ECONOMIC HANDBOOK OF THE WORLD 1981

- Essential Economic Information about Every Country in the World
- Principal Economic Officials and Institutions
- Analysis of the Structure and Direction of National Economies
- Overview of the World Economy
- International Trade and Foreign Investment Patterns
- Chief Trading Partners

Edited by
Arthur S. Banks
Vivian Carlip
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Published for the Center for Social Analysis of the State University of New York at Binghamton by the McGraw-Hill Book Company

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PREFACE

The present volume is intended as an economic counterpart to the annual *Political Handbook of the World,* issued since 1928 under the auspices of the Council on Foreign Relations and assembled since 1975 at the Center for Social Analysis, State University of New York at Binghamton. As in the case of the *Political Handbook,* the main body of the work consists of descriptive writeups of all of the world's independent states, to which have been added a limited number of entries for nonindependent but economically significant entities, such as Hong Kong and the Cayman Islands. An introductory essay on The World Economy is included, while a counterpart to the PHW's Intergovernmental Organization section treats public international bodies whose programs and objectives are primarily economic in character.

A major problem facing the compilers of a global compendium turns on the rendering of both geographic and proper names. There have been three United Nations conferences on the subject, the most recent at Athens, Greece, in 1977. The problem is, however, becoming more, rather than less, acute because of an increasing tendency toward linguistic "nationalization". Thus cities once known as Leopoldville, Lourenço-Marques, and Fort-Lamy are now styled Kinshasa, Maputo, and N'Djamena, respectively, while throughout the Third World (particularly in Africa) Christian given names are commonly–and understandably–being abandoned as lingering relics of colonialism. In addition, such traditional problems as the rendering of Munich (München) and Florence (Firenze) remain.

In the transliteration of proper names from non-Western languages, we have attempted to strike a reasonable balance between the customary usage of the country under treatment and that of the international press. We have made a particular effort to achieve some degree of standardization in the transliteration of Arabic names, although complete uniformity appears to be possible only in the rendering of Gulf Arabic. In accordance with increasingly accepted practice, mainland Chinese names are given in *Pinyin,* although Wade-Giles and other variants are utilized elsewhere.

We have attempted to make the work current as of July 1, 1980. In the interest of calendar integrity, subsequent events, as well as new states achieving independence after that date, have generally been excluded from discussion. In a few cases, unusually important late-breaking developments are referenced in notes immediately following the country labels.

The articles on individual countries are presented in the alphabetical order of their customary names in English, followed by their official names both in English and in the national language or languages. Where no official name is given, the latter is identical with the customary name that appears in the segment heading.

A number of comments are in order regarding the summary information that appears at the beginning of each country treatment.

In most cases there are two population figures. The first is an official census count (identified by a "C" after the relevant year) if a census has been conducted within the last decade; the second is a mid-1980 estimate (identified by an "E") based on a time-series extrapolation of United Nations and other data, including material from *International Population Dynamics: 1950-1979* (US Bureau of the Census, 1980).

National currency rates per US dollar are, for the most part, June 1980 market rates as reported by the International Monetary Fund in its monthly *International Financial Statistics.* For non-IMF members (including most Communist countries), a variety of other sources have been used, including the United Nations *Monthly Bulletin of Statistics.* For currencies not amenable to market valuation, official (usually noncommercial) rates have been utilized.

Where possible, World Bank estimates of gross national product (GNP) per capita and real per capita GNP growth are employed. Information for the centrally planned economies depends on estimation procedures that convert data on het material product (NMP) into GNP (see *World Bank Atlas: 1979,* pp. 22-23).

Unless otherwise specified, international reserves are 1979 year-end figures as reported by *International Financial Statistics,* including gold valued at $518.44 per ounce (an average of major market prices on December 31, 1979).

Under the category of external debt, data represent total *disbursed* external debt that is public and/or publicly guaranteed, as collected by the World Bank Debt Reporting System, with our own estimates of 1979 year-end figures based on the Bank's time-series data for 96 developing countries. Comparable information is generally not available for other countries and, in the case of those that are industrialized, would not be especially useful since most are net lenders. Some estimates, usually representing total hard-currency indebtedness, are presented for Communist-bloc states, most of which have little or no private external debt.

