16	0.11	3.1	4.1	4.2
Rumania	1.8	1.2	1.4	0.7	0.4	0.4	0.07	0.11	0.15	2.6	1.7	2.0
Spain	1.6	2.1	2.2	0.8	0.5	0.4	0.04	0.56	0.57	2.4	3.2	3.2
Turkey	2.8	3.1	2.9	0.7	0.4	0.4	0.02	0.03	0.04	3.5	3.5	3.3
Yugoslavia	2.4	1.6	1.7	0.8	0.4	0.6	0.15	0.06	0.13	3.4	2.1	2.4
Total of countries listed :												
including Germany	3.8	3.3	3.5	1.4	1.2	1.3	1.08	0.90	1.05	6.3	5.4	5.9
excluding Germany	3.9	3.7	3.9	1.4	1.4	1.4	0.60	0.93	0.93	5.9	6.0	6.2
U.S.S.R.	3.3	2.0	2.2	0.4	0.3	0.3	0.06 ^a	0.04 ^a	0.17 ^a	3.8	2.3	2.7
United States	10.0	13.8	13.3	1.0	2.1	2.2	1.07	2.93	3.41	12.1	18.8	18.9

Sources : The figures have been taken from *Fibers*, Commodity Series Bulletin No. 14, Food and Agriculture Organization, United Nations, supplemented by estimates of the Research and Planning Division, Economic Commission for Europe for the European totals.

NOTE.—The data include textiles for industrial use.
^a Production per head.

Consumption of Other Items

Statistics for some other items of consumption ranging from conventional necessities to semi-luxuries—tea, coffee, beer, wine, tobacco, newspapers, wireless sets and motor-cars—are given in Table 26. Differences in tastes and climate forbid any very detailed comparison between countries, and statistics of car licences, which take no account of the age of the vehicles, may give too favourable an impression

of post-war standards, but the figures illustrate two points. The first is that, as might be expected, consumption per head of such commodities is very much lower in the poorer countries, particularly of goods which have to be imported. Some of the differences between countries are very large. In coffee and motor-cars, for example, they are of the order of 40 to 1, compared with 2 or 3 to 1 for necessities. In wireless sets, however, some of the richer countries are nearing

Table 26

CONSUMPTION OF MISCELLANEOUS COMMODITIES

Region and country	Net imports of tea (kilogrammes per person per year)		Net imports of coffee (kilogrammes per person per year)		Consumption of beer (litres per person per year)	Consumption of wine (litres per person per year)	Apparent consumption of tobacco (kilogrammes per person per year)		Passenger car licences (per 1,000 persons)	Radio receiving licences (per 1,000 persons)	Newsprint consumption (kilogrammes per person per year)	Circulation of daily newspapers (per 1,000 persons)							
	1938	1948	1949 ^a	1938	1948	1949 ^a	Pre- war ^b or 1948	Pre- war ^b or 1948	1938	1948 or 1949	Mid- 1939	1948 ^c	1948 ^d						
North-western Europe																			
Denmark	0.2	0.1	0.2	9.1	2.9	3.8	59	49	1	3	2.32	2.37	28.6	25.8	211	274	13.4 ^e	10.7 ^e	..
Ireland	3.5	4.0	3.2	0.1	0.1	0.2	34	48	1	1	1.87	2.43	17.5	22.4	50	87	7.9	5.4	150
Norway	0.1	0.1	0.1	6.6	5.5	5.2	17	16	2	1	0.92	1.28	19.8	20.1	137	205	7.8	7.2	421
Sweden	0.1	0.2	0.1	8.4	5.1	5.0	22	23	1	1	1.04	1.19	24.8	26.1	206	293	12.7	16.3	405
United Kingdom	4.4	3.7	4.2	0.3	1.0	0.8	83	91 ^f	1	1	1.71 ^g	1.85 ^g	41.7	40.4	194	235	26.1	7.9	600 ^h
Western Europe																			
Belgium	—	—	—	5.7	9.0 ⁱ	8.9 ⁱ	169	143	4	4	2.27	2.30	17.5	17.8	130	143	9.3	8.4	338
France	—	—	—	4.5	1.7 ⁱ	2.1 ⁱ	42	17	150	115 ^f	1.39	1.73	42.6	23.3	124	147	8.0	6.5	280 ^f
Netherlands	1.5	0.6	0.8	5.2	2.1	2.4	15	17	1	1	2.84	1.90	11.5	8.8	138	171	11.5	6.1	291
Switzerland	0.2	0.2	0.2	4.1	5.2	3.8	54	25 ^j	44	38	2.06	1.74	17.9	23.0	135	210	7.5	9.7	355 ^f
Centr. & N.-E. Europe																			
Austria	0.1	—	—	0.9	0.1	0.1	33	..	17.	..	0.93	0.85	4.2 ^k	4.9	..	156	3.9	3.2	327
Czechoslovakia	—	—	..	0.9	0.1	..	49	63	3	5	1.50 ^l	1.69 ^m	6.8	8.4	63 ⁿ	168	2.4	3.3	190
Finland	—	0.1	0.1	7.2	2.3	2.8	5	—	1	—	0.98	0.35	8.2	4.7	89	156	5.9	6.8	278 ^f
Germany	0.1	..	..	2.9	0.2 ^o	0.6 ^o	62	..	6	..	1.80	1.00	17.8 ^p	4.6 ^p	182	117 ^h	..	..	..
Hungary	—	..	..	0.2	..	..	4	4	37	..	1.57	2.51 ^m	1.9	1.0	51	52	2.3	1.9	109
Poland	0.1	—	..	0.2	—	..	4	6	..	..	0.72	1.08 ^m	0.9	1.2	30	37	0.9	1.5	105
South. & S.-E. Europe																			
Bulgaria	—	..	..	0.1	..	..	1	..	27	..	..	1.49 ^m	..	0.7	9	29	..	..	..
Greece	—	—	..	1.1	0.6	0.8	1	..	..	44	..	2.37 ^m	1.2	0.7	8	12	1.4	1.6	96
Italy	—	—	—	0.8	0.9	1.0	1	2	84	68	0.87	1.36	6.8	4.8	24	48	1.6	1.3	109
Portugal	—	—	—	0.8	1.3	1.2	..	..	..	..	0.34	0.48	4.9	6.6	11	20	..	..	..
Rumania	—	..	..	0.2	..	..	3	..	17	..	0.64	..	1.0	0.9	15	14	..	..	..
Spain	—	—	—	0.2 ⁱ	0.6	..	..	..	..	..	0.28 ⁱ	1.22	..	2.0	..	22	1.2	0.6	60
Turkey	0.1	0.1	0.1	0.3	0.4	0.4	..	1	1	1	1.17	0.96	0.3	0.3	4	12	0.5	0.5	15
Yugoslavia	—	..	..	0.5	..	..	..	..	..	..	0.59	..	0.5	0.5	9	16	0.7	0.8	80 ^f

Sources: The figures have been derived from official and United Nations publications. For details, see Appendix B.

^a Provisional.

^b In general, 1934-1938.

^c End 1948 or a particular month of 1948.

^d Average 1948 or a particular month of 1948.

^e Estimate from national statistics. The post-war figure refers to the first half of 1949.

^f 1949 or a particular month of 1949.

^g Actual consumption.

^h December 1947.

ⁱ These figures would be altered if the smuggling of coffee from Belgium to France were taken into consideration.

^j 1945/46.

^k October 1937.

^l 1937.

^m 1948.

ⁿ 1936.

^o U.K./U.S. Zone of Germany only.

^p Western zones only.

saturation point with about one set per family, and the difference between them and the poorer countries, where the number of sets has doubled in the last ten years, is steadily diminishing. The second is that, over the range of semi-luxuries as a whole, consumption has fallen little compared with before the war. There are, however, some notable exceptions, such as the sharp reductions in the consumption of newsprint in the United Kingdom, and the Netherlands, and of coffee in Austria, Germany, the Netherlands and Scandinavia, for which the desire to conserve foreign exchange for other purposes was largely responsible. The consumption of tobacco, on the other hand, has expanded almost everywhere in spite of the great increase in taxation in some countries.

Price Policy and Living Standards

A general picture of pre-war and post-war patterns of consumption may be derived from Table 27, which shows the proportions of total expenditure devoted to various categories in ten European countries and in the United States. The data, which have been made comparable as far as possible, are based on current market prices. The changes in the proportions of total expenditure falling into the different categories therefore reflect not only differences in the average standard of living and in the distribution of incomes, but also price policies which have a considerable influence on the degree of inequality of the living standards of different classes. Thus, the share of expenditure devoted to housing has fallen everywhere as a result of rent control, in France to as little as 12 to 15 per cent of the pre-war level. Differences in the proportion spent on food—which before the war ranged from 24 per cent in the United States and around 30 per cent in Denmark and the United Kingdom to 40 or 50 per cent in other countries—are normally expressions of differences in living standards. Since the war, however, the proportion spent on food has risen in countries like the United States, Belgium and France as a result of the relative rise in food prices ; but in the United Kingdom, Norway and Czechoslovakia, it has been reduced as the combined result of subsidies and rationing, while in the Netherlands and Sweden it has risen only moderately.

The different food price policies which have been followed are also reflected in Table 28, which shows

the working time required to earn given quantities of various foodstuffs and so illustrates another aspect of the differences in living standards between various European countries. These differences are remarkably large. Thus bread costs four times as much in terms of working time in Italy as in Norway, potatoes three times as much in Finland as in Denmark, milk three times as much in France as in Sweden, butter nearly six times as much in Poland as in the United Kingdom, meat five times as much in Italy as in Norway, and sugar twelve times as much in Poland as in Denmark. Through the policy of low food prices, the purchasing power of wages in terms of necessities in the United Kingdom and Scandinavia is maintained at a high level in relation to productivity. Thus, as a result of government subsidies, the price of bread in terms of working time of industrial workers is lower in Norway, Denmark and the United Kingdom than in the United States ; the price of butter is about the same in the United Kingdom as in the United States, and in Norway and the United Kingdom a cheaper high-quality margarine is available as a substitute.¹ On the other hand, these countries have to ration some foodstuffs, for which the demand is elastic, in order to keep demand within the limits of the available supplies. In countries like Italy and Austria, where rationing has been largely abolished and prices have been left to find their own level, wage-earners are forced to spend a relatively high proportion of their incomes on the staple foodstuffs—cereals and potatoes—leaving less available for the more expensive foods like meat, butter and sugar, whose prices are also apt to be relatively high, with the result that these commodities are far less equally distributed.

On the basis of these data, it can be estimated that the purchasing power of hourly earnings in terms of food is about three-quarters of that in the United States in the case of the United Kingdom and the Scandinavian countries ; about half of that in the United States in Switzerland, Finland and Ireland ; one-third in France and Hungary ; and about one-quarter in Italy and Austria. For some countries, and especially France, these figures are improved if family allowances are taken into account.

¹ The table refers to mid-1949. In 1950, partly as a result of devaluation, the prices of some essential foodstuffs have been raised. In Norway, for example, there was a sharp increase in the prices of bread and margarine in April 1950.

Table 27

DISTRIBUTION OF CONSUMERS' EXPENDITURE

Percentages of total in current market prices

Item	AUSTRIA		BELGIUM		CZECHOSLOVAKIA ^a		DENMARK		FRANCE		GERMANY				
	1937 1949 ^b		1938 1947		1937 ^c 1947 1948		1939 1947 1948 1949		1938 1947 1949 ^b		1936 1947 1948 1949				
	1937	1949 ^b	1938	1947	1937 ^c	1947	1948	1949	1938	1947	1949 ^b	1936	1947	1948	1949
Food, drink and tobacco	45	53	50	58	58	61	56	38	42	41	41	42	47	46	43
of which food	36	31	43	48	47	43	39	..	31	30	..	..	30	31	29
alcoholic drinks	9	22	5.2	7.3	7.7	10.9	8.8	..	5.7	5.9	..	..	17	15	14
tobacco	..	..	2.2	3.2	3.5	7.3	8.0	..	5.2	5.2	..	..	..	..	..
Clothing and footwear	..	..	13	17	9.0	14	12	16	12	12	13	13	..	..	..
Housing, etc.	..	..	11	5.6	8.4	3.3	3.3	12	6.2	6.1	11	7.2	1.5	1.0	8.5
Fuel and light	..	..	..	..	4.7	..	..	5.0	4.8	4.7	..	3.3	3	3.2	6.9
Travel, including motoring	..	..	26	20	3.2	22	29	6.4	5.0	5.1	5	..	..	..	..
Other items ^e	55	47	..	..	16	..	..	23	30	32	31	28	25	32	50 ^d
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Item	NETHERLANDS		NORWAY		SWEDEN ^f		UNITED KINGDOM		UNITED STATES									
	1938 1947 1948 1949 ^b		1939 1947 1948 1949		1938-1939 1947 1948 1949		1938 1947 1948 1949		1938 1948									
	1938	1947	1948	1949 ^b	1939	1947	1948	1949	1938	1947	1948	1949	1938	1948				
Food, drink and tobacco	39	42	41	42	43	44	43	41	40	42	42	43	41	46	47	46	32	37
of which food	33	35	34	35	35	31	30	30	33	33	33	34	31	28	28	29	24	30
alcoholic drinks	2.7	2.9	3.4	2.8	7.7	8.1	8.2	11	5.3	5.8	6.1	6.1	6.6	9.1	9.4	8.6	5.0	4.6
tobacco	3.2	4.1	4.3	4.6	..	4.5	4.7	..	2.2	3.0	3.0	3.2	4.1	9.2	9.5	9.1	2.6	2.2
Clothing and footwear	9.8	11.0	11.6	12.4	17	14	12	13	15	17	17	16	10.4	9.4	10.5	11.3	10.4	11.2
Housing, etc.	11.4	5.5	5.1	5.1	..	..	..	..	10.6	8.7	8.4	8.7	11.4	7.7	7.4	7.3	13.5	8.9
Fuel and light	4.5	4.3	4.2	4.2	..	..	..	..	4.5	4.3	4.2	4.0	4.6	4.1	4.2	4.2	4.5	3.5
Travel, including motoring	3.6 ^g	3.3 ^g	3.6 ^g	3.5 ^g	40	41	45	46	7.7	6.2	6.6	6.8	6.8	5.7	5.2	5.3	10.5	9.7
Other items ^e	32	34	34	32	..	..	..	..	22	22	22	21	26	27	26	26	29	30
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Sources : The figures are derived from national statistics. For details, see Appendix B.
 NOTE. - Non-alcoholic beverages are included in food for all countries except Austria, Germany and Sweden. For these countries, non-alcoholic beverages are included in alcoholic drinks.
^a Including income in kind (estimated).
^b Provisional.
^c Czech lands only.
^d Including clothing.
^e Including expenditure by tourists abroad *less* expenditure by foreign tourists and other non-residents.
^f Excluding payment in kind to the armed forces.
^g Including communications.

Table 28

THE PRICE OF FOOD IN TERMS OF WORKING TIME OF INDUSTRIAL WORKERS

Minutes per kilogramme or litre

Mid-1949

Country	Bread	Potatoes	Milk	Meat ^a	Bacon or ham	Butter	Margarine	Sugar
Austria	30	13	22	190	..	340	110	68
Denmark	6	5	10	60	52	130	60	9
Finland	22	17	13	103	170	240	64	42
France	28	12	27	240	150	440	190	75
Germany	21	8	18	150	..	260	120	58
Hungary	19	9	28	160	430	440	240	110
Ireland ^b	18	9	20	170	210	190	130	24
Italy ^c	38	13	28	300	660	490	..	100
Norway	10	12	10	62	90	130	22	17
Poland ^d	29	10	29	110	330	420	220	110
Sweden	21	11	9	87	170	140	66	21
Switzerland ^e	11	11	11	140	160	230	..	25
United Kingdom ^c	11	7	16	84	120	75	24	22
United States ^f	13	4	9	64	64	70	31	9

Sources: The figures have been calculated by the Research and Planning Division, Economic Commission for Europe, supplemented by data taken from the *Monthly Labor Review*, United States Bureau of Labor Statistics, November 1949.

NOTE.—For Italy, Ireland, the United Kingdom and the United States, the data have been taken from the *Monthly Labor Review* but have been revised for milk. In the calculation of the price of food in terms of working time, average hourly earnings in industry generally have been used except for Germany and Switzerland, where the wage figures relate to all workers and to males only, respectively.

The prices considered relate to qualities of food ordinarily consumed in working-class households.

Working time refers to kilogrammes for all commodities except milk for which it is stated in minutes per litre. No adjustment has been made for the seasonal variation in prices which would particularly affect the data for potatoes.

^a Beef of average quality or nearest available quotation.

^b November 1948.

^c May 1949.

^d October 1949.

^e March 1949. Based on men's wages only.

^f March 1949.

It must be borne in mind, on the other hand, that in countries where the prices of essential foodstuffs are kept low, the prices of certain less essential goods are greatly enhanced by taxation. In the United Kingdom and Czechoslovakia, for example, tobacco and alcoholic drinks together account for between 15 and 20 per cent of total consumers' expenditure. Data on cigarette prices in various countries are shown in the following table:¹

Equivalent Price of 10 Cigarettes

	Kilogrammes of bread	Hours of working time
Denmark	3½	½
Norway	3	½
United Kingdom	3	¾
Germany	2	¾
Sweden	1½	½
Austria	1	½
Netherlands	1	..
Switzerland	1	¼
France	1	½
Finland	¾	¼
Belgium	¾	..
Hungary	¾	¼
Poland	½	¼

In the Scandinavian countries, the United Kingdom and Germany, the price of 10 cigarettes is equivalent to 1½ kilogrammes of bread or more, while in most other countries 1 kilogramme of bread costs about as much as 10 cigarettes and in some even more. In the first group the working time required to buy cigarettes is higher, irrespective of the productivity of labour, than in the second group. Thus in some countries, where the price of food is kept low and basic needs are satisfied well within the limits of earnings, the price of semi-luxuries is relatively high. Hence, while real incomes in these countries are more equally distributed, particularly between families of different size, there may be an adverse effect on the incentive to work, since the reward for extra effort is comparatively small. There is no evidence, however, that productivity has increased any less in the countries which follow these policies than in the others.

¹ This table takes no account of differences in the quality either of bread or of cigarettes. In each country the prices of varieties in popular demand have been taken.

3. CAPITAL FORMATION

Investment in Fixed Capital

Investment in fixed capital in Europe, which had already been well above the pre-war level in 1948, continued to increase in 1949. Estimates for sixteen countries of the value of gross and net investment in 1938 (or the nearest pre-war year for which information is available) and for the last three years are given in Table 29 expressed in dollars of 1938 purchasing power.¹ The figures for gross investment are not comparable for different countries owing to the different ways in which the term is defined. In the Scandinavian countries, for example, gross investment is defined to include maintenance and repairs to capital equipment; in the United Kingdom, France and the Netherlands it includes only a part of main-

¹ The estimates were arrived at by first calculating investment in each country in terms of constant prices and then converting the figures into dollars of 1938 purchasing power in terms of industrial goods. The comparable figures given in last year's SURVEY have been considerably revised in the light of later information which has become available. For details see Appendix B.

tenance and repairs; in eastern Europe, maintenance and repairs are excluded.² As there are corresponding differences in the definition of depreciation and maintenance, the comparability of the figures of net investment is not affected by this factor, although they suffer from the drawback of being subject to a greater degree of error owing to the arbitrary element in the calculation of depreciation.³ Even though the figures are thus not fully comparable between one country and another, they are comparable for each country from one year to another.

² Although it is not possible to adjust gross investment figures so as to bring them to a comparable definition between countries, it could be estimated that the differences in the definitions of gross investment and depreciation as against the definitions used in the United Kingdom amount to about 5 per cent of the net national income in Norway, 4 per cent in Sweden, and about 2 per cent in Denmark; while in comparison with eastern European countries a further 5 per cent of net national income should be allowed for.

³ The published depreciation and maintenance allowances have been adjusted so as to reflect current replacement cost of capital rather than original cost.

Table 29
INVESTMENT IN FIXED CAPITAL
Millions of dollars in 1938 prices

Country	GROSS INVESTMENT IN FIXED CAPITAL ^a				DEPRECIATION AND MAINTENANCE ^a				NET INVESTMENT IN FIXED CAPITAL			
	1938 ^b	1947	1948	1949	1938 ^b	1947	1948	1949	1938 ^b	1947	1948	1949
Austria	105	..	..	180	65	..	..	76	40	..	..	104
Belgium	280	307	326	352	150	163	166	169	130	144	160	183
Czechoslovakia	285	250	285	295	165	188	190	192	120	62	95	103
Denmark	255	309	313	344	154	190	200	210	101	119	113	134
Finland	147	132	155	..	52	49	52	..	95	83	103	..
France	1,665	2,210	2,333	2,470	1,435	1,410	1,434	1,462	230	800	899	1,008
Germany : Western zones . .	2,200	1,090	1,570	1,950	950	820	850	880	1,250	270	720	1,070
Soviet Zone	900	250	390	530	400	250	270	290	500	—	120	240
Hungary	71	43	107	170	54	54	56	60	17	-11	51	110
Italy	900	866	968	1,100	660	628	660	695	240	238	308	405
Netherlands	530	473	538	633	315	311	319	328	215	162	219	305
Norway	290	328	331	363	172	166	170	174	118	162	161	189
Poland	354	291	352	436	216	210	216	222	138	81	136	214
Sweden	654	903	879	842	444	550	572	590	210	353	307	252
Switzerland	..	..	280	..	..	..	130	..	..	..	150	..
United Kingdom	3,583	3,710	3,930	4,120	1,967	1,855	1,950	2,050	1,616	1,855	1,980	2,070
Yugoslavia	92	156	202	258	55	56	62	68	37	100	140	190

Sources : Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

^a "Gross investment" includes all maintenance and repairs in Denmark, Norway and Sweden; in Finland, France, Italy, the Netherlands and the United Kingdom, only a part of maintenance and repairs. In all other

countries, it includes only new acquisitions and reconstruction of fixed capital.

^b For Germany the figures refer to 1936; for Austria, Czechoslovakia, 1937; for Sweden, 1938-1939; for Norway and Yugoslavia, 1939.

The countries included in Table 29 account for over 90 per cent of the investment in fixed capital in Europe. The total net investment in Europe in 1949 can be estimated at over \$7 billion in 1938 prices, which is about a quarter higher than pre-war and about 20 per cent higher than in 1948. Of the European total, the United Kingdom accounted for 29 per cent, Germany for 18 per cent and France for 14 per cent ; the Scandinavian countries (including Finland) for 9½ per cent, and the eastern European group for 10 per cent. Excluding Germany, the level of gross and net investment in Europe, expressed in constant prices, moved as follows in the last three years compared with 1938 :

The Level of Investment in Fixed Capital in Europe, excluding Germany
(1938 = 100)

	1947	1948	1949
Gross investment . . .	110	118	127
Net investment . . .	127	143	161

While for some European countries 1938 was not the best pre-war year for investment, it was probably the best pre-war year for Europe as a whole and is

Table 30

NET INVESTMENT IN FIXED CAPITAL PER HEAD OF POPULATION

Dollars in 1938 prices

Country	1938 ^a	1947	1948	1949
Norway	41	52	50	59
United Kingdom	34	37	40	41
Sweden.	33	52	44	36
Denmark.	27	29	27	32
Netherlands.	25	17	22	31
Switzerland.	..	..	32	..
Finland	26	21	26	..
France.	6	19	22	24
Germany : Western zones	32 ^b	6	15	23
Belgium	15	17	19	21
Austria.	6	..	..	15
Germany : Soviet Zone .	32 ^b	—	7	14
Hungary	2	—1	6	12
Yugoslavia	2	6	9	12
Italy.	5	5	7	9
Poland.	4	3	6	9
Czechoslovakia	8	5	8	8

NOTE.—The figures are the ratios between net investment in 1938 dollar prices given in Table 29 and population shown in Table I in Appendix C.

^a For Germany, the figures refer to 1936 ; for Austria, Czechoslovakia, 1937 ; for Sweden, 1938-1939 ; for Norway and Yugoslavia, 1939.

^b The whole of Germany.

therefore a fair basis for comparison.¹ The largest increases in gross investment over 1948 are shown for Hungary, the Netherlands, Poland, Yugoslavia and Germany, while in Czechoslovakia and Finland there was little change and in Sweden a slight decline.

Gross capital formation in the Soviet Union cannot be estimated in comparable terms on the basis of the data available. It is known, however, that the volume of investment in the Soviet Union increased by 24 per cent between 1947 and 1948, and by 20 per cent between 1948 and 1949 ; the expansion in the national income (not necessarily measured in the same prices) between 1948 and 1949 was 17 per cent.

Figures showing net investment per head of the population and as a percentage of the supply of commodities available are given in Tables 30 and 31. These show that Norway maintained its leading position, with the United Kingdom, Sweden and

Table 31

PROPORTION OF COMMODITIES AVAILABLE FOR HOME USE DEVOTED TO NET INVESTMENT IN FIXED CAPITAL

Percentages

Country	1938 ^a	1947	1948	1949
Norway	20	23	23	24
Finland	20	17	19	..
Netherlands	13	11	13	17
United Kingdom	13	16	16	16
Germany : Western zones	17 ^b	7	14	15
Denmark	14	15	13	14
France	4	12	12	13
Sweden	13	16	14	13
Yugoslavia	4	8	11	13
Austria	4	..	..	11
Belgium	9	8	9	11
Switzerland.	..	..	11	..
Hungary	2	—2	6	10
Italy.	6	6	8	10
Germany : Soviet Zone .	17 ^b	—	5	9
Poland	5	4	5	7
Czechoslovakia	7	4	5	5

NOTE.—The figures are the ratios between net investment in 1938 dollar prices given in Table 29 and the net value of commodities available in 1938 dollar prices shown in Table IV in Appendix C. A deduction of 10 per cent has been made to allow for that part of the value of investment not due to the commodity producing industries.

^a For Germany, the figures refer to 1936 ; for Austria, Czechoslovakia, 1937 ; for Sweden, 1938-1939 ; and for Norway and Yugoslavia, 1939.

^b The whole of Germany.

¹ For Germany, however, the pre-war year used in the table is 1936. No comparable estimates are available for 1938, but it is known that investment was then considerably higher.

Table 32
GROSS INVESTMENT IN FIXED CAPITAL BY ECONOMIC SECTORS
Millions of dollars in 1938 prices and percentages

Country and year	MILLIONS OF DOLLARS					PER CENT OF TOTAL INVESTMENT IN FIXED CAPITAL					
	Agriculture, fishing and forestry	Industry	Transport and communications	Government and other sectors	Dwellings	Total	Agriculture, fishing, and forestry	Industry	Transport and communications	Government and other sectors	Dwellings
Belgium 1947	8	80	91	62	66	307	3	26	30	20	21
. 1948	12	93	80	74	67	326	4	29	25	22	20
Czechoslovakia . . . 1947	16	71	66	42	55	250	6	29	26	17	22
Denmark 1947	26	..	..	..	84	309	8	..	..	..	27
. 1948	28	..	..	..	85	313	9	..	..	..	27
. 1949	36	..	..	..	77	344	10	..	..	..	22
Finland 1947	17	37	29	9	40	132	13	28	21	7	30
France 1948	273	1,067	491	215	287	2,333	12	46	21	9	12
. 1949	261	1,128	508	218	355	2,470	10	46	21	9	14
Hungary 1947	6	16	12	7	2	43	14	37	28	16	5
. 1948	15	38	23	21	10	107	14	35	22	19	10
Italy 1947	88	304	249	152	73	866	10	35	29	18	8
. 1948	128	368	224	168	80	968	13	39	23	17	8
. 1949	133	427	165	268 ^a	107	1,100	12	39	15	24 ^a	10
Netherlands 1947	47	151	145	80	50	473	10	32	31	17	10
. 1948	55	173	137	80	93	538	10	32	25	15	18
. 1949	60	232	149	92	100	633	9	37	24	14	16
Norway 1947	40	75	148	18	47	328	12	23	45	5	15
. 1948	41	89	134	19	48	331	12	27	40	6	15
. 1949	42	100	145	23	53	363	12	27	40	6	15
Poland 1947	50	87	69	33	52	291	17	30	24	11	18
. 1948	65	105	73	49	60	352	18	30	21	14	17
Sweden 1947	66	326	166	97	248	903	7	36	18	12	27
. 1948	75	330	169	115	190	879	9	38	19	13	21
. 1949	72	301	154	119	196	842	9	36	18	14	23
United Kingdom . . . 1947	144	1,158	670	789	949	3,710	4	31	18	21	26
. 1948	158	1,299	666	848	959	3,930	4	33	17	22	24
. 1949	155	1,398	744	917	906	4,120	4	34	18	22	22

Sources: Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—The definition of gross investment varies from country to country. See note a, Table 29.

^a Including miscellaneous items which could not be allocated to other sectors.

Denmark some way behind. Net investment per head is much lower in the eastern European countries and also (in spite of foreign aid) in Italy. The remaining western European countries are in an intermediary position ranging from the Netherlands and Switzerland to the relatively low level in Belgium and Austria. In general, as might be expected, the richer countries not only have a higher level of investment per head, but are also able to devote a larger percentage of their resources to investment. In the poorer countries there is less margin to spare over necessary consumption, and the lack of economic resources sets a limit to the size of investment in industry. Only in countries like Hungary and Yugoslavia—where a considerable expansion in the building industries, which require little capital, has been successfully organized—does investment reach relatively high levels. It should also be remembered that the poorer countries have in general a higher rate of increase in population, the provision for which

absorbs a considerable proportion of their net capital formation, especially if the additional population is employed in urban occupations. Hence the available information on capital formation provides no reason for expecting that living standards in different parts of Europe will become more equal.; on the contrary, there is a serious danger that Italy, and possibly other Mediterranean countries, will be left behind as the general level rises with the progress of industrial development elsewhere.

Investment by Economic Sectors

The distribution of gross and net investment between economic sectors is shown in Tables 32 and 33.¹ The figures on gross investment naturally reflect

¹ Some countries included in Table 32 have been omitted from Table 33 because no reliable estimates of depreciation by economic sectors are available. This is also true of the United Kingdom, but, owing to its importance, estimates for it have been specially made. For details, see Appendix B.

Table 33
NET INVESTMENT IN FIXED CAPITAL BY ECONOMIC SECTORS
Millions of dollars in 1938 prices

Country and year	Agriculture, fishing and forestry	Industry	Transport and communications	Government and other sectors	Dwellings	Total
Belgium 1947	6	20	50	51	17	144
1948	10	32	38	62	18	160
France 1948	72	580	261	15	-29	899
1949	60	626	264	17	41	1,008
Hungary. 1947	-7	-9	5	6	-6	-11
1948	2	12	15	20	2	51
Italy. 1947	-2	19	159	69	7	238
1948	33	68	130	77	—	308
1949	33	112	65	174 ^a	21	405
Netherlands 1947	26	50	67	30	-11	162
1948	34	69	56	30	30	219
1949	37	123	65	44	36	305
Norway 1947	9	41	74	18	20	162
1948	10	53	67	9	22	161
1949	12	61	76	12	28	189
Sweden 1947	..	185	..	..	..	353
1948	..	180	..	..	..	307
1949	..	140	..	..	..	252
United Kingdom . . 1947	62	375	392	439	587	1,855
1948	70	480	374	487	569	1,980
1949	63	540	439	541	487	2,070

Sources: Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

^a Including miscellaneous items which could not be allocated to other sectors.

to some extent the economic structures of the countries concerned, but in none is the share of agriculture in either gross or net investment as high as 20 per cent. Investment in livestock, however (which is not included in the figures), may be as important in agriculture as investment in fixed capital. Moreover, much investment included under other headings—for example, in rural electrification or in tractor or fertilizer plants—contributes indirectly to agricultural development. Investment in transport, as was envisaged in last year's SURVEY, has generally fallen from the high levels reached in 1947 as war losses have been made good. Investment in industry, on the other hand, has tended to increase, but the proportion of net investment going into industry varies from about one-quarter in the United Kingdom and one-fifth in Belgium, to over 50 per cent in Sweden and over 60 per cent in France. France, however, has little or no net investment in dwellings, which accounts for over a quarter of the total net investment in the United Kingdom.¹

The comparatively low level of industrial investment in the United Kingdom is also brought out by Table 34, which shows that net investment per person engaged in industry was over three times as high in Norway and Sweden as in the United Kingdom and over twice as high in France. The table also shows how net investment in industry compares with the net value of industrial output in some European countries and the United States. The ratio of net investment to net output was about 1 to 10 in the United States in 1948. In Norway, Sweden and France it was considerably higher, and in Finland and the Netherlands it was about the same. It was much less, however, in the United Kingdom, Italy, Belgium and the eastern European countries. These ratios give an indication of the relative rates of growth of fixed capital, and therefore of potential industrial development, whether it results in the employment of more people in industry or the provision of more capital per worker. In countries whose industries are rapidly expanding, however, figures of net investment may greatly under-estimate the increase in productive capacity, since, as a higher proportion of industrial plant is of relatively recent origin, economic depreciation is in excess of the actual replacement requirements.

¹ Dwellings (excluding maintenance) also accounted for 29 per cent of gross investment in Switzerland.

Table 34

**ESTIMATED NET INVESTMENT AND NET OUTPUT
IN INDUSTRY PER PERSON ENGAGED**

Dollars in 1938 prices

Country	Persons engaged in industry (millions)	Net value of industrial output per head		Net investment in industry per head	
		1948	1949	1948	1949
United States . .	18.4	2,000	..	190	..
Norway	0.4	780	810	150	160
Sweden	1.1	1,080	1,090	170	130
France	5.9	590	640	100	100
Netherlands. . .	1.2	620	650	60	100
United Kingdom	9.3	920	980	50	60
Finland ^a	0.5	340	..	30	..
Italy	4.2	420	440	20	30
Belgium	1.3	..	..	20	..
Hungary	0.8	320	..	20	..
Poland	1.9	500	620	20	30

Sources: The figures are derived from Tables 33, IV (in Appendix C) and national statistics.

NOTE.—"Industry" comprises manufacturing, mining, gas, water and electricity supply and handicrafts.

^a The figures for 1948 refer to 1947.

Figures for the distribution of gross investment in industry are given in Table 35 for eight countries for which information is available. Of the large French investment in industry in 1949, 30 per cent was accounted for by electricity, 18 per cent by coal mining, and 12 per cent by iron and steel. In each of these industries the value of gross investment was greater than in the United Kingdom, where investment appears, so far as can be judged from the figures available, to have been more evenly distributed between heavy and light industry than in most European countries. Heavy industry—mining, power, metals, engineering, chemicals and building materials—accounted for just over half of gross investment in Sweden, between 60 and 70 per cent in Norway, the Netherlands and Italy, and about three-quarters in Poland and Belgium and probably also in France. Less information is available about the lighter industries, but there was substantial investment in the textile industry in Belgium, the Netherlands and Italy, and in the paper industry in Norway. In general the pattern conforms to the present structure of industry, but tendencies towards a greater development of the basic industries are noticeable in France and Poland.

Table 35
GROSS INVESTMENT IN FIXED CAPITAL IN INDUSTRY
Millions of dollars in 1938 prices and percentages

Industry	BELGIUM				FRANCE ^a				ITALY		NETHERLANDS		NORWAY			
	1947		1948		1948		1949		1949		1948		1947		1948	
	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent
Food, drink and tobacco . . .	7.8	10	6.5	7	..	..	..	..	8.5	2	17.3	10	7.4	10	6.9	7
Textiles and clothing	11.1	14	11.2	12	..	..	..	..	46.5	11	22.4	13	5.2	7	6.2	7
Leather and rubber	..	..	..	..	..	..	..	..	..	..	5.2	3	1.4	2	1.6	2
Paper and printing	..	..	..	..	..	..	..	..	8.5	2	11.2	6	9.4	13	10.9	12
Timber	..	..	..	..	..	..	..	..	..	..	2.6	2	3.4	5	2.7	3
Building materials, etc. . . .	5.9	7	6.1	7	5.9	1	3.5	1	7.6	2	3.5	2	3.4	5	3.5	4
Iron and steel	6.9	9	7.8	8	35.2	6	77.7	12	25.4	6	40.6	24	14.6	20	13.3	15
Other metals and engineering	13.4	17	14.3	15	..	..	..	..	89.5	21			4.7	6	10.7	12
Chemicals	5.2	6	8.7	9	45.3 ^b	8	50.5 ^b	8	37.2	9	26.0	15	..	..	..	..
Miscellaneous	5.2 ^c	6	4.8 ^c	5	..	..	..	..	—	—	—	—	—	—	—	—
Total manufacturing . . .	56	69	59	63	294	54	328	50	..	..	129	75	50	68	56	62
Electricity supply	13.3	17	17.3	19	141.0	25	197.8	30	123.4	29	29.4	17	18.3	24	19.1	21
Gas and water supply	4.6 ^d	6	6.5 ^d	7	6.9 ^d	1	13.8 ^d	2	..	..			0.3	—	0.4	1
Coal mining	6.0	7	10.1	11	111.7	20	114.7	18	..	..	10.4	6	3.7	5	6.9	8
Other mining	—	—	—	—	—	—	—	—	8.5	2			2.9 ^c	3	7.2 ^c	8
Other	1.0	1	—	—	—	—	—	—	71.8 ^c	16	4.3	2	..	..	..	..
TOTAL INDUSTRY	80	100	93	100	554	100	655	100	427	100	173	100	75	100	89	100

Industry	POLAND				SWEDEN ^e						UNITED KINGDOM ^f					
	1947		1948		1947		1948		1949		1947		1948		1949	
	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent
Food, drink and tobacco . .	4.2	5	7.4	7	7.9	3	7.6	3	6.8	3	..	..	..	..	..	..
Textiles and clothing	6.4	7	8.4	8	11.3	4	11.8	5	12.2	6	..	..	..	..	..	..
Leather and rubber	0.4	1	2.3	2	3.2	1	2.7	1	2.2	1	..	..	..	..	..	..
Paper and printing	1.6	2	3.4	3	14.5	6	13.9	6	13.3	6	..	..	..	..	..	..
Timber	0.6	1	1.9	2	7.0	3	5.1	2	3.9	2	..	..	..	..	..	..
Building materials, etc. . . .	2.1	2	3.4	3	11.5	5	8.6	4	8.1	4	..	..	..	..	..	..
Iron and steel	22.9	26	27.9	27	58.6	24	53.4	23	47.4	23	62.9	6	74.3	6	94.3	8
Other metals and engineering																
Chemicals	11.9	14	10.9	10	9.3	4	8.6	4	7.1	3	14.4 ^b	1	17.6 ^b	2	30.5 ^b	2
Miscellaneous	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total manufacturing . . .	50	58	66	62	123	50	112	48	101	48	783	76	853	75	889	72
Electricity supply	8.2	9	11.7	11	29.2	12	37.0	16	38.0	18	155.0	15	181.9	16	224.0	18
Gas and water supply	..	..	..	..	3.5	1	3.7	1	3.7	2	57.7 ^d	5	56.6 ^d	5	57.2 ^d	5
Coal mining	25.7	30	21.4	20	—	—	—	—	—	—	33.8	3	51.8	4	57.2	5
Other mining	3.1	3	3.7	4	2.3	1	2.3	1	3.7	2	—	—	—	—	—	—
Other	—	—	2.7 ^c	3	87.4 ^g	36	81.6 ^g	34	63.4 ^g	30	—	—	—	—	—	—
TOTAL INDUSTRY	87	100	105	100	246	100	236	100	210	100	1,030	100	1,143	100	1,227	100

Sources : Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

^a Excluding maintenance and renewals.

^b Oil refineries only.

^c Including items which could not be allocated to other sectors.

^d Gas only.

^e Excluding maintenance and repairs.

^f Excluding miscellaneous industrial investment such as motor vehicles bought by business, etc.

^g Handicrafts.

The distribution of gross investment in transport naturally varies with the geographical situation of the country concerned. In Norway about two-thirds went into shipping, and in France, Sweden and the United Kingdom about a quarter. Investment in road transport tended to be greater than investment in railways in the more developed countries, while investment in air transport was in general comparatively unimportant.

Changes in Capacity

As a result of the high level of investment in the last three years, the stock of fixed capital in Europe may now be near the pre-war level. There are certain deficiencies in the stock of dwellings and in transport equipment which still require to be made good, but there has been a general increase in the stock of industrial equipment.

Changes since pre-war in the stock of different types of fixed capital vary considerably. Electric generating capacity, for example, increased by 8 per cent in 1949 and is now 17 per cent, or, if Germany is excluded, 35 per cent greater than in 1938.¹ But for the war, however, it might have been expected to double in the period. The levels of output attained in 1949 suggest that in all countries total manufacturing capacity may now be greater than before the war, though in the belligerent countries the age distribution of capital in some industries is abnormal as a result of the low levels of investment during the war. So far as data on motive power in manufacturing are available, they suggest that there has been a considerable increase, though the figures refer only to a few countries and are not up to date.

Increase in Motive Power Capacity installed in Manufacturing

	<i>Period</i>	<i>Percentage increase</i>
Denmark	1939-1946	35
Finland ^a	1938-1946	11
Hungary	1938-1947	23
Norway	1938-1946	23
Poland ^{a b}	1936-1945	11
Sweden ^c	1938-1947	43
Switzerland	1937-1944	49

^a The figure is affected by the territorial changes which have taken place since the war.

^b Prime movers only.

^c Motive power in use.

Within industry there is considerable variation ; capacity in the heavy industries, for example, has

¹ For details by countries, see Statistical Appendix, Table XVI.

increased considerably, except in Germany. In the textile industries, on the other hand, the number of cotton spindles and looms has shown a general decline, and equipment in the wool industry is at about the pre-war level. In agriculture, the stock of tractors increased by 17 per cent in 1949 and outside Germany is now nearly four times as large as before the war.² Information on the average area cultivated per tractor indicates that the United Kingdom, Switzerland and Sweden will soon be approaching saturation point, but that the number of tractors in the large agricultural areas of eastern Europe is still relatively small.

The following figures indicate the main changes in transport capacity : ³

Indices of Transport Capacity in Europe (End of year 1938 = 100)

	<i>Including Germany</i>		<i>Excluding Germany</i>	
	1948	1949	1948	1949
Railway locomotives . . (number)	97	95	94	92
Railway wagons (number)	88	88	91	90
Railway wagons (carrying capacity)	91	..	96	..
Commercial road vehicles (number)	145	159	146	157
Merchant fleet (tonnage) ^a	86	90	95	100

^a Mid-year figures : 1939 = 100.

The number of locomotives and wagons in Europe has been about 10 per cent lower than before the war for the last few years and the passenger-car position is even less favourable. Further, the age of much of the rolling-stock exceeds its theoretical length of life. The position on the railways is not, however, as serious as the figures might imply. The proportion of wagons which are serviceable is gradually being increased as the post-war backlog of repair work is reduced, and the new rolling-stock is generally of greater capacity than that which it replaces ; the new locomotives are on the average more powerful and, as can be seen if the figures for the capacity and the number of wagons are compared, new wagons are larger, particularly in the United Kingdom. In addition, there was some excess rolling-stock capacity before the war. It may be noted that the number of commercial road vehicles in Europe was increasing rapidly even before the war, and in 1949, when it increased by 10 per cent over 1948, it was 59 per cent above pre-war. All countries have shared in the rise.

² For details by countries see Statistical Appendix, Table XX.

³ For details by countries see Statistical Appendix, Tables XXI to XXIV.

The total merchant shipping tonnage in Europe in 1949 was only 10 per cent below the pre-war level, compared with 42 per cent when the war ended. If Germany is excluded, the pre-war level has been regained; and, with the exception of Greece and Italy, all the important shipping nations have restored their pre-war tonnage, though there may still be shortages of particular types of ships. Tanker requirements in particular are higher than before the war. The age distribution of European merchant ships, however, is now very uneven; there is a high proportion of new ships, but the tonnage over 25 years old is greater than before the war, and in the Soviet Union, for example, accounts for about half of the total fleet.

The number of dwellings in Europe is still somewhat below pre-war, but if Germany is excluded the

difference is negligible.¹ There is an increase in the Scandinavian countries, and particularly in Sweden, but a considerable fall in France, where 1949 was probably the first year for twenty years in which new building more than made good depreciation. If population changes are taken into account, Czechoslovakia, Poland, Sweden and Finland are better off than before the war, and France, the Netherlands and Italy are worse off. In other countries the position is much the same as before. The figures for housing construction in Table 36 show that, in the last two years, there has been a sharp increase in the number of dwellings completed, partly because immediately after the war the resources of the building industry were also required to repair war damage and carry out deferred

¹ For differences by countries, see Statistical Appendix, Table XXV.

Table 36
CONSTRUCTION OF DWELLINGS
Thousand units and percentages

Country	Dwellings completed (thousand units)				New dwellings as percentage of existing dwellings			
	1938	1947	1948	1949	1938	1947	1948	1949
Belgium ^a	16 ^b	13	20	34	0.7 ^b	0.5	0.8	1.4
Czechoslovakia	40	3	6	21	1.0	0.1	0.2	0.5
Denmark	15	10	17	22	1.2	0.8	1.4	1.8
Finland ^c	8	7	5	5	3.8	3.3	2.3	2.3
France	..	8	22	60	..	0.1	0.2	0.5
Germany : Western zones . . .	274 ^d	—	—	52	1.5 ^d	—	—	0.6
Hungary ^e	7	—	1	3	0.8	—	0.1	0.4
Ireland ^f	11	1	2	6	1.7	0.2	0.3	0.9
Italy ^g	48	25	39	53	0.5	0.2	0.4	0.5
Netherlands	38	9	36	43	1.8	0.4	1.7	2.1
Norway	..	15	16	17	..	2.0	2.2	2.3
Poland ^c	34 ^h	29	21	21	1.8 ^h	1.5	1.1	1.1
Spain ^c	..	12	16	16	..	0.2	0.3	0.3
Sweden	55	56	52	44	2.5	2.5	2.3	2.0
Switzerland	9	17	22	17	0.8	1.4	1.9	1.4
United Kingdom	360	140	217	192	2.7	1.1	1.7	1.5
Yugoslavia ⁱ	..	7	14	31	..	..	..	..
Total of countries listed	915 ^j	352	506	637	1.6 ^j	0.6 ^k	0.8 ^k	1.0 ^k

Sources : The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; *Statistical Yearbook 1948*, United Nations; "The European Housing Problem," Industry and Materials Division, Economic Commission for Europe, released 1 October 1949, and national statistics.

NOTE. — The data refer to permanent dwellings expressed in conventional dwelling units.

^a New dwellings authorized.

^b 1939.

^c Town dwellings.

^d The whole of Germany.

^e The pre-war figures refer to town dwellings only; post-war figures refer to town dwellings and miners' dwellings.

^f Dwellings built with State aid.

^g The pre-war figures refer to dwellings in towns and villages with more than 20,000 inhabitants. The original data for all years have been converted to dwelling units at the rate of 3.1 rooms = 1 dwelling.

^h 1937.

ⁱ The original data for all years have been converted to dwelling units at the rate of 45 square metres = 1 dwelling.

^j Including only countries for which 1938 figures are shown.

^k Excluding Yugoslavia.

repairs. This is still the position in western Germany, where in 1949 there was an increase of 200,000 in the number of habitable dwellings, of which only 50,000 were accounted for by new construction. Comparison of the rates of new construction achieved in the last few years or planned for the immediate future, with expected rates of population increase, shows wide differences between countries. In general, there are few countries where the rate of construction of dwellings keeps pace with the rate of increase in population, and these are mainly the countries where the standard of housing is already high.

The Role of Public Investment

Post-war Europe is characterized by the fact that an increasing proportion of investment decisions rests with public authorities ; a higher proportion of industry than before the war is in public ownership, and in eastern European countries practically all industry is nationalized. Even in western European countries, such as the United Kingdom, where in terms of employment and output relatively small sectors have been nationalized, those sectors account for a significant proportion of the demand for capital. Public authorities in most countries are responsible for a substantial proportion of total capital formation through public works and for an increasing share through industry in national ownership.

Table 37 shows the basic data for a number of countries. In the eastern European countries, public investment accounts for the bulk of capital formation, though a small proportion of total investment remains dependent on private decisions. This part of investment is concentrated in agriculture and in dwellings and is not usually included in the official investment plans of these countries. Public investment also accounts for a high proportion (about 40 per cent) of gross investment in fixed capital in Italy, largely because there is little private investment. In the United Kingdom, France and Sweden, the proportion is 30 per cent, and it is slightly less in Belgium, Norway and Switzerland. The figures are lower in Denmark and the Netherlands. The share of public investment in transport is considerably higher, and even in Belgium it is about twice as important as private investment.

In the western European countries, the importance of public decisions to invest arose to some extent out

of the special circumstances of the post-war period, when expenditure on reconstruction and investment in transport was unusually heavy. On the other hand, it must also be remembered that in some countries, such as the United Kingdom, many public investment projects were postponed because of physical shortages.

The figures, however, tend to under-estimate the influence of public authorities on investment for other reasons. For one thing they do not take into account capital transfers from the public to the private sector which are conditional on being used for investment, such as war-damage payments in France and subsidies to housing more generally. Housing subsidies usually represent only a small part of the total cost of the investment which they stimulate, and the same is true of the subsidies in the United Kingdom for the purchase of textile machinery. For this reason, even in countries like Switzerland and the Netherlands, where direct government investment is less important, transfers of this kind have a considerable influence on capital formation. The table also shows gross investment after transfers on capital account conditional on re-investment have been taken into account. Such transfers are particularly striking in France, where over half of gross capital formation is financed by the public sector. If maintenance and renewals are excluded, the proportion rises to almost three-quarters.

Finally, as long as shortages persist, governments can exercise a decisive influence over the direction of private investment through the allocation of materials like steel and timber, or through building licences, or to a lesser extent through control over the market for new capital issues. These controls over the direction of private investment tend to disappear with the shortages that brought them into existence.

The high level and increased importance of public investment may be expected to increase internal economic stability compared with earlier periods. Public investment is not as likely as private investment to follow fluctuations in general economic activity ; on the contrary, there are plans in some countries to increase public investment as private investment falls off. In countries where public investment employs, or is capable of employing, a significant proportion of the national resources, the danger of serious cyclical depressions due to internal causes should be considerably diminished.

Table 37

THE ROLE OF PUBLIC INVESTMENT IN FIXED CAPITAL FORMATION

Billions of national currency units in current prices

Item	Public authorities	Public enterprises	Private enterprises	Total
<i>Belgium 1948</i>				
Total before transfers	7.1	4.5	26.1	37.7
of which industry	—	—	11.2	11.2
transport	3.1	4.5	3.2	10.8
Transfers on capital account ^a	2.5	-0.9	-1.6	—
Total after transfers	9.6	3.6	24.5	37.7
<i>Denmark 1948</i>				
Total after transfers	570		3,280	3,850
<i>France 1949</i>				
Total before transfers	150	300	940	1,390
of which industry	—	220	420	640
transport	50 ^b	80	160 ^b	290
Transfers on capital account ^a	580	-260	-320	—
Total after transfers	730	40	620	1,390
<i>Italy 1948</i>				
Total before transfers	230	260	720	1,210
of which industry	—	90	370	460
transport	—	170	110	280 ^c
Transfers on capital account ^a	110	-100	-10	—
Total after transfers	340	160	710	1,210
<i>Netherlands 1949</i>				
Total before transfers	350	300 ^b	2,820 ^b	3,470
Transfers on capital account ^a	460	—	-460	—
Total after transfers	810	300 ^b	2,360 ^b	3,470
<i>Norway 1949</i>				
Total before transfers	480	520	3,280	4,280
of which industry	—	240	940	1,180
transport	260	280	1,180	1,720
<i>Sweden 1949</i>				
Total before transfers	1,430	840	4,570	6,840
of which industry	—	360	2,090	2,450
transport	190	480	580	1,250
<i>Switzerland 1948</i>				
Total before transfers	760		2,260	3,020
Transfers on capital account ^a	230		-230	—
Total after transfers	990		2,030	3,020
<i>United Kingdom 1949</i>				
Total before transfers	460	320	1,380	2,160
of which industry	—	165	565	730
transport	50	155	185	390
Transfers on capital account ^a	180	-60	-120	—
Total after transfers	640	260	1,260	2,160

Sources: The figures have been taken from national statistics. For details, see Appendix B.

^a Transfers on capital account conditional on re-investment.

^b Estimate.

^c Excluding roads.

The Finance of Capital Formation

The funds for financing net capital formation (including increases in stocks as well as investment in fixed capital) come ultimately from two main sources : current domestic savings, which are that part of incomes arising from current production which is not spent on current consumption, and loans or gifts from abroad through which a balance-of-payments deficit can be financed. Domestic savings themselves take three main forms : they can be savings by individuals out of personal incomes, or savings by business in the form of undistributed profits, or savings by public authorities in the form of a surplus of revenue over current expenditure. Changes in the volume of funds available from any one of these sources react on the others ; for example, an increase in taxation may both increase the government surplus and reduce private savings. Similarly, an increase in savings may make possible an increase in exports and so reduce a balance-of-payments deficit, or an increase in foreign aid may be used to increase imports of consumption goods whose disposal is likely to reduce personal savings as well as other expenditure. In general, the total finance available may be expected to be more stable than the amount coming from any particular source.

How the finance of capital formation has been shared between these main sources is shown in Table 38 for eleven western European countries. The data refer to gross capital formation, and consequently provisions for depreciation are one of the main sources of finance. Since information in greater detail is not available, the undistributed profits of public enterprises have been included with the surpluses of public authorities, and those of private enterprises have been included with personal savings under the heading of "private savings". The figure for private savings is in all countries obtained as a residual item and this makes it particularly unreliable, though in some countries checking is possible.

Information on investment in stocks and livestock is scanty and in some cases unreliable. In Norway, Denmark and the United Kingdom (the only countries which publish regular information) investment in stocks was greater in 1949 than in 1948 and amounted to 1 to 3 per cent of the national income. The rate of accumulation has somewhat decreased in the Netherlands but was still substantial in 1949. Among the important countries, no information about changes

in the value of stocks is published for France and Italy, or for the eastern European countries. Since, however, there is a strong upward trend in commodity output, the increase in stocks must be substantial and must create problems of financing.¹ Changes in livestock numbers are shown in Table 15.

Some further explanations of how Table 38 is made up, together with a warning about the limited nature of the analysis that can be based upon it, are a necessary preliminary to any discussion of the figures. First, the depreciation and maintenance allowances shown are estimates based on replacement costs, in order that the figures may be comparable through time. They are therefore not necessarily the same as the amounts allowed for tax purposes, or as those shown in the accounts of public or private enterprises. These are generally based on original cost and, as prices have risen greatly over the last ten years, may be much smaller than the estimates shown in the table. Correspondingly, the figures shown for public and private savings are likely to be lower than those shown in the accounts of the individuals, enterprises or authorities concerned. Second, the E.R.P. counterpart funds in western European countries, which are the proceeds in domestic currency of the sale of imports financed by American aid, are not included when arriving at the figures for the current surpluses of the central governments. Any other treatment would involve double counting, since American aid is rightly shown elsewhere under the heading "Borrowing and gifts from abroad".

A much more fundamental point is that the figures in Table 38 cannot by themselves throw any light on causal relationships. They summarize historically the results in a given period of a complicated process which is going on continuously ; and this ex-post approach, by abstracting from the continuous interaction of the various factors upon one another, obscures the essentially dynamic nature of the underlying problems. Thus, the connection between the ultimate sources of savings and capital formation is generally indirect. For example, there is some agreement that in western Germany one of the chief obstacles to investment is that long-term credits are required and that savings cannot be made available in this form. This is an institutional difficulty which should be capable of solution ; but until it is over-

¹ Assuming that stocks amount to about four months' output, with an annual rise in commodity output of, say, 20 per cent, stock accumulation would take about 6 per cent of the supply of commodities.

Table 38

THE FINANCING OF GROSS CAPITAL FORMATION

Billions of national currency units in current prices and percentages

Country and year	GROSS CAPITAL FORMATION ^a (billions)	PER CENT OF GROSS CAPITAL FORMATION			
		Borrowing and gifts from abroad	Depreciation and maintenance	Surpluses of public authorities and enterprises	Private savings
Austria 1949	7.3	78	35	— ^b	—13
Belgium 1947	42	40	43	—31	48
1948	43	16	44	—7	47
1949	36	—14	56	—22	80
Denmark 1947	3.4	12	62	18	8
1948	3.9	8	59	17	16
1949	4.5	7	56	15	22
France 1948	1,450	24	51	—7	32
1949	1,650	6	50	4	40
Germany : Western zones 1948/49	18.2	13	40	26	21
Italy 1947	1,200	36	59	—38	43
1948	1,300	18	63	—8	27
1949	1,500	13	55	—7	39
Netherlands 1947	3.3	48	52	—30	30
1948	3.9	28	45	—3	30
1949	4.2	19	43	6	32
Norway 1947	3.7	35	49	16	—
1948	4.0	20	48	22	10
1949	4.6	28	46	16	10
Sweden 1947	7.2	21	57	14	8
1948	7.3	7	61	14	18
1949	6.9	—6	70	12	24
Switzerland 1948	3.4	12	41	24	23
United Kingdom . . . 1947	1.90	26	47	—13	40
1948	2.05	2	48	16	34
1949	2.25	—	47	13	40

Sources : The figures are derived from the same sources as those in Tables 18 and III (in Appendix C). Private savings are residual.

^a Including an estimate for changes in stocks but excluding inventory profits.
^b Central Government only.

come any increase in the rate of savings in western Germany is less likely to lead to an increase in the rate of investment than to a deflationary spiral in which the level of the national income, savings and investment all fall together. Similarly, an increased government surplus on current account may equally well bring about an increase in investment, an improvement in the balance-of-payments position by diverting goods from domestic consumption to export, a decrease in inflationary pressure, or the beginning of a deflationary spiral. Table 38 does not distinguish between these different patterns of causation, or between possible combinations of them ; all it can

tell us, after the event, is how the investment that took place was in fact financed.

Within these limitations, some interesting points emerge from the figures. In the Scandinavian countries, the United Kingdom and the Netherlands, capital formation has been gradually increasing in the last three years, with the exception of a small fall in Sweden in 1949. At the same time, the proportion financed out of borrowing or gifts from abroad has been decreasing, both absolutely and as a proportion of the total. It remained important in 1949, however, in Norway, the Netherlands, Italy and western Germany, and in Austria it probably

accounted for the whole of the finance of net capital formation.

The reduction in balance-of-payments deficits between 1948 and 1949 was more than offset by a rise in the level of domestic savings, as may be seen from the following figures, which are expressed in percentages of net national income :

Movement of Domestic Savings and the Balance of Foreign Payments
(in percentages of net national income)

	1948			1949		
	Net capital formation	Balance of payments ^a	Net domestic savings	Net capital formation	Balance of payments ^a	Net domestic savings
Belgium	10	-3	7	7	-2	9
Denmark	10	-1	9	12	-2	10
France	13	-6	7	11	-1	10
Italy	8	-4	4	11	-3	8
Netherlands . . .	17	-9	8	19	-7	12
Norway	23	-9	14	26	-14	12
Sweden	13	-2	11	10	+2	12
United Kingdom	11	-	11	11	-	11

^a Surplus (+), deficit (-).

With the exception of Norway, where a further rise in the relatively high level of investment was accompanied by a proportionately greater increase in the balance-of-payments deficit, most countries show notable increases in the proportion of the national income saved. Except in Austria and Turkey, domestic savings were at a high level in all countries for which data are available. It should be noted, however, that in these figures the balance of payments has been calculated without taking into account foreign aid, gifts and reparations. The addition to national assets is therefore greater than that indicated by the estimates of savings in those countries which receive foreign aid and smaller in those countries which pay reparations.

An improvement in the budgetary position of public authorities has been responsible for part of the increase in domestic savings. In France (where the improvement was mainly due to a tax on production in general) and the Netherlands, deficits on current account were eliminated, while the Scandinavian countries and the United Kingdom continued to show substantial surpluses. In Norway, however, the surplus fell slightly, and in Belgium the deficit increased owing to increased payments of unemployment benefits. The greater part of the increase in domestic savings, however, was due to private savings, which increased to more normal proportions as real incomes rose and the pent-up

demand for consumption goods, arising out of the war, was gradually satisfied.

The relative contributions of public and private savings in western Europe in 1948 and 1949 can be seen from the following table, where each is expressed in percentages of net national income :

Public and Private Savings
(in percentages of net national income)

	Surplus of public authorities		Private savings	
	1948	1949	1948	1949
Belgium	-1	-2	8	11
Denmark	4	4	5	6
France	-2	1	9	9
Italy	-2	..	6	..
Netherlands . . .	-1	2	9	10
Norway	10	8	4	4
Sweden	5	5	6	7
United Kingdom	4	3	7	8

Private savings, while probably a smaller proportion of national income than would have been expected before the war in countries with full employment, are still more important than public savings everywhere except in Norway. In some countries it is possible to distinguish between personal savings and the undistributed profits of private companies. The evidence suggests that, in industrial countries, undistributed profits are now considerably the more important source of finance, and that it is only personal savings which are lower than before the war.

In spite of the general increase in domestic savings, however, some western European countries are still relying on balance-of-payments deficits to finance a considerable part of their capital formation. If the rate of investment is not to be seriously reduced, they therefore face a difficult problem of increasing output and yet keeping consumption within levels which can be maintained when foreign aid ceases. This problem will be particularly acute in Austria, Norway, the Netherlands, western Germany and Italy, where the importance of foreign deficits has been greatest, and in the last two it is considerably aggravated by the existence of unemployment.

In eastern Europe the very much smaller scale of gifts or loans from abroad has made capital formation more difficult, and some countries have had to finance reparations deliveries as well. The information available is not sufficiently comprehensive to enable figures to be presented in the table. It seems, however, that the current surpluses of public authorities expanded parallel with the increase in capital

formation and were about sufficient to finance those investments which were included in the budget.¹ Almost all the increases in revenue in 1949 came from indirect taxes or from the profits of nationalized industry which had previously been negligible or in some cases negative. Means had also to be found to finance investments not included in the budget. These can include only a small proportion of the investment in fixed capital, but probably account for a large part of investment in stocks, which in these countries must have been large. The finance was mainly found out of the resources of the enterprises themselves, and in

¹ See Statistical Appendix, Table III.

Hungary there was also a successful long-term public loan. In Poland, however, there was a heavy increase in investment expenditure in the second half of 1949 which increased money incomes in relation to the supply of consumption goods ; as a result, prices rose in that period. The eastern European countries, which aim at allocating as much as possible of the increase in national output to capital formation, still find it necessary to devote a considerable proportion of the increased production to consumption. With rising production and money incomes, increases in consumption could not be avoided without danger of inflation.

Chapter 3

INTERNAL STABILITY AND EMPLOYMENT

1. THE LEVEL OF EFFECTIVE DEMAND

General Characteristics in 1949

The internal economic situation in western European countries presented a more diversified picture in 1949 than in previous years, when inflation in its different forms was still the outstanding problem. In 1949 it was only in a few countries—such as the United Kingdom and Norway—that total demand was still excessive and maintained an inflationary pressure which was kept in check only by the continued existence of comprehensive systems of physical control which were not otherwise primarily intended as instruments of economic planning. At the same time, deflationary symptoms, which were already visible in a few countries in 1948, became more widespread in 1949, and in three countries—Belgium, western Germany and Italy—unemployment was at seriously high levels. A slowing-down of the rate of expansion was noticeable in Denmark and France, and in Switzerland there was a recession from the high levels of economic activity hitherto prevailing.

For eastern European countries, it is difficult to judge, on the basis of available information, how nearly aggregate supply and demand are in equilibrium. The high degree of suppressed inflation which previously prevailed in Czechoslovakia was to some extent reduced by the introduction of a multiple price system (such as was already in operation in Yugoslavia) at the beginning of 1949, and by a heavy general indirect tax falling on commodities other than basic rations. In Hungary and Poland, there was no recourse to multiple pricing of commodities and, at the end of 1949, many subsidies in Poland were abolished, thus bringing prices into closer relation to costs. As was mentioned in the preceding chapter, in the second half of the year there were signs in Poland of an upward movement in money incomes and prices.

In the Union of Soviet Socialist Republics, the supply position improved owing to increases in both agricultural and industrial output. The policy followed there was to raise real incomes by a reduction in prices

rather than by an increase in money wages. At the end of February 1949, important price reductions ranging from 10 to 20 per cent were announced, followed by the introduction of similar decreases ranging from 10 to 50 per cent at the end of February 1950. The prices of many necessities were sharply reduced by lowering the high turnover tax.

The continued improvement in the supply position was again in 1949 an important cause of the weakening of inflationary pressure in western Europe. In 1948, the large increases in production made possible

Table 39

YEARLY INCREASES IN INDUSTRIAL EARNINGS AND IN OUTPUT PER MAN IN INDUSTRY

Country	Hourly earnings (percentage increase)		Output per man (percentage increase)	
	1947 – 1948	1948 – 1949	1947 – 1948	1948 – 1949
Austria	55	20	38	16
Belgium	10	6	5	9
Czechoslovakia	10	5	12	2
Denmark	8	5	5	2
Finland	47	7	10	5
France	51	15	13	8
Germany :				
U.K./U.S. Zone . . .	10	7	37	38
Hungary ^a	28	—	15	14
Ireland	14	5	9	2
Italy	33	4	5	6
Netherlands	5	3	7	5
Norway	6	5	3	3
Sweden	9	4	5	2
Switzerland	5	1	..	..
United Kingdom . . .	9	3	7	5

Sources : The figures are derived from Table 4 and national statistics. For details, see Appendix B.

NOTE.—The data refer to hourly earnings and output per man in manufacturing, mining and gas, water and electricity supply.

^a The indices for earnings refer to monthly earnings.

not only an increase in the rate of capital formation and a considerable reduction in the current deficit on international account, but also an improvement in the supply of consumers' goods which contributed to a better balance between aggregate supply and demand. The rate of increase in production was smaller in 1949 than in 1948; but, although there was a further small reduction in the balance-of-payments deficits, the higher rate of capital formation was maintained and the supply of consumers' goods continued to increase.

On the demand side, money wages have become far more stable in most countries, as can be seen from Table 39. The increase in hourly earnings in industry between 1948 and 1949 seldom exceeded 5 per cent, whereas between 1947 and 1948 it was less than 9 per cent in only four countries and in several was 30 per cent or more. A comparison with the estimates for the increase in output per man in industry between

1948 and 1949 indicates that, on the whole, the changes in hourly earnings have not been out of line with the rise in productivity, so that there has been no general tendency towards a wage-induced inflation of the price level. There were large upward movements of wages in 1949 only in Austria and France; in the former country, this was part of a deliberate adjustment of wage and price levels; in the latter, it was in the nature of an adjustment in income distribution which rectified to some extent the fall in wages relative to farm incomes during the years of inflation.

The movements of wholesale prices are shown in Table 40. Before devaluation, wholesale prices fell in most countries, thus reversing the trend of previous years. In the few countries where the price level increased, this was the intended result of government policies. Thus, in Austria, a third major price adjustment was made in the summer of 1949, when subsidies

Table 40

THE DEVELOPMENT OF WHOLESALE PRICES IN EUROPEAN COUNTRIES AND IN THE UNITED STATES

Index numbers and percentages

Country	GENERAL WHOLESALE PRICE INDEX (1938 = 100)		PERCENTAGE INCREASE				
	January 1946	January 1950	Jan. 1946– Jan. 1947	Jan. 1947– Jan. 1948	Jan. 1948– Jan. 1949	Jan. 1949– Aug. 1949	Aug. 1949– Jan. 1950
Austria ^a	295 ^b	499	..	..	21	19	16
Norway	167	186	2	5	1	2	—
United Kingdom	170	241	5	17	4	4	7
Denmark	182	248	10	8	8	— 3	9
Finland	539	1,006	17	42	6	— 3 ^c	8 ^d
Greece.	15,300 ^e	30,910	20 ^f	42	23	4	1
Ireland ^a	200	236	2	14	— 1	— 1	3
Netherlands	230	303	13	5	5	— 1	6
Sweden	167	197	5	6	5	— 1	2
France.	479	2,063	81	69	33	— 2	8
Germany : U.K./U.S. Zone	..	196	..	..	54	— 2	5
Belgium	285	363	14	12	3	— 7	1
Italy.	2,669	4,728	41	43	7	— 14	— 3
Portugal	239	248	— 5	2	8	— 4	3
Spain ^a	325	506	24	10	5	4	4
Czechoslovakia	279	347 ^g	13	3	5	1	..
Hungary ^a	530 ^h	668 ⁱ	3 ^j	25	— 3	1 ^c	..
Switzerland	201	198	1	7	— 2	— 4	— 3
Turkey	447	482	— 3	3	14	— 3	— 2
United States.	136	192	33	17	— 3	— 5	— 1

Sources : The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations, and national statistics.

^a The base of the index numbers is March 1938 for Austria, October 1938 for Ireland, 1936 for Spain and August 1939 for Hungary.
^b October 1947.

^c January–June 1949.
^d June 1949–January 1950.
^e Average 1946.
^f Average 1946–average 1947.

^g September 1949.
^h August 1946.
ⁱ June 1949.
^j August 1946–January 1947.

on agricultural products and coal were abolished, and public utility and transport charges were increased. As a result, wholesale prices rose by about 25 per cent. In the United Kingdom, the increase in wholesale prices is fully explained by the limitation of food subsidies and the abolition of subsidies on freight charges for iron ore, scrap and pig-iron, and in Norway it was almost wholly due to an increase in the petrol tax. In the same way, in Poland and the Soviet Zone of Germany—although no wholesale prices indices are available—prices are known to have risen as a result of cuts in subsidies.

The fall in wholesale prices before devaluation was most marked in Belgium and Italy, where the internal monetary situation followed a deflationary trend. In other countries the fall was slight and mainly reflected the fall in world prices. In addition, the prices of animal products fell appreciably in some countries as a result of the improved supply position. In countries such as Belgium, Finland, France and Italy, where the prices of animal products had been free to move in accordance with the prevailing scarcity, the price relations between animal and vegetable products, and between agricultural goods as a whole and industrial commodities, have come nearer to the pre-war pattern.

Price developments since devaluation (up to January 1950) are shown in the last column of Table 40. It appears that the rises in the general level of wholesale prices in the devaluing countries other than Austria have been rather small and divergent : ranging from 9 per cent in Denmark to only 2 per cent in Sweden and 1 per cent in Greece. In Norway, wholesale prices remained stable until April 1950, when the index rose by 10 per cent. In Italy, as in the countries whose currencies were not devalued, the decline in prices continued. However, these differences in the movements of wholesale price indices in the first months after devaluation may be due more to different methods of internal price controls (and perhaps also to differences in statistical methods) than to differences in the nature and importance of foreign trade.

The general picture of diminishing inflationary pressure in 1949, and in some countries of more or less pronounced deflationary tendencies, is confirmed by the increasing frequency of bankruptcies, as shown in Table 41. It will be noted that, in all countries for which information is available, the number of bankruptcies continued to increase between 1948 and 1949, and that in some of them it exceeded pre-war levels for the first time since the war.

Table 41
NUMBER OF BANKRUPTCIES
Index numbers — 1936–1938 = 100

Country	1946	1947	1948	1949
Austria ^a	..	4	17	39
Belgium ^b	10	29	50	63
Denmark	36	46	76	125
Finland	19	20	25	64
France	11	21	34	55
Germany : Western zones . .	..	..	..	190
Italy ^c	20	37	99	214
Netherlands	10	29	37	53
Norway	36	36	53	63
Spain ^d	64	55	64	81
Sweden	39	40	51	52
Switzerland	42	50	64	81
United Kingdom	9	19	34	44

Sources : The figures are derived from national statistics.

^a 1935–1937 = 100.

^b January–October of each year.

^c January–November of each year. The figures refer to the number of bills protested.

^d 1934 = 100.

Monetary conditions in different countries are analysed in Table 42, which shows index numbers of the volume of money in circulation and of the income velocity of money, the latter being the ratio between indices of the money value of national income (plus imports) and of the amount of money in circulation.¹ It appears that, apart from a marked decline in the velocity of circulation in countries which experienced deflationary tendencies during the past year, such as Belgium, western Germany, Italy and Switzerland, no very important changes took place from 1948 to 1949. In all countries except the Netherlands which in recent years have been in a state of suppressed inflation with comprehensive controls over prices, the velocity of circulation remains comparatively low. Conversely, in countries which have experienced a major price

¹ In previous SURVEYS the liquidity position was analysed in terms of movements of the real value of cash holdings, which was obtained by deflating the index of monetary circulation with the changes in the price level. Now that fairly reliable estimates of the money value of the national income are available for a considerable number of countries, it is possible to obtain a more dependable measure of the liquidity position by relating movements in the national income to the movements of the supply of money.

While the figures shown in the table may reflect fairly correctly the increments in the income velocity of money between different post-war years, the comparison with pre-war is less reliable, since the lack of national income data has made it impossible to base the comparison on more than a single pre-war year—in most instances 1938.

Table 42

MONEY SUPPLY, INCOME VELOCITY OF MONEY AND LONG-TERM INTEREST RATES

Index numbers and percentages

Country	MONEY SUPPLY Yearly average (index numbers — 1938 = 100)			INCOME VELOCITY OF MONEY Yearly average (index numbers — 1938 = 100)			LONG-TERM INTEREST RATES ^a (per cent at end of year)	
	1947	1948	1949	1947	1948	1949	1936-1938	1949
Czechoslovakia ^b	668	891	938	50	43	49	..	..
Denmark	430	406	380	53	60	71	4.4	4.4
Netherlands	259	287	290	93	98	103	3.2	3.1
Norway	429	457	478	54	54	55	4.4	2.5
Sweden	277	285	300	74	76	72	2.8	3.0
United Kingdom	301	297	304	64	70	74	3.2	3.5
Yugoslavia	382	534	608	76	77	81	..	..
Austria ^b	567	446	521	41	65	74	..	..
Belgium	331	344	362	102	106	99	3.8	4.5
Finland	938	1,131	1,231	76	100	86	..	..
Germany : Western zones	..	..	..	..	..	80 ^c	..	..
Italy	3,121	4,323	5,405	133	109	91	4.7	4.5
Portugal	394	396	386	..	..	..	3.7	4.0
Spain ^d	481	518	530	84	83	85	..	..
Switzerland	208	220	228	101	100	87	3.7	2.7
Turkey	553	528	532	61	79	97	..	..
France	754	793	1,033	116	189	185	4.2	5.0
Greece	5,815	8,231	11,316	202	236	232	..	..
Hungary ^e	131	242	358	214	189	200	..	..
Poland	..	..	..	178	155	..	..	..

Sources : The figures are derived from the *Monthly Bulletin of Statistics*, United Nations ; national statistics and Table III in Appendix C (corrected for indirect taxes and subsidies).

NOTE. — The figures for money supply refer, wherever possible, to the sum of notes and coins in circulation and of private sight deposits. For the following countries, however, the figures are based on note and coin circulation only : Czechoslovakia, Hungary, Norway, Poland, Portugal, Spain, Turkey and Yugoslavia.

Income velocity of money is the ratio between an index of the turnover of commodities and services and the indices of money supply given in the first three columns of the table. The indices for the turnover of commodities and services are based on the money value of national income (at market

prices) plus imports except for Hungary, Poland and Yugoslavia, where they are based on figures for national income only. For Germany (Western zones), the figure for income velocity is an estimate based on calculations in *Wirtschaftskonjunktur*, Institut für Wirtschaftsforschung, Munich, No. 3, 1949/50, p. 9.

^a Yield of government bonds.

^b 1937 = 100.

^c Second half of 1948 = 100.

^d 1935 = 100.

^e The index numbers are based on July-June 1938/1939 and refer to July-June of 1946/1947 and 1947/1948 and to the calendar year 1949.

inflation, such as France, Greece and Hungary, it remains very high—i.e., the volume of cash holdings in relation to income is relatively small. This suggests that the experience of the war and of the post-war years may have induced changes in the monetary habits of different countries that have tended to survive the period of monetary instability which induced them. Thus, the high velocity of circulation in countries like France and Hungary may not necessarily indicate a persisting lack of confidence in the stability of the currency ; and, conversely, the low velocity of circulation compared with pre-war standards in countries such as Denmark, Sweden or the United Kingdom does not necessarily mean that

cash holdings remain swollen by the inability to spend money. In Norway, for instance, where the volume of money remained at the same very high level as in 1947 and 1948, sales of several unrationed consumers' goods fell off in 1949 for the first time since the war.

It might be argued, alternatively, that the persistence in the post-war years of a high degree of liquidity in several countries merely reflects a policy of cheap money. The movement of long-term interest rates, which are also shown in Table 42, does not, however, support this hypothesis. Only in Norway and (for different reasons) in Switzerland are interest rates significantly lower than the average for the period 1936-1938.

The Abolition of Controls

In 1949, the scope of detailed government control over consumption, production and trade was considerably reduced in many countries. In most of them an improvement in the supply position made it possible to abolish some controls without causing a rise in the price-level in relation to earnings. In others, however, de-control was the result of a deliberate anti-control policy under which an open rise in prices was preferred to the continuance of inflationary pressure. In western Germany, for example, physical controls were removed faster and more completely than in most other countries, although consumption standards are still far below pre-war. This country, as will be seen below, now finds it difficult to attain a high level

of economic activity while maintaining monetary stability.

The extent to which rationing of consumers' goods was eliminated in different European countries is shown in Table 43. It is still fairly general in eastern European countries, with the exception of the Soviet Union, Poland and Hungary, but in western Europe only the United Kingdom and Norway now retain a comprehensive system of rationing. In the other countries of western Europe, such rationing as still exists is retained mainly for balance-of-payments reasons; either in order to increase export availabilities by restricting home consumption (for example, of butter and sugar in Denmark) or in order to restrict imports particularly from the dollar area, which is the reason

Table 43

THE EXTENT OF CONSUMER RATIONING

■ Rationed end 1948 and beginning 1950. ■□ Rationed end 1948 ; unrationed beginning 1950. □□ Unrationed end 1948 ; unrationed beginning 1950.

Country	Bread	Butter	Meat	Sugar	Coffee	Tobacco	Sweets	Soap	Textiles	Petrol
Bulgaria	■	■□	■	■□	■..	■□	..	■□	■	■
Czechoslovakia ^a	■□	■	■	■	■□	■	■□	■	■	■□
Germany : Soviet Zone ^a	■	■	■	■	..	..	■	..	■..	■
Norway	■□	■	■	■	■	■□	■	■□	■	■□
Rumania ^a	■	■ ^b	■	■	■□	..	■□	..	..	■□
Spain ^a	■	■ ^b	■	■	■	■□	■	..	..	■□
United Kingdom	■□	■	■	■	■□	■□	■	■	■□	■
Yugoslavia	■	■□	■ ^a	■ ^a	■	■□	■□	■	■ ^a	■
Austria	■□	■	■	■	■□	■□	■□	■□	■□	■□
Denmark	■□	■	■□	■	■	■□	■□	■□	■□	■□
Finland	■□	■□	■□	■	■	■□	■□	■□	■□	■□
France	■□	■□	■□	■□	■□	■□	■□	■□	■□	■□
Germany : U.K./U.S. Zone	■□ ^c	■□	■□ ^c	■	■□ ^c	■□	■□	■□	■□	■
Netherlands	■□	■□	■□	■□	■	■□	■□	■□	■□	■□
Sweden	■□	■□	■□	■□	■	■□	■□	■□	■□	■□
Belgium	■□	■□	■□	■□	■□	■□	■□	■□	■□	■□
Greece	■	■□	■□	■	■□	■□	■□	..	■□	■□
Hungary	■	■□	■□	■□	■□	■□	■□	..	■□	■□
Italy	■	■ ^b	■□	■□	■□	■□	■□	■□	■□	■□
Poland	■□	■□	■□	■□	■□	■□	■□	■□	■□	■□
Switzerland	■□	■□	■□	■□	■□	■□	■□	■□	■□	■□
U.S.S.R.	■□	■□	■□	■□	■□	■□	■□	■□	■□	■□
Number of countries where rationed : end 1948 . . .	14	15	14	15	12	5	10	11	11	14
beginning 1950 . . .	6	8	9	12	7	1	4	3	4	5

Sources : The data have been taken from *Average Weekly Food Rations in the United Kingdom and Continental Europe*, January 1950, No. 56, Ministry of Food ; *Unilever Annual Report and Statement of Accounts 1948*, Lever Brothers, London ; *Petroleum Press Service*, May 1949 and February 1950, Petroleum Press Bureau, London ; trade and national publications.

^a Free goods available at higher prices.

^b Edible oil.

^c Derationed March 1950.

why coffee is still rationed in many countries. In countries where rationing still exists on a large scale, it may be partly the consequence of government policies for redistributing real incomes by keeping food prices low by means of subsidies.

The scope of price controls has also been narrowed during 1949 in countries which had hitherto retained a comprehensive system of anti-inflationary controls, such as Sweden, Austria, the Netherlands and, to some extent, Denmark and the United Kingdom. In so far as price control is still retained, there is an increasing tendency to lay down general ceiling prices rather than to fix prices for each individual undertaking on the basis of a "cost-plus" formula. At the same time, the prices charged by nationalized industries and public utilities, in eastern and western European countries alike, are being brought into closer relation to their costs of production. Consequently, the rates charged by public utilities have been raised in several countries, after having been kept abnormally low in earlier years in the effort to stabilize the cost-of-living index. In the Soviet Union, the subsidies to particular undertakings in industry and transport, which were introduced during the war, have been greatly reduced, and in 1950 they are to be abolished altogether.

In spite of the general tendency towards the abolition of price controls, government control in one form or another over the prices of the main agricultural products is being maintained in a number of countries. This form of price control is, however, not primarily to be regarded as an anti-inflationary measure. Its main aim is to stabilize agricultural production and to secure a certain balance between rural and urban income. Similarly, the control of house rents, which is retained in all countries whether inflationary pressures still exist or not, is primarily a matter of social policy aimed at maintaining the distribution of real income. In some countries, however, such as Finland, France and Italy, where the real value of rents of pre-war dwellings had become so low that they did not even cover the costs of necessary maintenance, an increase in controlled rents has recently been allowed.

The disappearance of special shortages has made possible the abolition of many physical controls in the field of production, such as allocation schemes for raw materials and fuel and special production requirements. Such controls are now practically non-existent in the Netherlands and their number

has been greatly reduced in the United Kingdom and Scandinavia. While, however, allocation schemes for building materials have been generally abolished, government control over the value and distribution of building is usually retained through a system of licensing, as an integral part of the planning of investment. As other controls are gradually abolished, investment control and wage policy increasingly appear as the two main instruments for preventing an undue rise in aggregate demand.

In economies based on private enterprise, detailed controls in the sphere of production and trade often have the incidental effect of increasing real costs, both directly through the man-power absorbed in the controlling machinery¹ and indirectly by thwarting technical progress and rationalization. Allocations of raw materials, for example, are usually based on the individual firm's performance in some base period, so that efficient firms are held back from expanding, while inefficient firms are kept alive. The "cost-plus" formula in price control is even less desirable, since it puts a premium on inefficiency.

While the removal of physical controls over private business may thus contribute to higher efficiency, it is less certain that it means a return to the same degree of competition in the economy as existed before the war. The widespread system of government controls has been administered in close co-operation between government departments and trade associations whose collaboration was called for in establishing procedures for the distribution of licences, in fixing norms for price calculations, in controlling the admission of new firms into the trade, and so on. Trade associations thus acquired new functions; and where they did not already exist they were often formed in order to protect the interests of the trade *vis-à-vis* the controlling authorities, a development which was often fostered by the authorities themselves in order to ensure that the various controls would function smoothly in practice. The discontinuance of government controls does not mean that the co-operation between the members of trade associations will also come to an end. Much of this co-operation serves useful purposes, such as the

¹ The man-power absorbed in controls may be quite important. Thus, it has been estimated that clothes rationing in the United Kingdom occupied more than 1,000 persons in government departments and the equivalent of 9,000 full-time employees in industry and distribution.

collection of statistics, the dissemination of technical information, and the promotion of exports ; but in many trades it may also take the form of private price agreements and agreements to restrict the entry of new firms into the trade. The general trend towards abolition of controls therefore brings to the fore the question of control over monopoly prices and other restrictive practices.

An even wider question which arises out of the removal of physical controls is whether the *laissez-faire* economy towards which many European countries are now moving will prove to be compatible with the maintenance of full employment. In the immediate post-war years, the universal absence of unemployment was the natural concomitant of an excessive demand caused by physical shortages and financial disorganization. With the disappearance of shortages and the return to budgetary stability, the maintenance of full employment in individual countries is seen to depend more on the nature of the internal economic policies followed. In countries where potential demand is maintained at a high level but where controls prevent demand at existing prices from being fully satisfied, the resulting condition of

suppressed inflation provides a buffer against a decline in activity. This is particularly important in countries which are exposed to large fluctuations in foreign demand for their exports, since to the extent that exports are composed of commodities for which the home demand is not fully satisfied, a decline in exports will be offset by increased sales on the home market. In countries like Norway, where exports are largely composed of commodities for which there is no alternative market at home, the existence of inflationary pressure would at least prevent the spread to other industries of a decline of employment in the export trades. In countries where the internal economy has been largely liberalized, the maintenance of employment is far more precarious, depending as it does on a dexterous adaptation of monetary and financial policy to changing circumstances. Post-war experience is as yet insufficient to provide a clear answer to the question whether full employment can be steadily maintained under a liberalistic economic policy ; and the conflict between the maintenance of internal stability and full employment and the desire for the abolition of controls is likely to continue to be a main issue of economic policy.

2. THE INTERNAL EFFECTS OF DEVALUATION

Effects on Prices and Incomes

The currency devaluations which were carried out in varying degrees by most western European countries in September 1949, as a means of correcting price disparities and improving their external trading position, have necessarily confronted them with new problems in their domestic economy.

The immediate impact has been a rise in the prices of internationally traded goods, particularly of imports, within each of the countries which effected a substantial depreciation.¹ The consequence has been a rather abrupt change in the relationship between prices and incomes that may result in renewed tendencies towards inflation or, less probably, deflation. Economic policies in the devaluing countries during the past several months have therefore been concerned with the problem of restraining such

tendencies and, at the same time, of mitigating the unfavourable effects on standards of living resulting from the shift in prices and incomes. The purpose of these policies is, in general, to limit disturbances in prices and incomes to a minimum, although both the dimensions of the problem and the measures taken have varied as between different countries.

As an immediate effect of devaluation, the terms of trade of the devaluing countries have deteriorated ; that is, import prices have risen more, and in most instances substantially more, than export prices. The increase in money incomes generated in export industries is therefore smaller than the increase in the total cost of imported goods, except in so far as the volume of exports or imports has changed.

If these changes in export and import prices were the only effect of devaluation, the aggregate national income would clearly be able to buy a smaller volume of goods than before. This decline in the purchasing power of the national income would correspond to the reduction in the supply of goods for the home market, through increased exports or reduced imports, that is necessary, under conditions of full employment,

¹ The problems discussed here present themselves chiefly in those countries—the United Kingdom, the Scandinavian countries, and the Netherlands—which devalued by some 30 per cent. The situation is more mixed in countries which devalued to a lesser extent, and problems of an opposite nature tend to arise in countries which devalued little or not at all.

to restore the balance of payments to its previous position—that is, to compensate for the deterioration in the terms of trade. The balance in the economy would thus not necessarily be changed in an inflationary or deflationary direction, although the average level of prices would be somewhat higher and real income would be somewhat lower. The extent of the loss in real income resulting from the deterioration of the terms of trade of the devaluing countries should, however, not be exaggerated—it is likely to be in the order of 2 or 3 per cent of the national income, or less than may be expected to be covered by one year's growth in output.¹ The consequences of this reduction in the aggregate supply of goods to the home market must nevertheless be accepted, if, on the one hand, a deterioration in the balance of payments and, on the other, inflationary tendencies are to be avoided. The issue which must be faced, unless there are unemployed resources within the economy, is how the reduction is to be distributed between investment and consumption and between different income classes. It may be noted that the deterioration in the terms of trade alone automatically causes some shift in the distribution of income between wages and profits as a result of the rise in profits in the export trade and the increase in prices of imported consumers' goods.²

The supply of goods in the home market will be further curtailed to the extent that devaluation is effective in promoting exports or limiting imports beyond the degree necessary to offset the deterioration in the terms of trade.³ Measures will accordingly

¹ For example, if the worsening of the terms of trade of countries which have devalued to the same extent as the United Kingdom is assumed—rather arbitrarily—to be about 15 per cent, and if imports are assumed to make up 20 per cent of total expenditure on goods and services, the loss would be in the order of 3 per cent of the national income.

² While, as indicated above, the deterioration in terms of trade as such need not cause the relation between the aggregate national income and the aggregate supply of goods available in the home market to shift in an inflationary or deflationary direction, the change in *distribution* of the income may produce a deflationary tendency. First, the shift to profits may result in a lower total expenditure on consumers' goods. Secondly, the rise in import prices will have a deflationary impact in countries where the workers spend a higher proportion of their income on imported goods than the rest of the population (since the increase in their living costs is greater than the increase in the general level of prices and the workers consequently have less to spend on home-produced goods).

³ This latter reduction in resources available for use at home—unlike the loss caused by the deterioration in the terms of trade—is not an additional burden imposed by devaluation but would have had to take place anyway if the balance of payments were to be improved. The deterioration in the terms of trade may, however, be regarded as the necessary means of achieving any improvement in the balance of payments.

have to be taken to reduce money demand for consumption and investment at home in order to avoid the re-emergence of inflationary pressure.

While, as indicated above, the change in the terms of trade resulting from the relatively greater increase in import than in export prices need not directly disturb internal monetary equilibrium, the upward movement of import and export prices tends to give rise to corresponding increases in the prices of similar goods produced for the home market and to spread to still other sectors. This necessarily involves a rise in money incomes, first in the form of profits. The question is, however, whether this rise in domestic prices and incomes can be limited to a non-recurring adjustment, or whether it will introduce a rising spiral of wages and prices. If no rise in wages were to take place, a deflationary tendency might result from a fall in the demand for consumption goods as income shifts from wages to profits. On the other hand, these developments may also give rise to wage claims on a scale that could produce an inflationary development through which the initial benefits of devaluation in improving the international competitive position of the country may be lost.

Alternative Lines of Policy

There are several broad lines of policy along which the problem of stabilization that has arisen after devaluation can be attacked.⁴ They are not mutually exclusive, and each has its drawbacks, economic, social or political, which increase with the extent to which it is pushed.

First, the size of the problem may be limited by preventing the prices of home-produced goods in the domestic market from rising to correspond with prices in the export market or with the prices which must be paid for similar imported goods. This can most easily be done when effective price control already exists, or when the domestic industry is nationalized. The disadvantages of this approach are that it may involve the creation or perpetuation of controls which would not otherwise be required, and that by increasing the scope of “double-pricing” it obstructs the development of normal relationships both between the price structure in domestic and world

⁴ Since the price level in devaluing countries will in any case move upwards, the problem of preventing a renewed wage-price spiral would present itself even if it were possible to cover the whole of the reduction in available resources by a cut in domestic investment, so that the volume of consumption did not need to be curtailed.

markets, and within the domestic price structure itself.

Secondly, the effects on the cost of living of paying higher domestic currency prices to producers at home or abroad can be damped down or even eliminated by subsidizing the prices charged to the domestic consumer. In so far as the subsidies are concentrated on basic foodstuffs and other necessities, such a policy prevents the poorest sections of the community from bearing an undue proportion of the sacrifices required by devaluation. On the other hand, the subsidies must be balanced by a corresponding increase in taxation if they are not themselves to have an inflationary effect. The lower the existing level of taxation, therefore, and the smaller the danger of inflation in the absence of subsidies, the more attractive this policy is likely to be. In addition, the rise in profits will increase the yield from existing taxes on profits, and may justify an increase in their rates.

Thirdly, even if the cost of living is allowed to rise, arrangements may be made to ensure that money wage rates do not rise correspondingly, if at all. Such arrangements were made in a number of European countries as a measure against inflation during and after the war, and since devaluation they have commonly been renewed or extended on a similar basis. It has always been understood, however, that these arrangements would be purely temporary; and even when they have been approved by the trades union leaders, they have not always been accepted by the rank and file. For these reasons an assumption that they would be politically practicable for a prolonged period does not always seem justifiable.

In most countries on the Continent which devalued their currencies, devaluation was in the nature of a more or less forced adjustment to the situation created by the devaluation of the pound sterling. Consequently, no prepared and politically agreed plan existed for dealing with the internal impact of devaluation. Such measures as have hitherto been taken in the United Kingdom, as well as in the Continental countries which devalued, have aimed mainly at delaying the effects of devaluation on the costs of living and of assuring short-term agreements regarding wage adjustments. One good reason for such delaying tactics may be that increases in productivity and in home production are expected which would make good the fall in available resources owing to devaluation.

Partly as a result of such policy and partly as a result of inertia in the price system, the rise of retail

Table 44
CHANGES IN COST-OF-LIVING INDICES
Percentages

Country	Jan. 1948– Jan. 1949	Jan. 1949– Aug. 1949	Aug. 1949– Mar. 1950
Austria	21	16	1
Denmark	3	–1 <i>a</i>	5 <i>b</i>
Finland	4	2 <i>c</i>	9 <i>d</i>
Greece <i>e</i>	22	–1	9 <i>f</i>
Iceland	2	1	6 <i>f</i>
Ireland	—	2	— <i>f</i>
Netherlands	6	—	10
Norway	–1	1 <i>g</i>	— <i>h</i>
Sweden	5 <i>i</i>	— <i>j</i>	— <i>k</i>
United Kingdom	5	2	2
France <i>l</i>	37	–9	10 <i>m</i>
Germany : U.K./U.S. Zone	11	–7	–3
Belgium	7	–3	–2 <i>m</i>
Italy	3	–1	–3 <i>f</i>
Portugal	1	–1	2
Spain	4	2	7 <i>n</i>
Czechoslovakia	2	..	..
Hungary	6 <i>o</i>	–2 <i>c</i>	..
Poland <i>p</i>	3	–2	2 <i>q</i>
Switzerland	—	–1	–2
Turkey	8	4	1 <i>f</i>

Sources: The figures are derived from the *Monthly Bulletin of Statistics*, United Nations, and national statistics.

a January–July 1949.

b July 1949–April 1950.

c January–June 1949.

d June 1949–March 1950.

e Athens only.

f August 1949–February 1950.

g January–September 1949.

h September 1949–February 1950.

i December 1947–December 1948.

j December 1948–

September 1949.

k September 1949–March 1950.

l Retail prices in Paris only.

m August 1949–April 1950.

n August 1949–January 1950.

o January–December 1948.

p Warsaw only.

q August–November 1949.

prices up to the early months of 1950 has been rather modest. As is shown in Table 44, the cost of living in several of the devaluing countries rose by only a few per cent, or not at all, in the period from August 1949 to March 1950, and in the case of Denmark, the Netherlands and Finland such increases as took place were largely unrelated to devaluation. In Sweden, temporary arrangements have been made to delay the rise in prices by means of subsidies and lowering of indirect taxes. In the Netherlands also, subsidies on some food products have been increased and the removal of others has been postponed. In the United Kingdom and Norway it has not been found possible to increase further the large amounts spent on subsidies, and in both countries retail prices rose in April 1950.

In the northern countries, there seems to be fairly general agreement that increases in the costs of living will have to be compensated by a rise in wages, although a certain decline in real wages will be involved in the lag between price increases and wage adjustments. In Finland, Denmark and the Netherlands, wage increases after devaluation have already taken place. In the United Kingdom, the Government's policy is that there should be no increase in personal money incomes for the time being, and the General Council of the Trades Union Congress has recommended to the member unions that, with the exception of the lowest-paid grades, money wages should remain unaltered until the end of 1950, provided that the rise in the cost of living after devaluation

does not exceed 5 per cent. It is uncertain, however, to what extent the recommendations will be endorsed by the individual unions or accepted by their members.

Even if a satisfactory solution were found to the immediate problem of distributing the direct burden of devaluation without a relapse into inflation, the basic task of meeting the challenge of devaluation remains. This task consists in utilizing the opportunity provided by devaluation for solving the balance-of-payments problem. The possibilities and prospects of achieving this goal are discussed later. As regards internal economic policy, the main prerequisite is a continued rise in productivity, while home consumption and investment are kept at levels compatible with the restoration of equilibrium in foreign payments.

3. THE PROBLEM OF UNEMPLOYMENT

During 1949, industrial unemployment had ceased to be a problem in any of the countries of eastern Europe. On the contrary, these countries are characterized by a persistent shortage of trained industrial workers, co-existent with a large amount of concealed unemployment in the form of agricultural overpopulation. The only solution to this problem is a further development of industry and other urban occupations which will require both additional capital equipment and the training of the necessary proportion of skilled workers. However, the absence of sufficiently detailed information makes it difficult to appraise either the size of the problem or the progress made in recent years towards its solution.¹

The lack of data and the nature of the problem accordingly make it necessary to confine the following discussion of the unemployment problem to the countries of western and southern Europe. The discussion will, furthermore, deal chiefly with unemployment in industry. This does not mean that in these countries there is no open or concealed unemployment in other branches of the economy. Agricultural overpopulation, for example, is a serious problem in Italy. Nor is concealed unemployment confined to agriculture. In France, for instance, the occupational structure is seriously distorted by the swelling of tertiary industries, such as retail trade, catering and other services where the overcrowding makes for such low productivity that it can be regarded as a form of concealed unemployment; and the

same in lesser degree is true of most countries in western Europe.

The Level of Industrial Unemployment

Except in Italy and western Germany, there was practically no industrial unemployment in western and southern Europe in the first post-war years, and in most countries there was a considerable unsatisfied demand for labour. More recently, however, it has become increasingly possible to distinguish between countries which have succeeded in maintaining full employment and those in which the rising number of unemployed gives serious cause for concern. The changes since 1947 in the level of unemployment are shown in Table 45. Unemployment in agriculture has been excluded throughout, so that the figures represent mainly unemployment in industrial occupations. Some further adjustments have been made in order to make the figures reasonably comparable in spite of the wide differences in the scope and methods of unemployment statistics. Even so, the figures can give no more than an approximate indication of differences in levels of unemployment from one country to another.

The countries for which unemployment statistics are available may be divided into four fairly distinct groups: the first consists of Norway, the United Kingdom and Sweden, where unemployment has remained at the very low levels obtaining in previous years, and in these countries the number of unemployed may be regarded as being as low as is compatible with the functioning of the labour market.

¹ The long-run prospects of development in Europe are discussed in Chapter 8.

Table 45

THE LEVEL OF NON-AGRICULTURAL UNEMPLOYMENT

Thousands and percentages

Country	YEARLY AVERAGE						FOURTH QUARTER AVERAGE		
	Number of unemployed (thousands)			Unemployed as percentage of non-agricultural wage and salary earners (approximate figures)			Number of unemployed (thousands)		
	1947	1948	1949	1947	1948	1949	1947	1948	1949
Norway	8	9	7	1	1	1	7	7	7
Sweden	22	23	23	1	1	1	20	25	22
United Kingdom	293	285	286	1-2	1-2	1-2	254	305	297
France	7 ^a	16 ^a	52 ^a	—	—	0-1	6 ^a	21 ^a	44 ^a
Netherlands	41	42	62	1-2	1-2	2	33	38	57
Switzerland	3	3	8	0-1	0-1	1	2	5	10
Austria	..	42 ^a	89 ^a	..	2-3	5	..	55 ^a	82 ^a
Denmark	46 ^a	46 ^a	53 ^a	4	4	5	44 ^a	55 ^a	62 ^a
Finland	—	2	18	—	—	2	—	3	22
Ireland	33	35	35	5	6	6	29	33	30
Belgium	34	79	168	2	4	8	41	120	196
Italy	1,647	1,700 ^a	1,300 ^a	16	17	13	1,470	1,400 ^a	1,334
Germany : U.K./U.S. Zone	..	628 ^b	1,115	..	5	9	..	668	1,222

Sources : The figures have been taken from national statistics. For details, see Appendix B.

^a Estimate.

^b Second half of 1948.

Full employment has also been maintained in France and the Netherlands, although the number of unemployed rose slightly in 1949.¹ In Switzerland, unemployment has risen by only a few thousands, although industrial employment fell by about 8 per cent in 1949. The reason is that the fall in employment mainly affected foreign workers (mostly Italians) who have to leave Switzerland when their employment ends and are registered as unemployed in their own countries. In the Netherlands, industrial employment continued to rise in 1949 and the increase in unemployment has so far been small, but the rapid growth of the population of working-age causes some concern about the future.

The figures presented in Table 46 for the relative number of applicants for vacancies registered at labour exchanges show that in all the six countries mentioned above, while full employment so far has been main-

tained, there was a marked relaxation in the pressure of unsatisfied demand for labour which was characteristic for the first post-war years. This is true even of Norway, Sweden and the United Kingdom, where there was no increase in the actual number of unemployed. In France, on the other hand, the sharp increase in the number of applicants per vacancy

Table 46

**NUMBER OF APPLICANTS PER 100 VACANCIES
REGISTERED AT LABOUR EXCHANGES**

Country	1947	1948	1949
Norway	79	95	103
Sweden	81	89	107
United Kingdom ^a	46 ^b	76	87
France	..	244	673
Netherlands	68	90	180
Switzerland	63	74	270

Sources : The figures have been derived from national statistics.

NOTE.—The data are based on yearly averages of applications for positions and of vacancies outstanding at the end of each month.

^a Number of placings per 100 vacancies.

^b Based on figures for 6 months only.

¹ The coverage of the French unemployment figures is narrower than those of other countries. On the basis of the number of applicants registered at labour exchanges at the end of each month, the level of unemployment in France may be estimated at around 100,000 to 200,000. This figure, however, is still very low in relation to the working population.

suggests that the employment situation may not be quite so favourable as the unemployment figures indicate, and it is known that much short time is being worked. France, Switzerland and the Netherlands accordingly form a second group in which full employment still exists, but where its maintenance may be regarded as more precarious.

Denmark, Austria, Ireland and Finland form a third group consisting of countries which now have an unemployment problem but where it is not yet serious. In Denmark, Austria and Ireland, unemployment is higher than can readily be accounted for by frictional causes only, and in Denmark and Austria it rose appreciably between 1948 and 1949. In Finland, unemployment has been concentrated largely in forestry, and there is still a shortage of labour in industry. Future employment prospects, however, are closely bound up with the prospects of the engineering industry, which was greatly expanded during and after the war, in connection with the wartime demand for armaments and the post-war reparation deliveries to the Soviet Union. With reparation deliveries coming to an end, the continuance of a high level of employment depends on whether foreign markets can be found for the products of the industry.

The fourth group consists of Belgium, western Germany and Italy, where unemployment has already reached serious proportions.¹ The character of the unemployment problem is rather different in each of these three countries and deserves consideration in some detail.

Recession in Belgium

Recorded unemployment in Belgium, which was about 2 per cent of the total of wage and salary earners in 1947 and rather below 4 per cent of it in the first three quarters of 1948, rose to 8.7 per cent in December 1948 and remained around 8 to 9 per cent until September 1949. Since then there has been a further increase to nearly 11 per cent in January 1950. The recorded figures, however, include some disabled persons who are not fully employable, and are also said to include many women who went into industry

temporarily during the inflationary period immediately after the war and are not now genuinely seeking a job, though they are still included in the unemployment insurance system. From time to time the number of registered unemployed is also swollen by frontier workers who usually work in France but return temporarily to Belgium when the exchange rate moves against them. But when full allowance has been made for these factors, the problem remains a serious one, and industrial employment fell by 8 per cent between the last quarter of 1948 and the last quarter of 1949.

To understand Belgium's present difficulties, it is necessary to go back to the years 1946-1947, when the authorities adopted a vigorous policy designed to eliminate inflationary tendencies and pave the way for the abolition of economic controls. The Government cut its expenditure on investment in an effort to reduce the budget deficit, and rather severe restrictions on credit facilities seem to have caused some reduction in building activity. For some time the effect of these measures was offset by the expansion of exports and the still abnormal demand for durable consumers' goods arising out of the war. The latter, however, was gradually satisfied, and in 1948, when industry was faced with the problem not only of disposing of its extra output due to increased productivity but also of finding employment for additional workers as a result of population increase and immigration, the level of domestic demand proved inadequate. Exports continued to increase sharply and production was considerably higher than in 1947, but employment in the main industries failed to expand and unemployment rose.

In 1949, as may be seen from Table 47 the situation deteriorated further, and employment actually declined, while wholesale prices fell by 7 per cent in the nine months before devaluation. Since a further increase in productivity was not matched by a corresponding increase in demand, in the first half of the year, production was maintained at about the same level as in the last quarter of 1948, an increase in the volume of exports compensating for a further weakening of internal demand. Not all export industries had the same experience, and in the metal and engineering industries production declined in response to a fall in export orders, which only began to be reflected in deliveries in the third quarter. Chart 1 brings out clearly the contrast with the textile industry, in which production remained steady while exports rose sharply.

¹ To this may be added the city of Berlin where, in the western sectors, the number of unemployed has risen to about 300,000 or 30 per cent of wage and salary earners. This level of unemployment in Berlin was not exceeded at any time during the depression of the 1930's. Clearly, unemployment in Berlin is a consequence of the economic isolation of the city and it can be radically reduced only by the removal of political tension.

Table 47

DEVELOPMENT OF PRODUCTION, EXPORTS, EMPLOYMENT AND UNEMPLOYMENT IN BELGIUM

Index numbers and thousands

Period	Volume of industrial production	Volume of industrial exports ^a	Industrial employment	Number of totally unemployed ^b
	<i>Index numbers — 1936-1938 = 100</i>			<i>Thousands</i>
1947, average	95	76	113	36
1948				
First quarter	100	94	117	64
Second quarter	101	100	117	58
Third quarter	101	99	116	72
Fourth quarter	107	118	118	120
1949				
First quarter	108	124	116	165
Second quarter	106	129	114	156
Third quarter	97	118	111	153
Fourth quarter	105	98	108	196

Sources : The figures are derived from *Bulletin de l'Institut des Recherches économiques et sociales* and *Service mensuel de Conjoncture, Statistique*, Université Catholique de Louvain, and *Bulletin de Statistique*, Institut national de Statistique, Brussels.

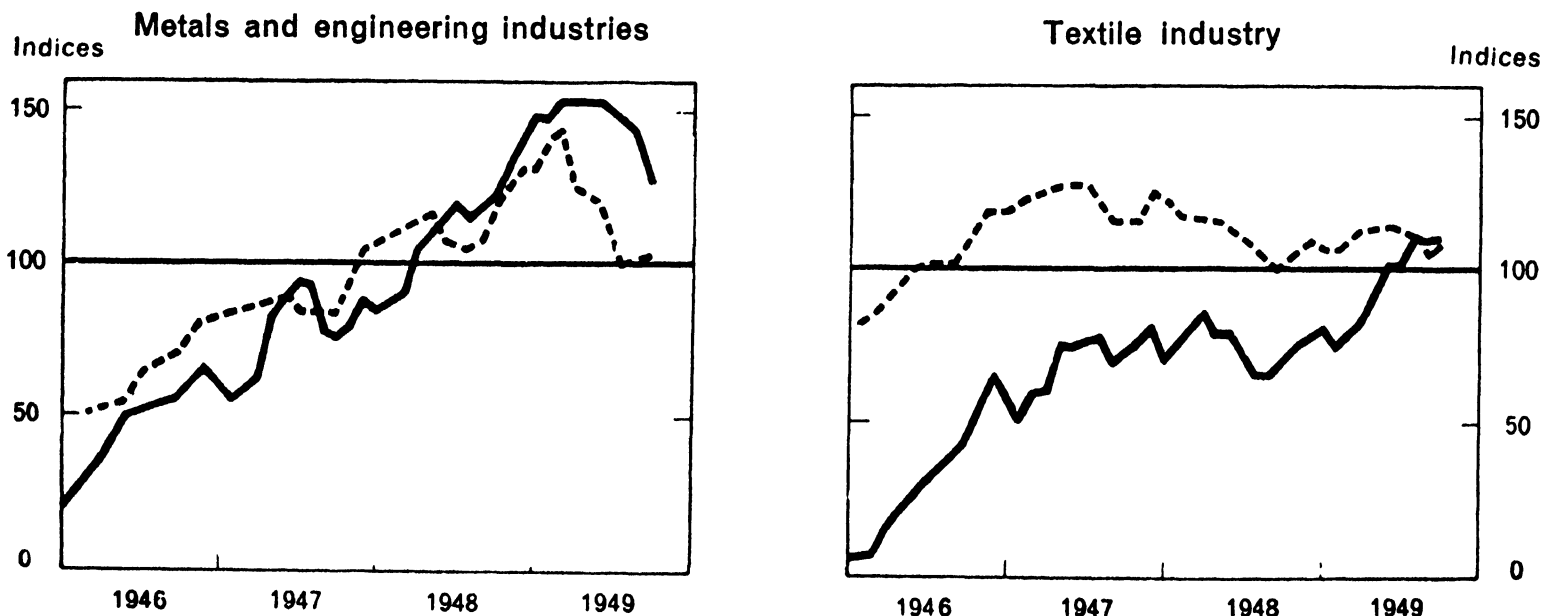
^a Principally, exported finished industrial products.

^b The figures are quarterly averages of the number of persons totally unemployed in all sectors of the economy to December except agriculture.

Chart 1

RELATIVE MOVEMENTS IN THE VOLUME OF EXPORTS AND PRODUCTION OF THE METALS AND ENGINEERING INDUSTRIES AND THE TEXTILE INDUSTRY IN BELGIUM

Index numbers — 1938=100



Sources : Reproduced from the *Bulletin de l'Institut des Recherches économiques et sociales*, Université catholique de Louvain, November 1949.

— = Exports - - - = Production

In the second half of 1949, by contrast, Belgian exports fell considerably, particularly in the last quarter, although they rose again in the first quarter of 1950. The effect of devaluation on Belgium's competitive position is not entirely clear, and any substantial development of exports is likely to require a new expansion in credit policy towards foreign buyers. On the other hand, the high level of exports in 1947 and 1948 had to be partly financed by large credits under bilateral trade agreements, even though the level of business activity in Belgium and consequently its demand for imports were then comparatively high. It may therefore be that, in the long run, a structural adjustment from soft-currency to hard-currency export markets will be required, which will only be delayed if sales to soft-currency markets are facilitated by easy credits, particularly as the past credits have still to be repaid ; and in the short run an expansion in exports cannot be expected to provide a complete solution of the unemployment problem. It follows that the solution must come largely through an expansionist internal policy which will raise the level of domestic demand.

As was seen in the previous chapter, the level of investment in Belgium has been comparatively low in recent years. This is not because little new investment is required. On the contrary, it may be seen from Table 4 in Chapter 1 that, in Belgium, productivity per head is unusually low compared with before the war ; and the available information about the age of equipment in Belgian industry suggests that there is considerable scope for modernization. In 1947, for example, the average age of technical equipment in coal mines was estimated at over 20 years, compared with a theoretical life of 25 years. Public investment in general, and road maintenance in particular, has been at a low level since the war. Private industry, on the other hand, has been able to finance considerable investment out of profits ; but past experience suggests that it is unlikely, in the absence of special inducements, to undertake any extensive new programmes of modernization as long as business generally remains depressed. It might therefore be desirable to subsidize temporarily the purchase of new equipment in appropriate industries whose existing equipment is old or where long-term expansion is planned. This policy has been adopted in the United Kingdom to encourage the modernization of the textile industry, and in Belgium the existence of unemployment provides considerable additional justification

for it. A policy of subsidizing industrial investments would also make it possible to promote employment particularly in the Flemish provinces where unemployment is at much higher levels than in the other regions of the country.

Meanwhile, the Belgian Government is planning to provide employment directly through public works not covered by ordinary revenue. The over-all budget deficit planned for 1950 is higher than in the two previous years, and it is officially estimated that the public works programme will directly or indirectly give employment to between 70,000 and 80,000 workers, apart from the secondary effects on employment of the consequent rise in effective consumers' demand. Programmes of this kind ordinarily give a considerably less valuable return per worker employed than investment in industry, but nevertheless the effects will clearly be beneficial.

The Employment Problem in Western Germany

In Table 48 data have been brought together in order to show the main changes which have taken place in the man-power and employment situation in the U.K./U.S. Zone of Germany¹ since the monetary reform of June 1948. Approximate figures for 1936 are given for comparison. From these it can be seen that, while the population was about 24 per cent higher in the summer of 1948 than in 1936, the total labour force had risen by only 11 per cent, and there were only 440,000 registered unemployed. While the fall in the ratio of working to non-working population was mainly due to war losses, these figures concealed the true extent of unemployment under the abnormal conditions before the monetary reform. This became very clear in the second half of 1948, after the monetary reform, when industrial production rose steadily to 79 per cent of the 1936 level in December compared with 51 per cent in June, although the official figures showed a rise only from 5.99 millions to 6.44 millions in the numbers employed in industry together with a rise from 440,000 to 740,000 in the number of unemployed. The reform had made money valuable again, and both in industry and in agriculture, where employ-

¹ Statistical information about unemployment in the French Zone of Germany is less complete and the following analysis therefore refers only to the U.K./U.S. Zone. In the French Zone, unemployment has been on a comparatively lower level, not exceeding some 5 per cent of wage and salary earners. The main reason for this is the very small number of refugees received in the French Zone.

