

**WORLD
ECONOMIC SURVEY
1962**

**II. Current Economic
Developments**



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Department of Economic and Social Affairs

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FOREWORD

This report represents part II of the *World Economic Survey, 1962*. As indicated in the Foreword to part I, "The Developing Countries in World Trade" (Sales No.: 63.II.C.1), it consists of three chapters dealing with recent developments in the world economy. Chapter 1 analyses the situation in the industrially advanced private enterprise countries. Chapter 2 reviews current trends in the countries that are heavily dependent on the export of primary commodities. Chapter 3 provides an account of recent changes in the centrally planned economies. The three chapters follow a brief introduction which draws attention to some of the salient features of the current situation.

Most of the analysis is concerned with the calendar year 1962; chapters 1 and 2 conclude with brief assessments of the outlook for 1963. These discussions of outlook draw to a large extent on the replies of Governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1962.

Like part I, part II of the *World Economic Survey, 1962* was prepared in the Department of Economic and Social Affairs by the Bureau of General Economic Research and Policies.

EXPLANATORY NOTES

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

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

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

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

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

A full stop (.) is used to indicate decimals

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

A slash (/) indicates a crop year or financial year, e.g., 1959/60

In certain tables, the symbol (..) has been used to indicate that recent information was lacking at the time of writing.

Use of a hyphen (-) between dates representing years, e.g., 1959-1961, signifies the full period involved, including the beginning and end years.

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

The term “billion” signifies a thousand million.

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

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

Certain abbreviations have been used: AID for Agency for International Development [United States]; AOS for Associated Overseas States [of the European Economic Community]; CICT for Commission on International Commodity Trade; CMEA for Council of Mutual Economic Assistance; DAC for Development Assistance Committee [of the Organisation for Economic Co-operation and Development]; DIF for Development Insurance Fund; ECAFE for Economic Commission for Asia and the Far East; EDF for European Development Fund [of the European Economic Community]; EEC for European Economic Community; EFTA for European Free Trade Association; FAO for Food and Agriculture Organization of the United Nations; GATT for General Agreement on Tariffs and Trade; IBRD for International Bank for Reconstruction and Development; ICA for International Co-operation Agency [United States]; ICCICA for Interim Co-ordinating Committee for International Commodity Arrangements; IDA for International Development Association; IADB for Inter-American Development Bank; IFC for International Finance Corporation; IMF for International Monetary Fund; LAFTA for Latin America Free-trade Association; OAS for Organization of American States; OECD for Organisation for Economic Co-operation and Development; OEEC for Organisation for European Economic Co-operation; SITC for Standard International Trade Classification. “Rhodesia and Nyasaland” stands for the Federation of Rhodesia and Nyasaland.

The Republic of South Africa is so designated even where the material covers the period prior to 31 May 1961, when the country was known as the Union of South Africa.

Where statistical presentation has rendered it necessary, “Malaya” has been used to designate the Federation of Malaya and Singapore; “South Africa”, the Republic of South Africa, South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland.

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

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INTRODUCTION

In many parts of the world, the advances in production during 1962 were more moderate than in earlier years and frequently disappointed expectations. The rising trend in output, however, was well maintained in the early months of 1963, and the immediate outlook continued to be generally favourable. As reviewed in this part of the *Survey*, North America recorded a level of output in 1962 considerably above that of 1961; this, however, reflected recovery from a recessionary situation in the earlier year. Output had climbed rapidly in 1961 from the low point of the recession in the first quarter, but the continued advance in 1962 was at a much more moderate pace. Though earlier fears that the upswing would not be maintained into 1963 have been dispelled by events, considerable amounts of idle capacity and unemployed labour have remained as persistent features of the economy. In western Europe, 1961 had seen some loss in momentum of the strong upsurge in activity which had characterized 1959 and 1960. In 1962, the rate of increase in output slackened further as the earlier boom in investment appeared to taper off. Current trends were accordingly less certain than in preceding years. In a number of countries, the current situation was also complicated by a quickening in the pace at which prices and costs have been increasing.