Both exports and imports are for calendar 1979, when available. Exports are f.o.b. (free on board), f.a.s. (free alongside ship), or, for some centrally planned economies, value at national border. Imports are typically c.i.f. (cost, insurance, freight), occasionally f.o.b. (if c.i.f. figures are not available), or cost at border for some centrally planned economies. Principal exports/imports may reference individual products or classes of products, depending on availability of information and importance of the commodity, such information often being available only for earlier dates than that for total export/import values. Principal export/import partners are mainly from the IMF reporting system (tape series), normally listed down to 5 percent of total. Specific reference dates are provided for principal exports/imports and principal export/import partners only when they *differ* from dates for overall export/import values.

Government revenue and expenditure figures are for calendar years where possible. Otherwise, fiscal year (FY) data are used, with the year stated being the *earlier* year if the FY begins earlier than July 1 and the *later* year if it begins on or after July 1. On occasion, we have calculated calendar year figures from relevant FY quarterly data. Grants and loans are normally excluded from revenue, while capital outlay is sometimes omitted or noted as a proportion of expenditure.

Consumer price entries are largely from the *International Financial Statistics,* which, at present, utilizes 1975 as the base year (=100). The percent change from the previous year ($[t_2 - t_1]/t_1$) is given in parentheses. It should be noted, however, that consumer price changes usually measure fluctuations in prices of a limited number of consumer goods in selected areas of a country; for some developing countries, such information may be pertinent for only one or a few urban areas and not indicative of countryside costs of living.

The following definitions are applicable throughout:

GNP = gross national product, the value of the total final domestic and foreign output of a particular economy during a given period of time that is legally *claimed* by residents. It includes the value of goods and services produced domestically, plus income earned abroad (e.g., from investments and worker remittances), minus income from such sources earned domestically but accruing to persons abroad.

GDP = gross domestic product, the value of the total final output of goods and services *produced* by a particular economy during a given period of time. It includes output produced within the territory concerned, whether by residents or nonresidents, regardless of whether the legal claims on it are domestic or foreign.

GMP = gross material product, the value of output as calculated by some centrally planned economies. It includes goods produced domestically and net income payments from the rest of the world (as in GNP), but excludes the value of many services produced, in accordance with the Marxist definition of productive and unproductive labor.

The summary listings at the end of each country segment include (1) government ministries of economic significance, (2) central and other major banks (usually including development institutions, but excluding most private banks), and (3) principal stock exchanges, where they exist. The international memberships reference economic affiliations only, in accordance with the abbreviations listed on page 26.

The preparation of a large-scale reference work of this kind entails a multitude of obligations, few of which can be acknowledged adequately in a brief prefatory statement. A special note of gratitude should, however, be extended to our production associates, Elaine Tallman and Lucille Urban, both of whom rendered conscientious and indispensable service with remarkable ability and good cheer.

Academic colleagues at SUNY-Binghamton who provided invaluable professional advice included Professors Trent Bertrand, Alfred Carlip, Stanley Cohn, and Jan Michal of the Department of Economics, and Professors Richard Dekmejian and Don Peretz of the Department of Political Science. We are also grateful to Thad P. Alton of the Research Project on National Income in East Central Europe; Annette Binnendijk of the Agency for International Development, US Department of State; Wolfgang Gluschke of the Division of Natural Resources and Energy, United Nations Secretariat; Michael Jumba of the US Bureau of Mines; and numerous others at the International Monetary Fund, the World Bank, and the US Department of Commerce.

Janet Buttolph, documents librarian, and the entire staff of the Reference Department of SUNY-Binghamton's Glenn G. Bartle Library were endlessly helpful. Donald Miehls of St. Vincent College, Latrobe, Pa., contributed a number of country writeups; Frank Schepps of SUNY-Binghamton did much of the initial work on the country header material; and Susan Gorman of Dallas, Texas, prepared drafts of the country settings, in addition to performing a number of production tasks. Additional staff assistance was provided by Robert Almanas, Sophie Bednar, Irene Dunham, Richard Feigenbaum, Matthew Goldstein, Joanne Jones, Dwight Linder, Shedret Madi, Jacqueline Martin, Gail Meisner, Roseanne Mollen, Lisa Panet, Christopher Peck, Owen Pell, Judy Shultz, Maria Sosa, and Benjamin Surovy.