Table 48

EMPLOYMENT, UNEMPLOYMENT AND POPULATION IN THE U.K./U.S. ZONE OF GERMANY

Millions of persons

Item	June 1936	June 1948	December 1948	June 1949	December 1949	Half-yearly increase		
						VI-XII.48	I-VI.49	VI-XII.49
Employed wage and salary earners . . .	9.89	12.21	12.37	12.12	12.14	0.16	-0.25	0.02
of which employed in :								
agriculture	0.84	1.39	1.21	1.13	1.05	-0.18	-0.08	-0.08
industry and handicrafts	5.22	5.99	6.44	6.34	6.46	0.45	-0.10	0.12
other occupations ^a	3.83	4.83	4.72	4.65	4.63	-0.11	-0.07	-0.02
Self-employed and family helpers ^b . . .	5.36	5.29	5.29	5.36	5.40 ^c	—	0.07	0.04 ^c
Unemployed	0.82	0.44	0.74	1.24	1.48	0.30	0.50	0.24
Total labour force	16.07	17.94	18.40	18.72	19.02 ^c	0.46	0.32	0.30 ^c
Total population ^d	33.10	41.03	41.55	41.91	42.25	0.52	0.36	0.34

Sources : The figures have been taken from *Wirtschaft und Statistik*, Statistisches Amt des Vereinigten Wirtschaftsgebietes, and *Monthly Bulletin*, Control Commission for Germany (British Element).

^a Including trade, transport, government, private and domestic services, etc.

^b The term "family helpers" refers to persons assisting in the family business or occupation.

^c Estimate.

^d Excluding displaced persons in camps. The figure for June 1936 is an estimate.

ment fell by 180,000, employers were no longer willing to pay wages to men for whom there was no work. At the same time, shortage of cash drove many to register for employment who before the reform had lived in idleness or by the black market.

The period of rapid improvement which followed the monetary reform ended early in 1949. Credit conditions were tightened in order to check the rise in prices and at about the same time the expansionary effect of the initial amounts of Deutschmark paid to consumers in addition to current income had spent

itself. Unemployment rose steadily throughout 1949 to 1.5 million in December and came close to 2 millions, or about 14 per cent of all wage and salary earners in February 1950, when seasonal unemployment probably reached its peak. There was some improvement in industrial activity in the second half of 1949, but industrial employment remained stationary over the year, and employment in agriculture and other occupations decreased. Thus, the increase of over 600,000 in the total labour force was not absorbed at all.

Table 49

DISTRIBUTION OF UNEMPLOYMENT IN THE U.K./U.S. ZONE OF GERMANY

Registration date	Unemployed per 100 wage and salary earners			Unemployed per 100 inhabitants	
	Total U.K./U.S. Zone	Agricultural Länder ^a	Industrial Länder ^b	Indigenous population	Refugees ^c
June 1948	3.5	4.1	3.1	..	..
March 1949	8.6	13.8	4.2	2.0	5.9
September 1949 . . .	9.4	14.6	5.0	2.3	6.2
December 1949 . . .	10.9	17.3	5.6	2.7	7.4

Sources : The figures have been derived from *Wirtschaft und Statistik*, Statistisches Amt des Vereinigten Wirtschaftsgebietes ; *Monthly Bulletin*, Control Commission for Germany (British Element), and *Wirtschaftskonjunktur*, Berichte des Instituts für Wirtschaftsforschung, Munich.

^a Including Schleswig-Holstein, Niedersachsen, Bayern.

^b Including Nordrhein-Westfalen, Hessen, Württemberg-Baden.

^c From outside occupied Germany.

The increase in the total labour force in 1948 and 1949 reflects the abnormal increase of the population in western Germany. Out of the total increase, almost two-thirds are due to the arrival of refugees from other parts of Germany and from eastern Europe and to the return of prisoners of war. It can be seen from Table 49 that unemployment is concentrated in the less industrialized areas, where most of the refugees have been at least temporarily settled, though it has been rising in the industrial areas also. For the U.K./U.S. Zone as a whole, the percentage of unemployment is nearly three times as high among refugees as among the indigenous population. This unequal geographical distribution of unemployment, combined with the acute housing shortage, may prove one of the most recalcitrant elements of the problem, because it makes it difficult to transfer idle manpower to the places where it will be needed if demand expands. Its immediate importance, however, should not be over-emphasized. At present, with the outstanding exception of mining, there is a considerable, though widely varying, amount of unemployment in almost all areas and all trades ; and only when some areas approach full employment will there be any strong incentive, either to the unemployed or to the authorities, to overcome the difficulties involved in a geographical redistribution of man-power.

Any serious reduction in the number of unemployed in western Germany must start with the adoption by the authorities of an expansionist policy, whether through an increase in the supply of credit to the private sector or through direct deficit spending by the Government. Discussions along these lines have been pursued throughout 1949, but have only recently reached the stage of effective action in the form of a Government programme of deficit spending for investment, mainly in building and transport.¹ The delay has been largely due to the rigid rules for banking and public finance laid down in the monetary

reform legislation and in the Constitution of the Federal Government. Both the Federal and the *Länder* Governments were prohibited from financing deficits by borrowing from the central bank, which in framing monetary policy was left almost entirely independent of government control. These provisions were modified early in 1950.

Progress towards a solution of the unemployment problem will, however, bring with it problems more fundamental than those of financial technique. In spite of a rather unequal income distribution, the low level of real income in western Germany means that a high proportion of any increase in money incomes will be spent. The secondary effects on employment of any increase in total demand will therefore be comparatively large, but the increase in the supply of consumers' goods and services will require to be correspondingly large if inflation is to be avoided. Recently published estimates of the degree of utilization of capacity in German industry, which are summarized in Table 50, suggest that there is enough unused equipment, both in industry generally and in consumers' goods industries in particular, to meet a considerable increase in demand. It may, however, prove more difficult to expand the supply of home-produced food *pari passu* with the increase in incomes, and it is questionable, even under optimistic assumptions regarding the development of exports, whether a further increase in imports of consumers' goods can be financed.

As was pointed out in last year's SURVEY,² the co-existence in western Germany of a largely uncontrolled economy and of conditions of low real income is hardly compatible with a full utilization of resources. It may therefore prove necessary, if an effective employment policy is not to stop halfway—or lead to inflation—to retreat from the liberal principles of economic policy hitherto followed. If the supply of food cannot be increased to meet a rising demand it may be necessary to re-introduce rationing for some of the basic foodstuffs in order to divert consumers' demand to fields where output can be more readily expanded. Similarly, economic expansion might impose such a strain on the country's capacity to import that the recent policy of liberalizing western Germany's import trade would have to be reversed.

¹ The investments are to be financed by drawing on the central bank and are booked on E.R.P. counterpart fund account. Since the release of counterpart funds appeared, until recently, as the sole method by which a monetary expansion could be effected by the Federal Government, the fallacious impression has become widespread that this is a less inflationary method of deficit spending than any other form of monetary expansion and that the size at any given moment of accumulated counterpart funds is relevant to the question of how big a monetary expansion can be safely undertaken. Attention has thereby been diverted from the decisive questions of available industrial capacity, labour mobility and foreign trade prospects.

² *Op. cit.*, page 28.

Table 50

UTILIZATION OF CAPACITY IN GERMAN INDUSTRY IN TERMS OF EMPLOYMENT, APRIL 1949

Thousands and percentages

Area and industry	Number of workers actually employed (thousands)	Additional employment possibilities ^a (thousands)	Degree of utilization of capacity ^b (per cent)
U.K./U.S. Zone, total	2,895	991 ^c	74.5 ^c
Bavaria:			
Basic industries ^d	36	16	69.2
Investment goods industries	196	107	64.7
Consumption goods industries	215	92	70.0 ^e
Total, Bavaria	446	215	67.6

Sources: The figures have been taken from *Bayern in Zahlen*, Bayerisches Statistisches Landesamt, January 1950, p. 14; *Wirtschaftskonjunktur*, Berichte des Instituts für Wirtschaftsforschung, Munich, and data supplied by that institute.

NOTE.—The figures refer to wage and salary earners in industrial enterprises (excluding public utilities) employing more than 10 persons. Measured in terms of employment, 85 to 90 per cent of all industry is covered for both Bavaria and the U.K./U.S. Zone of Germany.

^a Assuming complete utilization of existing physical capacities and unchanged productivity.

^b Number actually employed as a percentage of number employable under conditions of full utilization of physical capacity.

^c Corresponding figures for September 1949: 886 thousand and 77.2 per cent.

^d Mainly mining and chemical industries.

^e For the U.K./U.S. Zone, 79.4 per cent.

Structural and Cyclical Unemployment in Italy

During 1949, the official recorded number of unemployed in Italy has fluctuated around 1.8 million, of which about half-a-million are in agriculture. This figure includes about half-a-million young people and married women in search of their first job. In addition, there is a large amount of concealed unemployment, mainly in agriculture, but also in handicrafts, industry and administration. Indeed 4 millions would be a conservative estimate of total unemployment, open and concealed. One recent expert estimate puts the surplus population in agriculture alone as high as 2.7 millions ¹; and concealed unemployment may well exceed a quarter-of-a-million in industry, where the trades unions have been strong enough to force employers to keep on their books many workers for whom there is no work.

Heavy and widespread unemployment is no new problem in Italy, and the fact that it has persisted during periods of preparation for war and of inflation clearly shows its structural character. The problem, which is common to all under-developed countries that are poor in natural resources and where the population is increasing rapidly, ² has been complicated

by Italy's political and economic history. When the country was unified, later than all other European countries except Germany, southern Italy, whose industry and handicrafts had been highly protected, was exposed to competition both from the more developed northern areas of Italy and from foreign countries. The very low level of incomes in southern Italy has allowed little margin for private investment, and there are few, if any, natural advantages for the location of industry which might stimulate a flow of funds from other regions. Northern Italy has been more prosperous, and industrial development since the unification has tended to be concentrated there; but it has not been rich enough to finance investment programmes on a scale which would have attracted and absorbed the whole surplus of agricultural man-power from the south. As a result, the difference between the economic standards of northern and southern Italy has steadily widened; northern Italy is now in a fairly advanced stage of industrial development, but southern Italy is a backward and over-populated agricultural area in which all kinds of capital formation remain at a very low level.

The solution to Italy's unemployment problem cannot be found through an expansion of agriculture. Land reclamation and irrigation in the backward agricultural areas may eliminate part of the disguised

¹ Giulio Gennari, *L'imponibile di mano d'opera nell'Agricoltura Italiana*, 15 January, 1950, p. 19.

² The natural increase of the Italian population is estimated at 400,000 a year.

Table 51
OCCUPATIONAL STRUCTURE OF POPULATION IN ITALY
Millions of persons

Item	Italy			Southern Italy	
	1861	1936	1949	1861	1936
Population aged 10 years or more :					
Active	14.5	18.3	21.1	5.6	5.8
of which engaged in agriculture	8.3	8.8	..	3.2	3.3
industry and transport	4.0	6.2	..	1.7	1.6
other branches	2.2	3.3	..	0.7	0.9
Unproductive	6.3	15.4	16.8	1.8	5.9
Population aged less than 10 years.	5.3	8.7	8.1	2.4	3.7
Total	26.1	42.4	46.0	9.8	15.4
<i>Active population as percentage of total population</i>	<i>56</i>	<i>43</i>	<i>46</i>	<i>57</i>	<i>38</i>

Sources : The figures have been taken from A. Molinari, "Il mezzogiorno d'Italia", *Moneta e credito*, 1948 ; and *Relazione generale sulla situazione economica del paese*, Camera dei Deputati, Doc. IX. No. 1.

NOTE.—For the whole of Italy, the figures for 1861 and 1936 relate to the 1936 boundaries of Italy ; for 1949, they refer to present territory.

unemployment in agriculture by providing full-time occupation to people now only partially employed, but no addition to the man-power engaged in agriculture could be expected. On the contrary, the modernization of agricultural methods, which is badly needed in order to expand the output of food, and reduce its costs, is likely to reduce rather than increase employment opportunities in agriculture. Nor can large-scale emigration be relied upon to solve the problem. Emigration can at best be expected to absorb only a part of the yearly increase in the working population, and, even if large-scale emigration were possible, it would be an unsatisfactory solution since it tends to distort the age structure of the population. During the last century, as may be seen from Table 51, there has been a striking decrease in the relative size of the active population, particularly in southern Italy, partly because emigration has to a large extent consisted of people of working-age.

For these reasons, the solution must lie in the industrial development of the country and particularly of southern Italy. It has already been noted that the difference between economic levels in northern and southern Italy tends to become more and more pronounced. This cumulative process can be reversed only if the prerequisite social and economic conditions

of industrialization are created in southern Italy. In the process of development, public authorities would have to play an active directing role. The investments needed to attract and develop industry are both social, such as sanitary and educational improvements, and economic, such as the improvement of communications, land reclamation and reafforestation. Such a programme of development would not only create employment directly, but would also stimulate further activity by making southern Italy a more attractive field for private investment, while the increase in consumers' incomes would have the familiar effect of creating secondary employment and would help to provide the industrial areas of the north with a much-needed expansion of their internal market.

Even if made on a considerable scale, however, such attempts to create a more favourable environment might not be enough by themselves to secure an adequate rate of industrial development in southern Italy. The problem is greatly aggravated by the high rate of population increase. To absorb this would in itself be a considerable achievement. If, in addition, serious progress in reducing unemployment is to be made in the next decade rather than in the next half-century, more direct methods of stimulating investment may be required.

A large-scale expansionist policy on these lines would be faced with two important limitations : first, the lack of a supply of equipment sufficient to employ the very large resources of idle man-power in an economical way, and second, the balance-of-payments difficulties arising from an increased demand for imported raw materials and foodstuffs.

The importance of the first point should not be over-emphasized, since nearly all branches of Italian industry are at present working below capacity. The engineering industry is, on the whole, working at no more than 50 per cent of capacity and considerable excess capacity exists in the cement and chemical industries and in some branches of the textile industry.

Italy's dependence on foreign supplies of raw materials and foodstuffs, however, makes its balance of payments a critical factor in determining the limits to which an internal expansion can be carried. A large increase in exports will in any case be required to finance the present level of imports when American aid comes to an end, without taking into account the additional imports which an increase in industrial activity would involve. A programme of land reclamation and irrigation in southern Italy should make a contribution by increasing the supply of foodstuffs and enabling exports of fruits (particularly citrus fruits), vegetables and nuts to be expanded. These are the commodities in which Italy has the greatest cost advantages over its competitors and, being non-essentials, their export should be assisted by any effective arrangements for trade liberalization and multilateral payments in western Europe. New industries in southern Italy would naturally include food-processing plants, which should enable part of this export to take a more valuable form. Almost all of it, however, must be expected to go to non-dollar areas and its effectiveness in financing imports will therefore depend largely on how far these can be obtained from non-dollar rather than dollar sources.

The greater part of the solution to Italy's balance-of-payments problem must lie in an expansion of industrial exports, for which the immediate prospects are not very good. Even before devaluation some Italian exporters found it difficult to meet competition from other European countries in foreign markets, and competition will now be keener as a result partly of trade liberalization and partly of the greater degree of devaluation elsewhere. Any multilateral payments system in western Europe will also

mean that an increase in imports—which have hitherto been restricted by the low level of consumers' incomes in Italy combined with the large volume of dollar imports financed by American aid—will probably not bring with it such a large reciprocal expansion of exports as it would have done under bilateral agreements.

Improvement must therefore largely depend on reduction of costs in industry, to which the elimination of concealed unemployment there could perhaps make the greatest contribution.

In the summer of 1947, the Italian authorities adopted a restrictive policy, both in banking and public finance, which successfully checked the inflation with which they were then confronted, but only by turning it into a deflation. In the following years until well into 1949, the situation remained one of insufficient demand, and in the first nine months of 1949 wholesale prices fell by 14 per cent. Recently a more expansionist policy towards investment has been adopted. The construction of dwellings is being encouraged by tax reliefs and Government subsidies, and between 1948 and 1949 there was a big revival in building activity, which is, however, still at a relatively low level. A start is also being made on long-term programmes for the development of southern Italy, but it is too early to judge whether these are being planned on a large enough scale. The annual average of the extraordinary investment planned for the next ten years in southern Italy is equal to about 10 per cent of the total gross investment in Italy in 1949.

It should be possible to carry out a fairly large development programme without serious danger of inflation, provided there is some reform of the system of direct taxes in order to keep consumption within the limits of available resources. The really serious limiting factor is the balance-of-payments position, which essentially depends on whether the investment programme can be linked with a successful export drive. If an expansionist programme succeeds in reducing concealed unemployment in industry and agriculture, and causes equipment to be worked more nearly to capacity, it may well bring about a notable reduction in costs. But even if favourable internal and external conditions are assumed, the economic problem which faces Italy is a vast one. Indeed, as long as the increase in population is not radically checked, a considerable rate of development will be necessary in order to prevent further impoverishment.

Conclusions

The above discussion has shown that, in each of the three European countries where large-scale unemployment exists, it is at least partly due to deflationary policies. In two of them—Italy and western Germany—these policies have aggravated deeper structural problems, which can be tackled successfully only through policies of economic expansion combined with a high level of investment. Recently, these countries have increased their investment programmes. In view, however, of the size of the problem to be met and their low levels of real income per head, the rise in money incomes, which increased investment on an adequate scale would involve, would be likely to lead to a considerably increased demand for consumers' goods. It may be difficult to satisfy this owing to balance-of-payments difficulties ; and, if it cannot be satisfied, a considerable increase in taxation may be required if an inflationary rise in prices is to be avoided. It may therefore prove that these two countries, which paradoxically have been among the most insistent in attempting to abolish internal and external controls, have thrown away, by ending rationing and relaxing import controls, two of the weapons which experience suggests are necessary in dealing with structural problems of this nature.

At the other extreme, the United Kingdom and the Scandinavian countries, which have been the most successful in maintaining full employment and where its maintenance is most clearly accepted as a chief aim of government policy, have gradually reduced the inflationary pressures which had created serious problems in the years immediately after the war. As a result, the symptoms of disorganization on the labour market, such as high rates of voluntary absenteeism and labour turnover, are tending to become less pronounced. The rise in the prices of internationally traded goods in these countries owing to devaluation

brings with it some danger of a relapse, but, if this can be surmounted, the weakening of inflationary pressures should make it easier for policies which are aimed at securing the best distribution of the labour force between different occupations to be made effective. Also, provided that workers can feel confident that technical progress will not leave them without a job, higher rates of increase in productivity should be possible than before the war.

There was thus a growing contrast in 1949 between countries which maintained full employment and a high level of demand and those in which deflationary tendencies prevailed. The readjustment of European exchange rates towards the end of the year must, on the whole, be expected to sharpen this contrast, because the countries with full employment devalued their currencies most, and may be faced with a re-emergence or increase of inflationary pressure ; while the other countries, which generally have devalued less or not at all, are facing more severe competition in some export markets and may suffer a further recession in business activity.

On the other hand, the movement towards freer trade between the countries of western Europe may be expected to diminish the differences in economic climate between the two groups. Recovery will not be assisted, however, if this merely means that the countries with deflationary policies export unemployment to the others. It is as clearly in the common interest of Europe, as it is in the interest of the countries concerned, that where deflationary tendencies exist they should be reversed. If this does not happen, the tendencies towards the disintegration of the European economy may well be accentuated because countries where demand is being kept at a high level will be forced to erect trade barriers in order to defend themselves against the spread of depression from abroad.

Chapter 4

INTRA-EUROPEAN TRADE AND PAYMENTS ¹

I. INTRODUCTION

The General Course of World Trade in 1949

Europe's trade in 1949 developed against a background in which world trade appeared to have lost its upward momentum until the final quarter of the year brought some further rise. This upturn at the end of the year, as may be seen in Table 52, was registered only in the computed index of the volume of trade; the dollar value declined further because of the devaluation at the end of the third quarter of most of the world's leading currencies—a change which imposes exceptional difficulties in the analysis of the current value figures of international trade during the year.

During the first half of 1949, the total volume of world trade remained constant at about the level reached at the end of 1948, and the third quarter brought an abrupt fall. The reversal seems to have been first registered in a fall in United States imports at the beginning of the year, coinciding with a downturn in business activity in that country. The weakening of United States demand contributed to a decline in the exports of other overseas countries, although there appears also to have been a fall in exportable supplies in some areas and a decline in Europe's import requirements of certain foodstuffs, following a rise in its own production. The imports of these overseas countries likewise began to be affected and, by the third quarter, were substantially reduced. This brought with it an abrupt decline in the volume of United States exports, which had continued to rise in the earlier part of the year. Europe's own exports to overseas countries were influenced both by these developments in overseas markets and by increasing price disparities and rumours of devaluation. In contrast to the upward trend hitherto maintained since the end of the war, its exports to overseas countries levelled off and progressively declined in the second and third quarters of the year.

After these unfavourable developments in world trade, a moderate improvement occurred in the fourth quarter as a result of two major changes. One of these was a recovery in business activity in the United States, which already began to be evident in the middle of the third quarter and thereafter brought about a marked strengthening in the demand for imports from other countries.² The other major development was the devaluation of the currencies of most western European countries as well as those of many overseas countries at the end of the third quarter.

After this, Europe's overseas exports rose again in the fourth quarter, although only to the same level as had been reached a year earlier. On the other hand, the exports of the United States remained at the third quarter level. These changes, together with a rise in the volume of exports from other overseas countries,³ gave some preliminary indication of a lessening in the disequilibrium in international trade which has centred round the increased dependence of other countries on United States production since the end of the war.

The Volume of Intra-European Trade

In contrast to these developments in overseas trade during the year, trade among European countries increased by some 23 per cent in volume in 1949 as compared with 1948, and thus continued to expand at about the same rate as in the last few years. Because of devaluation, the increase is smaller when expressed in current dollar values—on this basis trade rose from \$11.5 billion in 1948 to \$13.5 billion in 1949.

² The demand for imports appears also to have been reinforced by an increase in United States purchases for strategic stock-piling for the immediate purpose of alleviating the dollar shortage, following the discussions in Washington with representatives of the United Kingdom and Canada in September.

³ The index of the volume of trade of these countries is not available for the fourth quarter, but the dollar value of the trade suggests that there was a significant increase in their exports, if allowance is made for the fact that many of these countries devalued their currencies along with those of European countries in September 1949.

¹ Throughout this chapter, the data on Europe's trade include the trade of the U.S.S.R., unless it is stated to the contrary.

Table 52

**QUARTERLY MOVEMENTS IN THE VALUE, VOLUME AND UNIT VALUE
OF INTERNATIONAL TRADE**

Billions of dollars in f.o.b. prices and index numbers

Period	Intra-European trade ^a	Europe's overseas trade ^a		United States		Rest of world ^b		Total world trade ^c
		Imports	Exports	Imports	Exports	Imports	Exports	
<i>Value</i>								
<i>(Billions of dollars)</i>								
1938 (quarterly averages)	1.7	1.4	0.9	0.5	0.8	2.1	2.3	5.7
1948 January–March	2.4	3.6	1.8	1.8	3.3	5.2	5.5	13.0
April–June	2.9	3.8	2.1	1.7	3.2	5.6	5.8	14.0
July–September	2.9	3.5	2.2	1.7	2.9	5.5	5.6	13.6
October–December	3.3	3.4	2.5	1.9	3.1	6.3	6.0	14.9
1949 January–March	3.3	3.6	2.5	1.8	3.3	6.1	5.7	14.8
April–June	3.5	3.8	2.4	1.6	3.3	6.0	5.7	14.9
July–September	3.4	3.3	2.3	1.5	2.7	5.6	5.4	13.8
October–December	3.3	2.8	2.0	1.8	2.6	5.3	5.3	13.2
<i>Volume</i>								
<i>(Index numbers—1938 = 100)</i>								
1948 January–March	60	113	88	152	204	103	92	97
April–June	71	117	101	141	201	112	96	103
July–September	72	108	104	145	183	104	89	99
October–December	82	98	120	155	200	129	96	110
1949 January–March	79	107	120	147	215	125	91	109
April–June	86	112	114	140	224	123	91	111
July–September	84	108	111	135	185	114	92	105
October–December	102	98	119	158	185	..	..	117
<i>Unit value</i>								
<i>(Index numbers—1938 = 100)</i>								
1948 January–March	235	231	222	239	211	236	257	233
April–June	236	235	223	242	209	237	263	237
July–September	234	231	223	246	208	248	274	240
October–December	237	251	222	246	203	228	269	238
1949 January–March	240	245	225	245	200	231	274	237
April–June	236	241	225	234	195	231	272	233
July–September	234	224	223	229	188	229	255	230
October–December	187	207	177	227	184	..	..	198

Sources: All sources are given in Appendix B.

^a The U.S.S.R. is included with Europe.

^b "Rest of world" includes intra-trade of these countries as well as their trade with the other areas shown in the table.

^c Total world trade may be considered as the sum of intra-European trade taken from the side of exports and either (a) the imports of the other areas shown, or (b) the exports of the other areas shown, the total thus avoiding double counting of the same movement of goods both as exports and as imports.

Since, however, European exports in the last quarter of the year did not embody any significant increase in prices subsequent to devaluation,¹ a better indication of the rise in trade is given by considering exports for all periods of the year at pre-devaluation rates of

¹ Indications are that prices specified in new contracts after devaluation showed substantial increases in many instances, but the average level of European export prices reflected in the actual trade returns for the fourth quarter was remarkably stable.

exchange. On this basis, the increase over 1948 can be placed at some \$2.6 billion, corresponding to the estimated percentage increase in volume.

Intra-European trade tended to level off in the course of the year, particularly from the second to the third quarter, but this movement seems to correspond to a fairly definite seasonal trend, both in production and in trade. As in 1948, the fourth quarter brought a renewed increase and trade reached approximately

Table 53

CHANGES IN INTRA-EUROPEAN TRADE BY COUNTRIES FROM 1948 TO 1949

Millions of dollars in current f.o.b. prices

Importing area Exporting area and year	Germany ^a	Six eastern European countries ^b	United Kingdom	U.S.S.R.	Italy	Netherlands	Norway	Denmark	Austria	France	Belgium- Luxembourg	Switzerland	Sweden	Total Europe ^c
Germany ^a 1948		57	72	38	27	84	12	22	53	188	98	53	28	753
1949		159	108	80	68	125	23	20	79	226	124	86	73	1,227
Change		+102	+ 36	+ 42	+ 41	+ 41	+ 11	- 2	+ 26	+ 38	+ 26	+ 33	+ 45	+474
France 1948	131	37	152	—	22	84	32	14	8		151	99	63	843
1949	145	75	258	—	58	134	36	32	18		167	102	59	1,213
Change	+ 14	+ 38	+106	0	+ 36	+ 50	+ 4	+ 18	+ 10		+ 16	+ 3	- 4	+370
Six eastern European countries ^b 1948	64 ^d	457 ^d	113	330 ^d	57	89	32	50	76	54	35	62	118	1,615
1949	171 ^d	464 ^d	136	506 ^d	71	89	33	52	94	64	33	46	88	1,939
Change	+107	+ 7	+ 23	+176	+ 14	0	+ 1	+ 2	+ 18	+ 10	- 2	- 16	- 30	+324
Netherlands 1948	60	52	148	4	21		23	13	11	82	159	42	62	741
1949	154	69	231	7	28		30	16	17	102	191	40	56	1,034
Change	+ 94	+ 17	+ 83	+ 3	+ 7		+ 7	+ 3	+ 6	+ 20	+ 32	- 2	- 6	+293
U.S.S.R. 1948	59 ^d	349 ^d	104		4	3	26	15	—	10	48	5	12	684
1949	126 ^d	587 ^d	49		16	21	21	3	—	5	5	3	3	875
Change	+ 67	+238	- 55		+ 12	+ 18	- 5	- 12	0	- 5	- 43	- 2	- 9	+191
Denmark 1948	39	26	168	19	20	13	37		3	24	48	25	43	513
1949	77	28	319	10	13	15	39		5	35	37	19	39	678
Change	+ 38	+ 2	+151	- 9	- 7	+ 2	+ 2		+ 2	+ 11	- 11	- 6	- 4	+165
Belgium- Luxembourg 1948	82	53	152	20	28	260	23	46	6	156		101	90	1,104
1949	194	70	170	29	57	266	54	42	17	136		65	72	1,255
Change	+112	+ 17	+ 18	+ 9	+ 29	+ 6	+ 31	- 4	+ 11	- 20		- 36	- 18	+151
United Kingdom 1948	101	76		21	51	182	127	129	14	137	151	83	221	1,994
1949	108	97		35	72	212	175	201	24	134	147	78	189	2,123
Change	+ 7	+ 21		+ 14	+ 21	+ 30	+ 48	+ 72	+ 10	- 3	- 4	- 5	- 32	+129
Italy 1948	29	61	92	3		23	21	17	17	48	28	74	41	503
1949	93	66	116	18		26	16	17	29	73	26	61	30	619
Change	+ 64	+ 5	+ 24	+ 15		+ 3	- 5	0	+ 12	+ 25	- 2	- 13	- 11	+116
Austria 1948	11	38	15	—	33	8	1	2		8	4	26	8	169
1949	25	80	13	—	59	16	2	4		10	6	18	6	273
Change	+ 14	+ 42	- 2	0	+ 26	+ 8	+ 1	+ 2		+ 2	+ 2	- 8	- 2	+104
Sweden 1948	41	76	187	17	25	68	102	44	4	56	67	28		786
1949	94	76	202	22	35	63	116	58	6	53	59	17		882
Change	+ 53	0	+ 15	+ 5	+ 10	- 5	+ 14	+ 14	+ 2	- 3	- 8	- 11		+ 96
Norway 1948	23	22	65	19	9	22		25	1	27	20	5	36	301
1949	31	30	78	23	9	17		30	4	26	13	3	39	325
Change	+ 8	+ 8	+ 13	+ 4	0	- 5		+ 5	+ 3	- 1	- 7	- 2	+ 3	+ 24
Switzerland 1948	16	59	32	8	53	47	7	17	17	76	81		21	476
1949	73	60	37	6	60	37	7	13	15	56	74		15	491
Change	+ 57	+ 1	+ 5	- 2	+ 7	- 10	0	- 4	- 2	- 20	- 7		- 6	+ 15
Total Europe ^c 1948	685	1,407	1,727	542	393	949	457	428	220	934	941	637	792	11,472
1949	1,379	1,920	2,215	810	579	1,089	571	536	324	1,017	933	563	714	14,128
Change	+694	+513	+488	+268	+186	+140	+114	+108	+104	+ 83	- 8	- 74	- 78	+2,656

Sources: The figures have been taken from the statistics of the exporting countries, supplemented by estimates of the Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—For the fourth quarter of 1949, pre-devaluation dollar rates of the exporting countries were applied to both imports and exports. See Appendix B.

^a The whole of Germany. Germany's exports include estimates for the French and Soviet Zones.

^b Including Bulgaria, Czechoslovakia, Hungary, Poland, Rumania and Yugoslavia.

^c Totals include European countries other than those specified.

^d Estimate. See Appendix B.

the 1938 level, although the average for 1949 was more than 10 per cent lower. The trend during the year can be better examined by comparing the level in each quarter with that of the corresponding quarter of 1948, as is shown below :

<i>The Volume of Intra-European Trade</i>			<i>Percentage increase in 1949 over 1948</i>
	1938 = 100		
	1948	1949	
First quarter .	60	79	32
Second quarter	71	86	21
Third quarter .	72	84	17
Fourth quarter	82	102	24
Year . . .	71	88	23

These over-all comparisons, however, give an inadequate indication of the development of intra-European trade. The expansion during the past year continued to be very uneven, both with regard to the development of trade of different European countries and with regard to the principal commodities exchanged, and the present structure of intra-European trade presents many contrasts compared with the pre-war pattern.

Any pre-war year provides, of course, only one point of reference in studying the present structure and composition of intra-European trade. Many basic influences—among them the change in Europe's overseas balance of payments, the general expansion of its industrial capacity and the development of new industries, the changes in the size and distribution of its population, and the radical changes in economic policy in many countries—would necessarily demand changes in intra-European trade also. The risk is that, for reasons discussed below, intra-European trade may fail to develop in a way which will provide satisfactory solutions to the problems arising out of these changes.

Principal Areas of Expansion

The main channels in which intra-European trade expanded in 1949 can be readily identified in Table 53, where European countries are listed horizontally as importers and vertically as exporters in the order of the absolute increase in their total imports and exports in trade with other European countries. In this table it has been necessary to treat the eastern European countries other than the Soviet Union (that is, Czechoslovakia, Poland, Hungary, Bulgaria, Rumania and Yugoslavia) as a single entity, since only fragmentary data are available on their trade with one another,

and the figures shown for trade within the group, as well as their trade with the Soviet Union, must be regarded as very approximate estimates.¹

As may be seen in the last column of the table, every European country contributed, on the export side, to the increase in intra-European trade in 1949. This growth in exports, however, can be localized around the expansion of imports by a relatively limited number of countries, Germany, the six smaller eastern European countries, the United Kingdom and the Soviet Union alone being responsible as importers for roughly three-quarters of the total rise in intra-European trade from 1948 to 1949.

The biggest increase was in German imports, which were drawn from virtually the whole of Europe. The three Western Zones accounted for by far the greater part of this increase, and, although their imports from eastern Europe rose considerably from the very low level of the previous year, the greater proportion of the increase was in imports from western Europe. The expansion in western Germany's imports was especially large from Belgium, the Netherlands, Italy, Sweden and Switzerland. In relation to the total increase there was, however, remarkably little expansion in its purchases from the United Kingdom and France.

The expansion in British imports was also widespread, with the exception that the volume of goods received from the Soviet Union declined sharply. Roughly 70 per cent of the increase, however, was accounted for by only three countries : Denmark, France and the Netherlands.

On the other hand, the growth in imports of the eastern European countries was strongly concentrated in trade between the smaller countries and the Soviet Union and, to a lesser extent, in trade with Germany, chiefly eastern Germany. As far as may be judged by the estimates presented in the table, there was only a very slight rise in trade among the six smaller eastern European countries, a moderate growth in some instances being offset by the virtual severance of trade with Yugoslavia. There was also an increase in the imports of these eastern European countries from western European sources, although it was small by comparison with the growth in their trade with the Soviet Union.

¹ The figures on the trade of the eastern European countries with other European countries are, however, derived from the published trade returns of these other countries.

The general expansion in the exports of European countries was thus primarily a reflection of the increases in imports by a few countries, centring round the trade of other eastern European countries with the Soviet Union and the imports of Germany and the United Kingdom from certain western European countries. On the export side, Germany, France, the eastern European countries and the Soviet Union, the Netherlands, Denmark and Belgium, altogether accounted for two-thirds of the increase in trade. Among these countries, the European trade of Germany, France and the Netherlands, where exports had been relatively low in 1948, appears to have reflected the increase in export availabilities. Their performance was better than the average, even in exports to those countries whose total imports declined during the year—that is, Belgium, Switzerland, and Sweden. Apart from Germany, France and the Netherlands, other European exporters experienced a decline of \$300 million in their exports to these three markets. The United Kingdom shared in this decline, especially in the Swedish import market, and, on the whole, registered only a moderate increase in its total exports compared with the growth in its total imports in trade with other European countries.

Quarterly Movements in Intra-European Trade

The development of intra-European trade in 1949 was uneven not only with regard to the changes in the export and import position of different countries, but also with regard to the course of developments during the year. In the total volume of intra-European trade, this was largely the result of seasonal influences, as mentioned above, but the movement of exports and imports of individual countries, as shown in Table 54, is not fully explained by seasonal factors.

The principal increase in German trade, which was greater than could be accounted for by seasonal trends, came in the fourth quarter of the year, and the data for the year as a whole presented in Table 53 fail therefore to reflect adequately the increased participation of Germany in intra-European trade by the end of 1949. The growth was most marked on the side of Germany's imports, which by the end of the year were substantially larger than its exports in intra-European trade, thus reversing the situation of the previous year.¹ The large expansion in Germany's

imports also contributed to the exceptionally large expansion in exports in the fourth quarter on the part of some of its neighbours, especially the Netherlands and Denmark. This development of trade seems to reflect, more than anything else, a basic change in Germany's trade policy towards the end of the year, particularly in the negotiation of agreements with neighbouring countries for the relaxation of trade restrictions.

It also seems possible to detect in the relative movements of trade the differing effects of internal economic conditions and policies and of price and exchange rate differentials. Up to the last quarter of 1949, the most marked contrast was in the trade of the United Kingdom and Norway, on the one hand, and that of Belgium and Switzerland, on the other. In the first two countries, imports increased rapidly and fairly steadily in each of the first three quarters of the year, compared with the same periods in 1948, whereas their exports showed a definite weakening tendency. The opposite was true of Belgium and Switzerland; their imports declined substantially through the third quarter compared with the preceding year, whereas their exports, especially those of Belgium, continued to expand. While other influences were undoubtedly important (including the increase in the supply of foodstuffs available for importation into the United Kingdom), these differences would seem to be related to the relatively higher level of unsatisfied demand in the United Kingdom and Norway, compared with tendencies towards a recession in economic activity in Switzerland and Belgium.

An indication of the role of relative prices may be found in the changes which occurred in the development of intra-European trade during the fourth quarter, following the devaluation of sterling and the re-alignment of other currencies. The increase in British and Norwegian imports slackened appreciably, and British exports recovered sharply after the third quarter and reached a level 10 per cent higher than the relatively large volume already attained in the last quarter of 1948. Belgian and Swiss imports, on the other hand, suddenly ceased to fall and rose in the fourth quarter, whereas the improvement in their exports in relation to the levels of the preceding year came to an end. It may also be noted that imports into France, which devalued less than most of its trading partners, increased very substantially in the fourth quarter, and that the movement in its exports gave no evidence of any slackening

¹ Since the turn of the year, the influx of imports has tended to fall off, but exports have maintained their level.

Table 54

QUARTERLY MOVEMENTS IN INTRA-EUROPEAN BY COUNTRY

Millions of current dollars and percentages

Country		1948	1949					Percentage increase in 1949 over corresponding quarter 1948			
						Fourth quarter					
		Fourth quarter	First quarter	Second quarter	Third quarter	Pre-devaluation rates ^a	Post-devaluation rates	First quarter	Second quarter	Third quarter	Fourth quarter ^b
Germany : Western zones . . .	Imports	156	164	222	221	343	275	+ 86	+62	+83	+120
	Exports	191	218	241	248	296	235	+ 66	+79	+34	+ 55
Austria	Imports	67	79	88	88	96	86	+ 72	+76	+52	+ 43
	Exports	55	64	71	61	79	61	+115	+73	+38	+ 44
Italy	Imports	107	131	125	128	135	110	+ 75	+49	+49	+ 26
	Exports	151	140	148	149	184	166	+ 40	+22	+20	+ 22
United Kingdom . . .	Imports	582	548	617	674	635	493	+ 30	+25	+30	+ 9
	Exports	534	544	513	477	590	410	+ 23	+ 1	- 7	+ 10
Norway	Imports	169	145	152	138	162	122	+ 59	+21	+28	- 4
	Exports	82	89	88	70	81	56	+ 27	+ 6	+ 3	- 1
Spain	Imports	33	40	46	37	41	31	+ 74	+48	+19	+ 24
	Exports	56	63	55	37	44	44	+ 97	+31	+ 9	- 21
Greece	Imports	25	37	40	44	44	34	+ 23	+33	+19	+ 76
	Exports	18	17	26	8	28	19	- 23	+13	-15	+ 56
France	Imports	223	221	235	229	297	255	- 8	+ 9	+ 9	+ 33
	Exports	234	276	322	287	328	255	+ 62	+46	+31	+ 40
Ireland	Imports	88	90	87	86	100	71	- 7	+ 1	+ 8	+ 14
	Exports	59	51	55	56	71	49	+ 28	+45	+24	+ 20
Turkey	Imports	51	42	45	48	59 ^c	52 ^c	+ 17	+25	+ 7	+ 16 ^c
	Exports	55	44	35	25	67 ^c	67 ^c	+100	+67	+14	+ 22 ^c
Netherlands	Imports	284	296	278	270	277	222	+ 39	+ 9	+ 5	- 2
	Exports	235	215	222	250	348	244	+ 49	+18	+43	+ 48
Denmark	Imports	163	170	167	151	173	128	+ 62	+36	- 1	+ 6
	Exports	146	146	161	161	210	146	+ 10	+42	+33	+ 44
Finland	Imports	108	71	84	87	94	75	+ 13	-19	- 7	- 13
	Exports	98	62	74	107	118	82	- 32	—	- 2	+ 20
Iceland	Imports	13	9	15	11	13	9	- 23	+41	-19	—
	Exports	14	10	12	7	12	8	- 5	-29	-50	- 14
Belgium-Luxembourg .	Imports	282	246	242	229	303	231	+ 7	-15	-18	+ 7
	Exports	297	312	356	310	278	245	+ 18	+25	+19	- 6
Sweden	Imports	233	205	189	182	203	157	+ 20	-17	-20	- 13
	Exports	262	178	221	225	256	178	+ 41	+14	+10	- 2
Switzerland	Imports	157	131	122	113	168	133	- 22	-27	-21	+ 7
	Exports	141	110	118	122	142	142	+ 7	+ 2	+ 5	+ 1
Portugal	Imports	66	55	53	34	48	36	+ 77	+ 8	-31	- 27
	Exports	19	13	17	24	25	22	- 38	—	+33	+ 32
Total Europe ^d . .	Imports	3,444	3,358	3,574	3,560	4,064	3,332	+ 26 ^e	+16 ^e	+16 ^e	+ 18 ^e
	Exports	3,333	3,258	3,483	3,391	3,980	3,252	+ 34 ^e	+21 ^e	+17 ^e	+ 19 ^e

Sources: The figures are derived from national statistics. For details, see Appendix B.

NOTE.—Import values are shown on a c.i.f. basis, export values on an f.o.b. basis. Countries are arranged in the order of relative increase in imports in the third quarter of 1949 over the corresponding quarter of 1948.

^a The value of trade between each pair of European countries has been converted at the pre-devaluation dollar rate of the exporting country. See Appendix B.

^b The percentages are based on the values computed at pre-devaluation dollar rates of the exporting country.

^c Estimate.

^d Including estimates for eastern Europe—Bulgaria, Czechoslovakia, the Soviet Zone of Germany, Hungary, Poland, Rumania, Yugoslavia and the U.S.S.R.

^e It has not been possible to reconcile the difference in movement in intra-European trade in 1949 compared with 1948 as derived from the export and import statistics of European countries.

in the vigorous expansion which had been maintained throughout the year. Sweden's trade, however, followed a pattern of its own. The sharp fall in its imports after the first quarter compared with the levels of 1948 seems to have been due partly to the tightening of import restrictions because of an under-estimate of prospective export earnings. The fact that the effective reduction was even greater than planned also suggests that there was some decline in demand following the heavy imports of earlier post-war years.

Influences affecting Foreign Trade

During the past year, intra-European trade was influenced by contrasting developments in internal and external policy such as the difference in the degree of inflation or deflation in the different countries, the increasing disparity in prices before devaluation, devaluation itself and the measures taken to liberalize trade. Many of the changes that took place in intra-European trade appear, however, to represent simply the expansion of trade in areas where it had previously been low or the contraction of trade in areas where it had previously been high as compared with pre-war. This was most notably true with regard to Germany and Austria, whose exports and imports in trade with other European countries in 1948 had been scarcely more than a quarter of the 1938 volume, and with regard to the imports of the United Kingdom from other European countries, which in 1948 had not risen to more than 60 per cent of the 1938 volume.¹ In both of these instances, however, the expansion in 1949 still left the volume of trade very much lower than before the war. The opposite tendency—for trade to decline from previously high levels—was evident in the imports of Switzerland, Sweden and Belgium from European sources, which had already reached approximately the pre-war level in 1947 and 1948.

There were, however, two outstanding exceptions to the foregoing generalization. One of these was the

trade of the smaller eastern European countries with the Soviet Union. This trade was negligible before the war but has expanded rapidly since then and seems to have continued to do so in 1949 (except in the case of Yugoslavia). The other exception was east-west trade, particularly exports from eastern Europe to western Europe, which in 1948 had recovered to only about 40 per cent of the 1938 level and failed to rise any further in 1949. While there was some expansion in exports by the smaller eastern European countries to western Europe, this was offset by a fall in deliveries by the Soviet Union. Exports from western to eastern Europe rose by some \$200 million, but still remained less than two-thirds as large in volume as in 1938.² The net effect, considering all eastern European countries as a group, was to eliminate the previous balance of trade in its favour.

The fact that these trends in east-west trade and in trade within eastern Europe do not conform to the general pattern of intra-European trade is essentially to be explained by political factors which, by restricting trade in some directions and encouraging it in others, have strongly influenced its development since the war. Whilst the reduction of east-west trade and the expansion of eastern Europe's trade with the Soviet Union are the most important general changes brought about by political developments since the war, the clearest example of the impact of political factors is Yugoslavia's foreign trade. After the war, the development of close economic relations with its eastern European neighbours brought about a complete re-orientation of Yugoslavia's trade; by 1947, trade with other eastern European countries accounted for nearly 50 per cent of its foreign trade compared with less than 20 per cent before the war. After the break with the Cominform in the middle of 1948, however, the pattern was abruptly reversed and in 1949 the share of eastern Europe in Yugoslavia's foreign trade had shrunk once more to about the pre-war proportions.

2. TRADE IN FOOD AND INDUSTRIAL MATERIALS

Both foodstuffs and industrial materials shared in the rise in intra-European trade in 1949, following the good harvests in 1948 and 1949 and the further expansion of European industrial production. Table 55

shows the increase in the value of trade in constant prices for a number of the major commodities entering into trade among European countries. This selection necessarily fails to indicate adequately the

¹ See Table 46 in last year's SURVEY. The estimate given for Germany and Austria refers to the two countries considered together.

² These data refer to exports to the Soviet Union and the six smaller eastern countries grouped together in Table 53 from all other European countries, except the Soviet Zone of Germany.

Table 55

INTRA-EUROPEAN TRADE IN SELECTED FOODSTUFFS AND INDUSTRIAL MATERIALS

Millions of dollars based on quantities valued in 1948 typical f.o.b. prices

Commodity	INTRA-EUROPEAN TRADE						IMPORTS OF ELEVEN WESTERN EUROPEAN COUNTRIES ^a FROM EASTERN EUROPE ^b											
	Total			Of which imported by			Total			Of which imported by								
													Germany					
	1938	1948	1949	1938	1948	1949	1938	1948	1949	1938	1948	1949	Total	U.K./U.S. Zone				
Bread grain	361	179	231	78	2	2	62	8	56	217	57	111	64	—	—	48	5	49
Coarse grain	206	213	183	61	60	31	31	7	9	108	86	62	35	57	16	25	1	8
Sugar	127	141	128	14	—	—	2	2	9	21	8	20	6	—	—	1	—	2
Meat	288	133	187	179	66	122	51	4	14	71	6	12	18	5	8	45	—	2
Butter	338	122	185	246	61	110	89	1	3	68	—	1	48	—	—	20	—	—
Cheese	62	29	70	11	9	23	20	1	14	1	—	—	—	—	—	1	—	—
Eggs	204	64	114	118	47	90	64	—	8	58	9	11	29	6	8	18	—	—
Fish	275	326	325	46	46	45	79	108	104	7	—	—	6	—	—	1	—	—
Oilseeds	151	60	60	1	1	1	23	4	10	46	3	1	1	—	—	22	2	—
Fats and oils	281	141	144	86	12	7	28	31	38	13	5	1	1	2	—	11	1	—
Tobacco	160	126	186	2	6	14	63	1	14	33	5	10	—	—	—	24	—	2
Coal	1,004	820	988	—	1	—	84	23	38	115	118	114	—	—	—	21	10	14
Mineral oil	126	94	129	21	7	22	17	11	4	62	1	1	17	—	—	15	—	—
Steel	644	587	718	96	45	110	67	3	11	34	30	31	1	—	—	6	—	—
Copper	89	77	103	2	16	19	19	3	15	7	2	1	—	—	—	1	—	—
Timber	733	523	557	209	173	210	218	2	16	289	49	90	91	16	42	101	—	—
Wood-pulp	364	311	361	209	127	154	21	20	27	16	6	2	6	—	—	3	1	—
Newsprint	32	21	32	14	3	9	—	—	4	—	—	—	—	—	—	—	—	—
Wool yarn	173	130	144	5	19	14	34	—	14	14	5	5	—	—	—	10	—	—
Cotton yarn	164	70	99	2	4	2	38	2	18	9	—	—	—	—	—	2	—	—
Artificial yarn	47	74	90	—	9	8	9	3	14	—	2	—	—	—	—	—	—	—
Hides and skins	242	25	25	29	3	3	75	3	4	24	1	1	3	—	—	15	—	—
Total of all commodities listed	6,071	4,266	5,059	1,429	717	996	1,094	237	444	1,213	393	474	326	86	74	390	20	77

Sources: The figures have been taken from national statistics. The data for trade among countries of eastern Europe included in "intra-European trade" are incomplete for post-war years. For details of sources and an explanation of "typical prices", see Appendix B.

a United Kingdom, France, the Netherlands, Belgium-Luxembourg, Switzerland, Sweden, Norway, Italy, Turkey and Germany.

b Czechoslovakia, Poland, Rumania, Hungary, Bulgaria, Yugoslavia and the U.S.S.R. (including the Baltic countries in 1938).

extremely complex commodity structure of the trade. It also reflects little of the increase which has occurred in trade in eastern Europe, for which no detailed data are available.

The increase in intra-European trade from 1948 to 1949 in the foodstuffs covered by the table was almost \$300 million, or some 18 per cent. This was primarily accounted for by animal products (including meat, butter, cheese and eggs), and there was also a substantial increase in trade in tobacco from European sources. On the other hand, there was little expansion in trade in cereals, an increase in bread grain being offset by a decline in coarse grain. Apart from tobacco and cheese, trade in the products mentioned remained in 1949 still very far below the pre-war volume. Trade in two other principal foodstuffs—sugar and fish—had, on the other hand, already returned to the pre-war level in 1948 and showed no significant change in 1949.

Among industrial materials, the expansion in trade was greatest in coal and steel, these two items alone accounting for \$300 million of the total increase. As a result of this expansion, intra-European trade in coal last year was only moderately lower than before the war, and trade in steel was appreciably higher. On the other hand, intra-European trade in timber remained substantially below the pre-war level, but in wood-pulp and newsprint it was about the same as before the war. There still appears to have been a strong tendency for countries to retain for domestic use the available supplies of hides and skins, in which trade was less than one-ninth of the pre-war volume. In wool and cotton yarns, both of which are made largely of materials imported from overseas, the available supplies for export have tended to be reserved for overseas markets. The great expansion in the production of artificial yarn, however, has led to a doubling of intra-European trade in this product.

Imports into the United Kingdom and Germany

Nearly all of the increase from 1948 to 1949 in European exports of meat and dairy produce was taken by the United Kingdom. As can be seen from Table 56, these and other foodstuffs accounted for the greater part of the total increase in British imports from Europe in 1949, the remainder of the increase consisting of steel, timber, wood-pulp and other primary products and industrial materials. Table 56 indicates that these larger purchases of food and raw materials

Table 56

IMPORTS INTO THE UNITED KINGDOM FROM ALL SOURCES AND FROM EUROPE

Millions of dollars in current c.i.f. prices

Commodity group	Imports from all sources		Imports from Europe	
	1948	1949 ^a	1948	1949 ^a
1. Food, drink and tobacco	3,562	3,864	821	1,131
2. Raw materials and articles mainly unmanufactured	3,228	3,517	544	670
3. Metals and manufactures	463	614	83	180
4. Machinery	187	201	36	50
5.6. Passenger cars and transport equipment	47	67	9	10
7. Chemicals and related products .	127	99	52	52
8. Textiles and manufactures	296	321	150	170
9. All other manufactures	310	297	177	161
10. Parcel post	64	49	5	10
11. Unspecified ^b	—	—	137	152
Total	8,284	9,029	2,014	2,586

Sources: The figures have been taken from *Accounts Relating to Trade and Navigation of the United Kingdom*, His Majesty's Stationery Office, and statistics of the exporting countries.

^a Annual rate for first nine months raised by the proportion of first nine months of 1948 to the whole year 1948.

^b The monthly trade returns, as given in *Accounts Relating to Trade and Navigation of the United Kingdom*, do not provide a full break-down of the origin of British imports by commodity. For this reason, a part of the imports from Europe is unspecified.

represented a net increase in the total volume of its imports, since there was no net substitution of European for overseas supplies. Despite these increases, the United Kingdom's total imports from other European countries in 1949 remained about \$1 billion short of the pre-war volume (measured in post-war prices). Nearly half of this reduction has been in foodstuffs and raw materials, presumably on account of the persisting shortage of European supplies compared with pre-war, and the remainder has been in the various groups of manufactured goods. In contrast to the increase in the United Kingdom's imports of foodstuffs, raw materials and metals during the past year, there was virtually no over-all increase in its purchases of finished manufactures from Continental Europe.

The fact that the United Kingdom took so much of the increase in European exports of animal products in 1949 is attributable to the fact that production increased not only in countries typically producers and exporters of such goods, but also in other countries which had been importers since the war. Following the more abundant harvests and increased supplies of feeding-stuffs in 1948, several of these countries decreased their imports of animal products in 1949. Finland reduced imports of butter very sharply, and Belgium curtailed its imports of meat and eggs. France virtually ceased buying eggs altogether, and Sweden changed from an importer to an exporter of eggs from one year to the next.

The concentration of increased European supplies of animal products on the British market tended to strengthen the bargaining position of the United Kingdom, with the result that prices were reduced in some cases. This was in contrast to the tendency for prices to rise in British imports from overseas countries, but it had the effect of reducing or eliminating previous differentials in favour of European suppliers. The price paid for Danish butter, for instance, was reduced in the latter part of 1949 to about the same level as that paid to Australia and New Zealand.

Towards the end of the year, however, there was a new development in the European market for food when Germany re-emerged as an active competitor for available supplies. Some idea of the potential importance of this demand for food as well as for industrial materials may be found in Table 55, where the pre-war volume of imports into all of Germany is compared with the extremely low level of imports into the combined UK/US Zone in 1948 and 1949. While the pre-war and post-war figures are not closely comparable geographically, the greater part of the imports of foodstuffs into pre-war Germany went into the western part of the country, and it is also in this area that the population increase since the war has been greatest.

Until the autumn of 1949, western Germany's trade with other European countries had remained insignificant compared with before the war, when western Germany was, after the United Kingdom, the next most important importer of the foodstuffs and industrial materials listed in the table. The greater part of its import requirements of basic foods, especially cereals, and other essential goods had been supplied by

the United States, and only its imports of sugar and fish from other European countries were definitely larger than before the war. The fact that supplies from the United States could be financed with American aid, and the principle applied by the United States authorities that commodities should be imported from the cheapest sources, had tended to make unnecessary, or to prevent, any large diversion of purchases from the United States to European countries. This limited the demand for European goods, and at the same time hampered exports from western Germany to European countries, since the latter had to settle any deficits they incurred with western Germany in dollars. Western Germany's trade with Europe consequently remained rather stationary during the summer of 1949, and it was realized that a change of policy was required. In October, the administration of foreign trade was transferred from the Joint Export-Import Agency to German authorities, and a number of agreements were concluded towards the end of the year providing for large increases in trade and for the virtual abolition of quotas, even for some non-essential goods. In addition, the provision that deficits should be settled in dollars was abolished, formally or informally, in a number of cases. As a result, there was, as previously noted, a rapid expansion in western Germany's imports from other European countries in the fourth quarter, though this is not evident from the import figures for the year as a whole shown in Table 55. Although domestic food prices are heavily subsidized in western Germany, as in the United Kingdom, western Germany appears to have been outbidding the United Kingdom by offering higher prices for European foodstuffs.¹ If western Germany is to reduce in the future its one-sided dependence on American financing and American sources of supply, its demand for available supplies of foodstuffs in Europe as well as in non-dollar markets overseas can be expected to increase sharply.

¹ According to figures computed from the December trade returns of Denmark, the unit value of eggs exported to Germany averaged 7.14 kroner per kilogramme compared with 3.80 kroner per kilogramme for exports to the United Kingdom, while the unit value of butter averaged 8.18 kroner per kilogramme in the one case, and 5.16 kroner in the other. A similar differential may be seen in Dutch exports of cheese, where the unit value of such exports to Germany in December averaged 3.11 guilders per kilogramme, compared with 2.17 guilders per kilogramme on exports to the United Kingdom.

Exports of Eastern European Countries

By comparison with the 1938 levels of trade, three-quarters of the decline in intra-European trade in the foodstuffs and industrial materials shown in Table 55 has been in exports from eastern European countries to the eleven western European countries shown in the table. Moreover, the general expansion in intra-European trade in these products from 1948 to 1949 was accounted for only to a minor extent by additional supplies from eastern European sources.¹ It must be noted, however, that the present estimates do not cover the increase in trade between eastern European countries and the Soviet Union, of which details are lacking.

The greater part of the decrease in supplies coming from eastern European countries has been registered in the imports of the United Kingdom and western Germany. These imports in 1949 amounted to only about \$150 million, whereas in 1938 the imports of the United Kingdom and the whole of Germany from eastern European sources amounted to more than \$700 million (measured in post-war prices). It was

only in imports of bread grain into western Germany that there was any significant recovery in trade in 1949. These imports reached approximately the pre-war level, but covered only a small part of its greatly increased import requirements. Imports into the United Kingdom from eastern Europe, on the other hand, actually declined during the year, increased supplies of timber from several of these countries having been offset by reduced imports of coarse grain from the Soviet Union.

The relatively higher post-war level of imports of other western European countries from eastern Europe is largely accounted for by the fact that shipments of coal from Poland, of which none go to the United Kingdom, and only a small part to western Germany, are about equal to those formerly supplied by pre-war Poland. Steel exports from Czechoslovakia, despite the generally heavy demand for this product in eastern Europe, have also been maintained at about the pre-war level, the principal post-war buyers in western Europe being Sweden, the Netherlands, Italy, Norway and Switzerland.

3. TRADE IN MANUFACTURES

Increase in German Exports

One of the distinguishing features of the increase in intra-European trade in manufactures in 1949 was a moderate rise in exports from Germany, which had hitherto been at only a fraction of their pre-war volume. The levels of intra-European trade in manufactures during the past two years compared with 1938 (valued at post-war prices) are indicated in Table 57. These figures, which are not altogether complete for the whole of Europe, are derived from the export statistics of the principal industrial countries of Europe and also show exports of manufactures from the United States to European countries. The fact that the data for 1949 cover the first nine months (expressed at an annual rate) is of some significance in appraising the figures shown for the year, both for total intra-European trade in manufactures and for Germany's share in it, since they necessarily fail to reflect the marked upturn in the fourth quarter which

has been commented upon and are therefore lacking to some extent in comparability with the figures for previous years. If data in commodity detail were available for the full year covering the same group of European countries, they would probably show a level of intra-European trade in manufactures some \$200 to 300 million greater than that indicated in the table for 1949.

The development of trade in manufactures among European countries during the past year illustrates the tendency, previously noted, for exports to rise most where they have been relatively low and to level off or recede where they have been relatively high compared with pre-war. Exports of manufactures from the United Kingdom, which in 1948 had already expanded to a level two-thirds greater than in 1938, showed only a very moderate further rise in 1949. Exports from other European countries, excluding Germany, which in 1948 had been somewhat smaller than before the war, increased considerably more. On the other hand, exports of manufactures from western Germany, which had been extremely low in 1948, rose in the first nine months of 1949 to a rate more than double that of the preceding year.

¹ There seems to have been no net increase in the total volume of exports from eastern European to other European countries from 1948 to 1949. As noted in connection with Table 53, a decline in exports by the Soviet Union offset a small increase in exports of other eastern European countries.

Table 57

INTRA-EUROPEAN TRADE IN PRINCIPAL GROUPS OF MANUFACTURES AND EUROPE'S IMPORTS FROM THE UNITED STATES

Millions of dollars, f.o.b.
1938 figures in 1948 prices; post-war figures in current prices

Commodity group	Exporting country and year	Germany				United Kingdom			Other European countries ^a			Total intra-European trade			United States		
		Total Germany		Western zones		1938	1948	1949 ^c	1938	1948	1949 ^c	1938 ^d	1948	1949 ^c	1938	1948	1949 ^c
		1938	1948	1938 ^b	1948												
3. Metals and manufactures		548	63	438	199	127	252	247	1,019	884	996	1,694	1,199	1,442	238	299	337
4. Machinery		576	44	374	106	176	380	379	370	586	671	1,122	1,010	1,156	254	501	498
5. Passengers cars		44	4	144	11	10	52	50	48	75	97	102	131	158	52	59	58
6. Transport equipment		148	8		16	77	267	290	194	222	291	419	497	597	128	311	204
7. Chemicals and related products		408	39	286	65	54	100	93	321	381	397	783	520	555	74	204	205
8. Textiles and manufactures		403	47	181	55	316	220	257	807	625	721	1,526	892	1,033	50	93	90
9. All other manufactures		347	22	226	32	131	197	169	880	713	687	1,358	932	888	157	163	106
Total manufactures, groups 3-9		2,474	227	1,649	484	891	1,468	1,485	3,639	3,486	3,860	7,004	5,181	5,829	953	1,630	1,498

Sources: The figures have been taken from statistics of the exporting countries. For details, see Appendix B.

^a Including exports from Belgium-Luxembourg, Czechoslovakia (exports for 1949 have been estimated), Denmark, France, Italy, the Netherlands, Sweden and Switzerland.

^b Estimates.

^c Annual rate for first 9 months.

^d Including exports from the whole of Germany for all commodity groups.

Despite the increase in western Germany's exports of manufactures in 1949, the total of these exports still remained more than \$1 billion lower than the volume supplied from that source in 1938 (measured in 1948 prices) or almost \$2 billion lower than exports of manufactures from the whole of Germany in that year. In over-all terms, the shortfall in exports of manufactures from western Germany was offset in 1949 by the increase of some \$800 million compared with pre-war in exports by other European countries, of which three-quarters came from the United Kingdom. In addition, as is shown in the table, the volume of manufactured goods supplied by the United States to European countries was some \$550 million greater in 1949 than in 1938.

The level of trade in manufactures in 1949 varied widely, however, among different groups of manufactures. While here, as elsewhere, pre-war levels of trade provide no firm basis on which to judge post-war requirements, the shortfall in German exports of machinery and transport equipment has been more than compensated by supplies from the United Kingdom and other European countries, and additional amounts were received from the United States. The pre-war volume of imports by European countries in both these categories had, in fact, already been surpassed in 1948, and in 1949 the volume of imports of transport equipment from the United States declined, while imports from European sources continued to expand.

Table

EUROPE'S IMPORTS OF MANUFACTURES FROM PRINCIPAL SUPPLYING

Millions of
1938 figures in 1948 prices ;

Importing country Exporting country and year	United Kingdom		Ireland		France		Netherlands		Belgium-Luxembourg		Switzerland		Italy		Turkey	
	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods
Germany ^a 1938	145	131	18	3	72	17	190	87	72	36	82	45	115	29	77	43
1948	20	22	—	—	24	14	32	9	18	8	25	13	3	1	1	2
1949 ^c	62	21	1	—	46	13	53	13	41	12	36	15	24	5	10	3
United Kingdom 1938			59	85	37	22	48	56	24	25	9	18	10	4	15	8
1948			115	103	95	11	123	40	74	56	30	33	13	5	42	14
1949 ^c			108	102	81	8	126	54	75	41	30	25	22	8	32	9
Other European countries ^d . . . 1938	284	394	8	7	155	79	181	151	117	114	78	73	60	35	22	23
1948	121	217	10	7	203	62	273	160	126	132	151	76	50	38	28	30
1949 ^c	176	227	10	7	204	43	271	180	125	116	97	53	76	40	33	31
Total . . . 1938	429	526	86	94	264	117	419	294	213	175	169	136	185	67	114	74
1948	141	238	126	110	322	87	428	210	218	196	206	121	66	44	70	45
1949 ^c	238	248	119	109	332	64	450	247	240	169	163	92	121	53	75	43
United States . . . 1938	173	108	3	1	67	19	50	14	36	21	7	5	29	6	15	5
1948	244	55	15	6	199	18	141	17	110	52	74	33	80	8	79	17
1949 ^c	228	36	11	4	200	19	120	16	106	50	65	28	112	17	69	6
Total from sources specified 1938	601	634	89	96	330	137	469	308	249	196	176	141	214	73	129	79
1948	385	294	140	116	520	105	570	227	327	249	281	154	146	52	150	63
1949 ^c	466	285	130	113	532	83	571	263	346	219	228	121	233	70	144	49

Sources: The figures have been taken from statistics of the exporting countries. For details, see Appendix B.
NOTE.—“Capital goods” include commodity groups 3, 4, 6 and 7 in Table 57. “Consumers’ goods” include commodity groups 5, 8 and 9 in the same table.

^a Export figures include the whole of Germany in 1938: for post-war years, the western zones only. The whole of Germany is included in the import figures for all years.

On the other hand, in two other main groups of heavy industrial products—metals and manufactures, and chemicals—the total volume of imports of European countries, even after including the large amounts received from the United States, remained smaller than before the war, the decrease in supplies from Germany not being compensated by exports from other sources. Production capacity in the metallurgical industry, especially in steel, has been greatly expanded, however, in countries outside Germany, many of which are now better equipped to supply their own needs than before the war. It was nevertheless in this group that western Germany's exports increased most in 1949, and other European suppliers, with the exception of the United Kingdom, also exported more

than in 1948. In chemicals, of which production has also grown in many countries, there was little expansion, in absolute terms, from 1948 to 1949 in exports either by western Germany or by other countries, and the amount of exports from the United Kingdom declined somewhat during the year.

In textiles and miscellaneous manufactures, consisting chiefly of consumers' goods, the total volume of intra-European trade has decreased so much by comparison with the 1938 level that, in spite of the virtual disappearance of German exports, other European exporting countries have not been able to regain their previous volume of trade. The total amount of intra-European trade in consumers' goods in 1949 was smaller by almost \$1 billion than before the war,

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COUNTRIES IN EUROPE AND FROM THE UNITED STATES

dollars, f.o.b.

post-war figures in current prices

Denmark		Sweden		Norway		Finland		Germany ^a		Eastern European countries (including U.S.S.R.)		Other European countries ^b		Total		Importing country	Exporting country and year
Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods		
80	58	116	78	60	34	45	15			429	149	178	70	1,680	794	1938	Germany ^a
5	1	8	2	4	1	2	—			6	—	6	—	153	73	1948	
8	2	39	6	13	4	3	—			27	2	23	2	386	98	1949 ^c	
30	80	31	48	18	31	17	10	13	47	87	8	37	16	434	457	1938	United Kingdom
65	38	118	61	91	27	43	12	10	12	58	4	122	55	998	469	1948	
77	64	98	52	119	33	42	14	10	18	84	2	106	44	1,009	476	1949 ^c	
34	27	74	85	95	48	61	30	245	211	286	187	74	81	1,905 ^d	1,736 ^d	1938	Other European
86	42	150	126	165	46	66	18	104	30	300	181	141	51	2,075 ^d	1,412 ^d	1948	countries ^d
98	51	137	91	208	49	83	34	146	110	395	216	177	77	2,355 ^d	1,505 ^d	1949 ^c	
143	165	222	211	174	113	122	56	258	258	802	344	289	167	4,019	2,987	1938	Total
156	81	276	189	260	74	110	30	114	41	365	185	268	106	3,227	1,954	1948	
182	117	274	150	339	86	127	49	156	128	506	220	306	123	3,750	2,079	1949 ^c	
13	3	44	24	15	9	8	3	60	14	154	21	20	6	694	259	1938	United States
24	3	69	13	46	6	20	5	25	14	60	6	131	63	1,315	315	1948	
37	3	55	8	53	6	17	3	49	33	15	5	107	19	1,244	254	1949 ^c	
156	168	266	235	189	122	130	59	318	272	955	365	309	172	4,713	3,246	1938	Total from sources
180	84	345	202	306	81	130	35	139	55	424	192	399	168	4,542	2,269	1948	specified
219	121	329	158	392	92	144	52	205	161	521	225	413	143	4,994	2,333	1949 ^c	

^b Including Austria, Greece, Iceland, Portugal and Spain.

^c Annual rate for first 9 months.

^d Including exports from Belgium-Luxembourg, Czechoslovakia, Denmark, France, Italy, the Netherlands, Sweden and Switzerland. In addition, estimated

exports from Finland, Norway and Portugal are included in total exports to the whole of Europe but not in the distribution according to importing country. For Czechoslovakia, the figures for 1949 are estimated.

and imports from the United States did not appreciably alter the picture.

In earlier post-war years, the low level of trade in consumers' goods may have been due in part to the lack of supplies available for export by European producers as a consequence of their home demand and overseas export requirements. This, however, could scarcely have been true in 1949 with the further increase in manufacturing production during the year and the general easing in inflationary pressure in most countries. Yet trade in textiles expanded only moderately to a level still one-third lower than before the war, and in miscellaneous manufactures trade actually declined, although there was a very moderate upturn in western German exports. The explanation of the continuing low level of trade in consumers' goods seems to lie in the maintenance of trade restrictions against these products and in the development of substitute home industries, whose growth was encouraged by shortages during and after the war, as well as by trade restrictions.

*Trade in Capital Goods and Consumers' Goods*¹

A more detailed view of the market for capital goods and manufactured consumers' goods in Europe is given in Table 58, which shows imports into each of the principal trading countries or country groups from the main exporting countries in Europe and from the United States, valued at post-war prices, in 1938, 1948, and the first nine months of 1949 (expressed as an annual rate). This table makes it clear that the decline in imports of consumers' manufactures and the increase in imports of capital goods have been almost universal phenomena in post-war Europe. There were, however, certain exceptions. Imports of capital goods into eastern European countries from the sources mentioned were extremely low in 1949 compared with 1938, and imports into western Germany and the United Kingdom were also relatively small. With regard to consumers' goods, the principal

exception was Belgium, where imports were substantially greater in 1948 and 1949 than before the war,² while the decline in imports into Switzerland and Italy as compared with 1938 was relatively moderate.³ In all three of these instances, however, there was an important shift to the United States as a source of supply, imports from other European countries having fallen. The United Kingdom stands out for the opposite reason, in that its imports of consumers' goods have been exceptionally low since the war, both from other European countries and from the United States, the reduction from 1938 to 1949 in its total imports of these goods from the sources specified being in the order of \$350 million.

On the other hand, the United Kingdom also occupied an exceptional position in intra-European trade in manufactured consumers' goods in that, alone among the principal supplying countries, its exports of these goods since the war have actually increased moderately compared with 1938. Table 58 indicates that the maintenance or expansion of British sales of consumers' goods was fairly general among European importing countries, the principal exceptions (apart from Germany) being Denmark, where the development of the domestic textile industry has limited the British market, and France, where the decline has also been chiefly in textiles. Table 59 shows that exports of manufactured consumers' goods by all other principal supplying countries in Europe were still lower in 1949 than in 1938 and increased only moderately compared with 1948. The reduction from the pre-war level was especially pronounced in the case of Belgium and Switzerland, whose exports of less essential goods have been adversely affected by the relative hardness of their currencies compared with those of other European countries. It will further be seen, however, that, in virtually all instances, this decline resulted primarily from the low volume of post-war imports of consumers' goods into Germany and the United Kingdom. In absolute amount, imports have fallen more, in fact, in the case of the United Kingdom and failed to increase appreciably from 1948 to 1949, whereas Germany's imports of consumers' manufactures rose substantially during this period, particularly in trade with Belgium and

¹ The commodity groupings used by many European countries in presenting their trade statistics in "commodity-by-commodity" detail are so broad as to make impossible a complete and accurate separation of capital and consumers' goods; for this reason, the distinction between capital and consumers' goods in the present analysis (and also in Tables 75 to 78 in Chapter 5) is of necessity somewhat arbitrary. The commodity groups given in Tables 58 to 60 as metals and manufactures, machinery, transport equipment, and chemicals and related products, are here considered as capital goods, and the other groups of manufactures have been considered as consumers' goods; that is, passenger cars, textiles and manufactures, and all other manufactures.

² Imports of manufactured consumers' goods into Ireland were also greater in 1948 and 1949 than before the war. These imports were derived predominantly from the United Kingdom, paid for in part out of Ireland's invisible income.

³ Imports into Italy, however, were already very severely restricted in 1938.

Table 59

EXPORTS OF MANUFACTURES BY SMALLER EUROPEAN SUPPLIERS TO GERMANY,
THE UNITED KINGDOM AND THE REST OF EUROPE

Millions of dollars, f.o.b.
1938 figures in 1948 prices ; post-war figures in current prices

Exporting country and year	Importing country	Germany ^a		United Kingdom		Other European countries		Total	
		Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods
France	1938	18	21	53	107	249	204	320	332
	1948	30	5	13	57	181	180	224	241
	1949 ^b	18	9	26	77	259	217	302	302
Netherlands	1938	32	19	28	44	102	67	162	131
	1948	7	5	7	22	156	85	170	112
	1949 ^b	11	11	11	19	187	96	209	126
Belgium-Luxembourg .	1938	101	47	92	83	371	178	563	308
	1948	42	6	63	44	523	178	627	228
	1949 ^b	48	42	101	37	564	179	712	258
Switzerland	1938	33	57	31	38	138	123	203	217
	1948	8	2	14	14	256	121	279	138
	1949 ^b	21	25	15	18	228	107	263	149
Italy	1938	13	31	5	27	41	120	59	179
	1948	8	5	5	27	117	129	130	160
	1949 ^b	31	12	6	42	120	105	157	159
Denmark	1938	5	2	17	1	46	17	68	20
	1948	1	—	3	2	77	16	82	18
	1949 ^b	2	—	2	3	80	15	84	18
Sweden	1938	33	3	45	42	158	48	236	92
	1948	2	3	14	28	219	45	235	76
	1949 ^b	8	5	14	26	236	36	258	66
Czechoslovakia	1938	10	31	13	51	138	185	162	267
	1948	6	4	2	23	220	216	228	244
	1949 ^b	..	..	..	..	..	..	..	..
Total	1938	245	211	284	393	1,243	942	1,905 ^c	1,736 ^c
	1948	104	30	121	217	1,749	970	2,075 ^c	1,412 ^c
	1949 ^b	146 ^d	110 ^d	176 ^d	227 ^d	1,913 ^d	989 ^d	2,355 ^e	1,505 ^e

Sources : The figures have been derived from Table 58.

NOTE. — "Capital goods" include commodity groups 3, 4, 6 and 7 in Table 57. "Consumers' goods" include commodity groups 5, 8 and 9 in the same table.

^a The whole of Germany is included in the import figures for all years.

^b Annual rate for first 9 months.

^c Including trade figures partly estimated for Finland, Norway and Portugal.

^d Including estimates of exports from Czechoslovakia.

^e Including trade figures partly estimated for Finland, Norway and Portugal. Exports only from Czechoslovakia are estimated.

Switzerland. Italy appears to have been the only country whose exports of consumers' manufactures to the United Kingdom were significantly greater in 1949 than before the war.

Again in the field of capital goods, the position of the United Kingdom was exceptional. Its exports

of these products to European countries have risen more than the total exports of all other principal European suppliers although its share in the total exports was relatively small before the war. Here also, however, some of the same influences are to be observed as in the case of consumers' goods. The

failure of other European suppliers to achieve a more substantial post-war increase in the volume of their exports of capital goods seems to have been related to the lower level of imports of these products into the United Kingdom and Germany in the post-war years as compared with 1938, although in both instances there was an upturn from 1948 to 1949.

Because of the reduction in its imports of both capital and consumers' goods and the expansion of its exports of these products, the balance of trade in manufactures of the United Kingdom has shifted remarkably in its commerce with other European countries from a small import surplus in 1938 (measured in post-war prices) to an export surplus of about \$1 billion in 1949. This reversal, facilitated by the temporary absence of German manufactures on a significant scale, is one of the ways in which the changed balance-of-payments position of the United Kingdom and its inability to make large dollar settlements to other European countries have affected in turn their own trade and payments position.¹

A summary view of the principal changes since the war in the sources of supply of both capital and consumers' goods to European countries is provided by Table 60. For this purpose, European countries,

¹ While therefore unable to earn convertible currency from the United Kingdom on a large scale, as before the war, continental European countries would have had still larger dollar import requirements if the low level of manufactures from Germany had not been partly offset by increased supplies obtained from the United Kingdom.

other than the United Kingdom and Germany, have been divided into three groups. In the first of these, consisting of the Scandinavian countries and the Netherlands, it will be seen that the increase in supplies from the United Kingdom and other European countries has been substantially greater than the shortfall in supplies of capital equipment from Germany, and that the increase in imports from the United States has been relatively moderate—about \$150 million for the group as a whole. In the second group, composed of other western European countries, the reduction in imports of capital goods from Germany has also been more than compensated by increased imports from the United Kingdom and other European countries, but they have also increased their imports of capital goods from the United States by almost \$500 million. With respect to consumers' goods, imports from the United States fell in the case of the first group of countries and rose in the case of the second, although in neither instance was the decline in imports from Germany made good from other sources. In the third group—the eastern European countries including the Soviet Union—the reduction in imports of both capital goods and consumers' manufactures has been fully registered in their total imports from outside sources. While increased supplies of both types of goods have been forthcoming from western European countries other than Germany, this has been approximately offset by a heavy reduction in their imports from the United States.

Table 60

CHANGES IN SOURCES OF EUROPEAN IMPORTS OF MANUFACTURES, 1938 TO 1949^a

Millions of dollars in current f.o.b. prices

Exporting countries \ Importing countries	Scandinavian countries and the Netherlands		Other western European countries (excluding Germany and the United Kingdom)		Eastern European countries (including the U.S.S.R.)	
	Capital goods	Consumers' goods	Capital goods	Consumers' goods	Capital goods	Consumers' goods
Germany ^b	— 375	— 247	— 433	— 193	— 402	— 147
United Kingdom	+ 318	— 8	+ 263	+ 59	— 3	— 6
Other European countries . . .	+ 352	+ 64	+ 196	— 55	+ 109	+ 29
United States	+ 152	— 17	+ 494	+ 80	— 139	— 16
TOTAL	+ 445	— 206	+ 519	— 106	— 434	— 140

Sources: The figures are derived from Table 58.

NOTE.—“Capital goods” includes commodity groups 3, 4, 6 and 7 in Table 57. “Consumers' goods” includes commodity groups 5, 8 and 9 in the same table.

^a The figures represent the difference between imports in 1938 (expressed in 1948 prices) and imports in 1949 (expressed in current prices). See Appendix B.
^b The decline in German exports is somewhat overestimated as exports from western Germany only in 1949 have been subtracted from exports from the whole of Germany in 1938.

Supply of Manufactures to Eastern Europe

Table 61 provides a fuller picture of exports from western Europe, and also from Czechoslovakia and the United States, to eastern European countries in 1948 and 1949 as compared with 1938. As previously noted, the total volume of goods, both manufactures and other products, supplied by western to eastern Europe recovered in 1949 to about two-thirds of the 1938 level. The remaining gap, as measured by pre-war trade, was almost wholly accounted for by western Germany, whose exports to eastern Europe in 1949 were less than 10 per cent of the pre-war volume, whereas exports from other western European countries were about 90 per cent of the pre-war volume. While there was still a shortfall in raw materials previously supplied by western Germany, the lack of German exports was principally in manufactured items. Among these products, German exports of steel and other metals and manufactures, of machinery and of chemicals had been of special importance, accounting for some 60 per cent of the total exports of western Germany to eastern Europe in 1938. In steel, the shortfall has been reinforced by a decrease in supplies from other western European sources as compared with 1938, but both in machinery and in chemicals there was a substantial increase in imports from these countries.

It is hard to say to what extent the fall in imports of manufactures from western Europe, accounted for chiefly by western Germany, has been met from other sources, either in eastern Europe or from non-European countries. It is only for Czechoslovakia within the eastern European group and for the United States, the only overseas supplier of importance, that data are at hand. Even here, figures for Czechoslovakia's exports to other eastern European countries for 1949 are not available, although an allowance for the presumed increase in such exports in 1949 has been made in the totals shown in Table 61. In the case of the United States, there has been a sharp contraction in exports to eastern Europe to a level less than one-third as great in 1949 as in 1938. The reduction has been partly in raw materials, of which cotton is the most important item, but the main cuts have fallen on manufactures, especially metals, machinery and transport equipment. The reduction in United States exports, which is largely attributable to the restrictive export policy followed by the United

States,¹ seems to have been compensated in considerable measure by the expansion in exports from Czechoslovakia, but the commodity composition of the trade has naturally differed in the two instances.

No detailed information is available, however, on exports from eastern Germany to eastern European countries, although shipments to the Soviet Union exported largely either as reparations or by Soviet companies in eastern Germany seem to be higher than before the war. In 1938, eastern Germany held an important position in trade with eastern Europe chiefly as a supplier of machinery, chemicals and textiles. Exports from eastern Germany to Czechoslovakia and Poland may likewise compare favourably with pre-war; trade agreements made with Czechoslovakia and Poland called for deliveries by eastern Germany to the total value of \$22 million and \$105 million² respectively for 1949 which were to consist largely of machinery, industrial equipment and precision and optical instruments. Exports to other European countries by eastern Germany seem, however, to be much smaller than before the war.

Exports of manufactures from other eastern European sources—among which Poland, Hungary and the Soviet Union would be the principal supplying centres—have doubtless increased considerably compared with pre-war. It seems highly improbable, however, from the partial data available, that eastern European countries have been able to obtain from all sources, both within the group and outside, a volume of goods equal to their pre-war imports of manufactures, especially of capital goods, despite the greatly increased emphasis on industrialization in their post-war development plans. The supply potentialities of the Soviet Union are, of course, enormously greater than those of the smaller eastern European countries and, as already observed, it is chiefly with the Soviet Union that their post-war trade has expanded. The development of its own industry, however, absorbs the greater share of its production of capital goods. Moreover, it is, itself, a large importer of capital goods and a supplier of raw materials in trade with some of the other eastern

¹ *Export Control and Allocation Powers, Tenth Quarterly Report*, U.S. Department of Commerce.

² A trade agreement concluded at the end of March 1949 provided for a turnover of \$152 million for 1949 and a supplementary agreement in June for additional deliveries from the Soviet Zone amounting to \$30 million.

Table 61

**IMPORTS OF EASTERN EUROPEAN COUNTRIES, INCLUDING THE U.S.S.R.,
FROM WESTERN EUROPEAN COUNTRIES, CZECHOSLOVAKIA AND THE UNITED STATES**

*Millions of dollars, f.o.b.
1938 figures in 1948 prices ; post-war figures in current prices*

Exporting country and year Commodity group	Germany				Other western European countries			Total western European countries			Czechoslovakia			United States			Total			
	Total Ger- many	Western zones			1938	1948	1949 ^b	1938 ^c	1948	1949 ^b	1938	1948	1949 ^d	1938	1948	1949 ^b	1938 ^c	1948	1949 ^b	
		1938 ^a	1948	1949 ^b																
	1938	1938 ^a	1948	1949 ^b																
1. Food, drink and tobacco . .	8	6	—	6		62	49	40	68	49	46	2	12	..	6	19	14	76	80	75
2. Raw materials and articles mainly unmanufactured. . .	84	67	3	5		104	93	107	171	96	112	45	29	..	75	29	42	291	154	189
3. Metals and manufactures. . .	124	99	2	6		133	63	87	232	65	93	43	55	..	44	4	1	319	124	161
4. Machinery.	167	109	2	9		95	101	165	204	103	174	24	57	..	84	50	9	312	210	252
5. Passenger cars	12	9	—	—		3	6	8	12	6	8	5	18	..	4	1	—	21	25	30
6. Transport equipment	41	31	—	1		44	29	28	75	29	29	1	3	..	23	1	2	99	33	34
7. Chemicals and related products	97	68	2	11		30	41	47	98	43	58	3	10	..	4	5	3	105	58	73
8. Textiles and manufactures . .	70	32	—	—		84	36	43	116	36	43	32	28	..	1	2	3	149	66	80
9. All other manufactures . . .	66	43	—	2		45	23	22	88	23	24	27	74	..	15	3	2	130	100	116
10. Unspecified	—	—	—	1		452	285	359	452	285	360	—	—	..	—	14	5	452	299	365
Total, groups 1-10 . .	669	464	9	41		1,052	726	906	1,516	735	947	182	286	..	256	128	81	1,954	1,149	1,375

Sources: The figures are derived from statistics of the exporting countries. For details, see Appendix B.

Notes: — "Eastern European countries" includes Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, Yugoslavia and the U.S.S.R.

"Western European countries" includes all other European countries, except the Soviet Zone of Germany. However, all exports from Austria, Finland, Greece, Iceland, Ireland, Norway, Portugal, Spain and Turkey are included in group 10, "unspecified". Similarly, exports from Sweden to all eastern European countries except Poland are included in group 10.

^a Estimates.

^b Annual rate for first 9 months.

^c Including western Germany only.

^d In order to maintain, as far as possible, comparability in the totals, an estimate of exports from Czechoslovakia has been included in the total for 1949 in each of the commodity groups shown.

European countries,¹ and has also accepted other claims on its resources, having undertaken to deliver capital goods amounting to \$300 million to China over the next five years.

As far as may be judged from the data presented in Table 61, the general shortfall in supplies to eastern

Europe would have been most keenly felt in metals and manufactures, particularly steel, and less so in machinery, where the expansion in supplies by western European countries and by Czechoslovakia has gone far towards replacing the deficit left by western Germany and the United States.

4. THE PROBLEM OF EAST-WEST TRADE

It was inevitable that the war and the currency difficulties and shortages of essential goods which followed it should have greatly strengthened the trend towards autarky which had already become pronounced in the European economy during the pre-war decade of depression and payments difficulties. The last SURVEY showed how the economic programmes followed by the various nations of Europe, despite efforts towards co-ordination, tended to have a strong autarkic bias, and suggested that a solution needed to be found either in the direction of more liberal economic policies permitting freer play of the price mechanism in the allocation of resources, or in the direction of co-ordination in economic planning.

While it would be premature to appraise progress towards either of these alternatives, the past year brought in western Europe the first definite measures towards a removal of direct controls over trade. These steps were facilitated by the ending of shortages and the abatement of inflationary pressure which diminished the threat that imports, if unrestricted, might develop on an unmanageable scale. The countries of eastern Europe, on the other hand, followed the opposite alternative, aiming at a closer planning of their trade with one another as well as the intensified internal control of their economies.

Trade between eastern and western Europe, however, continued to be characterized by the absence of any commonly accepted programme and policies for the development of reciprocal exchanges. This standstill, expressing the political cleavage between eastern and western Europe, thus stifled the develop-

ment of intra-European trade at the point offering the greatest potential benefit to either side ; that is, the exchange of primary goods needed to solve the balance-of-payments problems of western Europe against capital equipment no less urgently required to carry out the industrialization programmes of eastern Europe. By comparison with the economic advantages which could accrue from trade and development programmes mutually agreed upon by eastern and western Europe, the integration efforts within either of these spheres would seem to offer much more limited opportunities for progress in solving their problems.

Present Status of East-West Trade

It has already been seen that the supply of foodstuffs and raw materials by eastern European countries to the rest of Europe failed to show any appreciable recovery in 1949 from the extremely low level of the preceding year. The export of cereals was little more than half as large as in 1938, while exports of animal products and oilseeds remained negligible compared with pre-war. On the other side, the volume of manufactures, and in particular production goods, supplied to eastern European countries has remained very much smaller than before the war, and the substantial increase in exports from western European countries which took place in the past year was not sufficient to make up for the gap left by the shortfall in supplies from Germany and the United States.

Little provision for increased trade can be found in the trade agreements concluded for 1950. The large increases which had been planned in the agreements made for 1949, or in some cases for longer periods, were not fulfilled, and actual trade fell considerably short of the intended volume of exchanges in most cases.² New agreements for 1950 appear to be based on the levels of trade actually reached in 1949 and do

¹ In the trade agreement between Czechoslovakia and the Soviet Union for 1949, it was planned that 25 per cent of Czechoslovakia's exports to the Soviet Union in that year were to consist of machinery and equipment, 72 per cent of other manufactures, and 3 per cent of foodstuffs. Czechoslovakia's actual imports of capital equipment, on the other hand, were drawn chiefly from other sources—such goods making up 50 per cent of its total imports from western Europe and approximately 30 per cent of its imports from the United States, whereas capital goods were planned to constitute only 3 per cent of its total imports from the Soviet Union.

² See "Note on European Trade Agreements for 1949", *Economic Bulletin for Europe*, Vol. 1, No. 1, 1949.

not, on the whole, anticipate any great increases above those levels. Thus, the agreements between Switzerland and Czechoslovakia and between Sweden and Poland do not plan for any rise in the volume of trade in 1950. No agreements at all have been concluded since 1949 between the Soviet Union and several western European countries, including Belgium and France; there has been no formal agreement with the United Kingdom (beyond contracts for the delivery of coarse grain and timber), and the same type of situation prevails in relations with some Scandinavian countries. It is chiefly in the trade of western Germany with eastern Europe that some expansion is anticipated for 1950. Agreements with Yugoslavia,¹ Poland, Czechoslovakia and Hungary provide for deliveries by western Germany of approximately \$200 million against a similar volume of imports from these four countries. While this would constitute, in relative terms, a substantial increase compared with 1949—western Germany's imports from the four countries more than doubling, and its exports rising by two and a-half times—the trade would still remain at a low level as compared with its importance before the war. The only other significant exception to the general stagnation in east-west trade is found in the five-year agreement concluded between Yugoslavia and the United Kingdom in December 1949, which plans for exchanges amounting to \$110 million in each direction over the period as a whole.

From present indications, therefore, trade between eastern and western Europe seems likely to remain very much smaller than it was immediately before the war. The pre-war level itself provides no satisfactory indication of the potential volume of this trade under appropriate conditions. Given the expansion which has occurred in western European manufacturing production, particularly in heavy industry, and the slowing down of demand for engineering products,² it is clear that production is no longer limiting the ability of western European countries to supply goods of the types demanded by eastern European countries.

¹ The agreement with Yugoslavia, providing for western German imports of \$64 million and exports of \$61 million, has not yet been ratified.

² This is also borne out by the shortening during the past year in the delivery periods of equipment goods quoted by the exporting countries, the only important exception being in electric generating equipment, where the supply situation is still tight.

The limiting factor in the potential development of east-west trade concerns rather the ability of eastern European countries to increase the capacity of their agriculture and industry to supply goods of interest to western Europe, particularly with a view to diminishing the present dollar deficit. Comparisons with the level of trade in the immediate pre-war period are particularly unsatisfactory for judging what a more normal level of trade might be. First, in the important case of cereals, the volume of exports supplied by eastern European countries in the latter part of the 1930's was sharply reduced from the levels which had been attained in the first half of the decade.³ This was largely because of the protective measures instituted by western European countries in favour of their own agriculture at a time when, in contrast to the present situation, the world markets were burdened by an excess supply of grain.

A second and more important point is that agricultural production in many parts of eastern Europe was at an extremely low level of technical efficiency. This is indicated by the wide margins between yields per hectare in that area compared with western European countries where more advanced agricultural methods are applied. While soil and climatic conditions are perhaps less favourable in eastern than in western Europe, the difference in yields can be explained primarily by the very low level of fertilizer application in eastern European countries.⁴

The attainable level of production and exports of foodstuffs in eastern Europe is thus largely a question of the amount of investment devoted to this branch of production and of the emphasis placed by the governments on the improvement of agricultural techniques.

³ Exports of bread grain by eastern European countries, including the Soviet Union, to all destinations (primarily other European countries) reached a peak at an average of 3.5 million metric tons in the five years 1930 to 1935, but fell to an average level of 3 million metric tons during the next five years. The volume of exports of coarse grain from these countries had also amounted to approximately 3.5 million metric tons per year in the earlier period, but fell still more sharply to a total of only 1.7 million metric tons per year in the last half of the 1930's. (*State of Food and Agriculture, 1949*, Food and Agriculture Organization of the United Nations.)

⁴ The following figures showing variations of fertilizer application and crop yields between different countries are given by the F.A.O. Fertilizer application comprises both natural fertilizers and the pure fertilizer content of chemical fertilizers:

Fertilizer Application and Crop Yields Pre-war (Quintals per hectare)				
	Netherlands	Denmark	Poland	Bulgaria
Fertilizer application	3.38	1.93	0.79	0.99
Yields : Bread grain	26	24	13	12
Coarse grain	26	28	15	11
Potatoes	200	170	138	61

Given a sufficient development effort, there can be little doubt that agricultural production in eastern European countries could be raised in a relatively short time to a level much higher than before the war and, over a longer period, could approach the levels of yield attained in some of the western European countries where more modern agricultural practices are followed. As a matter of policy, however, the planning of eastern European countries places only a relatively moderate stress on investment and development in agriculture compared with that in industry,¹ and the use of mechanical and other aids to production, although relatively much greater than before the war, would still remain very low compared with western European countries. Nevertheless, even with this limited emphasis on agriculture, the smaller eastern European countries expect to increase output in bread grain by about 20 per cent, or 2 million tons, within the next two or three years as compared with the 1934–1938 average. Allowing for increases in domestic consumption of wheat in some of these countries, on the one hand, and for the decrease in population in some countries as a result of the war, on the other, it appears reasonable to suppose that these countries could supply out of this production a volume of exports in bread grain amounting to 1½ to 2 million tons, or about the 1934–1938 average.² The recovery of their pre-war volume of exports of coarse grain, however, is more unlikely. According to present plans, acreage will be shifted from coarse grain to bread grain and, even at the higher yields contemplated, would not provide for much more than the pre-war output, while domestic consumption for livestock feeding is expected to increase. The margin available for exports to western Europe may not therefore exceed 1 million tons annually in the next two or three years, or about 60 per cent of the pre-war average. These rough estimates, however, do not include the Soviet Union, which in the period 1934–1938 exported on the average 750,000 tons of bread grain and 400,000 tons of coarse grain to western European countries and now appears to be able to supply double these amounts or more.³

¹ See last year's SURVEY, Chapter 8, Section 4, p. 206.

² The eastern European countries referred to here exclude Czechoslovakia, which tends to be on an import basis for both bread grain and feeding-stuffs.

³ It will be recalled that the Soviet Union requested a quota of not less than 2 million tons of wheat annually in its unsuccessful negotiations with other countries when the International Wheat Agreement was concluded in 1948.

In the long run, the potentialities for increased exports of animal products and manufactured foodstuffs are much greater, since the plans provide for a large expansion in livestock and a shift in the pattern of their agriculture to more labour-intensive types of production, including the development of food-processing industries. The economic basis for this development is provided by the existing concealed unemployment in agriculture.

Causes and Consequences of the Stalemate

While the possibilities are undoubtedly present for a large expansion in the production and exchange of products between eastern and western European countries to their mutual advantage, it is idle to attempt a more precise measurement of these potentialities as long as the limits to its development are so largely political rather than economic. Several factors contribute to this stalemate.⁴ One of these is in the very concept of industrialization, which seems to be common not only to the smaller eastern European countries (although not to the Soviet Union itself), but also to other under-developed countries elsewhere in the world. The view appears to be current that the exportation of primary goods is, in some way, an evidence of inferior economic status and hence that, regardless of comparative advantages, first priority must be given to the development of heavy industry. The necessity for industrialization as a way to higher production and better living standards is beyond question, but the experience of other more developed countries would also make it clear that industrialization can most effectively be undertaken as a growth of the existing production structure. The development of primary production and the export of foodstuffs and raw materials, rather than conflicting with the aims of industrial growth, may provide one of its chief supports and may indeed continue after a country has reached industrial maturity, when its greatest relative advantage lies in this field. Thus, the industrial development of Sweden was largely made possible, as far as imports of equipment are concerned, by exports of forest products and iron ore, and these products have continued to form the mainstay of its export trade. This dependence on

⁴ It will be noted that, in the preceding section, no attempt has been made to appraise the present and potential development of numerous industrial materials and manufactures of interest to western Europe, including copper, zinc and other non-ferrous metals, coal and coal derivatives, cement, ceramics and mineral oil.

exports of primary goods has been equally true of other small but highly developed countries, including Australia, New Zealand and Denmark, and has been even more strikingly evident in the historical development of the United States and in the present structure of its exports. This objection to exporting primary produce is, of course, largely to be explained by the severity with which the depression of the 1930's hit the countries which depended on the exports of one or two basic commodities for the procurement of their essential imports. The need for long-term contracts or international agreements to stabilize the markets for foodstuffs and raw materials and to protect the exporters from a sharp and sudden deterioration of their terms of trade is at present widely recognized as a necessary condition to stimulate an increase in production. In the case of eastern European countries, political considerations reinforced these economic fears, as they suffered greatly from their trade relations with Germany in the 1930's which were tantamount to exploitation of their agricultural resources for Germany's benefit, while discouraging the development of their own industries. On the other hand, they are anxious to maintain in their foreign trade a greater stability than the western markets have hitherto provided.

A second reason for the failure of east-west trade to recover or to show promise of future development lies in the complete absence of any common and agreed approach to the problem by eastern and western Europe. This arises in part from the inadequacy of the passive attitude to the problem commonly taken by western European countries in place of the active measures that would be required to promote trade. The view is frequently expressed that western Europe is prepared to buy foodstuffs and raw materials from eastern Europe, but that no significant volume of supplies is forthcoming from that region. This approach fails to take into account the strong probability that, under conditions where production and consumption are largely directed by conscious planning, no large exportable surpluses are likely to emerge, unless assured outlets have been established by prior agreement. While eastern European countries may have failed to give their agriculture the importance it would merit strictly on the basis of comparative advantage, it is understandable that they would not deliberately plan to devote a large part of their current production and investment to the building-up of surpluses beyond their foreseeable requirements unless export markets were assured.

In the final analysis, however, the major reason for the stalemate in east-west trade, without which the two obstacles already mentioned might have been resolved through discussion and agreement, is clearly the political cleavage between the east and the west. As long as mutual distrust on the present scale prevails, there can be little hope that the potential contribution of trade between the naturally complementary economies of eastern and western Europe can be realized. On the one hand, export licensing controls applied by the United States and western European countries continue to curtail exports to eastern Europe¹ and, on the other hand, various official statements from eastern European countries about the intended distribution of their trade show that a considerable further shift of trade away from western Europe is planned.²

It is nevertheless important to understand the economic consequences of this stalemate in east-west trade. For eastern European countries—particularly the smaller eastern countries which are historically dependent on manufactures from western Europe—the failure to obtain capital goods and other manufactures from the outside, even in the limited volume imported before the war, can only mean increased difficulties and delays in the attainment of their industrialization objectives. It has been noted earlier that, however impressive the relative increase in intra-eastern European trade has been, the supply of capital equipment that can be obtained from within the area is probably extremely small in relation to their industrialization objectives.

For western Europe the question is primarily that of the balance of payments or, more specifically, the need to find markets which can both absorb exports of manufactures and supply foodstuffs and raw materials. The failure of east-west trade to recover intensifies this problem, which reaches its more acute stage in the present structure of German trade.

¹ For the most part, the export controls of western European countries do not seem to be as extensive as those of the United States. For a detailed review of United States licensing policy, and an indication of its views on exports by other countries to eastern Europe, see "Export Control: an Appraisal of Significant Recent Developments", *Foreign Commerce Weekly*, United States Department of Commerce, 27 March 1950.

² Thus the share of eastern Europe in the total trade of Czechoslovakia has risen from 20 per cent in 1947 to 37.9 per cent in 1948, and is planned to increase to 45 per cent by the end of the Five-year Plan period in 1953. (See *Survey of the Czech Economy in 1948*, Radovan Simacek, Prague, 1949.) The Chairman of the Polish State Planning Commission, Mr. H. Minc, in a speech delivered on 18 December 1948, also expressed the intention of the Polish Government to increase considerably the share of eastern European countries in Poland's foreign trade.

5. THE EXPANSION OF WESTERN GERMANY'S TRADE

The General Magnitude of the Problem

The expansion of Germany's trade in 1949 from the extremely low levels of the preceding post-war years constituted only a small part of the growth and readjustment which will be required if the country is to become independent of outside financial assistance. The problem of foreign trade primarily concerns western Germany, and has been rendered more acute by the virtual breakdown of inter-zonal trade since the war. While the division of the country has imposed extremely difficult problems of readjustment on both sides, the effects on the Soviet Zone appear to be more of an internal character.¹ In the three Western Zones of Occupation, on the other hand, the division of the country and, above all, the increase in the population of the area have led to a great increase in dependence on imports of foodstuffs from other countries.² The total deficit of western Germany in its trade with other countries was more than \$1 billion in 1949 and had actually increased from the preceding year. Roughly 70 per cent of the deficit was in trade with the United States. The total imports in 1949, amounting to some \$2.2 billion (c.i.f.), were about equivalent in volume to the 1936 level, although composed to a much greater extent of foodstuffs, while exports, totalling \$1.1 billion, represented only about half of the 1936 volume. As has been seen in earlier chapters, this extraordinary lack of balance in western Germany's foreign trade was accompanied by a level of production still lower than in 1936 and substantially lower than in 1938, while a large part of the greatly increased population was unemployed and consumption standards remained lower than before the war. This combination of external and internal disequilibrium imposes readjustment problems whose effects will be increasingly felt in the trade and production of other European countries.

It is not enough to say that western Germany will have to double the present volume of its exports

¹ Furthermore, the absence of data on the foreign trade of eastern Germany precludes any discussion of the problems it may raise.

² For a fuller analysis of the low level of post-war trade between eastern and western Germany since the war, and the effects on production and trade in the two parts of the country, see "Pre-war Regional Interdependence and Post-war Interzonal Trade in Germany"; *Economic Bulletin for Europe*, Vol. 1, No. 3, p. 25.

in order to pay its way when American aid comes to an end. The increase in production required to expand the volume of exports, as well as other measures taken directly to combat unemployment, will necessitate a substantial expansion in imports of industrial materials above the 1949 level. Imports of industrial materials during the past year were still less than 70 per cent of the volume in 1936, which was not itself a year of particularly high industrial activity.³ In addition to larger requirements of imported raw materials, a rise in employment resulting either from increased production for export or from measures aimed specifically at absorbing part of the present unemployed will stimulate demand for imported consumers' goods, especially foodstuffs. This extra demand could be counteracted in some measure by import restrictions and consumer rationing, and the solution of western Germany's balance-of-payments problem may also necessitate an intensification of its own agriculture. It is to be remembered, moreover, that, at present, consumption levels remain lower than before the war, and there would be practical limits to any reduction that might be imposed in the average dietary standards of the workers as the number of employed increases. It may therefore be concluded, without attempting a refined estimate, that the present volume of imports into western Germany does not provide an adequate basis for appraising the full dimensions of the balance-of-payments problem, and that increased requirements of industrial materials, together with a possible rise in imports of foodstuffs, may well entail a significant expansion in the total volume of imports above that of the past year.⁴

³ The relative importance of this group of imports (including both raw materials and semi-finished goods) is indicated by the fact that in 1936 they made up about 57 per cent of total imports. This calculation and those given in the text above are based on data for the combined UK/US Zone only, as given in *Der Aussenhandel der Bundesrepublik Deutschland*, Teil 1, Zusammenfassende Übersichten, Januar 1950.

⁴ It can be roughly calculated, on the basis of data contained in *Wirtschaftskonjunktur* No. 3, March 1950, that the import content of western German exports is of the order of 8 per cent (6 per cent for production goods and 14 per cent for consumption goods), and that between 10 and 12 per cent of any increase in consumer incomes would be spent on imported goods, mainly foodstuffs. The same source estimates that an expansion of incomes of the order of \$1 billion would entail a reduction of 400,000 in the number of unemployed and that such an expansion would involve additional imports to the value of approximately \$170 million.

The restoration of western Germany's trade to a more balanced position not only necessitates a vast expansion in exports, but may also be expected to be accompanied by a strong effort to shift purchases of imports, particularly foodstuffs and raw materials, to non-dollar sources of supply when the dollar financing now given by the United States ends. Part of this increase in imports may be expected to come from other European countries, and it has already been seen that western Germany was beginning in the course of 1949 to increase its imports, especially of foodstuffs, from neighbouring countries. Out of these two aspects of the problem—the expansion of exports and the diversion of imports—there emerges a third : that is, the question of western Germany's trade balance and its payments position within the general pattern of intra-European trade. The way in which the solution of these questions affects other European countries depends essentially on the general economic environment in which western Germany's trade recovery occurs. In principle, the reactivation of German productive capacity and of its foreign trade, if they are of a non-aggressive character, should work to the economic benefit of other European countries. The low level of German production and trade since the war has, indeed, imposed serious handicaps on other countries historically closely tied to the German market and dependent on German sources of supply. Given, however, the re-adaptations which have already been made in the trade and production structures of other countries, the reappearance of Western Germany as an active participant in intra-European trade is bound to involve new adjustments in the pattern of trade. Whether these further adjustments can be made without undue disturbance, and in a way which will contribute to the general advantage of the European economy, depends essentially on whether western Germany's demand for imports can be satisfied from a further increase in production and whether the general economic setting is one of expansion and development or not.

Export Competition in Europe

The development of intra-European trade in 1949, as described in earlier sections of this chapter, does not provide a reassuring background to the expansion of western Germany's trade. As has been shown, there appears to have been a tendency for trade in manufactures to become stabilized when levels approaching the pre-war volume have been reached

and, in some instances—such as miscellaneous consumers' manufactures—to show little sign of growth even where the level remains much lower than before the war. While the experience of the past year would not warrant a conclusion that intra-European trade has lost its expansive force, the level and movement of that trade in 1949 do not give promise of a ready absorption of anything approaching the pre-war level of exports from western Germany without serious disturbance to other European suppliers.

The recovery of east-west trade, which formerly absorbed about a quarter of western Germany's total exports of manufactures to European countries and furnished Germany with an equivalent volume of imports of foodstuffs and raw materials, is clearly one of the areas in which west-German trade could recover to the economic advantage of both sides. In so far as this trade, as well as interzonal trade within Germany, fails to recover and expand in accordance with its potentialities, the difficulties of readjustment in western European trade will be all the greater.

From the analysis made in section 3 above of the changes in the source of European imports of manufactures, it seems that the return of German competition may be most keenly felt by other European suppliers of capital goods to the Scandinavian and Dutch markets, where the post-war shortfall in German exports has been filled more by other European exporting countries than by the United States. In western and southern European countries, imports of capital equipment from the United States have been very heavy as well. These imports from the United States will undoubtedly diminish as dollar aid is reduced and comes to an end. This factor will of itself provide additional outlets for western Germany, however, only to the uncertain extent that increased exports from these countries permit the maintenance of effective demand for imports in the absence of large-scale financial aid.

In the field of consumers' goods, it is probably right to assume that a serious effort by western Germany to recapture old markets would have its chief repercussions on other European exporters, unless there is a general easing in quantitative import controls, which still seem to exercise a strong restrictive influence. If these restrictions are relaxed, on the other hand, the impact of renewed German competition may be more seriously felt by the newer industries which have developed in most European

countries to supply the home market, and which are commonly dependent on protection in one form or another for their survival.

Import Demand and the Trade Balance

The expansion of its exports to other European countries can provide only part of the answer to western Germany's trade problems. Imports from other European countries must also rise. Otherwise, the development of an export surplus in favour of western Germany would only result in the accumulation of idle claims on other European countries or in shifting to them the burden of earning the foreign exchange required to pay for western Germany's overseas imports. How far imports can rise in keeping with exports is nevertheless problematic. It is true that, to a considerable extent, the recovery of western Germany's imports during the past year re-opened traditional markets for the exports of other countries which had suffered in recent years, as in the case of Dutch and Danish vegetables and other foodstuffs, as well as Italian fruit.

The limiting factor is, however, that many of western Germany's most basic import requirements—including cotton and wool, hides and skins, fats and oils, rubber, non-ferrous metals, and, since the war, cereals—cannot be satisfied in Europe, or only to a small extent, while in other goods, notably meat and dairy products, its import demands can be met from European sources only in competition with other European importing countries, chiefly the United Kingdom. This limitation is especially important at present, owing to the continuing low volume of supplies coming on the

export market in Europe. Continuation of an active import demand by western Germany may therefore, in the short run, merely have the dual effect of bidding up prices and of increasing the dependence of other countries on hard-currency supplies from overseas and—in this way also—may transfer to them part of the dollar deficit now covered out of extraordinary United States assistance to western Germany. In the longer run, production in Europe of essential foodstuffs and other primary goods should be encouraged by German demand, although this cannot cover both the types and the volume of imports required to satisfy both German needs and those of other European importing countries, particularly if supplies from eastern Europe are not forthcoming in greater amount.

The probable tendency will therefore be for western Germany to reaffirm and increase its traditional trade surplus in western Europe,¹ already manifested again even at low post-war levels of trade, and thus to constitute one of the more intractable elements in the problem of intra-European trade settlements to be considered in the following section. Whether or not other western European countries can afford, and will permit, the development of a significant balance in western Germany's favour depends in turn on their own export expansion in overseas markets. The bulk of the expansion in overseas exports required to pay for western Germany's overseas imports will doubtless have to be achieved, however, by Germany itself. The development of trade since the war in Germany's former overseas markets and the problem of matching dollar and non-dollar receipts and payments are among the subjects considered in later chapters.

6. TRADE LIBERALIZATION IN WESTERN EUROPE

In western Europe, international economic policy has now become largely concentrated on the liberalization of trade and payments in place of the more far-reaching measures for economic integration initially contemplated. Co-operation in the sense of co-ordinated planning was first envisaged in the undertaking by the member countries of the Organization for European Economic Co-operation to prepare and execute "a joint recovery programme", in response to the suggestion made in the summer of 1947 by the United States Secretary of State. It was expected that the national programmes² giving the

projected development of production, consumption, investment and trade, would be co-ordinated in a master plan for recovery. Another major aim was the creation of a wide customs union in western Europe, and a special organization was set up to further this purpose.³

¹ This could, in principle, be offset by increased German imports of manufactured products, especially consumers' goods, if German trade policy continues along its present liberal trends, but this would not take the place of essential foodstuffs and raw materials and would only add still more to the export expansion required.

³ The Customs Union Study Group was set up at the Paris Conference in July 1947.

² See *Interim Report on the European Recovery Programme*, O.E.E.C., Paris, December 1948.

In practice, it was found that neither of these broad objectives could be attained on a general scale. On the one hand, co-ordination of the national programmes within the O.E.E.C. became, in practice, primarily concerned with the elaboration of the detailed estimates of supplies and requirements which formed the basis of the annual requests for E.R.P. aid, and, after some preliminary attempts to decide by common agreement on the location of certain industries, notably iron and steel, the idea of direct co-ordination of investment seems to have been, to a large extent, abandoned.¹

On the other hand, such difficulties appeared in the preparation of a comprehensive customs union that this idea was progressively abandoned, and attention was focused on smaller regional groupings which appeared to offer a greater chance of success. Even here, little headway could be made on the various proposals except in the case of Benelux, on which agreement in principle had already been reached during the war.²

Confronted with the difficulties of effective planning on an international scale, similar to those encountered in other international economic institutions, the western European countries have come to rely more on currency transferability and the competitive forces of the market as a means of furthering integration. The emphasis in the work of the O.E.E.C. has thus shifted from joint planning and programming activities to the elaboration of common policies in the field of trade and payments.

Early Attempts to solve the Payments Problem

In the period immediately following the war, bilateral agreements permitted the rapid rebuilding of trade relations after the disruption during the war. This was partly made possible by the substantial credits granted by the main creditor countries which obviated the necessity for the close bilateral balancing of trade. By 1948, the exhaustion of these facilities and the unwillingness to grant further credits had caused a fairly widespread tightening of payments and renewed emphasis on direct balancing in bilateral relations.

¹ See the *Second Report of the O.E.E.C.*, Paris, February 1950, pp. 236 *et seq.*

² The other regional grouping embracing the United Kingdom and the Scandinavian countries belonging to the O.E.E.C., which has given some results, has not attempted to establish a customs union and limited its activity to freeing certain types of financial and service transfers.

Because currency problems thus appeared to constitute the principal obstacle to the freer development of exchanges among western European countries, the O.E.E.C., with the support of the United States Economic Co-operation Administration, concentrated on the elaboration of a multilateral payments arrangement. The problems in attempting to break away from a purely bilateral treatment of trade relations were twofold : first, it was necessary to establish a system of clearing or compensation whereby, as far as possible, each country might cancel its currently accrued trading deficits with some countries by its trading surpluses with other countries ; and secondly, it was necessary to provide means whereby such deficits or surpluses as could not be cancelled in this way could be otherwise covered.

In principle, both of these problems could have been met if each of the participating countries had received dollar aid equal to its estimated total balance-of-payments deficit, an amount which in some instances would have been larger, and in others smaller, than its Western Hemisphere deficit only, since some of the participating countries had surpluses and others deficits in their western European trade. In practice, however, aid was allocated on the basis of each country's estimated Western Hemisphere deficit only,³ so that an additional mechanism had to be set up to finance intra-European trade.