For the under-developed countries, the recovery from recession in North America, combined with some restocking in western Europe, favoured their export trade in 1962. The volume of exports from these countries, though still increasing less than world trade, expanded more quickly than in 1961. On the whole, export prices were slightly lower than in 1961, though they tended to level out in the course of the year. Despite some improvement in foreign trade, however, domestic developments in many under-developed countries were less favourable than in 1961, owing partly to the adverse effects of poor weather on agricultural output. Moreover, because of repeated balance of payments deficits, a number of countries have become increasingly burdened with very large amounts of foreign, short-term debt or have seen their foreign exchange reserves dwindle to very low levels. Consequently, although there was a moderate expansion in export earnings during 1962, their external payments positions deterred them from allowing any substantial increase in imports; and this acted as a brake on the growth of domestic investment and general economic activity.

Among the centrally planned economies, the Soviet Union recorded a rate of growth in total output during 1962 not much different from that achieved in the preceding year. A number of countries, however, ex-

perienced a deceleration in the rate of growth, owing primarily to poor harvests; in certain countries of eastern Europe, the increases in 1962 fell well below those attained in most post-war years. Besides the poor agricultural performance, a factor tending to impede growth in the recent past was the accumulation of imbalances in the flow of goods and services among industries. It has been partly in order to avoid the emergence of such imbalances that measures to increase the flexibility of the economic system have been introduced into methods of planning and management.

As discussed in chapter I, trends in the industrial countries during 1962 were compounded of continued recovery from recession in North America and a slackening of growth in western Europe. In North America, rising governmental expenditure had been the principal force supporting recovery from the recession in 1960/61. Official steps to ease conditions in mortgage markets were also important in reversing the earlier downward trend in residential construction. The initial upturn in the cycle during 1961 was quickly reinforced by the renewed accumulation of business stocks as well as by higher levels of business investment in plant and equipment. But during 1962, the rate of inventory accumulation fell off sharply, although the consequent decline in inventories relative to sales was, at this phase of the cycle, abnormal. As this was accompanied by only a moderate increase in fixed investment, total investment throughout the year failed to advance from the annual rate achieved in the last quarter of 1961. While the lower rate of inventory accumulation may have been partially ascribable to special factors, the main reason for the poor performance of total investment was undoubtedly the existence of substantial excess capacity at current levels of demand. That total output continued its upward movement throughout 1962 was entirely due to the continuous and fairly steady expansion in consumer demand and governmental purchases.

Contrary to expectations in the latter part of 1962, economic activity in the early months of 1963 was marked by the vigour of its upthrust. This fresh impetus was acquired principally from a strong advance in consumer expenditure — particularly for automobiles — which increased faster than disposable income. A higher rate of inventory accumulation also contributed to the acceleration of output. It still remained uncertain, however, whether fixed investment would rise much above its 1962 level. Some doubts persisted that the continued existence of excess capacity might hamper the effectiveness of the tax credits and revised depreciation schedules introduced by the United States Government in late 1962

to encourage business investment. Still, the performance of the economy in the first quarter of 1963 gave more than ample support to the official view, expressed at the beginning of the year, that total output for 1963 would be moderately above that of 1962.

In western Europe, the deceleration of the growth in total output in 1962 appears to have signalled the end of the investment boom which had begun in late 1958 or 1959. Fixed investment had risen strongly in recent years both in the countries which had founded the European Economic Community (EEC) in 1957, and in other countries of the region. The expansion in total output generated by increasing fixed investment had also been reinforced by buoyant export demand, particularly in 1960. But in 1962, the most common experience was a slackening in investment demand accompanied by some signs of emerging excess capacity. Changes in export demand were mixed. The volume of private consumption, however, generally continued to expand steadily, supported in some countries by a shift in the distribution of income from profits to wages; and a number of countries also increased their rates of public expenditure. For 1963, the general expectation was that the pace of expansion would not differ materially from that experienced in 1962. Where an acceleration or deceleration was foreseen, this was partially predicated on the expectation of a corresponding change in the growth of exports.