None of the foregoing should be held responsible for the occasional errors of both fact and interpretation that will inevitably surface in a work of considerable magnitude that has been assembled under rather severe time constraints. We hope to be able to rectify any such shortcomings in succeeding editions.

CONTENTS

THE WORLD ECONOMY

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In 1960, Henry Ford II, chairman of Ford Motor Company, called for freer international commerce, acclaiming that "trade is not a one-way street". In 1980, Phillip Caldwell, chairman of Ford Motor Company, called for a 15 percent restriction on cars imported from Japan. The irony is indeed heavy; but today the international economy is laden with such ironies.

Trade is infinitely freer than two decades ago. World prosperity accompanied this liberalized trade. Yet storm clouds of protectionism are gathering over every capital city.

Two decades ago the world talked of a perpetual dollar shortage and worried over future sources of liquidity. Today the dollar is no longer a sought-after currency. Its value is depreciated and central banks look for more reliable assets.

Industrial nations find they can no longer compete in world markets with products dating from their first industrial revolutions. Newly industrialized nations now have the advantage in such products. A second industrial revolution is under way, based on new technologies, which require massive shifts in labor and capital from old to new products and factories. But every industrial nation of the world resists the shifts. Instead, plans are in process to "reindustrialize" without discrimination between outdated products with no comparative advantage and newly emerging products born of new technologies.

Less-developed countries (LDCs) find it increasingly difficult to pay for oil and at the same time pursue development strategies. After the first price hike by the Organization of Petroleum Exporting Countries (OPEC), the LDCs were able to borrow heavily from international banks. These debts are falling due. The banks have been accommodating about repayment, but their financial position is too risky to increase their lending. The "recycling" of OPEC surpluses to LDCs by commercial banks is therefore ending. Yet the LDCs are reluctant to borrow under ordinary facilities from the International Monetary Fund (IMF) because of the conditions attached to such loans. Nor are they content with proposed reforms of the IMF if these reforms do not include a link between IMF lending resources and development needs.

Thus 1980 has been a year of unresolved conflicts. The international economy is becoming unstuck. It is simply muddling along. This does not mean, however, that resolution of these conflicts is beyond the intelligence of the international community. Rather it seems to be beyond its political will.

TRENDS IN INTERNATIONAL TRADE

The international economy never before experienced such expansion as it did between the end of World War II and 1980. Barriers to the exchange of goods, services, and technology, as well as to the movements of people, were dramatically reduced. The result was a transition from highly protected nationalistic economies to virtually a one-world economy. The General Agreement on Tariffs and Trade (GATT) provided the institutional structure.

The General Agreement on Tariffs and Trade (GATT). GATT came into being in 1947 when nations accounting for 80 percent of international economic activity signed an agreement to work for the reduction of all barriers to world trade. Although the agreement was never given treaty status, it proved sufficient to accomplish its signers' goals. The means of accomplishment were a series of talks, called "rounds", among members adhering to the agreement. The "rounds" grew more numerous and more effective as time passed and more nations joined in the deliberations.

The effectiveness of GATT stemmed from multinational acceptance of the principle that all talks on barriers to trade were to be conducted on a most-favored-nation basis. The most-favored-nation clause, which was the keystone of GATT, constituted a major step toward creating a one-world economy. It meant that instead of two nations meeting together and reaching bilateral agreement to lower tariffs or quotas on products traded between them, all interested nations would share in the reductions: any agreement between principals would be automatically extended to all other members. It thus banished bilateral, exclusive trade agreements, such as multiplied during the 1930s, between member nations. Without this clause, GATT would never have succeeded in creating a world largely rid of tariff barriers to international trade.

In the beginning the agreements among GATT members centered around individual products of paramount interest to the signatory nations. A major change from this procedure took place with the Kennedy Round of 1963: for the first time, members agreed to negotiate on both industrial and agricultural products. This broadening of the subjects for negotiation came about primarily because of the prior (1958) formation of a European bloc of trading nations, the European Economic Community (EEC). The creation of the EEC introduced a new element into the world economy and hence into GATT: a major customs union of six nations, which together created nearly as large an internal market as that of the United States. The customs union not only required the abolition of all barriers to trade among themselves but also established a common external tariff against all members outside the union. GATT provided a means for the rest of the member nations to negotiate with the EEC as a bloc for the mutual reduction of common external barriers to trade. Although the Kennedy Round was primarily a bargaining session between the EEC and the United States, the existence of the most-favored-nation clause meant all other nations shared in the benefits resulting from the negotiations.