The first payments scheme, which began in October 1948, as well as the second which began in September 1949, could thus be regarded as a partial return, in an indirect way, to the principle of providing aid equal to the estimated total balance-of-payments deficit of each member country. In addition to an arrangement for the multilateral offsetting of bilateral surpluses and deficits, the schemes provided for schedules of drawing rights agreed upon in advance and established bilaterally on the basis of the anticipated net payments position of each country in its relations with each of the other participating countries. These drawing rights were not credits, but grants, accorded by countries in a surplus position as a counterpart to an equivalent portion of the dollar assistance received from the United States designated as " conditional aid ". In this way, the intra-European debtor countries whose total deficits were greater than their Western Hemisphere deficits, received drawing

³ A temporary exception was that, in the third quarter of 1948, certain sums were granted for payments in western Europe under the " offshore purchase " formula.

rights to cover their European deficits thus bringing total aid (direct and indirect) close to their total balance-of-payments deficit, whereas the intra-European surplus countries received direct aid greater than their total deficits and passed on to their European debtors, through the drawing rights, the equivalent of their receipts under conditional aid.¹

The real weakness of the system of drawing rights lay in its essentially bilateral character, and this was only partly alleviated in the second payments scheme, under which debtors were granted the facility of transferring 25 per cent of the drawing rights they received in order to cover a deficit incurred with any creditor.²

The experience in 1948, as discussed in the last SURVEY, demonstrated the limitations of a payments arrangement based on advance estimates of bilateral balances, since the latter reflect the marginal differences between exports and imports and are accordingly subject to wide and unforeseeable variations. The evolution in payments relationships during the past year confirmed the difficulty of predicting the magnitudes with sufficient accuracy to serve as a workable basis for a payments mechanism. The payments situation of individual O.E.E.C. countries changed substantially both from 1948 to 1949 and, in the course of 1949, before and after devaluation.

In 1948, the payments position of the chief western European trading countries in their relations with western Europe had been characterized by a large surplus in favour of the United Kingdom, which was financed through drawings by the European countries on their accumulated sterling balances ; by the over-all creditor positions of Belgium and Switzerland³ and to a lesser extent of western Germany, which gave rise to some hard-currency settlements ; and by the large over-all deficit of France, which made it the largest recipient of drawing rights.

During 1949, many significant changes in the European payments pattern had already occurred by the time of devaluation. While the two over-all creditors, Belgium and Switzerland, maintained and even strengthened their positions up to devaluation, the United Kingdom developed a deficit with most

O.E.E.C. countries, brought about by increased imports of foodstuffs and industrial materials from Europe and a decline in exports of British manufactures during the second and third quarters, with the result that several countries accumulated large sterling balances.⁴

Western Germany has had a payments surplus until recently, but the assumption of responsibility over foreign trade by the German authorities, and the conclusion of several trade agreements which lifted or reduced import restrictions, produced a sharp deficit in the fourth quarter. This situation, however, is expected to prove temporary, since both the Netherlands and Denmark, which were the main source of these increased imports, have been issuing large numbers of licences for imports from western Germany, and its exports can be expected to increase as orders particularly for capital equipment are fulfilled.

France, the chief over-all debtor in intra-European payments, experienced a spectacular improvement both in its total and in its European balance-of-payments position, owing to a sharp increase in exports, and shifted to a creditor status towards nearly all O.E.E.C. countries with the exception of western Germany and Italy.

Devaluation has changed these payments relationships substantially. Table 62 shows a sharp improvement in the positions of the countries which have devalued by 30 per cent or more, mainly because of the improvement in the payments position of the United Kingdom,⁵ while countries which have devalued by less than 30 per cent or not at all experienced a deterioration in their position. The size of these changes, however, cannot be taken as an indication of the long-term effects of devaluation on the competitive position of the countries of western Europe in one another's markets. It partly reflects the withholding of purchases and payments in anticipation of devaluation in the third quarter and the immediate change in speculative attitudes after devaluation had taken place. Moreover, some changes in balances of payments appear to have been largely independent of

¹ Only in the case of Belgium did the estimated intra-European surplus exceed the estimated Western Hemisphere deficit. The surplus was covered partly by grants and partly by long-term Belgian credits to its main debtors.

² In the case of Belgium, it was provided that the amount of multilateral drawing rights that could be used for payments to it would be limited to \$40 million.

³ Switzerland was not a member of the payments scheme.

⁴ Just before devaluation, the major sterling accumulations of other European countries were : Italy, £55 million ; Sweden, £35 million ; France, over £30 million ; and the Netherlands, £25 million.

⁵ No gold payments have had to be made by the United Kingdom to Belgium and Switzerland for some months now. The sterling balances held by the Netherlands have been nearly liquidated, Swedish balances have fallen by some £10 million, and French balances have also been reduced.

Table 62

NET SURPLUSES AND DEFICITS OF O.E.E.C. COUNTRIES WITH EACH OTHER

Millions of current dollars

Country	1948	1949				
	October-December	January-March	April-June	July-18 September	19 September-December	
<i>30 per cent devaluation</i>						
Denmark	- 32.8	- 5.6	+ 15.7	+ 12.9	+ 16.8	
Greece	- 26.5	- 23.4	- 39.2	- 31.2	- 40.4	
Netherlands	- 13.8	-107.7	- 33.2	+ 6.0	+ 14.9	
Norway	- 62.1	- 23.8	- 21.8	- 24.6	- 38.1	
Sweden	+ 51.1	+ 0.9	+ 18.0	+ 50.6	+ 44.4	
United Kingdom	+ 41.3	+ 75.8	- 95.5	-420.0	+142.6	
Total of net surpluses	92.4	76.7	33.7	69.5	218.7	
Total of net deficits	135.2	160.5	189.7	475.8	78.5	
<i>Less than 30 per cent devaluation</i>						
Austria	- 3.7	- 34.3	- 33.3	- 11.1	- 29.0	
Belgium	+ 64.7	+ 64.5	+118.3	+ 99.9	- 5.1	
France	- 77.8	- 57.5	- 38.4	+134.2	+ 11.0	
Germany	+ 14.2	+ 46.1	+ 17.7	+ 31.6	-110.4	
Italy	+ 60.2	+ 73.0	+ 82.4	+ 83.2	+ 4.5	
Portugal	- 34.5	- 36.4	- 27.9	+ 9.8	+ 0.7	
Switzerland	+ 14.5	+ 20.0	+ 44.6	+ 61.6	- 32.4	
Turkey	+ 5.2	+ 8.4	- 7.4	- 2.9	+ 20.5	
Total of net surpluses	158.8	212.0	263.0	420.3	36.7	
Total of net deficits	116.0	128.2	107.0	14.0	176.9	
Total of net surpluses and of net deficits	251.2	288.7	296.7	489.8	255.4	

Sources: *European Recovery Programme, Second Report of the O.E.E.C., Organisation for European Economic Co-operation, Paris, 1950.*

NOTE.—The figures are based on the returns submitted by central banks to the Bank for International Settlements for compensation purposes and indicate the change in net credits or liabilities of each central bank on the

others. Thus, they do not correspond exactly either to trade or even to surpluses or deficits on goods and services account.

Balances shown against a country refer to the transactions of the whole of its monetary area: thus, Ireland, Iceland and other countries of the sterling area are included with the United Kingdom.

devaluation. Thus, the decline in the French surplus in the fourth quarter coincided with the falling-off of seasonal tourist earnings, and the emergence of the large German deficit was largely caused by its new commercial policy.

It is therefore not yet possible to state with any certainty whether the abrupt changes in the over-all payments position of western European countries during 1949, and especially since devaluation, represent a movement towards closer equilibrium and the elimination or reduction of over-all creditor and debtor positions. The elimination of the all-round deficit of France would point in this direction.

However, the weakening of the creditor positions of Belgium and Switzerland may be purely temporary, and there may be a continuing tendency for the United Kingdom to return to its pre-war position with an import surplus with continental Europe.

In the light of these sudden and radical changes in the payments position of various countries, it is not surprising that the drawing rights established under the last payments scheme failed to correspond to the balances which actually developed.¹

¹ A revision of these drawing rights had been provided for under the agreement which established them and is currently under negotiation.

New Approach to Trade Liberalization

The first two payments schemes were seen, in the light of experience, to be inadequate devices, lacking in the flexibility required by these shifts in trade and failing to provide incentives to correct balance-of-payments disequilibria. Also these arrangements, based on drawing rights established as a counterpart to conditional aid, were directly dependent on American assistance and could not be expected to outlive it. At the same time, it became increasingly clear that payments difficulties were not alone in restricting the development of trade and that a more direct effort to lower trade barriers was required.¹

The plans for the liberalization of trade among the O.E.E.C. countries aim at the progressive elimination of import quotas with respect to trade amongst the member countries. This purpose, expressed in a resolution of July 1949, was first implemented in a decision that quantitative restrictions should be lifted by mid-December on at least 50 per cent of each country's imports from the rest of the group on private account (*i.e.*, excluding imports by Government purchasing agencies) in each of three broad groups—food and feeding-stuffs, raw materials and manufactured goods. The proportion was later increased to 60 per cent for each of the three groups, to take effect as soon as a new payments scheme is worked out and becomes effective, and the aim of reaching 75 per cent by the end of 1950 has been indicated.

Accompanying these plans for the easing of quantitative restrictions, the O.E.E.C. has announced the broad features of a proposed European Payments Union extending far beyond the scope of earlier payments schemes and providing for "complete transferability among participating countries of western European currencies earned by them on current account".² This objective would be achieved, not by dropping present exchange restrictions, but by means of a central pool from which each member would receive a line of credit,³ to be drawn upon by

countries which ran a deficit with the pool, while countries in a creditor position received corresponding additions to their accounts. Any drawings beyond certain limits, yet to be set, would be accompanied by part payment in dollars (apparently on an increasing scale) to the Union by countries showing net deficits on current operations, while creditor countries would correspondingly receive partial settlement in dollars from the Union. A special reserve fund of dollars, provided out of United States aid, is proposed to cover the possibility that dollar payments by the Union to the creditor countries may exceed at any time its dollar receipts from debtor countries.

It appears to be intended that settlements through the facilities provided by the Union would normally be limited to temporary and seasonal fluctuations in payments or to covering disequilibria which can be corrected by remedial action on the part of debtor or creditor countries. Separate arrangements (although possibly administered within the system) are proposed to deal with "structural" or "exceptional" deficits through "indirect aid" to be provided by the United States in a manner which "has still to be determined".

These two programmes—that is, the liberalization of trade and the development of a new payments mechanism—are to be regarded essentially as one. The progressive removal of quantitative restrictions, leaving trade free to move in accordance with prices and costs, would be impossible if the resulting surpluses and deficits arising in trade among the participants could not be offset by some form of currency convertibility within the group. While thus forming part of a single problem, each of the two approaches involves certain specific questions which may be separately considered.

Obstacles to Trade Liberalization

In its economic aspects, the attempt to establish greater freedom of trade and payments in western Europe must be considered in terms of a single main objective—an increase in productivity. Productivity should increase as competition is permitted freer play to enforce technical progress where it has lagged, to reduce prices where they have been artificially maintained, to induce the expansion of production where it is more efficient, and to compel the transfer of resources to other lines of production where they are not employed to greatest advantage.

The effort to induce greater freedom of competition encounters many obstacles, however, among

¹ Many restrictions imposed on intra-European trade could not be justified on balance-of-payments grounds; for instance, countries having unutilized drawing rights continued to limit their imports, in spite of the existing means of financing a deficit.

² See the *Second Report of the O.E.E.C.*, for an outline of the scheme from which the quotations are drawn.

³ Or, more specifically, two lines of credit, one short-term and one medium-term, the short-term credit being used to offset seasonal or erratic fluctuations, and the outstanding balance of the short-term credit being partly consolidated into medium-term credit and partly settled in free exchange at agreed yearly or two-yearly intervals. The amount of the line of credit is to be based on the trade turnover in the preceding period.

them being the resistance encountered to the removal of quantitative controls. So far it would appear that the lifting of quotas has been limited in each country to areas where it would cause the least domestic disturbance ; generally, that is, on goods which would not offer direct or serious competition to domestic production. Trade in agricultural produce has been liberalized slightly less than the prescribed minimum. Government trade, particularly in the United Kingdom, is primarily concentrated on agricultural products, and its exclusion from the programme has considerably reduced the volume affected by liberalization. Austria, Denmark, the Netherlands, Sweden and Turkey have also remained well below the 50-per-cent target. Raw materials have been freed above the prescribed minimum, except in Denmark and the United Kingdom. It is in the group of manufactured goods, however, that the greatest difficulties appear to have been encountered, and some countries—notably Denmark, Italy and Germany—remain far below the 50-per-cent goal. Among the products still generally restricted are chemicals, steel products, road transport equipment, artificial fibres, semi-manufactures of non-ferrous metals and miscellaneous manufactures, including consumers' goods.¹ Pending the working out and entry into force of the new payments scheme, no attempt has so far been made to reach the objective of 60-per-cent liberalization.

Beyond these difficulties in the execution of the programmes as such, a second obstacle to freedom of competition among European countries is, of course, the tariff barriers erected by many of them in past years, although even before the war these had tended to be superseded by the more direct quota restrictions. It is apparent that, in a number of instances, countries participating in the trade liberalization programme have consented to drop

their quotas on particular commodities secure in the knowledge that their still existent customs duties would provide adequate protection against outside competition. In some of these instances, as in the case of French imports of certain foodstuffs from neighbouring countries, the effect has been the opposite of that intended under the programme, since the collection of duties had been suspended and their re-imposition has proved to be a more serious limitation than the quotas, which have now been dropped. Italy is now in the process of drastically revising its whole tariff schedule upwards and, in the meantime, has not lifted quotas on any products for which tariff rates are being raised. On the other hand, several European countries—notably the Netherlands and the Scandinavian countries—have traditionally followed low tariff policies and will feel the impact of quota removals far more severely than the high-tariff countries.

Apart from official restrictions on foreign trade, whether in the form of direct controls or of tariffs, there are the institutional barriers which private producers and merchants have established through the years precisely for the purpose of protecting themselves from competition and of ensuring profits. These barriers take the form of national and international understandings which seek to fix prices, limit production and divide markets.² Viewed with regard to the ultimate purpose of the trade liberalization programme—that is, the stimulation of higher productivity—these arrangements may well restrict competition more than foreign trade controls and tariffs alone, since they operate in the home market as well as in foreign trade.

The risk is that, as official restrictions on foreign trade are removed, these restrictive practices created within the business world itself may tend to expand in their stead. Already the organization of private interests is sufficient to make the effective liberalization of trade difficult to attain. In Italy, a commission set

¹ The scope of liberalization has been further limited in that a number of countries have excluded their major creditors (Belgium, Switzerland and western Germany) from the benefits of the lifting of quotas, although in such cases the attainment of the percentage target has required a broader liberalization on commodities imported from other countries. On the other hand, a number of countries have lifted quantitative restrictions in their bilateral agreements on a broader scale than called for under the O.E.E.C. programme and independently of it. This applies to the agreements concluded by western Germany with neighbouring countries mentioned earlier in this chapter, and trade between Belgium and Switzerland has been virtually freed from any quantitative restrictions.

The comments in the text on the extent of liberalization describe the situation as of the end of 1949. There seems to have been some further progress towards the targets since then, notably in Denmark.

² An example of the effect of such practices in the home market is provided in a speech by the Minister of Health of the United Kingdom in Parliament on 14 March 1950, in which he stated : " The supply organization of the Ministry of Health attempted to get bulk purchases of glassware for its hospitals. We asked for tenders from manufacturers in Great Britain. We could get no tenders because they said, ' We always sell through the retailers.' We asked the retailers, who said, ' We do not tender because we always sell at the price fixed by the manufacturers.' So we have to get them from Germany to break the monopoly and as a consequence we have saved a large sum of money even after paying import duty. The same thing is true of dental goods."

up to examine the increase of monopoly control and cartelization reported on the concentration of large industries in a few hands—for example, in the case of artificial silk, chemicals, engineering products, electric power, cement and rubber—and arrived at the conclusion that throughout a significant area of Italian industry there exists no free enterprise. In Sweden, the registration of cartel agreements has revealed the existence of a large number of such agreements; far-reaching restrictions apply to paper and foundry products as well as to some types of electrical goods and equipment. In Austria the system of trade licences is one of the most effective devices used by established business to prevent competition and discourage new enterprise.

In France, industrial agreements have already been formed in the industries producing petrol, building materials, paper and cardboard, and nuts and bolts.¹ In Switzerland, apart from foodstuffs for which the prices are maintained at a high level by Government policy, industrial agreements fixing a minimum price exist, for example, for cement, chocolate and fats and oils; in addition, the retail prices of most imported manufactures and of commodities such as coal and wool are fixed by importers' consortium.

In the field of international trade, the system of quantitative restrictions, although usually originating in balance-of-payments pressures, has commonly been developed on the advice and has been administered with the help of private traders, as seen in Chapter 3, and the practice of dividing quotas according to shares in the trade in some prior base year has inevitably served to protect their positions against the entry of new competitors. It is therefore natural that the lifting of quantitative restrictions has aroused among private industrialists some apprehensions which find their expression in a renewed emphasis on cartel arrangements, such as was shown for instance in a recent resolution of the French National Committee of the International Chamber of Commerce.² The

desire for international industrial agreements, in the absence of quantitative controls, appears to be reflected in a clause attached to the recent French-German trade agreement stating that "the competent German and French authorities will invite representatives of the various industrial and agricultural branches of the economy of the two countries to get in touch with each other with a view to exchanging information regarding the production conditions in both countries . . ."

While a number of western European countries have already considered, or are now considering, the introduction of legislation requiring a registration of agreements restricting competition or, in some instances, the establishment of commissions for investigating such activities, it cannot be said that any of them have yet developed effective machinery for ensuring to the consumer the benefits which might be expected from a more competitive spirit in private industry and trade. With regard to international agreements for establishing prices and dividing markets, the influence of national Governments is still more limited, particularly on the side of imports, while on the side of exports they appear to be commonly in favour of permitting their own industrialists to secure the maximum advantage from foreign markets.

While there are thus considerable obstacles to the removal of trade barriers, it must be stressed that the retention of some measure of national protection, at least during the transition period, is necessary if the excessive disruption of the various national economies is to be avoided. Indeed, the O.E.E.C. proposals provide for a progressive rather than a sudden relaxation of trade barriers. Even with the progressive relaxation as is envisaged at present, some degree of disturbance to production and employment is inevitable if the programme is to be effective; for the objective of increased productivity will be reached only in so far as the intensified international competition eliminates inefficient producers and causes resources to be transferred to lines of production where they can be employed to greater advantage. This means that, if the liberalization of trade is not obstructed by the obstacles mentioned above, the

¹ Statement of M. Robert Buron, Secretary of State to the French Ministry of Foreign Affairs, before a Senate Commission, 2 March 1950.

² This resolution, adopted on 26 January 1950, states that the French Committee, while recognizing the necessity for permitting those adversely affected by national industrial agreements to attack them before appropriate tribunals, "would consider it dangerous to surround these agreements with a whole series of prior authorizations and administrative controls which would have the practical effects of preventing all Frenchmen from adhering to any such agreement; it would, in fact, be disastrous if, because of internal legislation, the French

industrialist were prevented from taking his place in international cartels which constitute the only means of organizing European production in a rational way by allowing everybody to specialize in a line of production for which he is most qualified . . ."

transfer of resources to new employment will entail additional costs in the form of the abandonment of capital and the non-utilization of acquired skills.¹ In the short run, there will also be additional costs such as the relief of transitional unemployment.

The social cost of these adjustments will depend on the rate at which liberalization is applied in relation to the rate at which resources, both capital and skilled labour, are replaced. If there is a high rate of over-all growth in economic activity throughout the area, the problems will be minimized and liberalization may result not so much in abandoning capital and skill as in suspension of investment in certain lines and the concentration in others for a few years. If, on the other hand, the application of liberalization were to be accompanied by a low rate of investment and of economic expansion in the area as a whole, the social losses would be very high and would be particularly unacceptable in those countries which attempted to maintain expansionist policies.

These internal disturbances caused by the transfer of resources and the additional problems of international payments that may accompany the removal of direct controls over trade are, in any circumstances, likely to impose an unequal burden on the participating countries. In countries such as the Netherlands and the Scandinavian States, which have historically followed low-tariff policies and which in recent years have come to rely on quantitative restrictions to protect their industrial development, the impact of trade liberalization on domestic industry is likely to be particularly heavy. There is considerable strength in the contention of these countries that a policy limited to lifting quotas leaves them at a serious disadvantage in trade with other western European countries retaining high tariff walls after their quotas have been dropped, and that the easing of quantitative restrictions should be more closely linked to tariff concessions where excessive duties are imposed. The view that quantitative controls are more discriminatory because of their generally bilateral application is of little practical relevance in cases where tariffs are so high as virtually to exclude imports from any source.

¹ The loss resulting from the lack of outlet for acquired skills in any country will, of course, be minimized if there are opportunities for the international migration of labour. Thus the *Second Report of the O.E.E.C.* states that "special action will also be required to retrain workers, to assist their movements to other areas and to develop new industries in areas severely affected by the liberalization of trade".

Similarly, the removal of protective measures might seriously hinder the growth of industry in areas where development has lagged. For example, in the case of southern Italy (discussed in Chapter 3), the freeing of trade may tend to retard rather than help development unless it is accompanied by some form of special external assistance.² Even amongst the more developed countries of Western Europe, the liberalization of trade imposes a considerable burden on countries such as the United Kingdom whose foreign payments have been severely distorted by the war, and whose recovery must entail an exceptionally large expansion of exports and a reduction or reorientation of imports. In these countries, the elimination of direct controls over trade means that other and less direct methods must be employed to make the necessary adaptation in their external position.

The Payments Problem

Apart from such special arrangements as may be made to cover "structural" or "exceptional" deficits, the development of a European Payments Union necessarily pre-supposes that each of the members normally remains in balance with the union as a whole (although not with each of the members taken separately as under bilateralism) and that any divergencies from such a balance are of a temporary character. As described earlier, the lines of credit provided to cover net creditor and debtor positions are intended to be used only for a limited period of time, after which countries in a creditor position would receive partial settlement in dollars from the union, while countries in a debtor position would make partial payments in dollars.

Since it is unlikely that countries in a debtor position would be able to continue to make dollar payments indefinitely out of their own resources, the provision for settlements partly in credit and partly in dollars provides incentives lacking in earlier payments schemes. Debtor countries should thus be discouraged from following policies causing excessive deficits, while creditor countries should be dissuaded from policies tending to produce excessive surpluses, since they would receive only partial dollar payment

² This does not, of course, prejudice the merits of particular measures of protection or assistance, regardless of their nature. It seems clear, for instance, that the international competitive position of the important Italian engineering industry will be severely handicapped if Italy imposes high tariffs on steel imports in order to favour its own metallurgical industry.

for them, and would have to cover the remainder by extending credits to the pool.¹ As persistent deficits would soon exhaust the credit line given to any one country and impose on it the obligation of full dollar settlements (which is beyond the possibilities of virtually all of the members), it is contemplated that policies can be devised and followed which will correct temporary divergencies from an equilibrium position. As far as can be judged from the published summary of the plan, it seems both inherent in the logic of the scheme, and in the intention of its promoters, that the correction of excessive creditor or debtor positions is to be sought primarily through the co-ordination of domestic policies.² Few hard-and-fast rules are laid down in the proposals and considerable scope seems to be given to the management board, which is envisaged as a kind of new international monetary authority.³

It is in this part of the adjustment mechanism, together with the related questions of internal policy, that the most serious difficulties appear likely to arise, unless all countries participating in the Union adhered to a common set of views concerning the desirable level of internal economic activity and employment and the avoidance of seriously disturbing

fluctuations. While in principle virtually all countries have declared themselves firmly against permitting heavy unemployment and serious fluctuations in business activity, it is evident that there is a significant difference in the interpretation and practical application of this policy, as already observed in Chapter 3. The relevant aspect of the question within the framework of the Payments Union is the danger that the general tempo of economic activity maintained throughout the area would have to be adjusted to the lowest level prevailing in any of the major participating countries. Otherwise, if demand were maintained at a higher level in one country or group of countries than in another, the former would tend to develop trade deficits and the latter trade surpluses. In principle, differences of this sort could be adjusted by levelling up as well as levelling down, but the pressure is always greater on countries whose reserves fall than on those whose reserves increase. It is intended under the proposal that the management board should have regard for both types of situation, where disequilibrium is produced either by excessive import demand or by insufficient level of imports. Its powers to influence action on the part of creditor countries appear, however, to be relatively limited, since even the re-imposition of quantitative restrictions by a debtor, which it can authorize as a temporary measure, would have to be on a non-discriminatory basis.

That these dangers of divergencies in domestic policies are sufficiently real to threaten the chances of successful operation of the Payments Union may be gathered from the differing national attitudes towards the proposal. It seems clear that, particularly in the Scandinavian countries, there is considerable apprehension lest they be compelled, because of losses in reserves to which they might be exposed through dollar settlements to the Union, to abandon their expansionist policies in favour of the more restrictive policies followed in a number of other European countries.⁴

¹ The provision for settlement partly through dollars and partly through credits bears some similarity to the old gold standard, where a country paid part of its deficit in gold and offset part of it by attracting foreign capital through a rise in the rate of interest. To the extent that international capital movements were more sensitive than domestic investment to changes in the rate of interest, a greater part of the deficit was met through foreign credits and a smaller part through deflation in the economy.

² There has been at various times much discussion of adjustments in exchange rates between the participants as a means of adapting relative price levels to the requirements of balances within the system, but no provision for such adjustments is made in the proposals as given by the O.E.E.C., nor would it seem practicable to adjust only exchange rates within the system without at the same time making corresponding changes in rates on other currencies outside the system. Otherwise, the whole system of international cross rates would be destroyed and would give rise to black-market arbitrage operations of various types.

³ The powers of the management board, as described in the *Second Report of the O.E.E.C.*, appeared to be far-reaching and discretionary. It would thus have the duty to "consult continuously with members on their relevant economic and financial policies" with a view to the maintenance of balance and liquidity within the system. Where an "undesirable monetary, financial or general economic policy" was followed by a net creditor or net debtor, the management board would have the duty of placing conditions on further access to the Union's facilities. Conversely, it might provide special additional facilities in exceptional cases. If, as a last resort and for a limited period, members should have to re-impose direct restrictions on trade while other remedial measures were taking effect, it remained to be decided whether prior authorization of the management board would be needed.

⁴ Another reason for the reservations expressed from the British side is due to the difficulties of settling the special problems connected with the use of the pound. The United Kingdom would face a severe drain on its reserves if sterling claims held among members of the Payments Union were presented to the pool for settlement, or if members of the overseas sterling area ran a considerable deficit towards member countries. More fundamental perhaps is the fear that the delicate mechanism of sterling transferability might not survive once it became subject to the automatic rules applied to all the currencies in the pool, and the British monetary authorities partially lost control over its working.

A still more basic question is, however, whether the maintenance of a relatively close balance in each member country's trade with the rest of the group as a whole is possible or desirable, even if it might be assumed that there was general agreement on internal economic and monetary policies. The possibilities of achieving such a balance are increased by the fact that the Payments Union would not only include the western European countries participating in the O.E.E.C., but would also provide for clearing through the Union funds in sterling, French francs, and other European currencies earned in transactions with the affiliated overseas areas. Geographically, therefore, the Union would be very broad. On the other hand, the section devoted to western Germany in this chapter suggests that it will almost inevitably tend to reassert its traditional export surplus position in western Europe. At the opposite extreme, the United Kingdom was in former years the major importing country in Europe and always showed a heavy import surplus. Its trade deficit has been held to much smaller proportions since the war and at some periods—in 1948 and again immediately after devaluation—actually turned into a surplus. To the extent that this has been due to the reduction in the United Kingdom's imports of manufactures from other European countries, it may be expected that the trade liberalization programme would almost inevitably tend to renew the United Kingdom's deficit position in intra-European trade. The growth of German export competition in Europe may work in the same direction. It is uncertain how far these tendencies may be offset by Continental European deficits with the overseas sterling area.¹

For the remainder of the European Recovery Programme, heavy debtor and creditor positions, in excess of what could be covered by the resources of the Union proper, could presumably be financed out of the special funds contemplated for "structural" or "exceptional" deficits, but, in the absence of continued American assistance to some of the deficit countries, the ability of countries to settle liabilities incurred in intra-European trade would depend on their developing overseas surpluses in convertible currencies.

Trade Liberalization and the Overseas Balance

With regard to its internal effects within western Europe, it would be wrong either to under-estimate the difficulties confronting the trade liberalization programme or to over-estimate its likely influence, in the near future, on the conditions affecting competition and productivity in the area. The success of the programme, within the limits of its assigned objective of removing direct controls over trade between western European countries, cannot be judged until later, when the participating countries are confronted with the necessity for extending the removal of quotas into fields where domestic interests will be more directly exposed to import competition than they have been up to this time. As has already been shown, however, the impact on domestic industries may be serious in some instances, and the burden of removing direct controls over trade will be unequally distributed, falling most heavily on those countries which have hitherto refrained from pursuing high tariff policies. Problems of this nature are, of course, an inevitable part of any serious endeavour to stimulate increased competition. On the other hand, the difficulty of overcoming the various obstacles to trade and competition—including both tariffs and restrictive agreements and practices of private business—is such that the trade liberalization programme alone could not reasonably be expected to bring about an immediate and radical change in conditions of production in western Europe. Indeed, a real revolution in trade and production would not be feasible in a short period of time, except under greatly intensified external aid and internal planning, since the economic disturbances would impose a greater strain on social and political structures than Governments would ordinarily be willing to assume. This experience is common not only to western European countries but to all countries endeavouring to remove impediments to trade. As it now appears, the trade liberalization programme in western Europe may rather be regarded as an attempt to halt the long-term trend towards national self-sufficiency in the area and, possibly, as an initial endeavour which would have to be complemented by other and more positive measures if a real integration of the national economies of western Europe is contemplated.

For the same reasons, the trade and payments programme undertaken by western European countries could not be expected to contribute appreciably,

¹ The rise in raw material prices (in terms of European currencies) following upon devaluation would tend to increase the surplus of the overseas sterling area with Continental Europe. It is, however, open to doubt how far this effect could offset a substantial increase in exports from Europe into the United Kingdom.

in the short run, to the solution of their central and most urgent problem—that of viability in their overseas trade. The contribution to this problem can be made only gradually as the programme helps to raise productivity and improve western Europe's competitive position in world markets. Indeed, the immediate effects on the overseas balance of payments may be negative rather than positive. The initial impact of trade liberalization, if it is to succeed in increasing competition and productivity, must be the elimination of less efficient producers and the transfer of labour and other resources. The immediate consequences might therefore be some decline in production, unless the more efficient producers expand output as rapidly as the less efficient producers are eliminated, and hence there might follow some diversion to the European markets of goods which might otherwise be sold abroad. To suggest a specific example : if the relatively high-cost Danish textile industry finds itself unable to compete in the absence of quota restrictions on trade, Danish demand would be directed to the products of other European textile industries to the possible detriment of their sales to overseas markets. It is a matter of conjecture how important such shifts away from overseas exports may be, and how quickly and on what scale they might be offset by the longer-run benefits. In the short run, however, the trade liberalization programme cannot be counted upon to help, in any substantial way, in balancing Europe's overseas accounts. The recent devaluation of European currencies made a far greater and more direct contribution to the improvement of Europe's competitive position abroad, although continued resort in future years to this device would be a tacit recognition that western European countries have failed in their efforts to keep pace with rising productivity elsewhere. The goal should be, of course, to increase, not the cheapness, but the productivity of labour.

While trade liberalization alone cannot therefore be expected to improve substantially the position of western European countries in overseas trade, the programme itself will be difficult to execute and enlarge if other more direct measures to remedy the overseas payments deficit are not sufficiently effective. Western European countries alone could scarcely hope to establish and maintain a system of partial equilibrium and a freely functioning multilateral pattern of trade and settlements within the area, while experiencing a persistent dollar shortage and the necessity for

continuing discrimination against imports from the dollar area. A relapse into bilateralism and discrimination in intra-European trade would be almost inevitable. This probability rests not only in the contagious nature of trade restrictions but also in the inherent difficulties of international payments relationships. In spite of the improvements proposed under the new payments plan, the system of settlements among western European countries continues to depend on external dollar assistance, not only to cover the overseas deficits but also to settle inequalities in trade balances among the participating countries. If the dollar position of European countries remains precarious after the present extraordinary assistance ends, there is little prospect that western European countries could permit relative freedom of trade with one another at the risk of incurring deficits requiring hard-currency settlements. Maintenance of freer trade and payments relations would probably be impossible unless the necessity for settling payments deficits did not arise ; that is, only in the unlikely eventuality that each member country could achieve and maintain a close balance in its trade with other members of the group after dropping direct controls.

It is thus difficult to see how the benefits of a balanced and relatively free trade could be enjoyed, even among countries outside the dollar area, unless a closer and less restrictive balance with the dollar area is restored or adequate and continuing means of dollar financing are in sight.¹ Given that western Europe is not, and may not quickly become, a closely

¹ It may be useful to consider the kind of system under which a multilateral system of trade in Europe could survive even if an external dollar deficit persisted. This would be possible if, and probably only if, there were a central dollar pool for the entire area into which all hard-currency receipts of all the member countries would be paid and from which dollars would be allocated in accordance with at least some rough scheme of relative priorities. This would mean that, even though virtually all the members might be short of dollars to cover their own desired imports, those in a relatively more satisfactory position would, in effect, sacrifice dollars for the benefit of other countries whose deficits were more urgent and intractable. In essence, this is the way the sterling area functions at present. In addition, the willingness to increase holdings of the common currency in the case of surpluses, and the ability to draw on existing sterling balances in the case of deficits, render unnecessary, to a large extent, hard-currency settlements within the group. This system rests on a high degree of mutual confidence and long-established co-operation, although even here its ability to operate probably rests on the fact that, since the end of the war, the dollar strain on the group as a whole has been bearable only because of the extensive financial aid supplied by the United States. The improbability of such a relationship existing in western Europe, in the absence of a high degree of political unification and central control, is manifest.

integrated economic and political entity, trade among western European countries cannot be insulated from the influence of trade with other countries. The longer-run objectives sought under the trade liberalization programme are thus dependent on the attainment, in the shorter term, of the viability sought under the European Recovery Programme as a whole which, as will be seen in the following chapters, has

increasingly taken on the character of a world-wide problem rather than a European problem as such. The risk is that, if the wider problem is not solved, inability to attain the objectives established within its intra-European aspects may result in unwarranted disillusionment and impair the mutual confidence on which sound international trade relations must be built.

Chapter 5

THE BALANCE OF PAYMENTS AND OVERSEAS TRADE ¹

1. THE BALANCE ON GOODS AND SERVICES

Europe's deficit on goods and services with the rest of the world declined by \$2.3 billion from 1948 to 1949. The reduction was of about the same magnitude as that achieved from 1947 to 1948 ; but there the similarity ends. The improvement in Europe's position from 1947 to 1948 had been concentrated in transactions with the United States, chiefly through a decline in imports from that country, while the deficit with other countries taken as a group remained unchanged. Between 1948 and 1949, on the other

hand, the deficit with countries other than the United States was replaced by a small surplus, but Europe's adverse balance with the United States was reduced by less than 10 per cent.

As indicated by the estimates presented in Table 63, the greater part of the improvement in the total balance was in merchandise trade. In transactions with the United States, however, such improvement as occurred was chiefly in the transport account, where the abnormal deficits of the earlier post-war years when Europe was heavily dependent on United States shipping gave way to an approximate balance between receipts and expenditures.

¹ Throughout this and the following chapters the data on Europe's trade include that of the Soviet Union in so far as it can be derived from the trade returns of overseas countries.

Table 63

EUROPE'S BALANCE OF PAYMENTS ON GOODS AND SERVICES

Billions of current dollars

Item	1947			1948			1949 ^a		
	United States	Other overseas countries	Total	United States	Other overseas countries	Total	United States	Other overseas countries	Total
Europe's imports (f.o.b.)	6.1	7.6	13.7	4.7	9.6	14.3	4.5	9.1	13.6
Europe's exports (f.o.b.)	1.0	5.4	6.4	1.3	7.5	8.8	1.1	8.5	9.6
Balance on trade account	-5.1	-2.2	-7.3	-3.4	-2.1	-5.5	-3.4	-0.6	-4.0
Income from investment (net)	—	+0.4	+0.4	—	+0.5	+0.5	—	+0.5	+0.5
Transport (net)	-0.7	+0.3	-0.4	-0.3	+0.4	+0.1	—	+0.5	+0.5
Other services (net)	+0.2	-0.3	-0.1	+0.3	-0.6	-0.3	+0.3	-0.2	+0.1
Balance on service account	-0.5	+0.4	-0.1	—	+0.3	+0.3	+0.3	+0.8	+1.1
Balance on goods and services	-5.6	-1.8	-7.4	-3.4	-1.8	-5.2	-3.1	+0.2	-2.9

Sources: The table has been prepared jointly by the Research Department, International Monetary Fund, and the Research and Planning Division, Economic Commission for Europe. For details, see Appendix B. More data on national balances of payment will be found in the Fund's forthcoming second issue of the *Balance of Payments Yearbook*.

^a Provisional.

Judged by the results for the year as a whole,¹ 1949 thus appeared to bring no substantial improvement in Europe's payments position at its most critical point—in transactions with the United States. The mere fact of a large deficit with the United States is not surprising since an import surplus may be regarded as the natural corollary of the extensive aid rendered under the European Recovery Programme for the purpose of enabling western European countries to meet their needs in the United States beyond their present ability to cover them out of their own resources. In the absence of such assistance, the dollar deficit would necessarily have been very much smaller. The disturbing features of the situation lay rather in other attendant circumstances: the failure to increase dollar earnings in the United States or elsewhere as an alternative to extraordinary financial assistance, the continued absence of any large-scale substitution of supplies from non-dollar sources, and the persistence of large dollar transfers to other overseas areas.

The Balance on Merchandise Trade

The regional distribution of Europe's overseas trade given in Table 64 shows that the deficit on merchandise

¹ During the second half of the year, however, Europe's deficit with the United States was at a very much lower level than it had been during the first half, owing to a sharp reduction in imports of American goods into European countries and also to a progressive improvement in the transport account during the course of the year. The implications of these more recent trends will be considered in Chapter 7.

trade was wholly accounted for by the Western Hemisphere, where trade with the United States and Canada alone resulted in a deficit of \$4 billion in 1949, or only slightly less than in 1948. While European exports to Canada rose very slightly, there was a substantial fall in the proceeds of sales to the United States. Such reduction as occurred in the adverse balance with these two North American countries was the result of a moderate decline in the dollar value of imports from that area. A much greater fall occurred in the trade deficit with Latin America, which accounted for almost half of the reduction in Europe's total trade deficit from 1948 to 1949. This again was almost entirely the result of a decline in imports, the value of which from Latin America fell by 30 per cent.

The trade balance with overseas areas other than the Western Hemisphere, on the other hand, was influenced more by an increase in the value of European exports, although there was a moderate rise in imports from the overseas sterling area approximately offset by decreases in the value of goods obtained from other sources. Nevertheless, the approximate balance achieved in Europe's trade with overseas areas outside the Western Hemisphere continued to be accompanied by dollar payments to them on a considerable scale because of capital movements and other transfers which are discussed in a later section of this chapter.

Table 64
EUROPE'S BALANCE OF TRADE WITH OVERSEAS AREAS
Billions of dollars in current f.o.b. prices

Area	1948			1949 ^a			Change in balance 1948 to 1949 ^b
	Imports	Exports	Balance	Imports	Exports	Balance	
United States	4.68	1.31	—3.37	4.50	1.14	—3.36	+0.01
Canada	1.05	0.36	—0.69	0.93	0.38	—0.55	+0.14
Latin American republics	2.35	1.34	—1.01	1.65	1.38	—0.26	+0.75
Overseas sterling area (including British colonies) . .	3.55	3.40	—0.15	3.74	3.77	+0.04	+0.19
Dependent overseas territories (excluding British colonies)	1.95	1.49	—0.46	1.82	1.82	—	+0.46
Other overseas countries	1.10	0.94	—0.16	1.07	0.99	—0.08	+0.07
Total, unadjusted	14.68	8.84	—5.84	13.70	9.48	—4.22	+1.62
<i>Adjustments</i>	<i>—0.36</i>	<i>—0.05</i>	<i>—</i>	<i>—0.14</i>	<i>+0.11</i>	<i>—</i>	<i>—</i>
Total, adjusted	14.32	8.79	—5.53	13.56	9.59	—3.98	+1.55

Sources: Research and Planning Division, Economic Commission for Europe. For details of the methods of computation, see Appendix B.

^a Provisional.

^b The plus sign indicates a reduction of a deficit.

The annual totals of Europe's trade with overseas areas fail to show the pronounced irregularity in the movement of trade during the course of the past year. This irregularity may be seen in the quarterly figures of the value of Europe's trade with overseas areas,

given in Table 65. Because of the effect of devaluation last September, the value of trade in the fourth quarter expressed in dollars is given in two ways wherever possible: that is, both at pre-devaluation and at post-devaluation rates of exchange on the dollar. The

Table 65
QUARTERLY MOVEMENTS IN THE VALUE OF EUROPE'S OVERSEAS TRADE
Millions of dollars in current prices ^a

Period	AREAS OF DESTINATION AND ORIGIN						
	United States	Canada	Latin American republics	Overseas sterling area (including British colonies)	Dependent overseas territories (excluding British colonies)	Other overseas countries	Total overseas countries
<i>Europe's exports (f.o.b.) to overseas countries</i>							
1948 First quarter	247	72	278	722	299	206	1,824
Second quarter	262	85	305	812	405	252	2,121
Third quarter	276	90	314	889	372	234	2,175
Fourth quarter	305	108	441	981	407	254	2,496
1949 First quarter	255	101	375	1,029	501	269	2,530
Second quarter	193	108	291	1,050	499	260	2,401
Third quarter	198	93	359	1,002	430	247	2,329
Fourth quarter							
at pre-devaluation exchange rates ^a	309	107	458	968	494	269	2,605
at post-devaluation exchange rates	247	78	358	693	389	211	1,976
<i>Europe's imports (c.i.f.) from overseas countries</i>							
1948 First quarter	1,181	297	641	963	560	279	3,921
Second quarter	1,197	314	741	1,031	564	383	4,230
Third quarter	1,149	289	711	1,042	496	277	3,964
Fourth quarter	1,069	296	587	1,023	608	317	3,900
1949 First quarter	1,151	234	488	1,138	563	332	3,906
Second quarter	1,294	274	472	1,204	548	383	4,175
Third quarter	1,059	304	522	1,096	482	287	3,750
Fourth quarter							
at pre-devaluation exchange rates ^a	906	277	..	1,200	..	..	..
at post-devaluation exchange rates	906	251	400	834	489	219	3,099

Sources: Research and Planning Division, Economic Commission for Europe. For details, see Appendix B. The figures for the Latin American republics, the overseas sterling area (including British colonies), the dependent overseas territories (excluding British colonies) and the other overseas countries are probably too low as the trade of the eastern European countries and the U.S.S.R. with these groups had to be derived from the statistics of the overseas countries for which data are available.

^a The values for the fourth quarter of 1949, following the devaluation of many European currencies, are shown, as far as possible, according to

both the pre-devaluation and the post-devaluation dollar rates, the former providing, for reasons explained in the text, a better indication of the volume of trade by comparison with previous quarters. The pre-devaluation rates employed are those of the *exporting* country, not only in the case of Europe's overseas exports, but also in the case of Europe's overseas imports, an operation which has not been possible for imports from all overseas trading areas in the absence of a fully detailed country-by-country matrix of international trade. For further details, see Appendix B.

latter are, of course, the correct figures for balance-of-payments purposes, but the data expressed at the old exchange rates convey a better indication of the movements in the volume of trade. This is particularly true with reference to European exports, since there was no appreciable price increase after devaluation reflected in the export statistics of European countries up to the end of the year.¹ This also appears to be generally true of Europe's imports from overseas countries with devalued currencies, although the calculations at the old rates of exchange can be made for only a portion of the trade.²

The quarterly figures in Table 65 indicate once more that the level of Europe's total overseas exports reached a peak at the end of 1948 and the beginning of 1949. Thereafter, these exports, while standing at a higher average level for the year as a whole than in 1948, fell off sharply, and even in the fourth quarter it appears from the data at pre-devaluation exchange rates that they probably did not attain a level significantly greater in volume than that reached at the beginning of the year. The recession during the year was especially pronounced in exports to the United States. Exports to Canada and Latin America were better maintained, but also failed at the end of 1949 to exceed the volume attained a year earlier. European exports to other overseas areas moved in a rather more mixed fashion, but, after the middle of the year, shipments both to the sterling area and to other overseas countries tended to level out or decline from the high levels reached earlier. For reasons explained in the subsequent analysis, however, a decline in exports to these non-dollar markets would not necessarily have any adverse repercussions on Europe's dollar position, but might rather tend to stimulate exports to the Western Hemisphere, if the conditions for export expansion in that area were otherwise fulfilled.

The analysis of Europe's imports from overseas countries in the light of the quarterly figures given in Table 65 also reveals weakening tendencies which do not emerge from a comparison of the annual totals. These tendencies must be kept in mind in subsequent sections where the commodity composition of Europe's imports can be examined only on the basis of annual data. Not only did imports from Latin America fail to show any clear sign of recovery, but also imports from sources outside the Western Hemisphere

appeared to level off or decline during the year. This can be more clearly seen if the quarterly figures are compared directly, as below :

Europe's Imports from Overseas Countries Other Than the Western Hemisphere ^a

(millions of dollars in current c.i.f. prices)

	I	II	III	IV
1948 . . .	1,802	1,978	1,815	1,948
1949 . . .	2,032	2,135	1,865	1,542 ^b

^a Includes imports from European possessions in the Western Hemisphere.

^b At post-devaluation rates of exchange on the dollar ; data at pre-devaluation rates of exporting countries are not available.

It will be seen that the dollar value of European imports from these sources was higher in the first half of 1949 (and for the year as a whole) than in 1948. In the third quarter the increase compared with 1948 was, however, negligible, and in the fourth quarter the level of imports from non-Western Hemisphere sources was apparently lower than a year earlier even if allowance is made for the effects of devaluation on the figure given for that period. The comparative movement in imports from the United States, affected as they were by the reduction in E.R.P. aid to western European countries in the second half of 1949, would not, in itself, provide conclusive evidence of any basic tendencies, but the behaviour of imports from Latin America and from non-Western Hemisphere sources indicates that during the year no substantial progress was made in developing alternative sources of supply.

The position of individual European countries showed, on the whole, relatively little deviation from the broad pattern of total European trade with the principal overseas regions. Every European country for which figures are shown separately in Table 66 continued to have a deficit with the United States.³ The changes in these deficits were small in most instances, although that of the United Kingdom increased substantially, while those of Switzerland, Sweden, France, the Netherlands and a few other countries were reduced. In these few instances, where the deficit with the United States fell, it was due entirely or chiefly to a reduction in European imports rather than an expansion in exports. Switzerland and Sweden were the only countries to achieve a significant increase in the percentage of their imports from the United States covered by exports to the

¹ See footnote, page 73.

² See note to Table 65.

³ Although not shown separately in Table 66, the Soviet Union had a small export in trade with the United States in both 1948 and 1949 as did Finland in 1949.

Table 66

BALANCE OF TRADE OF INDIVIDUAL EUROPEAN COUNTRIES WITH OVERSEAS COUNTRIES

Millions of dollars in current f.o.b. prices

Country	Year	United States	Canada	Latin American republics	Overseas sterling area (including British colonies)	Dependent overseas territories (excluding British colonies) ^a	Other overseas countries	Total overseas countries	Exports as percentage of imports	
									Total overseas trade ^b	Trade with U.S. ^b
Switzerland	1948	-87	-12	-31	+18	-14	-14	-140	70	55
	1949	-57	-21	+40	+20	-9	+3	-24	93	64
United Kingdom . .	1948	-383	-496	-304	+350	-248	-77	-1,158	79	41
	1949	-512	-426	-78	+552	-184	+6	-642	88	29
Sweden	1948	-85	-5	+17	+7	-43	-9	-118	73	49
	1949	-33	-3	+16	+7	-35	-5	-53	84	65
France	1948	-528 ^c	-32	-144	-344	+13	-78	-1,113	51	11
	1949	-468 ^c	-21	+9	-325	+386	-59	-478	76	10
Belgium-Luxembourg	1948	-211	-12	-12	+22	-48	+27	-234	71	32
	1949	-193	-26	+14	-7	-34	+33	-213	71	32
Italy	1948	-397	-22	-10	-6	-12	+13	-434	57	19
	1949	-406	-5	+56	+7	-22	-12	-382	56	10
Netherlands	1948	-252	-40	-139	+5	-61	+10	-477	36	11
	1949	-227	-6	-82	-4	—	+5	-314	53	15
Portugal	1948	-64	-3	-24	-10	+10	-2	-93	51	22
	1949	-38	-7	-12	-5	-5	-3	-70	53	30
Norway	1948	-56	-22	-23	+19	-22	-5	-109	50	36
	1949	-65	-17	-5	+13	-18	-3	-95	49	29
Turkey	1948	-54 ^c	—	-2	-10	—	+9	-57	57	44
	1949	-88 ^c	+6	-3	-18	—	+8	-95	44	26
Denmark	1948	-81	+4	-24	+2	+4	-1	-96	35	8
	1949	-108	-1	-11	-2	+5	+1	-116	30	6
Austria	1948	-126 ^c	—	+1	-2	-1	+1	-127	16	7
	1949	-143 ^c	—	-4	-12	-3	+9	-153	23	7
Iceland	1948	-7	-3	-4	—	—	—	-14	26	36
	1949	-6	-1	-4	—	—	+1	-10	19	27
Germany : Western zones . .	1948	-781 ^c	-17	-95	-64	-24	-37	-1,018	7	4
	1949	-780 ^c	-12	-100	-92	-62	-69	-1,115	14	6
Greece	1948	-205 ^c	-9	-14	-5	-8	-15	-256	9	6
	1949	-187 ^c	-2	-7	-14	-7	-12	-229	12	9
Ireland	1948	-38	-11	-42	-48	-18	-6	-163	3	5
	1949	-58	-9	-8	-25	-13	-4	-117	3	3
Other European countries ^d	1948	-23	-16	-159	-84	+4	+26	-252	71	89
	1949	-3	-1	-81	-61	-2	+15	-133	80	98
Total Europe . .	1948	-3,378	-696	-1,009	-150	-468	-158	-5,859	60	24
	1949	-3,372	-552	-260	+34	-3	-86	-4,239	68	21

Sources : Research and Planning Division, Economic Commission for Europe. For details of the methods of computation, see Appendix B.

^a The balance of trade of European countries with their own dependent overseas territories in 1948 and 1949 respectively was as follows (excluding the United Kingdom, whose trade with the overseas sterling area is given above): France, +37; +395; Belgium-Luxembourg, -63; -41; the Netherlands, -50; +8; Portugal, +19; +3; Denmark, 0; +2.

^b Calculated on an f.o.b. basis.

^c Imports have been taken from United States statistics and were adjusted for a time-lag of one month involved in transport.

^d Partly estimated. "Other European countries" include the U.S.S.R.

United States.¹ They were also the only countries where the portion so covered amounted to as much as two-thirds, with the exception of the eastern European group of countries whose trade with the United States came into approximate balance at an extremely low level. In no other country was the share of imports covered by exports in trade with the United States greater than one-third, and in most instances the proportion declined from 1948 to 1949. The deterioration in Italy's trading position with the United States was particularly striking, the proportion of its imports covered by exports dropping from one-fifth in 1948 to one-tenth in 1949.

The trade of European countries with major overseas trading areas other than the United States was also generally characterized by deficits, although these were concentrated in trade with Canada, where the United Kingdom had the overwhelming share, and trade with Latin America, where the deficits were generally much smaller in 1949 than in 1948 because of the fall in imports from that area. Moreover, in the few instances where significant surpluses were achieved by European countries, they rarely helped to finance a multilateral pattern of settlements. The biggest surpluses—that of the United Kingdom with the overseas sterling area and that of France with the franc area—were offset, as is shown later, by capital movements and yielded little or no effective balance for use in settling deficits elsewhere. On the other hand, the United Kingdom and France each had substantial deficits with the other's currency area (that is, the United Kingdom with the French overseas territories and France with the overseas sterling area) which tended to offset each other.

There were, however, only two instances where deficits with other overseas countries added greatly to the problem of the deficit with the United States. One of these was the United Kingdom's deficit with Canada, which was of the same order of magnitude as that with the United States and, for the reasons mentioned above, could not be compensated by the United Kingdom's surplus with the sterling area. The other was western Germany, which was virtually alone among the major trading countries in showing a significant deficit with all overseas trading areas. Its over-all deficit with overseas areas increased from 1948 to 1949, despite some rise in exports, and

the proportion of its imports covered by exports still amounted to only one-seventh in its total overseas trade and to only one-sixteenth in its trade with the United States. Western Germany alone thus came to account for more than a quarter of Europe's total deficit on merchandise trade with overseas countries in 1949.

Investment Income and Services

Europe's net income from investments did not change substantially between 1948 and 1949. According to the estimates in Table 63, interest and dividend receipts from the United States continued to be offset by corresponding payments to the United States of about the same amount. At the same time, Europe's net income from investments in other overseas countries remained unchanged at about \$500 million, although this estimate may be an understatement for both years.² The low level of Europe's income from overseas investments and its still more greatly reduced buying power in terms of imports remains one of the main characteristics of its balance-of-payments disequilibrium. In 1938, Europe's net investment income of \$1.2 billion paid for more than 20 per cent of its total overseas imports. At present, its income from investments covers, at current prices, less than 4 per cent of its overseas imports. The cost to Europe of these changes may be placed at more than \$2 billion annually, at current prices.

On transport account, Europe's net position improved by roughly \$400 million between 1948 and 1949, most of the improvement being in its payments position with the United States. By the middle of 1949, the aggregate tonnage of European merchant fleets had been restored to within 10 per cent of the pre-war total, and their position in world shipping improved substantially, chiefly in relation to that of the United States. Thus, Europe's share in the world's total ocean-going tonnage increased from 42 per cent at the middle of 1947 to 48 per cent at the middle of 1949, while the share of the United States declined from 36 to 31 per cent. The net effects of these changes in Europe's tonnage position and also of variations in the volume and distribution of trade and in freight

¹ Portugal, the Netherlands, western Germany and Greece also increased the percentage of imports covered by exports in trade with the United States, but the ratios still remained low.

² This understatement arises from the failure of the British balance-of-payments estimates to include in income from investments the earnings of oil properties. All operations of the oil companies, whether investment income, tanker receipts or even outlays on capital account are included in the single item "other invisibles" in the United Kingdom's balance of payments.

rates and operating costs are reflected in Table 67, which gives further details underlying the estimates appearing in the balance of payments. The improvement from 1947 to 1948 had consisted mainly of a decline in gross payments to the United States (reflecting the decrease both in freight rates and in heavy-cargo imports from the United States) and of an increase in freight earnings from countries other than the United States. In 1949, on the other hand, the major change was the direct increase in freight receipts from the United States, although payments to the United States also declined somewhat further.

The "other services"¹ in the balance of payments are the combined result of many different types of transaction, among them being the continued heavy military expenditure by European countries during the year, which was chiefly concentrated in south-east Asia. In transactions with the United States, one of the important components is travel receipts and expenditures. On this account Europe's net surplus with the United States is estimated to have risen from about \$65 million in 1948 to \$125 million in 1949. Gross travel outlay by United States visitors in

Table 67

**THE TRANSPORT ACCOUNT IN EUROPE'S
BALANCE OF PAYMENTS**

Millions of current dollars

Item	1947	1948	1949
<i>Receipts</i>			
United States	379	396	578
Other overseas countries . .	898	1,203	1,267
Total	1,277	1,599	1,845
<i>Payments</i>			
United States	1,096	680	582
Other overseas countries . .	603	773	757
Total	1,699	1,453	1,339
<i>Balance</i>			
United States	-717	-284	- 4
Other overseas countries . .	+295	+430	+510
Total	-422	+146	+506

Sources : See Appendix B.

Europe amounted to about \$185 million in 1949,² which suggests that a very great expansion indeed would be required before this item could figure prominently in the solution of Europe's overseas payments problem.

2. CAPITAL TRANSFERS AND FOREIGN AID

In addition to its deficit on goods and services with overseas countries, primarily accounted for in 1949 by the large excess of merchandise imports from the United States, Europe's requirements for overseas financing were increased by capital transfers of various types both to the United States and to other areas, as shown in Table 68. These transfers included a continued heavy outflow of private funds (partly for productive investment abroad, but also partly in the nature of capital flight), a growing volume of debt repayments on earlier borrowings in the United States and elsewhere, and special development projects such as those undertaken by the British and other European Governments in overseas territories.³

¹ According to the estimates given in Table 63, "other services" accounted for an improvement of about \$400 million from 1948 to 1949 in Europe's transactions with overseas countries other than the United States. The estimate is, however, a net figure, derived as a residual, and is not readily susceptible of analysis, particularly in the absence of direct information on some of the major types of transaction falling in this category.

² Excluding passenger fares on transatlantic ships and aircraft.

One of the most important components of private capital outflow has been the heavy investment undertaken by British oil companies for the expansion of their productive capacity, especially in the Middle East. The amount of such investment in oil production in all overseas areas was alone planned at about £90 million for 1949 (or \$360 million at the old rate of exchange) following a similar level of expenditure in the preceding year. Other private investments abroad have included funds expended in South Africa for the expansion of gold production, heavy French investments in manufacturing, mining and other operations in overseas territories, chiefly in North Africa (estimated at 40 billion francs, or more than \$100 million last year); and the reconstruction of Dutch plantations and oil properties in the East Indies.

³ The item "special official financing" in Table 68 includes gold and dollar subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development (\$400 million) in 1947.

Table 68
THE FINANCING OF EUROPE'S OVERSEAS DEFICIT
Billions of current dollars

Item	1947		1948		1949 ^a	
	United States	Other overseas countries	United States	Other overseas countries	United States	Other overseas countries
I. Balance on goods and services and other transactions making up the deficit :						
Balance on goods and services	-5.6	-1.8	-3.4	-1.8	-3.1	+0.2
Private donations	+0.4	..	+0.5	..	+0.4	..
Private capital movements	+0.3	-1.1	+0.1	-0.8	—	-0.8
Special official financing (debt settlements, specific investment projects, etc.)	-0.6	-0.1	-0.3	-0.3	-0.3	-0.3
Total deficit to be financed :						
Unadjusted	-5.5	-3.0	-3.1	-2.9	-3.0	-0.9
Adjustments	-0.3	—	-0.2	+0.1	+0.1	-0.3
Adjusted	-5.8	-3.0	-3.3	-2.8	-2.9	-1.2
II. Official financing of a compensatory nature :						
Government grants	+1.0	—	+3.1	—	+4.3	—
Long-term capital movement	+3.8	+0.9	+1.3	+1.3	+0.5	-0.3
Financing by international institutions	+1.1	+0.1	+0.3	—	—	—
Movement in sterling balances	—	-0.6	—	-0.3	—	-0.3
Movement in U.S. dollar balances	+0.8	—	-0.2	—	—	—
Gold movements	+1.9	-0.2	+0.9	-0.3	+0.2	-0.3
Total compensatory official financing	+8.6	+0.2	+5.4	+0.7	+5.0	-0.9
III. Multilateral settlements in U.S. dollars :						
ERP reimbursement for European purchases outside the United States	—	—	-0.8	+0.8	-1.0	+1.0
Other dollar settlements by European countries outside the United States	-2.8	+2.8	-1.3	+1.3	-1.1	+1.1
Total multilateral settlements in U.S. dollars	-2.8	+2.8	-2.1	+2.1	-2.1	+2.1

Sources: Research Department, International Monetary Fund. More detailed data will be found in the Fund's forthcoming second issue of the *Balance of Payments Yearbook*.

NOTE: — A plus sign indicates a credit transaction involving the receipt of funds by Europe from overseas countries (such as the sale of goods or gold or the receipt of a loan or gift) and a minus sign a debit transaction involving the payment of funds by Europe to overseas countries. All items are entered on a net basis. For other notes, see Appendix B.

For detailed definitions of the various items, see *Balance of Payments Yearbook, 1938/1946/1947*, International Monetary Fund, pp. 1-38.

^a Provisional.

While investments of the nature indicated generally serve a definite productive purpose, it also appears that private capital has continued to be transferred out of Europe for essentially negative reasons : that is, to escape tax or other economic disadvantages in Europe or to find political surroundings more to the taste of the owner. Transfers of this nature to the dollar area in particular could be made only in an illegal manner from most European countries, but appear to have been very heavy in recent years, as is shown later. Moreover, no restrictions or controls of any kind exist on private capital movements from the United Kingdom to the overseas sterling area or from France to its overseas territories.

Capital transfers of European countries to overseas countries of the same monetary area are commonly thought of as giving rise to no balance-of-payments burden, since direct conversion of funds into hard currencies is not involved.¹ There are, however, several ways in which such capital movements, as well as releases from previously accumulated balances in sterling or other European currencies, may place an additional strain on European resources of goods and of foreign exchange. For one thing—as seems to be fairly generally appreciated—capital transfers to overseas areas tend to support demand for European goods and to encourage exports to these soft-currency areas to the possible detriment of exports to hard-currency areas. A point not so generally understood is, moreover, that the total level of demand in overseas areas may be increased, both by the direct effect on domestic buying power in local currencies and by the increase in the total exchange availabilities of the overseas areas. If these additional funds had not been available, or had been available in lesser amounts, the total imports of overseas countries affiliated with European currencies would necessarily have been held more in line with their current export receipts. This might have meant not only a smaller volume of imports from European sources, but also a smaller demand for imports from the United States and, hence, for dollar exchange out of the central reserve holdings. The overseas areas affiliated with European countries might thus have been brought nearer to the pre-war position, when they were normally net earners of dollars on current account with the United States

and also made settlements to Europe in currently produced gold.²

While these effects have been of importance in some overseas areas,³ it would seem that dollar outlays have been small in the case of two of the overseas countries to which private capital has moved in large amounts. In the case of Australia, to which a considerable part of the private capital movement from the United Kingdom has been directed, it has so far led chiefly to the accumulation of idle sterling funds in London to the credit of Australia. Australian imports from North America have actually been smaller in volume than before the war, although rising substantially from 1948 to 1949. In the case of the Union of South Africa, where capital transfers from the United Kingdom contributed towards the building up of an extremely heavy import demand in 1948, the dollar deficit was met through the Union's own gold resources. A recent agreement with the United Kingdom stipulates that payment will be made in gold for certain types of essential goods. This provides the United Kingdom with an opportunity to earn gold in that market even though its export surplus may be more than offset by capital movements.

As far as the net effect on the deficit on goods and services with the United States is concerned, Table 68 indicates that capital payments to that country (as far as they are recorded) were more than offset in 1948 and 1949 by institutional contributions or personal remittances from American sources. On the other hand, in transactions with other overseas areas where Europe had a small surplus on goods and services account in the past year, virtually the whole of the deficit was accounted for by capital movements, including both transfers of private capital and official financing of the character indicated. These transactions had the effect of increasing Europe's total balance-of-payments deficit to approximately \$4.1 billion.

The Financing of the Deficit

Throughout the post-war period, most of the financing required by Europe to balance its overseas

¹ It should not be overlooked, however, that many of these overseas countries—notably India and Pakistan—have themselves experienced severe economic difficulties during and after the war, and that their problems would have been more serious if they had not been able to draw on their holdings of European currencies.

² For a fuller analysis of some of these problems, see "The Gold and Dollar Deficit of the Sterling Area", *Economic Bulletin for Europe*, Vol. 1, No. 2.

³ Part of the illicit movement of European capital into dollars has occurred, of course, via leaks in the foreign exchange control systems of affiliated overseas countries.

accounts has been in dollars. This has taken a variety of forms. In earlier years, drawings on European-owned gold and dollar balances furnished a considerable part of the funds required, but these resources were wholly inadequate for the purpose and were soon depleted below minimum reserve levels. The greater part of the deficit was offset by financial aid extended by the United States, chiefly in the form of U.N.R.R.A. aid and long-term credits before and during 1947 and since then increasingly in the form of grants to western European countries under the European Recovery Programme.

In addition, in 1947 and 1948, Europe had received a considerable amount of financial aid from other countries, including Canadian credits to the United Kingdom and other European countries, various smaller Latin American credits, and the 1948 gold loan by South Africa to the United Kingdom. Europe had also been able to realize some of its assets abroad, for example, by the sale of the British-owned railways in Argentina and of French- and Dutch-held securities. During the past year, however, these sources of financing in countries other than the United States virtually disappeared. There has been, instead, the reverse flow of debt repayment mentioned above, adding to the burden of the deficit to be financed, and, in addition, some overseas countries continued to draw on their previously accumulated sterling balances in order to balance their own accounts with the United Kingdom.

Europe was therefore left more than ever dependent on dollar financing to cover its external deficit in 1949. As may be seen in Table 68, the amount of dollar aid received from the United States, together with the proceeds of gold sales, was far greater than Europe's own deficit with the United States. This excess was more than \$2.0 billion in 1949, or approximately the same as in 1948. It represents, in considerable part, dollar funds which were utilized by Europe for settling accounts with overseas countries other than the United States. As discussed in a later section, however, there is considerable indirect evidence to suggest that, in fact, a large but indeterminate amount of these dollar funds has been absorbed by unrecorded capital transfers to the United States, originating either in Europe or in other areas to which Europe had paid out dollar funds, and that the strain imposed by these capital movements on European gold and dollar exchange resources has varied widely as confidence in European

currencies has risen and fallen. The uncertainty as to the size and origin of these movements introduces a corresponding uncertainty into the analysis of the amounts effectively utilized by European countries for settlements with overseas areas.¹

It is nevertheless clear that about \$1.0 billion of multilateral settlements by Europe in 1949 took the form of dollar payments by the United States under E.R.P. to reimburse western European countries for so-called "off-shore purchases" made by them in other areas, principally Canada and Latin America. While the amount of off-shore purchases was greater in 1949 than in 1948 (E.R.P. having commenced in the middle of 1948) the rate of authorization of procurements of this nature in third countries decreased sharply in the course of 1949 as the problem of the disposal of farm surpluses out of the United States' own production increased.

Dollar Settlements with Third Countries

Table 69 gives an indication of the broad geographical pattern of dollar transfers by Europe to overseas countries, and an examination of the underlying factors helps to explain why the total of such transfers remained undiminished despite the reduction in Europe's deficit from 1948 to 1949. Of the various trading or currency areas distinguished in the table, Europe made by far the largest multilateral settlements in dollars in both years.² Within Europe, the greater part of these transfers originated in the United Kingdom.³ In fact, in both 1948 and 1949, the dollar settlements to countries other than the United States effected by the United Kingdom exceeded substantially the financial aid received from the United States

¹ It must therefore be appreciated that all of the discussion of multilateral settlements in the following paragraphs is inescapably subject to a considerable margin of error because of inability to provide direct statistical measurement of capital movements which, by their nature, are largely unrecorded and whose existence can only be inferred from the "residual item" in balance-of-payments estimates, which are themselves subject to error for other reasons as well. See section below on "The Pressure of Private Capital Transfers".

² It should be noted that, in addition to the \$1.7 billion indicated by the estimates as having been paid out by Europe in 1948, some \$300 million of the transfers shown under international institutions in that year represented aid extended to Europe, and hence added to the total funds available to Europe for settlements. In Table 68, the \$300 million is included directly in the dollar funds supplied by the United States to Europe, ending with the total of \$2.1 billion available for multilateral settlements.

³ The United Kingdom, Iceland and Ireland are shown as "European sterling area countries".

Table 69

**DOLLAR RECEIPTS AND PAYMENTS OF EUROPE AND OTHER AREAS IN TRANSACTIONS WITH THE UNITED STATES
AND THROUGH MULTILATERAL SETTLEMENTS**

Millions of current dollars

Transactions	Year	European sterling area countries	Other European countries	Total European countries	Canada	Latin American republics	Overseas sterling area (including British Colonies)	European dependent overseas territories (excluding British Colonies)	Other overseas countries	Total overseas countries	Inter- national institutions	Total, including inter- national institutions
I. With the United States : ^a												
A. Goods and services (net)	1948 1949	-257 -359	-3,250 -2,740	-3,507 -3,099	-394 -586	-1,046 -622	-408 -370	-82 -135	-847 -1,265	-2,777 -2,978	-26 -6	-6,310 -6,083
Balance on trade account	1948 1949	-316 -473	-3,253 -2,856	-3,569 -3,329	-330 -372	-585 -264	-289 -223	-80 -101	-888 -1,006	-2,172 -1,966	-7 +28	-5,748 -5,267
Imports from the United States	1948 1949	712 798	4,244 3,714	4,956 4,512	1,941 1,933	3,158 2,704	1,312 1,092	388 448	1,668 1,705	8,467 7,882	22 7	13,445 12,401
Exports to the United States	1948 1949	396 325	991 858	1,387 1,183	1,611 1,561	2,573 2,440	1,023 869	308 347	780 699	6,295 5,916	15 35	7,697 7,134
Balance on service account	1948 1949	+59 +114	+3 +116	+62 +230	-64 -214	-461 -358	-119 -147	-2 -34	+41 -259	-605 -1,012	-19 -34	-562 -816
B. Unilateral transfers (net)	1948 1949	+521 +1,043	+2,859 +3,459	+3,380 +4,502	+10 +17	+37 +25	+19 +17	+2 +1	+844 +954	+912 +1,014	+117 +107	+4,409 +5,623
C. Long-term capital movements (net)	1948 1949	+505 +114	+796 +233	+1,301 +347	+219 +85	+303 +418	+69 +9	+53 +5	+270 +196	+914 +713	+2 -47	+2,217 +1,013
D. Gold and short-term capital movements (net)	1948 1949	+524 +452	+34 -199	+558 +253	-438 -73	+52 -461	+516 +147	+3 +7	-187 +168	-54 -212	+422 +149	+926 +190
II. Multilateral settlements and errors and omissions (net) ^b	1948 1949	-1,293 -1,250	-439 -753	-1,732 -2,003	+603 +557	+654 +640	-196 +197	+24 +122	-80 -53	+1,005 +1,463	-515 -203	-1,242 -743

Sources : The figures have been obtained from the International Economics Division, United States Department of Commerce.

NOTE. - All signs are reversed as compared with the original source in order to present data from the standpoint of areas specified rather than from that of the United States.

^a Funds supplied by the United States through contributions or subscriptions to international organizations are not included in the figures shown for each area, but are included in the entries for "international institutions".

^b Figures in the last two rows represent, in the case of Europe, the excess of dollar funds obtained from the United States (including receipts through drawings on gold and dollar balances) over the amounts required for recorded payments of all types to the United States, the difference being presumed to indicate net dollar transfers to other areas. In addition, an amount of \$300 million paid out in 1948 to European countries by international institutions (see Table 68) served to increase the total sum of dollars available to European countries for transfers to other areas. The final figures in the last two rows, under "total, including international institutions", represent the net effect of all errors and omissions in the estimates. If there were no such errors and omissions, all other credit and debit entries would cancel out.

in the form of grants and loans, and were very much greater than the dollars directly required by the United Kingdom to settle its own deficits on goods and services with the United States. As a result, a large part of the settlements made by the United Kingdom in 1948 and 1949 had to be paid out of its own gold and dollar resources, including a heavy reduction in its reserves and the use of the gold loan which South Africa granted in 1948. In Continental European countries, on the other hand, the amount of dollars transferred to settle deficits with intermediate countries was equal to only a small part of the aid received, the bulk of the aid being used to settle their own heavy deficits directly with the United States.¹ In addition, these countries, taken as a group, were able to add approximately \$200 million to their gold and dollar reserves in the course of the year.²

1. *Canada.* — Canada and the Latin American republics were the principal recipients of dollars through multilateral settlements, as may also be seen in Table 69. The amount received by Canada appears to have been about \$550 million, or slightly less than in 1948, and corresponds fairly closely to Europe's deficit with that country.³ The greater part of these transfers to Canada—roughly \$475 million in 1948 and \$400 million in 1949—was financed out of E.R.P. authorizations for purchases by the United Kingdom and other European countries. These and other dollars received by Canada from Europe in 1949 were used primarily to settle its own large deficit with the United States, which increased compared

with 1948, while its receipts of long-term capital from the United States diminished. As a result there remained relatively little to add to Canada's dollar balances during the year compared with the great increase in its gold and dollar holdings in 1948.

2. *Latin America.* — Dollar funds received by the Latin American republics in 1949 amounted to \$640 million and here also Europe seems to have been the principal source of these transfers.⁴ It is noticeable that the amount did not decrease compared with 1948 despite the reduction by \$750 million in Europe's trade deficit with that area. The explanation of this anomaly lies in the changes in Europe's financial relations with Latin America during the two years. In 1948 a large part of Europe's deficit with Latin America had been covered by the sale of capital assets and by drawings on credits extended by Latin American countries. The United Kingdom alone had used the equivalent of \$540 million in 1948 from the proceeds of the sale of British railways in Argentina, and both France and Italy had had smaller amounts at their disposal from credits extended by Latin American countries. These sources of financing, which supplemented Europe's dollar transfers as a means of covering its deficit with Latin America in 1948, virtually disappeared in 1949 and dollar transfers therefore continued to be made despite the reduction in the trade deficit. Roughly half of these transfers seem to have been in the form of "off-shore purchases" with E.R.P. funds, referred to above.⁵ The largest payments of this nature were for sugar from Cuba, copper from Chile, oil from Venezuela and Mexico, and lead from Mexico. In addition, some Latin American countries (notably Cuba and some of the Central American republics) had surpluses in their trade with various European countries over and above that part paid for as "off-shore purchases". Dollar settlements were usually required to pay for these deficits. Western Germany alone had a trade deficit of \$100 million, which was largely covered by

¹ The reports of the Economic Co-operation Administration (E.C.A.) indicate that the estimated total of \$1.0 billion of multilateral settlements in "E.C.A. dollars" in 1949 shown in Table 68 was accounted for in roughly equal amounts by the United Kingdom and by other O.E.E.C. countries. In the case of the latter, therefore, "E.C.A. dollars" made up by far the greater part of the multilateral settlements indicated in Table 69, but in the case of the United Kingdom, where the total of multilateral settlements was much greater, the larger part seems to have been made in "free dollars".

² This is shown as a minus item (— \$199 million) in Table 69 indicating the transfer of funds to the United States for the purchase of gold or the acquisition of bank balances or other assets. Conversely, a plus sign would be used to indicate the sale of gold to the United States or the withdrawal of dollar balances from the United States.

³ According to the estimates by the Dominion Bureau of Statistics, Canada's surplus on current account with Europe amounted to \$717 million in 1948 and \$627 million in 1949, of which \$488 million in 1948 and \$445 million in 1949 was accounted for by the United Kingdom. In addition, Canada had a current account surplus with sterling area countries other than the United Kingdom amounting to \$129 million in 1948 and to \$145 million in 1949. Against this, drawings on the Canadian credit to the United Kingdom amounted to \$52 million in 1948 and \$116 million in 1949.

⁴ Part of these transfers, however, may have been by way of the European dependent territories in the West Indies in settlement of their import deficits in trade with the Latin American republics (arising in considerable part out of imports of Venezuelan crude oil for refining in Curaçao and Aruba).

⁵ Owing to changes in the method of reporting E.C.A. operations, it is impossible to give an exact figure. A figure of \$320 million can be obtained by deducting the value of shipments effected in 1948 from total payments up to the end of 1949. It under-estimates the 1949 payments to the extent that a time lag occurred and some of the shipments made in 1948 were actually paid in 1949.

dollar funds provided by the United States as relief to occupied areas. Royalty payments on oil production by British companies in Venezuela, as well as their current operating expenditures, also continued to require dollars, and investment in the expansion of oil properties likewise required dollars for the purchase of American equipment.

While Europe thus covered the greater part of its deficits with Latin America by dollar payments in one form or another, such deficits as Latin America incurred with Europe were not covered by dollar payments to Europe but were met through running down balances previously accumulated in European currencies or through credits extended by European countries. Thus, Argentina and Brazil were able to draw on credit balances of \$28 million which they had accumulated in 1948 under their payments agreements with France. Italy had a large export surplus with Argentina, but the pesos thus received were used to repay a credit equivalent in value to \$80 million which Argentina had granted in 1947. Towards the end of the year, however, Italy in its turn opened a new line of credit of similar amount in favour of Argentina. With other Latin American countries, Italy received settlement in sterling in 1949, and other similar transfers appear to have taken place. It was reported at the end of the year that Argentina, presumably because of sterling settlements to European countries, was experiencing a severe sterling shortage, despite the surplus which it had in its trade with the United Kingdom. In general it would appear that, where European countries had deficits with Latin American countries in 1949, settlement was made in dollars, but where surpluses developed in favour of European countries, settlement was made by their Latin American trading partners through the use of balances previously built up in Europe or by drawings under credits extended by Europe.

While continuing to receive dollars from Europe, Latin America's transactions with the United States showed a development opposite to that experienced by Canada. The deficit on goods and services with the United States decreased, imports falling more than exports, and at the same time capital investment by the United States in Latin America increased. The result was that, whereas in 1948 Latin American countries lost gold and dollars on balance to the United States, in 1949 they succeeded in adding some \$350 million to their holdings and also paid off certain short-term debts to the United States. Here also,

however, the Latin American countries did not conform to a single pattern, but rather tended to fall into two broad groups, northern and southern. In the first group, including Brazil, Mexico and the Central American and Caribbean republics, conditions of exceptional prosperity developed and dollar reserves generally increased. The outstanding phenomenon was the extremely sharp rise in the price of coffee in the latter part of 1949 (benefiting primarily Brazil and Colombia), but the increase in the quantity and price of exports of mineral oil from Venezuela and of lead from Mexico to the United States, as well as increased American tourist outlay in the area, were important contributory factors. In the southern part of the continent, by way of contrast, there was a considerable pressure on dollar resources, principally accounted for by a drastic fall in Argentine exports to the United States and a decline in the price of Chilean copper.

3. *Overseas Sterling Area.* — By comparison with the large amounts of dollars employed in settlements with Canada and Latin America, the net drain of the overseas sterling area on European dollar resources—or specifically on those of the dollar resources of the United Kingdom in this case—appears to have been of modest proportions in 1949, although it represented a shift from the preceding year, when there had been a small net flow of dollar receipts from the overseas sterling area.

It must be remembered that, before the war, the large trade deficit of the overseas sterling area with the United Kingdom was settled by heavy gold shipments out of current production (chiefly in South Africa and Australia) and by dollars received from sales of primary goods to the United States, including particularly rubber and tin from Malaya and jute from India. These earnings of gold and dollars from the overseas sterling area helped the United Kingdom in turn to cover its trade deficit with North America and other areas including Continental Europe. Since the war this pattern of settlements has been completely disrupted. While the United Kingdom continued to have a large export surplus to the overseas sterling area, this has been offset by capital transfers, while the pre-war surplus of the overseas sterling area in trade with the United States has turned into a substantial deficit, chiefly because of the great expansion in imports of American goods.¹

¹ For a more detailed analysis of the transactions of the overseas sterling area, see "The Gold and Dollar Deficit of the Sterling Area", *Economic Bulletin for Europe*, Vol. 1, No. 2.

This change in the net position of the overseas sterling area results, however, from very different movements as between the individual members. Some of the overseas sterling area countries have continued to earn dollars on balance, adding to the resources of the central dollar pool in London, while others have had heavy dollar deficits constituting a drain on the pool. These differences are indicated by the figures on the trade of the overseas sterling area countries with the United States given in Table 70. In addition to this broad distinction between the two groups of countries, however, South Africa must be considered as a special case since it belongs to the sterling area, but does not participate in the central dollar pool. It will be seen that, in 1948, South Africa's imports from the United States had risen to a level only little less than \$500 million, or three-and-a-half times its exports to the United States, and it also had a heavy import surplus in trade with Canada and other areas. At the same time South Africa sold some \$500 million of gold (from new production and also from drawings on its reserves) to the United States, the proceeds being used to meet its deficit with that country and partly also to cover its deficits with other countries.¹ Following this heavy drain on its gold holdings, South Africa cut its imports drastically in 1949. Its trade deficit with the United States for the year fell to something less than \$150 million offset by gold shipments to the United States, while its deficit with other hard-currency countries was met by drawings on the central pool in London.

Apart from the Union of South Africa, dollar deficits were incurred in 1948 chiefly by India, Hong Kong, the British West Indies and various of the smaller overseas sterling countries (including the Middle East oil-producing centres), whose adverse trade balance with the United States alone totalled about \$200 million during the year. On the other hand, Australia, Ceylon, Malaya and West Africa all showed favourable balances in trade with the United States in 1948, their surplus amounting altogether to about \$335 million and more than offsetting the drain of the first group on the central dollar pool.

¹ These gold sales to the United States are reflected in Table 69 and the dollar transfers by South Africa in settlement of its deficit with third countries appear to account for most of the multilateral payments in dollars by the overseas sterling area in 1948 indicated by the table. A part of South Africa's deficit with third countries was, however, settled from gold sales in London and would not appear in the statement of transactions with the United States.

In 1949, however, there was a generally unfavourable trend in the trade balances of all these countries with the United States, and this, together with changes in invisible items and a reduction in capital investment by the United States in the area, gave rise to substantial demands on the dollar pool in London.²

The deterioration in trade with the United States resulted from two fairly distinct movements during the first and second halves of the year. During the first six months of 1949 there was a general tendency for imports from the United States into sterling area countries other than South Africa to increase, particularly in India, Pakistan and Australia, and at the same time exports to the United States, especially Malayan rubber, fell moderately; this resulted in a small trade deficit for the group as a whole during that period. In the second half of the year, the decline in exports to the United States was accentuated (although recovering somewhat towards the end of the year), but was more than offset by the drastic fall in imports from the United States, resulting in large part from the import restrictions agreed upon between the United Kingdom and other sterling area countries in July as the dollar shortage began to menace the position of sterling.

4. *Dependent Overseas Territories*³ and *Other Countries*. — The apparent increase in 1949 in the amount of dollars received through multilateral settlements by the overseas territories of European countries largely represents European Recovery Programme reimbursements for "off-shore" purchases of oil in the Dutch West Indies. Payments made for this purpose amounted to approximately \$115 million in 1949 compared with less than half of that amount in 1948.⁴

In addition, France appears to have made dollar transfers to its overseas territories to assist in covering

² These demands were apparently offset, however, by gold payments into the central pool (chiefly from Australian production) and by net payments into the pool of hard currencies earned in trade with countries other than the United States, particularly in the latter part of the year.

³ This group, as indicated in Table 69, excludes the British colonies, which are part of the overseas sterling area.

⁴ The division of the payments between 1948 and 1949 involves some uncertainty for reasons stated in footnote 5, page 120. It appears likely that a substantial part of the payments to the Dutch West Indies were, in fact, transferred to Venezuela for crude oil imported from that source.

Table 70
TRADE OF THE OVERSEAS STERLING AREA WITH THE UNITED STATES
Million of dollars in current f.o.b. prices

Area	IMPORTS		EXPORTS		BALANCE							
	1934-1938	1948	1949 Jan.-June July-Dec.	1948	1949 Jan.-June July-Dec.	1934-1938	1948	1949 Jan.-June July-Dec.				
Australia	60.3	114.3	79.3	63.1	19.7	129.3	61.7	35.9	- 40.6	+ 15.0	- 17.6	-27.2
New Zealand	19.1	34.1	19.1	23.4	11.3	30.4	9.2	15.2	- 7.8	- 3.7	- 9.9	- 8.2
Malaya	6.3	82.0	23.2	14.4	152.1	269.2	105.4	90.2	+145.8	+187.2	+ 82.2	+75.8
Hong Kong	13.6	84.2	58.0	63.3	7.1	3.6	2.4	1.9	- 6.5	- 80.6	- 55.6	-61.4
India	32.6	298.2	177.7	75.5	68.3	265.2	127.5	111.3	+ 35.7	- 33.0	- 50.2	+35.8
Pakistan	1.4	17.0	25.1	20.5	14.8	26.1	22.7	5.0	+ 13.4	+ 9.1	- 2.4	-15.5
Ceylon	65.4	492.1	153.9	112.1	8.6	52.8	20.9	13.9	- 56.8	+ 33.4	+ 9.3	+ 6.8
Union of South Africa	6.0	15.8	6.8	6.8	17.2	135.2	50.5	65.9	+ 11.2	-356.9	-103.4	-46.2
West Africa	18.6	61.9	33.2	25.4	8.7	105.5	61.2	19.7	- 9.9	+ 89.7	+ 54.4	+12.9
Western Hemisphere colonies	10.9	93.4	51.2	41.5	12.6	15.5	7.0	7.3	+ 1.7	- 46.4	- 26.2	-18.1
Other overseas sterling area						55.9	43.5	45.7		- 37.5	- 7.7	+ 4.2
Total overseas sterling area	234.2	1,312.4	639.1	453.1	320.4	1,088.7	512.0	412.0	+ 86.2	-223.7	-127.1	-41.1
Total, excluding Union of South Africa .	168.8	820.3	485.2	341.0	311.8	953.5	461.5	346.1	+143.0	+133.2	- 23.7	+ 5.1

Sources : The figures have been taken from United States trade statistics.

their trade requirements.¹ The position of France with respect to these territories is similar to that of the United Kingdom in the sterling area, in that the amount of dollars supplied has nothing to do with the status of trade balances within the area, which in each case have been in favour of the metropolitan country. Under these conditions, the large expansion which has occurred in French exports to the overseas territories does not directly relieve the dollar strain as long as the overseas areas themselves have dollar demands in excess of the dollars earned by their own exports.

The group of other countries shown in Table 69 does not seem to have played, on balance, an important role in multilateral settlements. Some of the major countries in the group—especially Japan, the Philippines, China and Korea—have received substantial grants or other financial aid from the United States, but these have been used chiefly to pay for their own excess of imports of American goods. In the case of two other countries in this group, however, relatively large demands on the resources of the sterling area pool have arisen. These countries are Egypt and Iran, both of which had trade deficits with the United States in 1948 and very much larger deficits in 1949 as their imports from the United States increased while their sales to the United States fell off.² Egypt, although no longer a member of the sterling area, has been able to obtain some transfers into dollars from the United Kingdom out of the large sterling balances it accumulated during the war. The dollar transfers to Iran arise out of its right to demand conversion into hard currency of the oil royalty payments which it receives in sterling.

The Pressure of Private Capital Transfers

In the discussion of the use of dollars for multilateral settlements, mention has been made of the probability that a substantial part of the dollar resources nominally available to European or other countries has, in fact, been absorbed by transfers of private capital into dollar funds in ways which escape

¹ According to a statement of the French balance of payments appearing in the second *Balance of Payments Yearbook* of the International Monetary Fund, France supplied in 1949 \$200 million of "other currencies" to its territories, part of which may be assumed to have been in dollars.

² The trade deficit of Egypt with the United States (as given by United States trade statistics) rose from \$5 million in 1948 to \$43 million in 1949, while that of Iran increased from \$17 million to \$63 million.

Table 71

THE RESIDUAL ITEM IN THE BALANCE OF PAYMENTS OF THE REST OF THE WORLD WITH THE UNITED STATES

Millions of current dollars

Post-war period					
Year	First quarter	Second quarter	Third quarter	Fourth quarter	Total
1945	+ 46	+ 38	— 90	— 2	— 8
1946	— 54	+ 40	— 98	— 43	—155
1947	—147	—485	—348	— 24	—1,004
1948	—401	—278	—421	—142	—1,242
1949	—181	—158	—500	+ 96	—743

Inter-war period			
Year	Total	Year	Total
1923	+175	1930	—320
1924	+178	1931	— 92
1925	+135	1932	— 73
1926	+ 75	1933	— 61
1927	+423	1934	—415
1928	+104	1935	—368
1929	+384	1936	—157
		1937	—425
		1938	—249
		1939	—789
		1940	—1,277

Sources: The figures have been taken from *The Balance of International Payments of the United States, 1946-48*, United States Department of Commerce, and from data supplied by the United States Department of Commerce for 1949.

NOTE.—All signs as shown in this table are reversed as compared with the original source in order to present the data from the point of view of the other countries rather than from that of the United States.

A minus sign may be taken to indicate either or both of the following possibilities: (1) unrecorded capital transfers to the United States from other countries, or (2) errors and omissions in the estimates of other transactions in the United States balance of payments with the effect of overstating the amount of dollars paid out by the United States to other countries in relation to the amount paid by other countries to the United States.

recording. Evidence of these transfers may be found in the striking behaviour of the residual item in the balance of payments between the United States and other countries, as shown by Table 71.

This residual item indicates that the total amount of dollars earned or otherwise received by other countries from the United States (including its payments for imports and financial assistance in various forms) has been prevaillingly much larger since the end of the war than the amount paid to the United States that can be directly accounted for by goods purchased, services rendered, debt payments, and other recorded or estimated transactions.

The residual may reflect errors and omissions elsewhere in the balance-of-payments estimates and it cannot be taken as a precise measure of unrecorded capital movements, but it seems to have been primarily determined by such transfers. This assumption derives support from an examination of the movements of the item during the course of the last several years, since it would be difficult to explain the irregularities in its behaviour on any other basis.¹

This evidence suggests that unrecorded transfers of private capital may have been negligible in 1945 and of relatively small dimensions in 1946, and no particular significance could be attached to the small figures for these years because of the qualifications mentioned. At the beginning of 1947, however, the residual item increased sharply and expanded to vast proportions in the second and third quarters of the year. This movement, it will be remembered, coincided with the rapid deterioration of Europe's balance-of-payments position at that time, leading to the British financial crisis in the summer of that year and culminating in the suspension of sterling convertibility only a few weeks after it had been attempted. It thus appears that illicit capital transfers, evading the exchange controls of European and other countries, contributed heavily to the crisis and in total may well have amounted to as much as \$1 billion during the first nine months of the year.²

¹ The residual item as discussed in the text refers to the official United States balance-of-payments estimates and, strictly considered, merely reflects errors and omissions in the estimates. It therefore furnishes only presumptive evidence of the existence of unrecorded capital transfers and of their behaviour, but this evidence is nevertheless very strong. If the item were not taken as indicating primarily the impact of such capital movements, the unlikely assumption would have to be made that, during 1947 and 1948 and up to the last quarter of 1949, there had been a systematic bias in the United States balance-of-payments estimates in the direction of overstating payments compared with receipts by the United States, and that, coincident with but unrelated to devaluation, there suddenly appeared a systematic bias in the opposite direction. The same observation applies to the abrupt reversal of the residual item from the 1920's to the 1930's, as also shown in Table 71. By way of comparison, it may be noted that in the official balance of payments of the United Kingdom, the residual item is not shown as such but is definitely entered in the statement proper as private capital movement (although attention is called to the uncertainty of this indirect method of calculation).

For a further discussion of the residual item, including a description of some of the ways in which private capital movements escape recording, see the section entitled "Errors and Omissions" in the *Balance of International Payments of the United States, 1946-1948*, United States Department of Commerce, 1950, page 166.

² "Unrecorded capital movements" do not necessarily represent "flight capital" (which is, of course, a subjective

Following these developments of the summer of 1947 and the formulation of new plans for large-scale American assistance to Europe under the European Recovery Programme, the pressure from flight of capital would seem to have abated.³ It was renewed, however, from the beginning of 1948 and remained strong during most of the year, the indirect evidence given by the behaviour of the residual item suggesting that the total amount of private capital movements to the United States aggregated even more than in 1947.

In the first half of 1949, the volume of such transfers again appeared to diminish although it remained very large by ordinary standards, but in the third quarter the pressure became greater than ever, as

notion), nor are they necessarily equivalent to "illicit" capital transfers (which concern the existence and practice of exchange controls). Given the widespread official controls at present, however, there can be no doubt that the large and variable movements reflected in the United States balance-of-payments residual in recent years do represent, in the main, private capital transfers of an illegal nature. These movements may have originated to some extent in areas other than Europe (since the residual can be computed only for the global balance of payments of the United States), but here also there can be little doubt that, for reasons of political tension and currency instability, Europe has been the principal source of these transfers into dollars. In addition, it is well known that there has been heavy private hoarding of gold within Europe, and there may also have been transfers into currencies other than the United States dollar, neither of which would be reflected in Table 71. For the world as a whole, the difference between current gold production and net changes in official gold reserves during the period 1946-1948 amounted to \$1.0 billion. Most of this may be presumed to represent additions to private hoards, since the amount of gold used industrially is relatively small.

³ No particular emphasis is placed, however, on the diminution of the residual in the United States balance-of-payments estimates during the last quarter of 1947, since this appears to be a common characteristic of the data for all the years and may reflect in part the influences of seasonal factors in the recorded transactions. For instance, American tourist expenditure in Europe is relatively heavy during the second and third quarters of each year and, in time of currency instability, the tendency would be for this expenditure to be made as far as possible in dollar currency (for which premium rates can be obtained) and for the European recipients to hoard such currency rather than return it to normal banking channels. In other words, expenditure by American tourists would be reflected in the United States balance-of-payments estimates as payments to foreign countries, but the funds would not reappear in the balances held by European banks in the United States (thus helping to give rise to the residual item). In the fourth quarter of the year, on the other hand, tourist expenditure would normally be low, and this particular source for flight of capital from European currencies would be reduced. This example serves only an illustrative purpose, however, and does not in itself appear large enough to account for the seasonal factor observed with regard to the fourth quarter. There are, of course, many other ways by which private funds can be shifted into dollars despite exchange controls, one of the most obvious and most difficult to prevent being the over-statement of import bills and the under-statement of export proceeds in reports to the exchange authorities by foreign traders who wish to build up hidden balances in foreign currencies.

rumours spread regarding the prospective devaluation of European currencies. Following that event, the behaviour of the residual item shifted abruptly and, almost for the first time since the end of the war, gave some evidence of the repatriation of private funds from the United States.

The experience since the end of the war can be usefully compared with that of the inter-war years, as also shown in Table 71.¹ Here, too, the behaviour of the residual item strongly suggests the importance of unrecorded capital transfers, some of which may have been for the purpose of normal short-term or long-term investment in addition to the sums shown in the detailed estimates for those years. Throughout the 1920's, when the United States was investing heavily abroad and confidence in currency stability in Europe was being restored, there would seem to have been large unrecorded movements of funds from the United States, reaching a peak first in 1927 with the repatriation of French funds after the return of the franc to the gold standard and again in 1929, the year in which the big break in the New York stock market occurred. In the following year, however, the data show the beginning of a heavy flight of private capital to the United States as the gold and dollar exchange position of foreign countries weakened. Thereafter, the movement seemed to moderate as the banking system in the United States showed signs of serious weakening and as confidence in the stability of the dollar itself was impaired. Following the revaluation of the dollar at the new price for gold in early 1934, the flow of private funds to the United States was resumed in full force and continued during the remainder of the decade. The movement developed into a veritable

flood of capital to the United States with the commencement of World War II in 1939 and apparently exceeded a billion dollars for the first time in the following year with the collapse of most of western Europe.

The experience of the recent past, as well as that of the inter-war period, is of great import to Europe's problems in the near future. It suggests that, when the political and economic prerequisites for stability and confidence are lacking, exchange controls and payments agreements, however cleverly contrived, prove seriously inadequate to prevent the flight of private funds on a scale sufficient to impose intolerable burdens on official currency reserves. On the other hand, when these conditions are met, the return of private capital from its places of hiding at home and abroad is capable of providing large and otherwise inexplicable additions to available exchange resources. To take a recent example, there seems little doubt that the re-emergence of hoarded funds contributed substantially to the strengthening of the French franc during the past year.

If Europe's political and economic development is favourable during the next several years, the cessation of losses through the exodus of private capital and the possible repatriation of part of the funds previously transferred abroad could lend further vigour to recovery. If, however, these underlying conditions are not reassuring and particularly if European countries find themselves with slender reserves and persisting difficulty in covering their dollar payments, uncontrolled private capital transfers could turn a bad situation into financial and economic disaster.

3. EUROPE'S OVERSEAS EXPORTS

Decline in Exports to the United States

Although the American recession which started towards the end of 1948 was moderate in its effects on domestic consumption, it was marked by a sharp fall in industrial production and an equally severe reduction in imports during the first seven months of 1949. The effects on European exports to the United States were particularly severe and demonstrated once more how sensitive they are to business conditions in that

country. From the last quarter of 1948 to the second quarter of 1949, the value of European exports to the United States fell by about one-third and was reduced to the 1947 level. There was a slight improvement in the third quarter of 1949 and a more marked rise in the fourth quarter, but only to a point still one-seventh less in dollar value than in the last quarter of 1948. On balance, Europe's exports to the United States declined by about \$170 million from 1948 to 1949—an amount which is small in relation to Europe's dollar deficit, but nevertheless represented a fall of about 15 per cent in value and of more than 11 per cent in volume compared with 1948.

¹ Still more caution must be used in drawing conclusions from the residual item in the United States balance of payments for the inter-war period, because records and estimates of capital movements and other transactions are less complete for those years.

Table 72

THE VALUE AND VOLUME OF EUROPE'S EXPORTS TO THE UNITED STATES ^a

Millions of dollars in current prices, index numbers and percentages

Year	Crude materials	Crude foodstuffs	Manufactured foodstuffs	Semi-manufactures	Finished manufactures	Total
Value (Millions of dollars, quarterly averages or quarterly totals)						
1937	37.0	3.7	34.1	61.9	68.5	205.2
1938	22.6	2.0	26.7	39.1	51.6	142.0
1948	40.0	4.8	32.4	85.1	111.4	273.7
1949	31.5	2.8	31.4	70.6	94.1	230.4
First quarter	28.5	3.4	31.1	86.5	112.0	261.5
Second quarter	29.1	2.1	27.8	62.2	79.0	200.2
Third quarter	39.1	1.6	25.4	52.8	87.1	206.0
Fourth quarter	29.2	4.1	41.3	80.9	98.4	253.9
Volume (Index numbers—1938=100)						
1937	137.4	153.2	111.4	143.4	142.3	129.3
1938	100.0	100.0	100.0	100.0	100.0	100.0
1948	81.8	64.6	52.5	97.4	85.8	81.8
1949	66.8	39.2	53.3	87.6	74.7	72.5
First quarter	57.6	45.6	52.1	95.5	85.9	77.1
Second quarter	60.7	30.4	48.3	74.6	62.2	62.3
Third quarter	84.2	25.3	42.7	70.2	69.4	66.3
Fourth quarter	65.6	55.7	70.0	110.9	81.0	84.4
Europe's exports to United States in per cent of United States' imports from all sources						
1937	15.3	3.4	31.0	39.0	49.7	27.3
1938	15.7	3.0	34.3	40.7	49.4	29.1
1948	7.5	1.5	17.7	20.9	34.1	15.4
1949	6.8	0.8	16.9	19.9	30.2	14.0
First quarter	5.7	1.0	17.7	21.8	33.3	14.9
Second quarter	6.5	0.7	14.0	18.5	25.9	12.6
Third quarter	9.2	0.6	13.1	17.3	30.0	13.7
Fourth quarter	6.1	1.0	24.6	21.0	31.2	14.5

Sources : The figures are derived from data prepared by the United States Department of Commerce.

^a The exports of Turkey to the United States are not included.

As seen in Table 72, Europe's exports to the United States at the level reached in the last quarter of 1949 were equal to only 85 per cent of the 1938 volume and 65 per cent of the 1937 volume.

The widespread rumours of devaluation in the spring and summer of 1949 may have influenced the low level of Europe's exports to the United States at that time, and similarly the upturn in the fourth quarter may have reflected the temporary influence of orders postponed from the earlier period. The fact, however, that the decline in exports began as early as the first quarter of 1949 and that already in

the third quarter there was a moderate increase coinciding with the first upturn in production in the United States seems to point to changes in business activity in the United States as the dominant influence.

The parallel behaviour of exports from most European countries and of most of the main groups of commodities exported by Europe to the United States tends to substantiate this view. As may be seen in Table 73, the exports of almost every commodity group increased between 1947 and the end of 1948 and then relapsed generally to about the 1947 level in

Table 73

THE COMMODITY COMPOSITION OF EUROPE'S EXPORTS TO THE UNITED STATES ^a

Millions of dollars in current prices

Commodity	1947	1948				1949			
	Quarterly average	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Food	21	32	29	27	38	30	22	21	33
Beverages	12	13	13	13	19	12	14	12	21
Tobacco and manufactures	14	12	14	13	12	11	11	12	10
Metals and manufactures	24	22	27	44	57	71	44	38	33
Wood, cork, paper and manufactures	34	47	39	32	25	23	18	18	29
Textiles and manufactures	28	46	44	47	45	40	26	32	48
Leathers, fur and manufactures	17	16	22	21	16	12	15	17	11
Machinery	3	7	8	6	9	8	5	7	6
Vehicles	2	6	9	10	11	6	3	2	4
Chemicals and related products	7	8	8	9	8	8	6	5	9
Clocks and watches	14	14	14	15	17	12	12	13	14
Precious stones and metals, jewellery, etc.	14	16	17	19	15	10	11	12	13
Art works and antiques	3	4	3	4	4	4	3	4	7
All other items	26	24	27	30	31	26	20	28	27
Total	219	267	274	290	307	273	210	221	265

Sources: The figures have been taken from *United States Imports of Merchandise for Consumption*, Series No. F.T. 120, United States Department of Commerce.

^a Exports of the U.S.S.R. to the United States are included.

the second and third quarters of 1949. The only two important exceptions to this trend were the group of metals and metal products (which remained well above the 1947 value of trade mainly because of a marked increase in American imports of German steel and scrap), and pulp and paper (which fell in value far below the 1947 level, owing in part to the decline in their prices).¹

On the other hand, Table 72 shows that European exports to the United States in most of the main classes of goods declined in the spring and summer of 1949, not only in value and volume, but also in relation to total American imports in each of these groups. The decline in Europe's share was especially pronounced in semi-manufactures and finished manufactures. While Europe's exports within each of these classes of goods tend to be rather specialized in character and perhaps not closely competitive with United States imports within the same groups from

other sources, the decline in the proportion of United States imports supplied by Europe is consistent with the view elaborated subsequently that European export prices had become too high. This would be a factor of special importance in a depressed market such as prevailed in the United States in the beginning of 1949.

Table 74 indicates that, as had generally been true during the sharper United States recession in 1938, the reduction in exports to the United States in 1949 was common to virtually all European countries. Such differences as there were in the behaviour of their exports are to be explained primarily by special factors. Thus, the rise in exports from Greece and Yugoslavia in contrast to the general trend is attributable to large shipments of Greek tobacco and to the diversion of Yugoslav copper and lead to the American market. Similarly, the increase in German exports ²

¹ Imports of beverages, chiefly whisky from the United Kingdom, were likewise something of an exception, limitations of supply holding the movement to a fairly stable pattern chiefly characterized both in 1948 and 1949 by the fourth quarter upturn to meet holiday demands.

² All figures for the overseas trade of Germany in post-war years given in this chapter refer only to the western zones. It would appear, however, from the limited information available regarding the trade of the Soviet Zone that it had practically no trade with overseas countries.

Table 74
EXPORTS FROM EUROPEAN COUNTRIES TO THE UNITED STATES
Millions of dollars in current prices and percentages

Country	Exports to United States (millions of dollars)				Per cent of total exports to all overseas countries			
	1937	1938	1948	1949	1937	1938	1948	1949
Turkey	15	14	42	31	67	74	56	42
Greece	14	15	13	20	64	75	54	63
Bulgaria	2	3	3 ^a	2 ^a	43	75	..	..
Finland	16	17	40	30	44	65	45	41
Yugoslavia	7	6	5 ^a	15 ^a	52	54	..	..
Sweden	56	42	82	60	50	45	26	22
Norway	20	15	32	27	40	47	29	30
Poland	19	12	1	3 ^a	46	41	14	..
Spain	14 ^a	8	35	22	..	36	17	12
U.S.S.R.	28 ^b	23 ^b	78 ^a	42 ^a	32	34	..	..
Czechoslovakia	39	23	23	20 ^a	36	27	15	..
Switzerland	26	21	106	100	31	25	33	32
Denmark	6	5	7	7	29	26	13	14
Belgium	65	52	101	92	26	26	18	17
Hungary	5	4	2 ^a	2 ^a	28	24	15	..
Portugal	4	3	18	15	23	21	18	20
Netherlands	41	20	32	39	23	13	12	11
Austria	6	3	10	9	18	13	40	22
Italy	41	41	95	44	14	16	17	9
France	61	49	63	54	14	13	5	3
Rumania	4	2	1 ^a	1 ^a	13	11	..	..
Germany	84	60	29 ^c	48 ^c	12	9	38	26
United Kingdom	155	101	267	206	8	7	6	4
Other European countries	2	2	5	4	..	..	..	..
Total Europe	730	541	1,090	893	16	15	11	10

Sources : The figures have been taken from national statistics.
^a From United States statistics.

^b Including pre-war Baltic states.
^c Western Germany only.

to the United States is to be explained both by their exceptionally low volume in relation to pre-war and by the shipments of steel and scrap mentioned above, while the moderate increase in Dutch exports to the United States consisted chiefly of a few special items such as tin, flower bulbs and antiques.

Apart from these exceptions of the general trend, Switzerland was the only large exporter to the United States which succeeded in keeping its exports in 1949 close to the level of the preceding year.¹ There was some decline in exports of watches and watch movements, which alone account for more than half of

¹ Exports from Czechoslovakia were also very well maintained, but on a much smaller volume of trade than in the case of Switzerland.

total Swiss exports to the United States, but Switzerland appeared to maintain its competitive position better than most countries in textiles, machinery and specialized foodstuffs. Judged by the over-all results, it would also appear that Belgium had succeeded moderately well in maintaining its competitive position, but the total value of Belgian exports to the United States for the year was influenced by unusually large shipments of steel mill products during the first quarter. On the other hand, Italy, the one other European country which, together with Belgium and Switzerland, has followed a restrictive monetary policy with a view to currency stability and its external balance-of-payments position, experienced a drastic setback in its exports to the United States, the total

decline as given by Italian trade statistics being more than 50 per cent compared with 1948 and extending to the whole range of Italian sales in the American market.¹

The United Kingdom, which had raised its share in total European exports to the United States from about one-fifth before the war to one-quarter in 1948, shared in the general decline. The fall in British exports was, in fact, somewhat greater than the average, but this is explained by the almost complete collapse of British motor-car sales in the United States in the face of expanding American production and the increasingly competitive conditions of the market as the accumulated post-war demand was satisfied.

It may be noted that, in Table 74, European countries have been arranged in descending order with respect to the proportion of their total overseas exports accounted for by the United States in the pre-war years 1937 and 1938. The list is headed by Mediterranean, eastern European and Scandinavian countries, whose exports have traditionally consisted chiefly of raw materials and semi-processed goods, whereas those countries exporting predominantly manufactured products occupy a much lower position on the scale. It is clear that the relative importance of the United States market has been far greater for those countries exporting chiefly such products as tobacco, wood-pulp, metals and furs, than for those whose exports consist mainly of manufactures or foodstuffs.

No export drive since the war has altered this picture. In spite of campaigns waged with varying degrees of intensity to promote dollar-earning exports, nearly all European countries now sell in the United States a smaller proportion of their total overseas exports than they did before the war, and the raw-material exporters still head the list. Other than Germany and Austria, where wholly exceptional conditions prevail,² Switzerland is the only country primarily exporting manufactures which sells as much

as one-third of its overseas exports in the United States and which has not experienced a substantial decline in the relative importance of that market in its overseas trade. Before the war, Czechoslovakia, which is chiefly an exporter of manufactured products, sold a considerable part of its overseas exports in the United States, but the relative importance of this trade has diminished very much since the war. The experience of these two small but industrially developed countries, neither of which has any dependent territories overseas, stands in contrast to that of other countries near the bottom of the list, whose distribution of exports appears to have been strongly affected by the pull of sheltered markets in dependent overseas territories and affiliated currency areas. It may also be noted that Belgium, which sells a very small percentage of its total overseas exports to its own colonies (only 7 per cent in 1938), sold a greater percentage to the United States than the other countries with overseas dependencies, and that they, on the other hand, have generally increased the proportion of their overseas exports going to the sheltered markets since the war.³

The post-war increase in the proportion of exports going to the overseas territories has been especially marked in the case of France, and its sales to the United States now account for only about 6 per cent of total European exports to that market and for an even smaller share of total French exports to all overseas countries. In the case of the United Kingdom, the relative shift has been of much smaller dimensions and is not due to a decline in the volume of its sales to the American market, but to the very great increase in its exports to the overseas sterling area.

Post-war Trends in Exports of Manufactures

The post-war years brought a great expansion in exports of manufactures from highly industrialized to less industrialized countries. The extent of this growth can be seen in Table 75, which shows exports in ten major commodity groups from Europe, the United States and Japan to the principal markets in the rest of the world in 1938, 1948 and 1949. In this table the pre-war figures have been adjusted to approximate post-war prices to give a better indication of the changes in the volume of exports and the figures for 1949, based on exports in the first nine

¹ As measured by United States statistics of imports from Italy, however, the decline was more moderate, about 25 per cent or somewhat more than the average fall in total European exports to the United States.

² The proportion of Germany's and Austria's overseas exports accounted for by the United States has increased substantially compared with 1937 and 1938 (although falling in the past year), but this chiefly reflects the fact that neither of these countries has made very much headway in re-establishing its overseas markets elsewhere.

³ See last year's SURVEY, page 124.

months of the year, have been expressed at annual rates.¹

From these figures, it will be seen that, in spite of the low level of Japanese exports since the war, the total exports of manufactures from these principal industrial areas reached a level about 45 per cent higher in 1948 and nearly 60 per cent higher in 1949 than that attained in 1938. As can be seen from the lower half of the table, this was the result of widely different increases in sales to different parts of the world. Imports of manufactures into Western Hemisphere countries (excluding the United States) were already twice the pre-war level in 1948. Imports in 1948 into overseas areas affiliated with Europe, on the other hand, were little more than one-quarter greater than before the war, while imports into all other countries covered by the analysis (excluding Japan) were still below the pre-war level. In the light of these differences in the level of imports reached in 1948, it is therefore not surprising to find that no further increase occurred in Western Hemisphere imports in 1949, although imports into other areas expanded, especially imports into the dependent overseas territories and the rest of the overseas sterling area.

Among manufactures, capital goods² have accounted for most of the post-war expansion. Exports of transport equipment from the three sources covered by Table 75 were nearly three times the 1938 volume in 1949; exports of machinery more than doubled in volume; exports of metals and manufactures rose by 70 per cent, and exports of chemicals by 50 per cent. Among consumers' goods, on the other hand, it was only exports of passenger cars that rose

markedly, the 1949 level being almost twice as great as before the war. This no doubt reflected in part the back-log of demand accumulated during the war years. Exports of textiles and of other consumers' goods (as given by the group "all other manufactures") rose only moderately above the 1938 level.

This remarkable concentration of trade in capital goods reflects both the replacement needs accumulated during the war and the strong emphasis on industrial development in virtually all overseas countries. Industrialization has served not only to increase the demand for machinery, transport equipment and other capital goods, but also to reduce the import demand for many types of consumers' goods. The reduction is felt particularly in such consumers' goods as textiles, footwear, and paper products which do not require a high degree of technical skill in production, particularly for the more simple qualities in demand at the low average level of incomes in many overseas areas. Thus, the local production of textiles, which are traditionally the most important type of consumers' goods exported by Europe, has expanded rapidly in many areas; in Latin America and Oceania, output has doubled and in Africa it has trebled since the war.³ Moreover, even in countries where local production has not expanded, greater imports of textiles and other consumers' goods have in many cases been restricted by import licensing, in order that foreign exchange may be reserved for imports of capital equipment.

In the development of trade from 1948 to 1949, however, imports into the less developed countries, taken as a group, increased only in metals and metal manufactures, in transport equipment and textiles, whereas all other groups of manufactures remained constant or even diminished. Exports from Europe reflected the slowing-down or levelling-off of trade in chemicals and miscellaneous consumers' goods. European exports of machinery, passenger cars and textiles, on the other hand, continued to increase, even though United States exports of these commodities declined, and in metals and manufactures and transport equipment European exports rose considerably more than exports from the United States.

These comparisons, however, may give an unduly favourable impression of the developments in Europe's exports and of world trade in manufactures in general

¹ This table and Tables 76, 77 and 78 are based on a sample covering about 80 per cent of European exports to all overseas destinations. This sample has been chosen by listing all exports from any European country to any overseas country which amounted, in the aggregate, to more than \$10 million (post-war prices) during any of the years 1938, 1948 and 1949, as far as details by commodities are available in published trade returns. Exports from the United States and Japan, as given in the tables, cover the same markets as exports from Europe. Figures for 1938 have been adjusted to 1948 prices by means of the most appropriate export or wholesale price factors available, but no adjustment has been made in the export values for 1949, since price changes in that year compared with 1948 were not sufficient to impair comparability. It is to be noted that in these trade tables the British colonies are grouped with other European dependent overseas territories, whereas in the tables presented in connection with the balance-of-payments analysis in this chapter, as well as in Chapter 7, the British colonies are included with the rest of the overseas sterling area. For further details, see the footnotes to the tables, and Appendix B.

² See footnote 1, page 86.