Over the last two or three years, a mounting source of concern in western European countries has been the sizable increases in wage costs which have followed in the wake of the boom in output and employment. Advances in wages considerably greater than in output per man continued to be a feature of labour markets in 1962. Despite the upward pressure of wage costs, however, advances in wholesale prices of finished manufactures were generally relatively moderate. These higher costs were partially offset by declining prices for imported raw materials; in addition, profit margins appear to have narrowed in the face of intensified foreign and domestic price competition. Nevertheless, the upward drift of wholesale prices in western Europe during recent years has contrasted unfavourably with the stability of these same prices in the United States, and some countries have expressed concern about the potential effect of rising domestic prices on their competitive position in world markets. Since the acceleration of price increases, however, has coincided with signs of some slackening in aggregate demand, and since balance of payments positions have remained strong, there has been no considered move to respond to the price increases by damping down domestic economic activity. In view of the prevailing situation, official policies in western Europe generally did not lean strongly towards either deflationary or expansionary measures in 1962. But in a number of countries, governments have recently been making attempts, though often quite tentative, to

devise ways of bringing a more direct influence to bear on the movement of incomes; so far, these have generally not gone much beyond public statements about the rates of increase in wages and salaries that would be acceptable from the national viewpoint.

Merchandise exports of the developed private enterprise economies increased at about the same rate in 1962 as they had in 1961. This was almost entirely due to trade among these countries, since the volume of exports to the primary exporting countries declined even more sharply than they had in 1961. Reflecting the deceleration in rates of domestic economic growth, trade among the EEC countries did not expand as rapidly as in the preceding year; none the less the intra-trade of these countries continued to be one of the most dynamic elements in world trade. Exports of the European Free Trade Association (EFTA) countries to the EEC countries also continued to rise strongly — at a rate not much below that of intra-trade among the members of the Community. By contrast, trade among the EFTA countries increased only slightly in line with the sluggishness of domestic economic activity in some member countries. Exports of the United States and Canada to western Europe failed to advance in 1962 and the main stimulus to their exports came from the recovery in trade between the two countries themselves. By comparison with the other developed private enterprise economies, the exports of Japan to both North America and western Europe increased at remarkably high rates in 1962.

The disequilibrating tendencies evident in international payments among industrial countries during recent years were not further aggravated in 1962, though neither was there any reversal of underlying trends. The continuing gap between payments and receipts of the United States was slightly narrowed in 1962; and no renewed pressure on sterling was experienced. At the same time, the foreign exchange reserves of the Federal Republic of Germany continued their gradual decline and the accumulation of reserves in certain other countries of western Europe was halted.

The moderate diminution in the outflow of gold and dollars from the United States occurred despite adverse movement in some major elements of the balance of payments. Although there was some increase in the value of merchandise exports, this was more than offset by the expansion in imports that ensued from the continued recovery and growth of domestic economic activity. The volume of foreign long-term investment undertaken by private United States investors also rose substantially in 1962, mainly because of greater purchases of Canadian and western European bonds.

On the other hand, as a consequence of the substantial volume of investment abroad in recent years, income from foreign investments rose appreciably in 1962. Also, the net outflow of private short-term capital con-

tracted, aided partially by the policy of supporting short-term interest rates in the United States in order to lessen the incentive to transfer funds abroad. However, at least as important as these changes in limiting the outflow of gold and dollars were agreements reached between the United States and certain western European governments for advance repayments of debts as well as advance payments on purchases of military equipment. In addition, the restrictions previously imposed on foreign aid which were designed to increase the proportion of aid spent in the donor country became increasingly effective in 1962.

Some important international steps were taken in the past year to strengthen the defences against large and abrupt movements in short-term capital. Principal among these were the arrangements under which the International Monetary Fund (IMF) has been empowered to borrow from ten industrial countries; in addition, reciprocal stand-by credit facilities were negotiated among central banks of major industrial countries. Such measures, by asserting official confidence in the international monetary system, probably contributed to the comparative stability of international exchange markets in the past year. They have also somewhat lessened the reluctance of the key international currency countries to pursue expansionary domestic policies for fear of worsening their external balances. It is important to recognize, however, that these measures offer potential relief to the balance of payments difficulties of the key currency countries only in so far as these difficulties may be aggravated by unwarranted, short-term capital movements. But the larger question for these countries is whether expansionary domestic policies can be vigorously pursued without serious risk of unacceptably high rates of loss in gold reserves. It is hoped that a conjunction of favourable circumstances might effectively contain the possible rate of loss. The increasing differential between domestic and foreign prices created by rising foreign costs and the more active official encouragement to exporters could improve the performance of merchandise exports. Over the longer run, favourable consequences could also ensue from higher domestic levels of effective demand and more confident business expectations; greater industrial investment could strengthen the national competitive position through reducing costs and improving products; at the same time, the more optimistic business expectations and higher interest rates could render domestic outlets for funds relatively more attractive and restrain the outflow of private capital. However, these advantageous developments may be slow to appear and, in the meantime, there is the real risk of some further deterioration in the external balance as imports rise more strongly than exports. It remains to be seen whether, in these circumstances and at the present stage of international monetary co-operation, other industrial countries would be prepared to support such expansionary policies by demonstrating their willing-

ness to accumulate larger dollar or sterling balances and to refrain from converting these into gold.