The results were substantial, especially with regard to industrial products. The common external tariff of the EEC was reduced to an average of 10 percent on all industrial goods, while that of the United States was reduced to an average of 8 percent on dutiable manufactured goods. Averages, however, are deceptive. Some tariffs were virtually eliminated, thus pulling down the average tariff level on all manufactured commodities, while others remained extremely high. The EEC and the US had agreed in advance of the Kennedy Round that each would have the right to draw up a list of specific commodities—chemicals and textiles, for example, appeared on both lists—that were of special interest to each party and which would be treated separately. These lists undoubtedly diminished the success of GATT in lowering the average tariff on industrial goods.

The most conspicuous failure of GATT in the Kennedy Round, however, was with regard to agricultural products. No country or group gave ground. Since the 1930s, the United States had protected its agricultural sector from world market prices. The EEC followed suit by creating a common agricultural policy designed to assure its farmers the exclusive market of the six members. Intransigence on both sides ensued, and the world still remains at an impasse on agricultural protectionism. The growth in world trade in agricultural products has come as a result of an ever-growing demand around the globe for food and not as a result of any part played, as yet, by GATT.

A contradiction in the General Agreement may have occurred to the reader. If the most-favored-nation clause, extending all negotiated agreements to all members equally, was the keystone of GATT, how was it possible for the EEC countries to establish a common market among themselves and to exclude the rest of the world by means of barriers against those outside the market? The answer lies in Article XXIV of the agreement, adopted at the insistence of European nations when GATT was originally drawn up. Contrary to most-favored-nation treatment, the article permits member states to establish preferential trading arrangements, if such preferential groups result in a substantial enlargement of trade. The Europeans who argued for this "loophole" to the most-favored-nation treatment were a vanguard who foresaw a European community linked by economic ties that would give promise to political union and peace within the community. The United States, as well as other signatories, perceived this "European Dream" as a welcome step to military strength and peace in Europe. Thus, Article XXIV was adopted, and preferential trading groups have since existed side by side with multinational negotiations and with most-favored-nation access.

In essence, the conclusion of the Kennedy Round in 1967 significantly lowered tariffs on industrial products but left other restrictive trade practices largely untouched. As a result, the United States in the Trade Act of 1974 called for another round of negotiations to reduce tariffs by a uniform 60 percent and to confront agricultural protectionism and nontariff barriers to trade. The formal negotiations of this round, called the Tokyo Round, were concluded in 1979. The agreement provided for multilateral reductions in tariffs, the establishment of new Codes of Conduct for international trade, a few reductions in nontariff barriers to trade, and a reform of the GATT framework. The tariff reductions are taking place over an eight-year period begun January 1, 1980, while the other reforms are being implemented over a ten-year period. Twenty-three countries, including all the developed nations, endorsed the new agreement. With the exception of Argentina, the less-developed countries withheld their endorsement, either in whole or in part.

The following table shows the average tariff rates in effect before the reductions and after full implementation. Although the US averages on all dutiable imports are slightly lower than those of other countries, the latter (except for Japan) have committed themselves to larger absolute reductions. Reductions of agricultural tariffs were significantly less than those on industrial products.

Average Tariff Rates on Dutiable Imports before and after Tariff Reductions
(In percents)

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports[a]
United States				
Before	8.1	8.7	8.1	4.1
After	5.6	7.2	5.6	2.0
Difference	*2.4*	*1.5*	*2.5*	*2.1*
ECC				
Before	9.9	7.0	10.0	10.2
After	7.0	4.9	7.1	7.0
Difference	*2.9*	*2.1*	*2.9*	*3.2*
Japan[b]				
Before	14.0	14.0	15.3	1.7
After	12.5	13.5	13.4	1.6
Difference	*1.5*	*0.5*	*1.8*	*0.1*
Canada[b]				
Before	12.5	6.5	12.8	4.3
After	9.0	5.2	9.1	2.2
Difference	*3.5*	*1.3*	*3.6*	*2.1*

[a]Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

[b]For Canada and Japan, the figures shown refer to reductions in applied tariff rates. Reductions in bound rates are higher.