³ Measured by the increase in fibre consumption. See *Fibers*, August 1949, Food and Agriculture Organization.

from 1948 to 1949. The examination of quarterly trends in trade in the first section of this chapter has already made clear that, although Europe's overseas exports stood at a higher average level in 1949, the main expansion had come in the course of 1948, after which the upward momentum was lost. This slowing-down in trade was also noticeable in two of the principal commodities in which exports from the more developed to the less developed countries were in total substantially higher in 1949 than in 1948 ; that is, steel (in the metals and manufactures group) and textiles (especially cotton goods). War-time shortages of these goods in a number of markets had not yet been overcome in 1948, but this situation appeared to change in 1949, and the upward movement in world exports of both steel and textiles showed signs of tapering off in the summer of the year.

European and American Competition on World Markets

During the post-war years up to and including 1948, the greater part of the expansion in exports of manufactures from the more developed to the less developed countries of the world had been carried out by the United States. While the aggregate volume of Europe's exports of manufactures in 1948 was somewhat larger than in the last pre-war year, its share in the total had declined from two-thirds to little more than one-half. In 1949 this disparity was modified slightly, and Europe's share rose somewhat, chiefly because of the increase in its exports of capital equipment and of textiles.¹

Examination of the data in Table 76 indicates, however, that this relative gain in Europe's share from 1948 to 1949 was not accomplished except in very slight measure through direct and successful competition with the United States in common markets. It was more a reflection of the fact that exports of European countries continued to expand to the markets in which they have historically predominated, whereas, as previously observed, imports into Western Hemisphere countries showed no further increase. Thus, Europe's exports of manufactures to sheltered markets in the dependent overseas territories and to other countries in the sterling area rose by about \$850 million from 1948 to 1949

(bringing them to a level \$1.5 billion higher than in 1938). The expansion in Europe's exports of manufactures to Western Hemisphere countries and to other overseas countries (excluding the United States and Japan from the comparison) was, on the other hand, very small compared either with the preceding year or with 1938. Although, as is shown later, the explanation lies partly in the greatly diminished role of Germany as an exporter, the fact remains that, as a group, European countries have so far failed to capture any significant part of the enormous expansion of some \$2 billion in Western Hemisphere imports of manufactures. In 1949, Canada and the Latin American republics together imported some \$450 million more of metals and manufactures, \$700 million more of machinery, and \$600 million more of transport equipment than in 1938. Out of this total increase of \$1,750 million in these three major groups of capital equipment, Europe's share was only about \$150 million or less than 10 per cent, and the remainder came from the United States. In passenger cars, on the other hand, Europe seemed already before devaluation to be gaining ground from the United States in Western Hemisphere markets (other than in the United States domestic market), but the volume of trade was relatively small compared with that in capital goods. While the proportion of total imports of manufactures of all types into these Western Hemisphere markets which were supplied by Europe was moderately higher in 1949 than in 1948, Europe's share still remained only 30 per cent of the total compared with more than one-half before the war.

In the dependent overseas territories and other markets in the sterling area, on the other hand, Europe's position is naturally very much stronger and it still supplies, as before the war, three-quarters or more of their imports of manufactures from the more industrialized countries. Even here, while the absolute volume of Europe's exports in all groups of manufactures has increased substantially and constitutes the greater part of total imports into these areas in each instance, imports from the United States in all types of capital equipment have also increased in absolute amount and in relative share in the market. It is chiefly in textiles that the European share has shown a significant increase, and this is largely attributable to the temporary absence of Japanese exports.

Europe's failure to make a more satisfactory showing compared with the United States in world

¹ The figures are, as mentioned above, based upon trade returns in current prices for the post-war years. As Europe's export prices for manufactures increased slightly from 1948 to 1949, while United States prices declined, the shift may be somewhat overstated in the figures shown in the tables.

Table 76

RELATIVE IMPORTANCE OF EUROPE, THE UNITED STATES AND JAPAN
IN THE EXPORTS OF MANUFACTURES TO THE REST OF THE WORLD, BY MAJOR IMPORTING AREA

Millions of dollars

1938 figures in 1948 prices; post-war figures in current prices

Commodity group and year	To dependent overseas territories (including British colonies)			To rest of the overseas sterling area			To Western Hemisphere (excluding the United States)			To other overseas countries (excluding Japan)			Total		
	From		Europe as per cent of total	From		Europe as per cent of total	From		Europe as per cent of total	From		Europe as per cent of total	From		Europe as per cent of total
	Europe	United States and Japan ^a		Europe	United States and Japan ^a		Europe	United States and Japan ^a		Europe	United States and Japan ^a		Europe	United States and Japan ^a	
3. Metals and manufactures	1938 1948 1949 ^b	181 234 332	89 82 85	300 284 366	34 100 120	90 74 75	244 230 253	166 572 606	60 29 29	115 81 110	31 29 29	79 74 79	840 829 1,061	254 753 813	77 52 57
4. Machinery	1938 1948 1949 ^b	138 235 310	76 69 71	340 512 603	104 222 224	77 70 73	183 257 248	347 1,141 956	35 18 21	64 102 114	62 58 67	51 64 63	725 1,106 1,275	557 1,528 1,376	57 42 48
5. Passenger cars	1938 1948 1949 ^b	21 48 54	78 79 83	29 80 101	43 72 25	40 53 80	10 37 48	55 91 73	15 29 40	3 10 9	7 7 15	30 59 38	63 175 212	111 183 124	36 49 63
6. Transport equipment	1938 1948 1949 ^b	85 138 188	73 77 69	147 208 316	24 111 128	86 65 71	85 122 160	77 479 566	52 20 22	37 37 39	32 35 48	54 51 45	354 505 703	164 667 826	68 43 46
7. Chemicals and related products	1938 1948 1949 ^b	73 87 91	87 73 73	125 127 141	20 65 51	86 66 73	120 65 69	73 286 281	62 19 20	48 50 44	25 25 28	66 67 61	366 329 345	129 408 394	74 45 47
8. Textiles and manufactures	1938 1948 1949 ^b	423 381 548	70 69 83	498 590 720	291 152 163	63 80 82	360 275 304	88 205 165	80 57 65	104 111 96	112 42 68	48 73 59	1,385 1,357 1,668	670 567 508	67 71 77
9. All other manufactures	1938 1948 1949 ^b	146 185 200	86 85 85	276 301 293	49 54 35	85 85 89	170 157 124	108 242 222	61 39 36	67 58 57	44 43 22	61 57 72	659 701 674	224 372 315	75 65 68
Total, groups 3-9	1938 1948 1949 ^b	1,067 1,308 1,723	77 75 79	1,715 2,102 2,540	565 776 746	75 73 77	1,172 1,143 1,206	914 3,016 2,869	56 27 30	438 449 469	313 239 277	58 65 63	4,392 5,002 5,938	2,109 4,478 4,356	68 53 58

NOTE. — The figures are derived from the same sources and cover the same countries as those in Table 75.

^a The post-war figures for Japan are estimated.

^b Annual rate for first 9 months.

markets—especially its failure to obtain a larger share in the greatly expanded imports of Western Hemisphere countries—is to be explained by several basic factors inherent in the post-war situation which have combined to render its competitive status difficult.¹ One of these factors, the roots of which lie far in the past, is that the commodity structure of Europe's exports has been far less suited than that of the United States to supplying the types of goods demanded by overseas countries. The analysis has already shown that capital goods are the products for which the import demand has been really active in countries where American and European trade meets in competition. Europe, however, has entered this competitive struggle with an export structure historically based largely on consumers' goods. In 1938 (as may be seen from Table 75), almost 50 per cent of Europe's exports consisted of textile manufactures and miscellaneous consumers' goods.² This emphasis on consumers' goods is related—as both cause and effect—to the strong concentration of European exports on the dependent overseas territories and other sheltered markets where large outlets for textiles and other consumers' goods have been maintained. Before the war, about 55 per cent of the total imports of manufactures into these protected trading areas from the more developed countries consisted of consumers' goods, whereas in the Western Hemisphere the proportion was only about 38 per cent. In both instances, these proportions have sharply declined since the war, as priority has been given to imports of capital equipment.

The position of different European countries varied, of course, with respect to the relative shares of consumers' and capital goods in their exports to overseas countries. In the case of Germany, the share of heavy industrial products—that is, the products of the metal, engineering, and chemical industries—was about 75 per cent, but for the United Kingdom and Belgium-Luxembourg it was only about 50 per cent; for other European industrialized countries it averaged roughly 35 per cent. For Europe as a whole, the share of the products of heavy industry in its

total exports of manufactures to overseas countries averaged some 50 per cent in 1938.

By contrast, the role of consumers' goods in United States exports has been relatively minor. As a country with a rapidly advancing heavy industry, where the production of investment goods has been of relatively greater importance and where intensive domestic competition has pushed the latest technical developments to the fore, the United States has exported manufactures consisting overwhelmingly of capital equipment and other products of heavy industry. In 1938 these products made up four-fifths of United States exports of manufactures to non-European countries. This was the result of an historical development extending over several decades before the last war, during which United States exports of manufactures were largely concentrated on goods in which world trade was expanding, whereas exports from Europe, with its older industrial structure, consisted more of goods in which international trade was levelling off or declining. The accumulated back-log of demand for textiles built up during the war years and the temporary eclipse of Japan as an exporter of textile products have served to mask the effects of these long-term trends in the development of Europe's post-war trade, and have led to an expansion of its textile exports to well above the 1938 level. When account is taken of the very low level of Japanese textile exports in recent years, the total level of imports of textiles into overseas countries is, as mentioned above, only moderately greater than before the war. The satisfaction of deferred demand and the return of Japanese competition on world markets may be expected to confront European exporters more sharply than before with the decline in the relative importance of consumers' goods in world trade.

A second important factor in the weakening competitive position of Europe since the war has been the virtual disappearance of German exports to overseas areas. The summary figures cited above show that before the war Germany was, of all European industrialized countries, most like the United States with respect to the relative importance of heavy industrial products in the structure of its exports. Moreover, since Germany, like other countries without overseas dependencies, stood at a disadvantage in gaining access to the protected overseas markets of other European countries, the bulk of German overseas exports went to the Western Hemisphere

¹ The question of relative prices, which is not considered here, is discussed in the next chapter.

² The percentage is based (as is the rest of this analysis of trade in manufactures) on the values of trade at post-war prices. At pre-war prices, the relative importance of textiles and other consumers' goods in Europe's exports would be somewhat less.

Table 77

RELATIVE IMPORTANCE OF EXPORTS FROM GERMANY^a AND OTHER EUROPEAN COUNTRIES

Millions of dollars

1938 figures in 1948 prices ; post-war figures in current prices

Commodity group Importing area and year	Western Hemisphere (including the United States)			Dependent overseas territories and the overseas sterling area			Other overseas countries (including Japan)		
	1938	1948	1949 ^b	1938	1948	1949 ^b	1938	1948	1949 ^b
1-2. Food and raw materials									
From : Germany	58	6	7	7	—	2	10	—	—
Other European countries.	679	463	350	427	398	483	59	70	67
3. Metals and manufactures									
From : Germany	137	13	42	62	4	15	65	—	6
Other European countries.	184	333	345	419	514	683	65	81	107
4. Machinery									
From : Germany	101	2	6	48	1	7	52	—	1
Other European countries.	106	290	266	430	746	906	40	102	113
5-6. Passenger cars and transport equipment									
From : Germany	45	—	—	25	1	2	25	—	—
Other European countries.	61	195	230	257	473	657	23	47	48
7. Chemicals and related products									
From : Germany	107	7	8	42	3	7	46	1	1
Other European countries.	98	94	86	156	211	225	16	49	44
8-9. Textiles and all other manufactures									
From : Germany	140	9	13	51	6	7	31	3	4
Other European countries.	770	757	684	1,292	1,451	1,754	142	166	149
10. Unspecified									
From : Germany	1	—	—	—	—	—	—	—	—
Other European countries.	102	51	56	205	197	262	35	24	31
Total, groups 1-10									
From : Germany	589	37	76	235	15	40	229	4	12
Other European countries.	2,000	2,183	2,017	3,186	3,990	4,970	380	539	559

NOTE.—The figures are derived from the same sources and cover the same European exporting countries as those in Table 75. However, the importing countries also include the United States and Japan, as indicated.

^a For 1938, the figures refer to the whole of Germany ; for post-war years, they refer to the western zones only.

^b Annual rate for first 9 months.

and the Far East, as may be seen in Table 77.¹ It thus developed that Germany was the most important European source of supply in these markets for chemicals, machinery and steel. It delivered in 1938

¹ Since Table 77 is intended to show the relative position of Germany and other European countries in their overseas exports, the United States and Japan are included, as indicated in the column headings, whereas these countries are excluded from the overseas markets in Tables 75 and 76, which are designed to show the competitive status of Europe in relation to the United States and Japan.

roughly half of Europe's exports of chemicals and machinery and about 40 per cent of Europe's exports of steel and other metals and manufactures to the Western Hemisphere. The post-war competitive situation is therefore characterized by the fact that, at a time when extraordinary post-war demand has been centred upon heavy industrial products, the country which had hitherto been the principal European exporter to the Western Hemisphere has been almost entirely absent as a source of supply.

When allowance is made for the virtual disappearance of Germany as an exporter, it will be seen that the performance of other European countries in Western Hemisphere markets has been impressive in many respects. Their exports of metals and manufactures in 1949 were almost double, and in machinery more than double, the 1938 volume, and the amount exported in both instances was greater than the total exports by all European countries, including Germany, to these markets in 1938. In passenger cars and transport equipment the volume increased almost fourfold (excluding Germany). In textiles and other consumers' goods, as well as in chemicals, the performance was, however, less satisfactory, and the level of total exports to the Western Hemisphere was adversely influenced by the low volume of exports of food and raw materials, which had formerly been of some importance in the trade.

The third factor accounting for Europe's poor competitive position in international trade since the war has been that the products in strong demand in overseas markets were also those urgently required for reconstruction and development in Europe itself. Since the end of the war, European countries have been faced with the difficult choice between using their production of capital goods for rebuilding and developing their own industries and selling these goods abroad. In many instances, particularly in the earlier post-war years, there was no real choice because of the necessity for undertaking essential reconstruction work at home, and many countries have continued to give priority to further development and modernization of their domestic industry. The urgency of reconstruction in overseas areas closely affiliated with European countries by monetary and political ties, together with the back-log of demand in these areas for both capital and consumers' goods, also helps to explain why such a large part of Europe's exports since the war have been directed to those markets.

Again by way of contrast, the United States has been in a far better position to meet the post-war demand of overseas countries for capital goods. Its own industry had undergone considerable expansion during the war, particularly in the field of engineering products and chemicals, and it did not face reconstruction demands at home similar to those in Europe. While there was for a time a considerable back-log of deferred maintenance to be worked off, the problem for the United States soon became one of finding adequate outlets for its productive capacities in the

equipment field rather than one of insufficiency of production to meet demand. It was therefore inevitable that the greater part of the expanded post-war demand in Latin America and Canada should have been satisfied principally through exports from the United States, particularly since in many of these countries large reserves of dollars had been accumulated during the war, so that payment presented no difficulty.¹ The United States thus reinforced its position in those markets where the close economic ties it had developed in earlier years had already been greatly strengthened during the war, when the United States alone was in a position to provide essential capital goods and when many investment projects necessary to the prosecution of the war were carried out in those countries with the aid of equipment and financing supplied by the United States.

Through the more intensive use of their industrial capacity and the expansion of that capacity through new investment, particularly in heavy industry, European countries have now been able to achieve a marked growth in their overseas exports of capital goods. Despite the still negligible volume of exports from Germany, the total amount of capital goods exported to overseas countries by Europe increased by \$600 million from 1948 to 1949 and reached a level 40 per cent greater than in 1938, whereas the rate of expansion in exports of consumers' goods was only one-third as great, as is shown in Table 78. This means that, for countries other than Germany, exports of capital equipment approximately doubled in 1949 compared with 1938, while exports of consumers' goods increased by about one-quarter.

The result has been a marked increase in the relative share of capital goods in European exports of manufactures to overseas countries. In the case of the United Kingdom, which already before the war was the largest exporter of capital equipment overseas, the share has risen from about half in 1938 to almost 60 per cent in 1949. The United Kingdom alone accounted for almost three-quarters of the total expansion carried out by European countries other than Germany in overseas exports of capital equipment during this period. In absolute terms, the greater part of the increase in British exports of capital goods has gone to the overseas sterling area, but the United Kingdom has also accounted for the greater

¹ In 1945, the gold and short-term dollar holdings of the American republics amounted to some \$3.9 billion and those of Canada to \$1.9 billion.

Table 78

EXPORTS OF MANUFACTURES FROM EUROPEAN COUNTRIES TO THEIR PRINCIPAL MARKETS IN THE REST OF THE WORLD

Millions of dollars. 1938 figures in 1948 prices; post-war figures in current prices.

A = Capital goods^a B = Consumers' goods^b

Exporting country	Importing area and year	Dependent overseas territories, including British colonies			Rest of the overseas sterling area			Dollar area, (including the United States)			Latin America (excluding countries in dollar area)			Other overseas countries (including Japan)			Total		
		1938	1948	1949 ^c	1938	1948	1949 ^c	1938	1948	1949 ^c	1938	1948	1949 ^c	1938	1948	1949 ^c	1938	1948	1949 ^c
United Kingdom..	A	168	315	416	675	1,011	1,260	90	178	195	117	237	256	99	186	200	1,149	1,927	2,327
	B	143	230	316	633	795	949	233	313	284	122	86	105	63	78	70	1,194	1,502	1,724
France	A	143	307	389	8	5	11	17	11	10	33	25	52	18	22	37	219	370	499
	B	236	313	385	7	9	13	65	37	32	25	22	26	14	25	28	347	406	484
Netherlands	A	44	23	48	13	6	10	13	7	19	5	9	7	2	4	5	77	49	89
	B	77	23	53	13	19	12	14	4	2	6	2	2	2	1	2	112	49	71
Belgium-Luxembourg	A	23	44	58	44	52	71	33	47	59	59	94	65	15	19	15	174	256	268
	B	8	16	17	34	31	16	83	61	47	24	25	28	7	2	3	156	135	111
Switzerland	A	d	d	d	9	15	17	10	14	12	11	33	36	3	4	2	33	66	67
	B	d	d	d	11	21	15	31	86	73	16	26	16	10	8	10	68	141	114
Italy	A	58	—	1	3	13	12	2	24	11	11	114	97	2	19	30	76	170	151
	B	109	3	4	33	55	79	38	38	21	44	62	60	39	52	37	263	210	201
Portugal	A	1	5	5 ^e	d	d	d	d	d	d	d	d	d	d	d	d	1	5	5 ^e
	B	5	27	23 ^e	d	d	d	1	4	3 ^e	1	3	1 ^e	d	d	d	7	34	27 ^e
Sweden	A	d	d	d	15	10	9	12	6	5	13	26	23	1	1	1	41	43	38
	B	d	d	d	8	5	4	3	3	4	6	13	1	1	1	1	18	22	10
Norway	A	d	d	d	1	—	3	10	11	12	d	d	d	d	d	d	11	11	15
	B	d	d	d	4	12	7	—	2	1	d	d	d	d	d	d	4	14	8
Finland	A	d	d	d	d	d	d	1	—	—	—	—	—	d	d	d	1	—	—
	B	d	d	d	d	d	d	4	4	3	2	2	3	d	d	d	6	6	6
Germany f.	A	40	—	4	132	9	27	149	19	44	235	3	12	187	1	8	743	32	95
	B	12	2	4	44	4	3	66	9	13	80	—	—	32	3	4	234	18	24
Czechoslovakia g.	A	d	d	d	12	10	..	2	2	..	5	12	..	2	14	..	21	38	..
	B	d	d	d	16	20	..	45	18	..	11	8	..	8	9	..	80	55	..
Total	A	477	694	921	912	1,131	1,426	339	319	369	489	553	560	329	270	311	2,546	2,967	3,587
	B	590	614	802	803	971	1,114	583	579	498	337	249	253	176	179	162	2,489	2,592	2,829

Sources: The figures are derived from the same sources and cover the same European exporting countries as those in Table 75. However, the importing countries also include the United States and Japan, as indicated.

Note: — "Dollar area" includes Canada, Colombia, Mexico and Venezuela as well as the United States.

^a "Latin America" includes Argentina, Brazil, Chile, Peru and Uruguay.

^e "Capital goods" includes groups 3, 4, 6 and 7 in Table 75.

^b "Consumers' goods" includes groups 5, 8 and 9 in Table 75.

^c Annual rate for first 9 months.

^d Exports are known or believed to be of negligible importance in relation to the magnitude of the figures shown, or details for the computation of these figures are lacking in the available sources.

^e Estimate

^f For 1938, the figures refer to the whole of Germany; for post-war years, they refer to the western zones only.

^g Since no figures are available for Czechoslovakia for 1949, estimates have been made for that year and are included in the totals.

part of the increase in exports to the Western Hemisphere, its sales of capital goods having more than doubled in volume from 1938 to 1949 both in the dollar area and in Latin American countries outside the dollar area.

The increase in the relative importance of capital goods in the overseas exports by some of the smaller trading countries has been even more remarkable. The proportion of such goods in manufactured exports from Belgium-Luxembourg rose between 1938 and 1949 from 53 to 71 per cent, in French and Dutch exports from about 40 to more than 50 per cent, and in Italian exports from 22 to 43 per cent. In the case of Italy, the change in the composition of exports

has been accompanied by a striking geographic re-orientation. Its former colonies were the market for three-quarters of its exports of capital goods and for 40 per cent of its exports of consumers' goods to overseas markets before the war. Following the loss of the colonies, Italy has carried out a relatively large expansion in its exports to other overseas areas. The increase was particularly marked in its sales of consumers' goods to the sterling area and in its sales of capital equipment to Western Hemisphere markets, although its exports to the Western Hemisphere seem to have been even more sensitive than those of most other European countries to the recession in trade in 1949.

4. EUROPE'S OVERSEAS IMPORTS

Behind the relative stability in the total volume of Europe's overseas imports in 1949 compared with 1948, there were a number of important shifts both in commodity composition and in sources of supply. The data in Table 79 covering most of Europe's principal imports of foodstuffs and industrial materials from overseas show that, expressed in constant prices, large increases occurred in imports of oils and oilseeds, cotton and wool, and mineral oil. This was partly compensated by smaller imports of bread grain, sugar and eggs, and by a further decline in the extraordinary post-war imports of coal from the United States which had become of minor importance by the end of the year.

The decline in imports of grain and sugar principally reflected the improvement in Europe's harvests in 1948 and the fall in imports of eggs may also be attributed to the increase in European supplies of this product and of other foodstuffs.

Compared with pre-war years, Europe's imports of foodstuffs in 1949 still included much larger amounts of such basic items as bread grain and sugar, but its imports of oilseeds, despite the increase from 1948, remained \$1 billion smaller than before the war (in terms of post-war prices) and imports of meat, coffee and tobacco continued to be restricted to levels appreciably lower than before the war. It will be noted that the ratio between oilseeds and oils has shifted remarkably, imports of processed or refined products having increased at the expense of imports of the raw materials. This development results chiefly from the heavy decline in supplies of oilseeds from the principal producing areas overseas both in Latin America

and in the Far East, especially India, Manchuria and Indonesia. Europe has had to compensate for this decline through larger imports of processed oils from other sources, including the United States and Canada.¹

It will also be seen that, among the industrial materials included in Table 79, imports of textile fibres remain smaller than before the war, despite the increase from 1948. This is partly explained by the extensive substitution of artificial for natural fibres in European textile production. On the other hand, there has been a far greater expansion in imports of mineral oils, which are now 50 per cent greater than before the war and alone accounted for about one-tenth of the total value of Europe's imports of all products from overseas countries in 1949. In this instance, a development opposite to that observed in vegetable oils has occurred, since there has, on balance, been a sharp shift towards the importation of crude oil and the development of European refining capacity in order to minimize expenditure on imports of the more expensive refined products.

Among the foodstuffs and raw materials covered by Table 79, the principal shifts in sources of supply from 1948 to 1949 were the large increases in imports both from the United States and from the overseas sterling area and a substantial reduction in imports

¹ An important contributory factor to the shift between oilseeds and processed oils in Europe's overseas imports has been the preference given in some overseas producing areas, particularly Argentina, to their own crushing and processing plants, which have been considerably expanded in recent years. These changes have had the dual effect of leaving European processing capacity under-utilized and of increasing substantially the cost to Europe of meeting its requirements of fats and oils overseas.

Table 79

EUROPE'S IMPORTS OF SELECTED FOODSTUFFS AND INDUSTRIAL MATERIALS BY AREA OF ORIGIN

Millions of dollars based on quantities valued in 1948 typical prices, f.o.b.

Area of origin and year Commodity	United States		Canada		Latin American republics		Overseas sterling area (including British colonies)		Dependent overseas territories (excluding British colonies)		Unspecified countries ^a		Total overseas imports	
	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1936-1938 ^b	1948 1949
Foodstuffs														
Bread grain	767	630	444	476	183	103	114	96	1	23	159	129	885	1,668 1,457
Coarse grain	59	238	16	15	252	122	38	46	11	53	108	59	748	484 533
Sugar	15	25	—	—	501	352	125	181	17	26	5	19	491	663 603
Meat	13	17	46	11	178	196	198	186	3	3	2	8	571	440 421
Butter	1	—	—	—	11	4	209	206	—	1	—	—	239	221 211
Cheese	21	27	10	14	5	3	66	75	—	—	—	—	86	102 119
Eggs	13	10	43	19	3	1	19	22	8	5	13	5	83	99 62
Oilseeds	55	192	23	29	21	41	317	370	215	282	119	136	2,026	750 1,050
Fats and oils	54	143	6	10	91	95	225	176	76	111	47	118	521	499 653
Coffee	—	—	—	—	126	156	15	11	69	54	1	—	360	211 221
Tea	—	—	—	—	—	—	282	316	2	9	2	2	321	286 327
Tobacco	151	170	6	6	20	22	48	58	10	19	—	—	357	235 275
Industrial materials														
Coal	211	113	—	—	—	—	1	—	1	2	—	—	31	213 128
Mineral oil	149	113	—	—	117	146	168	275	326	213	365	488	818	1,125 1,235
Copper	55	44	37	32	30	26	82	87	62	61	33	26	445	299 276
Timber	21	13	94	75	3	3	13	15	19	19	—	2	139	150 127
Raw wool	8	8	1	1	97	62	751	917	4	2	—	—	1,003	861 990
Raw cotton	322	700	—	—	213	179	134	149	67	57	265	195	1,670	1,001 1,280
Hides and skins	10	16	2	7	161	202	101	141	25	22	65	12	350	364 400
Rubber	7	6	4	6	—	—	249	231	42	42	3	5	199	305 290
Total	1,932	2,478	732	701	2,012	1,713	3,155	3,558	958	1,004	1,187	1,204	11,343	9,976 10,658

Sources: Research and Planning Division, Economic Commission for Europe. For details of the methods of computation and an explanation of "typical prices", see Appendix B.

^a "Unspecified countries" includes imports from overseas countries other than those specified and also imports from the specified countries which cannot be separately identified in the available data according to country of origin.

^b The italicized figures refer to 1938 only.

from Latin America. The increases in imports from the United States were to a large extent in commodities where the amounts obtained from Latin America declined, notably coarse grain and cotton. Apart from this diversion of purchases from one part of the Western Hemisphere to another, one of the most significant shifts was that in the source of supply for mineral oil. There was a heavy fall in imports of refined oil products from the Dutch West Indies (in the dependent overseas territories group), where production is based on oil originating in Venezuela and has a high "dollar content". This decline together with a smaller reduction in imports of mineral oil from the United States, was much more than offset, however, by an expansion in imports from most other sources, particularly from sterling area countries in the Middle East and other producing centres in that region. Mineral oil and wool were the leading commodities in which imports from the sterling area expanded, although there were also smaller increases in imports of sugar and oilseeds. Otherwise, there was little evidence of any general increase in availabilities of foodstuffs and raw materials from that area.

The cause of the substantial decline in imports from Latin America and its significance for the future are not easy to determine.¹ In the case of sugar, the fall appears to be attributable largely to increased production within Europe and to increased supplies from other non-dollar sources. The explanation probably applies to a few other products as well, such as fertilizers, of which a minor decline in European imports from Latin America occurred during the year. The low level of imports of fats and oils (and the drastic decline in oilcake) seems to reflect, on the other hand, the failure of production in Latin American countries to keep pace with growing internal demands and perhaps also the resistance of European buyers to high prices in Latin America. In the case of bread grain and coarse grain, of which Argentina is the principal Latin American supplier, the decline

is attributable to a combination of poor harvests and internal policies. In particular, the dual price system followed by Argentina after the war—involving low prices to domestic producers and high export prices to foreign purchasers,² the difference going to official funds for industrialization purposes—has tended both to discourage production at home and to arouse the resistance of buyers abroad. Similar effects appear to result from the complicated system of multiple exchange rates adopted by Argentina and several other Latin American countries. Although the rates vary widely as between different import and export commodities and as between the different currencies quoted (generally giving preferential rates for imports of capital goods and other essentials and for the export of less essential goods), the general characteristic seems to be the maintenance of a wide spread between buying and selling rates for foreign exchange, with a particularly unfavourable impact on exports of foodstuffs and raw materials. It is also possible that some of the internal measures introduced so as to encourage industrialization in certain Latin American countries have directly or indirectly tended to impede the development of primary production and limit the expansion of their traditional exports. For example, in Mexico, this has taken the form of controls designed to restrict exports of raw materials in order to assure domestic manufacturers of adequate supplies at favourable prices.

There can be no doubt that the industrialization and diversification of production in Latin American countries are essential to their economic development and will help to reduce the vulnerability of these countries to the effects of the extreme fluctuations in primary prices which they have experienced in the past. The question arises, however, whether or not failure to maintain and promote production for export may not, in fact, hinder their development by restricting foreign exchange earnings and making them more dependent than ever on foreign financial assistance to obtain essential equipment and other goods. This

¹ The extent of the reduction in imports from Latin America is not fully reflected in the products included in Table 79, since the fall extended to other items as well, among which oilcake alone declined by some \$100 million, measured in constant prices. Part of the large decrease in the value of imports from Latin America, amounting to about \$750 million in current prices, has been due also to a fall in 1949 in Latin-American export prices, some of which have been exceptionally high in post-war years. The average level of export prices for the year appears to have been roughly 9 per cent lower in 1949 than in 1948, although the prices of some important items, notably wool and coffee, rose sharply during the year.

² Under the Andes Agreement, the United Kingdom paid 31.50 pesos per quintal of maize, whereas the producers received 14 pesos for the 1947/48 crop and 15.50 pesos for the 1948/49 crop. Prices paid to the growers for wheat amounted to 20 pesos for the 1947/48 crop and 23 pesos for the 1948/49 crop. Argentine export prices for wheat, on the other hand, reached 60 pesos per quintal at the end of 1947 and remained high in 1948, although they declined during the past year. (Cf. *Grain Crops*, Commonwealth Economic Committee, H.M.S.O., 1950). More recently, it appears that these differentials have further decreased.

problem may be more acute in the future than in the past few years, during which Latin American countries were able to draw heavily on their wartime accumulations of gold and dollar balances. From the standpoint of Europe, increased supplies will have to become available from Latin America if a further expansion in exports to some of the countries in that area is to help in the solution of Europe's basic overseas payments problem. Otherwise, Europe's export expansion would need to be concentrated in the more limited markets provided by the relatively few Latin American countries where dollar settlements by Europe are still required. In other Latin American countries, as has been seen, Europe's exports during the past year were maintained largely by capital transfers, partly in the form of debt repayment and partly in the form of new credits extended by European countries. The need thus arises for a co-ordination of policies by European and Latin American countries, possibly entailing further lending by Europe to Latin America, but also providing for a reciprocal expansion in supplies for export to Europe. One of the important questions involved would be arrangements for the stabilization of primary prices in order to provide surer markets for Latin American exports than in pre-war years and to encourage production.

Imports from the United States and from Other Areas

Table 80, which is derived from the trade statistics of the United States and differs in commodity classification from that given in Table 79,¹ presents a more detailed examination of the composition and distribution of Europe's imports from that country. This table covers not only foodstuffs and industrial materials but also shows Europe's imports of certain manufactured goods for which the United States is the principal overseas source of supply.² It will be noted that, in the aggregate, European imports of machinery from the United States have remained very

stable during the past two years at approximately double the 1938 volume, although there have been considerable shifts in their distribution among European countries. Imports into eastern Europe (including the U.S.S.R.) have shrunk to negligible proportions compared with the pre-war level or even with the volume of such imports in 1948, whereas imports into a number of western European countries, especially Italy, have increased markedly. The stability in total imports of machinery from the United States, while Europe's own production and exports of engineering goods have increased greatly, reflects the availability of E.R.P. funds for financing this trade and provides no direct indication of the future degree of European dependence on United States equipment. Imports of vehicles from the United States, although declining, have also remained higher than before the war, the increase being chiefly in commercial types.

The half-yearly data for 1949 (expressed at annual rates to facilitate comparison with other years) indicate a pronounced shift in the course of the year, imports from the United States increasing abruptly in the first six months and falling still more abruptly in the second six months. The increase in the earlier part of the year was accounted for by larger imports of cotton and fats and oils, which may have been partly caused by seasonal movements, and both of these groups declined in the second half of the year. At the same time, imports of grain and coal were also sharply reduced as European availabilities increased. The decline extended, however, to virtually all other groups of commodities except machinery, as mentioned, which remained unchanged, and tobacco, of which imports increased. The reduction from the first to the second half of the year was also common to all of the country groups shown in Table 80.

Although the reduction during the second half of 1949 was fairly general among European countries, comparison with the pre-war distribution of trade reveals enormous shifts. The most important have been in the relative positions of the United Kingdom (shown in the table together with Iceland and Ireland), and of Germany and Austria. Imports from the United States into the United Kingdom in the last six months of 1949 were little more than one-half of the 1938 volume, whereas imports into Germany and Austria were three-and-a-half times as great as in 1948. In consequence, the share of the United Kingdom in total European imports from the United States fell to less than 20 per cent compared with 40 per cent

¹ It should also be noted that in Table 80 the figures for post-war years are given in current prices and are thus affected by the decline in United States export prices from 1948 to 1949 (although the 1938 figures have been raised to approximate post-war levels). The figures in Table 79, on the other hand, have been obtained by multiplying quantities by "1948 typical prices" (which are not necessarily the same as American prices), and the data in the two tables are not closely comparable for this reason as well as because of differences in commodity classification.

² In many instances, however, manufactures are included with raw or semi-processed materials in the summary groupings in which current United States trade statistics are published (as in the case of "hides and skins and leather manufactures").

Table 80

THE COMMODITY COMPOSITION OF EUROPE'S IMPORTS FROM THE UNITED STATES

Millions of dollars, f.o.b.; annual totals or annual rates
1938 figures in 1948 prices; post-war figures in current prices

Commodity group	United Kingdom, Iceland, Ireland			Germany, Austria			Iberian and Mediterranean countries			Other western European countries ^a			Eastern European countries (including U.S.S.R.)			Total		
	1938	1948	1949 I-VI VII- XII	1938	1948	1949 I-VI VII- XII	1938	1948	1949 I-VI VII- XII	1938	1948	1949 I-VI VII- XII	1938	1948	1949 I-VI VII- XII	1938	1948	1949 I-VI VII- XII
Grain and cereals	229	7	80	28	41	535	455	493	21	276	304	92	174	262	229	141	—	2
Fruit and nuts	109	—	17	—	5	96	35	23	—	1	9	7	62	24	31	19	2	1
Meat and meat products	52	1	5	4	1	13	4	3	—	3	—	2	6	11	10	10	1	—
Dairy products	1	29	43	15	—	17	16	15	—	20	13	7	1	28	24	7	—	11
Animal, vegetable fats and oils ^b	49	2	19	6	1	40	111	53	—	4	61	30	3	55	88	49	2	3
Tobacco and manufactures	194	98	29	187	2	11	42	32	2	9	10	5	21	53	49	51	1	4
Coal and related products	—	—	—	—	—	1	—	—	—	50	71	3	—	118	77	20	—	—
Mineral oil and products	104	98	95	38	55	3	10	3	56	32	32	23	179	83	73	46	10	1
Steel mill products	20	13	26	26	—	1	5	3	13	31	35	37	21	95	117	76	2	—
Copper and manufactures	14	29	14	7	37	5	12	3	10	6	8	11	34	24	30	23	21	2
All other metals and manufactures	19	32	38	23	17	9	15	9	9	9	11	9	28	47	51	32	30	2
Wood and paper	47	29	16	17	4	1	9	3	5	4	6	6	19	16	18	12	1	1
Raw cotton	155	73	200	96	68	76	113	121	79	60	149	108	163	112	241	198	95	24
All other textiles, fibres and manu- factures	19	22	17	5	8	7	37	12	4	19	18	18	17	43	40	37	2	3
Hides, skins and leather manufactures	20	9	10	6	2	2	19	5	1	9	7	11	9	18	16	14	1	1
Rubber manufactures	2	9	3	2	1	6	9	4	2	7	4	6	7	19	14	11	—	1
Machinery	80	125	121	94	5	4	18	29	15	79	87	146	70	244	270	225	84	51
Vehicles	26	27	32	46	3	1	3	9	18	116	46	70	106	222	193	133	27	2
Chemicals and products	27	44	36	31	11	20	33	15	4	34	49	45	30	100	104	73	4	5
All other items	98	37	47	47	6	159	105	36	7	92	37	54	70	87	83	62	16	15
Total	1265	684	848	678	267	1007	1051	871	246	861	957	690	1020	1661	1758	1239	299	127
																	89	74
																	3097	4340
																	4703	3552

Sources: The figures have been derived from United States foreign trade statistics. The conversion of 1938 prices into 1948 prices has been effected by means of wholesale prices as given in the Survey of Current Business, United States Department of Commerce.
^a Including Belgium-Luxembourg, Denmark, Finland, France, the Netherlands, Norway, Sweden and Switzerland.
^b Including oilseeds.

before the war, whereas that of Germany and Austria increased from less than 9 per cent to almost a quarter of the total. The most striking cuts in the United Kingdom's imports have been in grain, fruit and nuts, meat, fats and oils, mineral oil, wood and paper products, and hides and skins. It was only in capital goods (chiefly machinery and vehicles) that 1949 still showed a definite increase over 1938. Moreover, the reductions which had been made did not

yet fully reflect the impact of the heavier restrictions imposed after the sterling crisis last year. Germany and Austria, on the other hand, constituted in 1949 almost 50 per cent of the European market for American foodstuffs, whereas in 1938 their share was only about 6 per cent.

The ability of the United Kingdom to reduce so drastically its imports from the United States in virtually all foodstuffs and raw materials is largely

Table 81

EUROPE'S IMPORTS OF SELECTED COMMODITIES FROM ALL OVERSEAS COUNTRIES
AND PROPORTION SUPPLIED BY AFFILIATED AREAS ^a

Millions of dollars based on quantities valued in 1948 typical f.o.b. prices and percentages

Commodity	Imports from all overseas countries (millions of dollars)			Proportion supplied by affiliated areas (per cent of total)		
	United Kingdom	Germany : U.K./U.S. Zone	Other European countries	United Kingdom	Germany : U.K./U.S. Zone	Other European countries
Bread grain 1948	510	357	801	18	—	3
1949	537	262	658	18	—	4
Coarse grain 1948	136	65	283	15	6	9
1949	72	163	298	43	6	19
Meat 1948	376	13	51	53	—	6
1949	343	21	57	53	—	7
Sugar 1948	390	89	184	32	—	9
1949	430	36	136	42	—	19
Oilseeds 1948	307	38	405	96	13	66
1949	358	117	575	91	19	56
Fats and oils 1948	297	25	177	71	11	50
1949	323	82	248	49	25	44
Coffee 1948	25	5	182	76	20	35
1949	21	13	187	62	12	27
Tobacco 1948	136	6	93	32	—	16
1949	138	37	100	39	1	22
Copper 1948	143	5	151	54	—	45
1949	120	9	147	62	15	49
Wool 1948	363	34	464	98	86	80
1949	427	57	506	98	82	91
Cotton 1948	323	90	588	26	—	20
1949	394	121	765	27	7	12
Hides and skins 1948	124	18	222	44	3	32
1949	140	53	207	39	10	50
Rubber 1948	114	33	158	98	91	95
1949	95	43	152	93	92	95

Sources : The figures have been taken from national statistics. For details of sources and an explanation of "typical prices", see Appendix B.

NOTE. — The table excludes commodities such as tea, which is imported almost exclusively from affiliated areas, and other commodities, such

as butter, cheese and eggs, which are important only in the imports of the United Kingdom and not in those of other European countries.

^a "Affiliated areas" include the dependent overseas territories of European countries as well as other overseas countries in the sterling area.

explained by the extent to which it has been able to cover its import requirements from the overseas sterling area. This may be seen in Table 81, which gives the value of imports of a number of basic commodities from all overseas countries in 1948 and 1949 into the United Kingdom, western Germany, and other European countries, and also shows, in each instance, the percentage of these imports coming from the overseas sterling area and other territories closely affiliated with European countries. It will be seen that for virtually all of these commodities the proportion of its total imports which the United Kingdom has been able to cover from these sources is very much greater than in the case of other European countries, particularly western Germany. The only commodity in which the proportion for other European countries (excluding Germany) has been about the same is coarse grain, for which France has been able to satisfy a considerable part of its demand, especially during the last year, in its overseas territories. The

disparity has likewise not been particularly marked in wool and rubber, for which the main sources of supply are found in the sterling area. The difference is substantial, however, in bread grain (although the greater part necessarily comes from the Western Hemisphere), oilseeds, fats and oils, coffee, tobacco, cotton, hides and skins, and copper.

The United Kingdom, which has experienced perhaps more than any other European country the direct impact of the post-war balance-of-payments adjustments necessitated by loss of investment income and other changes, has thus been able to minimize its own dollar outlays in the United States through its historically close political and economic ties with overseas countries of the sterling area. Other European countries, although for the most part less heavily dependent on imports than the United Kingdom, have not had the same possibilities open to them and have remained relatively more dependent on dollar sources of supply.

5. THE CURRENT POSITION IN OVERSEAS TRADE

Although most European countries continue to have large deficits in their dollar accounts, and each of them will have to make adjustments in order to achieve equilibrium, the analysis in this and in the preceding chapter suggests that the problem is largely centred in the position of the United Kingdom. Because of its readier access to sources of supply within the overseas sterling area, the United Kingdom has been in a better position than other European countries to economize in its own direct dollar outlay on imports from the United States. Nevertheless, it has had to make extremely heavy dollar settlements and other dollar transfers to many other overseas areas, despite the large increases achieved in its overseas exports and the severe restriction of its imports. This has resulted partly from the change in its international position since the war, especially the fall in its net earnings from overseas investments and the far greater reduction in their effective buying power at current prices. A still more important cause, however, lies in the change in its position at the centre of a major monetary and economic area from which it no longer receives the gold and dollar settlements that had played an essential role before the war in financing the United Kingdom's import surplus from North America, as well as from Continental Europe.

As a consequence of the change in the United Kingdom's position, other European countries have been unable since the war to rely on financing their overseas imports through earning surpluses in trade with the United Kingdom, and it appears doubtful that they will be able to do so again, at least for a number of years to come. These countries have thus become more directly confronted with the dollar problem in their relations with the United States, but there is little evidence that any of them have yet been able to make the adjustments that are required by this change in the pattern of payments.

The increased dependence on the United States, both for imports and for dollar financing, is most pronounced in western Germany. The problem is aggravated there by the increase in the general level of import requirements, resulting from the breakdown in inter-zonal trade and from the extraordinary post-war increase in population, and by the limited recovery of its exports, especially in trade with overseas areas. The low level of German exports has been especially marked in Latin America. This in turn has increased the demand of these markets for imports from the United States, thus enlarging the scope of the dollar problem.

With the re-emergence of German competition, in European as well as in overseas markets, the burden

of the dollar problem may be shifted in some measure from one country to another. For countries historically dependent on Germany as a source of supply for manufactures and as a market for their own products, the burden may be lightened. But in other countries, and principally the United Kingdom, the competition may be felt both in bidding for available supplies of foodstuffs and raw materials, and in selling capital equipment and other manufactures. In addition, the recovery of Japanese trade will also tend to increase the competition that Europe faces, parti-

cularly in exports of textiles and other consumers' goods and in imports of textile fibres and other industrial materials.

The ability of the United Kingdom and other European countries to adapt themselves successfully to these new competitive forces, as well as the ability of continental European countries to make the adjustments necessitated by the change in their relations with the United Kingdom, will largely depend on whether or not there is a sustained expansion of world production and trade.

Chapter 6

PRICES, DEVALUATION AND THE TERMS OF TRADE

1. PRICE MOVEMENTS BEFORE DEVALUATION

Until the devaluation of a number of European currencies late in 1949, the most important development in international price relationships was the decline in the general level of prices in the United States. This development was connected with the recession in industrial production in that country from the latter part of 1948 to mid-summer 1949 and with the growth of farm surpluses which exercised a depressing effect on agricultural prices despite extensive price support measures. From the end of 1948 to the end of 1949, the fall in wholesale prices was of the order of 7 per cent and it affected not only agricultural products, which had already begun to decline in 1948, but also manufactured goods. In most non-agricultural commodity groups the price recession ended by the middle of 1949, but the decline in agricultural prices continued, bringing the level of agricultural prices at the end of the year to a point 12 per cent lower than a year before. The price disparity between agricultural products and other goods was thereby narrowed, but farm prices remained at a considerably higher level, compared with pre-war, than industrial prices.

Although the decline in United States prices had the direct effect of enabling European countries to acquire a larger volume of goods with the amount of dollars at their command, it could not be regarded as a favourable development from Europe's point of view. Since the price recession extended not only to goods sold by the United States to Europe but also to the manufactures in which Europe competes with the United States in third markets, it tended to increase the preference for dollar goods even if the possibilities of gratifying this demand were not present. At the same time a decline occurred in the prices of raw materials imported by the United States from the overseas areas affiliated to Europe, which also tended to intensify the dollar shortage.

Trends in Europe's Import and Export Prices

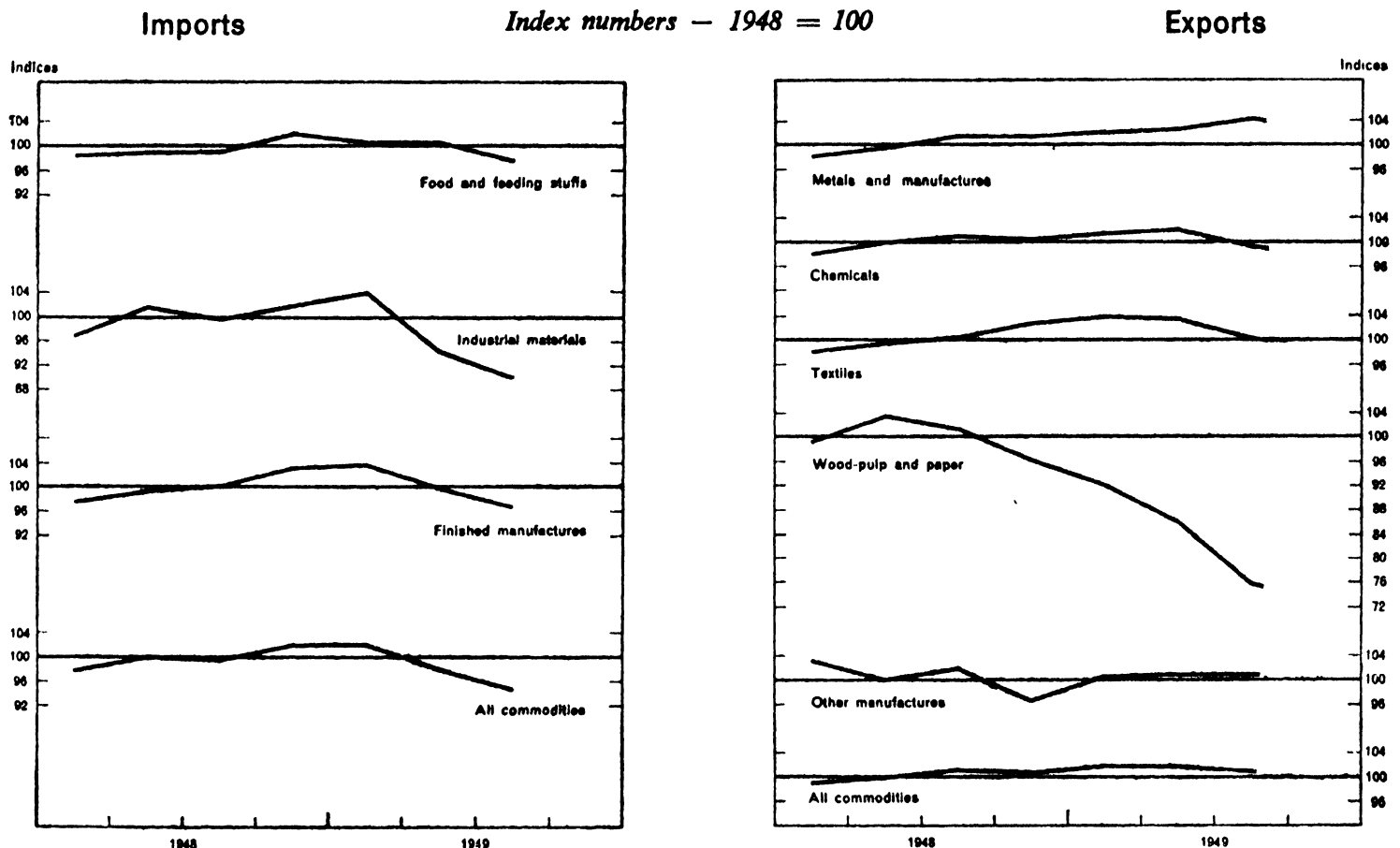
Price trends in the United States were to some extent reflected in a decline in European import prices. It can be seen from Chart 2 that the weighted index of Europe's import prices had been slowly rising in the course of 1948. This trend was reversed in the second quarter of 1949 and by the third quarter the over-all decline was of the order of 5 per cent compared with the average for the year 1948. The decline was most pronounced in the group of industrial materials, where prices fell sharply after the first quarter of the year, especially for such primary products as mineral oil, non-ferrous metals, cotton, jute and rubber. The fall in the prices of foodstuffs and finished manufactures was much smaller, particularly as compared with price movements in the United States. This may be partly explained by the fact that a considerable part of the United Kingdom's imports from overseas, which weigh rather heavily in these indices, is bought on long-term contracts at prices which, as shown below, have not followed prices in free markets. By contrast, price movements in the United States were much more closely reflected in the import prices of Switzerland, which is almost the only European country free to choose its sources of supply according to price advantages. The reduction in Swiss import prices from the average for 1948 to the third quarter of 1949 was 21 per cent in the case of foodstuffs and 4 per cent in the case of both raw materials and manufactured goods.¹

Europe's overseas export prices remained far more stable in 1949 than its import prices. As is shown in Chart 2, the over-all index of export prices was only slightly higher in the first three quarters of the year than the average of the preceding year. It should be noted, however, that British exports of

¹ The price indices for Switzerland are based on its total imports, from European as well as overseas sources.

Chart 2

QUARTERLY PRICE MOVEMENTS IN EUROPE'S OVERSEAS TRADE



Sources : Details are given in Appendix B.

manufactures¹ rose in price by about 6 per cent in the period from the first quarter of 1948 to the third quarter of 1949, the increase being slight but sustained over that time. Since British exports weigh heavily in the overseas total for Europe as a whole, this comparison suggests that the export prices of other European countries were tending to decline.

Behind the relative stability in the general level of Europe's overseas export prices in 1948 and 1949, there were some significant differences among individual commodity groups. A sharp fall occurred in export prices for wood-pulp and paper. This began in the third quarter of 1948 and a year later the decline was more than 20 per cent by comparison with the 1948 average. The prices of textiles and chemicals also declined in the summer of 1949, after having increased slightly during the preceding year and a half. In the important group of metals and manufactures, prices increased slowly but steadily over the whole period and by the third quarter of

1949 averaged some 6 per cent more than in the first quarter of 1948.

As a result of these price trends in the first nine months of 1949, the average cost of Europe's imports in terms of its exports declined by about 8 per cent. As may be seen in the following figures, Europe's terms of trade were thereby brought back to about the 1938 relationship :

Unit Values of Europe's Overseas Imports and Exports and Terms of Trade

(index numbers — 1938 = 100)

	1948	1949		
	Average	First quarter	Second quarter	Third quarter
Imports	237	245	241	224
Exports	222	225	225	223
Terms of trade .	107	109	107	100

This improvement in the terms of trade, however, coincided with, and in part directly caused, a marked deterioration of Europe's competitive position in overseas markets.

Price Differentials and British Terms of Trade

As was explained in last year's SURVEY, the movements in Europe's terms of trade since the war have not reflected to nearly the full extent the changed

¹ The comparison is made with the unit value index of British manufactures only, since the overseas trade both of the United Kingdom and of Europe as a whole consists predominantly of manufactured goods.

price relationship between primary goods and manufactured products in the world markets as measured by price movements in the United States. This was partly because the average cost of Europe's overseas imports appeared to have risen less—compared with 1938 levels—than the prices of similar goods in the United States, and partly because the prices received by European countries for their exports of manufactures appeared to have risen more than the prices of similar commodities in the American market.¹ On the side of imports, the price advantage was almost exclusively due to the favourable terms that the United Kingdom was able to negotiate under its various bulk purchase agreements, whereas the import prices of other European countries appear to have risen at least as much as, or more than, corresponding prices in the American market. These price advantages, however, narrowed considerably in the course of 1949 owing to the continued fall in primary prices in the United States and the continued gradual rise in prices paid in British bulk purchase contracts. At the same time, the disparity in export prices widened further, thus enhancing the competitive advantage of United States manufacturers in hard-currency markets.

The nature of these changes is further analysed in Table 82, where the movements of actual export and import prices of the United Kingdom are compared with the corresponding movement of prices in the United States market. The indices for United States prices have been calculated from separate index numbers for each of thirty-seven commodity groups distinguished in British foreign trade statistics weighted according to the value of the United Kingdom's trade in each commodity group.² On the basis of

¹ For a fuller discussion of the causes of the differences between the relation of European export and import prices and world prices, and also of the differences in the changes in terms of trade for Europe as a whole and for the United Kingdom, see last year's SURVEY, pp. 97–106.

² These calculations give an approximate indication of the extent and movements of price disparities on the assumption that in the base year there was no significant discrepancy between absolute prices for comparable commodities in the two markets. It is known, however, that this assumption did not hold good as regards prices for manufactures in the year 1938, since prices of American manufactures had declined during the recession whereas the prices of British manufactures were slightly higher than in 1937. Thus, the pound sterling was, to some extent, over-valued in 1938 as is indicated also by the sharp fall in British exports in that year and the deficit in the balance of payments. Consequently, the calculation presented in Table 66 of last year's SURVEY, which was based on the relative price movements since 1938, under-estimated the extent of the price disparities between British and American manufactures, as indicated in that SURVEY, p. 106. In Table 82 of the present SURVEY, the indices of United States prices corresponding to British export prices were based on 1937, with

these calculations, actual prices paid for imports into the United Kingdom in 1948 appear to have been some 10 per cent lower than they would have been if the commodities had been bought at prices ruling in the American market, but in the first three quarters of 1949 this difference was eliminated.

The extent of the rise in prices agreed in the United Kingdom's purchase contracts can be gauged from Chart 3, which is derived from British import statistics. It will be noted that, as the contract prices rose, disparities between prices paid to different sources of supply tended to diminish for some commodities, especially wheat and butter. In spite of the price increases in bulk purchase contracts, there seemed still to remain a differential in favour of the United Kingdom under these food agreements, compared with market quotations elsewhere. For many other commodities, however, the United Kingdom had to pay particularly high prices for its imports from the sterling area. Apart from the products acquired under bulk purchase agreements, the more usual situation was that the prices paid for goods coming from non-dollar sources were substantially higher than those paid on imports from the dollar area. This discrepancy affected the imports of continental Europe even more than the imports of the United Kingdom. Fats and oils appear to be the commodity group where the most striking examples of price disparities between dollar and soft-currency sources of supply are to be found. Lard from the Argentine and Uruguay has been quoted in some European countries at about double the United States prices, and peanut oil from India was about 75 per cent more costly than the American product. Philippine copra and coconut oil and Canadian whale oil were substantially cheaper than the same goods from soft-currency sources.

The estimates which have been presented in Table 82 suggest that these price differentials in commodities bought in the open market roughly offset the advantages gained by the United Kingdom in bulk purchase contracts, with the result that the average level of

adjustment for the change in the corresponding United Kingdom prices between 1937 and 1938. This should give, therefore, an approximate indication of the price disparities that developed, on the assumption that prices of British manufactures in 1937 were comparable with American prices. For computing the indices of United States prices corresponding to British import prices, however, 1938 seems to provide the better basis, since in 1937 the United States, owing to the drought in the mid-thirties, imported some leading agricultural products which it normally exports.

Chart 3

UNIT VALUE INDICES OF THE UNITED KINGDOM'S IMPORTS
OF SELECTED FOODSTUFFS FROM VARIOUS COUNTRIES

Average 1948 unit value of each product = 100

Circle diagrams indicate the relative share of each supplier country in terms of quantities

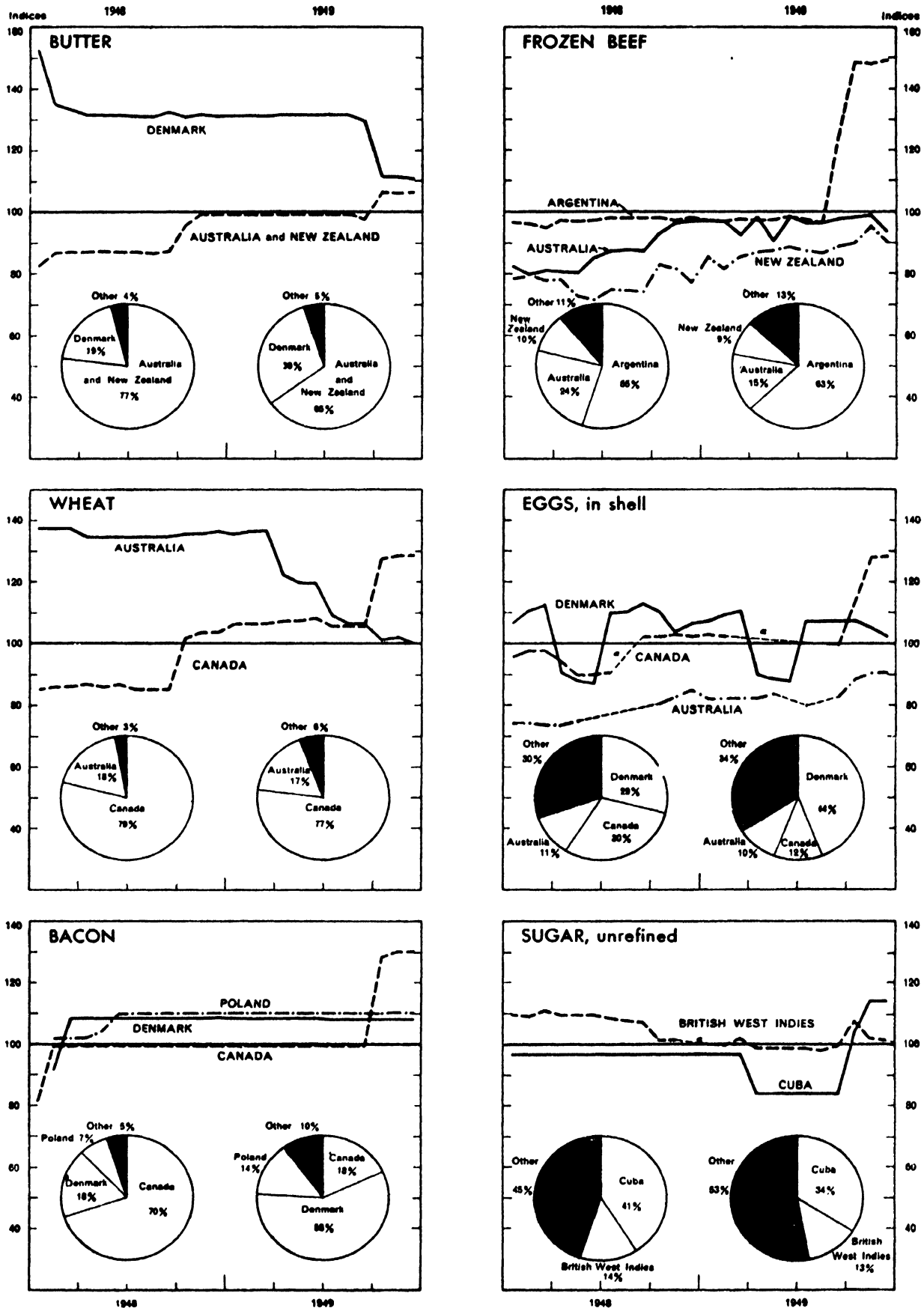


Table 82

CHANGES IN THE UNITED KINGDOM'S IMPORT AND EXPORT PRICES IN CURRENT DOLLARS
AND IN THE TERMS OF TRADE AND CORRESPONDING CHANGES ACCORDING
TO UNITED STATES PRICE MOVEMENTS

Index numbers — 1938 = 100 ^a

Item	1948	1949			
	Annual average	First quarter	Second quarter	Third quarter	Fourth quarter
<i>Imports</i>					
Food, drink and tobacco :					
Actual prices	232	239	236	233	167
United States prices	271	243	233	235	233
Raw materials and articles mainly unmanufactured :					
Actual prices	273	287	288	262	193
United States prices	299	291	270	245	240
Articles wholly or mainly manufactured :					
Actual prices	227	227	223	219	169
United States prices	199	200	189	186	185
Total imports :					
Actual prices	240	245	246	232	173
United States prices	264	245	233	226	224
<i>Exports</i>					
Food, drink and tobacco :					
Actual prices	207	203	197	195	147
United States prices	149	146	139	148	153
Raw materials and articles mainly unmanufactured :					
Actual prices	257	257	254	256	177
United States prices	208	214	200	192	191
Articles wholly or mainly manufactured :					
Actual prices	201	205	205	207	141
United States prices	167	167	164	161	161
Total exports :					
Actual prices	203	207	207	208	143
United States prices	168	168	165	162	162
<i>Terms of trade ^b</i>					
Actual prices	118	118	119	112	121
United States prices	157	146	141	140	138

Source : Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—The "actual prices" are official United Kingdom unit value indices calculated with current weights and adjusted for changes in exchange rates. They represent c.i.f. values in the case of imports and f.o.b. values in the case of exports. The "United States prices" are indices of United States prices calculated from separate wholesale price indices for each of thirty-seven

commodity groups and weighted according to the current value of trade in each group at 1938 prices.

^a For exports, the United States price indices have been computed on a pre-war basis obtained by linking to the actual 1937 level of the original indices, the change in United Kingdom prices in corresponding commodity classes between 1937 and 1938. For details, see Appendix B.

^b Ratio of import price index to export price index.

import prices in the first part of 1949 showed the same rise in relation to pre-war as the corresponding prices in the American market. For Europe as a whole no such calculations can be made, but it seems likely that the average level of import prices was higher in relation to pre-war than the corresponding American prices.

On the side of exports, the calculations in Table 82 indicate that in 1948 the increase in British prices

compared with pre-war was already some 20 per cent greater than the rise in the corresponding American prices ; the export prices of most other European countries had risen even more.¹ With the fall in the prices of American manufactures, and the further small rise in British prices, this disparity widened somewhat in 1949 prior to devaluation. The same

¹ See last year's SURVEY, Table 63.

must have been true, though to a lesser extent, of other European countries whose export prices, as has already been mentioned, remained stable or fell only slightly.¹

The result of these divergent movements in the relation of British export and import prices to dollar prices has been that, despite the American price decline, the terms of trade of the United Kingdom remained substantially more favourable than would

have been the case if imports had been bought and exports had been sold at the prices ruling in dollar markets. From the point of view of the United Kingdom's competitive position, however, there was the important difference that, whereas in earlier years the advantage was mainly secured through cheap buying, it was maintained in 1949 partly by a rise in selling prices coinciding with a fall in American export prices.

2. THE RE-ALIGNMENT OF CURRENCIES

The development of European and American prices in the course of 1949 thus undoubtedly caused the over-valuation of European currencies noted in last year's SURVEY² to become more pronounced and made a major currency re-alignment sooner or later inevitable. From the point of view of the impairment of Europe's competitive position, it mattered little whether the over-valuation of currency had resulted from the inflationary rise in prices in European countries inadequately reflected in the movement of official exchange rates, as was the case in earlier years, or whether, as in 1949, it was accentuated by the fall in prices in the United States and other hard-currency markets, which was not shared by European countries. In the deflationist environment which developed in some of the overseas markets in 1949, the existence of currency over-valuation became a much more serious threat to the expansion of European exports than in the earlier post-war years when a sellers' market had prevailed. Consequently, the advantages to be gained from a re-alignment of currencies became correspondingly greater. In the early post-war years, with imports confined by quantitative restrictions and the level of exports limited by the availability of commodities rather than the absorptive capacity of foreign markets, the existence of currency over-

valuation tended to alleviate the balance-of-payments problem and no clear advantage would have been gained from an earlier readjustment of exchange rates.

The immediate cause of the devaluation of sterling currencies in September 1949 by 30.5 per cent was undoubtedly the severe and continued loss of currency reserves in the course of which the gold and dollar holdings of the sterling area fell by about \$500 million in the second and third quarters of 1949, leaving only some \$1,400 million at the time of devaluation. This loss of reserves can only be partly explained by the rise in the dollar deficit of the United Kingdom on current account. A greater part of it may have been due to the sharp contraction of United States imports from the overseas sterling area in the second and third quarters of 1949 as a consequence of the American recession, and perhaps also because purchases of sterling area goods were postponed in anticipation of devaluation. Speculative transfers of sterling funds and delays in remittance of export proceeds seem also to have been important factors. In these ways the growing expectation of devaluation undoubtedly served to bring devaluation about. But, as the British Chancellor of the Exchequer pointed out,³ this expectation would not have gained such momentum if it had not been nursed by the widespread impression in business circles of the growing disparity between the prices of European export goods and the prices of comparable American products.

The devaluation of the pound sterling was followed by a wave of devaluations in the course of which countries accounting for four-fifths of the world trade, excluding that of the United States, devalued their currencies. It thus took on the character of a major currency adjustment between the dollar and the currencies of virtually all other important trading

¹ Price disparities in manufactured goods are much more difficult to determine than in primary goods because of differences in specifications and qualities. According to a memorandum submitted in August 1949, by the Swedish Association of Wholesale Trade to the Swedish Ministry of Trade, in the case of chemicals, European prices were from 50 to 100 per cent higher than prices for corresponding goods in the United States, and in the case of machinery, the cost in the United States was frequently 30 to 40 per cent less than in Europe. In the specific case of dynamo sheets, prices from the United States were given at 750 kronor f.o.b. against 940 kronor from the United Kingdom, and 1,550 kronor from Belgium. Nylon stockings were sold by principal European producers at prices from 50 to 100 per cent higher than those charged by United States suppliers.

² *Op. cit.*, 106-111.

³ See broadcast speech announcing devaluation, 18 September 1949.

countries. With the exception of the eastern European countries, Switzerland and Turkey, all European countries participated in the change. The five Scandinavian countries and the Netherlands, which were anxious to maintain their competitive positions in the British market, devalued their currencies to the same extent as sterling.¹ The remaining European countries reduced the dollar price of their currencies by a lesser amount (France by 21.8 per cent ; western Germany by 20.6 per cent ; Portugal by 13.0 per cent ; Belgium-Luxembourg by 12.3 per cent ; and Italy by 8.3 per cent) and correspondingly appreciated them in relation to sterling.

The Effects of Devaluation on Prices

With regard to primary commodities, the immediate effects of devaluation may differ for goods which the dollar area imports on balance and for goods which the dollar area exports. In the former case, the prices in dollar markets could be expected to fall as a result of devaluation, the extent of the fall depending on the share of the dollar market in world trade. The prices in devaluing areas of such commodities could be expected to move in close parallel with dollar prices, with the result that the sterling prices of such commodities would rise from their pre-devaluation levels though less than would correspond to the extent of devaluation.

The same basic forces operate also on those primary commodities which the dollar area exports on balance, although the downward pressure on prices of commodities originating in the dollar area may be very small. The imports of such commodities into the devaluing non-dollar area are, in most cases, restricted by quantitative controls, and the rise in prices in terms of domestic currency is not likely, therefore, to cause any important reduction in effective demand. The practice of supporting agricultural prices by Government guarantee in the United States also tends to counteract a fall in the prices of these commodities. The effects on the prices of similar commodities coming from non-dollar sources are likely to present a more varied picture. In the case of commodities whose prices in non-dollar areas are determined in open markets, rather than fixed by bulk purchase contracts or other administrative controls, the prices of com-

modities originating outside the dollar area are likely to move in sympathy with the prices of dollar commodities, although not perhaps to the same extent. It has already been mentioned that before devaluation the sterling prices of such commodities were in many cases considerably higher than the prices of corresponding goods coming from dollar sources, reflecting the diversion of demand from dollar to non-dollar sources of supply. These differentials may in many cases be reduced as a consequence of devaluation, though, as long as the dollar shortage persists, a certain premium over the prices of dollar commodities is likely to remain.

In the case of a third group of commodities, there is no close link between price movements in dollar and non-dollar markets, either because prices in the non-dollar area are not determined in open markets, or because there is no trade of any significance in either direction between the dollar and non-dollar areas. The sterling prices of commodities in the third group are likely to be affected only slowly and to an uncertain degree, as prices in bulk purchase contracts or in other administrative arrangements are adjusted because of the increased discrepancy between prices in dollar markets and the equivalent sterling prices.

In the case of manufactured goods exported from Europe, the effects of devaluation are less predictable since their prices are not determined by market influences in the same way as the prices of primary commodities. In so far as the dollar prices of European manufactures are governed by costs of production in domestic currencies, the dollar prices are likely to fall, though by a lesser percentage than devaluation owing to the rise in costs of imported raw materials embodied in exports and also to any consequential increases in labour costs induced by increases in the cost of living. In the case of many commodities, however, dollar prices would not be determined by the change in domestic costs of production, but by the exporter's estimate of the extent of the advantages accruing from price reductions in the form of increased sales. In these cases, the downward movement of dollar prices would be smaller and export profits would rise. The price of manufactured goods exported from the United States could be expected to fall somewhat, in so far as American exporters respond to increased competition of European goods by lowering prices, though the trend of demand in the United States domestic market is likely to exert a far more powerful effect on such prices.

¹ In the case of the Netherlands, the devaluation was 30.2 per cent. Finland had devalued its currency by 16 per cent already in July. The total devaluation of the Finnish currency in 1949 thus amounted to 41 per cent.

Table 83

POST-DEVALUATION CHANGES IN PRICES OF BASIC COMMODITIES IN STERLING
AND IN DOLLAR MARKETS

Percentage change—August 1949 to February 1950

Commodity	Origin for sterling market quotations	Origin for dollar market quotations	Sterling market		Dollar market	Index of disparity of price movements ^a
			Change in terms of sterling	Change in terms of U.S. dollars	Change in terms of U.S. dollars	
I. Commodities traded between dollar and sterling area						
a. Dollar-import goods :						
Rubber	London	New York	+ 51	+ 5	+ 16	91
Cocoa	British imports from British West Africa ^b	New York (Accra)	+ 61	+ 12	+ 11	101
Hemp	London (sisal)	New York (Manila)	+ 31	— 9	+ 10	83
Jute	Dundee	New York	+ 38	— 4	+ 5	91
Scoured wool . .	London (Dominion)	Boston	+ 37	— 5	— 6	101
Coconut oil . . .	United Kingdom	New York (Manila)	—	— 31	— 13	79
Tin	London	New York (Straits)	+ 5	— 27	— 28	101
b. Dollar-export goods :						
Wheat	London (Australian)	Kansas City	+ 36	— 6	+ 9	86
Copper	London (electrolytic)	New York (electrolytic)	+ 43	— 1	+ 7	93
Fuel oil	United Kingdom	Pennsylvania	+ 17	— 19	+ 6	76
Zinc	United Kingdom (foreign)	St. Louis	+ 35	— 7	+ 5	89
Cotton	United Kingdom (American middling)	United States (middling)	+ 32	— 8	+ 4	88
	Egypt (Ashmouni)		+ 59	+ 11		107
	Bombay		+ 29	— 10		87
	Egypt (Giza)		+ 26	— 9		88
Tobacco	British imports from U.S.A. ^b	United States exports ^c	+ 32	— 9	+ 4	88
	British imports from sterling area ^b		— 10	— 37		61
Linseed	Bombay	Minneapolis	+ 29	— 10	—	90
Raw sugar	British imports from Cuba ^b	New York (Cuban)	+ 36	— 6	— 5	99
	British imports from sterling area ^b		—	— 31		73
Lead	United Kingdom (foreign)	New York	+ 11	— 23	— 20	96
II. Commodities traded mainly within dollar and sterling area :						
Coffee	British imports from British West Africa ^b	New York (Brazilian)	+ 20	— 17	+ 80	46
Aluminium. . . .	United Kingdom (home produced)	New York (scrap)	+ 20	— 16	+ 19	71
Copra	London (Straits)	New York (Pacific)	+ 22	— 15	+ 6	80
Hides	United Kingdom (Cap dry)	United States (packers)	+ 17	— 19	+ 4	78
Cement	United Kingdom (Portland)	New York (Portland)	+ 3	— 28	+ 3	70
Pig iron	United Kingdom (home produced)	United States	—	— 31	+ 1	68
Sulphuric acid . .	United Kingdom (home produced)	United States	—	— 31	—	69
Wood-pulp	British imports from Sweden ^b	United States (domestic & Canadian)	+ 5	— 27	—	73
Tea	British imports ^b	United States imports ^b	+ 1	— 27	— 3	75
Rice.	Burma government export price	New Orleans	—	— 31	— 4	72

Sources: The figures have been taken from *International Financial Statistics*, International Monetary Fund; *Records and Statistics*, Supplement to *The Economist*, London; *Wirtschaft und Statistik*, Statistisches Amt des Vereinigten Wirtschaftsgebietes; *Accounts Relating to Trade and Navigation of the United Kingdom*, His Majesty's Stationery Office; *Survey of Current Business and United States*

Imports for Consumption of Merchandise, Report No. FT 110, both published by the United States Department of Commerce.

^a Ratio of index numbers (August 1949 = 100) of sterling market prices (expressed in dollars) to dollar market prices.

^b Unit value of imports.

^c Unit value of exports.

Table 83 indicates the movements in the prices of basic commodities which have taken place since devaluation. The commodities have been divided into two groups. First, commodities which enter on a substantial scale into trade between the dollar and the sterling area and, secondly, commodities which are not—or not to any important extent—traded between the two areas, so that there is no reason to expect that dollar market and sterling market prices should move in close sympathy. The first group has been further subdivided into “dollar-import” commodities, i.e., commodities for supplies of which the United States is largely dependent on the sterling area, and “dollar-export” commodities for supplies of which Europe is to a large extent dependent on the dollar area.

It appears from the table that prices for dollar import goods in the United States have tended to rise since devaluation rather than to fall slightly as could have been expected if price movements during these months had been influenced solely by devaluation. While the prices of different commodities have moved in response to forces peculiar to their own market conditions,¹ the explanation may lie largely in the fact that the American recession came to an end at about the same time as devaluation occurred. Demand for these commodities may also have been temporarily strengthened in the first months after devaluation by purchases which had been held back in expectation of devaluation. Prices of these commodities in sterling markets have in all cases also risen considerably, although less than would correspond to the rate of devaluation and to the increase in dollar market prices. In cases where

sterling market prices had hitherto been at a premium over dollar market prices, such as hemp and coconut oil, the price disparity would thus seem to have narrowed down. Also in the case of dollar export goods, dollar market prices have typically risen slightly while sterling market prices have risen less—in some cases much less—than would correspond to the rate of devaluation. Finally, the sterling market prices for commodities which do not to any significant degree enter into trade between the two areas appear so far not to have been influenced by devaluation.

In the case of manufactured goods, United States export prices have tended to harden since November 1949 as a result of the improvement in the domestic situation, though they are still considerably lower than a year ago. The dollar prices of European manufactures in the American market, as far as can be judged from the scanty information available, have fallen, in some cases substantially, for commodities which are in competition with American goods, while they have remained steady in others. Thus, the prices of commodities such as British motor vehicles, linen, worsted suiting and cotton goods, Belgian and Italian rabbit fur, Norwegian cod-liver oil, and wines and leather goods from various European countries are reported to have been reduced by 15 per cent or more. On the other hand, the dollar prices of commodities such as newsprint, diamonds, Scotch whisky, Portuguese sardines, Italian raw silks or Dutch flower bulbs, remained unchanged. The same impression is gained from the Canadian market, where manufactures of European origin which are in competition with American goods, such as Portland cement, staple rayon fibres, and cotton fabrics, registered price declines in varying proportions in terms of Canadian dollars, while the prices of corresponding United States commodities generally increased in proportion to the depreciation of the Canadian dollar. For ordinary window glass, on the other hand, which Canada had previously imported overwhelmingly from Europe, the prices of British, Belgian or French goods did not change in terms of Canadian currency. In the Swiss market, British, French, Belgian and western German prices of commodities such as dynamo sheets, cotton yarn and electrodes have declined after devaluation, whereas American prices remained constant. Belgian, French and German export prices for steel were clearly influenced by factors other than devaluation, having been reduced (in terms of dollars) by more than 50 per cent in many cases. In the United

¹ It is clear from Table 83 that the change in dollar prices of many commodities from August 1949 to February 1950 can be attributed only in a minor degree to the direct effects of devaluation. In coffee, for instance, expectations of an abnormally low crop during the season combined with the maintenance of a strong demand produced a steep rise in dollar prices. With regard to non-ferrous metals, world production rose markedly from 1948 to 1949, while consumption decreased. Prices fell by about 40 per cent from the peak at the beginning of 1949 to May of that year. Subsequently, the upward trend in United States industrial activity affected copper and zinc prices almost immediately, although the price of lead lagged behind and did not begin to rise until April 1950. Behind the price increases in rubber lie the combined effects of high activity in the American automobile industry, United States purchases for stock-piling, and political events in Indonesia. The post-war shortage of jute caused a steep rise in prices which, however, broke in the summer of 1949; the August price showed a fall of about 30 per cent from the beginning of the year. Forecasts of a bad crop, the tension between Pakistan and India, and the resulting restrictions on Indian exports have since brought prices up again.

Kingdom, steel prices remained constant in terms of sterling. Steel prices are now markedly lower in European countries than in the United States, whereas previously they were higher.

The movements of European import and export prices from the third to the fourth quarter of 1949 do not as yet fully show the effect of these price changes, since an unknown proportion of the trade in the last quarter represented deliveries under pre-devaluation contracts. Nevertheless, the available data¹ indicate that there was a deterioration in Europe's overseas terms of trade of some 15 per cent compared with the third quarter, arising from a fall of about one-fifth in export prices measured in dollars, partially offset by a decline in import prices in terms of dollars. In the case of the United Kingdom, the figures for the fourth quarter given in Table 82, covering its total external trade, show a deterioration of 8 per cent in the terms of trade, due to a 31 per cent fall in export prices and a 25 per cent fall in import prices, both measured in terms of dollars. While these data for the United Kingdom and for Europe as a whole cannot be closely compared for statistical reasons, the smaller deterioration in British terms of trade reflects in part the small percentage of the United Kingdom's imports originating in the dollar area, as discussed in the preceding chapter, and the influence of its bulk purchase agreements in restraining price increases after devaluation. A further important explanation of the differences is that the calculations for Europe as a whole refer to overseas trade only, and, by definition, exclude intra-European trade, whereas the data for the United Kingdom cover its total trade, including imports from other European countries. In other words, the effects of price changes in intra-European trade tend to cancel out, and the deterioration in the terms of trade of individual European countries would necessarily be less marked, on the average, than that in the trade of Europe as a whole with non-European countries—a factor of considerable importance in assessing the economic burden arising from the relative change in import and export prices subsequent to devaluation.

In Table 84, monthly indices of import and export prices (or in some cases indices of average unit values) are shown for a number of European countries.

The table also shows the average rise or fall in exchange rates in each country as measured by the country distribution of imports in the first half of 1949. These figures indicate roughly the rise in import prices which could be expected to take place as an immediate consequence of the change in exchange rates if export prices were kept unchanged in terms of the exporting country's currency. It will be noted that the increase or decrease of import prices up to the first months of 1950 roughly corresponds to the average degree of depreciation or appreciation *vis-à-vis* the supplying countries. A further increase in import prices is to be expected as the full effects of the rise in sterling prices of overseas raw materials as well as the rise in export prices in intra-European trade make themselves felt. The movements of export prices have been more divergent. Danish export prices are mainly governed by contract prices fixed in sterling, and, since these prices have recently been revised downwards, the export price index has decreased by some 7 per cent since devaluation. In Norway and Finland, export prices appear to have remained almost unchanged, while in Sweden and the Netherlands almost the full increase in import prices has so far been offset by an increase in export prices. In the case of Sweden, this is mainly the result of the maintenance of dollar prices for wood-pulp. The index for British export prices has been remarkably steady, rising by only 3 per cent from September 1949 to February 1950. It seems, however, that, for statistical reasons, the index has failed to register to the full extent the rise in British export prices after devaluation.²

² The officially published index of average values for textile exports shows an even smaller increase since devaluation than the index for total exports. A comparison with unit values, in terms of sterling, for British textiles imported into Switzerland shows a considerably greater increase from the time of devaluation up to March 1950. For instance, cotton tissues appear to have risen by 20 per cent or more, woollen tissues by 10 to 20 per cent and for yarns even higher price increases can be observed. The Swiss trade statistics are more detailed than the British and it is thus possible to calculate unit values for more narrowly defined and therefore more homogeneous commodity groups. It appears from the Swiss import statistics that there has been, since devaluation, a rather systematic shift from more expensive to less expensive items in textile imports from the United Kingdom. The Dutch and Belgian import statistics are less detailed than the Swiss and a similar investigation of the unit values for textile imports from the United Kingdom cannot be made. The available information does, however, show that in the case of the Netherlands and Belgium also a shift from more to less expensive items has taken place. Since the British index of unit values for exports is calculated by means of average unit values for rather broad groups of commodities, a systematic shift in the sales towards cheaper quality goods will lead to an under-estimation of the increase in prices which has occurred.

¹ See Table 52 in Chapter 4.

Table 84

PRICE INDICES OR AVERAGE UNIT VALUES IN NATIONAL CURRENCIES
FOR IMPORTS AND EXPORTS OF EUROPEAN COUNTRIES

Index numbers — third quarter 1949 = 100

Item	Finland ^a	Sweden	Netherlands	Denmark	Norway	United Kingdom	Germany (U.K./U.S. Zone) ^b	France	Belgium	Italy	Switzerland
Percentage rise in exchange rate for U.S. dollar	69.8	43.9	43.3	43.9	43.9	43.9	25.9	27.9	14.0	8.7	—
Percentage of average rise or fall in exchange rates as measured by country distribution of imports in first half of 1949.	39	21	19	17	17	15	12	6	-5	-5	-13
<i>Import prices</i>											
1949 September.	113	103	99	101	100	99	99	101	100	99	98
October.	115	117	103	101	104	106	114	101	99	96	93
November.	119	118	109	102	108	108	102	107	98	96	92
December.	120	119	111	103	115	110	105	109	99	95	91
1950 January.	122	120	109	110	117	112	108	108	98	95	90
February.	123	120	115	111	113	113	106	..	..	94	91
March.	..	..	..	112	..	..	..	..	..	..	91
<i>Export prices</i>											
1949 September.	103	100	98	100	100	100	95	101	98	98	99
October.	100	106	104	96	102	100	98	98	97	97	95
November.	101	108	103	96	105	101	95	100	101	98	95
December.	101	110	109	96	97	102	91	104	101	99	94
1950 January.	..	114	114	94	97	103	93	105	94	100	93
February.	..	115	114	94	102	103	91	..	..	107	92
March.	..	..	..	93	..	..	..	..	..	..	94

NOTE.—The figures for Denmark, Finland, Sweden, Switzerland and the United Kingdom are official price indices based on constant pre-war weights with the exception of the indices for the United Kingdom which are based on constant post-war weights. The prices used are unit values derived from trade statistics except for Denmark and Sweden, where market quotations have been used.

The figures for Belgium, France, Germany (U.K./U.S. Zone), Italy, the Netherlands and Norway are average unit values derived from information on the value and volume of trade as given in national statistics. For

Italy, the Netherlands and Norway, the officially published index of unit values has been used.

The percentages of average rise or fall in exchange rates measured by country distribution of imports are based on calculations published in *International Financial Statistics*, International Monetary Fund, January 1950, p. 9.

a For the index numbers: second quarter of 1949 = 100.

b For January and February 1950, an index referring to the three western zones has been linked to the index for the U.K./U.S. Zone for the preceding months.

On the basis of the price movements discussed above, it is clear that the influence of devaluation on prices has not yet been fully felt, and it is too early to judge what will be the ultimate effects of devaluation either on the prices of imports or on the internal financial situation and export prices of European countries. Assuming that domestic wage and price increases are prevented from developing in an inflationary direction and thus undermining the purpose of devaluation, there may be some further deterioration in the terms of trade of European countries beyond that which has already become visible. In European

countries which devalued to the same extent as the United Kingdom, the deterioration of their total terms of trade (that is, including their trade with one another) is scarcely likely to exceed 15 per cent, and may well be less, particularly in the case of the United Kingdom itself because of its bulk purchase agreements. It is uncertain, however, how long this advantage can be maintained. The most recent information on bulk purchase agreements, presented in Table 85, shows a continuing tendency towards an upward revision of the contract prices.

Table 85

RECENT PRICE CHANGES IN UNITED KINGDOM BULK PURCHASE AGREEMENTS

Percentages

Commodity	Exporting country	Contract period	Share in British imports in 1949	Change in contract price compared with preceding period
Bacon	Denmark	Oct. 1949–Sep. 1950	58	– 4
	Canada	Jan. 1950–Dec. 1950	18	+ 5
Beef	Australia	Oct. 1949–Sep. 1951	17	+ 7
	New Zealand	Oct. 1949–Sep. 1950	11	+ 7
	Argentina	July 1949–June 1950	56	+ 28
	Uruguay	July 1949–June 1950	9	+ 28
Butter	Denmark	Oct. 1949–Sep. 1950	30	– 16
	Australia	Aug. 1949–July 1950	23	+ 7
	New Zealand	Aug. 1949–July 1950	42	+ 7
Cheese	Canada	Jan. 1950–Dec. 1950	10	+ 11
	Australia	Aug. 1949–July 1950	9	+ 7
	New Zealand	Aug. 1949–July 1950	47	+ 7
Eggs in shell	Denmark	Oct. 1949–Sep. 1950	44	– 2
	Australia	July 1949–Dec. 1949	10	+ 11
Sugar	Dominion producers	Jan. 1950–Dec. 1950	46	+ 12 ^a
Wheat	Canada	Aug. 1949–July 1950	76	+ 30

Sources: The figures are derived from *Dairy Produce*, Commonwealth Economic Committee, London, 1950; *Records and Statistics*, Supplement

to *The Economist*, London; and *The N.F.U. Information Service*, National Farmers' Union, London.

^a Provisional.

A deterioration in the terms of trade of as much as 15 per cent undoubtedly poses serious problems, and it is additional to the burden involved in any reduction of the balance-of-payments deficit. On the other hand, as mentioned in Chapter 3, it is unlikely that the loss would exceed 3 per cent of the national income, an amount which it should be possible to make good by a single year's progress in production. It must not be overlooked, moreover, that the terms of trade of European countries had tended to improve during the several months preceding devaluation because of the fall in import prices. Thus the immediate effect of devaluation may not be very much more serious than to return the terms of trade to about the 1948 relationship, although the result would naturally vary considerably from one country to another. On the other hand, forces other than devaluation itself will continue to influence Europe's export and import prices in ways that

cannot be clearly foreseen; among these forces is to be reckoned, as discussed in the preceding chapter, the return of Germany and Japan to active competition both in exporting manufactures and in purchasing primary goods in world trade.

It should be stressed finally that the deterioration in the terms of trade, although brought about by devaluation, is ultimately not the consequence of the currency re-alignment, but of the changed price relationship between primary products and manufactured goods, which as taken place in the world markets since the war. For a period, European countries were able to protect their economies from the unfavourable effects of the changed price structure in the world at large, partly through the methods of bulk buying, which enabled the United Kingdom in particular to obtain basic foodstuffs at relatively low prices, and partly through an over-valuation of currencies that manifested itself in high export prices. Devaluation

has removed only one of these factors—the over-valuation of currencies—while the advantages accruing from bulk purchasing methods are likely to remain in force for some time—perhaps until a period when, with the improved supply position in foodstuffs and raw materials generally, world price relations come nearer to the pre-war pattern.¹ With regard to the policy of currency over-valuation, on the other hand, as was emphasized above, whatever benefits Europe may have derived from it in the immediate post-war years, it could not have continued for a long time after the post-war sellers' market in the world generally came to an end.

Devaluation and the Balance of Payments

It was shown in Chapter 5 that Europe's overseas trade in the fourth quarter improved considerably compared with the earlier quarters of the year. The volume, although not the dollar value, of exports to the United States and Latin America increased, and, at the same time, United States imports from the overseas sterling area recovered considerably and thereby improved the position of sterling. This improvement, as was pointed out, partly reflected the end of inventory liquidation and the moderate recovery in production in the United States, and it may also have been due to some extent to a temporary increase in purchases which in the preceding months had been held back in expectation of devaluation. The trade figures for the fourth quarter of the year do not, therefore, offer a reliable guide to the effects of devaluation. The gold and dollar reserves of the sterling area, after falling continuously for about nine months, rose strongly after devaluation and by April 1950 had surpassed the level of the beginning of 1949. The fact that the improvement of these balances continued at a somewhat higher rate in the first quarter of 1950 than in the last quarter of 1949 may be regarded as a preliminary indication that the improvement in balances was not due solely to the temporary factors just mentioned. In any case, it is too early yet to make even a rough quantitative estimate of the effects of devaluation on the balance-of-payments position of European countries. The following discussion is therefore largely of a speculative nature, intended only to

clarify the character and the possible extent of the changes that are likely to take place in Europe's balance-of-payments position.

It should be clear that devaluation in itself probably will not bring about a major and general reduction in Europe's dollar imports, at any rate in the near future. Although some countries may be able to divert purchases from dollar to non-dollar sources, other countries had already before devaluation tightened import restrictions and reduced their effective demand for dollar commodities to a level below that to which it would have fallen, in free markets, in response to the price increases engendered by devaluation. In the case of manufactures, goods of European origin may be substituted for United States imports to a considerable extent, but a substantial reduction in Europe's imports of primary goods from the dollar area beyond that which occurred in the middle of last year can only come about *pari passu* with an expansion of the production of foodstuffs and raw materials in non-dollar areas. Such an expansion in production will take time, and for many important commodities physical conditions set rather narrow limits to the expansion of production which can be expected in response to the change in price relationships brought about by devaluation.

It is also evident that devaluation is unlikely, even in the most favourable circumstances, to lead to an increase in exports to the United States sufficient to contribute appreciably to the elimination of the dollar deficit in Europe's balances of payments. Though calculations of the responsiveness of demand in foreign markets to changes in prices are always hazardous, it is clear that, even if this responsiveness is relatively large, it would make only a minor contribution to the problem, since Europe's exports to the United States are very small compared with the dollar deficit. If it is assumed, for instance, that the prices of European exports are cut on the average by 20 per cent in terms of dollars, and that in response the volume of sales of European merchandise in the United States would rise on the average by 60 per cent, Europe's dollar receipts would thereby increase by only 28 per cent above the pre-devaluation level. Applied to the 1949 export values, this would mean an increase of about \$230 million in the value of European exports to the United States, an amount which corresponds to only about 7 per cent of the deficit on current account in that year.

¹ In the case of foodstuffs, this might already have taken place but for the agricultural price support policies in the United States, in the absence of which the dollar prices of foodstuffs might already have regained their pre-war relations to manufactured goods.

The limitations of devaluation as a means of improving Europe's direct dollar earnings need to be clearly understood. It must be remembered that United States import duties are graduated, being progressively higher according to the stage of manufacture. They are therefore particularly burdensome on those goods on which Europe would have to rely for a large increase in exports to the United States.¹ This means that if devaluation were to be relied upon to enable European manufactures to surmount the American tariff, the degree of devaluation required would impose a serious, and otherwise unnecessary, deterioration in Europe's terms of trade with other overseas countries, affecting a far larger volume of trade than that with the United States.²

Nor can devaluation be expected to bring a substantial increase in dollar earnings from raw material exports of the overseas devaluation areas. The prices of these dollar commodities, as was argued above, are not likely to fall as much as the prices of European manufactures, though as Table 83 shows, there have so far been some reductions in the dollar prices of a few such commodities. On the other hand, the responsiveness of demand to price changes is likely to be appreciable only in cases where the home production of such commodities is in itself responsive to the price changes ; that is, where a fall in prices in the United States market is likely to lead to a considerable substitution of imports for home-produced goods in domestic consumption. On the whole, general business conditions in the United States appear to be of much more importance to the problem of earning dollars by exports of raw materials to the United States than price changes brought about by devaluation. The effects of devaluation should be more favourable in the Canadian market where, as the result of Canadian

devaluation, prices of United States goods have gone up as the prices of European goods have come down, and where the climate for an expansion of sales of European, and especially British, products is generally more favourable than in the United States market.

The more important effects of devaluation on dollar earnings are likely to arise in connection with Europe's exports to the overseas raw-material producing areas. A rise in exports to these areas is likely to improve Europe's dollar position by diminishing the need for dollar settlements in transactions with these countries and possibly through earning dollars from them, provided that the relative change in prices is sufficient to induce them to shift their purchases from American to European goods on a significant scale. As was discussed in Chapter 5, the raw-material exporting countries overseas have, as a group, greatly increased their purchases of manufactures from the United States since the war, and these imports consist to a considerable extent of goods which European countries can supply. Since most of the countries in this group have had deficits in their trade with the United States, and since devaluation is unlikely to improve substantially their dollar earnings in the short run, the most important possibilities undoubtedly lie in a reduction of their dollar imports induced by the rise in dollar prices in relation to European prices. The greatest benefit to Europe's dollar position is likely to accrue, in particular, from any reduction in dollar imports of the overseas sterling area and the other European affiliated currency areas, which would automatically reduce the net dollar requirements of European countries.

It must be borne in mind, on the other hand, that these areas are likely to benefit from devaluation, since, as a result of higher raw-material prices in terms of devalued currencies, their terms of trade on balance will be substantially improved. The increased incomes earned as a result of the rise in raw-material prices will mean an increased demand for imported commodities generally, which in itself would tend to counteract the reduction in demand for dollar commodities resulting from their higher prices. The extent to which the improvement in the terms of trade of these overseas countries will benefit Europe — or present an additional burden — will depend to a large extent on the internal monetary and financial policy of these countries. If they experience a profit and wage inflation, the demand for European goods will be enhanced without necessarily resulting in any compensating benefit in the form of reduced dollar requirements.

¹ This corresponds to the usual practices of high-tariff countries, which generally favour their own manufacturing industries and restrict competition from the outside by levying higher duties on imports of finished goods than on raw materials and semi-manufactures. Tariffs graduated in this way are, in the first instance, discriminatory with regard to types of goods rather than with regard to sources of supply. Since, however, European countries have to live chiefly by their exports of manufactures, the American tariff is probably no less discriminatory against Europe in its economic effects, if not in outward form, than the more obvious controls which European countries in turn impose with respect to imports from the United States.

² The same limitations and disadvantages apply to price reductions achieved in ways other than devaluation. European exports must, of course, be competitive in price in world markets generally, but to be competitive in the United States market in particular their prices in third countries would have to be unnecessarily low (unless, of course, discriminatory pricing practices were followed).

The improvement in the terms of trade of raw-material producing countries in relation to Europe may, however, strengthen the position of the British pound *vis-à-vis* other European currencies, since a large part of the demand for sterling by Continental Europe arises from imports of raw materials from the sterling area.

In order to achieve any net improvement in Europe's balance of payments, the replacement of American manufactures on overseas markets will have to be greater than the export expansion which is needed only to cover the deterioration in the terms of trade. This presents a particular problem for the countries with full employment.¹ As mentioned in Chapter 3, the rise in prices of imported goods following devaluation would in itself tend to absorb purchasing power and thus release resources for an expansion of the volume of exports sufficient to cover the deterioration in the terms of trade. If, however, an excessive rise in prices is to be avoided and if the opportunity afforded by devaluation for a further expansion of exports sufficient to improve the balance of payments is not to be lost, the increase in money incomes must be held within narrow limits. Although there have not so far been any large increases in money wages in the main devaluing countries, the present position cannot be regarded as stable. It has been seen that wage levels have so far been held down by a variety of *ad hoc* measures. These measures, such as subsidies to the cost of living and temporary agreements to limit wages, are, in some instances, due to expire within a relatively short period. The current pressure from trades unions for higher wages in the face of the

rise in the cost of living and the increases which have occurred in the profits of certain export industries may therefore tend to exert itself with increased force. While a rise in wages as well as prices is to be expected and, within limits, can probably be absorbed successfully if productivity and total output continue to grow, the problem lies in preventing these forces from engendering a cumulative upward movement.

The extent of the improvement in the external position of European countries will also depend very largely on the future development of economic activity in the United States. A renewed business recession in America, even if it were only of a relatively mild character as in 1949, might wipe out the favourable effects of devaluation on the dollar position altogether, both through the effects of a renewed fall in American export prices and through contraction in American imports.

The above discussion may be summed up by saying that the range of improvement in Europe's direct balance with the United States that can be expected to arise from devaluation is rather narrow, but that the indirect effect through third markets and in particular through the affiliated overseas currency areas may be greater; that the chief beneficiaries of devaluation are the overseas soft-currency countries exporting primary products; and that, while Europe's dollar balance is likely to improve as a result of devaluation, this improvement is most unlikely to proceed so far as to eliminate the dollar shortage. The mere restoration of the normal pre-war relation between European and American prices cannot be sufficient to restore equilibrium in the post-war structure of international payments. To attempt to cure the dollar shortage by means of devaluation alone, a far higher degree of currency depreciation might be necessary than has hitherto been attempted, and it is highly doubtful whether the problem is capable of solution by means of devaluation at all.

¹ If it were assumed that the over-all terms of trade deteriorated by 15 per cent from the average level of 1949, the export expansions that would be needed to effect a substantial improvement in the balance of payments might be greater than is currently planned for. Thus, in the case of the United Kingdom, the *Economic Survey for 1950* (Cmd. 7915) estimates that an expansion of exports of just over £200 million will take place in 1950, which would barely offset an increase of 10 per cent in the costs of imports which amounted to £2,272 million, c.i.f. in 1949.

Chapter 7

THE CONTINUING PROBLEM OF INTERNATIONAL EQUILIBRIUM

The European balance-of-payments problem is commonly discussed in terms of bridging the dollar gap. Though this is an essential part of the problem, and also the most difficult to solve, Europe's balance of payments with the dollar area cannot be considered in isolation from the whole complex of world trade. The broader question is rather at what level, and under what conditions, it will be possible not only for Europe but also for other areas of the world to balance their accounts, and whether it will be possible to develop a self-supporting pattern of settlements.

To understand the nature and the dimensions of the problem, it is necessary first to consider the past and present network of world trade and settlements and, on that basis, to examine the various possible adjustments that might be made in the absence of extraordinary dollar aid from the United States.

Some of these adjustments, as will be seen, appear to be already under way. Finally, the nature of the policies necessary to make these adjustments may be considered. Broadly expressed, two alternative solutions can be envisaged—one which would be based on a multilateral pattern of trade and settlements and currency convertibility, and the other based essentially on far-reaching bilateralism and direct controls. Neither of these extremes, but a compromise between them, is likely to emerge in reality, since it is hardly conceivable that world trade will, within a few years, either shift to a totally unrestricted and convertible basis or be carried out exclusively under bilateralism. It may nevertheless be useful to consider the implications and the consequences of trade patterns in which one form or the other predominates.

1. THE PATTERN OF INTERNATIONAL SETTLEMENTS

Continuity in the Network of Trade

It has been seen in Chapter 5 that Europe occupies an intermediary position in the flow of international settlements, since European countries, and especially the United Kingdom, make payments to third countries from the excess of dollars received from their own exports and from special aid over their needs for direct settlement with the United States. This is a reversal of the pre-war position, when Europe succeeded in earning dollars in various overseas countries to settle its deficit with the United States and Canada.

This reversal is not, however, due to a change in the underlying pattern of merchandise trade. In fact, a study of Table 86 reveals a strong continuity in some of the principal features of the geographic pattern of world trade over the past twenty years, despite the great changes in international economic relations during this period. The key to the table is the sustained

heavy export surplus of the United States over the period, although it has been very much greater since the war than before. At the opposite extreme are the United Kingdom and the group "other European countries", both of which show very large import surpluses in all years, although that of the United Kingdom has decreased by one-half since the war and that of other European countries has increased to several times its pre-war size. These over-all surplus and deficit positions on trade account have likewise arisen in the trading relationships of these countries with most other major areas of the world. Thus, both Europe and the United Kingdom have had consistent deficits with Canada, with the Latin American republics, and with the miscellaneous group, the "rest of world".¹ In trade with the overseas sterling area,

¹ In 1949, however, the group "other European countries" registered a small surplus with "rest of the world", accounted for chiefly by the large expansion in exports from France to its overseas territories.

Table 86

**THE PATTERN OF TRADE BALANCES OF MAJOR TRADING AREAS,
1928, 1938, 1948 AND 1949**

Millions of dollars in current f.o.b. prices

Note : The plus and minus signs refer to countries indicated at the heads of columns.

Trade balance of : with :	Year	United Kingdom	Other European countries	United States	Canada	Latin American republics	Overseas sterling area (incl. British colonies)	Rest of world	Total
United Kingdom . . .	1928		+ 800	+ 500	+300	+ 200	-400	+ 200	+1,500
	1938		+ 500	+ 400	+200	+ 200	+100	+ 40	+1,500
	1948		- 200	+ 300	+400	+ 300	-400	+ 300	+ 800
	1949		+ 200	+ 400	+400	+ 100	-600	+ 200	+ 700
Other European countries	1928	- 800		+ 600	+100	+ 400	+400	+ 100	+ 800
	1938	- 500		+ 400	+ 40	+ 100	+100	+ 200	+ 400
	1948	+ 200		+3,300	+300	+ 700	+500	+ 300	+5,200
	1949	- 200		+2,900	+200	+ 200	+500	- 100	+3,500
United States	1928	- 500	- 600		-400	+ 200	+100	+ 200	-1,000
	1938	- 400	- 400		-200	- 100	—	- 100	-1,100
	1948	- 300	-3,300		-300	- 600	-300	-1,000	-5,700
	1949	- 400	-2,900		-400	- 300	-200	-1,100	-5,300
Canada	1928	- 300	- 100	+ 400		- 10	- 20	- 60	- 40
	1938	- 200	- 40	+ 200		—	- 30	- 30	- 100
	1948	- 400	- 300	+ 300		+ 100	-100	- 100	- 400
	1949	- 400	- 200	+ 400		+ 60	-100	- 60	- 300
Latin American republics	1928	- 200	- 400	- 200	+ 10		+ 50	—	- 700
	1938	- 200	- 100	+ 100	—		+ 20	—	- 200
	1948	- 300	- 700	+ 600	-100		+ 20	- 500	-1,000
	1949	- 100	- 200	+ 300	- 60		- 60	- 400	- 500
Overseas sterling area (including British colonies).	1928	+ 400	- 400	- 100	+ 20	- 50		+ 100	- 50
	1938	- 100	- 100	—	+ 30	- 20		+ 200	- 70
	1948	+ 400	- 500	+ 300	+100	- 20		+ 100	+ 400
	1949	+ 600	- 500	+ 200	+100	+ 60		+ 500	+ 900
Rest of world	1928	- 200	- 100	- 200	+ 60	—	-100		- 500
	1938	- 40	- 200	+ 100	+ 30	—	-200		- 300
	1948	- 300	- 300	+1,000	+100	+ 500	-100		+ 800
	1949	- 200	+ 100	+1,100	+ 60	+ 400	-500		+1,000
Total	1928	-1,500	- 800	+1,000	+ 40	+ 700	+ 50	+ 500	
	1938	-1,500	- 400	+1,100	+100	+ 200	+ 70	+ 300	
	1948	- 800	-5,200	+5,700	+400	+1,000	-400	- 800	
	1949	- 700	-3,500	+5,300	+300	+ 500	-900	-1,000	

Sources: Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—“Other European countries” includes, among others, European sterling area countries except the United Kingdom and also the U.S.S.R.

“Canada” includes Newfoundland. “Rest of world” includes European dependent overseas territories not separately specified, as well as all other overseas areas.

The figures have been rounded to \$100 million, except where they were less than \$75 million.

however, the United Kingdom has generally had a large export surplus in contrast to the large import surplus of other European countries in trade with that area. This relationship, combined with the United Kingdom's relatively consistent surplus of imports from continental Europe, has formed the basis of a fairly well-established triangular trading relationship, under which the United Kingdom's surplus with the sterling area could be used to settle its deficit with Continental European countries.¹

There is, however, less stability in the pattern of United States trade with non-European countries, where a change had already occurred before the war, which has been reinforced by recent trends. It will be noted that in 1928 the United States had an import surplus from Latin America and also smaller deficits in trade with the overseas sterling area and the "rest of the world", thus providing part of the dollars used in multilateral settlements by these countries. In 1938, however, these trade deficits had, in each instance, disappeared or turned into a small export surplus in favour of the United States. This shift in 1938 was not altogether typical of the pre-war years, since the total volume of United States imports fell drastically with the sudden business recession in that year. On the other hand, examination of the course of imports into the United States during and after the great depression in the 1930's indicates that a definite decrease in its relative dependence on imported commodities developed during that period. This shift was masked for several years during the period 1934-1937, when the drought in the United States gave rise to extraordinary imports of grain and other foodstuffs, but these exceptional requirements came to an end in 1938 and accentuated the fall in United States purchases from other countries in that year. When allowance is made for these factors, it appears that, during the last years before the war, the volume of United States imports was very much smaller, not only in absolute terms, but also in relation to the total

level of production and consumption in the United States, than it had been in the preceding decade.

Shifts in the relative dependence on trade and in the distribution of production also appear to account for the most characteristic changes in the network of trade since the war; that is, the large increases in the export surpluses of the Western Hemisphere countries in their trade with other areas of the world.² This increase has been due, not only to the extraordinary expansion of the United States exports of manufactures (to other Western Hemisphere countries as well as elsewhere), but also to the increase in the share of the Western Hemisphere in total world production of most of the important primary commodities entering into international trade. Table 87 shows that, while wool, coffee and cocoa are exceptions to the general trend, the proportion of world production accounted for by the Western Hemisphere has increased very substantially in cotton, rubber (including synthetic rubber), copper, zinc, tin, coal, wheat, sugar and maize. In some of these products, as in the case of rubber and zinc, this change reflects primarily the great expansion in production in the Western Hemisphere, but in other products, including copper, wheat and maize, it is also attributable to the decline in production in other sources.³ Although the volume of consumption has also changed—as in rubber, of which the United States imports more than before the war despite the development of its synthetic production—these data indicate why European countries have had to turn to the Western Hemisphere for a larger proportion of their supplies of many basic commodities than before the war. On balance, the self-sufficiency of the Western Hemisphere has grown while the dependence of other areas on it has increased not only for manufactures but also for foodstuffs and raw materials.⁴

² As noted in Chapter 5, however, exports from Latin American countries receded again in 1949 and, in general, have played a very much smaller role in trade since the war than exports from the United States and Canada.

³ Although not included in the table, it has already been indicated in Chapter 5 that supplies of oilseeds and refined oil from most of the pre-war producing areas, including Latin America, have also fallen drastically.

⁴ This change is reflected in the strengthened position of Latin America towards the "rest of the world" group, which largely results from the increase in exports of Venezuelan crude oil to Curaçao and Aruba for refining. Another significant change shown in Table 86 is the increase in the deficit of the overseas sterling area with the rest of the world. This deficit is accounted for mostly by India's deficits with Thailand, China, Japan and Iran.

¹ The pattern (although incomplete in the absence of data on invisible transactions) emerges clearly both in 1928 and in 1949, although it was obscured in 1938, when exports from the United Kingdom to the overseas sterling area fell sharply, following a temporary cessation of British investments, and in 1948, when British imports from Continental Europe were still very low, not only in manufactured goods, but also in foodstuffs and raw materials, while British exports of manufactures to Europe showed a very large increase. As discussed in Chapter 4, the United Kingdom's imports from the Continent rose substantially in 1949, as supplies of foodstuffs and materials increased.

Table 87

SHARE OF THE WESTERN HEMISPHERE ^a IN WORLD PRODUCTION OF PRIMARY COMMODITIES

Quantities and percentages

Commodity	Unit	Years compared	Quantity produced in Western Hemisphere		Percentage of world production	
			Pre-war	Post-war	Pre-war	Post-war
Raw cotton.	Million bales	1938/39 and 1948/49	14.7	17.5	57.3	67.1
Raw wool ^b	Thousand tons	1934-1938 and 1948	421	418	24.5	24.3
Rubber, natural and synthetic. . .	Thousand long tons	1938 and 1948	1	529	0.1	25.7
Copper.	Thousand tons	1937 and 1948	1,523	1,515	69.5	72.1
Zinc.	Thousand short tons	1937 and 1948	907	1,207	56.0	69.8
Lead.	Thousand short tons	1937 and 1948	1,027	844	60.9	63.2
Tin.	Thousand long tons	1938 and 1948	34.2	51.4	21.3	33.6
Coal.	Million tons	1938 and 1948	370	608	34.5	48.7
Petroleum ^c	Million barrels	1938 and 1948	1,539	2,812	86.5	88.3
Cocoa.	Thousand tons	1934-1938 and 1948	208	154	30.9	26.2
Wheat.	Million bushels	1937/38 and 1947/48	1,262	1,949	21.2	33.0
Sugar, beet and cane.	Million long tons	1938 and 1948	7.3	11.3	23.2	37.4
Maize.	Million tons	1934-1938 and 1948	64.6	110.1	66.9	76.0
Rice.	Million tons	1934-1938 and 1948/49	4.5	6.2	4.6	6.3
Cottonseed.	Thousand tons	1934-1938 and 1948	6,310	6,580	63.3	70.2
Linseed.	Thousand tons	1934-1938 and 1948	2,045	2,460	77.0	77.2
Coffee.	Million bags	1935-1939 and 1948/49	31.9	26.1	89.0	87.2
Tea.	Thousand tons	1934-1938 and 1945	0.2	0.7	—	—

Sources: The figures have been taken from data prepared by the Research Department, International Monetary Fund, with the exception of those for copper which are derived from the *Statistical Yearbook 1948*, United Nations.

NOTE.—From available data for 1949 production, it appears that the post-war share of the Western Hemisphere in world production of certain commodities including coal and wheat, is somewhat less than that given for the post-war years in this table.

^a Including the Philippine Republic.

^b Production of the United States, Canada, Argentina and Uruguay only. The figures thus understate the share of the Western Hemisphere in world wool production.

^c Including estimated production of American companies in the middle east.

The surpluses and deficits which arose in merchandise trade during the 1920's were, to a large extent, offset by receipts and payments on other current transactions, including investment income.¹ The system of international settlements, as it functioned at that time, was characterized by very large receipts of the United Kingdom on income from investments and other services, which may be estimated at over \$2 billion and more than offset its deficit on merchandise trade. These receipts enabled the United Kingdom to maintain large deficits with the Continent of Europe and with most other areas, particularly Canada and the United States, and at the

¹ Unfortunately, estimates of invisible transactions are not available in sufficient detail for pre-war years to permit the construction of inter-country or inter-area settlements on current account (including investment income and other services), as has been undertaken for post-war years in Tables 88 and 89. The analysis for the pre-war period must therefore be based on the trade statistics given in Table 86, supplemented by general indications of the importance and movement of invisible transactions as discussed in the text.

same time permitted it to undertake substantial new investments abroad in the overseas sterling area and elsewhere in that period. In addition to the earnings resulting from export surpluses with the United Kingdom, other European countries also had substantial earnings on invisible account—estimated at approximately \$1 billion in 1928—and were thus enabled in turn to settle their deficits with the Western Hemisphere and the overseas sterling area. The circle was closed in part by the deficit of the United States with primary producing areas outside Europe and, of still greater importance, by new American investments both in Europe and in the less developed regions of the world, enabling the latter group of countries to settle their deficits on invisible transactions with the United Kingdom and with other European countries. It will be noted that Canada occupied an important intermediary position in this pattern of settlements, having a large export surplus in trade with the United Kingdom and other European

countries which permitted it to cover its equally large trade deficit with the United States.¹

This pattern of international settlements did not survive intact the great depression of the early 1930's. The value of international trade shrank, as the combined result of a decline in volume and a sharp fall in prices, especially of primary goods. New loans and investments by the United States in other countries came to an end and were replaced by capital movements to the United States both in the form of debt repayments, despite widespread defaults, and in the form of flight money, as discussed in Chapter 5. On the other hand, the invisible income of the United Kingdom had fallen by 1938 to little more than \$1 billion, leaving it with a net deficit on current account ; and the invisible earnings of other European countries also declined. The general atmosphere of international economic relations was one of restrictions and increased bilateralism, under which the volume of world trade remained substantially lower than it had been at the end of the previous decade, although the volume of world manufacturing production recovered in 1937 to a substantially higher level.