For the primary exporting countries, which are reviewed in chapter 2, progress in 1962 was most frequently impeded by the inadequate performance of agriculture and the precariousness of balance-of-payments positions. Both of these have been recurrent, or even persistent, sources of weakness in many developing countries; in 1962, they reinforced one another to cause a significant retardation in the rate of growth in total output.

The restrictive influence of weak balance-of-payments positions was experienced despite the fact that external developments broadly favoured the expansion of exports of primary commodities from the developing countries. The volume of exports, in fact, generally rose appreciably above the level of 1961; and, since this more than offset some further weakening in the price of exports, gains in export earnings were recorded.

The expansion in the export volume of primary commodities was fairly widely distributed among countries and regions. The largest increase took place in exports from western Asia, principally because of increased petroleum shipments. The volume of exports from Latin America also rose appreciably, exports to the European Economic Community increasing with particular strength. Exports from Africa and from southern and south-eastern Asia advanced more moderately than from the other areas. Though the increases in volume were not generally accompanied by any improvement in prices, this was not true of all commodity markets. In the market for cereals, prices were held up by the fact that output in major producing areas did not increase, mainly because of bad weather. Sugar output in Europe was also reduced by weather conditions. Coming on top of the Cuban cutbacks in production, this touched off a spectacular rise in free market prices out of proportion to the underlying change in the demand-supply situation. Among the beverages, coffee and cocoa prices remained fairly stable throughout 1962, though at lower average levels than in 1961. The stability of coffee prices was notable in view of the larger 1961/62 crop; the International Coffee Agreement drawn up in the course of the year contributed to control of the flow of supplies on to the market. In contrast to the prices of some foods, however, the prices of almost all raw materials were lower in 1962 than in 1961. This occurred despite the fact that industrial production was expanding in both North America and western Europe, and it clearly indicated that supplies of raw materials continued to be more than adequate to meet the demand. The textile industry in the developed countries proved to be an exception to the general rise in industrial production; its output slackened and prices of textile fibres generally weakened. On the other hand, although metal-using industries continued to expend their output, prices of non-ferrous metals also maintained their

downward drift. Copper prices were an exception; but these were held stable largely because of the support policies pursued by the major producers.

Trade in cotton textile products, which constitute the principal manufacture exported by the developing countries to the industrially advanced countries, made little, if any, headway in 1962. Although under the International Cotton Textile Arrangements, negotiated in 1961, the industrial countries in western Europe which have restricted textile imports most stringently agreed to some enlargement of quotas, the main importers—Canada, the United Kingdom and the United States—continued to limit their imports by means of bilateral agreements.¹ The United Kingdom had concluded such agreements with Hong Kong, India and Pakistan in 1958 and 1959. In the case of the United States, whose imports of cotton textiles, though small in relation to total domestic consumption, rose sharply between 1960/61 and 1961/62, invocation of the market disruption clause of the new international arrangement in the second half of 1962 is expected to hold 1962/63 imports down to the 1961/62 level.

For the developing countries as a group, the increase in export earnings during 1962 which ensued from the greater volume of shipments was accompanied by a less than proportionate advance in imports. The moderate rise in imports, however, at least constituted an improvement over their performance in the preceding year. In 1961, imports into the developing countries had barely increased at all over their level in 1960. Trade deficits had widened ominously in the course of 1960 as the rate of increase in demand for exports had begun to slacken off and export prices had resumed their downward drift. By the end of 1960 and in the course of 1961 many countries had accordingly been compelled to curb their demand for imports. In 1962, while there was some acceleration in imports, their recovery was restrained by the weak balance-of-payments position in which many countries continued to find themselves. In Latin America as a whole, there was only a fractional rise in imports and in Africa, they actually declined. In southern and south-eastern Asia, the increase in imports was greater than in the other regions, though still modest.