Note: Detail may not add to totals because of rounding.

Source: Office of the Special Representative for Trade Negotiations. Reprinted from Congressional Budget Office, *The Effects of the Tokyo Round of Multilateral Trade Negotiations on the U.S. Economy: An Updated View,* July 1979, p. XIV.

Negotiations on nontariff barriers resulted in six codes for the conduct of trade. The first specified that nonmilitary procurement by governments or their equivalents must not discriminate against foreign suppliers in favor of domestic suppliers. The second was an attempt to clarify GATT policy on export subsidies (when is a subsidy made to encourage exports and when is it made for purely domestic reasons?) and on countervailing duties imposed to equalize the subsidy (when is material harm imposed on the importing country?). Third, GATT's antidumping code was clarified to cover the sale of products in foreign markets for less than their price in domestic markets, whether or not a direct government subsidy makes this possible. Fourth, the United States abandoned its practice of valuing goods for customs purposes on the basis of the American selling price of similar goods produced in the United States instead of on their export value. Fifth, standards were set for safety, quality performance, and labeling of imported products (enacted primarily to inhibit the setting of national standards as a means of curtailing imports). Lastly, a code of import licensing was adopted in order to eliminate discrimination in the issuance of import licenses by governments trying to ration foreign exchange.

The Tokyo Round placed major emphasis on reduction of industrial tariffs, with less reduction on dutiable agricultural products, as the table indicates. The exception to this was the EEC, which cut its tariff on dutiable agricultural imports by 30 percent, compared to a 17 percent reduction by the United States and only 4 percent by Japan. The most important reductions from the viewpoint of Washington were those made by the EEC and those made by Japan on fruits and vegetables. While the reduction of tariffs on agricultural products was not significant, nontariff concessions included the loosening of quotas on such items as American tobacco by the EEC and on oranges and citrus juices by Japan. The United States, in turn, permitted cheese imports a higher quota. Primarily as a result of freer quotas by its trading partners, US agriculture is expected to gain close to $500 million in exports by 1987, according to Department of Agriculture calculations, while expansion of cheese imports will account for nearly three-fourths of the anticipated $200 million in additional US agricultural imports. Thus, the United States will be a sizable net gainer in the reduction of nontariff barriers on agricultural products.

Several important issues in trade relations were not addressed in the Tokyo Round. The growing importance of at least three of these issues must be recognized in future meetings, lest a new form of protectionism emerge to nullify GATT efforts to free international trade.

A growing barrier to trade is the tendency of governments to limit exports "voluntarily" when injury to a domestic industry is claimed. Domestic pressures have resulted in a number of such informal agreements that plainly contradict GATT objectives. The earliest such agreement applied to textiles from the Far East to the United States. More recently such "orderly marketing arrangements" have been extended to footwear and television sets. Products coming under these agreements are ones in which the industrial country can no longer compete on a cost basis with a newly developing country because the products are characterized by simple technology and a high labor content. Newly developing countries have imported the technology and combined it with relatively large supplies of semiskilled workers in order to produce low-cost goods for export. Taiwan, South Korea, and Hong Kong have achieved remarkable export-led growth as a result of this strategy. Their success, on the other hand, has produced a number of major dislocations in the domestic markets of the importing countries. The United States, for example, has virtually abandoned the home production of radios and television sets. The agreements to limit exports "voluntarily" are a device by which Washington hopes to contain such dislocations in domestic markets stemming primarily from imports from the newly developing countries. The Trade Adjustment Act was passed by Congress to cushion these dislocations by providing assistance to workers displaced by imports, but the funding has proved inadequate. Lobbying for special concessions to the affected industries, on the other hand, has been highly effective. Thus, the problem awaits negotiation and, hopefully, resolution in future GATT negotiations.

Another unresolved problem is that of trade in primary products which are of paramount concern to less-developed countries. The issues involved have received the attention of the United Nations Conference on Trade and Development (UNCTAD) as primary spokesman for the LDCs. The industrial nations have disregarded these issues in the GATT negotiations, partly as a result of disarray among themselves over proposed solutions. (For further treatment, see "Trade problems of the less-developed countries", below.)