Despite the restricting effects of the depression, the general pattern of merchandise trade nevertheless continued to bear a marked similarity to that of ten years earlier, as already observed. The earlier means of covering trade balances, however, were reduced, as in the case of Europe's invisible income, or disappeared altogether, as in the case of American foreign investment. In place of these means of settlement, the surplus of the United States on current and capital account was covered by gold shipments to that country. This was facilitated by two factors. In the first place, many countries, especially in western Europe, had been able to rebuild and maintain substantial reserves during earlier years of the inter-war period on which they could draw to meet the combined drain of capital movements and trade settlements with the United States. Secondly, while prices during the 1930's did not recover to pre-depression levels, the price of gold in terms of dollars had been enhanced by some 70 per cent as a result of the revaluation of the dollar in 1934, thus adding to the buying power of gold in stock and providing a powerful stimulus to new gold production throughout

the world.¹ If it had not been for this change in the status of gold, the dollar shortage would have been felt even more keenly throughout the world than it was.

Since World War II, the large surpluses on invisible account which had previously financed Europe's trade deficit have lost much of their importance, investment income in particular having fallen drastically in relation to the value of commodity imports. At the same time, neither private investment capital nor gold has been available on anything like the scale required for the settlement of the far greater deficits and surpluses which have marked international trade during the past few years. The geographic pattern of trade balances has continued to show a basic similarity to that which had developed before the war, but the earlier means of settlement have been lacking ; their place has been taken primarily by dollar funds supplied in the form of loans and grants by the United States Government, which have served to provide general liquidity throughout the system.

The Unbalanced Pattern of Accounts since the War

Up to this point, the analysis of pre-war and post-war international settlements has been based primarily on statistics of merchandise trade, supplemented by a few general indications of the nature and direction of invisible transactions and of offsetting movements of capital and gold. For the post-war years it is possible to give a fuller picture of the pattern of international accounts, although still a considerable over-simplification compared with the complexity of international transactions. For this purpose, estimates—some of them very rough—have been made of the balance on all current items, including service transactions as well as merchandise trade, between major countries or country groups. These estimates, given in Table 88 and further explained below, show the extremely large surpluses and deficits which have arisen in transactions between these various areas. These balances were settled by credit movements in some instances, by transfers of gold or convertible currencies in others, and to a very great extent by

¹ For a detailed analysis of the pre-war pattern of settlements, see the *Network of World Trade*, League of Nations, Geneva, 1942.

¹ Thus the quantity of new gold produced annually in the world increased by 90 per cent from 1928 to 1938, while its value in terms of dollars rose from \$400 million to \$1,300 million. At the same time, the dollar value of the monetary gold stock of the world rose from \$10 billion to \$27 billion. (See *Statistical Yearbooks*, League of Nations, and *International Financial Statistics*, International Monetary Fund.)

Table 88

THE PATTERN OF CURRENT ACCOUNT BALANCES AMONG MAJOR TRADING AREAS

Millions of current dollars

1948									
GROSS DEFICITS	United States								
0									
1,020	1,000	Latin American republics					20		
430	400	30	Canada						
1,000	800	100	100	Other overseas countries					
530	100	300	10	100	Dependent overseas territories ^a		20		
1,310	200	500	500	10	100	United Kingdom			
1,700	400		100	200		1,000	Overseas sterling area		
5,230	3,300	700	200	30	300	200	500	Other European countries	
11,220	6,200	1,630	910	340	400	1,200	540	0	GROSS SURPLUSES

1949									
GROSS DEFICITS	United States								
0									
600	600	Latin American republics							
620	600	20	Canada						
1,140	300	40	400	United Kingdom			300	100	
1,500	1,300	100	40	60	Other overseas countries				
2,140	400	100	100	1,100	400	Overseas sterling area		40	
3,650	2,800	200	100		50	500	Other European countries		
700	100	300	0		100		200	Dependent overseas territories ^a	
10,350	6,100	760	640	1,160	550	500	500	140	GROSS SURPLUSES

Legend : Surplus
 Deficit ← ↑ → Deficit
 Surplus ↓

Sources : Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—The term "current account", as used in this and the following table, refers to the balance on goods and services only. All balances have been rounded to the nearest \$100 million, except where they were less than \$75 million. The totals are the addition of the individual figures and therefore do not necessarily correspond to the totals given in Chapter 5. Also, some

adjustments made in figures presented in Chapter 5 have been excluded from this table.

The composition of the areas in this table is the same as that in Table 86, with the exception of the "rest of world" group, which, in this table, has been divided into "dependent overseas territories" and "other overseas countries".

^a Excluding British colonies.

special financial assistance. Indeed, the dominant characteristic of international payments since the war has been the extraordinary size and role of the special financial measures which have been necessary in international settlements because of the unbalanced and illiquid nature of the underlying pattern of accounts.

Liquidity in international payments requires that a country must be able to apply its net proceeds earned in trade with countries where it has an export surplus, against its deficits in trade with other countries. This is the essence of a multilateral pattern of trade. It may be vitiated if, because some important countries are in an over-all deficit position, their creditors cannot exercise claims against them in order to cover their own deficits in other directions. That is, these intermediate countries cannot use their "gross surpluses" (the sum of their individual surpluses wherever they arise) to offset their "gross deficits"; their "net balances" are therefore no true indication of their real state of liquidity. A single major country in an illiquid position—in other words, a debtor in all or most directions with no, or few, offsetting claims—may therefore render illiquid the position of a whole series of countries which are themselves nominally creditors towards some countries and debtors towards others.

This reason for the blocking of international settlement possibilities may serve as a guide to the interpretation of the data in Table 88. It will be noted that the countries or country groups in the table have been arranged according to their respective positions as creditors and debtors on current account with each of the other areas. Countries, or groups of countries, generally appear higher on the scale than their debtors and lower than their creditors.¹ The amounts entered in the rows to the left of each country or area show the deficits it incurred, while surpluses are shown in the columns under each country or area. Thus each figure indicates a balance in favour of the country at the top of the column, against the country in that row. To take an example from the data for 1948, it will be seen that Canada had current surpluses of roughly \$500 million and \$200 million in transactions with the United Kingdom and "other European countries", respectively, while incurring a current account deficit of \$400 million with

the United States and also a small deficit with Latin America. If Canada is unable to use its current claims on Europe to settle its current deficits with Western Hemisphere countries, these credit and debit positions can be described as "non-compensable". In that event, Canada's "net balance on current account" becomes a sort of arithmetic fiction, and the real facts of its situation would be that it was accumulating illiquid "gross surpluses" in Europe while faced with the problem of trying to provide cover for its "gross deficits" with the United States and Latin America.

Examination of the data in Table 88 shows that, both in 1948 and in 1949, there were very few compensation or "offset" possibilities arising out of the international pattern of current accounts. To make an offset on current account possible, as explained above, a debtor country must have a surplus with another country which is itself in a creditor position towards third countries. In the presentation adopted in Table 88, offset possibilities appear when an area low down on the scale has a surplus with an area higher up on the scale. Such surpluses appear in the table in dotted lines outside the main block. Compensation possibilities in 1949 arose from the deficits of the United Kingdom with Continental Europe, and of both the United Kingdom and the overseas sterling area with the European dependent overseas territories. Through these sterling earnings, the European countries could settle most of their deficit with the overseas sterling area, which in turn could settle part of its deficit with the United Kingdom. In the same way, the overseas sterling area in 1948 appears to have had very small surpluses with both the dependent overseas territories and Latin America, which would have permitted the United Kingdom to settle part of the claims against it arising out of trade with these two areas.

The problem is, of course, more complex in reality than the summary figures in the table would indicate. If the balances between all individual countries could be shown, the gross surpluses and deficits would be far greater, as the mutual surpluses and deficits of the various countries within each group against one another cancel out when they are shown as a single unit in the table. Thus, even the few opportunities for compensation shown overstate the real possibilities and are purely illustrative, since they implicitly assume that each trading area listed constitutes a single monetary area, or clearing union, within which

¹ As explained in following paragraphs, countries appear lower on the scale than their debtors (and higher than their creditors) when the debt concerned is compensable.

Table 89
CURRENT ACCOUNT SURPLUSES AND DEFICITS OF MAJOR TRADING AREAS
Millions of current dollars

Area	1948				1949			
	Net balance	Gross surplus and deficit	Compensable amount	Non-compensable amount	Net balance	Gross surplus and deficit	Compensable amount	Non-compensable amount
United States	+6,200	+6,200 0	0	+6,200 0	+6,100	+6,100 0	0	+6,100 0
Latin American republics	+610	+1,630 -1,020	20	+1,610 -1,000	+160	+760 -600	0	+760 -600
Canada	+480	+910 -430	20	+890 -410	+20	+640 -620	0	+640 -620
United Kingdom	-110	+1,200 -1,310	40	+1,160 -1,270	+20	+1,160 -1,140	400	+760 -740
European dependent overseas territories (excluding British colonies)	-130	+400 -530	40	+360 -490	-560	+140 -700	140	0 -560
Other overseas countries	-660	+340 -1,000	20	+320 -980	-950	+550 -1,500	0	+550 -1,500
Overseas sterling area (including British colonies).	-1,160	+540 -1,700	40	+500 -1,660	-1,640	+500 -2,140	440	+60 -1,700
Other European countries	-5,230	0 -5,230	0	0 -5,230	-3,150	+500 -3,650	440	+60 -3,210

Sources: The figures are derived from Table 88.

NOTE.—The composition of the areas is the same as that in Table 88.

They have been arranged according to the descending order of magnitude of their net balances in 1949.

surpluses and deficits with other areas could be effectively netted out. Apart from the United States and Canada, this would not be true of any of the trading areas shown other than the United Kingdom and the overseas sterling area. For instance, in 1948 the United Kingdom's surplus with Continental Europe was the net difference between (a) a deficit with eastern European countries which could, in fact, be offset through the deficits which these countries in turn had with the overseas sterling area and (b) a larger surplus with western European countries, most of which did not give rise to any offsets, but was paid out of their previously acquired sterling holdings and out of drawing rights granted by the United Kingdom under the western European payments scheme.¹ Similarly, European deficits with Latin America in 1949 were composed of (a) very large deficits with countries in the northern part of the area, and (b) smaller surpluses with Argentina and other countries in the southern part of the area.

In fact, as seen in Chapter 5, European countries had to make, directly or indirectly,² dollar payments of roughly \$550 million against their "gross deficits" in Latin America which they could not offset by their "gross surpluses" in other parts of the area.³

Despite these reservations, the estimates assembled in Table 88 show the essential features of current account balances during the past two years and reveal why the lack of effective possibilities for multilateral settlements rendered the balance-of-payments problem for certain countries and areas far more acute than would appear from a consideration of their net positions, as ordinarily computed. The main facts emerging from the data are summarized in Table 89, where the major trading areas are listed in the order

² As noted in Chapter 5, part of these payments seem to have gone to Latin America via European possessions in the West Indies in settlement of their deficits with some of the Latin American republics (especially for oil imported from Venezuela into Curaçao and Aruba).

³ This again reflects the fact that the "gross surpluses" and "gross deficits" shown in Tables 88 and 89 are not fully gross, since, for instance, the Latin American component entered in the data is itself a fictitious net figure.

¹ See last year's SURVEY, pp. 136-7 and 151-5.

of decreasing net balances. The United States heads the list as the universal creditor and Continental Europe is at the bottom of the list as the largest and almost universal debtor, despite the compensation possibilities noted above arising out of its surpluses with its overseas territories and with the United Kingdom. The table shows the crucial importance of compensation possibilities for all countries and trading areas occupying an intermediate position on the scale and particularly for Latin America, Canada and the United Kingdom, whose over-all current accounts in 1949 show small nominal surpluses but whose gross surpluses could not be employed to settle their gross deficits.

It has been seen that, in the 1920's, the network of world trade was, in the main, self-balancing, largely because of the important revenues from overseas investments and other invisible income received by European countries in currencies which were then freely convertible. As a result, the volume of capital movements required to clear the system was small in relation to the volume of current account transactions between the major trading areas. In contrast, the dominant feature of the post-war pattern of international transactions is that it has been dependent on capital transfers of an extraordinary nature in order to make the system function at all. The excess of dollar aid received over the amount required by European countries to settle their direct deficits with the United States has enabled them to cover in dollars their adverse balances with other overseas areas. In turn, the receipt of dollars from Europe has enabled these areas to settle their deficits with the United States. As shown in Table 68 of Chapter 5, these multilateral dollar transfers effected by Europe amounted to approximately \$2 billion both in 1948 and 1949.¹ This appears to be the underlying support in the present network of international settlements and the source of liquidity in a system which otherwise could not be cleared. It is not only that western European countries themselves have depended on American assistance to cover their deficits with the United States, but other major trading areas as well

have been able to maintain their present trade relationships only because of the flow of American funds to Europe.²

Dollar Financing and the Role of Sterling

Despite their key role, the dollar settlements which have been traced in some detail in Chapter 5 and in the preceding analysis form only a part of total international settlements. Outside the "dollar world", part of the trade is conducted under more or less rigid bilateralism, and another substantial share of the trade is cleared in a more multilateral pattern in sterling. Countries carrying out their trade bilaterally aim at a strict balance in their current accounts. If a deficit occurs in spite of the plan, the aim is usually to avoid any settlement and to pay off the deficit by provoking a surplus in the other direction during the following period, either through an increase in the exports of the deficit country or, as frequently happens, by curtailing the imports of the deficit country. Bilateralism is not always carried to this length, and a great many of the payments agreements provide for settlements either in dollars or in sterling or, as generally specified, in currencies acceptable to the creditor. The "bilateral world" thus converges in varying degrees on the dollar and the sterling worlds. Between bilateralism and free convertibility there exist also closed systems which permit unrestricted transfers within a defined area, such as the Dutch and French monetary areas, where the colonial and the metropolitan currencies are freely convertible into each other but not into other currencies. The creation of a similar area of free multilateral transfers between the Soviet Union and eastern European countries appeared to be one of the original aims of the Council for Mutual Economic Assistance, although it is uncertain to what extent it has so far been realized.

Apart from the dollar, sterling is far and away the most important currency in international trade. According to an official British statement, more than one-third of world trade is carried out in sterling while multilateral transfers in sterling (excluding

¹ As discussed in Chapter 5, Section 2, this figure is an overstatement to the extent that unrecorded transfers from Europe to the United States took place. While the importance of these transfers, especially during periods of dollar stringency and monetary disturbance in Europe, is suggested by the behaviour of the residual item in the United States balance of payments in accordance with the analysis made in Chapter 5, it is impossible to state with any close precision the amount of funds which could have escaped from official controls in this way.

² There have also been substantial dollar funds provided directly by the United States to Latin America and to countries of the "other overseas" group, consisting chiefly of assistance in one form or another to various Far Eastern countries and private direct investments in oil properties in the Middle East. It has been seen in Chapter 5 that these capital exports played little role in international settlements, although they enabled the recipient countries to settle their current account deficits with the United States by means other than dollar receipts from Europe.

both the sterling area and the "American account" countries) amounted to approximately \$1 billion in both 1948 and 1949.¹ From the data given in Table 88, it would appear that international settlements in sterling, outside the sterling area itself, could be useful only to Continental Europe and the dependent territories, where sterling surpluses and sterling deficits exist side by side. The ultimate creditor being the United States, a world-wide system of multilateral settlements based on sterling could not function at present. If, however, individual countries instead of areas are considered, many of them both in Latin American and in the "other overseas" group do have deficits in some directions where sterling is acceptable as a means of settlement.² Even considering areas as a whole, Table 88 indicates that, both in 1948 and 1949, the only offsetting of balances which emerged gave rise to sterling settlements. Thus, in spite of the handicap arising from the fact that it is the currency of a deficit area, sterling is much more important in the pattern of settlements than the area break-down in Table 88 would suggest.

Sterling occupies, moreover, a unique position as an intermediary between the "dollar world" and the "bilateral world". As seen in the discussion of Tables 68 and 69 of Chapter 5, dollar settlements by the United Kingdom—which are tantamount to conversion of sterling into dollars—appear to have totalled some \$1.2 to \$1.3 billion in 1948 and in 1949 and represented the major part of the multilateral dollar payments made by Europe in those years.³ This role of sterling, together with its direct use in multilateral settlements, has made it, after the dollar, the other main prop of the international payments system as it now operates and the principal channel through which dollar liquidity is supplied to the world.

The balance of payments of the United Kingdom illustrates the working of this mechanism. Both in 1948 and in 1949 the British account showed an

approximate balance (actually a small deficit in 1948 and a smaller surplus in 1949), made up of large surpluses with the sterling area, and approximately offsetting deficits with non-sterling countries. Of these deficits, the direct deficit with the United States amounted to some \$200 million in 1948 and \$300 million in 1949, and the remainder, about \$900 million in 1948 and \$700 million in 1949, arose in transactions with other countries.⁴ The United Kingdom nevertheless appears to have made dollar transfers in both years in a substantially greater amount, according to the figures cited above. The reason for these dollar transfers in excess of the United Kingdom's net deficit on current account with countries outside the sterling area is of a twofold character. Where the United Kingdom had deficits, as in transactions with Canada and some of the Latin American countries, settlement was ordinarily made in dollars, and this was also true of its deficit with some western European countries, including Belgium, Switzerland and western Germany.⁵ On the other hand, the United Kingdom could not require dollar payments from countries with which it showed a current account surplus, chiefly because they themselves already held sterling funds (or were in a position to acquire them from other holders) with which they could settle their deficits with the United Kingdom; other debtors, such as France in 1948 and other western European countries, were able to utilize drawing rights granted to them by the United Kingdom under the O.E.E.C. payments scheme.⁶

⁴ These figures have been adjusted to eliminate certain capital transactions included in the official British statistics of current transactions.

⁵ While the monetary agreements which govern the use of sterling show a wide diversity, the case where any deficit, or a deficit exceeding a certain amount, may be converted into dollars on the desire of the creditor are numerous. From an institutional point of view, holders of "American account" sterling can convert freely into dollars. Sterling holders in the scheduled territories (that is, the overseas sterling area) can obtain dollars from the Central Pool, subject to not very rigid agreements. "Bilateral sterling" shows a bewildering variety: in some cases (Belgium, Switzerland, western Germany and, formerly, Japan) it is convertible into dollars when holdings exceed an agreed limit; in other cases sterling is convertible at the request of the holder, subject to fairly loose restrictions (Iran), or within well-defined limits (Egypt), and in other cases it is not convertible at all. Finally, transferable account sterling is usually not convertible.

⁶ Dollar settlements by the United Kingdom in excess of its current account deficit meant a reduction of its sterling liabilities to non-sterling countries. Exceptional features in 1948, such as large-scale sales of British assets abroad, and a surplus of the overseas sterling area in soft currencies, actually resulted in a reduction of \$1 billion in sterling balances

[For continuation of footnote, see over.]

¹ *International Survey*, Central Office of Information, March 1950. It should be noted that the figure of multilateral transfers in sterling is not comparable with the figure of \$2 billion for international settlements in dollars given in Table 68 of Chapter 5, as the British figure presumably applies to all transfers but leaves out a considerable area, while the figure for settlements in dollars covers the world but neglects transfers inside each of the areas shown in the table.

² In spite of the fact that Denmark is a "bilateral account" country and therefore does not enjoy the right of automatic transfers, it was recently reported from Copenhagen that payments for imports from France, Sweden, Argentina and Brazil are made in sterling.

³ Reservations about the size of these transfers must be made for reasons explained in footnote 1, page 170.

The United Kingdom's surplus with the overseas sterling area likewise does not give rise to any settlement, but is offset by movements of private capital or reductions in sterling holdings. The amount of dollars, as well as other currencies, which the United Kingdom can obtain depends entirely on the net earnings of these currencies by the sterling countries and is not linked to the deficit they have with the United Kingdom.¹

Thus, while in 1948 the overseas sterling area made a net contribution in gold² and in hard currencies, in 1949 it became a net drain on the Central Dollar Pool in London, as its deficit with foreign countries increased and its gold sales fell off, despite the fact that the United Kingdom's current account surplus with the overseas sterling area increased.

The paradox of the British situation, presented by its continuing heavy dollar transfers in multilateral settlements while its over-all balance on current account has returned to nominal equilibrium, is largely explained by the widespread holdings of large sterling balances by both sterling area and other countries, and by the continued and unrestricted movements of private capital from the United Kingdom to the overseas sterling countries.³ These capital movements thus serve to replenish the London balances of the overseas sterling countries to which the capital flows as the same or other overseas sterling countries draw on their previously acquired balances. It should not be overlooked, however, that, in general, the United Kingdom's trading partners, both in the sterling area and elsewhere, would not have been able to make dollar settlements to the United Kingdom unless their own imports from the United States had been smaller or their exports to the United States larger.

held by non-sterling countries, the corresponding figure for 1949 being somewhat less than \$200 million. Of the proceeds of the sale of British railways to Argentina, almost \$400 million served to pay for the current account deficit of the United Kingdom, while some \$200 million resulted in a reduction of sterling claims of Argentina.

¹ An important exception existed, however, in the special arrangements which governed the relations of the Union of South Africa with the Central Dollar Pool.

² This assumes that the South African gold loan can be treated as part of current multilateral settlements, since the loan was repaid in a short time owing to the large surplus which the United Kingdom earned on current account with South Africa.

³ At the end of 1949, sterling balances held inside the sterling area amounted to £1,047 million and in foreign countries to £2,297 million. During 1949, the amounts blocked or restricted declined from approximately £1,600 million to £1,350 million and the unrestricted account rose from some £1,750 million to nearly £2,000 million. Movements of British capital to the overseas sterling area exceeded £200 million both in 1948 and 1949.

The unbalanced nature of the whole pattern of post-war settlements and its dependence on dollar funds supplied by the United States is thus reflected in the position of sterling. If the pound were made more freely convertible, the existence of large-scale sterling claims would make it more susceptible to pressures arising from the general shortage of dollars and to changes in speculative attitudes, as happened in 1947. If, on the other hand, there were no possibility of converting sterling into dollars, its role as an international currency would be greatly diminished and severe strains would be placed on the trade of many countries, both inside and outside the sterling area.

International Settlements and Aid to Europe

Many things have occurred to destroy the pattern of international settlements that existed before the war and which was already seriously impaired by the impact of the great depression in the last pre-war decade. These forces include : the dwindling of the flow of invisible earnings which formerly offset Europe's overseas trade deficit and played indirectly a key role in financing intra-European settlements as well ; the accumulation of vast claims on Europe, especially in the form of sterling balances, which act as a drain on current production and exports and break a link in the pre-war pattern of payments ; the fall in the effective purchasing power of gold because of the great increase in the post-war level of prices of other goods, unaccompanied by any change in the dollar price of gold ; and the change in the geographic distribution of production which has compelled Europe to turn in greater measure to the Western Hemisphere to satisfy its import needs while, at the same time, rendering the Western Hemisphere less dependent than before on imports from other areas.

These structural changes are reflected not only in Europe's deficit but also in the whole pattern of international settlements linking the United States, Europe and the other major trading areas of the world. At present the system is held precariously between rigid bilateralism and full multilateralism by the flow of American aid to Europe. Now that there can no longer be said to exist a general recovery problem in Europe, in the sense of restoring the capacity to produce, the flow of American capital and grants to Europe serves, more clearly than before, to provide dollar liquidity to an international payments

system which would otherwise break down or have to be abruptly and profoundly changed. In spite of the structural features which have lent continuity to the underlying pattern of trade and accentuated its unbalance, the pattern cannot outlive the means of financing it. When dollar aid to Europe comes to an end, the present flow of international payments obviously cannot be maintained. The preceding analysis serves to indicate the broad dimensions of the problem and the possible forms the readjustments may take. Some of these shifts are, in fact, already under way, as will be seen below.

From the standpoint of Europe, the simple arithmetic of the problem is to eliminate—or to reduce to so-called “manageable proportions”—the dollar gap which amounted to just over \$5 billion during the past year, or little less than in 1948, most of which was covered by extraordinary financial aid from the United States. In both years the deficit fell into two parts: something more than \$3 billion arose in transactions directly with the United States, chiefly on the part of Continental European countries, and about \$2 billion was in the form of transfers made to third countries, chiefly by the United Kingdom.¹ The gap may be closed either by converting one of these dollar deficits into a dollar surplus, or by reaching

a balance in dollar transactions both with the United States and with third markets.

In the light of the analysis which has been made of the pattern of international settlements, it is apparent that the adjustments will entail major shifts, not only in the trade of European countries, but also in that of overseas countries whose trade with the United States is dependent on dollar receipts from Europe. And, of course, the trade of the United States itself will be profoundly affected, since the adjustments other countries have to make must entail a decrease in their imports from the United States or a rise in their exports to the United States.

While the relationship is thus reciprocal, the initiative largely rests with the United States, since, as was pointed out in last year's SURVEY, its freedom of action is very much greater than that of other countries in determining the total supply of dollars available to the world, whether through its own imports or through other means. It will therefore be useful to consider next the factors influencing the future volume of dollars supplied to the rest of the world by the United States as a starting-point in examining the adjustments which will have to be made in the trade of other countries, both in Europe and overseas.

2. THE WORLD SUPPLY OF DOLLARS

Role of Extraordinary Dollar Aid

The greatly increased dependence of the rest of the world on United States production is reflected in the fact that an acute dollar shortage has been experienced not only in Europe but in most other parts of the world since the war, even though the total amount of dollars supplied by the United States has been much larger than ever before.² As may be seen

¹ These multilateral transfers arose principally out of European deficits with Canada and Latin America, the amount involved in each instance being of the order of \$600 million both in 1948 and 1949. In addition, smaller transfers have been made to other overseas areas.

² As may be seen from Table 90, the term “world supply of dollars” as used in this analysis refers to the sum of (a) the receipts of other countries from the United States arising out of their exports to that country, their gross earnings from investments in the United States and from service transactions such as tourism and shipping, their receipts (net) of gifts, loans, and other capital from American sources, both private and public, and (b) other dollar funds derived from the liquidation

in Table 90, the total during the past three years has been about five times the amount supplied during the immediate pre-war period and more than double the amount supplied during the second half of the 1920's. These comparisons in terms of current dollars greatly overstate, however, the real extent of the increase because of the wide price fluctuations which have occurred over this long period. This may be seen in the following summary figures where the volume of dollars supplied by the United States is

of the gold and dollar assets of other countries and from short- or long-term financing provided by international agencies. That part of these transactions grouped under (a) above is described for convenience of reference as “dollars supplied by the United States” (although that portion of it consisting of trade and service transactions could equally well be termed “dollars earned by other countries”).

Discussion of the supply of dollars refers to the amounts available to all countries outside the United States and not to European countries only, except as otherwise indicated in the text.

Table 90
WORLD SUPPLY AND USE OF DOLLARS
Millions of current dollars

Transactions	Annual averages			Annual totals				Quarterly totals in 1949			
	1925-1929	1932-1933	1935-1939	1946	1947	1948	1949	First quarter	Second quarter	Third quarter	Fourth quarter
I. SUPPLY OF DOLLARS											
<i>Dollars supplied by the United States</i>											
United States imports	4,331	1,427	2,554	5,168	6,071	7,697	7,134	1,963	1,741	1,604	1,826
Income paid on foreign investments in the United States	243	125	230	216	227	291	296	81	57	63	95
Other service transactions (gross)	951	516	678	1,783	2,165	2,493	2,401	564	624	725	488
Private financial resources											
1. Personal and institutional remittances (net)	356	204	164	598	568	648	538	147	141	108	142
2. Long-term and short-term capital (net)	1,097	-233	-297	335	727	1,017	455	115	53	103	184
Public financial resources											
1. Grants and other unilateral transfers (net)	11	7	16	2,279	1,812	3,761	5,085	1,273	1,490	1,268	1,054
2. Long-term and short-term capital (net)	-38	-16	—	2,774	3,901	897	656	292	110	184	70
Total of dollars supplied by the United States	6,951	2,030	3,345	13,153	15,471	16,804	16,565	4,435	4,216	4,055	3,859
<i>Other dollar funds</i>											
Liquidation of gold and dollar assets of other countries	-558	455	1,077	1,968	4,513	857	-47	-28	330	93	-442
Dollar disbursements (net) by											
1. International Monetary Fund	—	—	—	—	464	196	101	32	18	3	48
2. International Bank for Reconstruction and Development	—	—	—	—	297	176	38	8	8	11	11
Total of other funds	-558	455	1,077	1,968	5,274	1,229	92	12	356	107	-383
Total of dollars used by other countries	6,393	2,485	4,422	15,121	20,745	18,033	16,657	4,447	4,572	4,162	3,476
II. USE OF DOLLARS											
United States exports	5,102	1,702	3,007	11,874	16,056	13,445	12,401	3,453	3,494	2,782	2,672
Income paid on United States investments abroad	1,013	482	559	820	1,074	1,263	1,328	263	350	305	410
Other service transactions (gross)	502	255	459	2,272	2,611	2,083	2,185	550	570	575	490
Errors and omissions	+224	-67 ^a	-397	-155	-1,004	-1,242	-743	-181	-158	-500	+96

Sources: The figures are derived from *The Balance of International Payments of the United States, 1946-1948*, and *Survey of Current Business*, March 1950, both published by the United States Department of Commerce.

^a Does not correspond to net difference in transactions shown because of a small amount of security arbitrage operations in 1933 which cannot be allocated between transactions supplying and transactions using dollars.

expressed in constant prices in terms of its buying power over United States exports :

Dollars supplied to Other Countries by the United States

Period	Total (millions of dollars in 1949 prices) ^a	Per cent of United States gross national product		
		Goods, services and private financing	U.S. Govt. financing	Total
1925-1929 ^b	9,588	6.8	—	6.8
1932-1933 ^b	4,833	3.6	—	3.6
1935-1939 ^b	6,335	4.0	—	4.0
1946 . . .	15,511	3.8	2.4	6.2
1947 . . .	15,348	4.1	2.4	6.6
1948 . . .	15,675	4.6	1.8	6.4
1949 . . .	16,565	4.2	2.2	6.4

^a Current values adjusted by United States export price index.
^b Annual average.

When expressed in this way, the changes over the period appear more moderate although the increase since the war remains substantial, particularly as compared with the 1930's, when the depression held United States imports to a low level and there was a net repatriation of American capital from other countries. Nevertheless, it is also interesting to observe that the greatly expanded amount of dollars supplied by the United States to other countries since the war still represents a slightly smaller share of gross national product in the United States than it did during the 1920's, when American import demand was active and private capital moved abroad on a relatively large scale.

The change in the composition of the supply of dollars has been even more striking than the increase in its total value. During the inter-war period, virtually the entire amount was made up of private transactions, including payments for United States imports and for services rendered by foreigners as well as private remittances and investments abroad. Since the war the total amount of dollars supplied in these ways has shown very little increase, particularly if allowance is made for the higher level of prices now ruling, and the greater part of the effective expansion in the supply of dollars has come from United States official sources. During the past year, grants and credits extended by the United States Government amounted to almost \$5,750 million, or more than a third of the total dollars supplied from all United States sources, and were somewhat greater, both relatively and in absolute amount, than in 1948.

The largest single component of United States Government financing has been the European Recovery Programme and other measures of financial aid to western European countries, totalling some \$4.5 billion in 1949. It is the reduction and prospective termination of these programmes which poses the necessity for a speedy and far-reaching readjustment in the overseas transactions of European countries and may, as observed in the conclusion to Chapter 4, also cause serious difficulties in intra-European trade. In considering the effects of this change on Europe and its possibilities of earning dollars in other ways, it should not be overlooked, however, that United States Government financial aid to other areas of the world is likewise due to decline and eventually to cease. This financing, which amounted in total to more than \$1 billion in 1949, was accounted for chiefly by special United States programmes of various types in Far Eastern countries, particularly the Philippines, Japan, China and Korea, and, as already observed, was used chiefly to cover direct outlays for American goods. While the tapering-off of these programmes will, in some cases, simply entail a net reduction in the total imports of the recipient countries, it will confront some of them with the necessity of readjustments essentially similar to, and competitive with, those faced by Europe. In the case of Japan, for example, the ending of American aid will make it necessary for Japan either to earn convertible currencies to cover its purchases of American cotton and foodstuffs or to compete for supplies of these commodities from non-dollar sources.

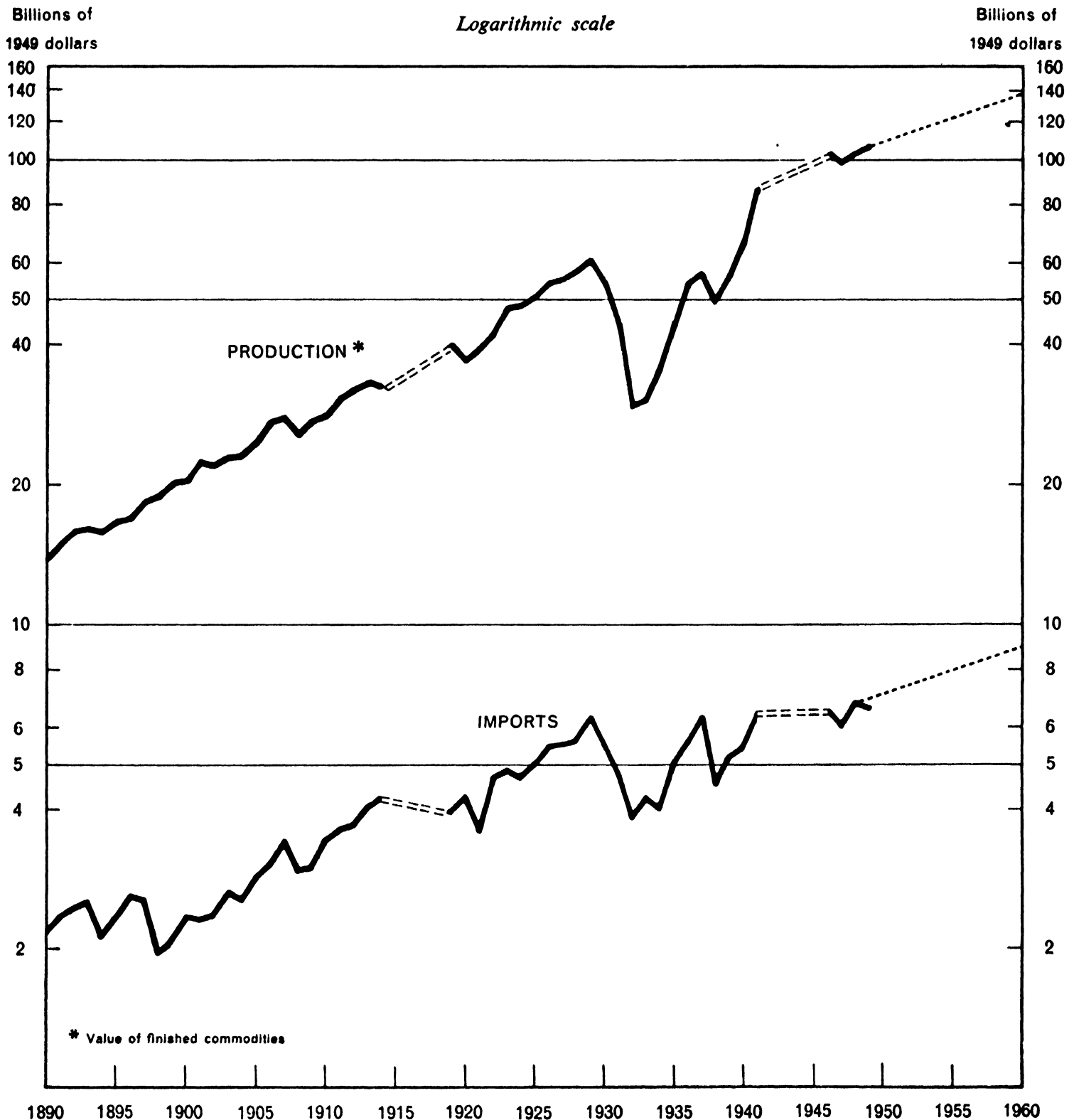
How soon all these programmes will come to an end is not clear, although some of them, such as war damage payments to the Philippines and the American contribution to the International Refugee Organization, are already nearing completion, and in most other instances the United States Government has clearly indicated that it regards its aid as of a temporary and emergency character.¹ While there seems to have been considerable discussion of possible new programmes of financial aid by the United States Government, especially in south-eastern Asia, the only definite proposals made so far² have

¹ See excerpts from the "President's Budget Message for 1951", reproduced in the *Department of State Bulletin*, 23 January 1950.

² That is, apart from the "Military Assistance Programme" which presumably will cover military equipment only and therefore can be excluded from the present discussion.

Chart 4

UNITED STATES PRODUCTION AND IMPORTS, 1890 TO 1949, AND FUTURE PROJECTIONS



Sources: Details are given in Appendix B.

NOTE.—Data for the war years 1915 to 1918 and 1942 to 1945 are not included.

been in connection with the "Point IV" programme, for which the United States Congress has been asked to appropriate \$40 million to provide technical assistance to under-developed countries.

Present indications are therefore that, within the

next few years, United States Government grants and credits to foreign countries under various programmes hitherto inaugurated will come to an end, and that the supply of dollars paid out by the United States to foreign countries will return rapidly to something

more similar to its pre-war composition. It remains therefore to examine the prospective trends in the supply of dollars likely to be forthcoming from private sources, including United States imports of goods and services from other countries.

United States Purchases of Goods and Services

The historical development of United States merchandise imports over the past sixty years, in relation to the growth of United States industrial production during that period, is shown in Chart 4. It may be seen that, on the whole, there was a smooth and sustained rise in the volume of United States imports up to 1929, following closely the growth in domestic production. Even the effects of World War I in increasing the self-sufficiency of the United States are scarcely visible in the expansion of United States imports over this long period of years. As already observed, however, the depression of the 1930's brought a definite lowering of the level of United States imports in relation to domestic production, and the effects would have been more visible had it not been for the extraordinary imports of grain and other foodstuffs owing to the drought in the middle of that decade. Nevertheless, the general trend in imports was strongly upward during the 1930's as domestic production recovered, although the relation between the two had altered.

The last war has clearly brought another setback in imports in relation to domestic production;¹ the volume of imports rose in 1948 to a level only very slightly higher than in the peak years of the inter-war period and then declined moderately with the recession in the United States during the past year. While it is still much too early to draw any firm conclusions as to the future long-term trend in United States imports, past experience suggests that, if domestic economic activity in the United States maintains a steady growth in keeping with increasing productivity and manpower, its imports from other countries will also expand, although they may well continue to represent a substantially smaller percentage of domestic production than before. These possibilities are also indicated in the chart, showing the level of production in 1960 which would approximately correspond to full employment conditions at that time and, in very

much more approximate fashion, the potential level of imports, if they are presumed to follow the same upward trend. Although these indications are necessarily of a speculative nature, they are none the less relevant to present problems. They suggest that during the course of the next decade the volume of dollars paid out by the United States for imports may resume its secular growth and, particularly if there is a further lowering of trade barriers by the United States and increased effort by other countries to expand sales in the American market, may rise to a level at which the present disparity between dollar demand and dollar supply would be overcome. If this is correct, it becomes all the more urgent to find solutions to the difficulties of the intervening period which will not impair the longer-run prospects for the free development of international trade. At the same time, however, it must be remembered that, in an expanding world economy, the demand for American goods will tend to grow also, and too much reliance should not be placed on the hope that long-run forces will solve the dollar problem.

For the immediate future, moreover, the dominant characteristic remains the low level of United States imports in relation to its own production and exports, and there is little prospect that an expansion will occur of sufficient size and rapidity to replace a significant part of the dollars at present supplied through United States Government assistance. The bulk of United States imports consists of crude materials, semi-manufactures and foodstuffs which are not particularly responsive to trade promotion drives or even to relative price changes. In fact, the decrease in the dollar prices of some products, which may follow devaluation in overseas supplying countries, may result merely in a reduction in the value of United States imports rather than in an appreciable increase in the quantity taken, since the demand for them depends chiefly on industrial production and on established consumption habits in the United States. While the present position and the outlook for future imports vary considerably between different commodities,² there seems little likelihood that, on balance, United States demand for these primary goods will rise faster than the rate of increase which might be expected in the general economic activity of

¹ Measured in current value, imports in relation to gross national product in the United States declined from 4.2 per cent in 1925-1929 to 2.8 per cent in 1935-1939, and to 2.6 per cent in 1947-1949.

² For a detailed analysis of the development of United States imports since the war, see *The Balance of International Payments of the United States, 1946-1948*, United States Department of Commerce, 1950.

the country. An additional reason for caution in appraising the prospects for United States imports of raw materials lies in the fact that the strategic stock-piling programme is scheduled to be completed in 1953, which in itself will probably entail a reduction of several hundred million dollars in United States purchases abroad.

With regard to United States imports of finished manufactures, the prospects are much more dependent on policies and relative prices, including both the export promotion efforts of European countries, which are the major suppliers of such manufactures as are imported into the United States, and changes in the American tariff and in customs procedures. If optimistic assumptions might be made with regard to a consistent set of policies by European exporting countries and by the United States, there would seem to be no very definite limits that might be assigned to the expansion of European sales in the American market, particularly in such items as woollen textiles, chinaware and leather goods, all of which are products in which Europe seems to have a competitive advantage owing to smaller differences in productivity compared with industry in the United States than in other branches of production. Unfortunately, it is precisely on these and other products in which Europe's competitive position is strongest that the United States tariff falls with the greatest severity, despite the reductions which have been made in recent years under the reciprocal trade agreements.¹ While United States policy is strongly in favour of stimulating a large expansion of imports and has found support in a considerable section of United States business, it still remains to be seen whether policies both in Europe and in the United States will develop in such a way as to bring about a significant expansion in imports of manufactured goods. It must also be remembered that, because of the wide range of its own industries and the high tariff protection which they have received for many years, finished manufactures play only a minor role in United States imports and are relatively smaller now than before the war. In 1948 and 1949 they made up only about one-twelfth of the total.² Even if other countries were

to be so successful as to double their sales of finished manufactures to the United States in the next few years, total United States imports would thereby be increased by only 8 per cent. Reservations as to the possibilities of achieving a large increase in sales to the United States appear to lie behind the O.E.E.C. estimates of total exports by western European countries to the United States in 1951/52, which foresee an increase of only about \$300 million above the 1949 level. The E.C.A. Administrator has urged the necessity for a much larger increase in the order of \$1 billion (including, however, American tourist expenditure and other invisible transactions), but this appears to be more in the nature of a goal than a forecast of what is likely to happen.³

To sum up the outlook for dollar earnings by other countries through sales to the United States, it would seem improbable that, on the basis of present trends and policies, the total would be likely to recover from the 1949 level to more than about \$8 billion, although this may cover a somewhat larger volume of goods at a lower level of prices. If considerably more optimistic expectations can be entertained about the decrease in United States tariffs and the efforts of other countries to surmount them, higher estimates can be made. It is equally possible to arrive at a lower figure, which would almost certainly be borne out if employment and production in the United States failed to expand as the labour force and productivity rise.

It is likewise improbable that, on balance, service transactions will result in a large rise in United States disbursements in other countries. While there has been much discussion of the possibilities of increasing American tourist outlays in Europe, the actual amount of dollars expended in this way is small, as seen in Chapter 5, and a relatively great increase in the number of travellers would not give rise to a very large increase in absolute terms. The transport account may also show some shift to the advantage of European and other carriers, but the potential improvement in this item is severely restricted by United States merchant marine policy entailing heavy subsidies in favour of American shipping. Moreover, such improvement as may occur in these service transactions may be offset by a decrease in expenditure on the maintenance of American military

¹ For instance, certain categories of woollens and worsteds are still taxed at 35 per cent, although this is less than half as much as in 1939, and the duty on woollen hose has also been halved, but still amounts to 28 per cent.

² This calculation excludes imports of newsprint and jute burlaps from finished manufactures (where they are included in United States trade statistics) since they are more in the nature of industrial materials.

³ Letter from the E.C.A. Administrator to Senator H. Alexander Smith as quoted in the *New York Times* for 9 April 1950.

personnel abroad, which has been one of the major items in the service account in recent years.

Flow of Private Aid and Capital

Although small by comparison with the amount of United States Government financing to foreign countries, funds from private sources in the United States, both in the form of gifts and in the form of credits and investment, have supplied a substantial volume of dollars to foreign countries since the end of the war, averaging \$1.2 billion annually on a net basis. The portion of these funds consisting of gifts, made up of personal remittances and contributions through both religious and non-sectarian organizations, will undoubtedly decline over the next few years. This is certainly to be expected of personal remittances, accounting for the greater part of the total, which originate chiefly in American families of foreign origin or extraction. Because of the very low level of immigration into the United States during the past twenty-five years, these remittances have been substantially smaller since the last war than they were immediately after World War I and will undoubtedly decrease further as individual relief needs abroad become less acute.

The flow of credits and investment capital from the United States originates, of course, from quite different sources compared with private remittances and is subject to very much less predictable influences. There are, however, two dominant characteristics of the flow of private capital since the war indicative of what may be expected in the near future. The first is that capital investments in the form of foreign loans floated in the United States, which played such a major role during the decade following World War I, have all but disappeared; in fact, the few issues placed publicly and privately with American investors since the war have been approximately offset by continuing amortization payments on old pre-war obligations. After the previous experience of heavy losses on foreign loans—attributable in large measure to the heavy defaults which arose during the great depression but also in part to the unsound practices which had been followed by a number of American issuing houses during the 1920's—there seems to be no prospect that this form of private foreign investment by the United States will be revived on any substantial and continuing scale. Even the International Bank for Reconstruction and

Development has found it necessary to exercise extreme caution in raising capital in the American market, despite the special guarantees provided.

Private foreign investment by the United States since the war has therefore been almost wholly in the form of direct investment in the foreign branches and subsidiaries of American business concerns. It is here that the second main characteristic arises in that petroleum alone has, in recent years, accounted for no less than three-quarters of those investments which have accordingly been concentrated in two main areas—northern Latin America and the Middle East. The amount of private direct investment by the United States in Europe, in particular, has been negligible since the war.

As a counterpart to the reduction in its own foreign financial operations, the United States Government has placed primary emphasis on the encouragement of private direct investments abroad, particularly in under-developed areas, and on the creation of conditions more conducive to an increased flow of private capital. The stimulation of investment in this form appears to be regarded as the principal means of executing the "Point IV" programme, apart from official funds for technical assistance. To this end, the administration has requested Congress to authorize an experimental programme by the Export-Import Bank under which private investments would be guaranteed against certain risks particular to them, including non-convertibility of income or capital funds and losses through seizure or expropriation. The United States Government has also endeavoured to negotiate treaties with foreign countries providing more favourable conditions for private investment. While this official encouragement of investment may produce significant results in the longer run, experience so far under a similar but more limited type of guarantee to private investment, as part of the European Recovery Programme, suggests that the resulting increase in funds supplied is unlikely to add appreciably to the total volume of dollars supplied by the United States to foreign countries during the next few years.¹

¹ The total amount of guarantees against non-transferability issued by the Export-Import Bank to private American business on investments in western European countries and dependent territories under the Foreign Assistance Act of 1948 amounted to less than \$4 million at the end of 1949. See the *Ninth Semi-annual Report to Congress* (for the period July–December 1949) by the Export-Import Bank of Washington. The Report also contains further details regarding the proposed extension of its activities under the "Point IV" programme.

From the standpoint of the supply of dollars which might indirectly become available to European countries through successful competition in foreign markets, it must also be remembered that, by its nature, American direct investment abroad is very closely linked with the provision of American technical and managerial experience and with American equipment.

Other Dollar Resources

In addition to the dollars supplied by the United States through purchases of goods and services and through private and public financing, other resources have been heavily drawn upon since the end of World War II to cover the dollar gap, including the liquidation of gold and dollar assets, drawings on the International Monetary Fund, and loans by the International Bank for Reconstruction and Development. The liquidation of gold and dollar assets alone has provided \$7.3 billion for use by other countries in settling accounts with the United States during the past four years, 60 per cent of which was in 1947 alone, as may be seen in Table 90. After that, the drain became very much smaller and during 1949 other countries, through their transactions with the United States, were able to make a small net addition to their gold and dollar reserves largely as a result of the post-devaluation change in speculative attitudes, as discussed in Chapter 5. Because of the heavy losses experienced in earlier years, the currency reserves of most countries are now relatively low, some of them critically so, and in general allow little freedom of action for more liberal policies regarding international trade and payments. In most countries the need will be to replenish gold and dollar reserves, and there will be little possibility of drawing further on existing holdings as a regular source of funds to cover dollar deficits, although part of current gold production may be available for expenditure in the United States.

It would also be inappropriate to count on the International Monetary Fund as a regular source for covering dollar deficits. While the Fund still has large unused dollar resources to tide over temporary requirements, it cannot be regarded as a continuing fresh supply of dollars. Moreover, the Fund itself has substantial dollar claims now outstanding against its members as a result of previous transactions, the total amounting to just over \$750 million at the end of February 1950.

The position of the International Bank for Reconstruction and Development, on the other hand, is quite different, having been specifically established as a source for international long-term financing. In practice, however, the Bank's ability to provide dollar financing is closely dependent on its own possibilities of raising loan money in the United States capital market, and experience to date indicates that it may be difficult to augment its available funds appreciably and steadily from this source. Here also, moreover, some \$555 million is already outstanding as a result of disbursements on past loans, although repayment is generally to extend over a considerable number of years.

Summary of Prospects

It appears from the foregoing analysis that the impending reduction in United States Government financial assistance to foreign countries to a fraction of the present level in the course of the next few years is not likely to be offset appreciably by increases in the supply of dollar funds from other sources. United States imports, the most important source of dollars, have recovered from the recession levels of mid-1949 and, if a high level of economic activity is maintained, may continue to rise. It seems improbable, however, that the total value will, within the next few years, greatly exceed the level reached in 1948, a year of strong domestic demand when import prices were moderately higher than at present. Dollar earnings by other countries on investment income and from service transactions could scarcely be expected to show any significant increase, since the rise in American travel outlays will probably tend to be offset by decreases in miscellaneous expenditures. There is every reason from past experience to expect private relief aid and personal remittances to decline, and little prospect that this will be more than compensated by increases in the flow of private capital for investment abroad. All told, the amount of dollars supplied directly by the United States in these ways to the rest of the world as a whole, plus some allowance for dollar funds supplied by international financial agencies or obtained through the sale of currently produced gold, will probably be within the range of \$12 billion to \$13 billion annually in the course of the next few years, if general economic conditions are favourable. In 1948, the amount of dollars supplied in these ways—excluding, however, United States Government financing and also drawings on

the Fund and on gold and dollar reserves—amounted to \$12.4 billion, but in 1949 the corresponding figure fell to less than \$11 billion for the year as a whole and was still at about that level in the last quarter of the year.

Against this prospective supply of dollars, there are certain demands which can be foreseen, apart from the purchase of American goods. It will be noted from Table 90 that payments to the United States in the form of earnings on American investments abroad and for service transactions have been in the order of \$3.5 billion during each of the last few years. There is little reason to expect the total volume of such payments to decline. While the amounts due on American shipping services have fallen from their post-war peak and can be expected to recede further, any savings thus made in dollar requirements will be offset by the increasing volume of interest and dividend remittances to the United States on loans and investments in other countries.

On this basis, there would remain available to the world generally something in the neighbourhood of \$9 billion annually for the purchase of American goods, assuming that economic and financial conditions otherwise do not give rise once more to heavy losses through the flight of private capital such as have been experienced in the recent past. This compares with a total value of United States exports of about \$13.4 billion in 1948 and \$12.4 billion in 1949.¹ As previously observed, however, the level of American exports was very much lower in the second half of 1949 than in the first half of the year, partly because of a decline in prices but chiefly because of a decrease in volume, and the annual rate for the last six months was slightly less than \$11 billion. As compared with that level, there would have to be a further reduction of some \$2 billion in purchases of United States exports by other countries to correspond to the likely level of dollar availabilities in the world as United States official financing comes to an end.

This further curtailment of imports from the United States may give rise to difficult readjustments, both in the United States itself and in many other countries,

whose demands for the products of American industry and agriculture might be expected to increase as their own production and incomes rise. The adjustment to a lower level of imports from the United States is, however, likely to fall with particular severity on European countries. Their own dollar resources will, of course, be directly reduced as American financial aid comes to a close, only a small part of which will be compensated by increased earnings in the United States on the basis of present prospects. Such earnings by European countries from current transactions with the United States totalled approximately \$2.6 billion in both 1948 and 1949, although falling slightly in the course of last year. Less than 50 per cent of this total was accounted for by exports, the remainder representing gross receipts from shipping, American travel expenditures, disbursements of American military personnel in Europe, and other service transactions. As seen above, some of these transactions will tend to decline, and it is difficult to see how the total could expand to more than \$3 billion at the most during the next two or three years. These earnings have been supplemented by receipts of private remittances and small amounts of American investment capital, totalling between \$400 million and \$500 million during the past two years, and here also some decrease seems likely. Against these receipts, it may be reckoned that European countries will have to pay something over \$1 billion to the United States on services, figured on a gross basis, including interest and dividends, transportation account, and miscellaneous services such as cinema royalties. Amortization payments will also be due to the United States on loans extended since the end of the war, and are due to rise to a peak during the period 1951–1953. After the end of the European Recovery Programme, European countries are therefore unlikely to have more than about \$2 billion out of their own earnings to spend on imports from the United States. This would be less than half of the 1948 value of such imports and roughly \$1.5 billion less than the reduced level in the second half of 1949. This would therefore be the amount of reduction which can be expected in imports of European countries from the United States, unless they succeed in converting their present dollar deficits into dollar surpluses in third markets abroad.

¹ These figures are as adjusted in the United States balance of payments estimates to take account of unrecorded shipments, and cannot be directly compared with the figures as usually given in United States trade returns.

3. EUROPE'S DOLLAR POSITION IN THIRD MARKETS

Europe's chances of turning its present dollar losses in third countries¹ into net dollar earnings would clearly be very much better if the total dollar receipts of these third countries through their exports to the United States were to increase more rapidly than now seems likely. It must be borne in mind that some of these countries have been receiving temporary dollar assistance from the United States and have, during the past few years, also been able to draw on previously accumulated gold and dollar reserves to cover part of their dollar demands. In the absence of a considerable expansion in the dollar availabilities of third countries, any net improvement in Europe's dollar balance with them must necessarily entail the large-scale displacement of United States exports by European exports. In other words, as Europe's trade balance with third countries improves, their own balances with the United States must be improved correspondingly.

Although European countries should unquestionably be able to continue a steady improvement in their trading position in third markets, the difficulties in shifting from net dollar losses to net dollar gains must not be under-estimated. The difficulty lies in considerable part in the fact that dollar earnings through exports to the United States are concentrated in a rather limited group of countries. As seen in Table 91, Canada and the Latin American republics, together with the Philippines, alone accounted for approximately 70 per cent of total exports by third countries to the United States in both 1948 and 1949. Moreover, most of these countries themselves have had large import surpluses in trade with the United States during the past two years, settled in considerable part out of dollar transfers to them by European countries. As explained above, this is part of Europe's problem—that is, to replace American goods in these markets so that these deficits will be reduced and converted so far as possible into export surpluses.

The fact that some of these third countries have incurred deficits with the United States in spite of their substantial exports to that country reflects their extremely close commercial relations with the United States in both directions, and their preponderant dependence on the United States as the main supplier of their imports. This established dependence on the

United States is especially pronounced in Canada, the northern Latin American countries and the Philippines. While the share of the United States was very large before the war, it has greatly increased in most instances in post-war years. This is not only because of the increase in the total imports of these countries since the war, but also because of the absence during the war of European exports and the continuing absence of German exports, which before the war rivalled those of the United States in a number of Latin American countries.

By comparison with these Western Hemisphere countries, the earnings of other overseas areas including the countries affiliated to Europe are much smaller and hence offer a much more limited basis for competition for dollars. Thus Europe's export position is strongest in countries whose dollar earnings are smallest.

Something of the magnitude of the shifts in trade with overseas countries that would be required to improve Europe's dollar position may be judged from Table 92, which is based on the data analysed in Chapter 5 on world trade in manufactures—the products on which Europe's competition with the United States in third markets must necessarily be concentrated. As explained in Chapter 5, the data are expressed in post-war prices in order to facilitate the comparison of changes in volume, and the figures for 1949 are based on the first nine months of the year only (expressed at an annual rate) and do not, therefore, reflect the expansion in European exports during the last quarter of the year.²

It will be seen that the United States exports of manufactured goods to the five areas distinguished in the table³ increased in volume more than three times after the war compared with 1938, and totalled roughly \$4 billion both in 1948 and in 1949, of which some three-quarters went to the Western Hemisphere countries. Expressed on an over-all basis and without

² See Chapter 5, especially footnote 1, page 132, for a further description of the data.

³ The countries and areas covered by the table are limited to those where European and American export competition is, or seems likely to be, important, and excludes in particular certain countries (such as the Philippines and the Central American and Caribbean republics) where the import market is almost wholly dominated by American goods. This is not to say that European countries do not need to compete in these markets, but the quantitative gains are bound to be limited.

¹ In the present analysis, "third countries" is used to describe all non-European countries other than the United States.

regard to the varying incidence and difficulty of the problem in different markets, the elimination of Europe's dollar losses to third markets—which may be taken at roughly \$1.5 to \$2 billion during each of the last two years—would mean that European export competition would have to succeed in dis-

placing some 40 to 50 per cent of the total volume of United States exports of manufactures to these markets at the 1948 and 1949 rate. To turn these losses into net dollar surpluses would, of course, require displacement of United States goods on an even greater scale.

Table 91
TRADE OF OVERSEAS COUNTRIES WITH THE UNITED STATES
Millions of dollars in current f.o.b. prices

Country	Exports to the United States		Balance of trade with the United States		Imports from the U.S.A. as percentage of total imports from the U.S.A. and Europe	
	1948	1949	1948	1949	1938	1949 ^a
<i>Western Hemisphere (excluding European dependent territories) and Philippine Republic :</i>						
Canada (including Newfoundland and Labrador)	1,585	1,552	—306	—355	76	83
Mexico	236	232	—276	—224	61	92
Cuba	375	387	— 63	+ 9	81	92
Other Caribbean and Central American republics ^b	191	186	—153	—167	69	90
Colombia	236	242	+ 41	+ 67	55	81
Venezuela	260	274	—255	—242	60	81
Brazil	514	551	+ 18	+170	31	54
Bolivia, Ecuador, Paraguay and Peru	73	114	— 66	— 48	41	74
Chile	175	157	+ 70	+ 15	35	74
Uruguay	63	53	+ 3	+ 18	12	30
Argentina	184	102	—195	— 27	24	18
Philippine Republic	228	206	—238	—232	88	95
Total, Western Hemisphere and Philippine Republic	4,120	4,056	—1,420	—1,016	55	74
<i>Other overseas countries :</i>						
European dependent territories in Western Hemisphere ^c	153	148	— 5	— 9	51	47
India and Pakistan	293	266	— 22	— 32	11	27
Malaya	270	196	+188	+159	13	16
Indonesia	77	120	— 15	— 4	19	35
Australia and New Zealand	165	125	+ 17	— 59	22	15
Japan	60	77	—263	—390	74	94
China	117	98	—122	+ 15	19	63
Egypt and the middle east ^d	115	103	—155	—273	10	31
Union of South Africa	137	111	—354	—155	20	33
British West Africa ^e	107	80	+ 91	+ 65	8	5
French North Africa ^f	11	10	— 62	— 56	4	9
All other countries	276	227	—128	—316	9	17
Total, other overseas countries	1,781	1,561	—830	—1,055	20	26
Total overseas countries	5,901	5,617	—2,250	—2,071	33	45

Sources : The figures have been taken from statistics of European countries and the United States.

^a Based on figures including incomplete data for eastern European countries.

^b Honduras, El Salvador, Guatemala, Costa Rica, Panama (including Canal Zone), Nicaragua, Dominican Republic, Haiti.

^c Greenland, St. Pierre and Miquelon, British Honduras, Bermuda, Bahamas, Jamaica, Leeward and Windward Islands, Barbados, Trinidad and Tobago,

Netherlands Antilles, French West Indies, British Guiana, Surinam, French Guiana, Falkland Islands.

^d Palestine, Saudi Arabia, Iran, Koweit, Iraq, Syria, Lebanon.

^e Gold Coast, Nigeria, St. Helena and dependencies, Gambia and Sierra Leone.

^f Algeria, French Morocco, Tunis.

Table 92

EXPORTS OF MANUFACTURES FROM THE UNITED STATES AND EUROPE TO THIRD MARKETS

Millions of dollars

1938 figures in 1948 prices ; post-war figures in current prices

Area	United States			Europe		
	1938	1948	1949 ^a	1938	1948	1949 ^a
Overseas sterling area (excluding British colonies)	255	764	656	1,715	2,105	2,540
Dependent overseas territories (including British colonies)	134	384	417	1,067	1,308	1,723
Canada	396	1,113	1,220	226	274	317
Colombia, Mexico and Venezuela	213	970	929	127	90	93
Argentina, Brazil, Chile, Peru and Uruguay	267	936	715	826	802	813
Total.	1,265	4,167	3,937	3,961	4,579	5,486

NOTE.—The figures have been taken from statistics of the exporting country. For the composition of the importing areas as well as an explanation

of the countries included in "Europe", see Appendix B.
^a Annual rate for first 9 months.

A substantial replacement of American products should be possible, given competitive prices, in many of these markets, though the prospects vary greatly in the different areas. In Canada, even a 100 per cent increase in Europe's exports would still leave a deficit in relation to the present level of Europe's imports from that country. In the three northern Latin American countries grouped together in Table 92—Colombia, Mexico and Venezuela—there has been a considerable industrial development based almost entirely on American goods. These countries have had fairly abundant supplies of dollars through their exports of primary products to the United States and, in the case of Venezuela, through sales of mineral oil to European countries. At the same time, however, exports of manufactures from the United States to these markets increased more than fourfold from 1938 to 1949, while exports from Europe actually declined, the gains achieved by other European countries not being sufficient to offset the heavy fall in exports by Germany. While these markets are relatively well supplied with dollars, the established position of the United States will make it difficult for European countries to achieve large increases in their sales. Moreover, the return of Germany, after ten years' absence from the markets, will suffer the additional handicap of the loss of trading connections and also of a large part of its experienced trading merchants.

In some of the other Latin American countries, Europe's export position has been relatively much

stronger both before and since the war, although the development of exports to this area was severely interrupted in 1949 because of the foreign exchange crisis in Argentina. In Brazil, however, imports from Europe rose as imports from the United States declined, and the prospects have been considerably enhanced by the strong increase in Brazil's dollar earnings following the rise in the price of coffee, although its increased receipts from this source have hitherto been largely required to settle its arrears of commercial debts in trade with the United States.

In the sterling area and the dependent overseas territories—countries with strong political and monetary ties to Europe—there has been a large increase in imports from the United States as well as from European countries. As was discussed in Chapter 5, the increased reliance of these markets on United States goods after the war appears to be due in part to the shortage in supplies available from Europe. With the further rise in production in 1949, Europe tended to regain its relative position, and the replacement of American goods was already marked in the shift in favour of European textiles from 1948 to 1949. The recent devaluation of currencies should further improve the position of European countries in these markets, although the prospective increase in Japanese textile exports, which are planned to reach \$400 million in 1952 compared with \$600 million in 1938 (at post-war prices), may tend to offset the gains so far achieved by European countries in this important group of products.

Table 93

POST-DEVALUATION TRENDS IN EXPORTS TO SELECTED MARKETS

Millions of current dollars and index numbers

Country	December 1948/February 1949 (millions of dollars)				December 1949/February 1950 (December 1948/February 1949 = 100)			
	Value of exports to :				Estimated index of volume of exports to :			
	Canada, Venezuela, Uruguay	Australia, New Zealand, Malaya	Indonesia, Egypt, Iran, Siam, Switzerland, Belgium	Argentina, Brazil, India, Union of South Africa	Canada, Venezuela, Uruguay	Australia, New Zealand, Malaya	Indonesia, Egypt, Iran, Siam, Switzerland, Belgium	Argentina, Brazil, India, Union of South Africa
United States . . .	632.2	71.2	241.9	379.2	84	69	67	48
Switzerland ^a . . .	5.3	2.8	23.7	21.8	132	65	93	57
Belgium	12.7	6.7	29.3	36.0	76	81	101	70
Italy	6.0	4.4	40.9	88.6	101	201	82	45
Germany :								
Western zones . .	2.0	2.7	53.0	6.2	388	339	162	230
United Kingdom . .	93.4	244.1	124.9	390.3	132	134	121	59
France ^a	8.2	4.5	78.7	28.1	96	237	126	260
Sweden	2.5	10.5	23.6	24.3	162	75	100	100

Sources : Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—The index numbers presented are only rough approximations owing to the unavailability of recent data in some instances and to the use

of each country's total export indices for various geographical areas. For details of the methods of calculation, see Appendix B.

^a The figures refer to the period January to March.

As seen in Chapter 5, however, Europe's possibilities of earning dollars in the sterling area and the dependent overseas territories depend less than in other markets on the state of the balance of trade within the groups, because of the large volume of capital transfers from the metropolitan countries to the overseas areas. It is rather more a question of their total import demand and of the share which is supplied by the United States. In a number of these overseas countries affiliated to Europe, direct controls over imports are maintained in addition to other preferential measures, and the possibilities of saving dollars or achieving net dollar gains may depend heavily on their remaining in force. If the existing framework of such controls were removed, the likelihood of devaluation and further increases in European production leading to the displacement of dollar goods in these countries would be greatly reduced.

A preliminary indication of recent post-devaluation trends in Europe's competitive position is provided by Table 93. For this purpose, four groups of major importing countries have been distinguished : (a) Canada and two smaller Western Hemisphere countries ; (b) Australia, New Zealand and Malaya in the sterling area ; (c) four other overseas countries plus

the European "hard-currency" countries, Switzerland and Belgium, and finally (d) a special group consisting of Argentina, Brazil, India and the Union of South Africa, all of which have very sharply curtailed their imports from virtually all sources in recent months and therefore need to be distinguished from the other importing countries with their more varied behaviour. The differences in the movements of American and of British exports in the period December 1949–February 1950 compared with the levels a year earlier are particularly striking. The United Kingdom has been able to achieve a large expansion in the volume of its exports to all except the fourth group of countries mentioned, whereas there has been an equally pronounced and general fall in United States exports. Swiss, Belgian and Italian exports seem to show the effects of a competitive disadvantage, although increases were achieved in some instances where the volume of trade was small. Even in the case of the United Kingdom, moreover, the rise in its exports to the Western Hemisphere countries shown was on a small volume of trade compared with that of the United States and was less than enough to compensate, in dollar value, for the depreciation of the pound.

These recent trends suggest that European exports are meeting with some initial success in displacing American goods in markets where they meet in competition, but the adjustments made so far appear relatively small compared with the magnitude of the problem. Even continued success in the expansion of overseas exports is unlikely to accomplish more than a balance whereby such dollar earnings as may be received in some markets will offset persisting dollar deficits in other third countries. There appears to be little prospect that, within the near future, Europe's over-all dollar position in third countries will yield a surplus of dollars to apply against its deficit with the United States.

The possibilities of a large and rapid expansion in European exports to overseas countries will largely depend upon whether or not total demand abroad is expanding. Paradoxically enough, however, the mere expansion of demand in third markets overseas unaccompanied by an increase in dollar earnings

would probably serve only to intensify Europe's dollar problems in these countries. An increase in their total import demand would tend to give rise to larger imports from the United States as well as from European countries, thus offsetting some of the competitive advantages which the latter may have received through devaluation, and a net displacement of American goods in such circumstances would be more difficult. This, it has been argued in the preceding chapter, may be one of the consequences of the recent devaluation of currencies by overseas countries, the ensuing rise in their domestic price levels tending to increase demand for imports in general, both from the United States and from Europe.¹ In these circumstances, any large two-way expansion in trade tends to be carried out under bilateral arrangements, which reduce the prospects of hard-currency settlements in either direction, but may also reduce the dependence of both parties on supplies from dollar sources.

4. POSSIBILITIES OF BALANCING TRADE WITH THE UNITED STATES

If Europe as a whole is unable to do more than eliminate its net dollar settlements to third countries and does not succeed in earning dollars on balance from them, it will face the necessity of restricting its purchases in the United States to the level of its direct receipts in dollars from that country. On the basis of the estimates given above of Europe's probable dollar earnings, this would involve limiting imports from the United States to an annual rate of about \$2 billion, representing at present prices only some two-thirds of the pre-war volume.

In relation to the annual level of imports prevailing in the first half of 1948 and 1949, this would be a reduction of \$2½ to \$3 billion, or more than 50 per cent. In relation to the lower level of imports in the second half of 1949, it would, however, represent a reduction of about \$1.5 billion, as may be seen from the following figures :

Europe's Imports from the United States

(millions of dollars in current f.o.b. prices at annual rates)

	<i>January-June</i>	<i>July-December</i>
1948	4,606	4,092
1949	4,703	3,552

Although the decline in imports from the United States in the second half of 1949 may have been partly caused by seasonal movements, it was very much

larger than can be accounted for by these factors or by price movements alone. The available information also indicates that the downward trend continued in the first months of 1950. A substantial movement in the direction of import reduction thus appears to have taken place already, and the figure of \$1.5 billion can be used as an approximate indication of the further cut that would be required (at present prices) below the current level of these imports.

The magnitude of the cut is likely to be exaggerated if considered in relation to the level of imports from the United States only. In relation to total overseas imports in 1949, it would represent a reduction of some 15 per cent if not compensated by increased imports from other sources ; and, in relation to Europe's total output of commodities in the past year, the reduction is less than 2 per cent.² The greater difficulty is, however, that the impact of the

¹ There is some risk that this situation may result even in countries whose dollar earnings increase, if appropriate measures are not taken to counteract internal inflationary tendencies. Thus, the recent sharp rise in coffee prices tends to raise income levels in the northern Latin American countries and to increase their import demands, although so far, in the case of Brazil, the demand for United States goods has been held in check by the restrictions put in force last year when its foreign exchange position was much more difficult than it is at present.

² Excluding the Soviet Union.

cut would fall unequally on different countries and would also fall heavily on essential commodities to which imports from the United States are already largely restricted.

Although the amount of reduction necessary in imports of American goods may prove to be either greater or less than that indicated by the present estimates, an attempt has been made to indicate the order of magnitude of the problems which such a reduction might present by drawing up a possible commodity schedule of imports from the United States at a \$2 billion level. The figures which are shown in Table 94 for 1953—the year in which it is assumed that such a reduction might be necessary owing to the decline in United States extraordinary dollar financing—are therefore to be regarded mainly as illustrative of the problem. They have been drawn up by distributing the over-all reduction between

different commodities on what would now seem to be the most reasonable basis.

The Impact of Import Reductions in Individual Commodities

The commodities for which the cuts could be sustained with least burden on production and consumption are those for which alternative supplies can be produced most readily in Europe. These largely comprise manufactured goods such as engineering products, chemicals and miscellaneous manufactures shown in the lower half of Table 94. Thus, if an extreme reduction in United States imports were essential, the most severe cuts could be applied to items such as vehicles, finished textiles and rubber manufactures, for which Europe produces direct substitutes. In machinery, the problem is more difficult. Imports from the United States increased

Table 94

ESTIMATED COMPOSITION OF EUROPE'S IMPORTS FROM THE UNITED STATES IN 1953 ON THE BASIS OF A TWO-BILLION-DOLLAR TOTAL

Millions of dollars, f.o.b.

1938 figures in 1948 prices ; post-war figures in current prices

Commodity group	1938	1948	1949		1953
			January-June <i>a</i>	July-December <i>a</i>	
Grains and cereals	465	1,080	1,068	756	475
Other foodstuffs	295	359	497	258	150
of which Fruit and nuts	178	122	92	49	
Meat and meat products	60	28	19	19	
Dairy products	2	105	99	45	
Animal and vegetable fats and oils	55	104	287	145	
Tobacco and manufactures	220	175	133	280	130
Raw cotton	560	345	748	551	400
Mineral oil and products	404	217	211	112	100
Machinery	254	503	505	504	250
Vehicles	180	368	276	261	70
Chemical products, non-ferrous metals	295	368	406	286	175
of which Chemicals and products	76	203	226	168	
Copper and manufactures	116	66	64	44	
All other metals and manufactures	103	99	116	74	
Other items	424	925	859	544	250
of which Steel mill products	56	140	183	143	
Wood and paper	76	51	49	39	
Textiles, fibres and manufactures <i>b</i>	50	94	116	73	
Hides, skins and other manufactures	33	39	52	36	
Rubber manufactures	12	42	31	23	
Coal and related products	—	169	148	23	
All other items	197	390	280	207	
Total	3,097	4,340	4,703	3,552	2,000

Sources: The figures have been taken from Table 80, supplemented by estimates for 1953 by the Research and Planning Division, Economic Commission for Europe.

a Annual rate.

b Excluding raw cotton.

substantially in the first post-war years, when European production was insufficient to meet the needs of reconstruction and re-equipment. Although the need for emergency imports is virtually over, almost twice the pre-war volume of machinery is still obtained from the United States, largely for re-equipment projects financed through the European Recovery Programme. With the very substantial expansion in European engineering production and the more recent recovery in Germany, imports on the present scale should no longer be indispensable when the programme ends. There would, however, remain a need to import certain specialized types of equipment which are not produced in Europe and also spare parts for existing equipment. Under conditions of severe dollar shortage, however, efforts to produce spares and specialized equipment in Europe, such as have already been undertaken in certain fields, might be justified even though the costs would be higher than for imported goods. In addition to manufactured products and chemicals, the categories shown for these items in Table 94 include certain industrial raw materials such as copper and other non-ferrous metals, in which reductions in imports would be hard to sustain. It is therefore implicit in the totals for these broad categories that the heaviest cuts would be borne by manufactures and that these essential raw materials would be relatively lightly affected.

Although the heaviest cuts have thus been applied to manufactured goods in the hypothetical schedule of restricted imports for 1953, it would still be necessary to make very heavy reductions in imports of the main primary goods obtained from the United States, notably grains, other foodstuffs, tobacco, mineral oil and cotton, of which alternative supplies are much more difficult to develop. For these primary commodities, dependence on imports from the United States is very considerable, particularly in western Europe, and in most cases has increased markedly since the war, as can be seen from Table 95.

Grain and cereals have been by far the most important single group of commodities in Europe's imports from the United States in recent years. Within this group, bread grain has been far more important than coarse grain. As may be seen from Table 95, total imports of coarse grain from overseas have been severely restricted since the war in spite of the lower level of European output. The rise in total imports of bread grain from the United

Table 95

EUROPEAN IMPORTS OF SELECTED PRIMARY PRODUCTS FROM ALL OVERSEAS COUNTRIES AND FROM THE UNITED STATES

Millions of dollars in 1948 typical f.o.b. prices

Commodity	1938	1948	1949
<i>Bread grain</i>			
All overseas countries . .	938	1,668	1,457
United States	217	767	630
<i>Coarse grain</i>			
All overseas countries . .	748	484	533
United States	180	59	238
<i>Oilseeds</i>			
All overseas countries . .	2,026	750	1,050
United States	2	55	192
<i>Fats and oils</i>			
All overseas countries . .	521	499	653
United States	31	54	143
<i>Tobacco</i>			
All overseas countries . .	295	235	275
United States	187	151	170
<i>Mineral oil</i>			
All overseas countries . .	818	1,125	1,235
United States	348	149	113
<i>Raw cotton</i>			
All overseas countries . .	1,586	1,001	1,280
United States	564	322	700

Sources: The figures are derived from national statistics of the importing countries, United States trade statistics and Table 79. For an explanation of "typical prices", see Appendix B.

States, on the other hand, has roughly offset the decline in European production, so that in 1949 Europe's total supplies of bread grain were at approximately the pre-war level.

In spite of the increase in dependence on the United States, the curtailment in dollar outlays on United States grain envisaged in Table 94 would reduce Europe's total supplies of grain only by some 4 million tons, or 3 to 4 per cent, at current prices. Opportunities to compensate for such a loss might be sought either in increasing European production or in increasing supplies from overseas areas other than

the United States. In Europe, the average grain yield per hectare has already been restored to the pre-war level, and the diminution in production compared with pre-war is the result of a reduction in the area devoted to grain in favour of other crops. However, the main importing countries, such as the United Kingdom and Germany, are in western Europe, where the opportunities to increase output are relatively limited, except perhaps in France. Any large increase in their supplies from European sources would therefore depend primarily on the development of east-west trade. As was shown in Chapter 4, potentialities appear to exist on either side for the development of this trade and might be realized were it not for the present overriding political difficulties. Outside Europe, the main sources where increased supplies might be sought are Australia and the Argentine; particularly in the latter country, domestic policies in recent years have tended to discourage grain production, and weather conditions have further reduced output. It appears possible, however, that a concerted attempt to obtain increased supplies from these various sources, both in Europe and overseas, might bring forth considerable additional amounts of grain, although it would probably be necessary to undertake commitments well in advance. It must, however, be remembered that a single bad harvest either in Europe or in any of the other non-dollar supplying areas overseas might compel European countries to turn once again to the United States for increased supplies of grain, and could alone suffice to upset the dollar balance.¹

Amongst other foodstuffs, the most difficult adjustment would be the reduction in imports of fats and oils, of which large amounts have been furnished by the United States since the war, as may be seen from Table 94, although the recent improvement in the world's supply position may make possible some curtailment in imports from dollar sources. The other items in this group should present less difficulty, since they can be more readily obtained from sources outside the United States and, as seen in Chapter 4, export availabilities in Europe itself increased substantially during the past year.

In the case of tobacco, a severe reduction in imports from America would be extremely hard to compensate by an increase in imports from other sources, at least in the short run. A reduction would therefore have to be largely borne by a decline in consumption. This would particularly affect the United Kingdom, the main importer of American tobaccos, and would have to be regarded as one of the necessary hardships of a severe downward balancing of dollar trade.

The reduction in imports of cotton, which is the largest dollar-consuming commodity other than grain, would also be hard to compensate by increased imports from other sources. Any adjustment would therefore probably have to be made mainly through the development of substitute textile materials. This would have to fall particularly heavily on home consumption, since it is improbable that a reduction in the cotton content of exported textiles would be profitable as a dollar-saving device. The extent to which artificial fibres can, if necessary, be used as substitutes for natural fibres had been demonstrated in Germany before the war and other countries effected similar substitution during the war. With the development of new materials, better substitutes now appear to be available. A substantial expansion in the production of synthetic fibres is already planned. If, however, a reduction in dollar imports on the scale envisaged in these estimates had to be undertaken, a much more intensive development of synthetic fibres would be necessary, which would require considerable time to undertake.

Imports of mineral oil directly from the United States do not provide any important opportunities for reductions in dollar expenditures. Partly because of the great expansion in domestic consumption in the United States and partly because of the development in the productive capacity of both European and American oil companies in other areas, imports from the United States itself are now very much smaller than before the war, and it is primarily from other sources that Europe's rapidly rising consumption requirements are being met. The chief problem concerns, therefore, not imports of oil from the United States, as given in Table 94, but dollar expenditures involved in oil imports from other areas. These expenditures have been included in the estimates of dollar settlements to third countries and form one of the major

¹ An illustration of the shift in purchases that might be necessitated by bad harvests elsewhere is provided by the increase in coarse grain imports from the United States between 1948 and 1949 shown in Table 95. This increase was almost entirely caused by the bad harvests and resulting shortage of supplies in Latin America.

components of these payments.¹ In order to achieve an over-all balance in dollar transactions with third countries, such as has been assumed in this section, some limitation of dollar expenditures on oil, and hence of total imports of oil, might be necessary. This would be one of the most complicated adjustments that might be required, both because of the external difficulties in diverting purchases and because of the possible effects on Europe's total energy supplies.

The Consequences of Downward Balancing

While the foregoing review is an extremely simplified examination of the possible impact of a reduction in imports from the United States to a level of about \$2 billion, it seems clear that such a reduction could be physically sustained, given a sufficiently energetic endeavour on the part of European countries to make the necessary preparations in advance. The adjustments would require an accelerated development of supplies from non-dollar sources overseas and the development of substitute production at home both in agriculture and in industry. There would also need to be a progressive adjustment of consumption to levels which could be maintained during the transition period, since it is unlikely that, within the short period of time remaining, the development of alternative supplies could proceed sufficiently rapidly to avoid some reduction in supplies of consumers' goods in lines affected by the curtailment of imports.

The new investment required and changes in the structure and techniques of production would probably result in some raising of production costs in general.² The more serious risk to the general progress of the European economy, however, is that deflation and a serious reduction in levels of unemployment

might accompany the curtailment in imports in those countries where consumption was seriously affected, but could not be restricted by direct controls.

Except on the most favourable assumptions, the balance in Europe's overseas accounts would probably be a close and precarious one for a number of years. It could be upset by various unpredictable events, such as a crop failure in Europe or in non-dollar supplying areas overseas, a fall in the prices of the few major commodities on which Europe's dollar receipts via third markets indirectly depend, a recession in business activity in the United States which typically affects its imports more adversely than its domestic production, or a renewed wave of speculative transactions or flight of capital from Europe.

Under conditions of close balancing achieved through the reduction of imports, moreover, all the problems—both political and economic—of trade discrimination must be expected. The situation that can be envisaged is not one which free currency convertibility in any meaningful sense could be contemplated. The whole approach to international trade and financial relations embodied in the International Trade Organization and International Monetary Fund would receive a serious setback, and such institutional arrangements as the International Wheat Agreement, assuring definite outlets for North American wheat in European markets, might also have to be reconsidered if there is to be further substantial import cutting in Europe.

The disadvantages experienced by European countries under these conditions would be shared by other overseas countries, of which Canada is the outstanding example. If European countries are unable to make dollar settlements to Canada, its own trade with the United States, which traditionally has shown a strong import surplus, would also have to be brought into a fairly close bilateral balance. Since the United States is not a market for the wheat and other goods which Canada supplies to the United Kingdom and other European countries, this adjustment would almost inevitably take the form of a reduction of several hundred million dollars in Canada's imports from the United States and a shift to Europe as a source of supply.

The enforced reduction of imports of dollar goods would not necessarily prevent a considerable expansion of trade among European countries, or between them and other countries. Indeed, any development

¹ Some indication of the relative importance of these payments may be seen in the estimates by the United States Department of Commerce that Venezuela's net dollar earnings from countries other than the United States, principally from petroleum sales, amounted to almost \$475 million in 1948 (see *The Balance of International Payments of the United States, 1946-1948*, United States Department of Commerce, page 188). The estimate appears to include receipts of American and other companies operating in Venezuela.

² Whether these would be additional real costs or only apparent money costs depends on the rate of exchange at which the costs are compared. What may seem to be an uneconomic production at present rates of exchange may not be so if computed at some lower dollar value of European currencies at which it might be presumed that Europe's overseas accounts could be brought into balance—if indeed any further devaluation would suffice to restore equilibrium, given the relatively narrow range of United States imports for which there may be a significant responsiveness to price changes.

of non-dollar supplies would tend to be dependent on an expansion of trade, possibly accompanied by some new investment abroad. However, the expansion of that trade would itself tend to intensify discriminatory measures ; that is, a growth in production and trade in areas outside the United States would necessarily give rise to increasing demands for imports in general, including imports from the United States. If sufficient dollars are not available to satisfy these demands, imports from the United States would have to be forcibly restricted, and trade among other countries would tend to develop under more bilateral arrangements. The advantages of competition and of being able to satisfy import requirements from the cheapest source would thereby be lost, and these developments in turn would react adversely on the whole dollar problem through the tendency already experienced for prices to get out of line between the bilateral world and the dollar world.

Finally, it must be remembered that the burden

of import reduction would inevitably be unevenly distributed between the different countries. While the effects of the curtailment of dollar imports appear bearable when expressed in aggregate terms, as in the preceding analysis, the problem would be far more serious for some countries than for others. The necessary reductions would be quantitatively greatest in Germany and the United Kingdom, since these two countries together account for about one-third of total European imports from the United States, but the effect on other smaller importing countries, which have developed a heavy dependence on the United States since the war, might be relatively even more severe. In some of them there is little prospect that the necessary adjustment either will be made or can be made in time, and their difficulties may prove to be insoluble without continued assistance. In most European countries, however, it would probably be possible to make the adjustments if concerted preparations were begun now.

5. THE CURRENT DECREASE IN DOLLAR DEFICITS

In the analysis of Europe's prospective dollar position with the United States and with third countries, it has been noted that considerable readjustments have already been made in the magnitude of dollar deficits and in the underlying pattern of trade and payments compared with that of the past two years. Since about the middle of last year there has been a considerable reduction both in Europe's deficit and in that of other countries with the United States. This has been due primarily to an extremely sharp fall in United States exports to virtually all parts of the world and the adjustment has thus been in the direction of a general downward balancing of accounts with the United States. The narrowing of the gap has been facilitated, however, by some recovery in United States imports, beginning with the upturn in domestic business activity during the third quarter of last year. By the first quarter of 1950, the volume of United States imports had, in fact, reached a level higher than in any previous quarter since the war, but it was still only about one-third greater than the 1936-1938 average and the total value was only slightly higher than the quarterly rate in 1948 because of a somewhat lower level of prices. Moreover, the dollar value of United States imports from Europe has shown little increase, if any, and the volume

of its total imports of finished manufactures appears to have declined in recent months.¹

The decline in United States exports is caused to some extent by the decrease in deliveries under recovery and reconstruction programmes. Exports to western Europe under the European Recovery Programme have declined, and in other areas shipments have been reduced owing to the completion of special assistance programmes as in the Philippines or to their abandonment, as in China. In part, the fall in United States exports also reflects the special measures undertaken by a number of countries as their balance-of-payments position became critical in the course of last year, including notably the various members of the sterling area acting in unison, and Argentina, Brazil and various other countries acting individually. It may be remembered in this connection that the sharpest reduction in United States exports came from the second to the third quarters of last year, that is, before the devaluation of many currencies in relation to the dollar, and that there has been little further decline since that time.

Other attendant circumstances, nevertheless, suggest that the adjustment which has occurred in recent

¹ Based on data for January and February 1950.

months reflects an improvement in basic economic conditions, especially in Europe, in the direction of restoring international equilibrium. In the first place, there has been an increase in the gold and dollar reserves of a number of countries during the past six months, and particularly in those of the United Kingdom. Initially this may have been due in part to the reversal of speculative attitudes after devaluation, but more recently it is probably to be explained by an improvement in the balance on current transactions. In the second place, the sharp fall in imports of American goods does not appear to have had adverse repercussions on production and consumption, at least in European countries, and has not given rise to the general alarm expressed in the early part of 1947 when the flow of essential food-stuffs and raw materials to European countries was threatened.

The developments underlying this external evidence of improvement seem to be that the continued rise in industrial production in most European countries, together with two relatively good crop years in succession, has greatly improved supply conditions in Europe, while the restoration of internal monetary equilibrium has generally tended to relieve inflationary demand. The softening of prices due to both of these developments has also visibly discouraged the withholding of supplies from the market on the part of producers which had been particularly marked in agriculture in earlier post-war years. In other words, the relative shift in world production and the greater degree of self-sufficiency in the Western Hemisphere are now being counter-balanced to some extent by a decrease in Europe's dependence on overseas supplies. By the same token, Europe's capacity to export to overseas markets is now far greater than it was in earlier post-war years, and the re-alignment of European currencies has tended to remove the competitive disadvantage which had handicapped the development of its exports in many markets before devaluation.

These recent trends may suggest that the preceding analysis has been based on unduly pessimistic assumptions. It is indeed possible that the rise in United States imports may be greater and more sustained than has been allowed for in the present estimates, that European exporters may succeed in displacing American goods in third markets on a scale sufficiently great to turn net dollar losses into net dollar earnings, and that further reductions in Europe's dollar imports can be sustained with less difficulty than has been anticipated.

It would not be safe, however, to over-emphasize the degree of adjustment which has been achieved or to rely too much on the trends in trade during the last few months. It is uncertain what the ultimate benefits of devaluation will be and to what extent they may be undermined by price increases in Europe. While the stimulus of devaluation to European exports may be manifested only gradually in many lines, part of the recent gains are undoubtedly temporary, reflecting postponement of orders from earlier periods and advance buying in anticipation of later price increases. Nor can it be taken for granted that United States imports will continue at the relatively high current level, which has combined with the effects of devaluation to improve the dollar availabilities of other countries. Indeed, the recent increase in imports of primary goods may also be partly a temporary development reflecting the current rebuilding of stocks after the recession last year.

Even on the basis of recent levels of trade, moreover, Europe is still confronted with a large deficit in its accounts with the United States. The analysis of its prospective dollar earnings a few years hence has indicated that a further reduction in imports of American goods in the order of \$1.5 billion would still seem to be necessary together with continued efforts to increase exports to third markets, where trade in recent months seems to have been marked more by a reduction in imports from the United States than by an increase in imports from Europe.

6. THE ALTERNATIVES

Summary of Prospective Developments

The principal points in the analysis up to this point may be summarized as follows :

(1) The financial assistance extended by the United States to western European countries has served not

only to cover their direct deficits with the United States but also to permit them to make dollar payments to third countries, which in turn have been enabled to cover their own excess of imports from the United States. On the European side, the United Kingdom and, among overseas countries, Canada,

the Latin American republics and the overseas members of the sterling area have been the chief participants in this international pattern of settlements, and transfers of sterling into dollars have formed one of the principal links in the chain.

(2) The impending reduction in United States aid to European and to other countries over the next few years is likely to be only partly offset by increases in dollar funds supplied in other and more usual ways, including some growth in United States imports together with various and partially compensating changes in invisible payments. The world outside the United States will accordingly have to make adjustments to a substantially lower level of dollar availabilities and hence to a smaller volume of purchases of American goods.

(3) European countries in particular (assuming increased export efforts and some further lowering of trade barriers in the United States) can scarcely expect to increase their direct dollar earnings enough to make up for more than a small part of the reduction in extraordinary financial assistance from the United States. In these circumstances, they must therefore cease to be intermediaries for dollar payments to third countries, as they have been temporarily since the war, and will have to cut their dollar transfers to third countries and try to earn dollars from them.

(4) Europe's possibilities of improving its dollar position in third countries will, however, be subject to certain limitations. The most important of these is the probable absence of any large expansion in the general level of dollar receipts by third countries in the near future. Europe can therefore cut its dollar losses and earn dollars in third countries only in so far as it succeeds in displacing American exports to those markets. Merely to reach an even dollar balance with them would require the substitution of European for American goods roughly equal to one-third to one-half of total American exports of manufactures to these third countries on the basis of the 1949 volume of trade. Moreover, a doubling of European exports to Canada would still leave a deficit with that country, while in Latin America the possibilities are circumscribed by the fact that Europe's present dollar losses and its theoretical chances of earning dollars are narrowly concentrated in a few countries in the northern part of the continent whose import markets, before as

well as since the war, have been predominantly oriented towards the United States. This leaves the sterling area and the dependent overseas territories as the markets where European countries would seem to have the best possibilities of earning some surplus of dollars through successful competition with United States exports.

(5) Adjustments to the decrease in Europe's dollar availabilities will therefore have to be made primarily through further reductions in imports from the United States and from other countries where large dollar settlements are required.

(6) With regard to Europe's ability to survive without imposing undue burdens on its levels of production and consumption, Europe could probably make the necessary adaptation to this further reduction in imports of dollar goods, given appropriate policies for the development of substitute supplies from European and other non-dollar sources. The burden would fall unevenly on different countries, however, and in some of them there is little prospect that either their total deficits or their dollar deficits could be eliminated, in any tolerable fashion, by even the most rigorous reduction in imports.

If the assumptions and estimates underlying this analysis are approximately correct, the adjustments to be made in international trade will entail a considerable reduction not only in Europe's own imports from the United States but also in those of third countries, brought about as the result of successful competition by European exporters with regard to prices and delivery terms or as the result of an enforced adaptation which overseas countries must make to Europe's inability to continue dollar payments to them. This general reduction in imports of American goods into European and other countries is, of course, merely the corollary of the prospective decline of the supply of dollars available to the world.

If adjustments in international trade proceed along the lines which appear probable on the basis of present trends and policies, they will almost inevitably involve an intensification of direct controls over trade and payments. The alternative conditions that would appear necessary for the relaxation of restrictions and the restoration of general currency convertibility are discussed in the following section.

The Prerequisites of Currency Convertibility and Multilateral Trade

Currency convertibility and multilateral trade are two aspects of the same thing, each the necessary condition for the other. If direct controls force trade into predetermined channels, such convertibility as may exist has little meaning. If, on the other hand, exporting countries are not free to utilize their foreign exchange proceeds to buy from any source according to the greatest advantage, but must conduct their trade under bilateral payments arrangements, this finds its inevitable expression in direct controls over the flow of trade.

Currency convertibility is possible only when the underlying conditions do not give rise to demands for hard currencies beyond the available supply, including current receipts and reasonable fluctuations in currency reserves. Demands for hard currencies may be excessive for either of two reasons : (a) because at a given pattern of prices and exchange relationships and distribution of production, the demand for hard-currency goods is greater than the supply of hard currencies to pay for them, or (b) because there may be undue demands for transfers of capital funds into hard currencies. If the first situation prevails, the second is likely to arise also and to aggravate the problem. While some of the more obvious forms of capital movements can be controlled successfully (such as the issuance of foreign bonds in the domestic capital market) the experience of the post-war years discussed in Chapter 5 shows that other and more surreptitious forms of capital transfers cannot be adequately controlled when confidence is seriously disturbed.¹

Under present conditions in international trade and payments, the goal of restoring general convertibility of currencies and a more freely functioning pattern of international trade cannot be realistically approached without consideration of the level,

¹ The approach to international monetary problems and currency relationships embodied in the Articles of Agreement for the International Monetary Fund is based on the principle that undesirable capital movements should be prevented through exchange controls where necessary, but that trade and other current transactions should be allowed to move with relative freedom in accordance with multilateral principles. If present trends continue, the opposite situation seems to be the more probable. Countries will continue to find it necessary to impose restrictions over the movement of trade, travel expenditure, and the like (which are more "visible" and susceptible of control) while private capital will find ways to move, despite controls, in sufficient volume to disturb financial stability, if underlying conditions do not inspire confidence.

stability, and future growth of the world supply of dollars. Unfortunately, it has frequently appeared that the quantitative approach to these problems—that is, the attempt to evaluate their possible magnitudes—fits ill with the more qualitative approach usually adopted towards the problem of developing freer international trade and payments relationships. If, however, these objectives, together with the advantages which they represent for international trade and world prosperity, are to be attained, it would seem necessary to develop a clearer idea of the necessary level of dollar supplies in the world's markets and to determine the conditions under which that level might be achieved with reasonable assurance of stability and growth in future years. This does not mean that the amount of dollars supplied should be adjusted to meet any volume of demand, however great, such as might develop in individual countries experiencing inflation for reasons of internal policy. Such conditions would, however, be manifested as local balance-of-payments disturbances for which the causes could be separately diagnosed, whereas present balance-of-payments difficulties have the character of a general dollar shortage.

What an appropriate level of dollar supply would be depends upon how rapidly and generally the relaxation of trade and payments restrictions is to be undertaken. If the lifting of discriminatory restrictions against dollar imports proceeded experimentally and gradually, and if the advantages of devaluation by European countries are not lost by excessive price increases, the total dollar supply required might not be much, if any, greater than the present rate. As has already been observed, the volume of dollars now supplied by the United States through its imports and its special assistance to other countries is, in fact, no larger in relation to its own production than it was in the 1920's, when American import demand and private investment abroad were active. The essence of the problem of currency convertibility is, however, that the amount of dollars needed to solve the problem should not be too narrowly calculated. The amount saved through rigorous pruning of estimates may be far more than outweighed by losses through illicit capital transactions, if the general level of dollars available to meet world demands is not sufficient to create an atmosphere of confidence.

Provided they are not strictly tied to the purchase of American goods in a way which gives rise to large additional exports from the United States, the form

through which dollars are supplied to the rest of the world may matter relatively little, as far as European countries are concerned. Except as may be necessary to meet special problems in a few countries, there would seem to be no reason why direct dollar aid to Europe should continue over an extended period of years, although any abrupt curtailment of that aid in the absence of adequate alternative measures would, of course, enormously aggravate present difficulties. What Europe must have is, however, a chance to earn dollars either through exports to the United States or through exports to third markets. If these possibilities can be sufficiently improved by comparison with the prospects as they now appear, direct aid to most western European countries should become unnecessary.

The preferable remedy to the present problem of international disequilibrium would probably be a combination of substantially increased imports into the United States from all sources, European as well as overseas, and expanded United States investments abroad in the development of the world's productive resources. If the geographic scope of these investments is sufficiently broad, European countries might then be expected to compete for dollars through their exports to third countries, and thereby be enabled to cover their requirements of dollar goods without extraordinary assistance.

The resulting contribution to the solution of the payments problem would, of course, be only an incidental advantage compared with the ultimate

value of further international investment. It should, however, be remembered that an increase in United States investment in third countries may not increase the total rate of investment in these areas as a whole. During the past few years, European countries have, in fact, supplied substantial amounts of capital, both in settlement of previous debts and in new funds, and these resources have helped to permit a considerable industrial development in a number of overseas countries. Since this flow of capital from European countries is likely to be reduced as American aid ends, the role of increased investment by the United States would partly be to prevent a decline in the general rate of investment in third areas rather than to increase it to new levels. This, however, in no way detracts from the fact that, provided European countries are able to compete for the funds that it yields, the expansion of United States investment in overseas countries could be made to serve a double purpose : that of aiding the development of the more backward areas, and that of financing settlements in a multilateral pattern of trade which, as has been seen, is largely the role played by direct aid to Europe at the present time.

All this presupposes, however, that the combined effects of special efforts to increase United States imports and to develop an expanded programme of overseas investment would be sufficient to lift and maintain the total level of dollars supplied to the world appreciably above that which can be foreseen on the basis of present policies and economic trends.

The risk in Europe at this juncture is that the present breathing-space will pass without international agreement on policies consistent with either of the broad alternatives which have been sketched. This risk is intensified rather than decreased by the more favourable trend of recent events in diminishing the disequilibrium in international trade, which may divert attention from the adjustments yet to be made. The position of western European countries in particular would rapidly become critical, necessitating a new series of improvised measures, if agreement is not reached now on more carefully calculated and longer-run policies designed either to decrease still more their dependence on imports of dollar goods or to increase their possibilities of earning dollars in the United States or in third markets.

What is needed is agreement on an integrated set of policies which are consistent with one another and with the levels and pattern of international trade desired. To provide an effective basis for action, these policies need to be in the nature of commonly agreed principles, accepted not merely by governments as such but also by the parliamentary bodies and by business, agricultural and labour leaders, in each country on whom the ability of governments to enter into and execute agreements depends. This is particularly necessary if the objective is to be that of expanding international trade on the basis of freer trade and payments relationships. Short-run and *ad hoc* measures may suffice to prevent international trade from collapsing, but they cannot provide the assurance of continuity and stability necessary if governments are to undertake

serious obligations for the progressive removal of trade barriers and the establishment of currency convertibility. Policies must also be comprehensive enough to provide a clear basis for judging the consistency of programmes and operations in particular fields of international economic relations. For instance, the tightening of restrictions against imports of American goods into sterling area countries, or the subsidization of the merchant marine in the United States, or prohibitions against exports of primary goods in Mexico may be consistent if it is accepted that international trade is to be balanced at a low level, but they are difficult to reconcile with the alternative goal of providing a basis for the free development of trade at a high level, however necessary they may appear in the light of other purposes.

It therefore appears that the present need is for a re-appraisal of international economic objectives and policies and of the adequacy of measures which have been or may be taken to support them. The question of the future level and stability of the world supply of dollars stands out as the central and most practical issue in this reconsideration of objectives and policies. This is because the existing disequilibrium in international trade—manifested not merely by deficits in balances of payments but also by the host of trade and payments restrictions designed to hold these deficits in check—is patently the expression of the excess demand for dollars over the supply made available through United States imports and the other more usual means through which dollars flow to the rest of the world. One approach to this problem consists of a direct attempt to secure agreements to eliminate these restrictions. This approach is necessary in so far as, in many instances, trade restrictions serve to protect domestic interests against outside competition, but, in the broad view, it runs the risk of confusing cause and effect. The contribution which the liberalization of trade among European countries can make to the solution of the dollar problem is likely to be slow, as discussed in Chapter 4, if indeed such efforts can be maintained in the face of a continuing dollar shortage. The future reduction in United States trade barriers could be of much greater assistance to the solution of the problem, and an intensification of efforts by European countries to sell in the American market would doubtless produce additional dollar returns even at existing tariff levels. These possibilities have by no means been exhausted. It appears, however, from the present

analysis that, even under relatively favourable assumptions regarding future policies and general economic conditions, the prospective supply of dollars is likely to decrease abruptly as extraordinary United States aid to European and other countries comes to an end, and that national and international economic policies have not yet been adjusted to this probability. Other analyses of the outlook may give more optimistic results, but it would, in any event, seem to be necessary in the determination of future policy to have the clearest possible view of the magnitude of the problem and of the contribution which various present or contemplated measures can make towards its solution, whether in the direction of decreasing the demand for dollars or increasing their supply.

There is, of course, no particular level of dollar supply which might be considered right in any absolute sense, nor indeed is there any ineluctable necessity that the amount should increase rather than fall or that it should be kept free from major fluctuations. The relevant point to European countries as well as to the United States is, however, that certain policies are appropriate to an expanding and reasonably regular volume of dollar transactions, among them being the creation of freer and more competitive conditions in international trade, while other policies are appropriate and unavoidable if the volume of dollar transactions is low or erratic. To suggest a specific example, the recent curtailment of purchases of oil from American companies by certain European and overseas countries may prove to be an unnecessary interference with established channels of trade if the volume of dollar payments by the United States is commensurate with the demands of other countries for the whole array and volume of goods imported from the United States. The protests of the oil companies would, on the other hand, necessarily prove unavailing in the long run, if the supply of dollars is sufficient to cover only the most essential dollar imports which cannot be obtained from other sources.

Even in the present state of extraordinary disequilibrium in international trade, it would probably be wrong to expect that the supply of dollars could be pre-determined for a number of years ahead, apart from the practical problem of estimating just what level would be most consistent with other and more basic policy objectives. Fixed commitments for the purchase of goods up to a certain volume or value, regardless of price and quality, could scarcely

be expected, particularly in economies based primarily on private enterprise, nor could undertakings reasonably be made to provide pre-determined amounts through international investments abroad, without regard to the merits of specific proposals. Unless, however, there is at least some common understanding of the magnitude of the problem and the consequences which flow from it, appropriate policies can scarcely be developed for dealing with other problems which are related to it but are also important in their own right.

The differences between these alternatives with regard to their consequences for economic activity and future progress either in Europe or in the United States may not be as great as the foregoing analysis may appear to suggest. There is no reason to suppose that the United States economy could not, in time, be adapted to a balanced trade at either a high level or a low level of exports and imports, although problems of readjustment in its structure of production, and possibly in the maintenance of general internal equilibrium, could be avoided if means are

developed to continue an export surplus covered by investment abroad. In Europe also, the potentialities of economic development financed out of its own savings are, generally speaking, very great, as will be discussed in the following chapter, and adaptations can be made, if necessary, to a still lower level of imports from the dollar area, given time and sufficient energy in the application of appropriate policies for the development of substitute production. The consequences of the choice are probably of much greater importance for third countries whose present structure of trade and production would require severe readjustments, if the new pattern of international settlements becomes one of rigid bilateralism after American aid to Europe ceases, and whose own possibilities of economic development would be more limited than those of Europe in the absence of external financing. For Europe itself, the problem is rather one of foreseeing and undertaking in time the adjustments in its overseas trade which will be necessary and of making these adjustments in ways which will not impair its own potentialities for economic growth.

Chapter 8

THE PROSPECTS OF EXPANSION IN EUROPEAN PRODUCTION

1. INTRODUCTION

The problems encountered in adapting the European economy to the changes in post-war trading relationships, both among European countries and between them and overseas countries, have increasingly drawn attention to the problem of Europe's development. At the same time, there is a certain tendency, in western if not in eastern Europe, to regard present economic programmes as a non-recurrent and exceptional effort rather than as an initial and integral part of a continued economic growth over a longer period. This tendency involves the risk that current problems will get out of focus ; if they were viewed in the perspective of long-term expansion, they would in many cases assume quite different proportions. For example, investment in housing, transport, heavy industries and public utilities needs to be planned on a different scale for a growing economy than if the potentialities for economic development are considered to be narrowly limited ; and what on a short view appears as a danger of over-production may in the long run be a necessary step in the continuing progress towards higher levels of production and consumption. Similarly, plans for expanding the social services, or for a more efficient organization of agriculture, or for dealing with problems of international trade and payments, may also assume different proportions if considered in the perspective of long-term developments.

In other parts of the world, rapid economic progress is expected. In the Soviet Union, for example,

according to long-term plans, the aim is to treble industrial output within about twenty years.¹ In the United States, national income is expected to rise by about a quarter in only five years to a total of \$300 billion.² In many European countries, on the other hand, discussion has tended to be concentrated on the obstacles to expansion, which arise largely from the greater dependence of the area on foreign trade.

In this chapter an attempt has been made to assess the broad magnitudes of the potentialities for development in the European economy. One main purpose has been to show certain long-term trends in earlier decades which have a bearing on future development, and to examine the relation of these trends to present plans and tendencies. In the analysis, estimates have been made of the possible expansion of production that might take place in the next ten years if Europe's resources of man-power and capital are fully utilized. The object of the analysis has been to indicate certain broad alternative patterns of development rather than to make forecasts of the probable course of events, since actual developments will depend very much on the policies adopted. For this purpose, a number of different estimates have been made on the basis of varying assumptions.

In the latter part of the chapter, the implications of the projections are discussed in relation to certain current problems.

2. PAST INDUSTRIAL TRENDS AND TENDENCIES

Production

In the last forty years, two world wars and one major depression have left deep traces on the development of industry. As a result of the short-term fluctuations in industrial activity which these disturbances caused, it is difficult to distinguish any long-

term trends ; this may be illustrated by the development of manufacturing production in the three leading industrial countries—Germany, the United Kingdom

¹ See the speech by Premier Stalin to his constituents in Moscow, 9 February 1946 : *Soviet News*, No. 1370, 11 February 1946.

² See *Economic Report of the President*, United States Government Printing Office, January 1950.

and France.¹ Together they accounted for about two-thirds of total European industrial commodity output immediately before the war ; Germany alone accounted for almost one-third.

In France, industrial production in the 1920's rose to a level 30 per cent higher than in 1913, but only recently, after a period of nearly twenty years, has this level been regained. In the recovery after the depression of the early 1930's, the highest point reached was only 20 per cent above the 1913 level.

In Germany, industrial production has fluctuated widely. It fell short of the 1913 level by about 50 per cent during the crisis after World War I and again by about 30 per cent in the great depression. On the other hand, the 1913 level was exceeded by 20 per cent in the boom of the 1920's and later by about 40 per cent during the armaments boom just before the last war. Since the war, Germany's industrial production has remained far below the level of the immediate pre-war years and has probably not exceeded that of the late 1920's.

Industrial production in the United Kingdom in the 1920's was probably not much higher than in 1913 ; in the depression it fell by about 20 per cent. In later years, however, considerable progress was made ; the home-market boom in the latter half of the 1930's raised production about a third above the level of the late 1920's. The production drive since the end of the war had, by 1949, resulted in another increase of about 25 per cent.

In some of the smaller countries—Austria, Belgium, Switzerland—as in France, the tendency was towards stagnation. It was only in the remaining group of “younger” industrial countries—Italy, the Netherlands, the Scandinavian countries and especially Finland—that a relatively high rate of progress was maintained. The eastern European countries (Czecho-

slovakia, Hungary, Poland) held an intermediate or low position, with a very uneven rate of progress in the different decades.

The striking feature of this general picture is that progress since 1913 has not only been slow but also spasmodic. The development has been dominated by violent fluctuations, a new recovery sometimes reaching or passing the last boom level and at other times failing to do so. The pre-1914 pattern of relatively limited short-run fluctuations about a rising trend obtains only in northern Europe and the Netherlands.

By contrast, in the three preceding decades (1880–1913) there was a general trend of growth from one decade to another with variations only in the rate of progress between different countries and decades. The statistics on manufacturing production available for this period are less reliable than for later years, but the average rate of progress in different countries before 1914 can be estimated and is shown in Charts 5A–5C below : they indicate in a general way the long-run perspective in which the development since 1913 should be examined.

One generalization can be made from a comparison between the trends in production before and after 1914 : the long-term rate of progress was greater, and in most countries much greater, before 1914. In the twenty-five years after 1914, Finland and Sweden were the only countries where production in manufacturing industry increased by more than 100 per cent. In the previous twenty-five years, production rose by more than 100 per cent in all countries for which records of industrial production exist, with the sole exception of the United Kingdom. In Germany and Italy, as in the United States, an increase of 100 per cent occurred in less than fifteen years, and in Finland, Russia and Sweden in little more than a decade.

It may well be argued that the pace of industrialization should diminish as each country approaches a stage of relative industrial “maturity”. In particular, industrial development in those countries which had a late start might have been expected to slow down as they caught up with the older industrial countries and became more dependent on general technological developments. In the early stages of industrialization, the transfer of man-power from handicrafts to factory industries forms a fairly easy part of the industrialization process and, in some cases, involves little technical change. The transfer of labour from handicrafts is, however, only one aspect of industrialization ; there

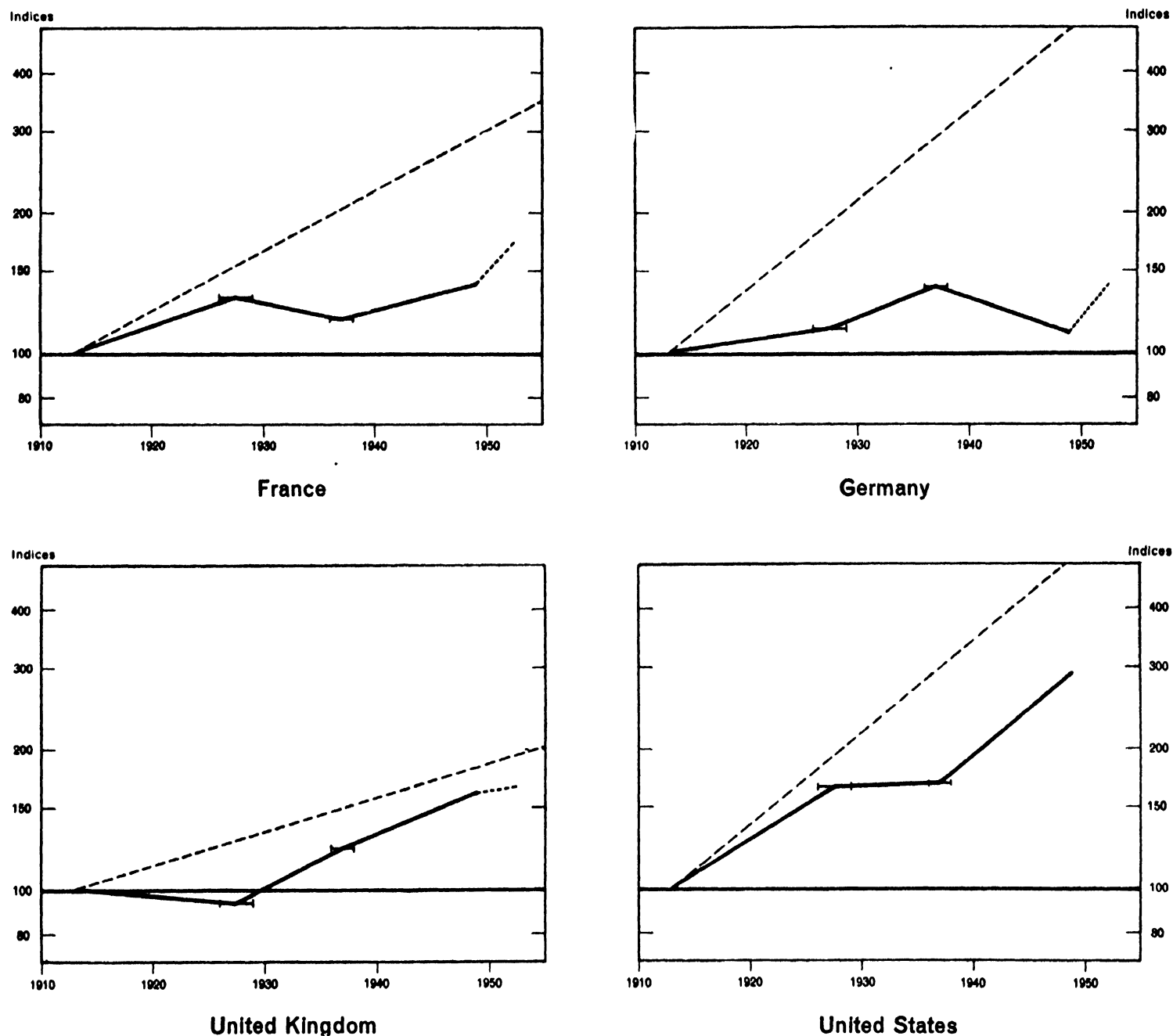
¹ Index numbers of production in manufacturing industry, 1913–1939, in some cases from 1880, have been brought together by F. Hilgerdt in *Industrialisation and Foreign Trade*, League of Nations, 1945 ; these index numbers have been combined with data for later years and with the targets given in national plans. The uncertainties of such computations are well known. The material, especially for earlier years, and for some countries, is less reliable. In particular, it is possible that the increase of production in the long run is somewhat under-estimated because the influence of new products and industries may not have been fully taken into account. Because of the wide short-term fluctuations in relation to the long-term growth in the period after 1913, any trend line fitted to the actual year-to-year series of index numbers would be arbitrary within wide limits. In diagrams 5A–5C, the procedure has instead been to indicate the growth or decline of industrial production between the years 1913, 1926–1929, 1936–1938 and 1949, which in most countries were years of high employment.