Since imports did not advance in step with exports, the trade balance of the developing countries, taken as a group, underwent some improvement in 1962. However, this improvement was very largely confined to Africa and Latin America, where imports had increased least or had even declined in the course of the year. In Africa, the improvement was quite wide-spread but in Latin America, it was less general and a number of countries experienced a further deterioration. In western Asia, there appeared to be a slight narrowing of the

trade deficit, but in southern and south-eastern Asia, the gap widened.

For Latin America as a whole, despite an increase in the surplus on merchandise trade, the loss in foreign exchange during 1962 was greater than it had been in 1961. This was only partly due to the fact that the drawings which the area had made on the IMF during 1961 were replaced by repayments in 1962. Even allowing for Fund transactions, the loss in foreign exchange during 1962 remained greater than in 1961. A further increase in the volume of earnings remitted abroad by foreign investors was one factor contributing to this enlarged outflow. But, in addition, the flow of foreign capital to Latin America appears to have declined substantially in 1962; in part, this reflected a continuation of the downward trend in United States private, direct investment in the area. At the same time, the outflow from Latin America of local short-term capital, which appears to have reached very substantial proportions in recent years, increased further in 1962.

In southern and south-eastern Asia, official reserves also registered a further sharp decline in 1962. This mainly reflected continued losses by India and Indonesia, whose reserves had reached extremely low levels by the end of the year. Several other countries, however, were also compelled to finance deficits on current account by drawing down reserves. By contrast, western Asia experienced a sharp rise in official reserves, partly owing to an improvement in the trade balance but mainly because of an increased inflow of capital in Israel. Among the African countries for which data are available, foreign exchange reserves showed an appreciable increase in 1962.

In view of the balance of payments pressures which had mounted in 1961, many governments had been impelled to take corrective measures; and the course of events in 1962 did not generally warrant any substantial relaxation of these measures. The application of more stringent import controls and of deflationary policies thus continued to be wide-spread throughout the year. Partly as a consequence of the restraints on credit or on spending in the public sector as well as of difficulties in obtaining imported supplies, industrial production advanced less rapidly in many countries during 1962 than it had in previous years.

Of more immediate importance than the slackening in industrial growth, however, was the poor performance of agriculture during the 1961/62 season. Owing to bad weather, agricultural production, and particularly food crops, generally recorded little advance over the preceding year. Principally for this reason, the growth in total output of the developing countries slowed down in 1962. However, there was every indication that harvests for 1962/63 would be substantially larger than in the preceding season.

Very largely because of the lack of any marked increase in food supplies during 1962, but also, in some

¹ A short-term Arrangement covered the year 1 October 1961 to 20 September 1962 and a long-term Arrangement the following five years. For a discussion of these arrangements, see United Nations, *World Economic Survey, 1962*, part I (Sales No.: 63.II.C.1), pages 69 to 70.

degree, because of the tightened restrictions on imports of consumer goods, total consumption generally failed to make any appreciable advance in the developing countries and per capita consumption very probably remained stable. The growth of investment was also retarded by the restraints on government spending and other official measures designed to relieve balance of payments strains. At the same time, inflationary pressure continued to be wide-spread and the rate of increase in domestic prices accelerated in a considerable number of countries. On the one hand, the poor agricultural performance and the restrictions on imports limited supplies; on the other, although Governments sought to restrict public expenditure, this tended to be offset by higher export earnings and an expansion of credit to the private sector.

While, among the centrally planned economies reviewed in chapter 3, high rates of growth continued to be recorded in the Soviet Union and some other eastern European countries, national income generally increased less rapidly in 1962 than it had in 1961. For a number of these countries, this represented the second successive year in which the rate of growth had decelerated. In mainland China, total output increased substantially in 1962 after two years of very low levels of agricultural production.