The third issue demanding attention in future negotiations concerns "hidden barriers" to trade, most of which stem from variation in customs, laws, and government support to local business. Japan, in particular, has been cited for an interpenetration of government and business that has effectively resulted in closure of its markets to foreigners. Examples of these barriers include exclusive marketing organizations, exclusive dealerships, domestic procurement and subsidies, laws on such service industries as banking and insurance that exclude competition from abroad, and worker-employer customs. Even within the European Common Market many of these customs and laws operate to restrict mobility of business and labor. The EEC has attached high priority to reducing such barriers between members as different social-security and pension systems, antitrust laws, incorporation laws, and banking laws, but it has achieved far less than total success. The US handling of the Chrysler problem as a public employment situation provides yet another example. Within each country pressures to maintain full employment inevitably lead to domestic policies that slow or prevent industrial adjustment to trends in international trade.

The European Economic Community. The EEC was created by the Treaty of Rome, signed in 1958 by Belgium, Luxembourg, the Netherlands, France, the Federal Republic of Germany, and Italy. The avowed purpose of the treaty was to establish initially a customs union in the trade of industrial products and eventually a common market for both industrial and agricultural commodities. The ultimate political aim, at least of its founders, was a United States of Europe. Its evolution up to 1980 has resulted in the creation of a common market for goods, but movement of people and business is not yet entirely free.

The administrative arm of the EEC, the Brussels-based European Economic Commission, is made up of civil servants from all member states. The Commission not only administers the rules agreed upon by the members but can also initiate rules and procedures stemming from its own research and decisions, although all rules must ultimately be agreed upon by the EEC's policymaking arm, the Council of Ministers. The Council is essentially a body of national representatives. Each member represents his own government within the confines of a multinational decisionmaking process. Therefore, any initiative brought by the Commission must be subjected to the pulls and tugs of the Council of Ministers. Over time, abrasiveness between the Commission and the Council has diminished, but high policy still remains the prerogative of the Council, which has evolved a broad free-trade policy for industrial products and a highly protected market for farm commodities.

The success of the EEC in creating new trade in industrial products rather than simply diverting it from former trading partners is no longer in dispute. Initially, trading partners outside the EEC feared that a free-trade union and a common external tariff would simply internalize trade to the detriment of the external world. Instead, the opening of a free-trade market resulted in both increased competition by existing industries within the Community and expansion of old and new industries. As a by-product of the external tariff, countries outside the Community, such as the United States and the United Kingdom (prior to its admission, effective in 1973), rushed to establish branches of their own industries within the market.

The total effect of these maneuvers was to raise national incomes in the market beyond what might otherwise have been expected, and, scholars today agree, this higher level of income brought about greater purchases both within the market and with outside trading partners. The trade-creating effects for industrial goods might not, however, have extended to external trading countries had it not been for the role of GATT in negotiating to lower the EEC's common external tariff. Certainly the Kennedy Round in 1963 was a powerful means of achieving this. The EEC came to the negotiations as one voice, represented by the Commission of the EEC rather than by delegates from the individual members. Negotiations with the Commission were carried out primarily by the United States, but with the most-favored-nation clause, results were extended to all GATT members. The major stumbling block to total success was, of course, agriculture.

Before turning to the trade diversion effects of the Common Agricultural Policy of the EEC, it is well to begin by looking at the policy itself. The formation of the EEC did not necessarily increase agricultural protection in other countries, but working out a Common Agricultural Policy for the six original members resulted in political decisions that extended the national policies of the most protective countries to those of the least protective countries. Before the formation of the EEC, two countries, West Germany and France, had highly protective policies for their farmers. In West Germany the effect was to guarantee high-cost agricultural producers a subsidy to bring their incomes up to an agreed-upon level that would roughly maintain their purchasing power with that of other workers. Most of these high-cost farm producers were found in Bavaria, the principal political base of the Federal Republic's conservative Christian Social Union.