Chart 5 A

PRODUCTION IN MANUFACTURING INDUSTRY

Index numbers — 1913=100

Logarithmic scale



Sources: The data are derived from *Industrialisation and Foreign Trade*, League of Nations; *Economic Survey of Europe in 1948*, Economic Commission for Europe, and Table 1, Chapter 1.

NOTE.—Averages for 1926–1929 and 1936–1938 are indicated by horizontal lines. These averages, indices of volume for 1913 and 1949 and targets for 1952/53, are connected by straight lines. The line starting at 1913, which indicates the “pre-1914 rate of increase”, rises at the same annual rate as the production indices of the respective countries between 1881–1885 and 1911–1913.

— Actual, 1913–1949

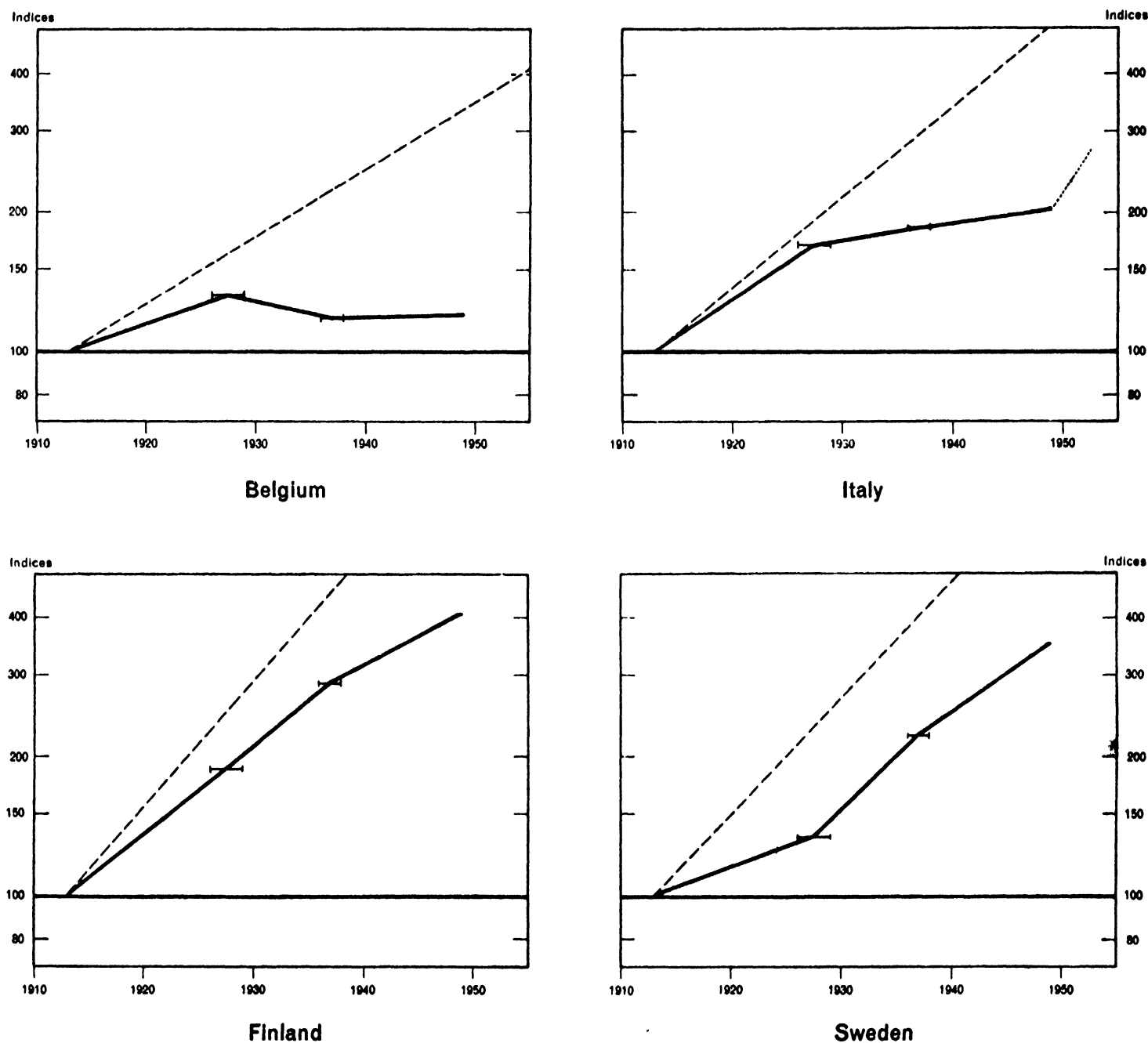
----- Planned, 1949–1952/53

----- Pre-1914 rate of increase

is also the change from agriculture and domestic work to manufacturing industry. All these changes take place more easily in the early stages of a delayed industrialization, which accounts for the higher trends in “younger” industrial countries. Early stages of

industrialization are also usually accompanied by a rapid growth of population and by ample man-power reserves in agriculture. In later stages, the rate of increase in the population tends to slow down and the man-power reserves in agriculture to be absorbed.

Chart 5B
PRODUCTION IN MANUFACTURING INDUSTRY
Index numbers — 1913=100
Logarithmic scale



Sources: The data are derived from *Industrialisation and Foreign Trade*, League of Nations; *Economic Survey of Europe in 1948*, Economic Commission for Europe, and Table 1, Chapter 1.

NOTE.—Averages for 1926–1929 and 1936–1938 are indicated by horizontal lines. These averages, indices of volume for 1913 and 1949 and targets for 1952/53, are connected by straight lines. The line starting at 1913, which indicates the “pre-1914 rate of increase”, rises at the same annual rate as the production indices of the respective countries between 1881–1885 and 1911–1913.

— Actual, 1913–1949 - - - - Planned, 1949–1952/53 - - - - Pre-1914 rate of increase

Such changes in the conditions of development may partly account for the general tendency towards a slower development of manufacturing industry in the inter-war period. The greatest slowing-down, how-

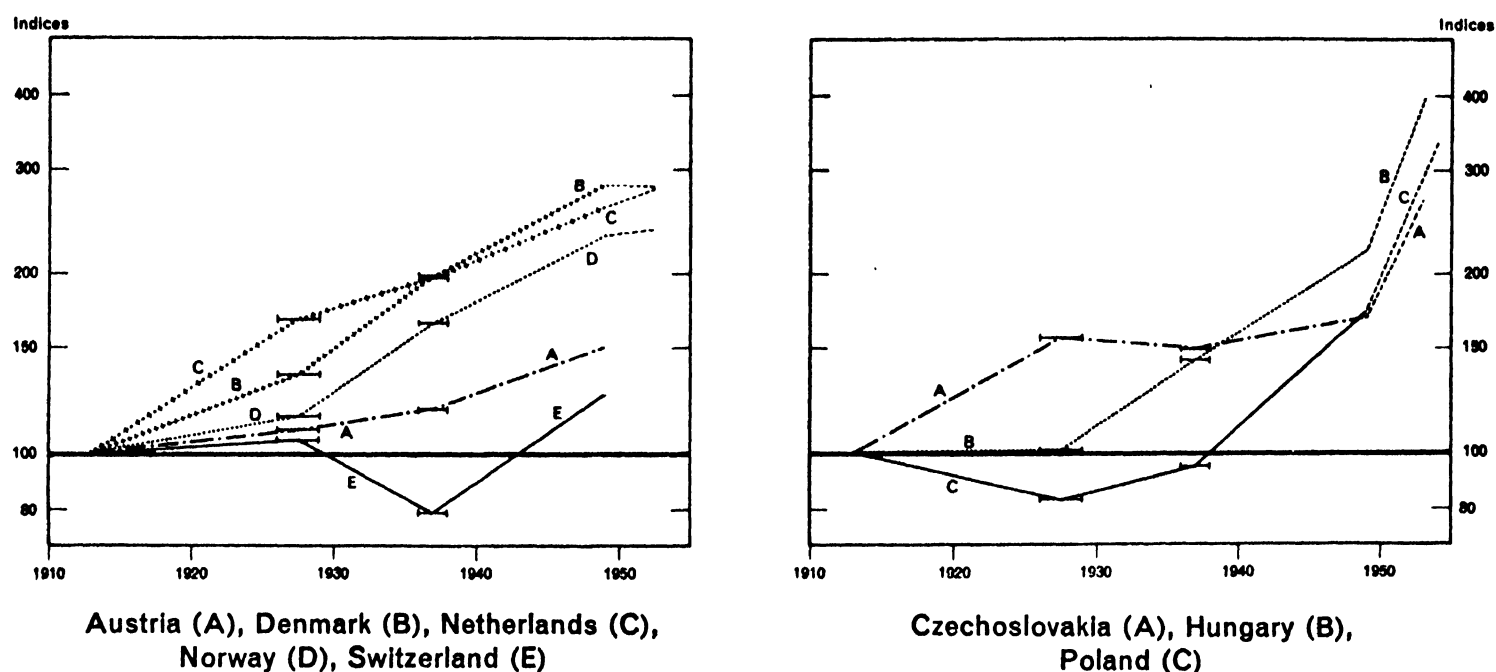
ever, occurred in those countries—Belgium, France, Germany and the United Kingdom—which already held a leading position in industrial development in the final decades of the last century.

Chart 5C

PRODUCTION IN MANUFACTURING INDUSTRY

Index numbers — 1913=100

Logarithmic scale



Sources: The data are derived from *Industrialisation and Foreign Trade*, League of Nations; *Economic Survey of Europe in 1948*, Economic Commission for Europe, and Table 1, Chapter 1.

NOTE.—Averages for 1926–1929 and 1936–1938 are indicated by horizontal lines. These averages, indices of volume for 1913 and 1949 and targets for 1952/53 (1954), are connected by straight lines.

----- Planned, 1949–1952/53 (1954)

Since a relatively mature stage of development had thus been reached in an earlier period in these countries, this suggests that other factors must explain the tendencies towards stagnation in the inter-war period. The most important general factors were clearly those arising from developments after World War I, such as structural changes in world trade, trade and payments restrictions, rigidities in the economic structure and the lack of co-ordination internally as well as internationally.

Instances of rapid industrial progress which could be used for reference in discussing the potentialities for future development are thus extremely rare in the period after 1913; moreover, with the exception of the Scandinavian countries, the greatest progress was generally made in countries such as Finland, Japan and the Soviet Union, which started from a state of “under-development”. At the same time, changes in the general economic environment have diminished the relevance, for estimating future trends, of periods of long-term development before 1914.

Capital Formation and Obsolescence

Trends in production and rates of capital formation can be expected to be closely correlated. The role of capital formation is that of both cause and effect. On the one hand, incentives to invest are usually low when production is stagnating; on the other, new investment is a prerequisite for the expansion of production through an increase in employment or in productivity.

The experience of the last few years indicates that, under conditions of extremely high employment involving the risk of inflation, there may be a tendency to re-establish the economic balance of the economy by reducing investment instead of by curtailing consumption. When an economy moves from a condition of “high” employment to one of “over-employment”, the result may therefore be a reduction in the level of investment. These changes within the framework of a full employment policy must, however, be kept apart from the changes that occur

when an economy moves from a state of high but balanced employment to one of a low level of industrial activity with large-scale unemployment.

It is self-evident that a low level of employment means lost opportunities of production. It is also well known that unused resources have as a rule been highly concentrated in the capital-goods industries. The capacity of these industries has been developed so as to fulfil the demand for investment goods in boom periods ; the corresponding rate of capital formation in these periods far exceeds the average rate through boom and depression. Periods of stagnation have historically been accompanied by low average rates of capital formation over the whole business cycle, but the capacity to produce capital goods may nevertheless have exceeded what would be needed in order to maintain a quite rapid economic development.

Some indication of how much was lost in the production-goods industries in the 1930's may be obtained from the following index numbers for Europe as a whole :

Production and Consumption of Certain Production Goods in Europe^a

Index numbers — 1929 = 100

Commodity	1929	Lowest level (1932)	Highest level reached at end of decade (1937 or 1938)	Number of years with output below previous peak
<i>Steel</i>				
Production . . .	100	51	105	8
Consumption . .	100	50	108	7
<i>Manufactured capital equipment</i>				
Production . . .	100	59	114	7
<i>Cement</i>				
Production . . .	100	73	129	6
Consumption . .	100	76	139	5

^a Including Germany

In the depression, the productive capacity of production-goods industries was probably at least as high as the former peak level. This would imply that, in the decade 1929–1938, two and a-half years' production at full capacity were lost in steel production, one and a-half years in the manufacture of producers' capital goods, and one year in the production of cement.

As the existing stock of capital continues to deteriorate at a fairly stable rate, it is only natural that net investment will decline even more than gross investment in periods of stagnation. In such periods, the net capital

formation of more prosperous years is often needed to make good the deterioration of capital stock in intermediate years. The tendencies in capital formation in the United States show how highly the net growth of capital is geared to the trends in production and employment. Thus, in the period 1929–1938, net capital formation in the United States fell to 1.4 per cent of national income, compared with 10 per cent in the 1920's and 13 to 16 per cent before 1914. In the same period, gross investment only fell to 13 per cent compared with 20 per cent in the 1920's and 21 to 24 per cent before 1914. It is probable that a similar decline in net investment occurred in those European industries which, in the inter-war period, showed the strongest tendency towards stagnation.

The unique position of the post-war European economy can be understood only if the effects of pre-war stagnation and of World War II on the capital structure are appreciated. The failure to maintain capital equipment in many industries in the past fifteen years is reflected in the top-heavy age distribution of capital equipment and in the extent of its obsolescence.

Varying conditions such as the rate of development before the war and priorities during the war resulted in corresponding differences in the degree of obsolescence between different industries, as the following examples indicate. In the United Kingdom in 1945, the Technical Advisory Committee to the Ministry of Fuel and Power found that deep coal-mining was hardly mechanized and that about 20 per cent of the cutting was done by pick and shovel. In the British cotton industry, a sample investigation showed that already in 1930 about two-thirds to three-quarters of the plant investigated was more than twenty years old and, according to the Working Party Report of 1946, there had been little re-equipment since then. In the British wool industry, the Working Party found that some of the carding machinery in use was over eighty years old, that more than a quarter of the spindles dated from the last century, and that many of the looms had been in use for fifty years or more.

In the French coal mines in 1945, most of the equipment was over thirty years old, whereas replacement should normally be carried out after sixteen years. In the French engineering industry, the average age of the equipment was twenty-five years ; in the iron and steel industry, the plants in eastern and central France were all more than thirty years old and

only those in the north had been built after 1918. In the French textile industry, 56 per cent of the spindles and 58 per cent of the looms had been installed before 1919.

In the coal mines of Belgium in 1947, 7 per cent of the machines had been installed before 1899, 52 per cent before 1919 and 85 per cent before 1929. In the Belgian metal industry, by the end of the war, 12.5 per cent of the machinery was more than thirty years old and 50 per cent was more than twenty years old.

Although further detailed information is lacking, it is known that industrial capital was also badly maintained and seldom renewed in the coal mines of Poland, in the engineering trade of Yugoslavia, in the textile industry of Czechoslovakia and in the building materials industry of Hungary.

Productivity

Many factors influence long-run trends in labour productivity; among the most fundamental are changes in technology, the growing technical skill of workers and improved knowledge of organization.¹ Another basic factor in a progressive economy is the tendency for the unit cost of capital equipment to fall in relation to the unit cost of labour;² this tendency will result in a change of production methods in a more labour-saving and capital-intensive direction. The incentive to introduce labour-saving machinery may also be increased in periods when the profits of business are limited by the availability of labour.

Whatever the ultimate cause of changes in the methods of production, the possibility of raising productivity will generally depend on the level of investment, whether it takes the form of a replacement of old equipment, an extension of capacity, a transition to heavier industries, or an increase in capital per worker, which as a rule takes place in connection with

replacement. Only the last two kinds of investment would result in an increase of output per worker, if there were no changes in the technical efficiency of capital equipment. To the extent that techniques advance, however, a replacement of equipment or an extension of capacity—neither of which necessarily involves an increase in gross capital per worker—will also lead to an increase in productivity. As a result, the distinction between gross and net investment is less significant for changes in productivity; physically, also, the different types of investment are to a great extent inseparable.

The effect of a given investment on productivity will evidently be closely dependent on the time-lag in the application of modern techniques or of the production methods corresponding to the latest shift in the relative costs of labour and capital equipment. This time-lag finds its expression in the age-structure of existing capital equipment. The process by which capital equipment is replaced and adjusted to the latest technical advantages is slowed down by the interests vested in the old capital structure, whether it is in private hands or nationalized; this delay in replacement may tend to be increased by restrictive private and public arrangements, which reduce the competition from new and more efficient units. The greater the delay, the greater evidently will be the effect of a given investment on the average productivity of industry, whether it is used for replacement or for an expansion of the capital stock.

The delay in the adjustment of the old capital structure to new technical and economic conditions explains why modern techniques penetrate more quickly into the structure of industry in an expanding economy than in a stagnating one. Various statistical studies confirm that a correlation exists between the rise in productivity and the long-term rate of growth of output and employment in industry.³ In particular, there is reason to expect that the transition from periods of progress to periods of stagnation and *vice versa* will involve great changes in the trends of productivity. At the end of a period of expansion, capital equipment in industry is, on the whole, relatively young, while at the end of a stagnation period it is relatively old. Such changes between

¹ In this chapter, "productivity" stands for "output per man" or "output per man-hour". An increase in "productivity" does not necessarily imply a more efficient use of all productive resources. There are, however, *a priori* reasons to assume fairly close correlation in the rates of change in these factors over long periods.

² It is generally accepted that, as a result of the long-run increase in efficiency, there has been a rise in the amount of consumers' goods—including durables—that a unit of wages can buy. It is difficult to see why the same tendency should not apply to producers' durable goods. Such tendencies are, however, obscured by changes in design and quality of capital equipment that follow as a consequence of technological development.

³ *World Production and Prices, 1937/38*, League of Nations, Geneva 1938; *Industriarbetets växande avkastning i belysning av svenska erfarenheter*, Studier i ekonomi och historia, Stockholm 1944; "Fattori che regolano lo sviluppo della produttività del lavoro", P. J. Verdoorn, *L'industria* 1949: 1, Milan.

ageing and rejuvenation of the capital structure probably influenced productivity trends in the past periods under review—the progressive decades before 1914 and the inter-war period with its tendencies towards stagnation. They will also have a bearing on the potential increase in productivity over the next decade.

The available statistics do not allow a complete survey to be made of European trends in productivity. Some facts may, however, serve to illustrate the prevailing tendencies. Unfortunately, the technique by which productivity can be measured suffers from serious imperfections: for instance, changes in the quality of the products are usually not fully taken into account. The quoted figures should, however, roughly indicate relative tendencies in different countries and periods.

Special problems of interpretation arise in connection with the length of the working-week, which make it necessary to distinguish output per man from output per man-hour. The main general change in working-hours was the introduction of the 48-hour week after World War I. It seems probable that this shortening of the working-week was not accompanied by a corresponding net decrease in the effective working-hours. The rise in output per man and per man-hour therefore indicates a lower and an upper limit for output per hour of effective working time. Changes in later years, such as from 48 to 42, or 40 hours in some countries, probably resulted to a greater extent in a decrease of effective working-hours. In such cases output per man-hour can be regarded as the best measure of changes in productivity, as the shortening of the working-week probably had an influence on the intensity of work and thus on trends in productivity.

This is one reason for expecting substantial variations in the relationship between the expansion of production and the rise in productivity. Other factors, such as varying technological trends, changes in the methods of organization and in the structure of industry, and the delayed effect of progress in earlier periods, might, in some periods and countries, also create deviations in trends which cannot be explained by different rates of increase in production. It is therefore surprising how closely the relative trends in those countries for which data are available in general conform with expectations.¹

In Germany during a period of rapid expansion, 1870–1907, industrial output per man was doubled; the corresponding annual rate of increase was on the average 2.2 per cent, but in the latter part of the period the rate rose to 2.4 per cent. The war led to a stagnation in productivity, and for the period 1907–1929 when, as indicated above, little progress in production was made, the annual rise in output per man was probably less than 0.5 per cent; however, if the shortening of the working-week is taken into account, the rate of increase per man-hour reached about 1.2 per cent per annum. In the 1930's, the rate of increase in productivity was between 1.0 and 1.5 per cent per year.

In other countries, where production stagnated in the 1930's, productivity rose very little, if at all, and sometimes it even declined. In France, Italy and Poland, output per man in 1937 was below the 1929 level, while the increase in output per man-hour was only slightly higher. Similar tendencies prevailed in Belgium and Czechoslovakia.

In the United Kingdom, on the other hand, the revival of industrial activity in the 1930's, after the stagnation of preceding decades, was accompanied by a more rapid rise in productivity. In the period of slow development, 1907–1924, the annual increase in output per man was only about 0.5 per cent and in output per man-hour about 1.5 per cent, while in later years both rose by about 2.4 per cent per year.

In Sweden, by contrast, the rapid expansion of production in manufacturing industry continued after 1913 and was accompanied by high rates of increase in productivity. The same was true of the United States up to 1929, as is shown by the following figures:

Increase in Output and Output per Man in Manufacturing
(Annual rates of increase in percentages)

	<i>Output</i>	<i>Output per man</i>	<i>Output per man-hour</i>
United States			
1899–1914	4.2	1.6	2.1
1914–1929	4.6	3.0	3.8
1929–1939	0.3	0.8	2.8
Sweden			
1896–1913	4.5	1.6	2.0
1920–1929	5.3	3.5	3.2
1929–1939	5.2	3.2	3.0

years when employment in most countries was high, in order to reduce the influence of variations from boom to depression. Cyclical factors cannot be wholly eliminated, however, and they certainly had some influence, for example, in France where production at the end of the 1930's did not reach the level of the preceding boom.

¹ The sources on which the following estimates are based are indicated in Appendix A. As in the case of the production trends, changes in productivity have as a rule been compared between

These estimates indicate that in the United States, in spite of the war, the average rate of progress from 1914 to 1929 was more rapid than from 1899 to 1914. In the 1930's, the rise in output per man deviated considerably from the rise in output per man-hour, as a result of the shortening of working-hours. The high rate of increase in output per man-hour forms a remarkable exception to the low rates of increase in other countries where production also stagnated ; the effect of shorter working-hours on labour efficiency is probably only a partial explanation.

It will be seen that in Sweden the rate of increase in productivity at the end of the last century and until 1913 was maintained during the inter-war period. At the beginning of the 1920's, productivity was rising rapidly, evidently as a delayed effect of the stagnation during World War I. From the middle of the 1920's to World War II the rise in output per man was fairly stable at about 3.2 per cent per

year. In the same period, the increase of productivity was almost as great in Finland, where industrial output expanded rapidly. A rapid expansion also occurred in the Netherlands between 1908 and 1929, when the annual increase in output per man was 2.3 per cent ; in output per man-hour it was 3.4 per cent.

The experience of the last fifty years thus indicates that, when tendencies towards economic stagnation predominated, industrial productivity rose slowly, if at all. Among the countries more seriously affected by the depression of the 1930's, the United States was the only one where the rise in productivity exceeded 2 per cent per annum. In periods of general expansion, on the other hand, rates of increase in excess of that level were often attained and, in the inter-war period, the annual increase in productivity in countries maintaining a relatively rapid expansion of output approached or exceeded 3 per cent.

3. POPULATION CHANGES AND MAN-POWER DISTRIBUTION

Progress towards higher levels of production can be regarded as the combined result of changes in the distribution of population between different occupations and of increases in productivity within each occupation. For the purposes of this study, the man-power of each country has been divided into three

main occupational groups : agriculture, industry and services.¹ A more detailed study by sub-groups might reveal changes within the main groups, which were of equal importance to the development of production.

¹ For a definition of these groups, see notes to Tables 97 and 98.

Table 96

CHANGES IN THE EUROPEAN POPULATION IN THE AGE-GROUP 15 TO 64, FROM 1920 TO 1960

Millions of persons and percentages

Region	POPULATION (millions)					Increase or decrease in population (percentages)			
	Actual			Projections		Actual		Projections	
	1920	1930	1940	1950	1960	1920 – 1930	1930 – 1940	1940 – 1950	1950 – 1960
Northern and north-western Europe	40.2	43.8	47.2	47.7	48.7	9.0	7.8	1.1	2.1
Western and central Europe (excluding Germany)	42.5	45.9	46.5	47.4	47.4	8.0	1.3	1.9	1.9
Germany	42.4	44.7	47.9	46.7	49.6	5.4	7.2	–2.5	6.2
Eastern Europe	48.7	58.1	64.2	55.6	60.7	19.3	10.5	–13.4	9.2
Southern Europe	43.7	49.1	53.7	58.4	63.4	12.4	9.4	8.8	8.6
Total	217.5	241.6	259.5	255.8	269.8	11.1	7.4	–1.4	5.5

Sources : The figures have been taken mainly from the *Statistical Year-Book of the League of Nations* ; *Demographic Yearbook of the United Nations for 1948* ; *The Future Population of Europe and the Soviet Union*, League of Nations, 1944, and data supplied by the Population Division, Department of Social Affairs, United Nations. For details, see Appendix A.

NOTE.—The composition of the regions is as follows : *Northern and north-western Europe* — Denmark, Finland, Ireland, Norway, Sweden, the

United Kingdom ; *western and central Europe* — Austria, Belgium, France, the Netherlands, Switzerland ; *eastern Europe* — Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, Yugoslavia ; *southern Europe* — Greece, Italy, Portugal, Spain.

The figures for 1920, 1930 and 1940 refer to pre-war territory ; those for 1950 and 1960 refer to the post-war area.

The effects on production of such changes between sub-groups will, however, be regarded as part of the productivity increase of the main occupational groups.

The trends in total working population and in occupational distribution have been investigated country by country, but, for purposes of exposition, the discussion of trends in this chapter generally refers to consolidated totals for the larger regions indicated in Tables 96 to 98. Inevitably, a regional grouping will conceal certain divergent trends in individual countries, only some of which can be indicated in the text.

Population changes 1920–1960

It may be assumed that changes in the European population between the ages of 15 and 64 indicate the general trend in the working population.¹ For Europe as a whole, the number of men in this age-group and in the working population have, in the last decades, been roughly the same. There were, however, some regional variations resulting from differences in the school-leaving and retirement ages. The working population in most eastern European countries was between 2 and 5 per cent larger than the selected age-group and in Italy the difference was 10 per cent ; on the other hand, in northern Europe, Austria, Belgium, Germany and the Netherlands, the selected age-group exceeded the working population by 2 or 3 per cent.²

Low birth-rates in the inter-war period and losses of life and territory resulting from the last war have changed the trend in the size of the working population since 1940, compared with the two preceding decades. As is shown in Table 96, the number of people of working-age in northern, western and central Europe (including Germany) will increase by only 4 millions between 1940 and 1960, compared with an increase of 16½ millions in the inter-war period. It is, however, in eastern Europe that the war has made the largest impact on the size of the working population. Between 1940 and 1950, the population of working-age fell by about 9 millions as a result on the one hand of the heavy loss of life, particularly in Poland and Yugoslavia, and, on the other, of territorial transfers from Poland, Rumania and Czechoslovakia, which led to a net decrease of territory and

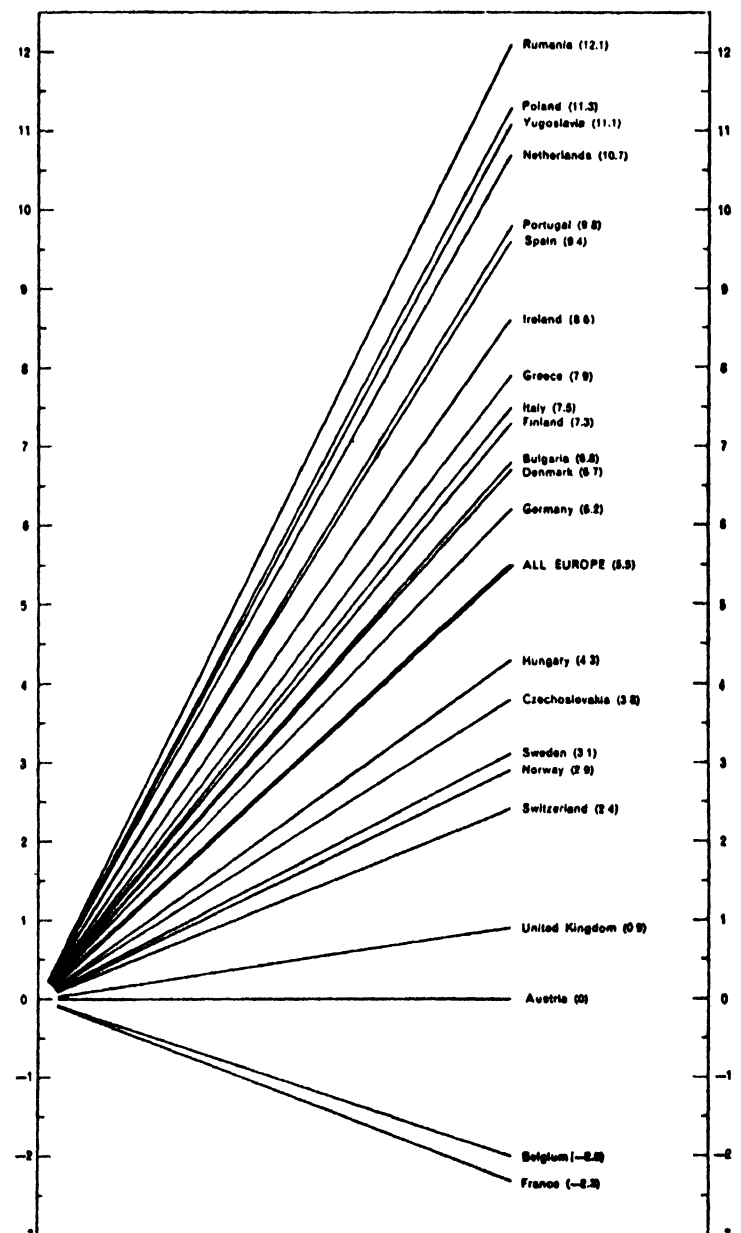
population in these countries as a whole. A rise of 5 millions in the next decade will still leave the total population aged 15 to 64 well below the 1940 level. Southern Europe is the only region where the increase will be almost as large between 1940 and 1960 as in the inter-war period ; in the four decades 1920–1960 the population of working-age will probably have risen by 20 millions, or by almost 50 per cent.

Of the probable increase of 10 millions in the number of men and women of working-age in eastern and southern Europe during the next decade, at least

Chart 6

**PROJECTED RATE OF INCREASE
IN THE EUROPEAN POPULATION, IN THE AGE-
GROUP 15 TO 64, FROM 1950 TO 1960**

Percentages



Sources: The figures for most countries were based on provisional estimates of the Population Division, Department of Social Affairs, United Nations. For details, see Appendix A.

¹ The sources of the population statistics and the method used in making projections of the size of the working population and its occupational structure are summarized in Appendix A.

² For women, a corresponding comparison cannot be made because of the statistical difficulty of estimating the number of women engaged in agricultural and domestic work.

three-quarters will be available for work in non-domestic occupations. The distribution of this increase in the total labour supply among different occupations will in itself make possible a rapid change in the occupational structure of the population. In the rest of Europe, on the other hand, future changes in the occupational structure will have to be based mainly on the possibilities of transferring people from one occupation to another and of reducing open and "concealed" unemployment, since the population of working-age will increase by only about 4 millions between 1950 and 1960.

As Chart 6 above shows, however, there will be considerable deviation from these regional trends in individual countries. The increase in the population aged 15 to 64 in northern, western and central Europe, for example, is largely concentrated on Germany, where the increase in birth-rates that began in the 1930's will, in the next decade, result in an increase in the working population of about 6 per cent, or about the same rate of increase as in the inter-war period. In the Netherlands, the rate of increase is still greater and approaches the highest rates in eastern Europe. There is also likely to be a high rate of increase in Denmark, Finland and Ireland, but in Belgium and France the working population will probably decline. On the other hand, the rate of increase in Czechoslovakia and Hungary will probably be only slightly higher than, for example, in Norway and Sweden.

Trends in Occupational Distribution 1920-1950

The male population engaged in agriculture in Europe was remarkably stable in the inter-war period, as shown in Table 97. There were, however, some divergent movements. In western and central Europe (excluding Germany), the number of men in agriculture declined by about 8 and 5 per cent in the 1920's and 1930's respectively.¹ In eastern Europe, however, where the pace of industrial development was insufficient to absorb the increase in the working population, agricultural man-power rose by 8 and 5 per cent in the two decades (although the proportion of the total population engaged in agriculture fell). The consequent surplus of labour in agriculture resulted in open unemployment, partly seasonal, but for the greater part it was concealed by an inefficient organization of agricultural production. Similar tendencies were typical of large parts of southern Europe, although emigration partly counteracted the potential increase in the agricultural population.

The stability of the agricultural labour force in Europe in the inter-war period was accompanied by only small changes in agricultural production. The total area under cultivation and the pattern of land utilization remained fairly stable. The total number

¹ In northern Europe, the constant population in agriculture and forestry may be partly explained by the expansion of employment in forestry as a result of the development of pulp and paper industries.

Table 97
MALE WORKERS IN EUROPEAN AGRICULTURE, 1920 TO 1960
Millions of persons

Region	Actual			Projections	
	1920	1930	1940 ^a	1950	1960 (range) ^b
Northern and north-western Europe	4.1	4.1	3.9	3.7	3.7 - 3.4
Western and central Europe (excluding Germany)	7.2	6.6	6.3	5.9	5.9 - 5.5
Germany	4.9	4.8	4.3	(3.5)	(3.5)
Eastern Europe	15.9	17.1	(18.0)	15.5	15.5 - 13.9
Italy	7.1	6.6	6.8	6.9	7.1 - 6.0
Total	39.2	39.2	39.3	35.5	35.7 - 32.3

Sources: The figures have been taken from the *Statistical Year-Book of the League of Nations; Yearbook of Labour Statistics, 1937, 1947/48*, International Labour Office, and national statistics. For details and for the assumptions on which the projections are based, see Appendix A.

NOTE.—"Agriculture" includes forestry and fishing. "Male workers" comprise all men actively engaged in agricultural work as their main occupation.

For the composition of the regions, see Table 96. Figures for 1920, 1930

and 1940 refer to pre-war territory; those for 1950 and 1960 refer to the post-war area. The figures in brackets are tentative.

^a Where no 1940 figures were available, the proportion of the population in the age-group 15 to 64 engaged in agriculture for each country in the latest pre-war year was applied to the population in the same age-group in 1940.

^b The range for 1960 is between the maximum and minimum projections for agriculture described in the text.

of livestock remained unchanged and the increase in crop yield per unit area was, on the whole, slower than in earlier decades : the average rate of increase in cereal yields was only about 0.5 per cent per annum, or less, in all regions, whereas in the preceding fifty years, rates of 1.0 to 1.5 per cent were recorded in a number of countries. The increase in the yields of potatoes and sugar beet was somewhat faster, or about 1 per cent per annum.

During and since the war, trends in agricultural man-power have changed in several countries. Thus, since 1940 there has been a fall of about 14 per cent in the number of men in agriculture, both in eastern

Europe and in Denmark and Sweden. In eastern Europe, the decline was mainly the result of territorial changes, but in Denmark and Sweden it was accompanied by increasing mechanization and efficiency of agriculture. This development in northern Europe suggests that potentialities for reducing agricultural man-power had accumulated during the inter-war period in many parts of Europe where modernization and particularly mechanization were held back by the generally depressed condition of agriculture.

The absence of a rapid industrial development and the existence, for long periods, of mass unemploy-

Table 98
MAN-POWER IN URBAN OCCUPATIONS IN EUROPE, 1920 TO 1960
Millions of persons

Occupational group and region	NUMBER OF WORKERS					INCREASE OR DECREASE			
	Actual			Projections		Actual		Projections	
	1920	1930	1940 ^a	1950	1960 (range) ^b	1920- 1930	1930- 1940	1940- 1950	1950-1960 (range) ^b
<i>All urban occupations :</i>									
Northern and north-western Europe	22.6	25.2	27.9	29.3	30.4 - 31.5	2.6	2.7	1.4	1.1 - 2.2
Western and central Europe (excluding Germany)	20.8	23.3	22.4	23.7	24.8 - 25.5	2.5	-0.9	1.3	1.1 - 1.8
Germany	21.6	23.0	26.7	(24.5)	(26.7)-(27.0)	1.4	3.7	(-2.2)	(2.2)-(2.5)
Eastern Europe	11.6	15.5	(17.5)	16.4	20.2 - 22.7	3.9	(2.0)	-1.1	3.8 - 6.3
Italy	8.0	9.1	10.7	11.4	12.9 - 14.4	1.1	1.6	0.7	1.5 - 3.0
Total.	84.6	96.1	105.2	105.3	115.0 - 121.1	11.5	9.1	0.1	9.7 - 15.8
<i>Industry :</i>									
Northern and north-western Europe	11.2	11.9	13.2	14.2	14.9 - 15.4	0.7	1.3	1.0	0.7 - 1.2
Western and central Europe (excluding Germany)	10.9	12.3	11.0	11.9	12.9 - 13.7	1.4	-1.3	0.9	1.0 - 1.8
Germany	13.2	13.3	15.0	(14.0)	(15.7)-(16.5)	0.1	1.7	(-1.0)	(1.7)-(2.5)
Eastern Europe	5.5	7.7	(8.8)	8.7	10.9 - 12.9	2.2	(1.1)	-0.1	2.2 - 4.2
Italy	4.5	5.1	5.4	5.1	6.1 - 7.1	0.6	0.3	-0.3	1.0 - 2.0
Total.	45.3	50.3	53.4	53.9	60.5 - 65.6	5.0	3.1	0.5	6.6 - 11.7
<i>Services :</i>									
Northern and north-western Europe	11.4	13.3	14.7	15.1	15.5 - 16.1	1.9	1.4	0.4	0.4 - 1.0
Western and central Europe (excluding Germany)	9.9	11.0	11.4	11.8	11.9 - 11.8	1.1	0.4	0.4	0.1 - 0.0
Germany	8.4	9.7	11.7	(10.5)	(11.0)-(10.5)	1.3	2.0	(-1.2)	(0.5)- 0.0
Eastern Europe	6.1	7.8	(8.7)	7.7	9.3 - 9.8	1.7	(0.9)	-1.0	1.6 - 2.1
Italy	3.5	4.0	5.3	6.3	6.8 - 7.3	0.5	1.3	1.0	0.5 - 1.0
Total.	39.3	45.8	51.8	51.4	54.5 - 55.5	6.5	6.0	-0.4	3.1 - 4.1

Sources : The figures are derived from the *Statistical Year-Book of the League of Nations ; Yearbook of Labour Statistics, 1937, 1947/48*, International Labour Office, and national statistics. For details and for the assumptions on which the projections are based, see Appendix A.

NOTE. — "Man-power" includes all men and women gainfully occupied in industry and services. "Industry" includes manufacturing, mining, building and handicrafts. "Services" includes transport and communications, commerce, banking, distribution, civil, military and domestic services and all the professions.

For the composition of the regions, see Table 96. The figures for 1920, 1930 and 1940 refer to pre-war territory, those for 1950 and 1960 refer to the post-war area. Figures in brackets are tentative.

^a Where no 1940 figures were available, the occupational structure for each country in the latest pre-war year was applied to the population in the age-group 15 to 64 in 1940.

^b The range for 1960 and for 1950 to 1960 is between the minimum and maximum projections described in the text.

ment doubtless reduced the incentive to introduce labour-saving methods of production. If modern techniques were now introduced, agricultural manpower in many countries could probably be reduced by 5 to 10 per cent in the next decade, without fundamentally changing the present framework of agricultural organization. If a similar development had occurred in the whole of Europe in the inter-war period, 4 to 8 million more workers would have been available for transfer to urban occupations.

While agricultural population on the whole remained stable in the inter-war period, there was a rapid increase of man-power in urban occupations, equal to the net increase in the working population. As Table 98 shows, in twenty years, Europe's urban working population rose by more than 20 millions or by almost one-quarter.

From 1920 to 1930 the new urban workers were fairly evenly distributed between industry and services. In the 1930's, however, the numbers entering industry declined, while the rate of increase in service occupations was almost maintained, so that the latter accounted for no less than two-thirds of the total increase in urban man-power during the decade. In the inter-war period as a whole, the numbers in services rose by one-third, while the numbers in industry rose by less than one-fifth. This lack of balance in the growth of industry and services is a general feature in the different regions for part of the inter-war period, though in some countries it was already evident in the 1920's. In parts of northern and north-western Europe and in Germany, the slow development of industry in the 1920's was thus accompanied by a rapid expansion in services. Similar tendencies appear in the other continental countries of western and central Europe and in Italy in the 1930's.

A rapid development of services is usually regarded as a normal long-run trend in countries with a rising

standard of living. An unchecked or increased rate of growth at a time when expansion in industry is slowing down may, however, reasonably be explained as partly the result of a lack of opportunities for employment elsewhere. The trends recorded thus support the view that, in some European countries, a surplus of man-power had accumulated in the retail trades and similar service occupations by the end of the 1930's.¹

The figures for eastern Europe are less reliable. The foundation of new States after World War I, however, resulted in a rapid expansion of industry and services in the 1920's, but, on the whole, industrial development slowed down in the 1930's increasing the pressure of population on the land.

Thus, the rate of expansion of European production in the inter-war period was not sufficient to create opportunities for the effective employment of all the available man-power. In some countries, part of the surplus was eventually absorbed by the armed forces and in armament production, and some redundant man-power was concealed in agriculture and in unproductive occupations in services. Nevertheless, in several countries, recorded unemployment remained at a high level even at the end of the 1930's.

As a result of the war, the structure of the European labour market has altered considerably since the 1930's; territorial transfers and population movements have changed the balance between resources and man-power in such countries as Czechoslovakia, Poland and Germany; the level of employment in industry has increased in most countries; north-western Europe has approached a state of full employment. In large areas of southern and eastern Europe, however, the general population pressure has continued to increase; and in several countries of western Europe and in Italy the labour surplus in services has not yet been absorbed into other occupations or ceased to be redundant.

4. PROSPECTS FOR THE PERIOD 1950-1960

The preceding summary of some pre-war trends and tendencies in European production and man-power may serve as a background to a discussion of the potentialities for future long-term expansion. It must be realized, however, that knowledge of past trends and relationships—such as the amount, the composition and the effects of capital formation—is limited. Moreover, even if such relationships could

be established for the past, it cannot be assumed that they will remain stable; the conditions for economic

¹ These tendencies should be compared with the trends of production in manufacturing industry indicated in Charts 5A-5C. A detailed analysis of the lack of balance between services and other occupations is given in "Progrès technique et répartition professionnelle de la population", Alfred Sauvy, *Population*, Nos. 1 and 2, 1949, Paris.

progress in any one period of time are always, to some extent, unique. In any case, inferences from past experience contain a wide margin of uncertainty. Moreover, within a wide field, the development will be governed by economic policy, both national and international, which can be developed on alternative lines.

For these reasons, a discussion of future trends must be based on certain assumptions about the main determining factors. The choice of these assumptions—which must always to some extent be arbitrary—may be related to past trends, present economic structure, current tendencies in economic policy and post-war plans. In view of the wide margin of uncertainty and the range of possible economic policies, the assumptions have to be stated in the form of alternatives which indicate a range of possibilities. By combining such assumptions with some known trends in the European economy, an indication can be given of the potentialities for future development. The discussion will in this way be centred on the problem of inter-relations in the future development, rather than on the actual trends. The procedure has been to make alternative assumptions about the occupational distribution of the working population, to introduce alternative assumptions about the rate of capital formation, and to combine these two main factors into a discussion of possible developments in productivity and production.

*A. Prospects for Development in Northern, North-Western, Western and Central Europe*¹

Man-power

The potential growth of the population aged 15 to 64 in northern, north-western, western and central Europe during the coming decade has been discussed in section 3 of this chapter. As indicated in that section, trends in the German population deviate from the average for the region and will therefore be considered separately. In the rest of the region, the working population will, in the next decade, increase by only 1 million or by about 1 per cent. Owing to this very small increase, any change in the occupational distribution of the labour force will have to come mainly from shifts between different occupations.

The need for man-power in agriculture will mainly be determined by the speed of mechanization, an

The problem of European man-power and production trends has to be approached on the national level, since differences in population trends, rates of saving, the need for investment and productive capacity, are not evened out through the working of international market mechanisms. This sectionalism has tended to increase, partly as a result of new forms of national planning. This characteristic of the European economy has been accepted as a starting-point in the discussion of perspectives for the next decade. Accordingly, estimates of future trends in European man-power and production have first been made for each individual country; the resulting totals have then been aggregated for each region. In general, the intention has been to indicate the order of magnitude of the problem that Europe faces with its present political structure. Some of the problems of capital formation are, however, discussed within a rather wider regional framework.

For several reasons—similarities in population trends, political systems and economic organization—the prospects of development in the next decade are considered separately for three regional groups. The first group includes northern, north-western, western and central Europe; within this group Germany is dealt with separately, although in a more summary way. Eastern Europe forms the second group, while the third is southern Europe where attention is mainly concentrated on Italy.

increase in which is envisaged in most national programmes. In the last decade, the number of tractors in five countries² in this region has grown from 100,000 to 470,000; the number is expected to rise to 600,000 in 1952/53. It may be assumed, as a result of this development, that the agricultural population in northern, north-western, western and central Europe will in any event not rise in the next decade; past experience suggests that the number of men in agriculture will fall by as much as 10 per cent in certain countries where the conditions for such a reduction are particularly favourable.³ The resulting decrease in male working population in agriculture in the region as a whole would be nearly three-quarters of a million, or about 7 per cent. The corresponding migration

¹ The regional composition is as follows: northern Europe—Denmark, Finland, Norway, Sweden; north-western Europe—United Kingdom and Ireland; western and central Europe—Austria, Belgium, France, Germany, Netherlands, Switzerland.

² Denmark, France, Norway, Sweden and the United Kingdom.

³ A summary of the basis on which alternative projections of the future occupational structure have been made are given in Appendix A.

of women will probably result in a total increase of the urban working population by over a million.

The proportion of women to men in urban occupations at present varies from 56 per cent in northern Europe to 48 per cent in the United Kingdom, western and central Europe ;¹ as the ratio has so far been fairly stable within each country, it seems unlikely that the change in the next decade will be very large. In one of the projections for 1960, however, the ratio of women to men has been assumed to rise by about 5 per cent in most countries. This would mean an over-all increase of almost 2 millions, or about 9 per cent, in the number of women in urban occupations. In view of simultaneous changes in age distribution and in income levels among wage-earners—factors which might cause tendencies in the opposite direction—this assumption may be on the high side. As a lower alternative, the ratio of women to men has been assumed to remain stable during the decade.

The combined result of these projections would be that, between 1950 and 1960, the man-power available for employment in urban occupations would rise by at least 2 millions and at most by 4 millions, compared with a net increase of 5 millions in the 1920's and 2 millions in the 1930's. Thus, if all reserves of man-power were absorbed, the rate of increase would be almost as high as in the 1920's, while the minimum increase would be the same as in the 1930's.

Pre-war experience indicates that the expansion of services will be correlated with rates of industrial growth. A rising commodity output will probably increase the demand for services. On the other hand, it has been suggested above that, on the Continent, a surplus of man-power has accumulated in service occupations. It has therefore been assumed that the numbers in services will grow in proportion to industry only in northern Europe while, in the various countries of western and central Europe, the numbers in services will grow at less than half that rate or even remain stable. The growth of the service sector between 1950 and 1960 would, according to these assumptions, be less than 1 million, while industry would grow by 1½ to 3 millions.

The following general conclusions emerge from this survey of trends in industrial man-power in

northern, north-western, western and central Europe (excluding Germany). Industrial employment in the region could rise by about 10 per cent, in the next decade, if man-power reserves were extensively mobilized ; this would correspond to the rate of increase in northern and north-western Europe in the inter-war period. On less favourable assumptions, however, the increase might only be about half as great.

As already indicated, the above projections do not include Germany. In this country, industrial employment could rise much faster in the next decade than before the war. Industrial man-power in Germany has, however, declined in the last ten years, so that the increase compared with the pre-war level will be about the same as for the rest of the region. The increase in the German birth-rate can thus be said to have compensated for the losses due to the war.

Capital Formation and Productivity

By 1949, capital formation in northern, north-western, western and central Europe had reached a level which, even including Germany, was considerably higher than before the war. In relation to 1938, which was a year of high employment and capital formation compared with the average for the 1930's, gross investment had risen by nearly 20 per cent and net investment by about 35 per cent.² In most countries, gross investment in 1949 exceeded 20 per cent of gross national income and, though there are differences of definition between one country and another, the rates also seem to compare favourably with those of developing countries in earlier periods. In the half-century before 1930, for example, which was a progressive period in American economic history, the average level of gross investment in the United States in each decade was about 20 per cent of the gross national income ; and in Sweden, where the period was also one of rapid development, the figure fluctuated between 15.5 and 17.5 per cent.³ In both these countries, population was growing rapidly, and the need for investment in transport, housing and general urban development was correspondingly great. In northern, north-western, western and central Europe the population will, on the whole, be rising much more

² Figures by countries are shown in Table 29, Chapter 2.

³ See *National Income, a summary of findings*, S. Kuznets, National Bureau of Economic Research, New York, 1946 ; *National Income of Sweden 1861-1930*, Stockholm Economic Studies, Stockholm, 1937.

¹ Figures showing the changing ratio of women to men in urban occupations are given in Appendix A.

slowly. The countries in this region should, therefore, be able to devote a relatively high share of total capital formation to industrial development. It follows that an important condition for rapid industrial development will have been created, if the present high rate of total capital formation in relation to national income can be maintained.

The problem of capital formation, however, requires a more detailed examination in the light of the supply of man-power that is likely to be available. This discussion will be limited to a group of ten countries ; two of the large countries in the region : France and the United Kingdom ; four small Continental countries : Austria, Belgium, Netherlands and Switzerland ; and the four countries in northern Europe : Denmark, Finland, Norway and Sweden. In view of the complicated political and economic situation in Germany, it has not been possible to discuss its problems in a similar way.

Following the general approach of this chapter, it has been assumed that, within this group of ten countries, it will be possible to maintain employment at a high level throughout the coming decade ; presumably, this would also result in high levels of capital formation. On the other hand, a decrease in foreign assistance or a continuing trend towards equality of income might tend to lower the level of investment. In order to cover a range of such possibilities, two alternatives have been chosen as a basis for the discussion : (a) that the ratio of capital formation to total commodity output is maintained at its present level ; (b) that the present absolute level of gross investment will be maintained. In a progressive society this would mean that investment falls in relation to national income. Gross investment in manufacturing industry (excluding public utilities) and mining in this region is at present running at a level of approximately \$3 billion per year (in 1938 prices) out of a total investment of \$10 billion.¹ It will be assumed that the same proportion of total investment will be allocated to these branches of industry in the next decade. On these assumptions, total investment in manufacturing and mining in the next decade will amount to about \$30 to \$35 billion.²

¹ These figures and all other investment figures in this chapter are given in 1938 dollar prices.

² The higher figure is based on assumptions of a rise in industrial output of 50 per cent and in agricultural output of 30 per cent over the decade.

In the group of ten countries, about 17 million people are now engaged in manufacturing and mining. This number may, according to the lower man-power alternative, be assumed to increase by about 1½ millions, or 9 per cent, in the next decade. On the basis of post-war data for some of these countries, the capital needed for this extension of industry would amount, at present standards of capital equipment, to \$4 to \$5 billion.³ Net investment in manufacturing and mining in these countries can be roughly estimated at \$1½ billion a year, so that at the present rate only 30 per cent of net investment will be required during the decade to take care of the increase in the number of industrial workers. On these assumptions, therefore, the greater part of industrial investment will be available for replacement and increasing capital per worker.

The extent to which this will enable industrial plant and buildings to be modernized may be seen from the following illustrations. The gross value of the existing stock of industrial capital in the ten countries may be estimated at about \$50 billion. Thus, if gross capital per worker remained constant, after providing for the increase in the number of workers, between one-half and two-thirds of existing capital equipment could be replaced within the next decade. If, on the other hand, replacement of old capital took place only at a normal rate,⁴ gross capital per worker could be increased by some 15 to 25 per cent. These are two extreme alternatives ; in practice, some middle road would be chosen combining a more extensive replacement than corresponds to depreciation, with some increase in gross capital per worker. How far replacement should be extended in order to get the greatest possible increase in

³ On the basis of estimates for the Netherlands and Sweden, which could be compared with estimates which are available for North America, it has been assumed that gross capital per worker in manufacturing and mining amounts on the average to about \$2,750 to \$3,000 in the group of ten countries. Comparisons of motive-power per worker in the different countries have been used for the purpose of interpolation. *De industrialisatie gedurende het afgelopen jaar*, A. Winsenius, Rotterdam, 1950 ; "Der svenska industrins kapitalinvesteringar åren 1948-1950", *Kommersiella meddelanden*, Stockholm, 1950 ; *Investment and Inflation with special reference to the immediate post-war period*, Department of Trade and Commerce, Ottawa, 1949.

⁴ The average rate of depreciation has been assumed to be 3.3 per cent per annum over all industrial capital, which is consistent with the figures in the national accounts for the group of ten countries as a whole, though not necessarily for them individually. This would correspond, for example, to an average life of twenty years for machinery and of sixty years for building, with a proportion between these parts of fixed capital of 1 : 1.

productivity and general efficiency will depend on how great the advantages of modernization are in different sectors of industry.

The discussion has so far been based on the lower of the two man-power alternatives for industry, which were established earlier. A further increase in industrial employment would somewhat reduce the possibilities of modernization and the development of more capital-intensive industries. As, however, the increase in the labour supply is assumed to lie within rather narrow limits and as the provision of capital for it will absorb only a small proportion of gross investment, the conclusions would not have to be greatly modified.

An estimate of the increase in net capital might give a better idea of the changes that would result from the assumed level of industrial investment. To arrive at this, it would strictly be necessary to know the age-structure of the existing capital stock, about which the available information is insufficient to give a reasonably complete picture, though some indications of the extent of obsolescence have been given in Section 2 of this chapter. An example, however, will illustrate the conclusions that would follow from a given set of assumptions about the present age-structure of capital and the future rate of capital formation.

It is assumed that there was a normal age-structure of capital in 1930 ; that one-third of normal replacement was, on the average, neglected in the following fifteen years (1931–1945) ; that in 1946 and 1947, gross investment was just sufficient to maintain the age-composition of capital, but that from 1948 on it has been and will continue to be twice as high. On these assumptions, all abnormal obsolescence could be eliminated by 1952–1953 if the whole of gross investment were concentrated on replacement ; and, by 1960, the net value of industrial capital would have risen to a level almost 50 per cent higher than in 1930 and 90 per cent above the low level in the immediate post-war years. This very great rise in net capital value would result from the high degree of obsolescence at the beginning of the decade and the high proportion of young capital at the end, which would in turn be a consequence of the transition from a stagnating to an expanding industry. Gross capital would, at the same time—in accordance with the earlier estimates—be increased by 20 per cent.

It is difficult to find a safe basis for comparison of these rates of growth with past trends in those countries which have been used for reference in the

discussion of productivity. One particular difficulty is to make estimates of changes in capital values which are comparable in real terms. The most reliable reference material is probably that derived from studies of American manufacturing industry in the period 1904–1937 ;¹ this indicates a growth of net capital per worker over the whole period of only 12 per cent per decade. The net increase of industrial capital in the United States was, however, fairly limited during the 1930's. The growth of capital may therefore be assumed to have been concentrated in the period 1904–1929. On this assumption, the rate of growth was close to 20 per cent per decade ; and, as already mentioned, output per man-hour rose by nearly 3 per cent per annum.

These estimates and comparisons suggest that continued investment at the present rate will, in a transitional period as long as a decade, result in a large net increase of capital, as the age-structure is changed from abnormal obsolescence to a less-than-normal age of capital. Even if this change did not involve any increase in gross capital per worker, it would in itself make possible an exceptional increase in productivity. The transition from a period of progressive ageing to a period of progressive modernization of capital should result in high rates of productivity increase compared with periods of more continuous expansion. For the very reason that the rate of increase in productivity was less than normal, by perhaps 1 to 2 per cent per annum over most of the last two decades, it may be greater than normal in the next decade.

The experience of progressive countries also indicates that technological progress has been maintained in the last decades ; differences between new and old equipment will therefore, on the whole, be considerable. Nor does there seem any reason, since efforts to promote both research and its application in industry have been intensified, to expect that the rate of technological progress will slow down.

Increases in productivity during the early post-war period have been high, partly as a result of the progressive elimination of limitations on production, such as bottlenecks in raw materials and disorganization in the labour market. The recent high rates can, however, probably also be interpreted as the first results of post-war modernization. In the United Kingdom,

¹ *Employment in Manufacturing 1899–1939*, S. Fabricant, National Bureau of Economic Research, New York, 1942.

industrial productivity reached its pre-war level rapidly after the war and a high rate of increase has since been maintained, the annual increment between 1948 and 1949 being about 5 per cent. The rate of increase seems, however, still to be partly influenced by temporary and special factors, such as the decreasing importance of raw-material difficulties. Some decline in the rate of growth is therefore expected in the next two years. In France, output per man-hour has recently reached the 1938 level, while the level of output per man has risen to about 13 per cent above pre-war. In the next three years, a continued rise of 4 to 5 per cent per annum is expected. In Sweden, the level of output per man-hour is now about 17 per cent above pre-war. In 1950 it is expected to increase by 4 per cent—that is, at about the same rate as in recent years.

There may well be some decline from these high rates of increase in productivity during the next few years. If, however, the present high rates of capital formation continue, previous experience suggests that it might be possible to maintain a rate of increase of 3 per cent per annum; a rate of increase of 2 per cent would, on the other hand, in the light of earlier experience, appear to be on the low side.¹

Germany has not been included in the preceding discussion. The present economic and political disintegration and the consequent uncertainty about future development provide no basis for a well-founded choice of assumptions about future development. Germany will, however, face a very serious man-power problem. As indicated earlier, the working population will grow at a rapid rate over the next decade, making possible an increase of employment in industry by half-a-million to 1 ½ million workers,

compared with pre-war. The rise from the present level of employment would be much larger, as man-power in industry has declined by about 1 million in relation to pre-war and as about 2 millions are at present unemployed. In 1949 the level of output per man in the three western zones was about 75 per cent of pre-war. A return to the pre-war level of productivity would in all zones represent a considerable improvement, and would, if a high level of employment were attained, result in an increase in production from the 1949 level of 60 to 70 per cent. The rise above the pre-war level would not, however, exceed 10 per cent.

Industrial Production

The conclusions about the development of industrial production in northern, western and central Europe in the next decade cannot be more than a combination of the above conclusions on man-power and productivity, which are related to a number of specific assumptions.

Combining on the one hand all the unfavourable and, on the other hand, all the favourable alternatives which have been discussed, a range of increase in production from 40 to 60 per cent can be derived.² The former rate of increase corresponds to French and Belgian experience in the period before 1914, and the latter rate exceeds American and approaches Swedish development in the same period. The higher alternative assumes a large-scale mobilization of labour reserves, combined with an increase of productivity by 3 per cent per annum. A combination of the lower man-power alternative with the same productivity increase would result in an increase of industrial production by about 50 per cent.

B. Prospects for Development in Eastern and Southern Europe³

Eastern Europe

The analysis of trends in eastern Europe is complicated by the large war losses and the extensive territorial and population transfers. Changes in the

organization of the economies also make comparison with pre-war trends less relevant. On the other hand, several countries have established long-term plans covering periods of up to five and six years which indicate the general tendency of their economic policies. All these plans provide for large-scale

¹ When extending these assumptions from manufacturing and mining to the whole of industry, thus including building and handicrafts, two circumstances have to be taken into account: (a) the growth of productivity in the latter fields will probably be slower; (b) a shift in the proportions in the direction of manufacturing will increase the average output per man. These factors will probably tend to compensate each other.

² Production in 1949 has been used as a basis for this estimate of the increase in a ten-year period.

³ The regional composition is as follows: eastern Europe—Bulgaria, Czechoslovakia, Hungary, Poland, Rumania and Yugoslavia; southern Europe—Greece, Italy, Portugal and Spain.

industrialization, partly based on the transfer of population from agriculture to industry. These industrialization plans do not appear to be based on expectations of an extensive capital inflow, but rather on the countries' own resources.

The rate of investment in eastern European countries is at a relatively low level compared with western Europe. On the other hand, eastern European countries plan to spend a larger part of total investment on the development of industry; the share of gross investment allocated to industry in the long-term plans amounts to about 40 per cent. In addition, in eastern European countries—other than Czechoslovakia—industry at present accounts for a smaller part of the national resources than in western Europe, owing to its relatively slow development in previous periods. For the same reasons, eastern European countries generally start from an industrial structure with a low standard of capital equipment. Thus, even a low rate of investment may result in relatively rapid development.

The development plans of eastern European countries are based on the expectation that a rapid cumulative development will take place in much the same way as in other countries in the early stages of industrialization. An extension of industrial production would raise the national income; this development would increase the capacity to invest and a still larger extension of industrial production could thus be achieved. The process could in this way be accelerated from year to year. It should be noted that, in such circumstances, much will depend upon a successful start. In the first stage it might be difficult not only to reach a sufficient level of investment, but also, with the present obstacles to international trade, to obtain the type of capital equipment which is most needed.

In other respects also, the economic development of these countries must be carefully balanced. During the first phase, man-power is unlikely to be a limiting factor. Working populations are rising rapidly, and in most countries some man-power can be transferred to industry from agriculture. In all the countries of eastern Europe, reserves of man-power in agriculture can, moreover, be mobilized by a reduction of seasonal fluctuations in employment or by modernization and mechanization. According to present plans, the stock of tractors and other farm machinery will increase considerably. As industrialization proceeds further, the transfer of additional farm labour to industry

will, however, tend to require increasing capital investment in farm construction and equipment, and might tax investment resources to such an extent as to slow down the rate of industrial expansion. Assuming that there is little inflow of capital from abroad, this balance between industrial and agricultural development will impose certain limitations on the process of industrial expansion. Similar problems of allocation will also arise in relation to transport and social investment, of which housing forms the main part.

The long-term plans of the three relatively more developed countries in the region—Czechoslovakia, Hungary and Poland—are based on a rise in industrial productivity of about 5 to 7 per cent a year. While this increase will come in part from the general expansion of industry and a certain shift in a more capital-intensive direction, it appears that it will also depend heavily on the results expected from the reorganization of industry. The plans attach a special importance to such factors as standardization, specialization within industry, the extension of piece-rate wages, the Stakhanovite movement and "work competition". Owing to the complex and partly unique character of these changes, it is not possible to estimate the future trends in productivity on the basis of earlier experience, nor do tendencies in eastern Europe in the last few years give much guidance.¹ In any case, the trends in productivity will depend on the capacity to train both skilled industrial workers for a rapidly growing industry and also more qualified personnel.

In order to indicate the magnitude of the problems involved in industrialization in eastern Europe, estimates of the future pattern of development have been made for the three countries mentioned above (Czechoslovakia, Hungary and Poland) for which information about past trends and future plans is more complete than for other countries in the area. Even in the case of these countries, knowledge of the relevant conditions for development is to a great extent inadequate. The discussion can therefore only indicate some outlines of the problem and even this might have to be revised in the light of fuller information. The analysis, as in the case of western Europe, must be based partly on assumptions which can only serve

¹ Czechoslovakia and Poland, for which some indications of productivity are available, did not get back to the pre-war level of productivity until 1948. Up to that year, the aftermath of the war probably played a dominant role in trends in productivity.

to indicate possible alternatives. In addition, a simplifying assumption has been made by treating the manpower and the capital markets of these three countries as a single entity. This further emphasizes the very general and approximate nature of the analysis.

According to the national plans of Czechoslovakia, Hungary and Poland, employment in industry will be expanded rapidly in the next five years. If this development continued at the same rate up to 1960, from 1½ to 2 million new workers would be absorbed in manufacturing and mining during the next decade; the number of workers in manufacturing and mining would then be increased by more than 50 per cent, and employment in the building industry could also be expected to expand.¹ Employment in services in these countries is on the whole very low compared with western Europe. It would remain at a low level even if it were increased at half the rate planned for industry. On this assumption, the total increase in the working population within the decade would be absorbed into urban occupations; at the same time, the agricultural labour force would have to be reduced by about 10 per cent. If such a development were realized, the problem of rural over-population would be largely solved.

Such an extension of employment in industry and service occupations would raise considerable problems of capital formation. The basic data on current investment, its allocation and the present level of capital per worker in industry, are in some respects uncertain. It is possible, however, to examine some broad tendencies in this field in order to demonstrate the order of magnitude of the problems involved.

¹ Such a rate of increase would fall short of the development in the Soviet Union in the inter-war period. In this country, between 1926 and 1939, there seems to have been a threefold increase in the working population in industry. The population engaged in service occupations was more than doubled, the main part of this increase taking place in public administration and social services. Urban occupations absorbed not only the increase in the total labour force of about 10 millions, or over 15 per cent, but also a part of the agricultural labour force, which was reduced by more than 6 millions, or about 15 per cent.

As a result of this development, the proportion of the population occupied in agriculture, forestry and fishing had in 1939 declined to about 55 per cent from a level of about 75 per cent in 1926. Development in the Soviet Union thus started from a more extreme agrarian structure of the economy in the middle of the 1920's than that which, in 1950, forms the starting-point for the eastern European development in the next decade. At the present time, eastern Europe as a whole has largely the same occupational structure as the Soviet Union attained at the end of the inter-war period. The three selected countries are even more urbanized, with about 50 per cent of the population in agriculture, forestry and fishing in Hungary and Poland, and only 30 per cent in Czechoslovakia.

The main issue will be whether the rate of investment will be sufficient to provide the capital equipment needed to absorb new workers into industry at the same time as an increase in the amount of capital per worker takes place through the modernization of industry and the development of heavy industries. The available information indicates that gross capital per worker is, on the average, lower than in western Europe.² A long-term increase in efficiency would therefore probably require a considerable increase in capital intensity.

In order to examine the possible developments, two assumptions have been made. First, that as production rises, the proportion of the total output of commodities devoted to investment will remain constant;³ and secondly, that the share of total investment allocated to industry will not be reduced below the present high proportion of 40 per cent. The latter assumption implies considerable sacrifices in other fields, particularly housing and social investment. The need for investment in these two sectors will increase with the expansion of industrial population, while at the same time the corresponding reduction in the agricultural labour force will probably need to be accompanied by increased investment in agriculture.

On these assumptions, it would be possible to create the necessary capital equipment for the new workers in industry only if the replacement of existing equipment were restricted to normal depreciation and if the development of heavy industry were relatively limited.

However, a salient feature in present plans is the emphasis laid on the development of heavy industry. If this tendency persists and is combined with a more extensive modernization of old equipment, the rate of investment would need to be increased above the present level. On the assumption that capital per worker in industry is raised within the decade by about one-third, thus bringing it closer to levels in western Europe, the proportion of national income allocated to investment would probably have to be increased to the level prevailing in western European countries. Alternatively, if this assumption as to the increase in capital per worker were to be fulfilled at

² Gross capital per worker has been assumed to be about \$1,500 in 1938 prices. This figure is estimated on the basis of available data on capital stock and investment plans.

³ In estimating the increase in the total output of commodities, it has been assumed that the net output of agriculture will rise by 40 per cent in the next decade.

present rates of investment, probably less than one million new workers could be absorbed into industry. If the number of workers absorbed into services increased at a correspondingly lower rate, the labour force in agriculture would be left at the same level as at present. These estimates indicate that an industrial development which involved a considerable rise in capital per worker, as well as a more extensive absorption of agricultural man-power, would require a substantial increase in national savings, assuming there is no inflow of capital from abroad.

Even without such an increase in the rate of investment, a very rapid expansion in production would appear to be possible in the next decade. Whether the assumption that capital per worker will remain constant is combined with an increase in productivity of 3 per cent, or whether the assumption that there will be an increase in capital per worker is combined with an increase in productivity of 5 per cent, the result would be an expansion in total industrial production of almost 90 per cent in the next decade. In manufacturing and mining alone (excluding building and handicrafts) the rate of increase would probably be still higher.

As already indicated, the development problems of the other eastern European countries (Bulgaria, Rumania and Yugoslavia) are more difficult to solve, mainly as a result of the lower level of industrialization, the larger surplus of man-power in agriculture and the more rapid increase of population. The problem of financing development in these countries on a scale sufficient to absorb all available man-power is therefore much greater, especially if compared with the income levels of these countries. For lack of more detailed information, no analysis of the capital formation problem on the above lines can be made for these countries.¹

Southern Europe

Southern Europe suffered relatively small population losses during the war and, as a result, its working population has continued to grow. Only a minor part of this growth has been absorbed by industry ; a surplus has therefore accumulated either

as open unemployment or as hidden reserves in agriculture or services. The order of magnitude of the employment problem in southern Europe has been indicated in Chapter 3. During the next decade emigration can make only a partial contribution to its solution, which must lie mainly in economic development within the countries themselves.

Detailed information about the trends in occupational structure and production are available only for Italy. As far as population pressure and industrial development are concerned, conditions in Italy are similar to those in the more advanced countries in eastern Europe. On the other hand, owing to its different political structure, the analysis of its long-term problems of development cannot be related to a long-term over-all national plan.

As was shown in Chapter 3, Italy has at the present time considerable reserves of man-power, with a total open and concealed unemployment outside agriculture of between 1½ and 2 millions. During the next decade, a further 1¾ million workers will enter the labour market. Land reclamation and irrigation in southern Italy, desirable and necessary though it is, probably cannot do more than absorb a part of the present hidden man-power reserves in agriculture ; at least 3½ million workers must therefore be absorbed into urban occupations during the next ten years, or will have to emigrate.

In recent years, Italy has been able to devote about 20 per cent of gross national income to gross investment, or about the same proportion as other countries in western Europe. About one-third of the total has been invested in manufacturing industry. The solution of Italy's employment problem in the next decade pre-supposes that the level of investment would be increased in proportion to a rising output of commodities, in the same way as has been assumed in some eastern European countries. This estimate has been based on the following assumptions : that half-a-million people at present unemployed could be absorbed by a more intensive use of existing capacity ; that replacement takes place only at a normal rate ; and that industrial development is directed not towards the expansion of heavy industries but towards a widening of industry to increase employment. Even under the very cautious further assumption that productivity will increase by only 1 per cent per year, employment in industry could then be increased by 3 million workers, thus eliminating open unemployment

¹ The projections of occupational distribution in 1960 in these three countries are based on the alternative assumptions that : (a) man-power in agriculture will not increase, and (b) that it will decrease by about 10 per cent. Tables 97 and 98 thus, in this respect, indicate man-power potentialities which have not been related to the availability of capital.

without recourse to emigration. The result would be an increase of industrial production by about 90 per cent during the decade.¹

This solution would, however, still leave great areas of Italian industry in a state of low efficiency or with a low level of capital per worker. It is also doubtful if it could be carried through without an influx of capital from abroad ; loans and gifts from abroad at present correspond to about 10 per cent of total investment and it is unlikely that an increase of investment in proportion to commodity output would be matched by an increase in savings. A rapid industrialization would also require increased imports of raw materials and foodstuffs, for which Italy is exceptionally dependent on foreign supplies. A far-reaching industrial development must therefore be accompanied by a rapid expansion of export markets, if balance-of-payments difficulties are not to become a bottleneck. It may, however, be difficult to make Italian industry competitive in foreign markets without a more extensive modernization which, especially in some parts of the engineering industry, is urgently needed, though a reduction in concealed unemployment would itself lower costs. As in eastern European

countries, there will also be a great need for social investment which will compete for the capital resources available. The solution of the employment problem along these lines would thus, in the absence of continued capital imports, run the risk of being hampered by bottlenecks in investment or exports. As a result of the low standards of capital equipment and the need to improve the competitive position of the export industry, the standard of living would probably not rise at a rate that would be desirable.

If the Italian problem is to be solved at all within the next decade and if the standard of living is to be raised at a satisfactory rate, either or both of two conditions must evidently be fulfilled : large-scale emigration and finance from abroad. To develop employment opportunities within the country, a greater supply of funds from abroad than is now being received will be required for at least a decade. A solution of the employment problem on the basis of domestic financial resources would—if combined with more extensive modernization and some development of heavy industry—leave a big surplus of manpower which would either have to emigrate or remain unemployed.²

5. PROBLEMS OF A SUSTAINED ECONOMIC GROWTH

The conclusion which emerges from the preceding analysis is that the general slowing-down of economic progress which Europe experienced during the inter-war period need not be repeated and that, given appropriate policies, the potentialities exist for a large and sustained increase in production and a more efficient utilization of growing man-power resources.

Although the estimates are based on a large number of simplifying assumptions, they provide a basis for stating that, given appropriate policies, an increase in Europe's total industrial production by about 50 per cent could be achieved in the next decade. Starting from a much narrower industrial base, the rise in eastern and southern Europe could be relatively faster and would tend to balance a somewhat slower increase in northern and western Europe. The general growth in the European economy would thus approach the rate of expansion which prevailed during the several decades preceding World War I.

¹ Agricultural output is assumed to increase by 30 per cent. Gross capital per worker is estimated to be \$1,800.

In the analysis, the development of industry has been regarded as the determining factor upon which the solution of Europe's man-power problems and the general expansion of activity will depend. Although detailed estimates have not been given, the possibilities for a substantial expansion in agriculture also appear to exist. During the inter-war period, agriculture, like industry, made little progress in Europe. A preliminary analysis based on past rates of progress achieved in different countries and on present plans indicates that it should be possible to raise the net output of agriculture by 20 to 30 per cent in northern, western and southern Europe and by 40 to 50 per cent in eastern Europe within the next decade. This pre-supposes that increased production of farm machinery, fertilizers and other requisites will be provided by industry ; the rise

² Assuming an increase of capital per worker from \$1,800 to \$2,200 and, as a result, an increase of industrial productivity by 3 per cent per year, employment in industry could be increased by about 1.5 million workers or by 35 per cent, and production in industry by about 80 per cent. About 2 millions of the working population would then be left to emigrate.

in incomes from agriculture would, in turn, support the expansion of industrial capacity.

These increases in industrial and agricultural production are estimated to be possible in spite of the slowing-down in the growth of Europe's working population and even if there should be no further increase in the share of national income allocated to capital formation above the present rate. In manpower, the stagnation tendencies of the inter-war period have resulted in an accumulation of reserves, especially in agriculture in eastern and southern Europe and in services, such as retail trade, in a number of western European countries. These reserves can be absorbed if more efficient employment opportunities are provided by the expansion of industry. In capital equipment, the growing obsolescence before and during the war means, of course, that Europe's present productive capacity is lower than it would be with a more normal age distribution of capital, but it also means that, apart from further industrial expansion, the mere renewal of the existing capital stock with modern equipment should help to cause a more rapid rise in productivity than during the inter-war period. In this sense, therefore, the very stagnation of the past may help to bring about a more rapid increase in production in the future.

The development of Europe's resources of manpower and capital equipment will necessarily depend on economic policy. The present analysis has not attempted to consider these issues, which involve many complex questions varying according to the form and structure of different national economies. The critical points of policy centre, however, on the questions of the level of employment and capital formation. A basic assumption underlying the perspective of a more rapid growth in the future is that it will be a steady and cumulative development. A return to the uneven levels of employment and investment of the past would certainly delay the attainment of these possibilities and, in some countries, might have permanent repercussions on the whole process of economic development.

In some of the southern and eastern European countries with low incomes and rapidly expanding populations, for instance, a failure to provide now the savings necessary for increased investment might retard the rise in incomes out of which progressively higher rates of capital formation could be provided in the future.

In western European countries, the critical questions of the immediate future concern their close dependence on overseas imports and the deficits in their overseas balances of payments. The preceding chapter has stressed the necessity for undertaking now the further adjustments in production and trade required by the ending of extraordinary dollar assistance in the near future. If these adjustments have to be made suddenly as dollar funds are depleted, the sudden curtailment of essential supplies would cause a widespread dislocation of production with retarding effects on future development.

If these immediate difficulties are successfully surmounted, the flexibility of the European economy can be expected to increase in the long run. Adjustments in production and in foreign trade which cannot be carried through within two or three years can be more easily made over a longer period. Here also, however, advance preparation will be required to prevent the appearance of shortages in particular branches of industry that would restrict general economic expansion. The risk of such shortages concerns principally the basic industries on which other lines of production depend, and which require considerable time to develop—as illustrated by the difficulties which have been experienced in some countries owing to the past failure to develop electric power resources adequately. It is particularly necessary to judge future requirements in such basic industries in the perspective of long-term developments. In steel, for example, the immediate prospect is that the present expansion of capacity may lead to a considerable surplus within the next few years, but this surplus could probably be absorbed soon after the middle of the coming decade if the tempo of industrial expansion is maintained.

The problem of achieving a balance in Europe's overseas trade without the necessity for continuing severe restrictions may not be solved within the near future and will require an attempt to harmonize long-term import requirements and export capacities. Here, too, greater possibilities of adaptation should emerge in a longer period. The expansion which has been suggested in agricultural production, for instance, could probably take place without the necessity for large increases in imports of feeding-stuffs. Dependence on imports of mineral oil and a number of important industrial materials is also, within limits, more flexible in the long run because of the possibility of substitution between different commodities.

It is not intended to suggest, however, that the European economy can be isolated from the world market. Its dependence on overseas supplies will remain substantial and will tend to grow as its own production expands, particularly if an increase of the order envisaged for the next decade is achieved. The possibility of such a growth will be conditioned by economic trends in overseas countries both with regard to the outlets which foreign markets provide for the products of European industry and with

regard to the possibility of obtaining increased supplies of primary goods not available in sufficient quantities within Europe. Europe's own prospects are therefore closely dependent on economic development and expansion abroad. At the same time, however, the possibilities of expansion which have been sketched indicate that Europe should be able to participate increasingly in that development overseas through the provision both of capital equipment and of financing.

APPENDIX A

NOTES ON THE ESTIMATES OF LONG-TERM TRENDS

I. POPULATION

Table 96 in Chapter 8 contains actual figures for 1920, 1930 and 1940 and projections for 1950 and 1960 of the size of the total European population between the ages 15 and 64. In Table A, the figures for men and women are shown separately ; figures for northern Europe and the United Kingdom and Ireland have also been separated from each other.

The figures for 1920, 1930 and 1940 in Table A below and in Table 96 were taken mainly from the *Statistical Yearbook of the League of Nations* for 1933/34, 1938/39, 1940/41, 1941/42, 1942/44, and from the *Demographic Yearbook of the United Nations*, 1948. Reference was also made to the *Statistisches Handbuch für die Republik Österreich*, *Annuaire statistique du Royaume de Bulgarie*, *Statistisches Jahrbuch für das Deutsche Reich*, *Annuaire statistique de la Grèce*, *Anuario Estadístico de España*, *Statistisk Årsbok för Sverige*, *Annual Abstract of Statistics for the United Kingdom*. For Czechoslovakia, Rumania and Yugoslavia, the 1940 figures were based on estimates in *The Future Population of Europe and the Soviet Union* by F. W. Notestein, League of Nations, 1944.

Table A
EUROPEAN POPULATION IN THE AGE-GROUP 15 TO 64, FROM 1920 TO 1960
Millions of persons

Region	Actual			Projections	
	1920	1930	1940	1950	1960
<i>Men :</i>					
Northern Europe	4.6	5.1	5.7	5.9	6.3
United Kingdom and Ireland	14.6	15.9	17.2	17.4	17.8
Western and central Europe (excluding Germany).	20.3	22.2	22.6	22.8	23.1
Germany	20.3	21.5	23.3	20.8	22.6
Eastern Europe	23.2	28.0	31.3	27.0	29.7
Southern Europe	21.0	23.6	25.9	28.0	30.7
Total	104.0	116.3	126.0	121.9	130.2
<i>Women :</i>					
Northern Europe	4.8	5.4	5.9	6.2	6.4
United Kingdom and Ireland	16.2	17.4	18.4	18.2	18.2
Western and central Europe (excluding Germany).	22.2	23.7	23.9	24.6	24.3
Germany	22.1	23.2	24.6	25.9	27.0
Eastern Europe	25.5	30.1	32.9	28.6	31.0
Southern Europe	22.7	25.5	27.8	30.4	32.7
Total	113.5	125.3	133.5	133.9	139.6
<i>Men and women :</i>					
Northern Europe	9.4	10.5	11.6	12.1	12.7
United Kingdom and Ireland	30.8	33.3	35.6	35.6	36.0
Western and central Europe (excluding Germany).	42.5	45.9	46.5	47.4	47.4
Germany	42.4	44.7	47.9	46.7	49.6
Eastern Europe	48.7	58.1	64.2	55.6	60.7
Southern Europe	43.7	49.1	53.7	58.4	63.4
Total	217.5	241.6	259.5	255.8	269.8

NOTE. — The composition of the regions is as follows: *northern Europe* — Denmark, Finland, Norway, Sweden ; *western and central Europe* — Austria, Belgium, France, the Netherlands, Switzerland ; *southern Europe* — Greece, Italy, Portugal,

Spain ; *eastern Europe* — Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, Yugoslavia.

The figures for 1920, 1930 and 1940 refer to pre-war territory ; those for 1950 and 1960 refer to the post-war area.

The figures for 1950 and 1960, shown in Table 96 and in Table A and from which the percentages used for Chart 6 were calculated, were based mainly on provisional estimates made by the Population Division, Department of Social Affairs, United Nations. These estimates were occasionally adjusted in the light of recent census results and, for western Germany, in accordance with estimates in *Wirtschaft und Statistik*, February 1950. For Austria, Italy, Poland, Rumania and Yugoslavia, the estimates made by F. W. Notestein were used as a starting-point and adjusted according to data in the article "Population Changes in Europe, 1938-1947", *Economic Bulletin for Europe*, Vol. 1, No. 1, Economic Commission for Europe, July 1949.

II. OCCUPATIONAL STRUCTURE

Table 97 in Chapter 8 contains actual figures for 1920, 1930 and 1940 and projections for 1950 and 1960 of the number of men engaged in agriculture in various parts of Europe, and Table 98 contains corresponding figures for all workers in urban occupations. Owing to statistical difficulties (noted in footnote 2, page 207) the number of women actively engaged in agriculture has not been included in Table 97, it is therefore not possible to give the occupational distribution of the total European working population. The distribution of male workers is given in Table B.

Table B

OCCUPATIONAL DISTRIBUTION OF THE MALE WORKING POPULATION IN EUROPE, 1920 TO 1960 Percentages

Occupational group	NORTHERN, WESTERN AND CENTRAL EUROPE ^a			EASTERN EUROPE ^b AND ITALY			TOTAL		
	Actual		Projections	Actual		Projections	Actual		Projections
	1920	1940	1960 (range)	1920	1940	1960 (range)	1920	1940	1960 (range)
Agriculture	26.6	21.5	19.1 - 18.1	61.5	54.4	49.3 - 43.4	39.9	34.8	31.2 - 28.3
Industry	43.8	44.3	47.6 - 49.5	20.4	24.1	27.9 - 32.6	34.9	36.1	39.7 - 42.7
Services	29.6	34.2	33.3 - 32.4	18.1	21.5	22.8 - 24.0	25.2	29.1	29.1 - 29.0
Total	100.0	100.0	100.0 100.0	100.0	100.0	100.0 100.0	100.0	100.0	100.0 100.0

NOTE.—The figures for 1920 and 1940 refer to pre-war territory ; those for 1960 to the post-war area.

^a Denmark, Finland, Norway, Sweden, the United Kingdom, Ireland, Austria, Belgium, France, Germany, the Netherlands, Switzerland.

^b Bulgaria, Czechoslovakia, Hungary, Poland, Rumania and Yugoslavia.

Table C shows changes in the ratio of women to men in urban occupations in the last three decades and projections for 1950 and 1960. Figures for the occupational distribution of the working population in Tables 97 and 98, in Chapter 8 and in Tables B and C, have been obtained as follows. For 1920, the results of censuses taken in almost all European countries in 1920 or 1921 were used ; these results are summarized in the *Statistical Yearbook of the League of Nations, 1933/34*. Similarly for 1930, the census results for 1930 or 1931 were taken : these are contained in the *Yearbook of Labour Statistics, 1937* and *1947/48*, International Labour Office. Figures for Poland in 1921 and 1931 were obtained direct from the Polish census and figures for Sweden in 1920 and for Sweden and Italy in 1930 were obtained from the *Statistisk Årsbok för Sverige*. Figures for Germany in 1920 were mainly extrapolated from the census results of 1925 and 1933, and the 1930 figures for Germany were interpolated from these censuses. Figures for Austria, Bulgaria and Ireland in 1930 were also interpolated from the results of censuses taken in the mid 1920's and 1930's.

For 1940 figures, the results of censuses taken in some countries (including Germany) in 1939, 1940 or 1941 are obtainable from the *Yearbook of Labour Statistics, 1947/48*. In countries where a census was taken near the end of the 1930's, though before 1939, the proportional distribution given in the census was applied to the 1940 population in the age-group 15 to 64. In other countries, notably the United Kingdom and Belgium, the latest pre-war census was taken early in the 1930's ; the 1940 distribution was estimated on the basis of trends in the occupation of the insured population and in the population in the working age-group. In eastern European countries, other than Hungary, there was no census in the inter-war period after 1930 or 1931 and little information about trends in employment or occupational distribution. Estimates for these countries in 1940 are therefore more tentative than for other areas and, accordingly, they are shown in parentheses in the tables.

III. PROJECTIONS FOR 1950

The figures showing the occupational distribution of the working population in 1950 are more in the nature of estimates than of projections in the strict sense as they were generally obtained by combining official and semi-official information for the latest post-war year. The proportional distribution of the population aged 15 to 64, derived in this way, was then applied to projections of the population in this age-group in 1950.

Table C

PROPORTION OF WOMEN TO MEN IN URBAN OCCUPATIONS IN EUROPE, 1920 TO 1960

Percentages

Occupational group and region	Actual			Projections	
	1920	1930	1940 ^a	1950	1960 (range)
<i>All urban occupations :</i>					
Northern Europe	55.6	59.1	57.5	55.8	55.7 – 59.1
United Kingdom and Ireland	45.8	46.1	43.5	47.7	47.3 – 50.5
Western and central Europe (excluding Germany)	51.4	47.5	48.5	48.8	47.8 – 48.6
Germany	40.1	41.9	44.3	(48.5)	(46.7)–(48.5)
Eastern Europe	35.1	37.1	(34.6)	37.3	40.2 – 41.5
Italy	36.2	35.1	37.9	45.6	45.3 – 45.0
Total	43.5	43.3	43.2	45.9	46.2 – 47.7
<i>Industry :</i>					
Northern Europe	24.6	25.8	26.2	26.0	25.7 – 27.6
United Kingdom and Ireland	32.8	33.4	33.3	35.9	35.3 – 37.2
Western and central Europe (excluding Germany)	40.5	34.5	33.3	33.0	32.8 – 34.7
Germany	27.7	27.2	29.9	(32.1)	(34.2)–(34.3)
Eastern Europe	23.4	25.8	(25.7)	27.0	29.5 – 31.9
Italy	38.4	32.3	35.5	37.5	38.4 – 38.4
Total	32.0	30.4	30.9	32.4	33.2 – 34.5
<i>Services :</i>					
Northern Europe	100.4	102.7	99.4	96.0	96.1 – 101.3
United Kingdom and Ireland	61.4	60.0	54.2	61.1	61.6 – 66.5
Western and central Europe (excluding Germany)	65.4	65.4	66.7	68.8	68.2 – 68.8
Germany	65.3	68.7	68.1	(78.0)	(69.2)–(78.0)
Eastern Europe	47.5	50.7	(45.0)	51.2	55.4 – 56.7
Italy	38.4	32.3	35.5	37.5	38.4 – 38.4
Total	59.3	61.0	58.5	65.2	64.0 – 67.1

NOTE.—For the composition of the regions, see Table A. The figures for 1920, 1930 and 1940 refer to pre-war territory ; those for 1950 and 1960 refer to the post-war area. Figures in brackets are tentative.

^a Where no 1940 figures were available, the occupational structure for each country in the latest pre-war year was applied to the population in the age-group 15 to 64 in 1940.

Fairly complete information was obtainable from national sources for the occupational structure in the United Kingdom in 1949 and, in 1946 or 1947, for Czechoslovakia, Finland, Italy, the Netherlands, Norway and Sweden. In the absence of subsequent information, the proportional distribution indicated in these sources was applied to projections for the 1950 population in the age-group 15 to 64. For some countries, notably France, it was, however, possible to adjust the earlier figures on the basis of more recent information about trends. For western Germany, recent figures were obtainable from *Wirtschaft und Statistik*, February 1950.

Less information was available for Austria, Belgium, Denmark and Switzerland, but in general the estimates were built up on the basis of trends in the numbers of insured or employed workers since the last census. For Hungary and Poland, estimates were based mainly on current economic plans. For Bulgaria, Rumania and Yugoslavia, projections were made in a similar way as for 1960.

IV. PROJECTIONS FOR 1960

In Chapter 8, maximum and minimum figures are given for the size of the working population in 1960 in each of three main occupational groups, thus indicating a range of possibilities. Different methods have been used in making the projections for the countries of eastern Europe and Italy from those used for the other European countries.

In the former area, the rate of capital formation has been regarded as the limiting factor in the development of industrial employment. The increase of man-power corresponding to alternative rates of capital formation has been indicated in the text of Chapter 8. It was also assumed that the rate of increase of employment in services would be related to the development of industry. Agricultural man-power was arrived at as a residual. Owing to lack of information, a more summary estimate has had to be made for Bulgaria, Rumania and Yugoslavia, as indicated in footnote 1, page 218.

In northern, north-western, western and central Europe, on the other hand, urban man-power has been regarded as a residual. The procedure was (a) to estimate the total number of men available for work on the basis of projections of the population aged 15 to 64 ; then to make alternative assumptions about (b) employment in agriculture, (c) the supply of female labour for urban occupations and (d) the relative development of employment in industry and services. Two alternatives are given for man-power in industry by combining on the one hand all assumptions which result in the lowest numbers of industrial workers (alternative I) and, on the other hand, all those which result in the highest numbers (alternative II). The details of the assumptions made are as follows :

(a) *Male Working Population*

The ratio of the male working population to the men aged 15 to 64 has generally been assumed to be the same in 1960 as in 1950—in most countries this ratio has not varied by more than 1 or 2 per cent for several decades.

(b) *Agriculture*

National plans and policies envisage a constant or declining number of agricultural workers during the next decade. Accordingly, as a maximum alternative, the number of men engaged in agriculture has been assumed to be the same in 1960 as in 1950. As a lower alternative, it has been assumed that in northern Europe, France and Ireland, the number of male workers in agriculture will fall by 10 per cent between 1950 and 1960, while the number will remain unchanged in the other countries of western and central Europe and in the United Kingdom.

(c) *Women in Urban Occupations*

As indicated earlier, the proportion of women to men in urban occupations in each region has been fairly stable ; as a minimum alternative, it has therefore been assumed that the same proportion will be maintained in the next decade ; this will be the result if the growth in the number of men in urban occupations is accompanied by a corresponding influx of women to urban districts and if the occupational habits of the women remain unchanged. For Germany, however, where the present proportion of women to men in urban occupations is particularly high, it is, in the minimum alternative, assumed to fall to half-way between the levels for 1940 and 1950. The maximum assumption for most countries is that the proportion of women to men will rise by 2 to 5 per cent in the next decade. In Germany, the corresponding maximum assumption is that the present proportion remains unchanged.

(d) *Industry and Services*

In northern Europe there has been a fairly uniform tendency in the last decade for man-power in services to rise in the same proportion as in industry. Accordingly, in the maximum as well as the minimum assumption for 1960 a constant ratio has been taken. On the other hand, in many countries in western and central Europe and in the United Kingdom, it has been assumed that the rate of growth of man-power in industry will be greater than for services ; in the Netherlands, between 1950 and 1960, 75 per cent of the new members of the working population may enter industry. Although the assumptions that have been made for this area vary from one country to another, their general trend is that the proportion of the total male working population occupied in services should remain roughly the same in 1960 as in 1950. The numbers in industry will increase more than the numbers in services, particularly in France where the net decrease in agricultural man-power will all accrue to industry.

V. TRENDS IN PRODUCTIVITY

The figures quoted in section 2 of Chapter 8 to indicate pre-war trends in productivity were based on data from the following sources :

Finland : Research and Planning Division, Economic Commission for Europe, on the basis of statistics from *Unitas*, 1931, *Statistique des industries de Finlande, Annuaire statistique de Finlande*.

Germany : Research and Planning Division, Economic Commission for Europe, on the basis of statistics from “ Die Industriegewirtschaft ”, R. Wagenführ, *Vierteljahrshefte zur Konjunkturforschung*, 1932 ; “ Technischer Fortschritt und Produktivität ”, W. Bauer, *Vierteljahrshefte zur Konjunkturforschung*, 1936.

Netherlands : *Arbeidsduur en Welvaartspeil*, P. E. Verdoorn, Leiden 1947 ; *Statistische en Econometrische Onderzoekingen*, Centraal Bureau voor de Statistiek, June 1947.

Sweden : *Ekonomiska Utredningar Våren 1949*, Meddelanden från Konjunkturinstitutet, Serie B : 10.

United Kingdom : *Comparative Productivity in British and American Industry*, L. Rostas, National Institute of Social and Economic Research, 1948 ; *European Co-operation*, memorandum submitted to the O.E.E.C. relating to economic affairs in the period 1950–51–52, Cmd. 7862, January 1950.

United States : *Employment in Manufacturing, 1899–1939*, S. Fabricant, National Bureau of Economic Research, Inc., 1942.

Belgium, Czechoslovakia, France, Italy, Poland : *World Production and Prices 1937/38*, League of Nations, 1938.

APPENDIX B

NOTES ON SOURCES AND METHODS

I. INDEX NUMBERS OF INDUSTRIAL PRODUCTION (TABLES 1, 2, 8 AND V-VII)

1. GENERAL

The general index numbers of industrial production shown in Tables 1 and 2 cover manufacturing, gas, water and electricity supply and mining, but exclude building. They have been derived from the official and semi-official sources listed below. The index numbers for the individual industries shown in the remaining tables have, in general, been derived from the same sources with the exception of those for building. In certain instances, it has been necessary to derive the index numbers for the individual industries from other sources. The special sources and methods used in these cases, as well as those for building, are given below in the notes referring to each table.

All annual index numbers, except those for Austria, Czechoslovakia and Spain, are shown on a 1938 base. Where the original index numbers have a pre-war base other than 1938 they have been shifted to that year by means of available pre-war indices, as mentioned in the notes below. The quarterly index numbers for post-war years are based on the average of 1948.

For particulars on the weighting system for the combined indices for Europe, see notes in a later section.

Although in principle index numbers adjusted for the different number of working-days in each month have been used, lack of such data for some countries necessitated the inclusion, for these countries, of unadjusted indices. The influence, however, of that disturbance on the European average is estimated at less than one point.

Where pre-war and post-war territories are different, the index numbers given relate post-war production on post-war territory to pre-war production on pre-war territory. The European totals, however, refer to constant (post-war) territories for both pre-war and post-war years. This method necessitated some adjustments in the weights as stated below.

2. SOURCES OF GENERAL INDEX NUMBERS (TABLES 1 AND 2)

Austria : *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*, Vienna.

The original base (1937) of the new index calculated by the Österreichisches Institut für Wirtschaftsforschung has been maintained. The index for 1947 has been estimated on the basis of the old index calculated by the same Institute and that of the Österreichisches Statistisches Zentralamt.

Belgium : *Bulletin de l'Institut de recherches économiques et sociales*, Université catholique de Louvain.
Original base 1936-1938.

Bulgaria : *Bulletin mensuel de la Direction générale de la statistique*; *Bulgarian Bulletin*, London Office of the Bulgarian Telegraph Agency, No. 41, February 1950.

The index numbers for 1947 and 1948 have been derived from the first source listed. Original base 1939. The 1949 index numbers have been estimated on the basis of the statements on plan fulfilment given in the second source.

Czechoslovakia : *Statistický Zpravodaj*.

The original base (1937) has been maintained.

Denmark : *Statistiske Efterretninger*.

Original base 1935. Electricity production has been added to the index calculated by the Danish Statistical Bureau. Relative weights (1948) : manufacturing 95, electricity 5. The annual index numbers for manufacturing in 1947 and 1948 are the final indices shown in *Industriel Produktionsstatistik 1948*.

Finland : *Finnish Economic Survey 1949*, Ministry of Finance ; *Economic Review*, Kansallis-Osake-Pankki, Helsinki.

The annual index numbers for 1947 and 1948 were taken from the first source listed. The index for 1949 has been obtained by linking the index shown in the second source to those of the *Economic Survey*. The quarterly index numbers have been taken from the second source mentioned.

France : *Bulletin de la Statistique générale de la France*.

Germany :

Western zones : *Wirtschaft und Statistik*; *Bulletin statistique*, Commandement en chef français en Allemagne.

Original base 1936. The index numbers for the U.K./U.S. Zone and for the French Zone for 1947 and 1948 shown in the two sources listed have been combined by means of the net values shown in *Economic Data on Potsdam Germany*, Office of Military Government for Germany (U.S.) (derived weights : U.K./U.S. Zone 88.5, French Zone 11.5). The new index for the Western zones for 1949 given in the first source has been linked to the old one.

Soviet Zone : *Die Wirtschaft, Berlin.*

The annual increases for post-war years are given in this publication, from which the quarterly index numbers have also been derived (pp. 3 and 259). The absolute level compared with pre-war has been obtained from an official statement reproduced in *Notes et études documentaires*, Présidence du Conseil, Direction de la Documentation, Paris, No. 1256, p. 27.

Berlin : *Wochenbericht des deutschen Institutes für Wirtschaftsforschung.*

The 1936 based index for 1949 shown in the table has been estimated on the basis of index numbers for the second half of that year given in the above-mentioned publication.

Greece : *Monthly Indicators of Industrial Production in Greece*, Federation of Greek Industries, Athens.

Original base 1939. The index numbers for ore mining, lignite and manufacturing have been combined. Relative weights 49, 2 and 949.

Ireland : *Irish Trade Journal and Statistical Bulletin.*

Original base 1936.

Italy : *Notiziario Istat*, serie B, Istituto Centrale di Statistica ; *Bollettino Mensile di Statistica.*

The first publication listed shows the post-war index numbers. The link with pre-war has been derived from the second publication mentioned.

Netherlands : *Statistisch Bulletin van het Centraal Bureau voor de Statistiek.*

The index of output per working-day has been used.

Norway : *Statistiske Meddelelser.*

Electricity production has been added to the index calculated by the Norwegian Statistical Bureau. Relative weights (1938) : manufacturing 95, electricity 5. The annual index numbers for manufacturing in 1947 and 1948 are the final indices shown in *Norges Industri*.

Poland : *Statistical Tables of the Polish Institute for Economic Research ; Gospodarka Planowa.*

The index numbers for 1947 and 1948 have been taken from the first source listed. The indices for 1949 have been estimated on the basis of the quarterly statements on plan fulfilment, given in the second source.

Spain : *Comercio, Industria y Navegación de España*, Consejo superior de las Cámaras oficiales de Comercio, Industria y Navegación de España ; *Memoria leída en la Junta General de Accionistas del Banco de España.*

For the period 1935–1940 and for the quarters of 1948 and 1949, the data have been taken from the first source. The annual progress of industrial production, as shown in the second source listed, has been used for the period 1940–1948.

Sweden : *Kommersiella Meddelanden.*

Original base 1935. The index shown is that estimated by linking the monthly index of the Industriförbundet to the annual index of the Kommerskollegium. Electricity production has been added to these index numbers. Relative weights (1938) : manufacturing 95, electricity 5.

United Kingdom : *Monthly Digest of Statistics.*

Original base 1946, with link to 1935. Building has been excluded from the index. The index has been shifted to 1938 by use of the pre-war links (after exclusion of building) given in the *Board of Trade Journal*, 11 September 1948.

3. SOURCES OF INDEX NUMBERS FOR PARTICULAR INDUSTRIES

The sources are generally the same as those for the general indices, but in certain cases different sources have been used. These are indicated in the following notes which also give the coverage and relative weights for those indices which are combinations of two or more services.

Engineering (Tables 8 and VI)

Austria : Vehicles, machines and electro-technical equipment. Relative weights (1937) 18, 51 and 31. The index for 1947 has been estimated on the basis of various data on the production of engineering products in physical terms, as published in the *Monatsberichte*.

Belgium : *Agence économique et financière*, Brussels.

Denmark : Metals and transport equipment. Relative weights (1948) 70 and 30, from information on final net values of output in 1948 in *Industriel Produktionsstatistik 1948*.

Finland : The index numbers for 1947 have been taken from *Tilastokatsauksia*, Jan./Feb. 1949. The indices for 1948 and 1949 are those shown in *Economic Review*, Kansallis Osake Pankki, and include the whole metal and processing industry.

Germany :

Western Zones : The new index for the Western zones (for 1949) has been linked to a combined index for the U.K./U.S. Zone and the French Zone in the same way as the general production index. Coverage and weights : French Zone : machines 4, vehicles 1, electrical industries 1, metal-works 3 ; U.K./U.S. Zone : machinery and optical goods 30, vehicles 12, electrical equipment 12, other metal goods 37. New index for Western zones : machines 35, vehicles 14, electrical industries 13, iron, steel and metal goods 26, iron and steel construction with the exception of railway wagons 7, and shipbuilding 5.

Greece : Index numbers shown include steel-making.

Ireland : Engineering and implements, and assembly, construction and repair of vehicles. Relative weights (1938) 40 and 60.

Italy : *Rilevazioni statistiche sulla occupazione operata e la disoccupazione in Italia*, Ministero del lavoro e della previdenza sociale.

Numbers employed and hours worked per month in : metal-working machinery, machines, electrical equipment, and vehicles. Annual index numbers result from data in "Le plan à long terme italien", *Notes et études documentaires*, No. 1175, Présidence du Conseil, Direction de la documentation, Paris.

Netherlands : Metal industry.

Norway : Iron and metal industry. The annual index numbers for 1947 and 1948 are those published in *Norges Industri*. The quarterly index numbers for 1948 and 1949 have been derived from *Statistiske Meddelelser*. According to information directly obtained from the Norwegian Bureau of Statistics these index numbers have been decreased by 6.45 per cent for 1949 in order to make them comparable with the annual index numbers. The same correction has been applied to the quarterly indices for 1948.

Sweden : The 1947 index is based on gross values (in constant prices) of production of iron and steel manufactures, engineering products, metal manufactures, in 1947 and 1938. The indices for 1948 and 1949 have been taken from *Kommersiella Meddelanden* (index for machinery).

United Kingdom : Engineering, shipbuilding and electrical goods ; vehicles ; and metal goods not included elsewhere. Relative weights (1946) 59, 30 and 11.

Chemicals (Tables 8 and V)

The index numbers shown are those described as covering "chemicals" in the original sources, although the definition of the industries varies between countries. It has been impossible to make adjustments for these differences.

Austria : The indices for 1948 and 1949 have been directly communicated by the Österreichisches Institut für Wirtschaftsforschung. The 1947 index has been taken from direct information of the United States High Commissioner.

Ireland : Soap and candles ; chemicals, drugs, oils, paint and polish ; and fertilizers. Relative weights (1938) 21, 61 and 18.

Sweden : The 1947 index is based on gross value of production of the chemical industry, except wood distillation, in 1938 and 1947 (in constant prices). The 1948 index is calculated by Kommerskollegium and covers all chemicals.

Textiles (Tables 8 and VII)

The index numbers shown are those described as covering "textiles" in the original sources, although the definition of the industry varies between countries. In Czechoslovakia and Sweden, the index includes ready-made clothing and in other cases it does not cover hosiery or the working of some materials, such as silk, linen and jute.

Austria : The index for 1947 has been estimated on the basis of the old index numbers published in the *Monatsberichte*.

Ireland : Linen, cotton, jute and canvas ; woollen and worsted ; and hosiery. Relative weights (1938) 30, 29 and 41.

Spain : *Comercio, Industria y Navegación de España*.

Sweden : The 1947 index is based on gross values of production in constant prices for the textile industry, except clothing and hats, in 1947 and 1938.

Building (Table 8)

Belgium : *Agence économique et financière*, Brussels.

Denmark : *Danmarks Nationalbudget*, 1949 and 1950.

Finland : *Finnish Economic Survey*, 1949.

France : *Bulletin de la Statistique générale de la France*.

Greece : Index based on value of construction of dwellings in 1949 prices, as communicated by the Greek Ministry of Housing and Reconstruction.

Ireland : Index numbers for all building and construction directly communicated by the Irish Central Statistical Office.

Italy : Directly communicated by Istituto Centrale di Statistica. Indices of number of rooms built and man-days worked in public works have been combined. Relative weights (1938) 40 and 60.

Netherlands : Index communicated by the Central Planning Bureau.

Norway : *Nasjonal Budsjettet 1950*, St. meld. No. 1, 1950.

Sweden : *Sociala Meddelanden*; *Konjunkturläget Hösten 1949*, Konjunkturinstitutet, Stockholm.

Index based on value of construction in constant prices.

United Kingdom : *Monthly Digest of Statistics*.

4. COMBINED "EUROPEAN" INDEX NUMBERS

In order to show the general movement of output in European countries, weighted averages (both including and excluding Germany) of each of the production indices are given in the tables. Although these averages do not comprise all the countries of Europe (excluding the U.S.S.R.), they would be affected only moderately by the inclusion of the countries omitted. The number of countries covered by the index numbers for individual industries is somewhat smaller than for total industrial production, because some countries—e.g. the Soviet Zone of Germany, had to be left out of consideration for lack of index numbers. The weighting systems used in calculating the weighted averages are shown in the tables concerned.

The weights used for total industrial production, for chemicals and for building are proportionate to net output in 1938, measured in United States dollars at 1938 prices. Those used for textiles and engineering are proportionate to physical output. The detailed explanation of the methods used in estimating the weight is given in last year's SURVEY, Appendix A.

In order to weight the quarterly index numbers in Tables 1, 2 and V-VII, which are based on 1948 = 100, the 1938 weights were carried forward to that year by applying the annual indices for each country.

As already mentioned, the national index numbers in all the tables on production relate to post-war output in the post-war territory and to pre-war output in the pre-war territory. In order to correct for the error which this definition would introduce into the figures for Europe as a whole, the indices have been adjusted to a constant territory basis in computing the European averages.

II. PRODUCTION AND CONSUMPTION OF MAJOR COMMODITIES (TABLES 6, 9, 10 AND VIII)

1. GENERAL

The figures on production and consumption of major commodities have been derived chiefly from official publications, as indicated in the footnotes to the tables. In most instances, however, the original figures have been supplemented by estimates, as explained in the following paragraphs.

Pre-war production in post-war territories. The official German production statistics permit a break-down of total German production of major commodities in 1936 by zones (four occupation zones, Berlin, Saar, and territories now ceded to the Soviet Union and Poland). It was assumed that the distribution of production between the zones in 1938 was equal to that in 1936. Estimates were thus made of the production in 1938 for the zones of occupation in Germany, the Saar and the ceded territory. The latter were added to Poland's output in the pre-war territory. No adjustment has been made with regard to territory ceded by Poland to the Soviet Union.

European totals. For most commodities, pre-war production figures for virtually all European countries are available. In many instances, however, no statistics are available on post-war production. It was assumed that production in these countries moved parallel with that in countries where information is available unless there is evidence to the contrary. This assumption appears admissible since, for most commodities, a large proportion of total European production is covered by the available statistics.

Net imports or exports. No direct consumption statistics or data on stocks being available, consumption was generally calculated from the production figures by adding net imports or subtracting net exports. The trade figures used in these calculations were derived from official trade statistics. Annual figures for 1949 were in some cases estimated from data covering less than the full year. Moreover, it is not always certain that the description of imports and exports comprises exactly the same commodities as the production figures. The consumption data thus obtained by the combination of figures taken from different sources are therefore subject to wider margins of error than the production data.

2. SOURCES AND NOTES

Sources and notes on production and consumption are given in this section only in so far as the tables need further explanation.

Production of Iron Ore (Table 6)

The figures refer to the metal content of crude iron ores produced. The percentages of metal content are derived from the *Monthly Bulletin of Statistics*, United Nations, supplemented by estimates of the Power and Steel Division of the Economic Commission for Europe. For the various countries the following percentages have been applied :

Austria	36	Germany :	Italy	50	Spain	47
Czechoslovakia	33	Western zones	Luxembourg	30	Sweden	62
France	33	Soviet Zone	Poland	35	United Kingdom	26

Production and Consumption of Mineral Oil (Table VIII)

All refined products (which were added ton for ton) were expressed in terms of crude petroleum by applying the ratio 10 tons of crude to 9 tons of refined product. Wherever trade returns failed to distinguish between crude oil and its products, the proportion of crude oil to products was roughly estimated.

Total Energy Consumption (Table 9)

Energy consumption was estimated by converting the different primary energy sources : coal, coke and lignite, hydro-electricity and mineral oils into coal by the following coefficients, which are based on calorific values :

Type of fuel	Equivalent quantities of fuel per ton of coal
Brown coal and lignite : Austria	2 tons
Czechoslovakia	1.7 „
Germany	4.5 „
Italy, Picea	1.5 „
„ Xiloide	3 „
Other countries	3 „
Mineral oils and products	2/3rds „
Hydro-electricity	1,590 kWh

The consumption of coal and coke has been calculated by adding net imports of coal and coke (on a ton-for-ton basis) to total production of coal, and deducting the amount of coal consumed by electric-power plants. The consumption of lignite and of electric power has been assumed to be equal to their production. Consumption of hydro-electricity has been combined with thermal electricity. Oil consumption is production of crude oil plus net imports of crude and refined products. No account has been taken of fuelwood, which is an energy source of importance only in a few countries.

3. INDUSTRIAL PRODUCTION IN THE U.S.S.R. (Table 10)

The data for 1937 and 1938 have mainly been drawn from *Socialist Construction in the U.S.S.R., 1933–1938*, Moscow, 1939 (in Russian). The figures for both 1940 and 1950 have been taken from the *Law on the Five-year Plan for the Rehabilitation and Development of the National Economy of the U.S.S.R., 1946–1950*, Moscow, 1946, which gives the planned output figures for 1950 together with the corresponding percentage increases compared with the pre-war (1940) output. Additional information for 1940 was obtained from N. A. Voznesensky, *Report on the Five-year Plan 1946–1950*. The data for current post-war years are mainly based on reported or estimated figures for 1945 and the percentage annual increases as published by the Central Statistical Administration of the Council of Ministers of the Soviet Union.

Special sources for individual commodities are listed below :

Coal : *Trud*, 20 March 1949, gives the 1948 output as being 26.3 per cent higher than that of 1940. The 1947 figure has been derived from the 1948 output. 1949 has been calculated on the basis of the annual increase over 1948 as given in the annual report of the fulfilment of the Fourth Five-year Plan.

Crude Oil : *Baku Worker*, 29 May 1946, shows the 1945 output (19.4 million metric tons). The figures for 1947, 1948 and 1949 have been derived from this 1945 output, by applying the published annual increases.

Electric Power : A statement by G. M. Malenkov, Deputy Chairman of the Council of Ministers of the Soviet Union, indicates that production in 1949 was 62 per cent more than that of 1940. The 1947 and 1948 figures have been derived from the 1949 output.

Pig-iron and Crude Steel : *Ferrous Metallurgy in the New Five-year Plan*, Bardin and Bunny, Moscow, 1947 (in Russian), gives 1945 output. Production in 1947, 1948 and 1949 have been derived from this figure by applying published percentage increases.

Rolled Steel : No data are available as to the actual output of rolled steel in 1947, 1948 and 1949. The figures are estimates based on the assumption that 72 to 75 per cent of the total crude steel produced during the year was rolled.

Copper : *Industriya*, 8 February 1939, gives production in 1938 (103,000 tons) as being 5.7 per cent higher than in 1937. From the figure thus derived for 1937 it was possible to estimate output in 1940 on the basis of a statement by N. A. Voznesensky, *Economic Results of the U.S.S.R. in 1940 and the Plan of National Economic Development in 1941*, relating output in 1940 to that in 1937. The figure for 1950 is not given in the *Law on the Five-year Plan*, but is based on the statement in that plan that the 1950 output would be 1.6 times that of 1945. For this purpose, the 1945 output has been estimated approximately on the basis of various published statements. The production in 1947, 1948 and 1949 has been calculated from the annual percentage increases since 1945.