In most of the eastern European countries, the slower pace of expansion in 1962 was primarily a reflection of the limited increase, or even decline, in agricultural production owing to adverse weather. By contrast, industrial production generally continued to advance strongly in 1962. However, in some countries, the poor agricultural performance contributed to some lessening in the pace of expansion in industrial output; the bad harvests restricted the flow of agricultural raw materials to the processing industries and, through adversely affecting the volume of exports, also limited the capacity to obtain imported supplies of materials. Certain maladjustments between output and requirements of inter-industry supplies were also apparent in some countries. As a consequence, in Czechoslovakia and eastern Germany, long-term plans were abandoned in 1962 and the commencement of new long-term plans was delayed for a year in order to allow time for the readjustment of the economy and the elimination of current imbalances; in Poland, the investment plan was revised for the same reason. The emergence of such imbalances has been attributed to the need for adaptation of past methods of planning and management to economies which have increased greatly in complexity. The reappraisal of these methods, which was begun some years ago and was reactivated in 1962, has stressed the need both for more careful preparation of plans in order to avoid imbalances and tensions which might reduce potential growth, and for greater flexibility in the methods of managing the economy. In recent years, various reforms have been introduced towards these ends. While these have varied considerably in form and content

from country to country, they have generally been in the direction of decentralization of planning responsibilities, enlargement of the scope for initiative by individual enterprises, and greater reliance on systems of incentives.

Investment activity in the Soviet Union increased substantially in 1962; in other countries, the changes were mixed and ranged from a marked acceleration to an absolute decline. In several countries, steps were taken in 1962 to delay the initiation of new projects and to concentrate resources on the completion of projects already under way. This was prompted by concern over the lengthening of gestation periods in the creation of new projects. Among the factors identified as impairing the efficiency and lengthening the gestation period of capital construction were the dispersion of resources among an excessive number of projects, delays in delivery of machinery and materials and the inadequate preparation of engineering plans.

Although state investment in the agricultural sector continued to expand at high rates, the growth of total agricultural investment was generally judged inadequate, largely because of a much slower increase in investment of collective farms; this lag in investment of collective farms resulted mainly from the slowing down in growth of agricultural incomes. In view of the importance ascribed to the continued expansion of agricultural output, major steps were taken by some countries in 1962 to encourage greater investment by collective farms and to stimulate production. The prices paid by the State to agricultural producers, particularly for livestock and dairy products, were raised substantially; at the same time, prices charged to agricultural producers for certain producer goods were lowered. In some countries, changes in methods of planning and management in the agricultural sector were also introduced; in the Soviet Union, territorial production boards, each responsible for about thirty to sixty farms, were established to improve farming techniques and working methods.

Largely as a consequence of the unfavourable developments in agriculture, supplies of consumer goods tended to increase less than demand; and this led, in a number of countries, to increases in prices. In view of some rise in the cost of living and the limited gains in money wages, real wages generally progressed less than in the preceding year. In several countries, however, the per capita real income of other segments of the population appears to have increased more noticeably. In the Soviet Union, this was particularly true of collective farmers, and in some other countries, recipients of transfer payments also benefited. In the aggregate, personal consumption appears to have increased moderately in most countries, the highest rates being recorded in the Soviet Union and Romania.

Total foreign trade of the centrally planned economies continued to expand in 1962, generally advancing

more sharply than domestic output. By far the greatest part of total trade continued to consist of transactions within the region. In contrast to the preceding year, trade with the rest of the world increased at a lower rate than intra-trade. This was true despite the fact that the trade of the Soviet Union with the rest of the world increased at a much higher rate than its trade with the other centrally planned economies; for, the trade of other eastern European countries with the rest of the world underwent only a limited increase and that of mainland China declined. The highest rate of increase in trade with the rest of the world was recorded in transactions with Latin America. A considerable expansion over 1961 also took place in trade with Asia and the Far East.

Developments in the field of foreign trade have been increasingly influenced by the measures taken by the Council of Mutual Economic Assistance (CMEA). The broad purpose of these measures is to achieve closer co-ordination of national plans and take advantage of greater specialization in production. Some of the more

important of these measures are necessarily of a long-range character, but other recent steps have had a direct bearing on current developments. Among these have been the extension of the pipeline carrying oil supplies from the Soviet Union to other CMEA countries and the linking of national power grids. The number of investment projects, jointly financed under CMEA, has also increased. Of considerable potential importance for trade in the immediate future has been the decision to introduce multilateral settlements among member countries: that means that, while trade among the member countries will continue to be guided by bilateral agreements, it will no longer be necessary to achieve an exact balance between imports and exports in transactions with each trading partner. Another important event was the decision taken by the Council in 1962 to revise the system of prices used in foreign trade within the group; the aim is to ensure that identical products carry the same prices in trade within the group and to bring these prices into closer conformity with those used in trade with the rest of the world.