In France agricultural protection was a political necessity that had become a way of life. Protectionism, which had accelerated during the depression of the 1930s in order to insulate French farmers from disastrous agricultural price declines, took the form of government price guarantees for a vast range of commodities, plus subsidies for exports. These guarantees, although not tied to the notion of purchasing power, as in West Germany, resulted in high-priced agricultural products to urban consumers, thus tilting the terms of trade toward agriculture and away from industry. It also resulted in surpluses that the government either had to store or sell, with subsidies, on world markets. Unlike their German counterparts, however, French farmers were generally not high-cost producers. This was especially the case for grains. The French cost per ton exceeded that of Canadian and US producers but remained significantly lower than that of any other Western European nation. Therefore France, with or without export subsidies, could sell its grain competitively in European markets. This fact was significant in the adoption of a Common Agricultural Policy by the European Community.

The other four founding members of the EEC were significantly less protective of their agriculture than France and West Germany. Belgium and Luxembourg were net importers of most agricultural products and, in any case, lacked farm blocs powerful enough to demand and receive protection. The Netherlands and Italy, both with large agricultural interests, had managed politically to follow a fairly unrestrictive trade policy in agriculture. The Netherlands had developed an important market for its dairy and hog products in Great Britain while importing most of its grains. As a result, it had little need for protectionism. Italy was a low-cost producer of a wide range of fruits and vegetables, wine, meats, and even some grains, although it was a net importer of the last.

From these divergent national policies it was necessary for the Commission of the EEC to forge a Common Agricultural Policy. Compromise alone was insufficient. France threatened to withdraw from the EEC if its farmers were not given sufficient protection. By "sufficient protection", France essentially meant becoming the chief supplier for the whole market, with assurance that no agricultural commodities would enter from outside until the internal supply had been sold at guaranteed prices above world market prices. The French stance was uncompromising and, indeed, became the base of the Common Agricultural Policy. France reasoned, rightly, that West Germany would support her for two important reasons. First, West German industrialists were strong supporters of a free market for industrial goods. This support stemmed not only from the fact that West Germany's industry was already the most advanced and, typically, the lowest-cost producer of industrial products, but also from the fact that a larger market held out the lure of decreasing costs as output and sales expanded to meet the demands of the enlarged market. Second, West Germany had her high-cost, politically sensitive farmers to protect.

The Common Agricultural Policy that emerged illustrates the triumph of the protectionist members over the less restrictive countries of the Community. The latter fought for compromise all along the way, and some was achieved, but in the interest of keeping the EEC together—with all its advantages for trade and standards of living—the four agreed to the policy.

The result followed rather closely the French model of protectionism. Each year the Commission sets prices for a range of commodities, but only with the approval of the Council of Ministers. These prices are guaranteed to EEC farmers from a common agricultural fund. Imports are allowed only at the fixed price plus a charge, until after the supply of EEC products has been sold. Such policy, of course, guarantees the market to community producers unless they cannot supply it. The latter possibility would seem to open the door to outsiders, but for many important agricultural products this has not been the case because the guaranteed prices have usually been set high enough to elicit not only sufficient supplies but even surpluses. These surpluses are stored by the Community in much the same manner as in the United States, where they are stockpiled under "parity pricing" by the Commodity Credit Corporation. In recent years some stocks, such as that of butter, have reached scandalous proportions. Wine has become another sore point, with Italy having increased its acreage in response to the EEC's price incentives and thus having run into conflict with expanding French supplies.