Locomotives : The 1950 figure has been taken from the Five-year Plan. Voznesensky mentions that locomotive production in 1950 was planned to be 2.4 times that of 1940. The data for 1947, 1948 and 1949 are estimates based on the annual percentage increases. These estimates have been checked against the aggregate number of locomotives to be produced during the Five-year Plan, as given in the *Law on the Five-year Plan*.

Tractors : The 1949 figure has been derived from a speech by G. M. Malenkov (10 March 1950), who states that in 1949 almost three times as many tractors were produced as in 1940. The data for 1947 and 1948 have been computed from the 1949 output.

Equipment for Iron and Steel Mills : In the previously mentioned speech by G. M. Malenkov, it is also stated that the 1949 output of equipment for iron and steel mills was more than four times that of pre-war. The data for 1947 and 1948 have been derived from the 1949 output thus obtained.

Mineral Fertilizers : *Khimicheskaya Promyshlennost* No. 4, 1947, gives the planned output for 1947 (2.16 million tons) which is stated to be 185 per cent of the actual 1946 production. The actual production for 1947 as well as that for 1948 and 1949 has been derived from the 1946 output by applying the annual percentage increases.

Soap : *Economic Competition between Socialism and Capitalism*, Moscow, 1939, gives the 1937 output.

Cement : *Tsement*, No. 2, 1947, gives planned output in 1947 as being at the pre-war level (5.8 million tons), and exceeding the 1946 output by 71 per cent. 1947 actual output has been obtained by applying the published annual percentage increases to the 1946 output thus computed. The 1948 and 1949 production figures are also based on the annual percentage increases.

Industrial Timber : *Lesnaya Promyshlennost*, No. 6-7, 1946, indicates the 1950 planned output to be 190 million cubic metres. In *Trudy Instituta Lesa*, Vol. II, 1948, it is stated that the 1950 output would be 59 per cent over 1940. In the same publication the 1945 output is given. The data for 1947, 1948 and 1949 are based on the 1945 figure, together with the published annual percentage increases.

Cotton Fabrics : *Tekstil'naya Promyshlennost*, No. 10, 1947, indicates that the 1950 planned output was to be 120.6 per cent of 1940 and 292 per cent of 1945. The 1947 and 1948 figures are derived from that of 1949 on the basis of the annual percentage increases. 1949 output has been derived from G. M. Malenkov's speech of 10 March 1950, stating that the 1949 output was 2.2 times that of 1945.

Wool Fabrics : *Tekstil'naya Promyshlennost*, No. 10, 1947, gives 1950 planned output as being 141.5 per cent of 1940. The 1947 and 1948 data were derived from the 1949 figure on the basis of the annual percentage increases. The 1949 production was stated to be 2.6 times that of 1945 (G. M. Malenkov's speech of 10 March 1950) which, according to *Trud*, 17 April 1946, is one-third of the 1950 planned output.

Leather Footwear : *Lyogkaya Promyshlennost*, No. 3-4, 1946, indicates that the 1950 output was to be 17 per cent more than that of the "last pre-war year". The 1947 and 1948 figures have been derived from that of 1949 on the basis of the annual percentage increases. The 1949 production has been computed on the basis of G. M. Malenkov's statement that output for this year was 2.6 times that of 1945, which, according to a statement by Lukin, Minister of Light Industry, was one-quarter of the planned output for 1950.

Butter : The 1937 figure has been taken from the *Draft of the Third Five-year Plan*, Moscow, 1939 (in Russian). E. Lokshin, *Promyshlennost SSR v novoi Stalinskoi Pyatiletke*, states that the 1950 planned butter output is to be 33 per cent higher than that of 1940. The 1947 and 1949 figures have been derived from the 1948 output, which is given in *Moscow News*, 1 January 1949.

Fish : *Rybnoye Khozyaistvo*, No. 2, 1949, states that the 1948 catch was 111.5 per cent of 1940. The figures for 1947 and 1949 have been derived from the 1948 figure on the basis of the annual percentage increases.

Sugar : L. Volodarski, *Poslevoennaya Pyatiletka v Deistvii*, 1947, states that the 1950 production target, as indicated in the Plan, would be almost 250,000 tons more than in 1940. The 1947, 1948 and 1949 output has been derived from the estimate of 1946 production on the basis of annual percentage increases. The production in 1946 was estimated as follows : the planned output for 1947 was 94 per cent higher than the 1946 output, but the actual 1947 output was higher by 110 per cent, the difference (16 per cent of the 1946 output) representing 80,500 tons according to *Pravda*, 2 July 1948, so that the 1946 output can be estimated at about 500,000 tons.

III. INDEX NUMBERS OF AGRICULTURAL PRODUCTION (TABLE 11)

The index numbers of agricultural production shown in Table 11 are based on those calculated by the Food and Agriculture Organization of the United Nations. The methods used in calculating the F.A.O. index numbers are fully explained in *The State of Food and Agriculture*, 1948, pp. 212-216.

The F.A.O. index numbers, however, if used in relation to national income analysis, have two disadvantages ; they refer to crop years, and they are essentially indices of gross production, since only fodder crops have been deducted from the total value of output, but no deduction has been made for oilcakes and fertilizers.

The index numbers shown in Table 11 have roughly been adjusted in both these respects. The adjustment to calendar years was made by combining livestock production during the calendar year with the crops harvested in the same year. The basic data needed for this adjustment have been supplied by the Food and Agriculture Organization of the United Nations.

The second adjustment, intended to reduce the index numbers to proper indices of net production, has been made by deducting the consumption of oilcakes and fertilizers (at uniform prices, comparable to those used by the Food and Agriculture Organization in calculating the value of gross output) from the gross value of production.

The estimates for 1949/50 are based, for livestock, on production estimates for 1949 furnished by the Food and Agriculture Organization and for crops on the latest crop estimates for bread grain, coarse grain, sugar and potatoes (as shown in Table 13). It follows that the estimated index numbers are even more tentative than those for preceding years and that they will probably have to be revised when crop results for pulses, vegetables, etc. become available.

It should be noted that the index numbers relate only to current output for current use. The increase in capital—e.g. in the form of larger herds of livestock—is not included.

IV. TOTAL COMMODITY PRODUCTION (TABLES 16 and IV)

The net value of total commodity production shown in Tables 16 and IV includes agriculture, industry, building, fishing and forestry. The figures have been obtained in two steps : (1) the pre-war output has been arrived at by direct computations, and (2) the post-war figures were calculated by applying appropriate index numbers to the pre-war value of output.

The net value of agricultural production in 1934–1938 for all countries, except for Germany and Poland, has been estimated on the basis of computations made by the Food and Agriculture Organization of the United Nations. These computations, underlying the index numbers of agricultural production calculated by this organization (see *The State of Food and Agriculture*, 1948, pp. 212–216) have been adjusted by deducting the value of oilcakes and fertilizers consumed from the value of agricultural production.

The figures for Germany and Poland are those shown in last year's SURVEY, Table 16, p. 21. These figures refer to the production in the pre-war boundaries.

The pre-war data for industrial production have been taken from the same table in last year's SURVEY, in which the methods of computation have been fully explained in Appendix A. The pre-war net value of building and forestry production are also based on last year's computations.

The net value of fishing in 1938 has been arrived at by converting the value of fish landed in national currencies as shown in the *Statistical Year-Book of the League of Nations, 1941/42*, into dollars at official exchange rates and by assuming net output to be 80 per cent of gross output.

In order to compute the post-war volume of total commodity production, the index numbers shown in Tables 1, 8 and 11 have been applied to the net value of pre-war output in industry, building and agriculture, respectively. In cases where no appropriate index numbers are available, the variations of output have been roughly estimated. Changes in the production of fishing and forestry have also been taken into consideration.

V. THE NATIONAL INCOME AND ITS ALLOCATION (TABLES 17, 18, 20, 27, 29–35, 37, 38, 42, II and III)

1. GENERAL

The data on the national income and its allocation to consumption and investment, and on public finance, are the result of an integrated study, in which the various estimates have been adjusted to form a consistent whole. In numerous cases, the figures published in last year's SURVEY have been altered in the light of additional or revised information. The corresponding population estimates are given in Appendix C, Table I.

(a) *National Income in National Currency and Current Prices*

Table II in Appendix C, which shows the net national income at factor cost in national currency and current prices, supplies the basic figures which have been taken from the sources given below and are, wherever possible, adjusted to the definition given in *National Income Statistics 1938–1947*, Statistical Office of the United Nations, 1948, pp. 111–113.

There are a number of countries which estimate their national income on a basis which differs in important respects from the above definition. Among western European countries, France and Italy estimate their national income without including the net output of the government—that is, the income of government employees other than industrial employees. In most cases, however, the missing component is readily available and an adjustment can easily be made. The situation, however, is more difficult in the case of eastern European countries, which have, one by one, adopted the definition used in the Soviet Union which excludes the output of services other than services connected with the distribution of goods. It seems, however, that certain services, such as passenger transport, are, nevertheless, included. The fullest statement as regards this definition has been given in the Polish national income estimates quoted below. It is stated that, in the case of Poland, the new definition meant a diminution of 10 per cent in the national income. The decrease in Bulgaria seems to have been 15 per cent. Before the war, Hungary and Yugoslavia were already using a definition of national income which excluded most services not connected

with the distribution of goods. It was estimated that the pre-war definition in Yugoslavia already excluded 15 per cent of the national income on the basis of the international definition. The adoption of the Soviet definition meant the exclusion of a further 3 per cent only. The estimates for eastern European countries were adjusted on the basis of these percentages. It is, of course, not possible to vary the rates of adjustment from one year to another.

These data on national income at factor cost have been used in Tables 18 and III where the principal items in the public accounts and the utilization of the national income are shown as percentages of the national income. For the purpose of calculating the income velocity of money (Table 42), the national income has been estimated at market prices by adding to the figures given in Table II the receipts from indirect taxes, net of subsidies (but excluding employers' contributions which are contained in the national income at factor cost) as given in the budgets of the public authorities (see notes to Table III).

(b) Real National Income

In last year's SURVEY, estimates of real national income were given in terms of United States dollars at 1938 prices. It is impossible to make these estimates so that the data should be comparable both between countries and for different years for the same country. The reason is that the structure of prices as between countries is widely different; in particular, the relationship between prices of commodities and the prices of services varies greatly, depending on the standard of living. In the last SURVEY the value of services was converted into dollars by using exchange rates which were valid for commodities. In this way the figures were comparable between countries, but the movement of the figures from one year to another was often inconsistent with national estimates. An alternative conversion into dollars, which would convert the value of services into dollars at their own rate of exchange, would lead to comparisons between countries which are misleading. It would, for instance, very much reduce the proportion of national income which is invested in countries where services are relatively cheap. For these reasons, last year's attempt to express national income estimates in dollars was abandoned and international comparisons are now confined to the output of commodities only. Changes in real national income are given, however, based on national sources.

Table 17 presents, in the form of index numbers based on 1938, the movement of the real national income, both total and per head, using the definition adopted in each country. Figures for all components of the national income—i.e. consumption, investment and the balance of payments—have been converted into constant prices and the results were checked against movements of real income. In the case of Denmark and Sweden, however, the total real income has been built up from estimates of the volume of capital formation, total consumption, and the balance of payments on current account deflated by import or export price indices. Any corrections to published estimates which are mentioned in the notes below have been consistently applied in several places even though they are mentioned only once in the notes. For instance, any adjustment of estimates of depreciation automatically implies a similar adjustment of net national income.

(c) Consumption

Table 20, which shows index numbers of the volume of consumption, both total and per head, has in general been derived from direct official and unofficial estimates. Like those in Table 17, these figures are subject to considerable margins of error, and in fact more so than those expressed in national currency at market prices from which Table 27 has been derived.

Consumers' expenditure refers to the acquisition of resources by consumers and not to the actual consumption of resources. A motor-car used for private purposes, for instance, is regarded as part of consumers' expenditure in the year in which it is purchased. Consumers' expenditure is expenditure by final consumers and, therefore, must be distinguished from expenditure by business firms which enters into the costs of production of such firms. Also, consumers' expenditure refers to expenditure by individuals and institutions and must be distinguished from expenditure by governmental authorities. It must be remembered that governmental authorities also purchase goods and services which benefit individual consumers and the extent to which consumers' needs are satisfied by governmental purchases or by consumers' expenditure may vary from country to country. Expenditure on capital goods is excluded generally, but only dwelling-houses and other buildings are regarded as capital goods, while durable consumers' goods, such as motor-cars or furniture, are included. The figures include not only expenditure in cash but also certain non-monetary items which closely resemble items for which money is usually paid. Thus, the rental value of owner-occupied houses, the consumption by farmers and other producers of their own produce, and payments in kind to various classes of employees are included. The value of the unpaid services of housewives as well as the value of services done for one's self, however, is excluded.

Certain classes of expenditure are recorded on a net basis eliminating the part which simply involves transactions between different consumers. Examples are expenditure on second-hand goods where only the distributive margin should be taken into account, or expenditure on life insurance where only the cost of the service should be taken into account.

Consumers' expenditure has been divided into six categories with a further subdivision of the first and largest category. Expenditure on food includes the value of food consumed outside the home. The value of services connected with such meals is included under other headings. Expenditure on clothing excludes expenditure on repairs, cleaning and laundries and the margin on second-hand clothing. Expenditure on houses includes rent, rates and other taxes on houses, but excludes expenditure connected with housing operations. The rent of institutions, hotels and restaurants is also included under this heading. Expenditure on fuel and light excludes fuel for passenger cars. Expenditure on travel includes expenditure on publicly operated transport and expenditure on motor-cars for personal use, including the purchase of new cars, fuel, repairs and maintenance, and the margin on second-hand cars. Usually each of these categories includes not only expenditure by residents of the country but expenditure by all persons actually in the country. The correction for the balance of tourist expenditure is included under "other items."

(d) *Investment in Fixed Capital*

Expenditure on capital formation is to be distinguished from consumers' expenditure as described above. It is also to be distinguished from current expenditure by business and this distinction is difficult to make as practice varies not only from country to country but also from one business firm to another. In general, capital formation includes only expenditure on capital goods and on repairs to capital goods other than day to day running repairs. The definition varies from country to country in so far as a varying amount of expenditure for repairs and maintenance is included. Such expenditure should be regarded as a current business cost in so far as it is closely connected with production during the year in question. It should be regarded as capital expenditure if it is to be related to production during several years. The latter can be postponed from one year to another and it may differ in any particular year from repairs that are normally due for that year. The Scandinavian countries tend to include repairs in a fairly wide sense, whilst the United Kingdom includes all repairs to buildings but only major repairs to equipment. The position of France and the Netherlands is between these two concepts, whilst the eastern European countries exclude most repairs from their statistics. It was not possible to adjust the concept of gross capital formation to a uniform definition, partly because the definition used in a number of countries (for instance, Germany and Italy) is not exactly known.

Table D

GROSS INVESTMENT IN FIXED CAPITAL BY CATEGORY

Percentages of total fixed investment in current prices

Country and year	MACHINERY AND EQUIPMENT				BUILDING AND CONSTRUCTION
	Output	Plus Imports	Less Exports	Available for investment	
Belgium 1948	58	23	21	60	40
Czechoslovakia 1948	49	7	25	31	69
Denmark 1938	46	12	13	45	55
1948	47	11	9	49	51
1949	47	13	9	51	49
France 1938	58	5	7	56	44
1948	55	6	6	55	45
1949	59	6	10	55	45
Hungary 1938	35	9	11	33	67
1949	45	3	13	35	65
Italy 1948	61	2	8	55	45
Netherlands 1948	36	25	11	50	50
1949	37	22	12	47	53
Norway 1948	25	29	2	52	48
1949	20	33	2	51	49
Sweden 1938	31	10	9	32	68
1948	41	11	11	41	59
1949	44	8	13	39	61
Switzerland 1948	44	10	24	30	70
United Kingdom 1938	36	3	13	26	74
1948	63	3	25	41	59
1949	65	3	27	41	59
Yugoslavia 1939	..	..	..	35	65
1948	..	..	..	23	77

NOTE. — Spare and component parts of machinery and transport material are included in imports and exports.

The concept of depreciation and maintenance corresponds in coverage to the concept of gross capital formation in each country, so that net capital formation is comparable between countries as regards the coverage of the estimates, though comparisons may be difficult because of statistical errors. Estimates of depreciation and maintenance are not comparable between countries for three distinct reasons. First, the coverage differs from country to country depending on the items included in capital formation. Second, the rates at which capital is actually replaced may differ from country to country for economic reasons. Thus, in countries with higher productivity the economic life of the same equipment is shorter than in other countries, since machines are cheaper in terms of labour. Third, there may be differences in so far as accounting practice does not measure properly the expectation of life of equipment. It was not possible to make a correction on account of the last factor. Estimates of depreciation are, however, comparable from year to year. In the case of most countries, pre-war estimates of depreciation were thought to be better than post-war estimates, and adjustments were made to the latter. In some cases, however, the post-war estimates were preferred, as there was an improvement in the quality of statistics since the war, and in these cases the pre-war figures were adjusted. These adjustments take account of changes in investment costs and changes in the stock and composition of capital. Assumptions made as regards changes in the stock of capital are evident from Table 29 and are not mentioned separately in each case.

The tables relating to gross and net investment in fixed capital, both total (Table 29) by economic sectors (Tables 32 and 33) and by branches of industry (Table 35) are based on the same definition of "fixed capital" as was used in last year's SURVEY, p. 255. A change has, however, been made in the definition of the economic sectors. Roads are now included under "Transport", while irrigation, drainage and other land improvements are now included under "Agriculture". Previously, both these items were included in the "Other" sector. In a number of instances it was possible to check the estimated movement of the volume of investment by reference to indices of the output of the investment goods industries and to trade in investment goods. These calculations were based on estimates given in Table D, which shows the output of investment goods, distinguishing building output and engineering products, as well as exports and imports of the latter, expressed in percentages of total gross capital formation.

(e) *Conversion of Investment into U.S. dollars at 1938 prices*

In order to translate the data into United States dollars at 1938 prices, the original figures in national currency at current prices were first deflated to 1938 prices by means of the indices shown in Table E, and then converted into dollars by use of the exchange rates given in last year's SURVEY, Table B, p. 231 and (for Poland) p. 258.

This method necessarily gives only approximate results. In the first place, the same investment cost index numbers were used for each sector although costs may have moved differently in different sectors. For instance, there may be differences in the movement of costs for industrial investment and for investment in dwellings. Second, the dollar conversion rates were, in fact, calculated for manufacturing products and not for investment goods in particular. It is uncertain how far these dollar conversion rates are valid, for instance, for building and construction. Again, the same conversion rates were used for different sectors. It is, however, not possible to improve upon these conversion rates without direct comparisons of the prices of investment goods.

Table E
THE LEVEL OF INVESTMENT COSTS
Index numbers — 1938 = 100

Country	1947	1948	1949
Austria ^a	..	..	450
Belgium ^b	349	371	375
Czechoslovakia ^a	312	325	342
Denmark	197	212	219
Finland	1,058	1,386	..
France	..	1,465	1,625
Germany ^c	200	220	225
Hungary	460	472	470
Italy	5,352	5,883	5,573
Netherlands	280	290	300
Norway	213	223	230
Poland	7,900	10,000	..
Sweden	167	177	182
Switzerland	223	236	..
United Kingdom	212	224	229
Yugoslavia ^d	350	..	..

^a 1937 = 100.

^b 1936-1938 = 100.

^c 1936 = 100.

^d 1939 = 100.

(f) *Government Expenditure and Revenue*

The figures on government expenditure and revenue given in Table III have been derived from the sources indicated below. Owing to wide variations in accounting methods and presentation, it has been necessary in most cases to make certain adjustments which are described below in order to arrive at figures corresponding, as far as possible, to uniform definitions. In order to arrive at consolidated data relating to all public authorities (Part B of the table) the original figures were adjusted to eliminate transfers between the different authorities. In the case of local authorities, the figures had to be partly estimated. Investments are shown net when an estimation of depreciation was possible. In the case of autonomous public enterprises, only that portion of investments was included which is financed by the State, and depreciation was not taken into account.

The national income figures used to express expenditure and revenue in percentages of national income at factor cost in current prices are shown in Table II. In the case of budget forecasts for 1949/50, 1950 or 1950/51, the most recent national income figure available, actual or forecast, has been used.

(g) *The Allocation of the National Income*

The various components of the national income are summarized, in the form of percentages, in Table 18. The figures for investment are adjusted as described in connection with Table 29, but it should be noted that the figures for gross capital formation given in this table include investment in stocks, whereas Tables 29, 32, 33 and 35 relate to investment in fixed capital only. The trade figures have been taken from the official publications, but imports are calculated at their f.o.b. value on the basis of data taken from *International Financial Statistics*, International Monetary Fund. Unless available directly in the national income estimates, the net balance of invisible items has also been derived from this source.

2. SOURCES AND NOTES

In order to consolidate the notes on the sources used in the various tables mentioned, and to avoid repetitions, the following notes are drawn up by countries, first listing the sources and then describing the methods used with reference to each of the following subjects :

- A. National income at factor cost in national currency and current prices (Table II)
- B. Real national income (Table 17)
- C. Consumption (Tables 20 and 27)
- D. Investment in fixed capital (Tables 29–35 and 37)
- E. Investment cost index numbers (Table E)
- F. Public finance (Table III)
- G. Allocation of national income (Table 18)

The following abbreviations are used : G.I. — Gross Investment.

N.I. — Net Investment.

Austria

- Sources : (1) Estimates communicated by the Österreichisches Institut für Wirtschaftsforschung.
(2) *Statistische Nachrichten*, March 1950.
(3) *Second Report of the O.E.E.C.*, February 1950.
(4) *Bundesrechnungsabschluss der Republik Österreich*, 1948.
(5) *Bundesfinanzgesetz vom 18. Dezember 1948 für das Jahr 1949*.
(6) *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*, May 1949.
(7) *Abänderung des Bundesvoranschlages 1950 (Entwurf)*.

- A. Data for 1937 and 1949 are from (1). The 1949 figures are subject to revision. Data for 1947 and 1948 are from (2).
- C. The 1949 volume index is from (3), p. 134, based on an estimate of prices by the Institut für Wirtschaftsforschung. Distribution of consumers' expenditure (provisional for 1949) from (1).
- D. G.I. and N.I. from (1), which includes investment in stocks. It was assumed that investment in stocks was nil in 1937 but accounted for one-quarter of total N.I. in 1949, to take a proportion valid for Western Germany in the same year.
- E. The index number is roughly estimated from the relation between consumption in current and in constant prices.
- F. Data taken from (4)–(7) "Other current expenditure" includes : (a) transfers to local authorities of taxes included in tax revenue and (b) occupation costs.
- G. Same sources as for A.

Belgium

- Sources : (1) F. Baudhuin : " Les finances belges en 1938 ", *Bulletin de l'Institut de Recherches économiques et sociales*, Vol. 10, No. 2, February 1939.
(2) F. Baudhuin : " Prix, consommation, balance et revenus ", *Bulletin de l'Institut de Recherches économiques et sociales*, Vol. 14, No. 4, August 1948.
(3) F. Baudhuin : " Prix, consommation, balance et revenus ", *Bulletin de l'Institut de Recherches économiques et sociales*, Vol. 15, No. 1, June 1949.
(4) F. Baudhuin : " La Belgique en 1949 ", *Supplement to Agence économique et financière*, 27 April 1950.
(5) *L'Economie belge en 1948*, Ministère des Affaires économiques et des classes moyennes.
(6) Banque Nationale de Belgique, *Rapport présenté par le Gouverneur sur les opérations de l'année 1949*.
(7) *Troisième rapport relatif au problème des investissements*, Ministère de la Coordination économique et du rééquipement national, 1948.
(8) *Quatrième rapport relatif au problème des investissements*, 1949.
(9) *L'Echo de la Bourse*, 21 March 1950.
(10) F. Baudhuin, *Cours d'Economie politique*, 4^e partie, *La Consommation* (1949).

- (11) *Budget des recettes et des dépenses pour l'exercice 1950*, Exposé général et Appendice à l'Exposé général.
- (12) *Bulletin de statistique*, August, October and December 1949.
- (13) *Revue du travail*, October 1949.

- A. Data from (1)–(4). Considerable adjustments have been made for years up to 1947 as described in *National Income Statistics 1938–1947*, Statistical Office of the United Nations, 1948, p. 114. For subsequent years, certain items which are not part of net national income at factor cost were omitted from the total.
- C. Consumers' expenditure in 1948 and 1947 from (10), pp. 9–10. Data for 1949 are given in (4). Volume indices are rough estimates, based for 1938/1947 on cost-of-living index ; figures for subsequent years linked to 1947 estimate on the basis of qualitative statements in (5) and (6).
- D. G.I. in fixed capital for 1947 and 1948, also by sectors and by branches of industry, as well as the share of public investment, was taken from (8), pp. 38–39. Investments in miners' dwellings was shifted from the coal industry to "Dwellings". Investment in roads was shifted to "Transport". G.I. for 1949 as given in (9) was adjusted to exclude military "investment" which was assumed equal to the 1948 amount. G.I. in 1938 was estimated from the movements of physical indices of building and engineering output, after allowing for trade in investment goods. Depreciation for 1947 is given in (7), p. 42, except that depreciation in the public sector had to be split between transport and public authorities. For 1948 and 1949, it was estimated after taking into account changes in the stock of capital and in investment costs.
- E. The index number is the simple average of (a) an average of the official wholesale price index of construction materials and an index of earnings in industry, and (b) the official wholesale price index of metals and metal products. All the data are from *Bulletin de statistique*.
- F. Data are from (7), (8), (11), (12) and (13). The figures for State expenditure in 1947, 1948 and 1949 represent credits granted, and for 1950 credits requested. The figures for State revenue in 1947 and 1948 represent actual receipts, in 1949 probable revenue, and in 1950 budget forecasts. The figures for local authorities included in the consolidated accounts have been estimated on the basis of the forecast for 1947 and 1948 as regards municipalities, and of the actual results for 1947 and the forecasts for 1948 and 1949 in the case of provinces. Social security figures have been partly estimated.
- G. Same sources as A. Government consumption was estimated from the budgets of public authorities. The balance-of-payments data for 1949, supplied by the International Monetary Fund, are provisional. G.I. and N.I. in fixed capital as D. Investment in stocks is estimated at 10 milliard Belgian francs for 1947 (*Belgium and Luxembourg, Country Study E.C.A.*, 1949). For 1948 it was assumed to account for 2 per cent of national income, and for 1949 for –2 per cent. Personal consumption, obtained as a residual, is consistent with the volume index, though somewhat different from independent estimates in (10). The year-to-year movement of personal savings (residual in Table 38) is also reasonable. No adjustment appears to have been made for inventory revaluation.

Bulgaria

- B. D. Terpeshev, *Bulgaria's Five-year Plan*, Report submitted to the Fifth Congress of the Bulgarian Communist Party, Sofia 1949, p. 32.
- C. Same source as B, p. 62.

Note : It is clear from the figure given in the above source that the national income estimates now follow the Soviet definition. The previous series (available up to 1946) were discontinued. Since then only total national income for 1948 is available in terms of pre-war prices. Investment in current prices is available but no index of investment costs exists, nor national income estimates in comparable prices.

Czechoslovakia

Sources : (1) Data (prepared by M. Stadnik) communicated by the Government.

- (2) M. Stadnik, *Narodni důchod a narodní spotřeba v československa v roce 1946*, Ministry of Information, 1947.
- (3) J. Dolanský, *Výklad k rozpočtu na rok 1949*, Ministry of Finance, 1949.
- (4) J. Dolanský, *Výklad k rozpočtu na rok 1948*, Ministry of Finance, 1947, pp. 143–165.
- (5) *Průběh Plnění hospodářského Plánu, Rok 1947* (The Fulfilment of the Economic Plan 1947).
- (6) *Hospodář*, 23 January 1950.
- (7) *Hospodář*, 6 April 1950.

- A. Figures up to 1948 are from (1) ; for 1949 from (7).
- B. Estimate by the Research and Planning Division, Economic Commission for Europe, on the basis of commodity output and employment in private and public services.
- C. Consumers' expenditure from (2), pp. 20–21, and (3) pp. 234–238. The data for 1937 refer to the Czech lands only, the post-war figures to the whole of Czechoslovakia. The original estimates exclude the consumption by farmers of their own produce, the rent of owner-occupied dwellings and other income in kind, but these were included here. The omission was Kcs. 20.5 billion for both 1947 and 1948, of which Kcs. 1.0 billion was estimated to have been accounted for by the rent of owner-occupied houses and the rest by consumption of food. The corrections applied to expenditure on food and housing in 1937 were taken as proportionate to those applied in 1947. The volume index for 1947 (1937=100) is based on price-relatives given in (4), pp. 162–165 ; this volume index is likely to be too high by about 10 per cent. The link between 1947 and 1948 is based on the cost-of-living index.

- D. G.I. in fixed capital, total, by sectors and by branches of industry is given in (5), p. 301, for the year 1947. (An adjustment for black-market building made in last year's SURVEY has been omitted, and the original figures are used as published.) G.I. for other years was estimated by extrapolating the relevant 1947 components by means of official indices of building activity and of the output of producers' equipment, after allowance for foreign trade in the latter ; for 1949, however, the estimates are provisional, based on index numbers of production in (6). The estimate for 1948 agrees with the one in current prices given in *Všemi hlasy pro pětiletku* (Ministry of Information, 1949), p. 199. Depreciation in 1947 is taken at 10 per cent of the national income ; for 1937, it is taken at a level about 10 per cent lower.
- E. The official wholesale price index for 1947 has been used.
- F. Data from (3).

Note : Estimates of the national income and its allocation, previously prepared by M. Stadnik, have been discontinued and no new series has yet been started, although a total for 1949 on the old definition was unofficially published. The latest information for G.I. gives the total for 1948 in approximate terms. There is reason to assume that the post-war official estimates of G.I. have a different coverage from the estimates of M. Stadnik, and for this reason it is not possible to derive estimates of depreciation and maintenance from national sources. Consequently, only a minimum of information could be included in the main tables.

Denmark

Sources : (1) *Statistisk Årbog, 1948.*

(2) *Statistisk Årbog, 1949.*

(3) *Nationalproduktet og Nationalindkomsten 1930-46*, Statistiske Meddelelser 4. Række, 129. Bind, 5. Hæfte.

(4) *Statistiske Efterretninger*, No. 11, 1950.

(5) *Danmarks nationalbudget for året 1949.*

(6) *Danmarks nationalbudget for året 1950.*

- A. From (2), (3), (5) and (6).
- B. The indices are built up from separate estimates of the volume of consumption, capital formation and the balance of payments on current account. The volume of total consumption (including Government consumption) has been estimated by linking the old volume index (1935=100) for 1946 (from (2)) to the new volume index based on 1947 (from (5) and (6)). The link is estimated by deflating the current value by the official wholesale price index of finished goods. The figures for capital formation have been deflated by the investment cost index described below under E. The balance of payments on current account which consistently showed a deficit has been deflated by the official index of import prices.
- C. Volume index under B above. Consumers' expenditure pre-war from (3), post-war from (5) and (6). The data were revised and adjusted to the definitions used here by the Central Statistical Office. Fruit and vegetables grown in private gardens are included. The rent of hotels and restaurants is included under " other items ". No adjustment seems to have been made for expenditure by non-residents or expenditure by residents abroad.
- D. Total G.I. and N.I. for 1938 are given in (1), p. 241. Total G.I. for 1947, 1948 and 1949 is given in (6), p. 25. G.I. in agriculture was taken from (4), G.I. in dwellings from (6), after allowance for maintenance and repairs. Depreciation, etc., for post-war years was taken at some 30 per cent higher than the 1938 level. Depreciation and maintenance figures officially published for post-war years are too high (see (5)) as actual maintenance is included which was in excess of normal maintenance.
- E. The investment cost index for 1946 (1935=100) given in (1) was related to the index for 1947 implied in (5) and (6) by linking with the wholesale price index.
- F. From (6). National debt interest is net, after deduction of receipts of interest. It was impossible to obtain data for central Government only on a suitable definition and information is given for all public authorities only.
- G. Same sources as A. The distribution of indirect taxes as between different items for 1947 and 1948 was based on information supplied by the Central Statistical Office. For 1938 and 1949 it was estimated by the Research and Planning Division, Economic Commission for Europe.

Finland

Sources : (1) E. H. Laurila, " Finland's National Income after the War ", *Bank of Finland, Monthly Bulletin*, Nos. 7-8, 1949.

(2) K. O. Alho, " The Economic Position in Finland in 1949 ", *Bank of Finland Monthly Bulletin*, Nos. 1-2, 1950.

(3) *Finnish Economic Survey for 1949.*

(4) *Statsbokslutet jämte bilagor 1948.*

(5) *Republiken Finlands statsförslag 1948, 1949.*

- A. Figures for 1938, 1947 and 1948 from (1). The figure for 1949 was estimated on the basis of information given in (2) by the Research and Planning Division, Economic Commission for Europe.
- B. Data from (1) supplemented by (2) which gives increase in real income from 1948 to 1949.
- C. Data taken from (1).
- D. G.I. from (1). Depreciation in 1938 from (1). In post-war years, it was increased so as to reflect replacement values by taking it roughly at the pre-war volume. G.I. by economic sectors for 1947 communicated by the Central Statistical Office.

- E. For 1948, based on (3), p. 5, which gives the volume of G.I. in relation to 1938. The change in the price level from 1947 to 1948 was estimated from a comparison of national product in 1947 and 1948 in current and constant prices.
- F. Data from (4) and (5). War reparations and expenditure under the Armistice Agreement and Peace Treaty are included in "other current expenditure", and in this respect the figures are different from those under G.
- G. Figures for Government consumption are derived from budgets of the central Government. Local government expenditure, which is excluded, would add only about one-eighth to this. The figures exclude reparations expenditure, which is included in the balance of payments as exports.

France

Sources : (1) *Deuxième rapport de la Commission des investissements*, Ministère des Finances et des Affaires économiques, 1949.
 (2) *Estimation du revenu national français*, Commissariat général du Plan de modernisation et d'équipement, 1947.
 (3) *Annexes au quatrième rapport semestriel sur la réalisation du Plan de modernisation et d'équipement*, Commissariat général du Plan, 1949.
 (4) Complementary information supplied by the Commissariat général du Plan.
 (5) *Perspectives des ressources et des besoins de l'économie française au cours du premier semestre et de l'année 1948*, Commissariat général du Plan, 1947.

- A. The figure for 1947 is from last year's SURVEY. Data for 1938, 1948 and 1949 are based on (2) and (4).
- B. Same as for A. Government services in post-war years were estimated to be about 50 per cent higher than in 1938.
- C. Estimates of the volume of consumption based on (4) have been adjusted so as to exclude changes in stocks. Consumers' expenditure from (2) and (4). For 1938, clothing was taken as 85 per cent of expenditure on textiles, clothing and leather.
- D. Total G.I. for 1938 and 1947 and N.I. for 1938 are from (3), p. 38. Total G.I. for 1948 and 1949 is from (4). G.I. by economic sectors and branches of industry in 1948 and 1949 was taken from (1) and adjusted to include maintenance and renewals (renouvellements). Investment in miners' dwellings was transferred from "Industry" to "Dwellings". Total depreciation, in 1938, was taken from (2), p. 31. In post-war years it was taken roughly at the same volume as in 1938. Its distribution by sectors was estimated on the basis of the distribution in 1938 shown in (2), with an allowance for the change in the composition of the capital stock since pre-war.
- E. The index used is that given by (4), adjusted to eliminate armaments.
- F. Data from (4) and (5).
- G. From (2) and (4). Expenditure on armaments included in Government consumption. The balance of payments includes current expenditure abroad by the Government but excludes colonial investments. Post-war estimates of capital formation were adjusted so as to include all stocks. Investment in stocks was assumed to have been 4 per cent of the national income in 1948 and 3 per cent in 1949. Indirect taxes were analysed ; specific taxes were allocated to personal consumption, general taxes proportionately to all items.

Germany

Sources : (1) *Wirtschaft und Statistik*, July 1949.
 (2) *Wirtschaft und Statistik*, December 1949.
 (3) *Evaluation of the 1950/51 and 1951/52 Programs of Western Germany*, Memorandum by the E.C.A., Special Mission to Western Germany.
 (4) "Pre-war Regional Interdependence and Post-war Interzonal Trade in Germany", *Economic Bulletin for Europe*, Economic Commission for Europe, Vol. 1, No. 3, 1949.
 (5) F. Grünig, "Volkswirtschaftliche Bilanzen 1936 und 1947", *Vierteljahrshefte zur Wirtschaftsforschung*, Deutsches Institut für Wirtschaftsforschung, January 1948.
 (6) Complementary information supplied by F. Grünig.

- A. Figures are taken from (1) and (2). Data for 1948/49 extrapolated to 1949 on the basis of miscellaneous information, including (3).
- B. Same sources as for A.
- C. Volume index : same sources as for A, allowing for changes in stocks (given in (3)). Consumers' expenditure from (5), brought up to date by (6).
- D. *Western zones*. N.I. in fixed capital for post-war years was taken from (6). Source (2) gives for 1936 N.I. and Government consumption together ; this was split according to the proportion given for Germany as a whole. Depreciation in 1936 and 1948/49 is given in (2). Depreciation for 1947, 1948 and 1949 was estimated. The resulting figure for G.I. in 1936 is consistent with data shown in (3). The former excludes but the latter includes Berlin.
Soviet Zone. N.I. totals for post-war years and a rough estimate of depreciation in 1949 are taken from (6). Depreciation for 1947 and 1948 was estimated. G.I. and depreciation for 1936 were estimated by taking into account the relative contributions of the Soviet Zone to industrial and agricultural output, as shown in (4).
- E. The investment cost index for 1947 is taken from (5) ; for 1948 and 1949 it is based on (2). The movements were assumed to be the same in the western zones and the Soviet Zone.
- F. From (2) and also from the November issue of the same journal. Receipts are partly estimated.

G. The division in 1936 between Government consumption and net capital formation has been estimated from figures relating to the whole of Germany as given in (2). Stocks which were estimated from (3) have been shifted from personal consumption to capital formation.

Greece

Sources : (1) *The National Income of Greece during the Year 1947*, Ministry of Co-ordination, 1949.

(2) *National Income and Investment of Greece during the years 1945-1949*, High Board of Reconstruction, March 1950.

(3) *To Bhma*, 8 March 1950.

A. From (2). Income from abroad added on the basis of (1).

B. From (3). Income from abroad estimated. Based on index numbers of volume in each sector. The figures differ somewhat from the estimates in (2) where national income is deflated by using the retail price index.

NOTE : Source (2) gives estimates of capital formation which were not incorporated in the main tables. Details given, however, cover only a proportion of net investment.

Hungary

Sources : (1) "Report on the Three-year Plan", *Szabad Nép*, 5 February 1950.

(2) *Gazdaságstatisztikai Tájékoztató* (Economic Statistical Bulletin).

(3) *Monthly Bulletin of the National Bank of Hungary*, January 1949.

(4) *Jelentés a hároméves terv első évéről* (Report on the First Year of the Three-year Plan), 1948.

(5) *Magyarország hároméves terve* (Three-year Plan), 1947.

(6) *Szabad Nép*, 3 March 1950, Article by Z. Vas.

A. The post-war data shown in last year's SURVEY, Table A, p. 230, which are in constant prices, were inflated by means of the general wholesale price index given in (2). The figure for 1949 was estimated on the basis of (1). All figures were raised by 12 per cent to allow for the value of services which are not included in the original estimates.

B. Taken from (1).

D. G.I. for 1938 from last year's SURVEY, p. 47, for 1947 and 1948 from (4), adjusted to calendar years on the basis of (2) and completed by data given in (3). G.I. in 1949 was estimated on the basis of (6), which gives the percentage of investment in the national income. The distribution of investment by economic sectors for 1947 and 1948 differs substantially from that given in last year's SURVEY, p. 50, owing to the re-definition of the agricultural and transport sectors noted above.

E. The investment cost indices were calculated from official wholesale price indices of engineering costs, building wages and building materials, given in (2).

F. From (2), October 1948 and February 1949. Owing to changes in the structure of the budget, the figures are not strictly comparable from one year to another.

NOTE : Estimates of national income and its allocation, which were last given in source (4), were discontinued. New estimates on a different basis appear to exist; these have been referred to but are not published. It was possible to approximate these new estimates as the share of industry in national income is given and there are estimates of changes in industrial output. Information on investment is given for the Three-year Plan period as a whole; if, however, one estimates investment in 1949 as a residual (deducting investment in the previous years) one obtains results different from those derived from source (6). One reason for this discrepancy might be the inadequacy of the official deflation of investment expenditure into constant plan prices of 1947. For instance, according to source (1) the volume of building output in 1949 came to two and a half times its 1948 level, whereas the output of building materials rose by 36 per cent only during the same period.

Ireland

NOTE : Although a number of estimates are available, these are not included in the main tables as it was not possible to relate them to national income estimates which were discontinued in 1944. The new national income data expected during 1950 have not yet been published.

Italy

Sources : (1) *Annuario statistico italiano*, 1944-1948.

(2) *Relazione generale sulla situazione economica del paese, presentata dal Ministero del Tesoro alla Presidenza il 30 gennaio 1950*, Camera dei Deputati, Doc. IX.

(3) *Adunanza Generale Ordinaria dei Partecipanti, Banca d'Italia*, May 1949.

(4) *Italy, Country Study*, E.C.A., 1949.

(5) "Le Programme à long terme italien (1949-1950)", *Notes et études documentaires*, No. 1175, Direction de la documentation, Paris, 1949.

(6) Ministero del Tesoro, *Previsioni delle entrate e delle spese dello Stato per l'esercizio finanziario 1949-50* (elaborazione orientativa del progetto di bilancio).

(7) *Conto riassuntivo del Tesoro*, 30 June 1949.

(8) E. Vanoni, Minister of Finance, *Discorsi in sede di discussione di bilancio*, 1949.

(9) *Annuario di statistiche del lavoro*, 1949.

- A. Data taken from (1) and (2) and adjusted to allow for Government services which are excluded from the original figures.
- B. Same sources as A.
- C. Data from (2).
- D. G.I. in 1938 is taken from (4), Table 4, 10 per cent of which has been deducted to exclude colonial investment. G.I. totals and by sectors for 1947 and 1948 from (3), and total G.I. for 1949 from (2). The increase in stocks in 1949 was roughly estimated. The distribution of G.I. in 1949 by sectors and branches of industry is estimated from planned figures given in (5). Depreciation for 1938 is given in (2). Depreciation by sectors is partly from (1), pp. 219 and 431–433, and partly estimated. Post-war depreciation was put roughly at the pre-war level, after allowance for price changes. (The official allowances for depreciation are lower.)
- E. The index number of investment costs is an average of (a) the index of metal and metal products and of engineering goods (*Bollettino mensile di statistica*), and (b) an index of dwelling and industrial construction costs given in *Index, Centro per la statistica aziendale*, 12 April 1949.
- F. Data from (6) – (9) and (2). Gross investments of the Central Government include expenditure on public works (less estimated amount of administrative expenditure), subsidies to public enterprises for reconstruction and investment purposes, repayment of war damages.
- G. Government consumption is estimated from the budgets of public authorities while personal consumption is estimated as a residual. For 1949, the distribution between the two items has been made on the basis of the proportions in 1948. The figures for capital formation in 1947 and 1948, the trade figures and the balance-of-payments figures for 1948 were taken from (3). The balance of payments for 1949 was estimated by the Research and Planning Division, Economic Commission for Europe.

Netherlands

Sources : (1) *Centraal Economisch Plan, Eerste Nota, (Gloaal Plan)*, Centraal Planbureau, September 1946.

(2) *Centraal Economisch Plan*, 1949, Centraal Planbureau, September 1949.

(3) *Statistische en econometrische onderzoeken*, Centraal bureau voor de Statistiek, March 1949.

(4) *Statistische en econometrische onderzoeken*, Centraal bureau voor de Statistiek, September 1949.

- A. The 1938 figure is from (1). Post-war data from (2) and from information supplied by the Central Planning Office.
- B. Same sources as A. The index excludes Government services and may consequently be biased downwards.
- C. Volume index from same sources as A. Consumers' expenditure from (4), supplemented by the Central Planning Office. "Travel" includes expenditure on postal services.
- D. G.I. and N.I. both total and by sectors for 1948 and 1949 from (2) and the Central Planning Office. G.I. total and by sectors in 1947 is from (2). G.I. and N.I. for 1938 is from (1), p. 40, but depreciation was raised by 50 per cent, since the figure as given in (1) is obviously inconsistent with the official estimates of depreciation in 1948 and 1949. The movement of G.I. between pre-war and post-war was checked with reference to indices of output and data on trade. Depreciation in 1947 was estimated.
- E. The index number for 1947 and 1948 is from (3). It was roughly estimated for 1949.
- F. From (2). Investment in public enterprises not included.
- G. Same sources as A.

Norway

Sources : (1) *Nasjonalbudsjettet 1948*, St. meld. No. 1, 1948.

(2) *Nasjonalinntekten i Norge 1935–1943*.

(3) *Nasjonalbudsjettet 1950*, St. meld. No. 1, 1950.

(4) *Statistiske Meldinger*, No. 2, 1950.

(5) *Statistiske Oversikter 1948*.

(6) *Økonomisk utsyn over året 1949*.

(7) *Nasjonalbudsjettet 1949*, St. meld. No. 1, 1949.

- A. Data from (1) – (3).
- B. Data from (3).
- C. The volume index for 1947 (1938 = 100) is from (6). Later years are linked by obtaining consumption as a residual from real national income as under B. Capital formation was deflated by the investment cost index under E, and the balance of payments by the official import price index. Between 1938 and 1947 the index shows the movement of personal consumption, between 1947 and 1949 of personal and government consumption together. Consumers' expenditure from (7). Expenditure on "clothing" was estimated as 90 per cent of expenditure on "clothing, textiles and footwear".
- D. G.I. and N.I. in 1947, 1948, 1949, total and by economic sectors from (3). G.I. in 1947 and 1948 by branches of industry was taken from (4). N.I. in 1939 is given in (1). Depreciation in 1939 is estimated by taking the same percentage of the capital stock as for the post-war years. Capital stock figures for 1939 and 1945 are given in (5), p. 63 ; the figures for 1947–1949 are estimated by taking into account N.I. and price changes.
- E. The index is an average of (a) a price index of the net output of the building and construction industry obtained by comparing the net output in current and constant prices given in (3) which was combined with the official wholesale price

index number of building material prices ; and (b) an index of machinery, ships, etc., costs derived by averaging the official wholesale price index numbers of metals and metal products with the average value index of the United Kingdom exports of ships, machinery, etc.

F. From (3).

G. Same sources as A. The trade figures include ships and whale oil delivered directly abroad.

Poland

Sources : (1) "Dochód Narodowy Polski", *Główny Urząd Statystyczny Rzeczypospolitej Polskiej*, Statystyka Polski, Seria D. Zeszyt 13, 1949.

(2) *Gospodarka Planowa*, 1949, No. 1.

(3) *Wiadomości Narodowego Banku Polskiego*, 1948, No. 4.

(4) *Życie Gospodarcze*, No. 5, 1950.

(5) *Wiadomości Statystyczne*, Statistical News, April 20, 1948 ; 20 March, 5 May, 5 June, and 5 September, 1949.

(6) *Ustawa Skarbowa* 1949 (Budget Law).

A. 1938 as in last year's SURVEY, p. 230 ; 1947 from (1). 1948 and 1949 as under B inflated to current prices. Price change from 1937 to 1947 given in (1) ; for 1947 to 1949 cost-of-living index for Warsaw was used. 12 per cent was added in each year to bring estimates to uniform definition, using proportion given in (1). Indirect taxes were excluded.

B. 1938 and 1947 same source as A. 1948 and 1949 information supplied by the Central Planning Board. It was calculated that the level of prices in 1937 and 1938 was the same. 1949 figures are forecasts.

D. Total G.I. for 1938, 1947 and 1948 are the same figures as in last year's SURVEY, and G.I. by sectors within the Plan was calculated by means of the percentage distribution given in (4). Investment outside the Plan was considerable in both years and was obtained for 1947 from the Central Planning Board while for 1948 it was estimated from deliveries of building materials and machinery to the private sector. Figures for 1948 published in the last year's SURVEY for G.I. in agriculture have been increased substantially by shifting expenditure on irrigation, etc., to that sector. G.I. in 1949 was estimated, in the absence of any direct evidence, as having increased proportionately to the output of heavy industry and of building materials. Depreciation in post-war years was assumed about equal to pre-war.

E. The investment cost index was taken from sources (2) and (3).

F. Data from (5) and (6). The figures for expenditure on "rationing" have been taken as expenditure for price subsidies. Investment figures include, in 1947 and 1948, payments made by the State to enterprises to build up their working capital. Amortization payments by nationalized enterprises to the State shown for the first time in the 1949 budget have been deducted from investment. Owing to changes in the structure of the budget, the figures are not strictly comparable from one year to another.

NOTE : In view of the fact that the fully detailed national income estimates for 1947 at current prices contained in source (1) were not published for subsequent years, only a limited amount of information could be given in the main tables.

Rumania

NOTE : Although information on public finance and investment in current prices is available, this was not utilized as neither the magnitude of the national income nor the level of prices is known. Information on investment in terms of dollars published in last year's SURVEY may have been unreliable.

Spain

Sources : (1) *La renta nacional de España en 1948*, Consejo de Economía Nacional.

(2) *Ley por la que se aprueban las presupuestos generales del Estado*, 1948, 1949, 1950.

A. Estimates as published in (1). 1949 is estimated from the movements in agricultural and industrial production together with the movement of wholesale prices.

B. Same source as A.

F. Data from (2). Investment expenditure does not include investment to be covered from the proceeds of loans.

Sweden

Sources : (1) *Konjunkturläget hösten 1949*. Meddelanden från Konjunkturinstitutet, Serie A : 17.

(2) *Översikt över det ekonomiska läget 1950*, (Nationalbudget för år 1950). Meddelanden från Konjunkturinstitutet, Serie B : 11.

(3) Complementary information supplied by Konjunkturinstitutet.

(4) *Bilaga I till Statsverkspropositionen, Inkomster å driftbudgeten*, 1949, 1950.

(5) *Budget-Redovisning*, 1947/48, 1948/49.

(6) *Riksstat* 1949/50.

(7) *Statsverkets tillstånd och behov under budgetåret 1950/51*.

(8) *Sociala Meddelanden*, No. 10, 1949.

A. Estimates based on gross national product data given in (1).

B. The indices are built up from separate estimates of the volume of consumption, capital formation and the balance of payments on current account. The volume of personal consumption is estimated under C. Government consumption was

deflated by the index of annual incomes of male salary earners in 1946 (*Lönestatistisk Årsbok 1946*, Kungl. Socialstyrelsen) linked for later years with the official index of average hourly wage rates given in (1). Capital formation was deflated by the investment cost index described below under E. The balance of payments (net) was deflated by the import price index in years of deficit, and by the export price index in years of surplus.

- C. Consumers' expenditure from (1), adjusted on the basis of (3), to bring estimates to common definition. Payment in kind to armed forces not included. All post-war figures are also available in 1948 prices. The pre-war figures were converted into 1948 prices by using the Riksbank price indices (*Kommersiella Meddelanden*) for each category of expenditure. In the case of housing, however, the pre-war value figure is not comparable with post-war figures and therefore the estimate is based on the Riksbank volume index for 1946 with a pre-war base. Total expenditure in 1948 prices gives the volume index.
- D. G.I., total and by economic sectors for post-war years is taken from (1), pp. 95, 96, and 98, G.I. in 1938–39 from (1), p. 32. G.I., excluding maintenance, by branches of industry was obtained from (3). Total depreciation in 1948 has been estimated by taking into account the proportion of depreciation and maintenance to gross national income in Norway and Denmark, allowing separately for maintenance of buildings, maintenance of equipment and depreciation proper. Depreciation in 1938 was taken at about 25 per cent lower than in 1948. Depreciation in industry was estimated by taking it at about the same proportion of net output as for Norway.
- E. The index amplified in (1) which gives investment in terms of both current and 1948 prices was linked to pre-war by the average of (a) the average of the official wholesale price index of building materials and the index of earnings, and (b) the official wholesale price index of metals and metal products.
- F. Data from (4) – (8).
- G. Same source as A.

Switzerland

Sources : (1) *La vie économique*, December 1949.

(2) W. A. Jöhr, "Aktuelle Probleme der Kapitalanlage", *Wirtschaft und Recht*, No. 3, 1949.

(3) *Annuaire statistique de la Suisse*, 1948.

(4) *Compte d'Etat de la Confédération suisse* 1947, 1948, and *Budget de la Confédération suisse*, 1949, 1950.

(5) *Finances et impôts de la Confédération des cantons et des villes*, 1947/48.

- A. Figures for 1938, 1947 and 1948 taken from (1). The figure for 1949 is only a rough estimate prepared by the Research and Planning Division, Economic Commission for Europe.
- D. G.I. in 1948 from (2), excluding investment abroad, adjusted for estimated change in stocks (2 per cent of the national income). Depreciation is assumed to be 8 per cent of the national income.
- E. The index is an average of (a) the official wholesale price index of metals, and (b) a building cost index for Zürich and Berne. All data from (3).
- F. Data from (4) and (5). No figures are available for the communes. In the absence of direct information, one-half of the social contributions has been included in direct taxes and one-half in indirect taxes.

Turkey

Sources : (1) Vedat Eldem : "Le revenu national de la Turquie", *Revue de la Faculté des sciences économiques de l'Université d'Istanbul*, 9^e année, Nos. 1–2, October 1947 – January 1948.

(2) Şefik Bilkur : *Revenu national et dépenses nationales de la Turquie en 1947 et 1948*, Office Central de Statistique, 1949.

(3) Şefik Bilkur : *National Income of Turkey*, Central Statistical Office, 1949.

(4) *Banque centrale de la République de Turquie*, No. 70–71, 1949.

(5) *Devlet Bütçesi* (Finance Law) 1948, 1949.

(6) *International Financial News Survey*, International Monetary Fund, 16 December 1949.

- A. The figure for 1938 is from (1). Data for 1947 and 1948 are derived from (2). The 1949 figure is from (3) which gives forecasts in prices as of July 1947. These figures have been inflated by the wholesale price index up to 1949.
- B. Same sources as A.
- F. Data from (4) to (6). Investment figures are not available. Current expenditure includes some investment. Public debt service includes amortization.
- G. Same sources as A.

NOTE : It is not certain that estimates of national income and its components are comparable from one year to another.

United Kingdom

Sources : (1) *National Income and Expenditure of the United Kingdom, 1946 to 1949* (Cmd. 7933).

(2) *Economic Survey for 1949* (Cmd. 7647).

(3) *Economic Survey for 1950* (Cmd. 7915).

(4) D. Seers and P. F. D. Wallis, "Changes in Real National Income", *Bulletin of the Oxford University Institute of Statistics*, June 1949.

(5) I. Bowen, "Output of Building and Civil Engineering Industries", *London and Cambridge Economic Service*, May 1947.

(6) *Financial Statement 1949/50, 1950/51, Statement on Defence, 1947-1950.*

(7) R. C. Tress, "The Budget and the National Income, 1948/49", *London and Cambridge Economic Service*, May 1948.

- A. Figures from (1) and (3). Inventory profits or losses have been excluded, and employers' contributions to social insurance included.
- B. Figures from (4), which gives estimates for 1938-1948. The movement from 1948 to 1949 has been derived from (3).
- C. Same sources as A.
- D. G.I. totals for 1938, 1947, 1948 and 1949 are taken from (1). G.I. by sectors and by branches of industry for 1947 is from (2), for 1948 and 1949 from (3). Investments by the Ministry of Supply, a proportion of investments in Northern Ireland, and a share of miscellaneous investments (passenger cars purchased on business account, etc.) were added to "Industry". Depreciation for 1938 is given in (1). The official depreciation data for post-war years were raised so as to reflect replacement costs and taken at about the 1938 level. Depreciation by economic sectors was estimated by the Research and Planning Division, Economic Commission for Europe. The following estimates of depreciation and maintenance were made for 1949 :

	<i>Millions of pounds sterling</i>
Agriculture, etc.	45
Industry	450
Transport, etc. ¹	160
Government and other sectors	200
Dwellings	220
Total.	1,075

¹ Including roads.

The total is consistent with the official estimate for 1938. The estimate for industry is 7½ per cent of value added by industry as given in source (3).

- E. The index is an average of (a) a building cost index obtained by comparing the total value of building and civil engineering work (1938 from (5), post-war years from *Monthly Digest of Statistics*) and the official index of building activity, and (b) an index of average export values of "machinery" and "vehicles (including locomotives, ships and aircraft)" (*Board of Trade Journal*).
- F. From (1), (3), (6) and (7). G.I. includes gross capital formation at home according to (1) plus payments for war damage. To arrive at N.I., depreciation allowances, as given in (1) were deducted, and a further deduction was made to take into account insufficient depreciation provision for local authorities, as evident under D.
- G. Investments in overseas oil companies, etc., have been treated as investment abroad, i.e., excluded from both capital formation at home and included in the balance of payments on current account. Indirect taxes have been distributed on all items according to (1).

Yugoslavia

Sources: (1) *Annuaire statistique 1938/39.*

(2) *Survey of the Economy of the Federal People's Republic of Yugoslavia, 1949* (unpublished memorandum by the Government).

(3) Edvard Kardelj (Minister of Foreign Affairs), *Borba*, 28 February 1950.

(4) Boris Kidrič (Head of Economic Council) *Borba*, 27 December 1949.

- A. The pre-war figure is from (1) while post-war figures are derived from (2) and from data given in (3). For all years the figures have been adjusted so as to include services rendered by the State together with private services and services from dwellings. The adjustment to the pre-war definition is given in (2), and the adjustment of the pre-war definition to the international definition was estimated by C. Evelpidi, "Le revenu national des pays balkaniques", *Metron*, 15 June 1940, p. 166.
- D. Total G.I. for 1939, 1947-1950 is given in (4). Depreciation was estimated on the basis of similar estimates for other countries.
- E. The index number is the one used in official publications to convert plan prices into pre-war prices.
- F. Data from (2) and debates on the budget for 1950 (from (4)). Direct taxes in 1948 and 1949 include social security contributions paid by insured persons. These contributions have been abolished in 1950. Indirect taxes represent the total revenue from the economy, and include profits of enterprises paid to the State. The investment figures include G.I. and other financing of the economy from the budget (including investment in stocks, the losses of enterprises and financial reserves).

United States

Survey of Current Business.

U.S.S.R.

- B. Central Statistical Board. Annual report, January 1950, where it is stated that estimates are in "comparable prices". It is thought that this refers to 1926/27 prices.

- D. Same source given year-to-year in capital formation. It is not known in what prices this is expressed.

NOTE : Information available from the budget, which is in current prices, cannot be related to other data which are expressed in constant prices. No index numbers of prices are available.

VI. CONSUMPTION OF PARTICULAR COMMODITIES (TABLES 21-26)

1. FOOD CONSUMPTION (TABLES 21-23)

The data for pre-war and for 1947/48 in Tables 21-23 were published in *Food Balance Sheets*, Food and Agriculture Organization of the United Nations, April 1949, and *The State of Food and Agriculture*, F.A.O., September 1948. The data for 1948/49 are unpublished preliminary F.A.O. estimates ; a few figures for the previous year have been also revised. It must be emphasized that all data in these tables are subject to error. This error may vary from country to country, depending on the nature of their statistics, and it may vary from year to year as the administration of statistics changes. In a few instances which were noted in the tables, statistics coming from national sources have been used to supplement information coming from F.A.O., or were used in preference to such information.

Apart from errors due to the inaccuracy of statistical sources, further uncertainty enters into the data when they are converted into nutrients, since any method of conversion assumes a uniform quality of foodstuffs. For rates of conversion into calories, protein, animal protein and fats from all sources, and for definitions, see *Food Composition Tables*, F.A.O., October 1949. In the case of all foodstuffs, only that part which is available for human consumption is taken into account. From estimates of production, exports and imports, deductions are made for foodstuffs used for seed, animal feeding-stuffs and for non-food manufactures. Foodstuffs used for the manufacture of alcoholic drinks are excluded and the nutritive value of alcoholic drinks is not taken into account. Meat includes game and poultry as well as edible offals. The weight of meat is generally after slaughtering, without the weight of fat and non-edible offals. Milk and cheese include the various types of milk and cheese added together kilogramme for kilogramme and not in terms of equivalent liquid milk.

Table 22 is based on the value of food consumption, measured in Swiss francs, at 1936/37 prices. The consumption of foodstuffs as given in the sources for the previous tables has been divided into twelve groups. For each of these groups of foodstuffs the average retail price was derived from a family budget enquiry conducted in Zurich, Switzerland, in 1936/37 (see *Zürcher Haushaltsrechnungen 1936/37, Statistik der Stadt Zürich*, Heft 47, 1938). The average price applied to each group was calculated by taking into account all commodities in the family budget which fall into the particular group ; for instance, the price applied to cereals was obtained as the average of the price of different types of bread, of flour, etc. The prices in centimes per kilogramme obtained for each group were the following : cereals 59, potatoes 17, sugar and syrup 51, pulses and nuts 54, vegetables 50, fruits 54, meat 293, eggs 196, fish 265, milk 31, cheese 272, fats and oils 234.

This method aims at measuring the economic value of food consumption as against, for example the measurement of its calorific value in Table 21. Differences arise owing to the fact that the price per calorie for different foodstuffs is widely different, as shown below. The prices per calorie can be conceived as a weighting system applied to the consumption of different types of calories. The particular system of prices employed was, of course, only one of a number of possibilities and the results depend to some extent on the particular structure of prices utilized in the calculation. In particular, there are differences in the prices of foodstuffs which are labour-intensive (such as potatoes) and other foodstuffs (such as cereals), if one goes from richer to poorer countries. As a check, prices were also obtained from a series of Dutch family budget enquiries in 1948 (see *Huishoudrekeningen van hand- en hoofdarbeiders in enkele middelgrote en kleine steden*, Centraal Bureau voor de Statistiek) which are also given below. As can be seen, the differences in the structure of prices between the two family budgets are not important, except in the case of the relationship of meat and fish prices. It should be noted that only four groups of commodities are particularly important : grains, potatoes, milk and meat ; the others account only for a small proportion of consumers' expenditure.

Estimated cost of calories

Foodstuffs group	Price per 1,000 calories	
	Swiss centimes 1936/37	Dutch cents 1948
Sugar	13	16
Pulses	14	18
All grains	17	15
Potatoes	24	17
Fats and oils	29	23
Milk	48	34
Cheese	76	64
Fruits	111	149
Eggs	134	186
Meat	138	106
Vegetables	200	176
Fish	208	87

It is evident that the figures in Table 22 suffer from a number of limitations. Food consumption excludes alcoholic drinks, tea and coffee. Only wide groups of commodities are taken into account and differences in the composition of each of these groups are neglected. Differences in the degree of processing of foodstuffs are ignored, and the consumption, for instance, of

cereals may correspond to purchases in the form of flour or cakes. Differences in quality are also ignored. In so far as it can be assumed that these qualifications are correlated with the standard of living, the estimates given in the table would understate differences between countries.

2. HOUSING (TABLE 24)

The data are obtained from the *The European Housing Problem*, Industry and Materials Division, Economic Commission for Europe, E/ECE/110, Geneva, October 1949. In this report the definitions used by each country have been adopted and, except as noted below, no attempt was made to bring the data to a comparable definition. This particularly affects the figures on "persons per room". In most countries, the definition of a room includes living-rooms and bedrooms. Kitchens are a marginal case and should be included if they are large enough to have meals in. In the case of a few countries, where the national definition differed widely from the general definition, a correction has been made: e.g., in the case of Italy, where the definition of a "room" was too wide, and in the case of Sweden, the Netherlands, and Hungary where apparently it was too narrow in that kitchens were excluded. These adjusted figures are of course subject to an additional margin of error.

In the case of the Soviet Union, information is available for the number of square metres per person in urban areas. *The European Housing Problem*, p. 41, gives an average of 4.0 square metres per person for 1939. It is thought that the Soviet figures reckon living-space on a narrow definition and the figure has been increased to 5 square metres to make it comparable with those given for other countries. It was further assumed that, by 1949, pre-war standards had been restored. Although estimates of the total stock of housing can be made, no information is available on the current size of urban population. The figure of 5 square metres per person given in the table is approximate, but it is thought to give the correct order of magnitude in comparison with other countries.

3. CONSUMPTION OF TEXTILES (TABLE 25)

The data are given in *Fibers*, F.A.O., Commodity Series Bulletin No. 14, August 1949. The European averages were estimated by the Research and Planning Division, Economic Commission for Europe. The estimates of textile consumption are obtained by taking into account the consumption of raw materials corrected for trade in yarn and tissues. No allowance is made for trade in manufactures other than tissues or for manufacturing waste. The figures refer to apparent consumption not corrected for changes in stocks, and they include consumption for industrial purposes as well as purposes of clothing and household uses. The figures are subject to a further margin of error, which arises from the conversion of quantities given in different units into raw materials. Errors are also due to inaccuracies in trade statistics, particularly in the case of manufactures composed of mixed fibres. All these qualifications must be borne in mind, especially when making comparisons between countries which export and countries which import manufactures of textiles.

4. CONSUMPTION OF MISCELLANEOUS COMMODITIES (TABLE 26)

The figures for tea and coffee are based on net imports estimated by the Research and Planning Division, Economic Commission for Europe. No correction is made for stock changes. In the post-war years, there may have been some movement of these commodities not recorded in trade statistics, such as the smuggling of coffee or importation by parcel post.

Figures relating to the consumption of beer were obtained from *Food Balance Sheets*, F.A.O., in the case of the following countries: Belgium, Denmark, Finland, France, Ireland, Norway, Sweden and Switzerland. In these cases the pre-war figure is the average of four years and the post-war figure relates to 1947/48. The data for other countries were obtained from national sources and are based usually on production figures. Here, only one pre-war year and the latest post-war year for which data are available have been generally taken into account.

Food Balance Sheets, F.A.O., similarly gives wine consumption for the following countries: Austria, Bulgaria, Czechoslovakia, Ireland, the Netherlands, Rumania, Switzerland and the United Kingdom. For France, the pre-war figure is based on the same source, which was brought up-to-date on the basis of national statistics. For the remaining commodities, the same remarks apply as for beer.

The apparent consumption of tobacco was estimated by the Research and Planning Division, Economic Commission for Europe. Except in the case of the United Kingdom, no correction has been made for changes in stocks. In the case of tobacco, changes in stocks can be appreciable in relation to annual consumption.

Figures relating to the number of motor-cars in use were supplied by the Transport Division, Economic Commission for Europe, supplemented by information from other sources. Some of these figures are subject to error, as the distinction between passenger cars and commercial vehicles is not uniform and may vary from one year to another; this applies particularly to France.

The figures on the number of wireless sets in use were supplied by the Union internationale de Radiodiffusion, except the pre-war figure for Czechoslovakia, which is from national statistics.

The figures on newsprint consumption and the circulation of newspapers were prepared by U.N.E.S.C.O., with the exception of the figures for newsprint consumption in Denmark, which were estimated on the basis of national statistics.

VII. PRODUCTION CAPACITY AND STOCKS OF EQUIPMENT GOODS IN PARTICULAR INDUSTRIES
(TABLES XVI AND XVIII-XXV)

1. ELECTRIC GENERATING CAPACITY (TABLE XVI)

The following sources have been used, unless otherwise stated :

Statistiques, Union internationale des producteurs et distributeurs d'énergie électrique, 1937-1946, pp. 12-25, 40-47.
Statistical Yearbook, World Power Conference, No. 4, pp. 160-169, 192-199.

Statistiques, Union internationale des producteurs et distributeurs d'énergie électrique, 1945-1947, pp. 10-17, 24-27.
Report of the Electricity Committee, Interim Report on the European Recovery Programme, Volume III, Section IV, Organization for European Economic Co-operation, 1949, Annex 3, pp. 37-57.

For 1938 the first two publications listed have been used. The data for 1947 have been taken from the third source. The figures for 1948 and 1949 were supplied by the Power Section, Power and Steel Division, Economic Commission for Europe. Information on O.E.E.C. plans was generally derived from the fourth source mentioned. The plans of Belgium, Denmark, Finland, Italy, the Netherlands and Poland have been communicated by letter to the Power Section, Power and Steel Division, Economic Commission for Europe.

Additional information for individual countries was derived from the following sources :

Austria : *Statistisches Handbuch*, 1950, p. 79, for 1947 and 1948.

Belgium : *Annuaire statistique*, 1940, p. 228, and 1949, p. 133 for 1938 and 1947, respectively.

Bulgaria : *Statistiques*, Union internationale des producteurs et distributeurs d'énergie électrique, 1937-1946, p. 15.

Bulletin I.A.I., Institute for International Collaboration in Agriculture and Forestry, 1950, No. 1. p. 8.

Law on the Five-year State National Economic Plan of the Bulgarian People's Republic, 1949-1953, Official Gazette, Sofia, 18 January 1949, Part II, Chapter I, paragraph 9.

The capacity in 1944 is given in the first publication listed. The increase 1944-1948 is given in the second publication. Information on planned capacity was derived from the last source quoted.

Czechoslovakia : *The First Czechoslovak Economic Five-year Plan, Act and Government Memorandum*, 1949, p. 75.

The 1947 figures were obtained by letter from the Statistical Office of the Czechoslovak Republic. The figures for 1948, the 1949 estimate and the 1953 plans were derived from the publication mentioned.

France : *Statistiques de la production et de la consommation*, Electricité de France, 1947, pp. 1, 4, 19, 20, and 1948, pp. 17, 23, 24, for 1947 and 1948 respectively.

Etat des opérations du plan de modernisation et d'équipement, France métropolitaine, Commissariat général du Plan de modernisation et d'équipement, 1949, pp. 28-37, for 1949 and future plans.

Germany : *Statistisches Jahrbuch*, 1938, p. 186-187.

Tägliche Rundschau, Berlin, 2 July 1948.

The pre-war data have been taken from the first publication listed. The second source gives the data for the Soviet Zone for 1947, and has been the basis for 1948 estimates. The 1948 estimate for the western zones was derived from the fourth publication listed as general sources.

Greece : *Annuaire statistique*, 1939, p. 143, for 1938.

Interim Report on the European Recovery Programme, O.E.E.C., Volume II, 1948, pp. 408-410, for plans.

The 1948 and 1949 estimates were derived from the fourth publication listed as general sources.

Hungary : *Magyar Statisztikai Zsebkönyv*, 1948, pp. 156, 160.

Jelentés a Hároméves terv első évéről, 1 August 1947 - 31 July 1948, pp. 74-75.

Szabad Nép, 5 February 1950.

Hungary's Five-year Plan, 1 January 1950 - 31 December 1954. Hungarian News and Information Service, London, 1949, p. 6.

The capacity in 1938 and 1946 is shown in the first publication listed. The second and third sources show the additions to the capacity in post-war years. Estimates of planned capacity are based on data given in the last publication mentioned.

Norway : *Statistisk Årsbok*, 1939, p. 112, for 1938.

Nasjonalt budsjettet, St. meld. Nr. 1, 1950, pp. 82-83, for 1947, 1948, 1949 and the plan.

Poland : *Mały Rocznik Statystyczny*, 1939, p. 127, for 1938.

Gospodarka Planowa, 1949, No. 3, p. 169, for 1948 estimate.

Życie Gospodarcze, 1949, No. 12, p. 18, for 1949 estimate.

Rumania : *La Roumanie nouvelle*, 10 September 1949, p. 3, for post-war capacity and plans.

Spain : *Electrical Review*, London, 1949, No. 3788, pp. 127-128, for estimated additions to capacity in 1948 and 1949.

Switzerland: *Annuaire statistique*, 1938, p. 143.

Statistiques, Union internationale des producteurs et distributeurs d'énergie électrique, 1937-1946, p. 24.

Annuaire statistique, 1948, p. 145.

Circulaire périodique, Union internationale des producteurs et distributeurs d'énergie électrique, Nouvelle Série, 1949, No. 6 ; p. 34.

The first two publications listed give the pre-war data for hydro and thermal capacity. The 1947 and 1948 hydro capacity is given in the third source. Data on hydro projects to be completed in 1949 are given in the fourth source listed. The plan figures have been taken from the O.E.E.C. report mentioned above ; an allowance has been made, however, so as to include enterprises with less than 300 kW capacity. The 1947 actual and 1948 and 1949 estimated thermal capacity have been communicated by letter from Eidgenössisches Amt für Elektrizitätswirtschaft.

Turkey: *Interim Report on the European Recovery Programme*, O.E.E.C., Volume II, 1948, p. 843, for 1948 additions to capacity.

The 1949 capacity estimate was derived from the report by the O.E.E.C. Electricity Committee mentioned, as a general source.

United Kingdom: *Monthly Digest of Statistics*, 1950, No. 49, p. 32, for 1938, 1947, 1948 and 1949.

Economic Survey for 1949 (Cmd. 7647), pp. 49-50, for plans.

U.S.S.R.: *Circulaire périodique*, Union internationale des producteurs et distributeurs d'énergie électrique, Nouvelle Série, 1949, No. 8, p. 27, for 1938 and plans.

Yugoslavia: *Annuaire statistique* 1940, p. 191.

Borba, Zagreb, 28 December 1949.

The Law on the Five-year Plan for the Development of the National Economy of the Federative People's Republic of Yugoslavia in the Period from 1947 to 1951, 1947, p. 82.

The pre-war data have been taken from the first source listed. The second source mentioned shows the capacity installed in 1949. The planned capacity for 1951 is given in the third publication. An official statement by the President of the Economic Council and Federal Planning Commission, quoted in *Borba*, 27 December 1949, announced a postponement of the execution of this plan until 1952.

2. CAPACITY IN THE COTTON TEXTILE INDUSTRY (TABLE XVIII)

The following sources have been used, unless otherwise stated :

International Cotton Statistics, International Federation of Master Cotton Spinners' and Manufacturers' Associations, 1939, March, pp. 8-9.

Cotton Year Book, Textile Mercury, Manchester, 1948, p. 66.

Textile World, New York, 1949, No. 2, p. 108.

Textile World, New York, 1950, No. 2, p. 118.

The number of spindles in 1938 has been derived from the first source quoted. The figures for 31 January 1939 shown in this publication were taken as representing capital stock at the end of 1938. The second source gives the number of looms in 1936. The 1948 and 1949 figures for spindles and looms were taken from the third and fourth publications listed.

Additional information for individual countries was derived from the following sources :

Austria: *World Trade in Commodities : Textiles and Products*, United States Department of Commerce, 1949, No. 19, p. 2, for 1937 spindles.

Belgium: *Textile World*, 1950, No. 2, p. 212, for changes in stocks of spindles and looms for 1949.

Czechoslovakia: *International Cotton Statistics*, March 1939, p. 16.

The Czechoslovak Economic Five-year Plan, Act and Government Memorandum, 1949, p. 92.

The first publication listed shows the pre-war movement of the number of spindles. On the basis of this movement and statements contained in the second source, the 1948 figures have been estimated.

France: *World Trade in Commodities : Textiles and Products*, No. 35, p. 2, for 1948 spindles and looms.

International Cotton Bulletin, International Federation of Master Cotton Spinners' and Manufacturers' Associations, 1950, No. 69, p. 7, for spindles in 1949.

Germany: *Handelsblatt*, Düsseldorf, February 1950.

International Cotton Bulletin, 1950, No. 69, p. 7.

The figures for 1936 and 1949 for spindles in the western zones are given in the first source quoted. The second source gives the number of looms in the western zones for the same years. The end of 1948 data have been estimated from figures referring to the beginning of 1948 and those for 1949.

Hungary: *Jelentés a hároméves terv első évéről*, p. 82.

Szabad Nép, 5 February 1950.

The first source listed gives information on the number of spindles in August 1947, together with data on additions up to the end of 1948. The second source mentioned shows the total increase of spindle numbers during the period August 1947 to December 1949.

Ireland: *International Cotton Bulletin*, 1950, No. 69, p. 63, for spindles and looms in 1948 and 1949.

Netherlands: The data on looms for 1938 and 1948, and on spindles for 1948, have been communicated by letter from the Netherlands Central Bureau of Statistics.

Norway: *World Trade in Commodities : Textiles and Products*, 1950, No. 2, p. 1.

The March 1949 figures for spindles and looms given in this source have been taken for 1948. In the same publication details are given on which estimates for 1949 have been based.

Poland: *Życie Gospodarcze*, 1949, No. 1, p. 24.

This source contains information on the 1948 number of spindles and looms. It gives also information on the 1949 development programme, which has been used in estimating the 1949 figures.

Portugal: *World Trade in Commodities : Textiles and Products*, 1949, No. 43, p. 1, for 1948 spindles and looms.

Sweden: *World Trade in Commodities : Textiles and Products*, 1949, No. 49, p. 1 for 1938 and 1948 spindles and looms.

Switzerland: *World Trade in Commodities : Textiles and Products*, 1950, No. 1, p. 1.

This publication contains the 1938 and 1947 statistics of spindle numbers. The numbers for the following years have been estimated.

United Kingdom: *International Cotton Bulletin*, 1950, No. 69, p. 97, for 1948 looms.

U.S.S.R.: *The Annals of the American Academy of Political and Social Science*, Philadelphia, May 1949, p. 54.

Textile World, New York, 1949, No. 2, p. 250.

The first publication listed gives the number of spindles and looms in 1940 and the war losses. Wool spindles have been deducted. Information on the reconstruction of textile capacity in post-war years is given in the second source mentioned.

3. CAPACITY IN THE WOOL TEXTILE INDUSTRY (TABLE XIX)

The following sources have been used unless otherwise stated :

Results of the First Wool Questionnaire prepared by the Commonwealth Economic Committee and the International Wool Textile Organisation, revised supplement to *Wool Intelligence*, 1949, pp. 7-8.

Textile World, New York, 1949, No. 2, p. 108.

Textile World, New York, 1950, No. 2, p. 118.

The first publication quoted is the source for 1938, the second and third for 1948 and 1949, respectively.

Additional information for individual countries was derived from the following sources :

Austria: *World Trade in Commodities : Textiles and Products*, 1949, No. 16, p. 2, for 1937 and 1947 spindles and looms.

Denmark: *World Trade in Commodities : Textiles and Products*, 1949, No. 24, p. 1 for 1948 spindles and looms and estimate of 1949 spindles and looms.

Germany: *Handelsblatt*, Düsseldorf, February 1950.

The figures for 1936 and 1949 are given in the source quoted. The end of 1948 estimate was derived from figures referring to the beginning of 1948 and those for 1949.

Hungary: *Magyar Statisztikai Évkönyv*, 1948, p. 162 for 1938 spindles and looms.

Ireland: *First Wool Questionnaire*, p. 7, for spindles in 1947.

Wool Year Book, Textile Mercury, Manchester, 1948, p. 76, for spindles in 1938.

Italy: *World Trade in Commodities : Textiles and Products*, 1949, No. 15, p. 1, for spindles and looms in 1948.

Netherlands: *World Trade in Commodities : Textiles and Products*, 1949, No. 42, p. 1, for spindles and looms in 1948.

Poland: *Życie Gospodarcze*, 1949, No. 1, p. 24, for spindles and looms in 1948 and estimates for 1949.

Portugal: *Wool Year Book*, 1948, p. 76, for spindles and looms in 1938.

Spain: *Wool Year Book*, 1948, p. 76 for spindles and looms in 1938.

United Kingdom: *First Wool Questionnaire*, p. 7-8, for spindles and looms in 1947.

4. STOCK OF TRACTORS (TABLE XX)

The following sources have been used :

Austria: *Statistische Nachrichten*, 1947, No. 3, p. 54, for 1939.

Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung, 1949, No. 11, p. 447, for 1947 and July 1948.

Belgium: *Commodity Report, Chapter C, Agricultural Machinery*, Economic Co-operation Administration, 1948, p. 3, for 1938. *Annuaire statistique*, 1949, p. 107, for 1947.

Recensement Agricole et Horticole, 1948, p. 23, for 1948.

- Bulgaria :** M. Kazantschieff : *Obzor bolgarskogo selskogo hozjajstva i danie o kooperativnom zemlepolzovanii v Bolgarii*, Prague, 1947, p. 21, for 1934.
La Bulgarie Nouvelle, 19 November 1949, p. 2, for 1948 and 1949.
Law Relating to the State Five-year Plan, Chapter III, paragraph 36, for 1953.
- Czechoslovakia :** *Annuaire statistique*, 1938, p. 118, for 1938.
Bulletin, National Bank of Czechoslovakia, 1949, No. 11-12, p. 226, for 1949.
The Czechoslovak Economic Five-year Plan, pp. 115-116, for 1947, 1948 and 1953.
- Denmark :** *Commodity Report, Chapter C, Agricultural Machinery*, Economic Co-operation Administration, 1948, p. 3, for 1938.
Statistisk Årbog, 1949, p. 72, for 1944.
Statistiske Efterretninger, 1949, No. 56, p. 454, for 1948 and 1949.
Interim Report on the European Recovery Programme, O.E.E.C., Volume II, p. 231, for 1953.
- France :** *Statistique agricole annuelle*, 1939, p. 219, and 1946, pp. 400-401, for 1939 and 1946, respectively.
Cahier français d'information, 10 October 1949, for 1949.
Rapport du Commissaire général sur le plan de modernisation et d'équipement de l'Union française, Réalisations 1947-1949 et Objectifs 1950-1952, p. 96, for 1953.
- Hungary :** *Beszélő Számok*, Statistical Department of the National Trade Union Council, 1949, No. 1.
Szabad Nép, 5 February 1950, p. 1.
Hungary's Five-year Plan 1950-1954, article 26, p. 12.
The first source listed refers to the stock in 1935, 1947 and 1948. The number of new acquisitions in the period August 1947-December 1949 is given in the second publication mentioned. The number of tractors planned for 1954 is given in the *Five-year Plan*.
- Italy :** *Annuario statistico italiano*, 1944-1948, p. 195, for 1938 and 1946.
- Netherlands :** *Commodity Report, Chapter C, Agricultural Machinery*, Economic Co-operation Administration, 1948, p. 3, for 1938 and 1947. The 1948 and 1949 figures are estimates.
- Poland :** *Gospodarka planowa*, 1948, Nos. 7-8, p. 252, for 1947.
Tribuna Ludu, 1949, No. 13, for 1948.
Gospodarka planowa, 1950, No. 1, p. 2, for 1949.
Bulletin I.A.I., Institute for International Collaboration in Agriculture and Forestry, 1950, No. 1, p. 39, for 1955.
- Rumania :** *Anuarul statistic*, 1939/40, p. 516, for 1938.
Recensământul Agricol din Republica Populară Română, 1948, p. 31, for 1947.
Informations Roumaines, Paris, 22 February 1950, p. 2, for new acquisitions in 1949.
La Roumanie nouvelle, Bucarest, 10 September 1949, p. 2, for 1955.
- Sweden :** Data for pre- and post-war years have been communicated by letter from Konjunkturinstitutet, Stockholm. The plan figures for 1953 were taken from *Interim Report on the European Recovery Programme*, O.E.E.C., Volume II, p. 789.
- Switzerland :** *Commodity Report, Chapter C, Agricultural Machinery*, Economic Co-operation Administration, p. 3, for 1938 and 1947.
Neue Zürcher Zeitung, 1950, No. 139, for 1949.
- United Kingdom :** *Memoranda submitted to the Organization for the European Economic Co-operation relating to Economic Affairs in the period 1949 to 1953* (Cmd. 7572), p. 16.
Monthly Digest of Statistics, 1949, No. 48, pp. 106 and 107.
The tractor stock in 1939 and 1948, as well as the plan for 1953 was taken from the first source mentioned. The changes estimated between 1947 and 1948, and those between 1948 and 1949 have been based on figures contained in the second source.
- Yugoslavia :** *Borba*, Zagreb, 28 April 1950, for 1939 and 1949.
Five-year Plan for the Development of Yugoslavia, p. 140, for 1946.
- NOTE : In cases where further estimates of tractor stocks had to be made, these are based on the stocks in preceding and following years, together with information on the number of new tractors acquired. Scrapping of tractors has been assumed to continue at the same rate as in preceding or following years.

5. STOCK OF RAILWAY LOCOMOTIVES AND WAGONS (TABLES XXI AND XXII)

The figures for 1938, 1947 and 1948 were taken from *International Railway Statistics*, International Union of Railways. For Sweden, Yugoslavia and United Kingdom national sources have been used. For 1949, the source was *Quarterly Bulletin of European Inland Transport Statistics*, Transport Division, Economic Commission for Europe. For stock in running order, new acquisitions, scrapping and age distribution, the sources are data furnished to the Inland Transport Committee, Economic Commission for Europe.

6. STOCK OF COMMERCIAL VEHICLES (TABLE XXIII)

The data have generally been supplied by the Transport Division, Economic Commission for Europe, or have been taken from *Statistical Yearbook*, United Nations, 1948, p. 274.

In addition, the following sources were used :

- Austria* : *Statistische Nachrichten*, No. 8, 1948, for 1948. .
- Bulgaria* : *Le Plan Economique Biennal*, 1948, p. 30, for 1939.
Statistisk Årsbok, 1949 (Swedish Yearbook), p. 387, for 1948.
- Denmark* : *Statistisk Årbog*, 1949, pp. 126 and 340, for 1948 and 1949.
- Finland* : *Economic Review*, Kansallis-Osake-Pankki, 1949, No. 4, and 1950, No. 1, for 1938 and 1948, and for 1949, respectively.
- Germany : Soviet Zone* : *Wochenbericht*, Deutsches Institut für Wirtschaftsforschung 1950, No. 14, for 1949 estimate.
- Hungary* : *Annuaire statistique hongrois*, 1938, p. 174, for 1938.
- Poland* : *Maly Rocznik Statystyczny*, 1938, p. 184, for 1938.
- Portugal* : *Anuário estatístico*, 1939, p. 346 and 1948, pp. 224/225, for 1938, 1947 and 1948.
Statistisk Årsbok, 1949 (Swedish Yearbook), p. 387, for 1949.
- Rumania* : *Anuarul statistic*, 1939/40, pp. 565, 567, for 1938.
- Sweden* : *Statistisk Årsbok*, 1949, pp. 188 and 387, for 1938, 1948 and 1949.
- Switzerland* : *La vie économique*, 1950, No. 1, p. 49, for 1938, 1948 and 1949.
- United Kingdom* : *Statistical Abstract for the United Kingdom*, 1938, pp. 187 and 188, for 1938.
Monthly Digest of Statistics, 1949, No. 48, for 1948 and 1949.
- Yugoslavia* : *Annuaire statistique*, 1938-1939, pp. 210 and 211, for 1938.
- U.S.S.R.* : *Statistisk Årsbok*, 1948 (Swedish Yearbook), p. 387, and 1949, p. 387, for 1937 and 1949, respectively.

7. MERCHANT FLEETS (TABLE XXIV)

The following main sources have been used :

Appendix to Lloyd's Register Book, Section 8, Statistical Tables, Lloyd's Register of Shipping, London.

Annual Summary of the Mercantile Shipbuilding of the World, Lloyd's Register of Shipping, London.

The figures on the merchant fleet tonnage, age-distribution and scrapping have been taken from the first source listed. The tonnage of new ships put into service was obtained from the second publication mentioned.

The figures for planned tonnage were taken from the following sources :

- Belgium* : *Quatrième rapport relatif au problème des investissements*, 1949, p. 92.
- Denmark* : *Göteborgs Handels- och Sjöfarts-Tidning*, 12 July 1948 (Programme of Danish Shipowners' Association).
- France* : *Rapport du Commissaire général sur le Plan de modernisation et d'équipement de l'Union française, Réalisations 1947-1949 et Objectifs 1950-1952*, 1949, p. 105.
- Germany, Western Zones* : *Financial Times*, London, 14 February 1950. (Programme of Shipowners.)
- Italy* : *Neue Zürcher Zeitung*, 1 March 1950. (Programme of Shipowners.)
- Norway* : *Om utarbeidelse av et langtidsprogram til Organisasjonen for europeisk økonomisk samarbeid*, St. meld. Nr. 54, 1948, p. 32.
- Poland* : *Rzeczpospolita*, Warsaw, 1949, No. 236.
- Sweden* : *Interim Report on the European Recovery Programme*, O.E.E.C., Volume II, p. 791.
- United Kingdom* : *Memoranda submitted to the Organization for European Economic Co-operation relating to Economic Affairs in the period 1949 to 1953* (Cmd. 7572), pp. 28-29.
- Yugoslavia* : *Five-year Plan for the Development of Yugoslavia*, p. 110.

8. DWELLING STOCK (TABLE XXV)

The dwelling stock for 1939 has been taken from *The European Housing Problem*, Economic Commission for Europe, United Nations, Geneva 1949 E/ECE/110, p. 6. The 1949 dwelling stock was estimated on the basis of the 1947 dwelling stock, given in the same publication (p. 11), and the data on new construction shown in Table 36. The estimate of prospective population increases was based on data supplied by the Population Division, Department of Social Affairs, United Nations, and on national statistics.

The sources for construction programmes were the following :

Belgium : *Quatrième rapport relatif au problème des investissements*, 1949, p. 92.

Bulgaria : *Law relating to the State Five-year Economic Plan*, Part III, paragraph 4.

Czechoslovakia : *The First Czechoslovak Economic Five-year Plan*, p. 239.

Denmark : *Danmarks Nationalbudget*, 1950, p. 67.

France : *Agence économique et financière*, 24 January 1950 (Statement by Claudius Petit, Minister of Reconstruction).

Germany : *Western Zones* : *Basler Nachrichten*, 29 December 1949 (Plan of the Ministry of Reconstruction).

Hungary : *Hungary's Five-year Plan*, Chapter III, Article 41, p. 17.

Italy : *Neue Zürcher Zeitung*, Zürich, 11 November 1949.

Norway : *Nasjonalbudsjettet*, 1950, p. 86.

Om utarbeidelse av et langtidsprogram til Organisasjonen for europeisk økonomisk samarbeid, St. meld. Nr. 54. 1948, p. 35.

Poland : *Rzeczpospolita*, Warsaw, 1949, No. 228.

Sweden : *Översikt över det ekonomiska läget*, 1950, Nationalbudget för Ar 1950, Konjunkturinstitutet, Serie B, 11, 1950, p. 37.

United Kingdom : *The Times*, 19 April 1950 (Statement by the Chancellor of the Exchequer).

Yugoslavia : *Five-year Plan for the Development of Yugoslavia*, p. 118.

VIII. EMPLOYMENT AND UNEMPLOYMENT (TABLES 3 AND 45)

1. GENERAL

The index numbers of employment in industry shown in Table 3 cover manufacturing, gas, water and power supply, but exclude building. The annual index numbers refer to wage and salary earners. In some cases, however, the quarterly indices relate to the numbers of wage earners only.

In most cases the official index numbers and other data on employment published by the countries had to be adjusted, as explained in the list of sources and notes below. Where territories have changed, post-war employment in the post-war territory has been related to pre-war employment in the pre-war territory. European totals, however, have been adjusted to constant (post-war) territories.

The figures on unemployment shown in Table 45 relate to the number of wholly unemployed wage and salary earners in all activities except agriculture. The absolute figures are not always comparable from country to country since the definition of unemployment varies considerably in the statistics of different countries. Adjustments have, however, been applied in order to make the data showing unemployment as a percentage of wage and salary earners comparable as between countries.

The figures for the fourth quarters are the average of the figures for the end of the last four months of the years, except for the United Kingdom where an average of three mid-month figures has been taken.

2. SOURCES AND NOTES

Austria : *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*.

Statistische Nachrichten.

The first source listed gives employment indices for 1937 and post-war years, based on 1934 = 100. The movement from 1937 to post-war shown by these indices has been adjusted on the basis of the results of the census of wage and salary earners in 1948 published in the second source mentioned. The data on unemployment have been taken from the first source. The figures have been adjusted in order to exclude agricultural unemployment.

Belgium : *Bulletin de statistique*.

Quarterly index numbers of employment have been computed on the basis of the number of wage earners employed in coalmines, quarrying, iron and steel, metal-working, non-ferrous metals, tobacco, nitrogenous products, lime and clay, paper, water supply, bricks, woodworking, hosiery and weaving. Index for 1947, base 1937=100, from direct information. Annual index for 1948 has been estimated from social security returns. The data on unemployment have been taken from the same source.

Czechoslovakia : *Statistický Zpravodaj*.

Special index of employment published jointly with the index of industrial production.

Denmark : *Industriel Produktionsstatistik, Statistiske Meddelelser*, 1938 and 1947.

Statistisk Årbog, 1947 and 1948.

Statistiske Efterretninger.

Annual index for 1947 has been taken from the first source listed. The index for 1948 has been derived from the second source. The quarterly indices and the annual index for 1949 are those published in *Statistiske Efterretninger* and refer to man-hours worked. The unemployment data have been derived from the third source where two sets of figures are available : (1) total unemployment in all activities including agriculture and (2) unemployment by industrial groups for persons being unemployed for more than 7 days. The first series has been used, an adjustment being made in order to exclude agricultural unemployment on the assumption that the distribution of unemployment between agriculture and other activities is the same as shown by the second series.

Finland : *Tilastokatsauksia*, September–October 1949.

Teollisuustilasto 1938.

Sosiaalinen Aikakauskirja.

The index for 1947 has been taken from the first two sources listed. The other indices were derived from chain index numbers given in the third publication mentioned. The figures on unemployment, also taken from the third source, include persons employed in relief work.

France : *Revue française du travail*.

Bulletin de la Statistique générale de la France.

The original employment data for "Energie" and "Industries de transformation, bâtiment exclu" given in the first source listed have been combined. The figures shown for unemployment have been taken from both sources mentioned. The figures shown refer to unemployed receiving unemployment compensation. Some adjustments were made in view of changes in the occupational nomenclature.

Germany : Western Zones : *Wirtschaft und Statistik*.

Statistical Annex to the Monthly Report of the Military Governor (U.S.).

Data on employment for the western zones published in the first source listed for post-war years and 1939 have been linked to figures for the U.K./U.S. Zone for 1936 and 1938, given in the second publication mentioned. The unemployment data have been derived from the first source. The 1948 figures refer to the average of the months June to December —i.e., the period following the monetary reforms.

Ireland : *Irish Trade Journal and Statistical Bulletin*.

Half-yearly inquiries give the numbers of persons engaged in certain industries. Quarterly indices have been obtained by interpolation. The index for 1947 is arrived at from the comparison of the number of wage and salary earners in October 1938 and 1947. The unemployment data, taken from the same source, refer to persons covered by unemployment insurance.

Italy : *Annuario di statistiche del lavoro*. Confederazione Generale dell'Industria Italiana, Rome.

Rilevazioni statistiche sulla occupazione operata e la disoccupazione in Italia.

The employment indices are based on absolute figures shown for pre-war in the first publication listed, and for post-war in both sources. The data on unemployment have been taken from the second source. An adjustment has been made in order to exclude agricultural unemployment on the basis of data for certain months of 1948 published in the *Annuario di statistiche del lavoro*.

Netherlands : *Maandschrift van het Centraal Bureau voor de Statistiek*.

The annual indices of employment for 1947 and 1948 have been obtained from the number of wage and salary earners insured against accidents (ongevallen statistiek) published in the *Maandschrift*. The index for 1949 as well as the quarterly index numbers was obtained by direct information. The unemployment figures shown include persons employed in relief work.

Norway : *Norges Industri*, 1947 and 1948.

Arbeids markedet.

The first listed publication was the source for the annual index numbers of employment for 1947 and 1948. The quarterly index numbers and the annual index for 1949 were obtained from the second source. The data on unemployment were taken from the second source mentioned.

Poland : *Wiadomości Statystyczne*.

Concise Statistical Yearbook of Poland, September 1939–June 1941, p. 111.

The post-war movements of employment have been derived from the absolute figures shown in the first publication mentioned ; the pre-war link has been obtained from the second source listed.

Sweden: *Industri*, 1938, 1946, 1947.

Industriell Månadsstatistik, Industriens Utredningsinstitut.

Sociala Meddelanden.

Index numbers of employment for 1947 have been derived from the absolute figures shown in the first source listed. Account has been taken of a difference in coverage in 1946. Indices for 1948 and 1949 were obtained from the two other sources. The unemployment data have been taken from *Sociala Meddelanden* and refer to unemployed members of trade unions.

Switzerland: *La vie économique*.

The annual indices of employment were obtained from the number of workers in factories, registered in October of each year. The quarterly index numbers have been derived from the chain index numbers shown in the same source. The data on unemployment have been taken from the same source.

United Kingdom: *Monthly Digest of Statistics*.

The Ministry of Labour Gazette.

The first source listed gives the distribution of total man-power in Great Britain, divided into mining and quarrying, gas, water and electricity supply and manufacturing industries. Figures for February 1947 are not available. An average was computed for the eleven other months, and the annual average was estimated at 2 per cent below that figure. The figure shown for the first quarter of 1947 is the average of January and March reduced by 8 per cent (see for these estimates *London and Cambridge Economic Service*, 1947, p. 40). The original figures had to be adjusted in view of the revisions made in July of each year. Index for 1947 (1938 = 100) supplied directly by the Ministry of Labour, relates to eleven months (February excluded) and was adjusted so as to correspond to the corrected annual average of number of persons employed. The 1949 figures have been adjusted in view of increase in coverage. Unemployment data have been taken from the second source mentioned. The average for 1947 does not take into account persons unemployed as a result of the fuel crisis in February.

3. WEIGHTING

The weights used in arriving at the combined annual index numbers of employment are proportional to the numbers of wage and salary earners in 1938. They are as follows:

Austria	2.8	Ireland	0.7
Belgium	3.5	Italy	9.4
Czechoslovakia	4.5	Netherlands	2.4
Denmark	1.4	Norway	1.1
Finland	1.1	Poland	4.9
France	15.7	Sweden	2.4
Germany: Western zones	18.5	Switzerland	2.1
Germany: Territories ceded to Poland	2.8	United Kingdom	26.7

The weight given to the German territories ceded to Poland has been used for the correction necessary on account of changes in territory. For the calculation of the combined quarterly index numbers for the years 1948 and 1949 (1948 = 100), the weights have been shifted to a 1948 base by means of the annual employment indices for each country.

IX. WAGES AND EARNINGS (TABLES 19 AND 39)

The figures shown in Table 39 relate in principle to hourly earnings in manufacturing and gas, water and electricity supply. Building is excluded, except for Czechoslovakia, Germany (western zones), Hungary and the United Kingdom. Mining is included for Czechoslovakia, Finland, the Netherlands, Norway and Sweden.

The index numbers shown are generally averages of twelve months or of four quarters. In some cases where the quarterly figures relate to the end of the quarter, the average relates to the four quarters of the year plus the last quarter of the preceding year.

The data on real earnings (Table 19) are generally based on the index numbers of earnings and on official cost-of-living indices. In cases where different sources have been used these are mentioned below.

2. SOURCES AND NOTES

Austria: *Jahrbuch*, 1947 and 1948, Arbeiterkammer, Wien.

The figures for 1948 and 1949 have been supplied by the Österreichisches Institut für Wirtschaftsforschung. The link with 1947 has been obtained from data shown in the source mentioned above.

Belgium : *Bulletin d'Information et de Documentation, Banque Nationale de Belgique.*

Czechoslovakia : *Statistický Zpravodaj.*

Average hourly earnings for the months of May, August and November of each year. The index numbers of real earnings shown in Table 19 are based on estimates of the wage bill given in the national income calculations, and on employment data derived from the health insurance statistics (*Statistický Zpravodaj*.)

Denmark : *Statistiske Efterretninger.*

Weighted average of earnings per hour in industrial occupations.

Finland : *Sosiaalinen Aikakauskirja.*

The indices for male and female workers have been combined. Relative weights : 62 and 38. The data on real earnings have been arrived at by deflating these index numbers by means of retail price indices derived from the national income estimates.

France : *Revue française du travail.*

Hourly wage rates, adjusted for overtime work. The index numbers of real earnings (Table 19) are estimated by the Commissariat général du Plan.

Germany : Western Zones : *Wirtschaft und Statistik*, March and December 1950.

The index of earnings given in the publication mentioned has been deflated by means of a price index for consumption goods and services, derived from the same source.

Hungary : *Szabad Nép*, 5 February 1950.

Statisztikai Szemle, January/May, 1949, page 34.

The data on earnings have been taken from the first source listed and have been deflated by means of the indices of cost of living shown in the second publication.

Ireland : *Irish Trade Journal and Statistical Bulletin.*

Index of weekly earnings per worker. Average of March and September for each year.

Italy : *Rilevazioni statistiche sulla occupazione operaia e la disoccupazione in Italia.*

The data on real earnings were derived from the same source as those on real national income (see Section V, 2, above).

Netherlands : *Maandschrift van het Centraal Bureau voor de Statistiek.*

Hourly earnings in four branches of industry. This index includes adult male workers only. The index of real earnings has been adjusted so as to include female and non-adult workers on the basis of data published in *Economisch-Statistische Berichten*, 17 November 1948.

Norway : *Statistiske Meddelelser.*

Hourly earnings of male and female workers have been combined. Relative weights : 78 and 22.

Poland : *Soviet News*, London, 3 March 1950.

The data on real earnings have been taken directly from this publication.

Sweden : *Sociala Meddelanden.*

Switzerland : *La vie économique.*

The figures have been derived from the annual October enquiry on wages and salaries. The index numbers include handicrafts. The 1949 figures have been taken from "La Situation de l'Industrie", the quarterly report in the same publication.

United Kingdom : *The Ministry of Labour Gazette.*

National Income and Expenditure of the United Kingdom, 1946 to 1949 (Cmd. 7933).

Hourly earnings in industry, building and contracting, gas, electricity and water, transport and communication, national and local Government service, for April and October of each year have been taken from the first source listed. The data on real earnings have been derived from the second source mentioned and from the *London and Cambridge Economic Service* from which the cost-of-living index has been taken.

X. INTERNATIONAL TRADE (TABLES 52–61, 65, 66, 75–79, 81, 92, 93, 95 AND CHART 4)

1. THE TRADE OF EUROPEAN COUNTRIES IN CURRENT PRICES (TABLES 53, 54, 56, 65 AND 66)

(a) General

The data have, in general, been taken from the official foreign trade statistics of European countries. No attempt has been made to adjust the official figures except as mentioned below. The figures relate, wherever possible, to special trade by countries of origin and of consumption. However, the import data for the United Kingdom relate to general trade since the break-down of retained imports is not available by countries of origin. The calculations relating to intra-European trade, as well as to overseas exports, have been based, unless otherwise specified, on the export statistics of European countries, while overseas imports have been based on the import data except where, in the absence of any detailed foreign trade statistics, the export statistics of overseas countries have been used.

(b) Principal Adjustments

(i) In the following cases, the trade between the countries indicated has been considered as internal trade and has therefore been excluded : trade of the United Kingdom with the Channel Islands ; trade of Denmark with the Faroe Islands ; trade of Norway with Spitzbergen.

(ii) No statistics are available for the trade of certain Mediterranean territories (Cyprus, Malta, Gibraltar, Albania, etc.). They have been included as being part of Europe only in calculating the exports of other European countries.

(iii) Certain relatively unimportant items which cannot reasonably be assigned to any particular region (such as the whale fisheries of the United Kingdom and ships stores) have been neglected.

(iv) In the break-down of Denmark's trade by countries and by commodities, account is taken of the fact that certain imports which are recorded as originating in the United Kingdom and the Soviet Union and certain exports recorded as destined for the United States are actually imports from the British and Soviet Zones of Occupation of Germany and exports to the United States Occupation Zone.

(v) In the monthly trade data for Portugal and Finland, a substantial proportion of trade is not specified by countries. The geographical distribution for the year 1948 which is known in greater detail from the annual statistics has been assumed to apply to the unspecified portion.

(vi) For Turkey, the figures for the fourth quarter of 1949 have been estimated.

(vii) An estimate for the trade of the Saar with Germany during the first quarter of 1948, based partly on various data concerning the exports of coal and the imports of foodstuffs, has been used to adjust the figures for the Saar (which is included in the French trade statistics as from the second quarter of 1948).

(viii) Figures for Austria have been taken from *Statistische Nachrichten*. It should be noted that these figures are different, for the year 1948, from those published in *Statistik des Aussenhandels Österreichs, 1948*. The latter do not include coal imports under the programme of aid to Austria. An important part of the trade with the United States and the Soviet Union is not included in these figures.

(ix) European imports originating in the United States are different according to the European statistics from those recorded by the United States as exports to Europe. These differences are particularly large in the case of Austria and Turkey, since both these countries include only commercial transactions in their statistics. The European figures have been corrected only in certain tables (Nos. 52 and 66) by taking into account the United States figures with an allowance of one month for delay in transport.

(x) Conversions of c.i.f. figures to f.o.b. values have been made by putting the difference at 5 per cent in intra-European trade and at 12.5 per cent in overseas trade.

(c) Estimates

The trade of countries for which no statistics are available (mainly the countries of eastern Europe in 1949 and the Soviet Zone of Occupation in Germany in 1948 and 1949) has been estimated. These estimates have been based partly on the statistics of their trade partners, which were based for a number of non-European countries on *Summary of World Trade Statistics, Third Quarter 1949, Statistical Papers, Series D, No. 1*, prepared by the Statistical Office of the United Nations, adjusted for the difference between f.o.b. and c.i.f. or *vice versa*. Account was also taken of all indications which could be found for the trade between such countries—e.g., in official statements, commercial agreements and miscellaneous estimates. In most cases, these indications gave percentages of total trade with other individual countries which were applied to the 1948 figures given in Table XVI of last year's SURVEY. It is not always clear, however, whether these percentages relate to actual or to planned trade. In the case of the Soviet Zone of Germany, the 1948 figure is estimated in Reichsmarks by the Deutsches Institut für Wirtschaftsforschung. The percentage distribution by countries was taken from *Statistische Praxis*, 3 March 1949.

(d) Conversion into United States Dollars

In general, official exchange rates have been used. In the case of Italy and Western Germany in 1948 and 1949, and of France in 1948, the dollar values of imports and exports were taken directly from the official publications.

The data shown in Tables 53, 54 and 65 for the fourth quarter in dollars at "pre-devaluation" rates show the trade at the pre-devaluation rates of the exporting countries. The calculations differed, therefore, for exports and imports. For exports, the fourth quarter values in national currency have been converted by applying the pre-devaluation dollar rate. In the case of imports, however, the imports into any given country, as reported by the importing country, have been distinguished according to the country of origin, transformed into the national currency of the exporting country (at the post-devaluation rate of the exporting country's currency in terms of the importing country's) and finally converted into dollars at the pre-devaluation rate of the exporting country.

(e) Regional Groupings of Overseas Countries

In tables relating to Europe's overseas trade, the "United States" includes Alaska, Hawaii, Puerto Rico and the Virgin Islands and "Latin-American Republics" excludes European and United States affiliated areas.

2. INDEX NUMBERS OF THE VOLUME OF IMPORTS AND EXPORTS (TABLE XXVI)

(a) Sources of Published Index Numbers

The index numbers of the volume of total imports and exports of European countries are based on the official indices described below. In view of the wide variation as regards the base years of these index numbers and of their method of construction which makes them theoretically "irreversible", the level of the figures shown in the table is subject to considerable reservations. On the other hand, the movement of these figures over short periods is probably less subject to error on this account.

The following sources have been used :

Austria : *Statistische Nachrichten* gives index numbers with 1937 as the base year, which have been recalculated with 1938 as the base year with an allowance for trade with Germany.

Belgium-Luxembourg : *Bulletin de Statistique* gives index numbers for 1949 with 1948 as the base year. The link to the 1938 base has been made by means of the old index calculated by the same Institute with 1938 as the base year.

Czechoslovakia : *Statistický Zpravodaj* gives index numbers for 1948 and 1949 with 1937 as the base year ; these have been recalculated on a 1938 base.

Denmark : *Statistiske Efterretninger* of 12 April 1950 gives index numbers for 1948 and 1949 with 1947 as the base year ; these have been shifted to the base 1938 by means of the volume index (1935 = 100) published in *Danmarks Vareindførsel og- Udførsel* 1947.

Finland : *Utrikeshandel* gives monthly index numbers with 1935 as the base year. These are both seasonally adjusted and cumulative. In order to obtain an index comparable with those shown for other countries, the official index has been corrected as follows : first, the seasonal adjustment (which is based on the average of the years 1927-1936) has been eliminated ; second, the resulting figures have been decumulated by quarters ; third, the index numbers thus obtained have been recalculated with 1938 as the base year.

France : *Bulletin mensuel de statistique* gives index numbers for 1948 and 1949 with 1938 as the base year.

Germany : U.K./U.S. Zone : *Der Aussenhandel der Bundesrepublik Deutschland* gives index numbers for 1948 and 1949 (on a Reichsmark/Deutschesmark basis) with 1936 as the base year ; these have been recalculated with 1938 as the base year by means of the volume index (1928 = 100) published in the *Statistisches Jahrbuch* 1939/40, p. 268, adjusted to include trade with Austria.

Hungary : *Gazdaságstatisztikai Tájékoztató* gives monthly value figures for 1948 in 1938 prices, from which index numbers have been calculated with 1938 as the base year.

Ireland : *Irish Trade Journal and Statistical Bulletin* gives monthly value figures in 1930 prices for 1938, 1948 and 1949, from which index numbers have been calculated with 1938 as the base year.

Italy : *Statistica del Commercio con l'Estero* gives index numbers for 1949 with 1948 as the base year. These have been shifted to a 1938 base by means of the volume index (1938 = 100) published in the *Italian Statistical Yearbook* 1948.

Netherlands : *Maandschrift van het Centraal Bureau voor de Statistiek* gives index numbers for 1938, 1948 and 1949 with 1948 as the base year ; these have been recalculated on a 1938 base.

Norway : *Statistiske Meddelelser Årgang*, 1949, gives index numbers (including ships) for 1948 and 1949 with 1938 as the base year.

Poland : *Tablice Statystyczne Instytutu Gospodarstwa Narodowego* gives monthly value figures for 1948 in 1938 prices, from which index numbers have been calculated with 1938 as the base year.

Sweden : *Konjunkturläget Hösten*, 1949, gives annual index numbers for 1938 and index numbers for the first three quarters of 1949 with 1948 as the base year ; the index numbers for 1949 have been recalculated with 1938 as the base year. Index numbers for the fourth quarter of 1949 have been obtained directly from the Konjunkturinstitutet, Stockholm.

Index numbers for the year 1948 have been broken down into quarters, taking into account the quarterly movement indicated in an earlier series of index numbers for 1948 (1936-38 = 100) published in *Konjunkturläget Hösten, 1948*.

Switzerland: *Bulletin Mensuel*, Banque Nationale Suisse, gives index numbers for 1948 and 1949 with 1938 as the base year.

Turkey: *Konjunktur* gives index numbers for 1948 and 1949 with 1938 as the base year.

United Kingdom: *The Board of Trade Journal* gives index numbers for 1948 and 1949 with 1938 as the base year.

(b) *Estimates and Adjustments*

For countries where no published index numbers are available, estimates have been made which were based on the current trade values expressed in United States dollars (some of them being in turn already estimated) which were converted into 1938 prices by means of either price index numbers of neighbouring countries (e.g., prices in the U.K./U.S. Zone were used for the French Zone of Germany) or European price index numbers described below in Section XI.1.6 (as in the case of Greece, Spain, Soviet Zone of Germany, Yugoslavia, Rumania, Bulgaria and the Soviet Union).

In certain cases, annual index numbers are given, but the index numbers for each quarter were estimated. This applies in the following instances :

Belgium, 1948 was distributed by quarters by means of the unit values calculated from the index numbers given in the *Bulletin de l'Institut de Recherches économiques et sociales*, Université Catholique de Louvain, which are based on 1936-1938.

Italy, 1948, from the movement of the Italian official wholesale price index for imports. For exports, the index for manufactured goods has been used.

Portugal, 1948 and 1949, from the movement of the price index of imported and exported goods (*Summary of World Trade Statistics, Third Quarter 1949, Statistical Papers, Series D, No. I*).

Czechoslovakia, fourth quarter 1949, same price index as for third quarter.

Finally, an adjustment has been made for the "Total of Europe", as mentioned under 1 (b) (ix) above of the current value of imports from the United States. The value at 1938 prices of figures so corrected has been calculated on the basis of unit value indices of United States exports.

(c) *Weighting*

The volume index numbers for the various countries have been weighted together for Europe as a whole by means of trade values in 1938, taken from *The Network of World Trade*, League of Nations, 1942, which are on the f.o.b. basis for exports and the c.i.f. basis for imports.

3. QUARTERLY MOVEMENT OF THE VALUE, VOLUME AND UNIT VALUE OF WORLD EXPORTS (TABLE 52)

(a) *Value in United States Dollars at Current Prices*

The value of Europe's exports are the same as those described in Section 1 above. The imports, however, have been adjusted to an f.o.b. basis. Europe's imports from the United States have, however, been taken from the statistics of the United States, with an allowance of one month for delay in transport. The figures for the United States have been taken from the United States statistics.

For the "Rest of the World", the data have been specially supplied by the Statistical Office of the United Nations in advance of publication in the *Monthly Bulletin of Statistics*, United Nations, for May 1950. The imports of the "Rest of the World" have been obtained by deducting from the world total the imports of European countries and the United States.