Chapter 1

RECENT TRENDS IN INDUSTRIAL COUNTRIES

Developments after 1958 in review

For most industrial countries the period 1959-1962 was one of significant advance in aggregate production. In western Europe and Japan the rise in economic activity was generally continuous, whereas in North America two periods of expansion were separated by a recession which started in the second quarter of 1960 and came to an end in the first quarter of 1961.

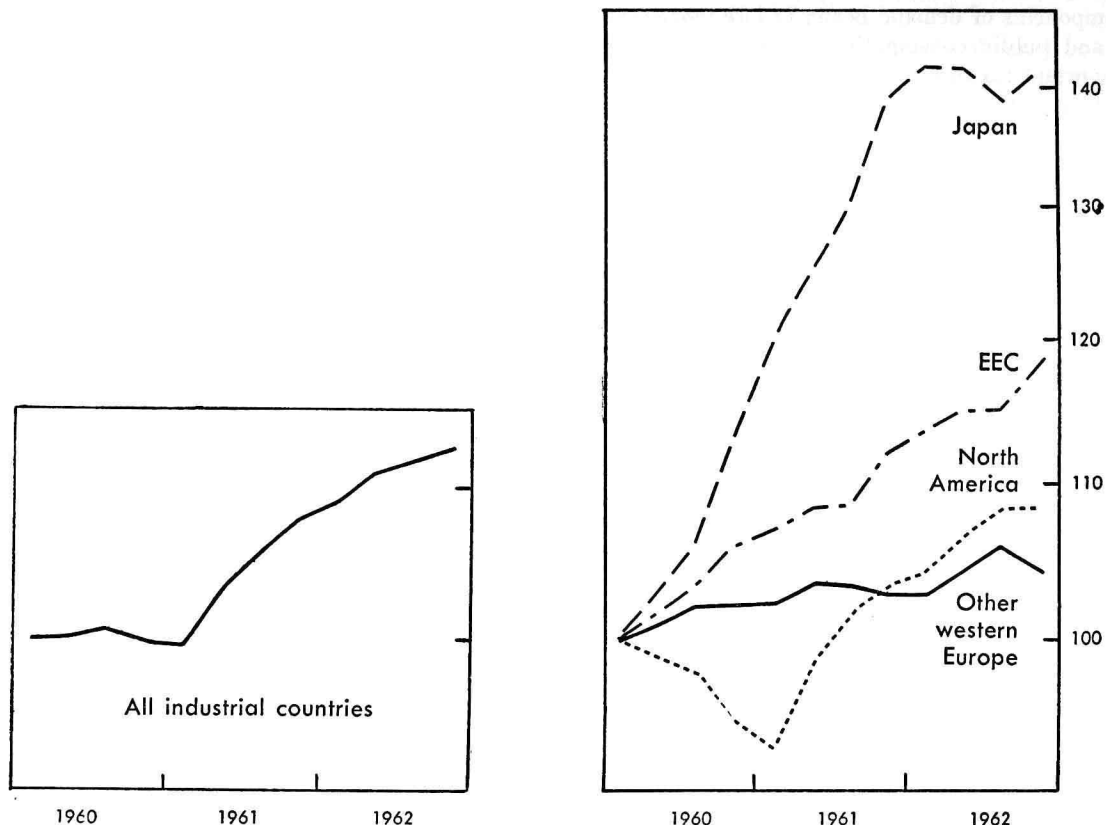
The recession in North America did not spread to other industrial countries. While industrial production dropped significantly in North America from the second quarter of 1960 to the beginning of 1961, so that industrial production in the industrial countries as a whole levelled off, other regions experienced a continued

strong rise in output during this period. In 1961 a recovery in industrial production in North America coincided with a considerable slowing down in western Europe. In the course of 1962 industrial production increased at a generally declining rate in the four regions distinguished in chart 1-1. In Japan and the United Kingdom, however, where deliberate restraint was exerted on the economy in order to restore equilibrium in the balance of payments, production showed little advance. In most countries, the movements in gross national product were similar to those in industrial production, although fluctuations were of smaller amplitude.