(b) *Volume (Values at 1938 Prices) and Unit Values*

Quarterly index numbers of the volume of total exports and total imports have been obtained for the European countries as described above in Section 2. For the purpose of Table 52, they have been weighted together on the basis of 1938 f.o.b. values. By means of these total volume indices 1938 = 100, total values in 1938 prices of imports and exports were computed for each quarter of 1948 and 1949. The distribution of total imports and exports as between intra-European and overseas trade was calculated from quarterly value figures broken down into intra-European trade and overseas trade, which were deflated by means of specially computed quarterly import and export price indices which are described in Section 4 below. These special index numbers, which are calculated on the basis 1948 = 100, have been linked to the year 1938 by means of the export price indices published for 1948 in Table 41 of last year's SURVEY after revision of the provisional figures. It should be noted that the unit value index numbers given in the third part of Table 52 are affected by variations in the commodity composition of trade, particularly where a strong seasonal variation occurs. It has only been possible to use the price index with fixed weights for the distribution of the trade of European countries as between intra-European and overseas trade.

The data shown in Tables 53, 54 and 65 for the fourth quarter in dollars at "pre-devaluation" rates show the trade at the pre-devaluation rates of the exporting countries. The calculations differed, therefore, for exports and imports. For exports, the fourth quarter values in national currency have been converted by applying the pre-devaluation dollar rate. In the case of imports, however, the imports into any given country, as reported by the importing country, have been distinguished according to the country of origin, transformed into the national currency of the exporting country (at the post-devaluation rate of the exporting country's currency in terms of the importing country's) and finally converted into dollars at the pre-devaluation rate of the exporting country.

(e) *Regional Groupings of Overseas Countries*

In tables relating to Europe's overseas trade, the "United States" includes Alaska, Hawaii, Puerto Rico and the Virgin Islands and "Latin-American Republics" excludes European and United States affiliated areas.

2. INDEX NUMBERS OF THE VOLUME OF IMPORTS AND EXPORTS (TABLE XXVI)

(a) *Sources of Published Index Numbers*

The index numbers of the volume of total imports and exports of European countries are based on the official indices described below. In view of the wide variation as regards the base years of these index numbers and of their method of construction which makes them theoretically "irreversible", the level of the figures shown in the table is subject to considerable reservations. On the other hand, the movement of these figures over short periods is probably less subject to error on this account.

The following sources have been used :

Austria : *Statistische Nachrichten* gives index numbers with 1937 as the base year, which have been recalculated with 1938 as the base year with an allowance for trade with Germany.

Belgium-Luxembourg : *Bulletin de Statistique* gives index numbers for 1949 with 1948 as the base year. The link to the 1938 base has been made by means of the old index calculated by the same Institute with 1938 as the base year.

Czechoslovakia : *Statistický Zpravodaj* gives index numbers for 1948 and 1949 with 1937 as the base year ; these have been recalculated on a 1938 base.

Denmark : *Statistiske Efterretninger* of 12 April 1950 gives index numbers for 1948 and 1949 with 1947 as the base year ; these have been shifted to the base 1938 by means of the volume index (1935 = 100) published in *Danmarks Vareindførsel og- Udførsel* 1947.

Finland : *Utrikeshandel* gives monthly index numbers with 1935 as the base year. These are both seasonally adjusted and cumulative. In order to obtain an index comparable with those shown for other countries, the official index has been corrected as follows : first, the seasonal adjustment (which is based on the average of the years 1927-1936) has been eliminated ; second, the resulting figures have been decumulated by quarters ; third, the index numbers thus obtained have been recalculated with 1938 as the base year.

France : *Bulletin mensuel de statistique* gives index numbers for 1948 and 1949 with 1938 as the base year.

Germany : U.K./U.S. Zone : *Der Aussenhandel der Bundesrepublik Deutschland* gives index numbers for 1948 and 1949 (on a Reichsmark/Deutschesmark basis) with 1936 as the base year ; these have been recalculated with 1938 as the base year by means of the volume index (1928 = 100) published in the *Statistisches Jahrbuch* 1939/40, p. 268, adjusted to include trade with Austria.

Hungary : *Gazdaságstatisztikai Tájékoztató* gives monthly value figures for 1948 in 1938 prices, from which index numbers have been calculated with 1938 as the base year.

Ireland : *Irish Trade Journal and Statistical Bulletin* gives monthly value figures in 1930 prices for 1938, 1948 and 1949, from which index numbers have been calculated with 1938 as the base year.

Italy : *Statistica del Commercio con l'Estero* gives index numbers for 1949 with 1948 as the base year. These have been shifted to a 1938 base by means of the volume index (1938 = 100) published in the *Italian Statistical Yearbook* 1948.

Netherlands : *Maandschrift van het Centraal Bureau voor de Statistiek* gives index numbers for 1938, 1948 and 1949 with 1948 as the base year ; these have been recalculated on a 1938 base.

Norway : *Statistiske Meddelelser Årgang*, 1949, gives index numbers (including ships) for 1948 and 1949 with 1938 as the base year.

Poland : *Tablice Statystyczne Instytutu Gospodarstwa Narodowego* gives monthly value figures for 1948 in 1938 prices, from which index numbers have been calculated with 1938 as the base year.

Sweden : *Konjunkturläget Hösten*, 1949, gives annual index numbers for 1938 and index numbers for the first three quarters of 1949 with 1948 as the base year ; the index numbers for 1949 have been recalculated with 1938 as the base year. Index numbers for the fourth quarter of 1949 have been obtained directly from the Konjunkturinstitutet, Stockholm.

Index numbers for the year 1948 have been broken down into quarters, taking into account the quarterly movement indicated in an earlier series of index numbers for 1948 (1936–38 = 100) published in *Konjunkturläget Hösten, 1948*.

Switzerland: *Bulletin Mensuel*, Banque Nationale Suisse, gives index numbers for 1948 and 1949 with 1938 as the base year.

Turkey: *Konjunktur* gives index numbers for 1948 and 1949 with 1938 as the base year.

United Kingdom: *The Board of Trade Journal* gives index numbers for 1948 and 1949 with 1938 as the base year.

(b) *Estimates and Adjustments*

For countries where no published index numbers are available, estimates have been made which were based on the current trade values expressed in United States dollars (some of them being in turn already estimated) which were converted into 1938 prices by means of either price index numbers of neighbouring countries (e.g., prices in the U.K./U.S. Zone were used for the French Zone of Germany) or European price index numbers described below in Section XI.1.6 (as in the case of Greece, Spain, Soviet Zone of Germany, Yugoslavia, Rumania, Bulgaria and the Soviet Union).

In certain cases, annual index numbers are given, but the index numbers for each quarter were estimated. This applies in the following instances :

Belgium, 1948 was distributed by quarters by means of the unit values calculated from the index numbers given in the *Bulletin de l'Institut de Recherches économiques et sociales*, Université Catholique de Louvain, which are based on 1936–1938.

Italy, 1948, from the movement of the Italian official wholesale price index for imports. For exports, the index for manufactured goods has been used.

Portugal, 1948 and 1949, from the movement of the price index of imported and exported goods (*Summary of World Trade Statistics, Third Quarter 1949, Statistical Papers, Series D, No. I*).

Czechoslovakia, fourth quarter 1949, same price index as for third quarter.

Finally, an adjustment has been made for the "Total of Europe", as mentioned under 1 (b) (ix) above of the current value of imports from the United States. The value at 1938 prices of figures so corrected has been calculated on the basis of unit value indices of United States exports.

(c) *Weighting*

The volume index numbers for the various countries have been weighted together for Europe as a whole by means of trade values in 1938, taken from *The Network of World Trade*, League of Nations, 1942, which are on the f.o.b. basis for exports and the c.i.f. basis for imports.

3. QUARTERLY MOVEMENT OF THE VALUE, VOLUME AND UNIT VALUE OF WORLD EXPORTS (TABLE 52)

(a) *Value in United States Dollars at Current Prices*

The value of Europe's exports are the same as those described in Section 1 above. The imports, however, have been adjusted to an f.o.b. basis. Europe's imports from the United States have, however, been taken from the statistics of the United States, with an allowance of one month for delay in transport. The figures for the United States have been taken from the United States statistics.

For the "Rest of the World", the data have been specially supplied by the Statistical Office of the United Nations in advance of publication in the *Monthly Bulletin of Statistics*, United Nations, for May 1950. The imports of the "Rest of the World" have been obtained by deducting from the world total the imports of European countries and the United States.

(b) *Volume (Values at 1938 Prices) and Unit Values*

Quarterly index numbers of the volume of total exports and total imports have been obtained for the European countries as described above in Section 2. For the purpose of Table 52, they have been weighted together on the basis of 1938 f.o.b. values. By means of these total volume indices 1938 = 100, total values in 1938 prices of imports and exports were computed for each quarter of 1948 and 1949. The distribution of total imports and exports as between intra-European and overseas trade was calculated from quarterly value figures broken down into intra-European trade and overseas trade, which were deflated by means of specially computed quarterly import and export price indices which are described in Section 4 below. These special index numbers, which are calculated on the basis 1948 = 100, have been linked to the year 1938 by means of the export price indices published for 1948 in Table 41 of last year's SURVEY after revision of the provisional figures. It should be noted that the unit value index numbers given in the third part of Table 52 are affected by variations in the commodity composition of trade, particularly where a strong seasonal variation occurs. It has only been possible to use the price index with fixed weights for the distribution of the trade of European countries as between intra-European and overseas trade.

For the fourth quarter of 1949, the results are partly arbitrary because of the various currency devaluations. The breakdown into intra-European and overseas trade for that quarter has been arrived at by use of export unit values only, both as regards intra-European and overseas trade. The volume index for overseas imports has been derived from the data relating to Europe's total trade by subtracting intra-European trade.

For the United States, both unit value and volume indices have been drawn from the United States statistics.

The figures for the "Rest of the World" have been obtained as a difference from the world totals supplied by the Statistical Office of the United Nations, and have, for this purpose, been adjusted from a 1937 basis to the basis 1938 = 100 by means of figures on current value in 1937 and 1938 and in 1937 prices for the year 1938.

The table is drawn up on the assumption that world imports and world exports are equal. Various minor inconsistencies are due to the fact that this assumption is not strictly fulfilled, even on an f.o.b. basis.

4. TRADE BY COMMODITIES (TABLES 55, 79, 81 AND 95)

(a) Trade in foodstuffs and industrial materials in physical units

(i) Total trade

The data have, in general, been calculated from figures on the physical volume of imports and exports of particular commodities given in the national trade statistics. The commodities have, as far as possible, been defined in comparable terms on the basis of the nomenclatures used in different countries. A certain number of conversions have been effected—e.g., to express flour in grain equivalent, or live animals in meat equivalent. For this reason mainly, the figures are not always comparable with those given in last year's SURVEY. Moreover, in the present SURVEY, only the most important commodities have been considered. It should also be noted that, in the absence of trade statistics for certain countries, many of the figures obtained are not complete, particularly for post-war years. The following table lists various commodities with their numbers in the League of Nations Minimum List, which have been considered in the groups "Food and Feeding-stuffs" and "Industrial Materials", respectively. The conversion factors employed are also indicated. The last column of the table shows the typical prices used in order to arrive at the aggregate import and export values for the commodities concerned. Further explanations about these typical prices are given under (c) below.

Item	League of Nations Minimum List References	Conversion factors used	1948 typical dollar prices per metric ton f.o.b.
<i>Food and Feeding-stuffs</i>			
1. Bread grain	Ch. 5, Nos. 26, 27 ; Ch. 6, Nos. 34, 35	1 ton wheat flour = 1.25 tons grain 1 ton rye flour = 1.25 tons grain	96
2. Coarse grain	Ch. 5, Nos. 30-33 ; Ch. 6, No. 36	1 ton maize flour = 1.43 tons grain 1 ton oats flour = 2.50 tons grain 1 ton barley flour = 1.82 tons grain 1 ton buckwheat flour = 1.79 tons grain 1 ton unspecified flour = 1.70 tons grain	
3. Sugar	Ch. 9, Nos. 59-61	1 ton refined sugar = 1.11 tons raw	165
4. Meat	Ch. 1, Nos. 1-3	1 head cattle = 0.22 tons meat 1 head pigs = 0.082 tons meat 1 head sheep = 0.0188 tons meat	405
5. Butter	Ch. 3, No. 17		985
6. Cheese	Ch. 3, No. 18		635
7. Eggs	Ch. 3, Nos. 19, 20	1 ton frozen eggs = 1.2 tons shell eggs 1 ton dried eggs = 4.44 tons shell eggs	700
8. Fish	Ch. 4, total		360
9. Oilseeds and nuts for expressing oil .	Ch. 14, total		300
10. Animal and vegetable fats and oils .	Ch. 15, total		470
11. Coffee	Ch. 10, Nos. 64, 65		510
12. Tea	Ch. 10, No. 67		1,170
13. Tobacco	Ch. 13, Nos. 85, 86	Smoking tobacco reduced by 10% for packing Cigarettes reduced by 15% for packing Cigars reduced by 20% for packing	1,240
<i>Industrial Materials</i>			
1. Coal and coke	Ch. 34, Nos. 269, 270, 272, 280		12
2. Mineral oils	Ch. 34, Nos. 275-279	1 ton refined oil = 1.11 tons crude oil	24
3. Steel	Ch. 41, Nos. 330-336		160
4. Copper	Ch. 42, Nos. 337, 338		440
5. Timber	Ch. 21, Nos. 153-164		30 ¹
6. Wood-pulp (dry weight)	Ch. 22, Nos. 175, 176		133
7. Newsprint	Ch. 22, No. 178		110
8. Raw wool	Ch. 26, Nos. 198-200, 203-205		1,200
9. Raw cotton	Ch. 26, Nos. 206b, 207-209		820
10. Wool yarn	Ch. 27, No. 219		4,800
11. Cotton yarn	Ch. 27, No. 220		1,800
12. Artificial fibres and yarns	Ch. 26, No. 197 ; Ch. 27, No. 218		1,580
13. Hides and skins	Ch. 23, Nos. 186, 187		1,000
14. Rubber	Ch. 20, Nos. 147-149		495

¹ Price per cubic metre. Where trade figures are given in other units they have been converted into cubic metres by applying the conversion factors given in *Timber Statistics*, 1946 and 1947, Food and Agriculture Organization and Economic Commission for Europe, United Nations.

(b) *Distribution of Europe's Trade by Regions*

A detailed request for data on the origin and destination of trade in food and feeding-stuffs and industrial materials has been made to the Statistical Offices of all member countries of the Economic Commission for Europe. The specially tabulated data thus obtained have permitted the compilation of the table showing the origin and destination of trade in these commodities by major regions. However, answers have not been received from a number of countries, and therefore the results for Europe as a whole are only approximate and are subject to reservations. The estimates necessary in the absence of accurate figures have generally been based on published sources, both European and overseas.

While reservations attach to all the figures presented in the table, they relate particularly to the column "Other unspecified countries". This column includes, in addition to trade with "other countries", certain imports and exports which should, strictly speaking, be contained in the other columns.

(c) *Calculation of Values in Typical Prices*

In order to arrive at aggregate import or export values for the commodities concerned, a single 1948 f.o.b. price for each commodity or commodity group has been applied to the quantities exported and imported. As has been the case in last year's SURVEY, the prices used for this purpose are "typical" rather than "average". It is clear that the results thus obtained may show substantial difference from the values given in the national statistics. For instance, a single price has been used for mineral oil, although the tonnages used in the calculation comprise a share of lubricating oil, the price of which is more than three times that of crude oil. In particular, the figures for the United Kingdom and Germany shown in Tables 55 and 81 are different from the actual values published by these two countries. They are shown only for the purpose of indicating, in terms of physical volume, the relative importance of these countries in relation to the rest of Europe.

Table 55 has been obtained by multiplying the quantities entering into intra-European trade for each commodity with the prices which were typical for the bulk of European trade in these commodities in 1948. These typical prices were in most cases the export prices charged by the main overseas exporters. As prices in intra-European trade and especially prices in east-west trade were in many cases considerably higher than overseas prices the table does not show the actual value of intra-European trade and still less the actual value of east-west trade in these commodities. This is one of the reasons why the figures in this table both for 1938 and for 1948 are considerably lower than the figures in Tables 1 to 3 of the *Economic Bulletin for Europe*, Vol. 1, No. 2, pages 27-29, where the exports from eastern to western Europe were given in actual values for the year 1948 and in estimated 1948 eastern-European export prices for 1938. The difference in prices, however, accounts for only a part of the discrepancy in the magnitude of the figures in the tables, as the tables in the BULLETIN include more countries, both on the export and on the import side, than Table 55. Furthermore, the commodity groups in the tables of the BULLETIN are in many cases broader than in this table, and, finally, the tables in the BULLETIN were partly in c.i.f. prices, whereas the typical prices given here are f.o.b.

5. EXPORTS FROM EUROPE, THE UNITED STATES AND JAPAN TO EUROPE AND OVERSEAS COUNTRIES BY TEN MAJOR COMMODITY GROUPS (TABLES 56-61, 75-78 AND 92)

(a) *General Plan of the Investigation*

In the present state of international trade statistics, it is not possible to make a complete and exact study, according to rigorously uniform definitions, of the exports of European countries and of the United States and Japan, by countries of destination and for well defined commodity groups. It has therefore been necessary in certain cases to use the broad commodity groups where no greater detail exists. Nevertheless, the results obtained may be taken as good approximations of the orders of magnitude involved.

The primary interest of the investigation is centred on the exports of manufactured products. The exporting countries considered are the major European exporters of manufactured products as well as the United States and Japan. The countries of destination considered with reference to each exporting country comprise: (a) all the countries of Europe (irrespective of the value of the trade), (b) all overseas countries to which the exports from the given exporting country amounted to about \$10 million (at post-war prices) in either 1938, 1948 or 1949, and as far as the statistics are available. Exports from the United States to these same overseas countries and to Europe have been included, irrespective of their value. Consequently, the list of countries of destination is different for each exporting country included in the investigation. Moreover, since a country's trade with its own dependent overseas territories is usually more developed than with other overseas areas, practically all such territories, with the exception of the United Kingdom, have been considered in relation to the European mother-country.

(b) *Countries of Destination and Origin considered*

The following table lists the countries of destination included in the study, and the corresponding exporting countries :

<i>Importing Country</i>	<i>Exporting Countries (in addition to the United States)</i>
All European countries	United Kingdom, France, Netherlands, Belgium-Luxembourg, Switzerland, Italy, Portugal, Sweden, Norway, Finland, Germany, Czechoslovakia and Japan.
United States	United Kingdom, France, Netherlands, Belgium-Luxembourg, Switzerland, Italy, Portugal, Turkey, Sweden, Norway, Finland, Germany, Czechoslovakia and Japan.
Canada	United Kingdom, France, Belgium-Luxembourg, Germany, Japan.
Mexico	Germany, Japan (United Kingdom for Table 92 only).
Venezuela	United Kingdom, Italy, Germany, Japan.
Peru	United Kingdom, Germany, Japan.
Chile	United Kingdom, Germany, Japan.
Brazil	United Kingdom, France, Belgium-Luxembourg, Switzerland, Italy, Portugal, Sweden, Germany, Czechoslovakia.
Uruguay	United Kingdom, Belgium-Luxembourg, Germany, Japan.
Argentina	United Kingdom, France, Netherlands, Belgium-Luxembourg, Switzerland, Italy, Sweden, Finland, Germany, Czechoslovakia, Japan.
British West Indies	United Kingdom.
Colombia	Germany (United Kingdom for Table 92 only).
Australia	United Kingdom, France, Netherlands, Belgium-Luxembourg, Norway, Germany, Czechoslovakia, Japan.
New Zealand	United Kingdom, Belgium-Luxembourg, Germany, Japan.
Palestine	United Kingdom, Germany, Czechoslovakia, Japan.
India and Pakistan	United Kingdom, France, Netherlands, Belgium-Luxembourg, Switzerland, Italy, Sweden, Norway, Germany, Czechoslovakia, Japan.
British Malaya	United Kingdom, Japan.
Ceylon	United Kingdom, Japan.
Hong Kong	United Kingdom, Germany, Japan.
Burma	United Kingdom.
Iraq	United Kingdom, Italy, Japan.
Iran	United Kingdom, Italy, Germany, Japan.
Siam	United Kingdom, Japan.
China	United Kingdom, France, Switzerland, Germany, Japan.
Japan	Germany.
French Indochina	France.
Syria-Lebanon	France, Italy, Japan.
Netherlands Indies	Netherlands, Germany, Japan.
Egypt	United Kingdom, France, Netherlands, Belgium-Luxembourg, Italy, Turkey, Sweden, Germany, Czechoslovakia, Japan.
British West Africa	United Kingdom, Japan.
British East Africa	United Kingdom, Japan.
Rhodesia	United Kingdom, Germany.
South Africa	United Kingdom, Netherlands, Belgium-Luxembourg, Switzerland, Italy, Sweden, Germany, Czechoslovakia, Japan.
Algeria	France.
French Morocco	France, Japan.
Tunis	France.
French West Africa	France.
French Equatorial Africa	France.
Other French Africa (including Madagascar)	France.
Belgian Congo	Belgium-Luxembourg, Japan.
Portuguese Continental Africa	Portugal, Japan.
Former Italian Africa	Italy, Japan.

Germany has generally been treated as a whole when considered as a country of destination, while for 1948 and 1949 the trade of the western zones only has been taken into account when considering Germany as an exporter. The pre-war figures for exports from the western zones shown in Tables 57 and 61 have been estimated on the basis of data relating to 1936 published in *Statistische Praxis*, December 1947.

For Japan's post-war exports, the total value to each country of destination has been estimated from miscellaneous sources. However, the full distribution by commodity groups has proved impossible. The figure for textile exports shown in Table 75 has been based on data given in the *Foreign Commerce Weekly*, U.S. Department of Commerce, 26 December 1949, and other information.

(c) *Commodity Groups considered*

As regards the commodity groups studied, the classification is essentially that used in the foreign trade statistics of the United Kingdom, with minor modifications. It has, of course, not been possible to reproduce the same classification exactly in all cases, partly because of the diversity of nomenclatures used by different exporting countries and partly because the commodity classifications used for the exports to given countries are often less detailed than those in use for total trade.

The following list gives the composition of each of the ten commodity groups considered in terms of the British nomenclature :

Commodity Classification

- Group 1. Food, Drink and Tobacco.**
 Class I Food, drink and tobacco.
 Class IV Animals, not for food
- Group 2. Raw Materials and Articles mainly unmanufactured.**
 Class II Raw materials and articles mainly manufactured
 Class III A Coke and manufactured fuel
 III P Oils, fats and resins, manufactured
 Cement (from Class III B)
 Newsprint (from Class III R)
- Group 3. Metals and Manufactures.**
 Class III C Iron and steel and manufactures thereof
 III D Non-ferrous metals and manufactures thereof
 III E Cutlery, hardware, implements and instruments (excluding watches)
- Group 4. Machinery.**
 Class III F Electrical goods and apparatus
 III G Machinery
- Group 5. Passenger Cars.**
 Passenger cars, excluding chassis, engines, spare parts and auto-parts for assembly (from Class III S)
- Group 6. Transport Equipment.**
 Class III S excluding items in Group 5 above and excluding rubber tyres and tubes
- Group 7. Chemicals and Related Products.**
 Class III O Chemicals, drugs, dyes and colours
- Group 8. Textiles and manufactures.**
 Class III I Cotton yarns and manufactures
 III J Woollen and worsted yarns and manufactures
 III K Silk and artificial silk yarns and manufactures
 III L Manufactures of other textile materials
 III M Apparel
- Group 9. All other manufactures.**
 Class III B Pottery, glass, abrasives, etc. (excluding cement)
 III H Manufactures of wood and timber
 III N Footwear
 III Q Leather and manufactures thereof
 III R Paper, cardboard, etc. (excluding newsprint)
 III T Rubber manufactures
 III U Miscellaneous articles
 Watches (from Class III E)
 Rubber tyres and tubes (from Class III S)
- Group 10. Unspecified.**
 Class V Parcel post
 Unspecified exports

For certain countries, Group 5 (passenger cars) has had to be estimated. Chassis, engines, spare parts and automobile parts exported for assembly in another country are in general excluded from this group and contained in Group 6 (transport equipment). This last item is of considerable significance for the exports of the United States to certain countries, and particularly to Canada (1938 : \$33 million, 1948 : \$72 million, 1949 : \$86 million, all at post-war prices). Group 10 (unspecified), which is essentially in the nature of a residual item, includes, in addition to parcel post, items which are unspecified or insufficiently specified, which should strictly be contained in some other group.

(d) Conversion into Post-war Prices

The figures in national currency for the year 1938 thus collected, and completed by estimates where necessary, were adjusted to 1948 prices by use of special price indices computed for each commodity group for each exporting country. The price indices used to translate 1938 trade into 1948 prices have, in principle, been unit value indices of exports for each commodity group which were weighted according to export values in 1938, thus yielding price indices of the Laspeyres type, appropriate to the valuation of base-year (1938) trade in "current" year (1948) prices. Where no unit value index numbers were available, wholesale price indices or specially computed unit values for the principal items included in each commodity group have been used. In certain cases, distinctions within a given commodity group were made before applying the price index numbers. For instance, a special index was used for cotton textiles exported from the United Kingdom, since the price for such textiles shows a movement significantly different from that of other textiles between 1938 and 1948. The data for 1949 were left unadjusted, since price movements in international trade of finished goods between 1948 and the first nine months (i.e., before the devaluations) of 1949 were not large. The figures were then converted into dollars at pre-devaluation exchange rates. It should be noted in this connection

that the data relating to exports in 1949 are actually based on the first nine months only, adjusted to an annual rate. This arrangement is designed to avoid the complications due to the devaluations which took place in the second half of September 1949.

As regards the conversion into United States dollars, a special problem arose in connection with France. French export exchange rates in 1948 varied according to destinations. The annual average rates of frs. 236.7 per dollar for exports to the United States and Portugal, frs. 225.2 to Switzerland, frs. 206.0 to all other countries were applied to the trade in 1948. But 1938 export values were converted, after translation into 1948 prices, by the general average export rate prevailing in 1948—i.e., frs. 208.0.

6. POST-DEVALUATION TRENDS IN EXPORTS TO SELECTED MARKETS (TABLE 93)

The basic data were derived from the trade statistics of the eight countries listed in the table.

Volume indices given for exports to various markets are only rough approximations, for two reasons : (a) unit value indices used to derive the volume indices generally refer only to total export trade with all areas, since sufficiently detailed geographical break-downs are not available ; and (b) in the case of Belgium and Italy, unit value indices for periods exactly corresponding to those listed in the table could not be obtained.

Unit value indices used were derived from the following sources :

Belgium : *Bulletin de statistique*, December 1949 and March 1950.

Unit value index for total exports for January 1949 and 1950.

France : *Bulletin mensuel de statistique*, January and April 1950.

Estimated unit value indices were derived from data on the value and volume of French exports to foreign countries (excluding the Franc Area) shown in this Bulletin.

Western Germany : *Der Aussenhandel der Bundesrepublik Deutschland*, Teil 1, February and March 1950.

Unit value index for total exports.

Italy : *Statistica del commercio con l'estero*, December 1949 and February 1950.

Price index for exports in January–February 1949 and 1950.

Sweden : *Kommersiella Meddelanden*, Kommerskollegium, January and March 1950.

The export price index given in this publication was adjusted in order to eliminate the effect of changes in wood-pulp prices. For that purpose it was estimated that the decrease in the unit value of wood-pulp exports was 16 per cent during the period. The weight given to wood-pulp in the official Swedish index is about 25 per cent.

Switzerland : *Monatsbericht*, Schweizerische Nationalbank, January and April 1950.

Unit value index for total exports.

United Kingdom : *Report on Overseas Trade*, Board of Trade, January and April 1950.

Export price index.

United States : *United States Foreign Trade Series : Total Export and Import Trade*, Department of Commerce, January–December 1949 and January–February 1950.

Index of average unit values for exports of finished manufactures.

7. UNITED STATES' PRODUCTION AND IMPORTS 1890–1949 AND FUTURE PROJECTIONS (CHART 4)

Data on production are based on the following series :

1890–1914 : Value of output (finished commodities at producers' current prices ; Shaw series) in *Historical Statistics of the United States*, U.S. Bureau of the Census, Washington, D.C., 1949, pp. 183–185.

1919–1928 : Value of output (finished commodities at producers' current prices ; Kuznets series), *ibid.*, pp. 181–182.

1929–1949 : Estimates have been derived from Department of Commerce data on national income by industrial origin, as published in the National Income Supplement to the *Survey of Current Business*, July 1947, and in the July 1949 issue of the same publication.

These three series have been converted to 1949 dollars on the basis of the Bureau of Labor Statistics wholesale price index (1890–1914 all commodities, 1919–1949 all commodities other than farm products). See *Historical Statistics of the United States*, and the *Survey of Current Business*, Statistical Supplement, 1942, 1949 and March 1950.

Data on imports of the United States have been derived from *Historical Statistics of the United States*, pp. 246–247, and the *Survey of Current Business*, Statistical Supplement 1949 and March 1950. They refer to general imports through 1932, and to imports for consumption thereafter. Figures have been converted to 1949 dollars on the basis of the average unit value index, as published in the *Survey of Current Business*. For years prior to 1914, the general Bureau of Labor Statistics wholesale price index has been used.

Projections for 1950–1960 are based on the forecast of an increase of 18 per cent in the gross national product of the United States in 1949–1954, as estimated in the 1949 Annual Economic Review of the Council of Economic Advisers of the President. The resulting line of regression has been applied to both production and imports. This method involves two assumptions : that the relative share of production (as defined above) in the gross national product remains unchanged, and that the ratio of imports to the value of finished commodities remains at its 1948 level.

XI. PRICES AND THE TERMS OF TRADE (TABLES 52, 82, 83 AND CHART 2)

1. INDEX NUMBERS OF PRICES IN INTRA-EUROPEAN AND OVERSEAS TRADE (TABLE 52 AND CHART 2)

(a) General

The general principle has been to find for each commodity group a price series or a combination of price series that can be taken to represent the general movement of prices at import and export for Europe as a whole. Wherever possible, prices have been taken from the exporting countries. However, it has been necessary also to rely on "unit values" of imports relating to some representative country or countries.

The series thus obtained for each month of the years 1948 and 1949 were weighted together within each commodity group and as between commodity groups on the basis of the value of trade in 1948.

(b) Prices in Overseas Imports

The following list shows for each of the three major groups, "Food and Feeding-stuffs", "Industrial Raw Materials" and "Finished Goods" the composition by commodity groups and weight given to each.

I. Food and Feeding-stuffs

Commodity	Weight	Commodity	Weight
Bread grain.	31.6	Oilseeds and nuts	10.6
Coarse grain	7.5	Animal and vegetable fats and oils.	8.2
Sugar	12.5	Oilcakes	2.7
Meat.	9.2	Coffee	3.7
Butter	3.0	Tea	3.7
Cheese	1.7	Tobacco	4.4
Eggs	1.2		

Type of index used : U.K. unit values, in some cases combined with those of other countries, and U.S. quotations.

II. Industrial Materials

Commodity	Weight	Commodity	Weight
Mineral oils.	21.3	Wood-pulp	1.5
Other ores	4.9	Raw wool.	12.7
Finished steel	2.9	Raw cotton	18.4
Copper.	6.9	Jute	2.1
Lead.	1.7	Hides and skins	8.0
Zinc	1.1	Rubber	5.9
Aluminium	1.3	Fertilizers.	3.1
Timber.	6.9	Pig-iron and ferro-alloys	1.3

Type of index used : Import prices and unit values of imports from major oversea exporting areas.

III. Finished Goods

Commodity	Weight	Commodity	Weight
Agricultural machinery.	1.7	Textile products	13.7
Other machinery.	30.2	Hides and leather products	2.0
Non-ferrous metal manufactures.	1.5	Rubber manufactures.	3.2
Passenger cars	4.3	Paper and manufactures	1.2
Commercial vehicles	4.0	Chemicals and products	13.7
Other vehicles.	20.4		

Type of index used : U.S. wholesale prices.

(c) Prices in Intra-European Trade

The following list shows the price series and weights used in the calculation of indices relating to food and feeding-stuffs and industrial materials in intra-European trade :

I. Food and Feeding-stuffs

Commodity	Weight	Commodity	Weight
Bread grain	8.7	Cheese	2.4
Coarse grain	10.3	Fish	25.3
Sugar	7.9	Fish oil and whale oil	7.3
Citrus fruits.	7.7	Spirits	1.8
Meat.	6.8	Wine	3.2
Butter	6.9	Tobacco	6.9
Eggs	4.8		

Type of index used : Export unit values of major producing countries.

II. Industrial Materials

Commodity	Weight	Commodity	Weight
Coal	53.7	Scrap.	2.6
Mineral oils.	6.5	Timber	24.6
Iron ore	6.0	Flax	6.6

Type of index used : Export unit values of major producing countries.

With reference to finished goods, the only practical method, in view of the complexity and variety of this group of commodities, was to make use of national unit value index numbers for the export of manufactures. The various series available for different countries were grouped under five headings : (1) metals and metal manufactures (including machinery) ; (2) chemicals ; (3) textiles ; (4) wood-pulp and paper ; and (5) other manufactures. The following notes list the sources and series used :

Belgium :

Bulletin de Statistique gives index numbers of both volume and unit value, *inter alia*, of the exports of producers' investment goods for each month of the year 1949 (1948 = 100). The quarterly indices for the year 1948 have been estimated from the movement of export prices for similar commodities in other countries, taking into account the results of special calculations which were undertaken early in 1949 and concern a comparison of both volume and prices of imports and exports during the month of October 1948 as compared to the first quarter of that year. The unit value index was taken to represent the metals and metal manufactures group.

France :

Bulletin de la Statistique générale de la France gives quantum indices of total exports of equipment on the base 1938=100. The value of these exports, covering exactly the same items, was specially supplied by the Institut national de la Statistique et des Etudes économiques. The export unit values calculated from this material were adjusted for fluctuations in the French export exchange rate, and expressed as index numbers based on 1948. The result was taken to represent the metals and manufactures group.

Italy :

Price index numbers (1948 = 100) for exports of machinery and vehicles (representing metals and metal manufactures), textiles and chemicals, taken directly from the monthly trade returns (*Statistica del commercio con l'estero*), have been adjusted for fluctuations in the exchange rate of the lire.

Netherlands :

Price indices for exports of chemicals, textiles, paper, leather and metals and machinery are taken from *Statistische en Econometrische Onderzoekingen* (Centraal Bureau voor de Statistiek), and are based on 1948. The leather index is used as a constituent of the group "other manufactures".

Switzerland :

The *Bulletin mensuel* of the Swiss National Bank gives for each month both the value and volume indices (1938 = 100) for a considerable number of export industries. From these figures special index numbers have been derived for the following groups :

- (1) metal and metal manufactures : including aluminium, machinery, instruments and apparatus ;
- (2) chemicals : including industrial chemicals and dyestuffs ;
- (3) textiles : including cotton yarn, cotton tissues, lace, yarns and tissues of artificial fibre, knitted goods and apparel ;
- (5) other manufactures : including watches and pharmaceutical products.

The indices for the individual industries were recalculated on the basis 1948 = 100 and weighted together by 1948 export values.

United Kingdom :

The *Board of Trade Journal* gives quarterly data of the value of imports and exports in both current and 1938 prices for a considerable number of commodity groups. From these data special index numbers of export prices have been computed for the following groups of products :

- (1) metals and metal manufactures : including "iron and steel manufactures thereof", "non-ferrous metals and manufactures thereof", "cutlery, hardware, implements and instruments", "electrical goods and apparatus", "machinery", "vehicles (including locomotives, ships and aircraft)".
- (2) chemicals : consisting of "chemicals, drugs, dyes and colours".
- (3) textiles : including "cotton yarns and manufactures", "woollen and worsted yarns and manufactures", "silk and artificial silk yarns and manufactures", and "manufactures of other textile materials and apparel".
- (4) paper and wood-pulp : consisting of "paper, cardboard, etc."

- (5) other manufactures : including " pottery, glass, abrasives, etc. ", " manufactures of wood and timber ", " footwear ", " leather and manufactures thereof ", " paper, cardboard, etc. ", " rubber manufactures ", and " miscellaneous articles, wholly or mainly manufactured ".

The group " other manufactures " consists of the Netherlands leather index, and other manufactures of the United Kingdom and Switzerland as listed above. The wood-pulp and paper group is made up of the Netherlands paper index, the United Kingdom index for " paper, cardboard, etc. " and Swedish export unit value indices for wood-pulp and newsprint.

(d) *Prices in Overseas Exports*

The index number for overseas export prices has identically the same composition as the finished goods index in intra-European trade. However, the weights used both within each of the five major groups and between these groups have been based on the relative importance of the various countries and commodities in overseas rather than intra-European trade in 1948. The following table shows the weights given to the five groups in overseas exports and intra-European trade :

	<i>Intra-European</i>	<i>Overseas</i>
Metals and metal manufactures . . .	49	47
Chemicals	9	7
Textiles.	19	27
Wood-pulp and paper	10	5
Other manufactures	13	14

It may be noted that, in the main group of metals and metal manufactures, the United Kingdom accounts for 53 per cent in intra-European and 76 per cent in overseas trade.

2. CHANGES IN THE UNITED KINGDOM'S IMPORT AND EXPORT PRICES IN CURRENT DOLLARS AND IN THE TERMS OF TRADE AND CORRESPONDING CHANGES ACCORDING TO UNITED STATES PRICE MOVEMENTS (TABLE 82)

(a) *Basic Materials used*

The British unit value index numbers 1938 = 100 for " retained imports " and " exports of produce and manufactures " were taken from the *Board of Trade Journal* and converted into United States dollars. The United States price movements have been derived by recalculating, on the basis 1938 = 100, either wholesale price indices or quotations for individual commodities taken from the *Survey of Current Business* and from the *Monthly Labor Review*. In some cases unit values for particular products have been taken from the United States foreign trade statistics.

(b) *Method of Calculation*

Both the British and the United States price (or unit value) index numbers have been weighted according to the value of imports and exports of the United Kingdom in 1938.

As indicated in Chapter 6, the series have been adjusted in order to allow for the divergent movements in American and British export prices which took place between 1937 and 1938. Thus, in calculating the hypothetical movement of British export prices according to United States price movements, the pre-war base has been obtained by taking the 1937 figures from the United States index numbers and applying to each commodity series considered the movement in corresponding British export prices from 1937 to 1938. The United States price movements have thus been related to a hypothetical pre-war price level such as it would have been if British and American prices had moved in proportion between 1937 and 1938.

3. POST-DEVALUATION CHANGES IN PRICES OF BASIC COMMODITIES IN STERLING AND IN DOLLAR MARKETS (TABLE 83)

The various quotations from which changes in the prices of individual commodities from August 1949 to February 1950 have been computed, were taken from the following sources :

- International Financial Statistics*, International Monetary Fund.
- Records and Statistics*, supplement to *The Economist*.
- Survey of Current Business*.
- Wirtschaft und Statistik*.
- Accounts relating to Trade and Navigation of the United Kingdom*.
- New York Times*.

XII. EUROPE'S BALANCE OF PAYMENTS (TABLES 63, 64, 67 AND 68)

1. TRADE ACCOUNT (TABLES 63 AND 64)

(a) Trade with the United States

Data on Europe's balance of trade in 1947-1949 have been derived exclusively from the official balance-of-payments estimates, as published by the United States Department of Commerce in *Balance of International Payments of the United States, 1946-1948*, and *Survey of Current Business*, March 1950. Trade figures underlying these estimates have been adjusted to compensate for the time-lag, estimated at one month, for the recording of the same transaction on the United States and on the European side. Thus United States exports (including re-exports) for the twelve-month period December to November have been taken as representing Europe's imports during the calendar year. Similarly, United States general imports during the period February to January have been taken to represent Europe's exports during the calendar year. It has not been possible to make a similar correction in the adjustments introduced for balance-of-payments purposes to take account of unrecorded trade.

The Department of Commerce data have been further adjusted for certain offshore purchases made by United States Government agencies. Goods purchased in European countries and consumed in or transferred to other countries are excluded from Europe's exports to the United States. Similarly, goods purchased outside the United States and transferred to Europe by the United States Government are excluded from Europe's imports from the United States. It is presumed that these two types of transactions are included in Europe's trade with "Other overseas countries". (An offset to the dollar settlements involved is included in the item "Other dollar settlements by European countries outside the United States" in Table 68.)

(b) Trade with Other Areas

The basic data have been compiled from the national trade statistics of European countries. C.i.f. import figures have been adjusted to an estimated f.o.b. basis by applying a deduction of 12.5 per cent of the original c.i.f. value. This adjustment has been applied uniformly to both 1948 and 1949 data, while figures for 1947 are f.o.b. values taken from Table XVI in last year's SURVEY.

The resulting figures (Europe's total trade with overseas areas other than the United States, valued on an f.o.b. basis) have been further adjusted to take into account the difference between the United Kingdom trade figures as derived from customs returns and the official United Kingdom balance-of-payments estimates for trade, as published in Cmd. 7928. An estimated deduction has also been made in Europe's total imports from overseas in order to eliminate the duplication of United Kingdom's re-exports to Europe in the trade statistics of such countries which record their imports according to the country of origin. As it has not been possible to establish the exact area distribution of these corrections, they have been applied to totals only ("Adjustments" in Table 64).

2. SERVICE ACCOUNTS (TABLES 63 AND 67)

Estimates for service transactions in Europe's balance of payments have been prepared by the Research Department, International Monetary Fund. Europe's transactions with the United States have been derived from official United States Department of Commerce data (*Balance of International Payments of the United States, 1946-1948*, and *Survey of Current Business*, March 1950). The estimates for Europe's transactions with "Other overseas countries" are explained in detail in the International Monetary Fund's forthcoming *Second Balance of Payments Yearbook*. Estimates for 1949 are highly provisional, being based on incomplete data.

The figures for "Income from investment" in Table 63 are understated in so far as they exclude the income of the United Kingdom from oil investments, which in the official British balance-of-payments estimates is included in the "Other services" item.

Data for Europe's transport account with "Other overseas countries" are independent estimates supplied by the Research Department of the International Monetary Fund. They differ considerably from similar estimates that can be derived from the national balance-of-payments statements of European countries. The differences are mainly due to conceptual and statistical discrepancies.

3. FINANCING OF THE DEFICIT (TABLE 68)

Data for financing transactions have been prepared entirely by the Research Department, International Monetary Fund. More detailed information on various transactions, as well as on the definitions of terms used, will be found in the Fund's *Balance of Payments Yearbook, 1936/1946/1947*, and in the second issue of the same publication, which is to appear during the spring of 1950.

The entry in the "Total" column for "Adjustments" represents the difference between Europe's official financing of a compensatory nature vis-à-vis the rest of the world and other known or estimated transactions. In the distribution between the "United States" column and the "Other overseas countries" column, however, errors and omissions may be mingled to some extent with multilateral settlements. That is, the estimate for errors and omissions and multilateral settlements combined, as

shown in the United States statistics of its balance of payments with Europe, has been entered in this table under "Multilateral settlements" in Group III. The entry for "Adjustments" shown in the "United States" column of this table represents mainly the time-lag correction described in section (a) above and other statistical discrepancies between the United States and European data as reflected in the compensatory official financing statistics of the two regions. The entry for "Adjustments" shown in the "Other overseas countries" column is the difference between that shown in the "United States" column and that shown in the "Total" column.

Special official transactions with the United States include certain wartime settlements, capital repayments, and, in 1947, \$0.4 billion of subscriptions in gold to the International Monetary Fund and the International Bank for Reconstruction and Development. Special official financing with other countries includes the Netherlands' financing of overseas territories.

The entry in the "Other overseas countries" column for long-term capital movements in 1948 includes the \$320 million gold loan from South Africa to the United Kingdom; the entry for 1949 includes the repayment of this loan.

XIII. THE PATTERN OF INTERNATIONAL PAYMENTS (TABLES 86 AND 88)

1. THE PATTERN OF TRADE BALANCES OF MAJOR TRADING AREAS (TABLE 86)

Trade balances of various areas with one another in 1928 and 1938 have been calculated from Annex III in *The Network of World Trade*, League of Nations, 1942. Whenever necessary, a deduction of 10 per cent of the c.i.f. value of imports has been applied in order to convert the figures into an estimated f.o.b. basis. In general, no reconciliation of the differences between the data as reported by each pair of regions has been attempted, and the choice of final figures used in the table has been based on an evaluation of their completeness, statistical consistency, etc.

The corresponding trade balances for 1948 and 1949 are based partly on data compiled by the Research and Planning Division of the E.C.E. from national statistics, and partly on trade estimates obtained from the Statistical Office of the United Nations at Lake Success.

As the data shown in the table have been derived from different sources, the totals shown do not always agree with similar data published elsewhere. In the case of the United Kingdom, for instance, United States trade statistics have been used for the trade of the United Kingdom with the United States in 1948 and 1949. In addition to these substitutions, the figures are also affected by statistical discrepancies between the various sets of figures, by the incompleteness of certain data, and by the arbitrary nature of the f.o.b. adjustment of imports.

2. THE PATTERN OF CURRENT ACCOUNT BALANCES (TABLE 88)

Owing to the lack of precise area break-downs in existing balance-of-payments data, the figures given in this table for bilateral balances and regional totals are largely based on estimates and should only be used to indicate orders of magnitude. In most cases, data on bilateral relationships have been available from one side only. Whenever estimates from both sides have been obtained, the apparently more complete and authentic figures have been used. In some cases it has been impossible to obtain any data on "invisible" transactions between two areas, and therefore unadjusted trade figures have been used either alone or combined with rough estimates for the amount of service transactions.

The net balances and area break-downs of regions shown in this table do not always agree with similar data that can be obtained from other sources. The differences are mainly due to the following factors:

(i) It is impossible to ascertain the area break-down of certain adjustments made in official balance-of-payments statements. For instance, in Table 68 of this SURVEY, the European totals for transactions with the United States have been adjusted for certain offshore purchases and the time lag involved in the recording of data (see Section XII above). It is, however, impossible to carry out the adjustments when "Europe" is broken down between the United Kingdom and "Other Europe". The figures in this table differ therefore from those in Chapter 5.

(ii) In the construction of the table, it has been necessary to combine estimates derived from various sources, and to assume that they are consistent and comparable. As an example, the balance on current account of the United Kingdom vis-à-vis Latin-American Republics has been obtained using the following rough method: The current account balances of the United States and Canada with the United Kingdom, taken from United States and Canadian sources, have been deducted from British balance-of-payments figures for the Western Hemisphere (including the dollar area). The difference has been adjusted to take into account certain British transactions with countries outside the Western Hemisphere which have been included with the dollar area in the British statement. The residual has been assumed to represent the United Kingdom's balance of payments on current account with Latin-American Republics.

(iii) Certain break-downs presented in these tables are incomplete. The various balances given for Canada, for instance, include service transactions with all other areas except Latin-American Republics, European dependent overseas territories and "Other overseas countries". For these three, only trade figures are given.

(iv) Additional discrepancies are caused by varying coverage and comparability of the underlying data, by rounding errors, etc.

The principal sources used are the following :

United States : *The Balance of International Payments of the United States, 1946–1948*, Department of Commerce, 1950.

Survey of Current Business, March 1950.

Additional information has been received by letter from the United States Department of Commerce.

United Kingdom : *United Kingdom Balance of Payments, 1946 to 1949* (No. 2), (Cmd. 7928).

The break-down by areas used in the tables is supplemented with United States and Canadian data and partly based on estimates made by the Research and Planning Division, Economic Commission for Europe.

Canada : *The Canadian Balance of International Payments, 1926 to 1948*, Dominion Bureau of Statistics, 1949.

The estimates for 1949 were received by letter from the Dominion Bureau of Statistics. The break-down by areas is partly based on estimates made by the Research and Planning Division, Economic Commission for Europe.

Other Europe : The figures are based on national trade statistics. Adjustments were made so as to cover service transactions in cases where a sufficiently accurate area break-down of the latter is available.

All other areas : Estimates for goods and services balances of Europe, the United States and Canada with all other areas listed in the table have been derived from unilateral information obtained from the above-mentioned sources. Estimates of trade balances of these areas with one another have been specially calculated for the Economic Commission for Europe by the Statistical Office of the United Nations at Lake Success.

Appendix C

SUPPLEMENTARY STATISTICS

NOTE — It has not been possible to reproduce Table XVI of the Appendix to last year's SURVEY ("The Network of Europe's Trade by Individual Countries") in this Appendix. It is, however, planned that this table, brought up to date, will be published in a forthcoming number of the *Economic Bulletin for Europe*.

Table I
POPULATION OF EUROPEAN COUNTRIES AND THE UNITED STATES

Mid-year estimates

Millions

Country	1938	1947	1948	1949
Albania	1.1	1.1	1.2	1.2
Austria	6.8	6.9	7.0	7.1
Belgium	8.4	8.5	8.5	8.6
Bulgaria	6.3	7.0	7.1	7.2
Czechoslovakia	15.3	12.2	12.3	12.5
Denmark	3.8	4.1	4.2	4.2
Finland	3.7	3.9	4.0	4.0
France	41.7	41.3	41.8	42.2
Germany	68.6	66.2	67.6	69.1
of which Western zones	39.2	44.8	46.1	47.3
Soviet Zone	15.1	17.3	17.4	17.6
Berlin	4.3	3.2	3.2	3.3
Separated areas	9.2	—	—	—
Saar	0.8	0.9	0.9	0.9
Greece	7.1	7.7	7.8	7.9
Hungary	9.1	9.1	9.2	9.2
Ireland	2.9	3.0	3.0	3.0
Italy	43.7	45.8	45.7	46.0
Luxembourg	0.3	0.3	0.3	0.3
Netherlands	8.7	9.6	9.8	9.9
Norway	2.9	3.1	3.2	3.2
Poland	34.7	23.5	24.0	24.2
Portugal	7.5	8.2	8.3	8.4
Rumania	19.8	15.8	15.9	16.1
Spain	25.4	26.8	27.2	27.5
Sweden	6.3	6.8	6.9	7.0
Switzerland	4.2	4.5	4.6	4.6
Turkey, in Europe	1.3	1.5	1.5	1.6
in Asia	15.6	17.8	18.2	18.3
United Kingdom	47.7	49.6	50.1	50.4
of which England and Wales	41.4	43.1	43.5	43.8
Scotland	5.0	5.2	5.2	5.2
Northern Ireland	1.3	1.3	1.4	1.4
Yugoslavia	15.5	15.6	15.8	15.9
Displaced persons, not elsewhere included	—	0.6	0.5	0.4
Total Europe	408	401	406	411
United States	129	144	147	149

Sources: The figures have been taken chiefly from data supplied by the Population Division, Department of Social Affairs, United Nations, supplemented by national statistics.

NOTE.—The figures for 1938 refer to pre-war territory; those for the post-war years, to the post-war area.

Table II
NET NATIONAL INCOME AT FACTOR COST
Billions of national currency units in current prices

Country	1938	1947	1948	1949
Austria	6.2 ^a	18.2	22.5	28.1
Belgium	64.0	226	249	248
Czechoslovakia	58.6 ^a	194	213	260
Denmark	6.36	14.8	15.8	16.8
Finland	29.5	211	298	306
France	360	3,160	5,404	6,513
Germany : Western zones ^b	37.4	..	..	62.5
Soviet Zone ^b	14.9	..	..	17.5
Greece	69.1	9,020	14,600	19,200
Hungary	5.50 ^c	15.5 ^d	25.2 ^e	39.5
Italy	131	5,300	6,100	6,300
Netherlands	4.70	10.9	12.3	12.6
Norway	3.63	8.25	9.14	9.64
Poland	19.8	1,490	1,930	2,220 ^f
Spain	26.7 ^g	103	109	114
Sweden	10.1 ^h	19.3	21.3	21.7
Switzerland	8.70	16.8	17.6	16.7
Turkey	1.77	5.74	7.24	9.15 ^f
United Kingdom	4.77	8.83	9.46	10.2
Yugoslavia	54.2	157	215	258
United States	67.4	202	226	222

Sources : The figures are derived from official and semi-official sources, supplemented by estimates of the Research and Planning Division, Economic Commission for Europe. For sources and details of the methods of computation, see Appendix B.

NOTE.—The original data have been corrected to a uniform definition; e.g., estimates for consumers' services have been added to the national estimates for countries which follow the U.S.S.R. definition.

^a 1937.

^b Excluding Berlin. The pre-war figure refers to 1936. For the whole of Germany, the national income in 1936 was 63.6 billion Reichsmark.

^c 1 July 1938–30 June 1939.

^d 1 August 1946–31 July 1947.

^e 1 August 1947–31 July 1948.

^f Plan figure.

^g 1939.

^h 1938–1939.

Table III
THE LEVEL OF GOVERNMENT REVENUE AND EXPENDITURE
Percentages of net national income at factor cost

Country	Financial year	REVENUE				EXPENDITURE							
		Direct taxes	Indirect taxes	Other current revenue	Total current revenue	National debt interest	Price subsidies	Social security	Defence	Other current expenditure	Total current expenditure	Investments	Total expenditure
A. CENTRAL GOVERNMENT													
Austria	1948	9.0	11.8	1.5	22.3	0.2	3.9	5.0	—	17.3	26.4	3.6	30.0
	1949	6.8	11.5	1.1	19.4	0.4	0.8	5.1	—	13.1	19.4	5.1	24.5
	1949 a	9.9	11.5	1.1	22.5	0.4	1.7	6.0	—	16.5	24.6	2.9	27.5
	1950	12.6	14.1	3.0	29.7	0.5	1.4	6.8	—	20.5	29.2	3.8	33.0
Belgium	1948	9.4	13.0	2.5	24.9	2.7	4.8	3.9	1.7	12.3	25.4	3.1	28.5
	1949	10.0	12.6	3.4	26.0	2.7	3.4	5.6	2.6	13.8	28.1	2.9	31.0
	1950	9.6	12.5	2.7	24.8	2.9	1.2	5.7	3.1	14.0	26.9	4.7	31.6
	1948	8.7	12.9	5.7	27.3	1.3	3.7	3.1	3.4	13.2	24.7	10.4	35.1
Czechoslovakia	1949	6.5	22.5	5.3	34.3	1.2	2.3	3.1	3.2	16.3	26.1	8.2	34.3
	1948	9.7	16.8	5.2	31.7	2.9	2.6	2.7	1.4	14.9	24.5	4.0	28.5
	1949	6.7	17.7	4.6	29.0	2.4	0.9	5.2	1.4	12.2	22.1	3.4	25.5
	1948	6.8	12.4	0.7	19.9	1.1	3.4	1.9	4.6	9.4	20.4	8.0	28.4
France	1949	4.5	16.2	1.2	21.9	1.2	2.8	1.8	5.2	9.2	20.2	10.7	30.9
	1948/49	9.6	11.9	7.2	28.7	0.6	1.1	5.4	—	15.8	22.9	2.6	25.5
	1947/48	5.9	12.9	2.2	21.0	0.2	0.3	0.9	0.6	15.8	17.8	3.2	21.0
	1947/48 1949	6.5 6.8	15.0 12.6	3.7 4.3	25.2 23.7	.. —	.. 1.7	.. 0.9	.. 2.9	.. 9.6	21.8 15.1	3.3 8.4	25.1 23.5
Italy	1948/49 1949/50	2.1 2.5	12.1 11.6	1.0 1.0	15.2 15.1	1.5 1.5	.. 0.6	.. 1.5	4.8 4.7	.. 9.3	18.4 17.6	6.1 3.6	24.5 21.2
	1948 1949	11.9 11.8	12.3 12.2	2.1 2.2	26.3 26.2	4.3 4.4	6.2 2.5	3.6 3.4	6.0 6.7	4.9 4.4	25.0 21.4	4.5 4.3	29.5 25.7
	1948 1949 1950	9.6 11.0 9.4	15.3 14.6 14.3	2.8 2.4 2.3	27.7 28.0 26.0	1.4 1.5 1.5	8.5 8.2 7.5	2.2 2.2 2.2	2.2 3.1 2.7	10.3 9.0 8.3	24.6 24.0 22.2	4.4 4.8 3.6	29.0 28.8 25.8
	1948 1949	4.7 5.3	9.0 10.5	9.5 4.4	23.2 20.2	0.1 0.1	5.1 0.5	0.4 0.5	2.1 2.7	6.7 11.1	14.4 14.9	11.0 8.9	25.4 23.8
Spain	1948 1949 1950	5.2 5.4 6.1	7.2 7.3 8.2	1.5 1.4 1.3	13.9 14.1 15.6	1.8 1.8 2.0	— — —	0.5 0.5 0.5	5.4 5.5 5.8	4.9 5.4 5.9	12.6 13.2 14.2	1.1 c 1.1 c 1.2 c	13.7 14.3 15.4
	1948/49 1949/50 1950/51	10.0 10.8 10.7	10.2 9.6 9.7	2.6 2.4 2.4	22.8 22.8 22.8	1.5 1.4 1.4	1.4 2.3 ..	6.4 6.2 6.4	4.3 3.7 3.9	7.1 7.0 ..	20.7 20.6 20.6	2.9 2.1 2.2	23.6 22.7 22.8
	1948 1949 1950	2.1 1.0 2.6	6.4 6.4 5.8	1.4 0.9 1.1	9.9 8.3 9.5	1.9 1.7 1.7	1.2 0.6 0.2	1.1 1.2 1.3	2.4 2.5 2.7	2.2 1.9 2.1	8.8 7.9 8.0	0.7 1.2 1.4	9.5 9.1 9.4

[illegible]

Sources: Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—The figures in ordinary type refer to provisional or to closed accounts ; figures in italics refer to budget estimates.

The data in Part A refer to central government finance. Central government expenditure includes transfers to other public authorities. In Part B, the data refer to consolidated figures for central government and local authority finance and social security funds.

"Direct taxes", in general, does not include taxes paid out of capital (death duties, capital levies, war excess profits tax, etc.). In Part B, "direct taxes" includes social contributions paid by employees, and "indirect taxes" includes social security contributions paid by employers.

"Price subsidies" includes payments to offset the current deficits of the public enterprises. "Social security" in Part A includes expenditure on central government accounts only; in Part B, it includes indirect taxes, includes social security contributions paid by employers. "Social security" in Part A includes expenditure on central government accounts only; in Part B, it includes the consolidated expenditure of central and local governments as well as payments from national insurance

a Revised estimate after wage/price agreement.
b Bizional and *Länder* authorities. The figures for 1948/49 refer to the period 20 June 1948 to 31 March 1949 on an annual basis.

c Net investment included in the budget only ; excluding investment to be covered by loans.
1949 on an annual basis.

d Expenditure includes some investment.

^e The figures for 1948/49 refer to the period 20 June 1948 to 31 March 1949 on an annual basis. Excluding communes

f Excluding communes.

Table
NET VALUE OF COMMODITY PRODUCTION, IMPORTS,
Millions of dollars

Country	INDUSTRIAL PRODUCTION				AGRICULTURAL PRODUCTION				TOTAL COMMODITY PRODUCTION			
	Pre-war	1947	1948	1949	Pre-war	1947	1948	1949	Pre-war	1947	1948	1949
Austria ^a	400	224	356	472	236	153	165	196	699	398	560	728
Belgium-Luxembourg	830	896	963	971	225	192	204	216	1,214	1,232	1,319	1,353
Bulgaria	65	94	114	148	194	130	184	185	268	233	308	343
Czechoslovakia ^a	875	761	901	964	518	328	396	455	1,552	1,229	1,440	1,571
Denmark	324	382	424	450	256	253	275	285	643	713	781	824
Finland	137	160	184	188	124	104	118	120	404	412	431	418
France	3,155	2,997	3,502	3,849	2,041	1,543	1,823	1,780	5,822	5,371	6,142	6,446
Germany	9,066	2,944	4,165	5,850	2,587	1,622	1,552	1,743	12,971	5,036	6,368	8,440
Ireland	125	150	173	181	166	152	168	151	316	323	364	358
Italy	1,798	1,672	1,762	1,870	1,310	1,151	1,221	1,327	3,344	3,003	3,155	3,383
Netherlands	665	625	751	845	320	288	321	359	1,131	1,030	1,229	1,395
Norway	219	252	282	300	72	65	77	73	388	423	471	493
Poland	711	739	960	1,180	1,164	812	850	930	2,153	1,767	2,156	2,456
Sweden	771	1,087	1,149	1,172	253	249	274	276	1,322	1,637	1,705	1,744
United Kingdom	6,696	7,700	8,571	9,174	754	820	955	900	8,698	9,501	10,594	11,186
Other European countries . .	2,406	2,896	3,213	3,506	3,011	2,508	2,742	2,522	5,873	5,858	6,455	6,556
Total Europe : ^b												
including Germany	28,243	23,579	27,470	31,120	13,231	10,370	11,325	11,518	46,798	38,166	43,478	47,694
excluding Germany	19,177	20,635	23,305	25,270	10,644	8,748	9,773	9,775	33,827	33,130	37,110	39,254

Sources: Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE.—“Industrial production” includes manufacturing and handicrafts, mining and gas, water and electricity supply. “Total commodity production” includes the output of building, fishing and forestry in addition to that of industry and agriculture.

In the calculation of commodities available, a deduction has been made from the figures for exports (f.o.b.) to allow for transport and merchandising costs, which are included in the data for exports, but not in those for the net value of production. For this purpose, it has been assumed that these costs amounted to 10 per cent of f.o.b. values.

The figures for the pre-war years refer to pre-war territories; the post-war

IV

EXPORTS AND COMMODITIES AVAILABLE FOR HOME USE

in 1938 prices

IMPORTS (c.i.f.)				EXPORTS (f.o.b.)				TOTAL COMMODITIES AVAILABLE				TOTAL COMMODITIES AVAILABLE PER HEAD (dollars)			
Pre-war	1947	1948	1949	Pre-war	1947	1948	1949	Pre-war	1947	1948	1949	Pre-war	1947	1948	1949
289	160	209	293	171	41	99	127	834	521	680	907	123	76	97	128
765	834	803	767	721	469	657	701	1,330	1,644	1,531	1,489	153	187	174	167
60	..	..	..	62	..	..	..	272	249	341	389	43	36	48	54
292	245	316	346	358	197	280	302	1,522	1,297	1,504	1,645	100	106	122	132
354	283	295	380	335	224	239	312	696	794	861	923	183	194	205	220
183	119	154	143	181	112	118	139	424	430	479	436	115	110	120	109
1,322	1,415	1,358	1,365	863	734	811	1,148	6,367	6,125	6,770	6,778	153	148	162	161
2,222	425	838	1,280	2,023	212	371	658	13,372	5,270	6,872	9,128	195	79	102	132
202	250	258	248	118	83	83	105	412	498	547	511	142	166	182	170
586	721	637	689	549	296	439	467	3,436	3,458	3,397	3,652	79	76	74	79
774	627	655	730	579	313	372	558	1,384	1,375	1,549	1,623	159	143	158	164
293	349	293	342	193	158	157	162	507	630	623	689	175	203	195	215
247	316	337	..	223	123	222	..	2,199	1,972	2,293	2,631	63	84	96	109
523	654	554	470	463	343	417	475	1,428	1,982	1,884	1,786	227	292	273	255
4,161	3,204	3,360	3,631	2,291	2,497	3,124	3,452	10,797	10,458	11,142	11,710	226	211	223	233
1,252	1,440	1,638	1,622	1,128	792	982	1,064	6,110	6,585	7,209	7,221	57	60	65	65
13,525	11,085	11,772	12,805	10,258	6,624	8,409	9,985	51,090	43,288	47,682	51,518	125	108	117	125
11,303	10,660	10,934	11,525	8,235	6,412	8,038	9,327	37,718	38,018	40,810	42,390	111	114	120	124

figures to post-war territories. The pre-war data for agriculture generally relate to the average of the years 1934-1938; for production and trade, to 1938.

The figures shown in the table are of a highly tentative nature. For certain countries no indices of the volume of production are available; for others, trade data are missing. Where such data are missing, estimates have been made.

It should be mentioned also that commodity production is expressed in dollars of 1938 purchasing power, while imports and exports have been converted into dollars at the official 1938 exchange rates.

a The pre-war data for industry refer to 1937 but are expressed in 1938 prices.

b Excluding the U.S.S.R.

Table V
THE LEVEL OF PRODUCTION IN THE CHEMICAL INDUSTRIES
Index numbers based on 1938 and 1948

Country	Relative net value of production in 1938	1938 = 100			1948 = 100							
		1947	1948	1949 ^a	1948				1949			
					First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter, ^a
Austria ^b	1.8	77	145	167	87	100	109	104	93	121	125	123
Belgium ^c	3.8	130	150	152	102	93	93	111	104	106	97	99
Czechoslovakia ^b	4.6	102	124	134	97	99	96	109	105	110	101	116
Denmark ^d	1.2	100	114	126	95	97	90	118	113	110	102	118
Finland	1.2	141	159	164	103	99	95	102	101	103	98	111
France	12.2	109	128	124	102	109	94	95	102	105	88	93
Germany: Western zones	33.0	31	47	66	80	88	111	121	133	139	140	144
Greece	1.6	59	63	81	93	88	81	138	114	126	136	138
Ireland	0.5	103	109	122	100	94	85	121	113	111	104	122
Italy	7.8	85	93	99	86	100	111	103	97	107	116	105
Netherlands	1.6	83	105	110	94	101	98	103	106	103	98	112
Norway	1.4	117	116	155	87	104	108	101	126	132	126	150
Poland	4.1	147	215	..	92	99	100	109	..	..	..	..
Sweden	4.5	163	183	..	..	..	..	..	..	..	..	..
United Kingdom	18.5	161	184	189	101	99	96	104	104	105	96	107
Total of countries listed:												
including Germany ^e .	100.0 ^f	92	112	123	95	99	100	107	109	113	107	114
excluding Germany .	67.0 ^f	122	144	151	98	100	98	104	104	108	101	109

Sources: The index numbers for each country (with the exception of Belgium) have been taken from official or semi-official sources. For details of sources and methods of computation, see Appendix B.

NOTE.—For those countries in which there have been territorial changes since 1938, production in the post-war territory has been related to 1938 production in the pre-war area. The totals for all countries listed, however, have been adjusted to constant (post-war) territories for all years. For details, see Appendix B.

^a Provisional.

^b 1937 = 100.

^c 1936–1938 = 100.

^d The annual index numbers for 1948 and 1949 have been linked to an estimated index for 1947.

^e Western zones only.

^f Including net value of production for territory ceded to Poland accounting for 2.2 per cent of the total.

Table VI
THE LEVEL OF PRODUCTION IN THE ENGINEERING INDUSTRIES
Index numbers based on 1938 and 1948

Country	Relative net value of production in 1938	1938 = 100			1948 = 100							
		1947	1948	1949 ^a	1948				1949			
					First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter ^a
Austria ^b	1.6	56	98	152	84	94	98	124	134	146	151	190
Belgium ^c	3.6	116	137	132	99	107	92	102	106	108	86	87
Czechoslovakia ^b	3.9	97	120	131	93	108	94	106	108	109	102	118
Denmark	1.0	140	156	163	103	102	91	105	105	106	95	112
Finland	0.6	178	209	234	100	99	98	103	105	103	93	112
France	13.0	98	120	141	95	102	96	108	117	128	112	113
Germany : Western zones.	38.1	21	38	64	75	79	108	138	158	156	166	189
Greece	0.1	19	27	31	92	83	106	119	106	113	108	134
Ireland	0.3	143	215	206	87	118	100	96	88	95	91	109
Italy	6.3	80	80	79	102	102	94	102	98	101	97	98
Netherlands	2.6	93	122	146	89	100	98	110	112	120	121	126
Norway	0.5	130	148	149	104	107	84	105	109	106	83	106
Sweden	3.1	156	161	165	100	101	97	102	102	103	101	104
United Kingdom	25.3	132	151	164	99	102	96	104	107	109	104	113
Total of countries listed :												
including Germany ^d . .	100.0	79	97	115	94	99	97	110	116	119	114	124
excluding Germany . .	61.9	114	133	146	97	102	96	105	108	113	105	112

Sources: The index numbers for each country (with the exception of Belgium) have been taken from official or semi-official sources. For details of sources and methods of computation, see Appendix B.

NOTE.—The indices for each country include, as far as possible, mechanical and electrical engineering, transport equipment (including ships and aircraft) and metal goods.

^a Provisional.

^b 1937 = 100.

^c 1936–1938 = 100.

^d Western zones only.

Table VII
THE LEVEL OF PRODUCTION IN THE TEXTILE INDUSTRIES
Index numbers based on 1938 and 1948

Country	Relative net value of production in 1938	1938 = 100			1948 = 100							
		1947	1948	1949 ^a	1948				1949			
					First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter ^a
Austria ^b	1.2	31	51	77	90	94	97	119	132	147	148	179
Belgium	3.6	130	116	120	106	102	95	97	102	103	98	110
Czechoslovakia ^c	4.2	60	77	81	100	102	89	109	105	110	90	118
Denmark	0.4	108	134	140	101	107	86	107	106	105	91	119
Finland	0.5	103	121	138	94	96	94	116	111	115	107	121
France	16.2	89	102	101	101	107	89	104	103	107	86	101
Germany : Western zones	18.3	26	42	78	77	80	114	129	154	171	192	220
Greece	1.4	90	89	100	93	92	102	113	106	108	115	125
Ireland	0.3	139	152	167	100	100	88	112	112	103	98	128
Italy	11.8	92	91	101	95	97	99	109	108	118	108	112
Netherlands	2.7	87	105	122	98	98	92	110	111	115	110	127
Norway	0.4	124	144	154	103	110	84	104	114	112	87	112
Poland	3.6	97	125	145 ^d	96	98	100	106	..	..	..	..
Spain ^e	2.9	92	81	41	174	89	80	57	49	53	51	51
Sweden ^f	2.2	131	144	149	100	101	97	103	104	104	101	106
United Kingdom	28.8	81	95	102	100	100	96	104	108	105	103	114
Total of countries listed :												
including Germany ^g . .	100.0 ^h	75	87	97	99	99	96	106	109	113	107	120
excluding Germany . .	81.7 ^h	87	97	102	101	101	94	104	105	107	99	111

Sources: The index numbers for each country (with the exception of Belgium) have been taken from official or semi-official sources. For details of sources and methods of computation, see Appendix B.

NOTE.—Unless otherwise specified, clothing is not included in the index numbers for each country. For those countries in which there have been territorial changes since 1938, production in the post-war territory has been related to 1938 production in the pre-war area. The totals for all countries listed, however, have been adjusted to constant (post-war) territories for all years. For details, see Appendix B.

^a Provisional.

^b 1937 = 100.

^c 1937 = 100. Including ready-made clothing.

^d Estimate.

^e 1935 = 100.

^f Including ready-made clothing.

^g Western zones only.

^h Including net value of production for territory ceded to Poland accounting for 1.5 per cent of the total.

Table VIII
PRODUCTION AND CONSUMPTION OF MINERAL OIL
Millions of tons

Country	PRODUCTION OF CRUDE PETROLEUM			CONSUMPTION OF MINERAL OIL ^a		
	1938	1948	1949 ^b	1938	1948	1949 ^b
Austria	0.06	0.91	0.90	0.39	0.97	0.95
Belgium-Luxembourg	—	—	—	0.82	1.68	1.76
Czechoslovakia	0.02	0.04	0.05	0.39	0.41	..
Denmark	—	—	—	0.86	1.27	1.42
France	0.07	0.05	0.06	7.74	7.67	9.91
Germany ^c	0.55	..	..	5.39	..	..
of which Western zones	0.55	0.64	0.84	..	2.29	3.51
Hungary	0.04	0.48	0.50	0.25	..	..
Italy	0.01	0.01	0.01	2.49	2.75	3.03
Netherlands	—	0.50	0.63	1.56	2.90	2.86
Norway	—	—	—	0.59	1.47	1.49
Poland ^c	0.51	0.14	0.16	0.50	..	..
Portugal	—	—	—	0.19	0.60	0.53
Rumania	6.61	4.50	4.92	2.15	..	..
Spain	—	..	—	0.34	..	..
Sweden	—	—	—	1.30	3.54	3.24
United Kingdom ^d	0.15	0.16	0.16	11.30	18.96	18.43
Other European countries	0.12	0.28	0.39	1.87	4.52	5.22
Total Europe (excluding U.S.S.R.)	8.14	7.71	8.62	38.13	52.78	56.83
United States	171.04	276.74	252.10	136.08	264.58	..

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; *Statistical Year-Book of the League of Nations*, 1942/44; the *Petroleum Press Service*, Petroleum Press Bureau, London, and national statistics.

NOTE.—The data refer to the main products of the distillation of crude oil, among the most important of which are motor spirit, fuel and gas oils, diesel oil and lubricating oils. Greases, coal tar and other bituminous products have been excluded. For details, see Appendix B.

^a Apparent consumption, in terms of crude oil—i.e. production of crude oil plus net imports of crude oil and products, with no allowance for changes in stocks.

^b Provisional.

^c The figures for 1938 refer to pre-war boundaries.

^d Mainly shale oil.

Table IX
PRODUCTION OF ELECTRIC POWER
Billions of kilowatt hours

Country	1938	1948	1949 ^a
Austria	3.0	4.8	4.7
Belgium	5.3	7.9	8.2
Czechoslovakia	4.1	7.5	8.2
Denmark	1.1	1.8	1.8
Finland	3.1	2.8	3.5
France ^b	18.6	27.6	28.3
Germany ^c	55.8	49.2	55.4
of which Western zones	33.4	33.6	39.3
Soviet Zone	17.2	14.5	15.0
Italy	15.4	22.7	20.6
Netherlands	3.5	5.1	6.0
Norway	9.9	12.4	15.2
Poland	4.0 ^d	7.5	8.0
Spain	2.7	6.1	4.9
Sweden	8.2	14.2	16.1
Switzerland	7.0	10.7	9.6
United Kingdom	24.4	46.5	49.1
Other European countries	5.0	8.7	9.5
Total Europe (excluding U.S.S.R.) . . .	171	236	249
United States	141.4	336.8 ^e	344.0

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; national statistics and data furnished to the Power and Steel Division of the Economic Commission for Europe.

NOTE. — The data relate to total production of electric power unless otherwise stated.

^a Provisional.

^b Production of hydro-electric plants with a generating capacity of more than 1,000 kilowatts and of thermo-electric plants with a capacity of more

than 5,000 kilowatts.

^c Data on total production in 1938 relate to pre-war boundaries, excluding the Saar. Production in the post-war area in that year amounted to 52.1 million kilowatt hours. Berlin production is included for all years in the total for Germany. For certain years the production of the individual zones has been estimated.

^d Pre-war boundaries. The production in the post-war area in 1938 was 7.7 million kilowatt hours.

Table X
PRODUCTION OF MOTOR VEHICLES
Thousands

Country	PASSENGER CARS			COMMERCIAL VEHICLES		
	1938	1948	1949 ^a	1938	1948	1949 ^a
Austria ^b	..	..	..	1.2	0.8	2.2
Czechoslovakia ^b	12.6	17.8	..	4.0	7.4	..
France ^c	182.4	100.1	187.7	39.4	97.2	96.6
Germany : Western zones ^d	174.1	29.9	104.3	42.7	29.7	56.4
Italy	59.0	44.4	65.4	10.1	15.5	20.7
United Kingdom	341.0	334.8	412.3	104.0	173.3	216.3
Total	769	527	790	201	324	400
United States ^e	2,001	3,909	5,109	488	1,376	1,129

Sources: The figures have been derived from the *Monthly Bulletin of Statistics*, United Nations, and *Notiziario della Confederazione Generale dell' Industria Italiana*, Rome.

NOTE.—The figures relate to total production of motor vehicles both for export and domestic market and include production of foreign-owned companies operating within the territory of the reporting country. Production of completed vehicles built on imported chassis is excluded.

Taxis are included in the figures for passenger cars, but vehicles intended for common carriers (buses, coaches) are excluded.

"Commercial vehicles" includes all lorries, motor coaches, etc., and special vehicles such as ambulances and fire apparatus.

^a Provisional.

^b The pre-war figures refer to 1937.

^c The pre-war figures refer to the period October 1937–September 1938. Motor coaches and fire apparatus are not included in the figures for commercial vehicles.

^d The pre-war figures refer to 1936.

^e Factory sales.

Table XI
PRODUCTION AND CONSUMPTION OF COTTON YARN
Thousands of tons

Country	PRODUCTION			CONSUMPTION ^a		
	1938	1948	1949 ^b	1938	1948	1949 ^b
Austria	33 ^c	12	18	30 ^c	10	17
Belgium-Luxembourg ^d	75	80	84	65	71	63
Czechoslovakia ^e	89	68	76	84	68	..
France ^f	250	224	228	241	223	229
Germany ^g	377	..	..	393	..	..
of which Western zones	281	119	223	..	120	233
Soviet Zone	74	..	..	..	..	..
Hungary	18	23	31	19	..	..
Italy	180	184	199	161	149	164
Netherlands ^h	52	48	55	41	41	46
Poland	64 ⁱ	82	88	62 ⁱ	..	..
Portugal	21	31	30	19	31	30
Sweden	28	25	27	25	18	20
Turkey	20	29	..	26	35	..
United Kingdom ^j	432	366	373	377	342	337
Other European countries	200	217	220	235	250	268
Total Europe (excluding U.S.S.R.). . .	1,839	1,539	1,742	1,778	1,490	1,689
United States	1,108	1,716	1,418			

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; *Congiuntura Economica*, Istituto per gli Studi di Economia, Milan, and *Statistisk Årsbok för Sverige*, 1940.

NOTE.—The data refer to the total weight of pure cotton yarn spun, whether for sale, for further processing, or on commission. They do not include cotton yarn mixed with other materials, cotton waste and tyre cord yarn unless otherwise indicated.

^a Apparent consumption; *i.e.*, production plus net imports with no allowance for changes in stocks.

^b Provisional.

^c 1937.

^d Including mixed yarn, predominantly of cotton.

^e Including production of vicuna yarn and tyre cord yarn.

^f Yarn spun from cotton waste including shoddy and artificial fibres (staple fibre).

^g The pre-war figures relate to 1936 and to pre-war boundaries.

^h Including cotton yarn mixed with less than 15 per cent of other materials and yarn spun from cotton waste.

ⁱ Pre-war boundaries. Production in the post-war area in 1938 is estimated to have been 86 thousand tons.

^j Production relates to total conditioned weight of single cotton yarn.

Table XII
PRODUCTION AND CONSUMPTION OF WOOL YARN
Thousands of tons

Country	PRODUCTION			CONSUMPTION ^a		
	1938	1948	1949 ^b	1938	1948	1949 ^b
Austria	10	7	9	11	6	8
Belgium-Luxembourg	26	34	36	20	27	26
Czechoslovakia	27 ^c	32	35	22	30	..
France ^d	118	133	123	117	122	108
Germany ^e	141	..	..	144	..	..
of which Western zones	59	38	66	..	37	70
Soviet Zone	74	..	..	..	..	..
Hungary ^d	12	8	8	12	..	..
Netherlands	10	26	27	17	33	36
Norway	4	8	..	5	9	..
Poland ^f	34	33	37	33	..	..
Spain	15 ^g	14	9	15	14	9
Sweden ^d	14 ^c	18	19	17	23	22
Turkey	4	8	..	5	9	..
United Kingdom ^h	200	205	207	186	200	197
Other European countries	106	136	144	114	141	152
Total Europe (excluding U.S.S.R.) . . .	721	748	813	719	735	797
United States	221	362	307			

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations, and national statistics.

NOTE.—The figures refer to the total weight of woollen and worsted yarns spun, whether for sale, for further processing or on commission. Mixed wool yarns and yarn made from wool waste are excluded unless otherwise indicated.

^a Apparent consumption ; *i.e.*, production plus net imports, with no allowance for changes in stocks.

^b Provisional.

^c 1937.

^d Including mixed yarn predominantly of wool.

^e The pre-war figures relate to 1936 and to pre-war boundaries. Production in the individual zones has been estimated for that year.

^f The pre-war figures relate to pre-war boundaries. Production in the post-war area in 1938 is estimated to have been 42 thousand tons.

^g 1940.

^h Total production of wool yarn has been estimated on the basis of raw wool consumption data.

ⁱ 1939.

Table XIII
PRODUCTION AND CONSUMPTION OF RAYON FILAMENT
YARN AND RAYON STAPLE FIBRE

Thousands of tons

Country	PRODUCTION			CONSUMPTION ^a		
	1938	1948	1949 ^b	1938	1948	1949 ^b
Austria	5.6	11.0	16.9 ^c	6.9	10.6	20.0 ^c
Belgium-Luxembourg	5.7	21.4	18.7	4.2	8.4	11.0
Czechoslovakia	2.7	23.2	26.1	7.2	23.8	26.5
France	33.6	76.5	74.0	28.9	67.9	66.2
Germany	219.5 ^d	106.0	..	228.1 ^d	..	..
of which Western zones	..	68.4	127.7	..	68.6	135.8
Soviet Zone	..	37.6	..	..	..	..
Italy	119.2	65.6	86.2	81.0	31.0	62.6
Netherlands	9.2	25.4	29.4	3.8	10.9	13.9
Poland	10.1 ^e	18.1	27.2	10.2 ^e	..	..
Spain	1.0	16.2	18.4	1.1	16.2	18.4
United Kingdom ^f	61.1	106.5	131.0	48.8	91.5	116.9
Other European countries	10.5	51.5	59.8	16.3	48.4	50.9
Total Europe (excluding U.S.S.R.)	478	521	688	437	434	622
of which rayon filament yarn	219.2	258.0	297.5			
rayon staple fibre	259.0	263.4	390.1			
United States ^g	129.9	510.0	450.9			

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; *Rayon Organon*, Textile Economics Bureau, Inc., New York, and *Congiuntura Economica*, Istituto per gli Studi di Economia, Milan.

NOTE. — The data refer to filament yarn and staple fibre produced by all processes. Synthetic yarns and fibres with a non-cellulose base and yarns manufactured from waste are excluded from the production data unless otherwise indicated; yarns manufactured from waste are included in the consumption figures.

^a Apparent consumption; i.e., production plus net imports, with no allowance for changes in stocks.

^b Provisional.

^c Estimate.

^d Four zones of occupation only.

^e Pre-war boundaries.

^f Nylon yarn production is included for post-war years.

^g Including the production of tow, an intermediate product in the manufacturing of staple fibre.

Table XIV
PRODUCTION OF CEMENT
Millions of tons

Country	1938	1948	1949 ^a
Austria ^b	0.7	0.7	1.1
Belgium	2.9	3.3	2.9
Czechoslovakia	1.3 ^c	1.7	1.7
Denmark ^d	0.6	0.8	0.8
France ^e	3.6	5.4	6.4
Germany	15.3 ^f	..	..
of which Western zones	11.5	5.6	8.5
Soviet Zone	2.5	..	..
Italy	4.6	3.2	4.0
Netherlands ^g	0.5	0.6	0.6
Poland ^h	1.7	1.8	2.2
Portugal ⁱ	0.3	0.5	0.5
Spain	0.6	1.6	1.7
Sweden	1.0	1.5	1.7
Turkey.	0.3	0.3	0.4
United Kingdom	7.8	8.7	9.4
Other European countries	3.6	4.9	5.8
Total Europe (excluding U.S.S.R.) . . .	45	42	49
United States ^d	18.0	34.6	35.4

Sources: The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations; *Statistical Year-Book of the League of Nations 1942/44*; *Statistische Praxis*, Statistisches Zentralamt der Deutschen Wirtschaftskommission für die sowjetische Besatzungszone, Berlin; *Bollettino Mensile del Comitato Interministeriale Carboni*, Rome; and *Boletín de Estadística*, Instituto Nacional de Estadística, Madrid.

NOTE. — The data refer to the production of artificial cements (including Portland cement) and natural cement unless otherwise indicated.

^a Provisional.

^b Artificial cements only.

^c 1937.

^d Portland cement only.

^e Artificial cements only with pressure resistance of over 100 kilogrammes per square centimetre.

^f Pre-war boundaries.

^g Portland cement and blast-furnace slag cement.

^h Portland cement only. Production in 1938 relates to pre-war boundaries. Production in the post-war area in that year is estimated to have been 3.0 million tons.

Factory sales of Portland cement.

Table XV
PRODUCTION OF BUILDING BRICKS
Millions

Country	1938	1948	1949
Austria	648 ^a	352	485
Belgium ^b	2,000	2,581	1,896
Czechoslovakia	1,128 ^a	924	806
France ^c	1,238	1,293	1,233
Germany : Western zones ^d	4,122 ^e	2,058	3,553
Netherlands ^f	1,007	972	1,083
Poland ^g	1,848	975	1,300
United Kingdom ^h	7,800	4,600	5,227
Total of countries listed	19,791	13,755	15,583
United States	3,618	5,848	5,407

Sources : The figures have been taken from the *Monthly Bulletin of Statistics*, United Nations, and national statistics.

NOTE. — The data refer to the total production of clay bricks for building purposes and include ordinary bricks and ornamental or fancy bricks unless otherwise indicated.

^a 1937.

^b Excluding production of ornamental bricks, which varies from 7 per cent to 10 per cent of ordinary brick production.

^c Production of solid and hollow bricks. Home manufacture is excluded.

^d For the British zone, firms employing 10 or more persons only. For the

American zone, production of all types of clay bricks, including glazed bricks.

^e 1936.

^f Excluding production of sand-lime bricks (in 1948 about 47 per cent of ordinary brick production) and of hollow and ornamental bricks (about 3 per cent in 1948).

^g Including production of all State plants and cooperative and private establishments employing 20 or more workers. The pre-war figure refers to 1937 and to pre-war territory. Production in 1949 has been estimated.

^h Production of ordinary, facing and engineering bricks made from shale, sand, lime, clay or concrete. Production of Northern Ireland is excluded.

Table XVI
ELECTRIC GENERATING CAPACITY
Thousands of kilowatts and index numbers
End of year

Country	INSTALLED CAPACITY						PLANNED CAPACITY		
	Thousands of kilowatts				Index numbers (1938 = 100)		Year	Thou- sands of kilowatts ^a	Yearly increase (per cent of 1949)
	1938	1947	1948	1949	1948	1949			
Austria	1,090	1,560	1,620	1,700	149	156	1953	2,500	12
Belgium	2,568	2,695	2,740	2,858	107	111	1953	3,800	7
Bulgaria ^b	104	138	170	..	163	..	1953	765	35
Czechoslovakia ^c	1,870	2,500	2,740	2,900	147	155	1953	3,700	6
Denmark	560	715	723	723	129	129	1953	1,250	17
Finland	870	930	965	1,050	111	121	1953	1,510	9
France	9,200	9,300	9,700	10,700	105	116	1953	15,000	9
Germany : Western zones	15,920 ^d {	..	6,880	..	62 ^e {	..	1953	10,000	9
Soviet Zone		2,800 ^f	3,000 ^f	..		..	1950	3,500 ^f	8
Greece	126	156	156	180	124	143	1956	790	24
Hungary	690	823	823	870	119	126	1954	1,688	14
Ireland ^b	160	214	214	214	134	134	1953	360	16
Italy	5,561	6,313	6,660	7,160	120	129	1953	10,046	9
Luxembourg	140	140	140	146	100	104	..	..	..
Netherlands	1,742	1,920	2,040	2,180	117	125	1953	2,690	5
Norway	2,053	2,650	2,770	3,040	135	148	1952	3,500	5
Poland ^g	1,692	2,284	2,460	2,786	146	165	1955	4,785	9
Portugal	280	329	415	500	148	178	1953	525	1
Rumania	510	600	600	600	118	118	1955	2,600	28
Spain ^b	1,570	1,930	2,100	2,370	134	151	1953	3,650	11
Sweden	2,624	2,990	3,100	3,525	118	134	1953	4,580	8
Switzerland	2,110	2,690	2,760	2,930	130	139	1953	3,190	4
Turkey	178	248	308	380	173	213	1952	560	12
United Kingdom ^h	9,365	12,695	13,194	13,913	141	149	1953	19,250	10
Yugoslavia	512	512	512	564	100	110	1952	2,050	41
Total of countries listed :									
including Germany	61,495	63,432	66,790	72,179	109	117	—	..	11
excluding Germany	45,575	54,332	56,910	61,489	125	135	—	..	11
U.S.S.R.	8,700 ⁱ	..	..	..	..	..	1950	22,400	..

Sources: The figures have been taken from *Statistiques, Union internationale des Producteurs et Distributeurs d'Energie électrique*; *Statistical Year-Book of the World Power Conference*; *Report of the Electricity Committee, Organisation for European Economic Co-operation, Paris, 1949*; *Interim Report on the European Recovery Programme, Organisation for European Economic Co-operation, Paris, 1948*; national statistics and plans and data furnished to the Power Section, Power and Steel Division, Economic Commission for Europe. For details, see Appendix B.

NOTE. — The data refer to the nominal power of all generators installed, including reserve generators in so far as they can be operated simultaneously with the others. The plan figures refer to power development programmes accepted by governments and carried out by private enterprise or government agencies.

^a All figures refer to the end of the year except those for Austria, Denmark, western zones of Germany, Ireland, Sweden, Switzerland, Turkey and the United Kingdom which refer to 30 June.

^b Public utility enterprises only.

^c The 1938 figure refers to 1936, and the index numbers are based on that year.

^d The whole of Germany, pre-war boundaries, 1937.

^e The whole of Germany, 1937 = 100. Post-war capacity in the post-war territory is related to pre-war capacity in the pre-war area.

^f Estimate, including Berlin.

^g The 1938 figure refers to pre-war boundaries. The index numbers for 1948 and 1949 relate post-war capacity in the post-war territory to pre-war capacity in the pre-war area.

^h Excluding railway and other transport generating stations. England, Scotland and Wales only.

ⁱ Pre-war boundaries.

Table XVII
PETROLEUM REFINING CAPACITY
Thousands of metric tons, crude oil equivalent
Mid-year

Country	1938	1947 ^a	1948	1953 ^b
Austria	630	1,200	1,200	1,280
Belgium	^c	^c	360	3,520
Denmark	20	30	30	830
France	8,130	7,230	12,020 ^a	18,780
Germany : Western zones	2,800	800	2,800	5,300
Greece	—	—	—	400
Hungary	..	580	1,130	..
Italy	1,500	3,000	3,170	8,120
Netherlands	1,500 ^c	1,500 ^c	2,700	4,740
Norway	40	—	—	40
Portugal	—	300	300	460
Rumania	..	7,700	8,750	..
Sweden	60	550	1,050	1,550
Switzerland	—	—	90	90
Turkey	—	—	60	60 ^d
United Kingdom	4,700	5,300	5,500	19,350
Yugoslavia	150	150	150	450 ^e
Other European countries	1,000	1,000	1,000	1,600
Total Europe :				
including Germany ^f	30,030	29,340	40,310	76,820
excluding Germany	27,230	28,540	37,510	71,520
U.S.S.R.	31,000 ^g	27,400	31,000	35,000 ^h

Sources : The figures have been taken from *Petroleum and Petroleum Equipment*, European Recovery Program Commodity Study, Washington, D.C., 1949; *Premier Rapport sur la Coordination du Développement du Raffinage du Pétrole, dans les Pays Participants*, Organisation for European Economic Co-operation, Paris, 1949, and *Nafta*, No. 5, Warsaw, 1949.

^a End of year.

^b Planned capacity.

^c Belgian capacity is included in the figure for the Netherlands.

^d Preliminary studies are being carried out for the construction of additional refineries with a capacity of 1 million tons, to be completed after 1953.

^e 1951.

^f Western zones only.

^g Pre-war boundaries.

^h 1950.

Table XVIII
CAPACITY IN THE COTTON TEXTILE INDUSTRY
Quantity and index numbers

Country	SPINDLES (thousands)			LOOMS (thousands)			INDEX NUMBERS (pre-war = 100)			
							Spindles		Looms	
	1938	1948	1949	1936	1948	1949	1948	1949	1948	1949
Austria ^a	768	603	..	17	15	..	79	..	88	..
Belgium	1,984	2,300	2,300	52	35	35	116	116	67	67
Czechoslovakia	1,558	1,400	..	104	94	..	90	..	90	..
Denmark	103	115	115	4	4	4	112	112	100	100
Finland	310	350	350	8	6	8	113	113	75	100
France	9,521	8,243	8,798	187	168	170	87	86	90	91
Germany	10,109 ^b	..	..	201 ^b	..	..	..	..	..	..
of which Western zones ^c	7,391	4,584	5,346	170	117	135	62	72	69	79
Hungary	317	300	340	14	11	15	95	107	79	107
Ireland	—	12	12	..	2	2	..	..	..	..
Italy ^d	5,324	5,500	5,600	147	138	140	103	105	94	95
Netherlands	1,241	1,154	1,154	50	48	48	93	93	96	96
Norway	43	62	72	3	3	3	144	167	100	100
Poland	1,764	1,180	1,420	36	36	39	67	80	100	108
Portugal	444	652	700	16	24	27	147	158	150	169
Spain	2,000	2,300	2,500	67	80	82	115	125	119	122
Sweden	562	562	562	11	11	11	100	100	100	100
Switzerland	1,241	1,200	1,200	20	20	20	97	97	100	100
United Kingdom	36,322	34,700	30,500	505	406	383	96	84	80	76
Total of countries listed :										
including Germany	73,611	66,902	64,390	1,444	1,239	1,256	91	87	86	87
excluding Germany	63,502	60,633	57,073	1,243	1,101	1,097	95	90	88	88
U.S.S.R. ^e	8,500	8,000	8,500	213	200	215	94	100	94	101

Sources: The figures have been taken from *International Cotton Statistics*, International Federation of Master Cotton Spinners' and Manufacturers' Association; *Textile World*, McGraw-Hill Publishing Company, New York; *World Trade in Commodities: Textiles and Products*, United States Department of Commerce, and national statistics. For details, see Appendix B.

NOTE.—“Spindles” includes all types except doubling or waste spindles. “Looms” includes all types of looms and automatic attachments.

^a The pre-war figure for spindles refers to 1937, and the index number is based on that year.

^b 1936, pre-war boundaries.

^c The 1938 figure for spindles refers to 1936, and the index numbers are based on that year.

^d The 1936 figure for looms refers to 1933, and the index numbers are based on that year.

^e The pre-war figures refer to pre-war boundaries and to 1940. The index numbers are based on that year. The figures for 1948 and 1949 are estimates.

Table XIX
CAPACITY IN THE WOOL TEXTILE INDUSTRY
Quantity and index numbers

Country	SPINDLES (thousands)			LOOMS (thousands)			INDEX NUMBERS (1938 = 100)			
	1938	1948	1949	1938	1948	1949	Spindles		Looms	
							1948	1949	1948	1949
Austria ^a	179	183 ^b	..	3.5	3.2 ^b	..	102 ^b	..	91 ^b	..
Belgium	756	795	795	7.5 ^a	12.7	12.7	105	105	169	169
Czechoslovakia ^a	980	645 ^b	..	7.4	..	..	66 ^b	..	..	..
Denmark ^a	100	97	97	1.1	1.1	1.1	97	97	100	100
Finland	..	85	90	..	1.5	1.6	..	..	..	..
France	2,956	2,814	2,783	45.0	46.0	46.2	95	94	102	102
Germany : Western zones	5,457 ^c	775	888	92.7 ^c	..	..	63	72	..	..
Hungary	100	100	100	2.2	2.2	2.2	100	100	100	100
Ireland	60	70 ^b	..	0.9	0.9	..	117 ^b	..	100	..
Italy	1,232	1,512	1,487	21.0	22.0	19.1	123	121	105	91
Netherlands	258	305	315	6.0	8.4	10.0	118	122	140	167
Norway	93	112	..	1.4	..	..	120	..	..	..
Poland ^d	799	473	541	13.7	6.0	7.1	59	68	44	52
Portugal	165	163	170	2.2	2.4	4.1	99	103	109	186
Spain	391	500	500	11.9	20.0	20.0	128	128	168	168
Sweden ^e	277	250	295	3.9	3.9	3.9	90	106	100	100
Switzerland ^a	227	239 ^f	..	3.3	3.5 ^f	..	105 ^f	..	106 ^f	..
United Kingdom	5,493	5,620 ^b	5,620	77.6	73.0 ^f	68.0	102 ^b	102	94 ^b	88
Total of countries listed :										
including Germany	19,608	..	..	302.8	..	..	..	..	..	..
excluding Germany	14,151	13,963	14,052	210.1	215.6	212.4	99	99	103	101

Sources : The figures have been taken from *Results of the First Wool Questionnaire* prepared by the Commonwealth Economic Committee and the International Wool Textile Organization, supplement to *Wool Intelligence*, 1949, No. 7 ; *Textile World*, McGraw-Hill Publishing Company, New York ; *World Trade in Commodities : Textiles and Products*, United States Department of Commerce, and national statistics. For details, see Appendix B.

^a The 1938 figures refer to 1937, and the index numbers are based on that year.

^b 1947.

^c The whole of Germany, pre-war boundaries.

^d The 1938 figures refer to pre-war boundaries. The index numbers for 1948 and 1949 relate post-war capacity of spindles and looms in the post-war territory to pre-war capacity in the pre-war area.

^e The 1938 figures refer to 1935, and the index numbers are based on that year.

^f 1946.

Table XX
STOCK OF TRACTORS AND HECTARES PER TRACTOR
End of year

Country	TRACTORS (thousands)					HECTARES PER TRACTOR		
	1938	1947	1948	1949	1953 ^a	1938	1948	1953 ^a
Austria	1.8 ^b	7.5	9.1 ^c	10.4	..	1,167 ^b	198 ^c	..
Belgium	1.4	1.9 ^d	3.0 ^d	5.3	..	965	669 ^d	..
Bulgaria	2.6 ^e	3.1	3.6	4.7	10.0	1,387 ^e	1,181	425
Czechoslovakia	5.7 ^f	16.0	22.0	27.0	45.0	1,027	245	120
Denmark	2.0	4.4 ^g	6.9	12.6	25.0	1,350 ^g	390	108
France	30.2 ^h	59.9 ⁱ	85.0	110.0	200.0	695 ^h	215	91
Hungary	7.0 ^b	11.9	13.3	15.0	22.8 ^j	841 ^b	444	259 ^j
Italy	37.0	52.0 ⁱ	..	..	..	347	294	..
Netherlands	5.0	6.0	10.0	12.0	..	210	125	..
Norway	2.8	4.3 ^g	6.7	8.0	11.5	296	122	71
Poland	1.5	14.2	14.4 ^c	15.5	60.0 ^k	12,540	1,022 ^c	245 ^k
Rumania	2.0	10.8	11.0	12.5	25.0 ^k	6,618	909	400 ^k
Sweden	15.0	36.0	42.0	52.0	66.0	249	89	56
Switzerland	8.2	13.5	14.7	16.0	..	62	29	..
United Kingdom	50.0 ^b	200.0	250.0	285.0	300.0	106 ^b	31	26
Yugoslavia	2.3 ^h	4.0 ⁱ	6.5	7.2	..	3,570 ^h	1,154	..
Total of countries listed . .	174.5	445.5	550.2	645.2	..	613	185	..

Sources: The figures have been taken from national statistics, national plans and documents of the Organisation for European Economic Co-operation.. For details, see Appendix B.

NOTE.—The pre-war figures refer to pre-war boundaries; post-war figures to post-war areas. The number of tractors is related to hectares of arable land.

^a Planned.

^b 1935.

^c July.

^d May.

^e 1934.

^f 1936.

^g 1944.

^h 1939.

ⁱ 1946.

^j 1954.

^k 1955.

Table XXI
STOCK OF RAILWAY LOCOMOTIVES
End of year

Country	NUMBERS				INDEX NUMBERS (1938 = 100)	
	1938	1947	1948	1949	1948	1949
Austria ^a	2,122	2,929	2,250	2,129	106	100
Belgium-Luxembourg	3,738	3,385	3,064	2,832	82	76
Bulgaria	593	..	..	..	..	..
Czechoslovakia ^a	4,122	3,564	3,080	3,027	75	73
Denmark	597	591 ^b	598 ^b	630	100	106
Finland	749	771	800	..	107	..
France	18,107	15,740	13,939	13,418	77	74
Germany : Western zones	} 20,381 ^c	17,177	16,377	16,230	} 105 ^d	104 ^d
Soviet Zone.		5,000 ^e	5,000 ^e	5,000 ^e		
Greece	247	139	134	..	54	..
Hungary	1,848	1,642	..	..	..	..
Italy	5,622	5,043	5,168	5,219	92	93
Netherlands	1,060	1,145	1,036	855	98	81
Norway	435	558	549	551	126	126
Poland	5,497 ^f	6,874	..	..	..	..
Portugal	424	431	440	..	104	..
Rumania	3,534	3,048 ^g	..	..	..	..
Saar ^h	330	300 ^g	342	..	104	..
Spain ⁱ	3,065	3,328	3,348	..	109	..
Sweden	1,980	2,014	..	..	..	..
Switzerland ^j	909	883	891	864	98	95
Turkey	911	991	985	974	108	107
United Kingdom ^k	19,666	20,507	20,245	19,870	103	101
Yugoslavia	2,309	2,155	2,396	..	104	..
Total of countries listed :						
including Germany	98,246	98,808	94,813	93,230	97	95
excluding Germany	77,865	76,631	73,436	72,000	94	92

Sources: The figures have been taken from *Statistique internationale des Chemins de fer*, Union internationale des Chemins de fer ; "Quarterly Bulletin of European Inland Transport Statistics", Transport Division, Economic Commission for Europe ; national statistics and data furnished to the Transport Division, Economic Commission for Europe. For details, see Appendix B.

^a The 1938 figure refers to 1937, and the index numbers are based on that year.

^b 31 March.

^c The whole of Germany, excluding the Saar, pre-war boundaries, 1937.

^d 1937 = 100. Post-war stock in the post-war territory has been related to pre-war stock in the pre-war area.

^e Estimate.

^f Pre-war boundaries.

^g 1946.

^h The 1938 figure refers to 1933, and the index number is based on that year.

ⁱ The 1938 figure refers to 1935, and the index number is based on that year.

^j Federal railways only.

^k Excluding Northern Ireland.

Table XXII
STOCK AND CAPACITY OF RAILWAY WAGONS
End of year

Country	WAGONS						CAPACITY		
	Thousands				Index numbers (1938 = 100)		Thousand tons		Index numbers (1948 = 100)
	1938	1947	1948	1949	1948	1949	1938	1948	1948
Austria ^a	39.6	53.4	32.9	30.4	83	77	547	..	..
Belgium-Luxembourg	115.9	99.1	99.0	101.1	85	87	2,146	1,982	92
Bulgaria	10.8	..	..	..	..	..	169	..	..
Czechoslovakia ^a	98.2	73.4	73.7	73.3	75	75	1,605	1,142	71
Denmark	12.1	14.6	15.1	15.5	125	128	169	235	139
Finland	24.3	27.1	26.6	..	109	..	369	415	112
France	503.4	402.0	435.2	440.8	86	88	9,118	8,336	91
Germany : Western zones	601.0 ^b	358.8	341.5	378.0	73 ^c	80 ^c	10,170 ^b	..	..
Soviet Zone		100.0 ^d	100.0 ^d	100.0 ^d				..	..
Greece	4.8	1.4	2.5	..	52	..	84	44	53
Hungary	41.0	17.7	..	..	..	..	626	..	..
Italy	134.5	100.9	122.9	136.8	91	102	2,540	2,312	91
Netherlands	28.8	16.4	23.4	22.7	81	79	479	420	88
Norway	10.6	12.4	12.5	12.3	118	116	148	184	124
Poland ^e	169.8	144.5	..	..	..	..	2,824	..	..
Portugal	8.4	10.2	9.9	..	118	..	111	146	132
Rumania	63.4	79.4 ^f	..	..	..	..	955	..	..
Saar ^g	15.1	11.0	11.3	..	75	..	258	220	85
Spain ^h	83.4	82.5	82.2	..	99	..	984	1,139	116
Sweden	47.7	50.9	50.9	51.3	107	108	900	1,000	111
Switzerland ⁱ	17.8	20.8	20.3	20.6	114	116	256	310	121
Turkey	14.8	18.7	15.5	14.4	105	97	231	264	114
United Kingdom ^j	1,284.5	1,229.5	1,197.0	1,154.0	93	90	14,958	15,031	100
Yugoslavia	43.7	46.3	..	..	..	..	780	..	..
Total of countries listed :									
including Germany	3,373.6	2,981.8	2,970.0	2,981.2	88	88	50,427	45,935	91
excluding Germany	2,772.6	2,523.0	2,528.5	2,503.2	91	90	40,257	38,475	96

Sources : The figures have been taken from *Statistique Internationale des Chemins de fer*, Union internationale des Chemins de fer ; "Quarterly Bulletin of European Inland Transport Statistics", Transport Division, Economic Commission for Europe ; national statistics and data furnished to the Transport Division, Economic Commission for Europe. For details, see Appendix B.

^a The 1938 figures refer to 1937, and the index numbers are based on that year.

^b The whole of Germany, excluding the Saar, pre-war boundaries, 1937.

^c The whole of Germany, excluding the Saar. Post-war stock in the post-war territory is related to pre-war stock in the pre-war area.

^d Estimate.

^e The 1938 figures refer to pre-war territory.

^f 1946.

^g The 1938 figures refer to 1933 and the index numbers are based on that year.

^h The 1938 figures refer to 1935 and the index numbers are based on that year.

ⁱ Federal railways only.

^j Excluding Northern Ireland.

Table XXIII
STOCK OF COMMERCIAL VEHICLES
End of year

Country	THOUSANDS				INDEX NUMBERS (1938 = 100)	
	1938	1947	1948	1949	1948	1949
Austria ^a	16.1	26.9	37.7	40.3	234	250
Belgium-Luxembourg	83.0	106.7	115.7	123.7	139	149
Bulgaria ^b	3.1	2.6 ^c	5.0	5.0	161	161
Czechoslovakia	31.6	32.9	..	62.9	..	199
Denmark	42.2	47.9	57.1	57.6	135	136
Finland	19.9	28.1	32.2	34.1	162	171
France	449.0	..	502.1	572.8	112	128
Germany : Western zones	226.2	224.7	410.6	485.4	182	215
Soviet Zone	138.7	..	..	125.0 ^d	..	90
Greece	8.6	15.3	17.0	13.4	198	156
Hungary	5.3	11.9	..	10.3	..	194
Ireland ^a	11.1	20.0	..	23.9	..	215
Italy	89.9	188.0	199.4	214.8	222	239
Netherlands	49.3	56.3 ^e	62.4	76.7	127	156
Norway	35.2	48.3	50.0	..	142	..
Poland	8.6 ^f	36.9	..	40.8	..	..
Portugal	11.5 ^e	14.1 ^e	15.7	17.7	..	..
Rumania ^e	8.1	9.6	9.6	9.6	119	119
Sweden	62.6	76.9	82.9	81.3	132	130
Switzerland	22.4	31.7	32.8	37.4	146	167
Turkey	4.9	9.9	12.8	13.9	261	283
United Kingdom	546.5	729.0	836.9	871.2	153	159
Yugoslavia	4.8	14.0 ^e	16.6	..	346	..
Total of countries listed :						
including Germany	1,878.6	2,177.8	2,720.5	2,984.4	145	159
excluding Germany	1,513.7	1,895.2	2,204.0	2,374.0	146	157
U.S.S.R.	592.6 ^f	..	..	2,250.0 ^e	..	380

Sources : The figures have been taken from the *Statistical Yearbook 1948*, United Nations ; *Statistisk Årbok for Norge 1949* ; national statistics and data supplied by the Transport Division, Economic Commission for Europe. For details, see Appendix B.

NOTE. — "Commercial vehicles" include lorries, buses and tractor trailers unless otherwise indicated. Light trailers for passenger cars, farm and road tractors and military vehicles are not included.

^a The 1938 figures refer to 1937, and the index numbers are based on that year.

^b The 1938 figures refer to 1939, and the index numbers are based on that year.

^c 1946.

^d Estimate.

^e Lorries only.

^f Lorries only. Pre-war territory.

Table XXIV

MERCHANT FLEETS

Thousands of gross registered tons

Country	MERCHANT FLEET TONNAGE ^a					AGE DISTRIBUTION OF TONNAGE (percentages of total stock)					New SHIPS ^b				SHIPS SCRAPPED ^b				
	Thousands of tons					Index numbers (1939 = 100)	5 years					5 to 25 years				Over 25 years			
	1939	1947	1948	1949	1953 ^c	1939	1949	1939	1949	1939	1949	1947	1948	1949	1939	1947	1948	1949	
Belgium	408	366	439	436	680	108	167					19	21	15		..	..	..	
Denmark	1,175	1,024	1,123	1,170	1,480	100	126					60	50	111		30	15	15	
Finland	590	..	446	479	..	81	..					7	3	5		..	..	..	
France	2,934	2,315	2,786	3,070	3,000	105	102					290	273	218		149	11	20	
Germany	4,483	591	428	300	800	7	18					..	..	..		168	8	7	
Greece	1,781	1,027	1,286	1,329	..	75	..					—	—	—		81	41	10	
Italy	3,425	1,301	2,100	2,443	2,655	71	78					40	25	11		17	6	2	
Netherlands	2,970	2,436	2,737	2,990	..	101	..					71	133	125		56	11	12	
Norway	4,834	3,761	4,261	4,916	5,950	102	123					266	466	641		101	41	28	
Poland	122	..	180	193	600	158	492					—	8	8		..	..	..	
Portugal	257	..	462	515	..	200	..					60	93	13		..	..	..	
Spain	902	1,130	1,147	1,193	..	132	..					11	21	15		46	3	2	
Sweden	1,577	1,829	1,973	2,048	2,300	130	146					115	101	64		49	8	8	
United Kingdom	17,891	17,848	18,025	18,093	18,200	101	102					813	766	745		755	170	228	
Yugoslavia	410	..	202	209	600	51	146					—	6	9		..	..	..	
Total of countries listed : including Germany .	43,759	34,791	37,595	39,384	..	90	..					..	..	..		1,452	314	332	
excluding Germany .	39,276	34,200	37,167	39,084	..	100	..					1,752	1,966	1,980		1,284	306	325	
U.S.S.R.	1,306	2,157	2,097	2,118	..	162	..					3	5	13		..	..	..	

Sources: The figures have been taken from Lloyd's Register of Shipping : Statistical Tables, and Annual Summary of the Mercantile Shipbuilding of the World.

NOTE.—The data refer to motor ships and steamers only of 100 gross tons and over. See Appendix B.

^a 30 June.

^b Calendar year.

^c Planned tonnage. For Poland the figures refer to 31 December 1955 ; for Yugoslavia, 31 December 1951.

Table XXV

DWELLING STOCK AND PLANNED CONSTRUCTION IN RELATION TO POPULATION CHANGES

End of year

Country	DWELLING STOCK			CONSTRUCTION PROGRAMMES			POPULATION	
	Thousands		Index numbers (1939 = 100)	Period	Whole period (thousands)	Yearly average as percentage of 1949 dwelling stock	Index numbers (1939 = 100)	Projected yearly increase (per cent)
	1939	1949	1949				1949	1950-1954 ^a
Belgium	2,532	2,480	98	1949-1955	85 ^b	0.5	101	0.2
Czechoslovakia	3,574	3,860	108	1949-1953	139 ^c	0.7	81	0.8
Denmark	1,140	1,250	110	1950	22	1.8	108	0.8
Finland	768	870	113	..	..	..	105	0.8
France	13,300	12,400	93	1950	70	0.6	103	0.1
Germany : Western zones . . .	10,635	8,720	82	1950-1959	2,000	2.3	121	0.7
Hungary	2,392	2,500	104	1950-1954	180	1.4	100	0.6
Italy	10,645	10,430	98	1950-1955	290 ^d	0.5	104	1.0
Netherlands	2,088	2,130	102	1950	45	2.1	112	1.2
Norway	738	770	104	1950-1952	52	2.2	107	0.7
Poland	6,960	5,780	83	1950-1955	213 ^e	1.8 ^e	69	1.2
Sweden	1,930	2,300	119	1950	47.5	2.1	109	0.5
Switzerland	1,111	1,210	109	..	..	..	107	0.5
United Kingdom	13,144	13,500	103	1950-1952	600	1.5	105	0.6
Total of countries listed :								
including Germany ^f	70,957	68,200	96	—	..	1.5 ^g	102	0.7 ^g
excluding Germany	60,322	59,480	99	—	..	1.0 ^g	98	0.7 ^g

Sources: The figures have been taken from "The European Housing Problem", Industry and Materials Division, Economic Commission for Europe, released 1 October 1949; national statistics and are supplemented by estimates of the Research and Planning Division, Economic Commission for Europe. For details, see Appendix B.

NOTE. — The figures for dwelling stock and construction programmes are given in terms of conventional dwelling units found in national statistics. Pre-war figures refer to pre-war territories; post-war figures to post-war areas.

^a Based on expected population increases in 1950 or in the period 1950-1954.

^b Dwelling programme of public authorities.

^c Seventy square metres = 1 dwelling.

^d Dwelling programme of public authorities; 3.1 rooms = 1 dwelling.

^e Town dwellings only.

^f Western zones only.

^g Excluding Finland and Switzerland.



*Publications prepared by
the United Nations Economic Commission for Europe*

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