An outstanding feature in the upswing of economic

Chart 1-1. Industrial Countries: Indices of Industrial Production, 1960-1962^a

(Seasonally adjusted; ratio scale; first quarter 1960 = 100)



Source: See table 1-1.

^a For country coverage, see tables 1-3 and 1-5.

activity since 1958 has been a slower rise in most prices than in earlier post-war cycles. Because of more ample productive capacity in most countries supply responded more smoothly to expanding demand. As illustrated by the changes in implicit deflators of gross national product in table 1-1, the rate of increase in prices has been slowing down in North America and accelerating in western Europe. These relative price movements have been a factor in recent balance of payments developments.

The current western European upswing started in Denmark, the Federal Republic of Germany, Italy and the Netherlands around the middle of 1958, at the same time as the revival of activity in the United States following the recession of 1957-58. In Finland, Norway, Sweden and the United Kingdom expansion began at the end of 1958 and in Belgium and France as late as the early months of 1959. The driving forces in the initial stages of the upswing were higher public investment and increased demand for housing and consumer durables, facilitated by reductions in interest rates in most countries, and strong demand from abroad. In the course of 1960 a general and considerable fall in the rate of increase of exports was more than compensated by a vigorous expansion in domestic fixed investment. The investment boom reached its peak in the early months of the year but business investment was buoyant well into 1961 in most countries (*see* table 1-2). As other components of demand began to lose momentum, private and public consumption became increasingly more important for the continuation of the upswing in western Europe from the middle of 1960 onwards and in Japan somewhat later.

As early as the latter half of 1959 the Governments of Denmark and the Federal Republic of Germany took measures to restrain domestic demand. These measures were limited to raising discount rates and tightening credit. Somewhat later, direct restrictions on certain kinds of building activity were imposed in some coun-

tries in order to check excess demand for skilled labour and some scarce building materials. In the United Kingdom government policies aimed at restricting private consumption were instrumental in halting the rise of industrial production after the second half of 1960.¹

In North America rising government expenditure was the principal factor helping to arrest the 1960 downturn and initiate a new expansion of final demand² after the first quarter of 1961. A number of government measures introduced in 1960 and 1961 to stimulate residential construction were important in reversing early in 1961 the downward trend in residential construction which had continued since the middle of 1959. The expansion was soon reinforced by a considerable advance in business fixed investment and a rapid building up of inventories. Although exports had risen vigorously in 1960, the recovery phase received little stimulus from abroad—as had also been the case in the 1958-59 recovery. In 1962 the North American economies reached new highs in production and employment but did not perform as well as had been hoped in view of the still abundant resources of idle manpower and productive capacity. As in western Europe, the expansion came to rely significantly on buoyant consumer demand and continued high public expenditure, as fixed investment and inventory accumulation began to slow down.

In western Europe as a whole external demand has become less important as a stimulus to expansion, since exports to overseas regions began to slow down after the beginning of 1960. Subsequent advances in business activity thus depended mainly on internal factors and were reflected in a high rate of growth of intra-European trade. In North America the effects of weakness in the

¹ On economic policy in the United Kingdom in 1960 and 1961, *see* United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), pages 133-134. On the recovery in North America in 1961, *see* *ibid.*, pages 125 to 130.

² The term "final demand" is used to signify gross national expenditure less changes in inventories.

Table 1-1. Industrial Countries: Gross National Product and Average Price of Output, by Region, 1959-1962

(At 1954 prices and 1958 exchange rates)

Region ^a	Percentage share in combined 1961 gross national product	Gross national product				Implicit deflator of gross national product ^b			
		(Percentage change from preceding year)							
		1959	1960	1961	1962	1959	1960	1961	1962
Industrial countries	100	6	4	3	5	2	2	2	2
North America	62	6	3	2	5	2	2	1	1
European Economic Community	21	5	7	5	5	3	3	3	4
Other western Europe	12	4	5	3	1	1	2	3	4
Japan ^c	5	18	13	14	4	2	3	6	2

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

^a For country coverage, *see* tables 1-3 and 1-5.

^b Ratio of gross national product at current and at constant prices.

^c Fiscal years starting on 1 April of years indicated.