Thus, internally, the Common Agricultural Policy has created severe strains, exacerbated by EEC expansion to include Denmark, Ireland, and the United Kingdom. While the first two have traditionally been large suppliers of agricultural products to the United Kingdom, Britain has historically provided a relatively free market for the world's agriculture. This assured Britain of commodities at world competitive prices and, as a result, relatively low-cost food to industrial and other workers. Unlike France, where terms of trade were historically manipulated to favor the farm sector over the industrial sector, Britain (since the repeal of the Corn Laws in 1846) has favored its industrial sector. Even during the 1930s, Britain's protectionism took the form of partially insulating the whole Commonwealth from foreign-exchange depreciations by way of the "Sterling Bloc". This form of protectionism still guaranteed Britain low-cost agricultural products from the Commonwealth, which included Canada and Australia; however, Britain's traditional trade policy was reversed upon its entry into the EEC in 1973. Subsequently, while reluctantly accepting the Common Agricultural Policy, British leaders attempted to modify its significant cost. In late 1979, under Prime Minister Margaret Thatcher, the issue of EEC funding, particularly for agricultural guarantees, led to a head-on confrontation. The Conservative Party estimated that in 1980 the British would be paying £1 billion net per year (about $2.5 billion) into the Common Market fund. Furthermore, if provision were made for the higher cost of EEC food, the British payments would represent nearly three-quarters of the predicted deficit on current account of the 1980 balance of payments. The British demanded a halt to the growth of agricultural subsidies and a cut in their net contribution to the EEC budget by at least a quarter of the total in the first year, in addition to subsequent reductions. In recent years, the British claimed, the budget had gone out of control. In 1975 the total EEC budget was just over $6 billion, of which $4 billion went for farm price supports. By 1979 the budget had grown to just under $14 billion, of which nearly $10 billion supported farm prices. The British were adamant on containing this growth, and found an ally in the EEC's new, directly elected Parliament. The Parliament, which had previously exercised no real power, found authority in the Treaty of Rome to veto the EEC budget in late 1979 and hence to exercise power to cut farm spending. One of its principal objectives was to block $400 million of the farm subsidies scheduled by the Council of Ministers for price supports. The cut was aimed primarily at the dairy industry, where, in view of the quantity of butter and dried milk already in storage, an additional subsidy would result in an unacceptable surplus in dairy products.

The crisis was resolved in early 1980 when EEC members agreed to reduce British budgetary contributions from the scheduled $2.49 billion to $853 million for the current year, and from $2.99 billion to $1.02 billion in 1981. Earlier, EEC agriculture ministers had agreed to a modest 5 percent increase in farm prices for 1980, Italian Foreign Minister Emilio Colombo declaring that the action was one of several in agricultural policy that "created possibilities to strike a better balance" among Common Market members.

Trade problems of the United States. It is ironic that despite GATT's success in reducing barriers to trade in industrial products and lack of success in lowering agricultural protection, the US export performance in agriculture was better than that of industry during the 1970s. In 1970 agriculture contributed only $7 billion to US exports, but by 1979 this contribution was $35 billion. These exports are, of course, subject to fluctuations caused by weather, harvests elsewhere in the world, and domestic demand. But despite the fluctuations and grain embargoes imposed for political reasons, agricultural products are a major and growing component of US exports.

Exports of manufactures by the United States expanded three-fold during the decade but lost ground when compared to West Germany and Japan: the former's industrial exports grew to over four times and those of Japan to more than five times their size at the start of the decade. In some product areas the US share of export markets declined as the economy's comparative advantage changed toward high technology items in energy, computers, and transportation. These areas showed their strength in the last year of the decade, when the value of exported capital goods increased some 25 percent over the previous year. For example, drilling and oilfield equipment grew by 33 percent, business machines and parts by 29 percent, power generating equipment by 57 percent, and civilian aircraft by 71 percent.

US imports were dominated by increased payments for oil, which rose from $1.3 billion to $55 billion by the end of the decade. In addition, however, imports of manufactured goods as a percentage of GNP more than doubled. These imports were concentrated in consumer products, mainly those in which the United States no longer held the advantage.

As a result of these conflicting changes, the United States experienced deficits in its balance of trade in seven out of ten years of the decade. It was unable, in contrast to West Germany and Japan, to generate a sufficient trade surplus to pay for its oil and its growing imports of consumer products.

The US automobile industry has received much of the blame for the deterioration in the US manufacturing trade balance. In 1979 about $10 billion of the deficit came from automobiles. Imported cars were displacing those of domestic manufacture because American companies were unprepared for the demand for smaller, more gas-efficient cars. The automobile industry is currently spending billions of dollars to redesign and retool, and it may be expected that the US trade deficit on this account will eventually recede. But other consumer goods reached a deficit of $18 billion in 1979. A large proportion of these products are produced by newly developing nations (see above) which are low-cost producers compared to the United States. Here, as in the case of automobiles, it is in the interests of consumers and more competitive US industries to adopt a free-trade policy.

Despite its recent strength, a major part of the US trade problem lies in capital goods. Since World War II, the United States has been the leader and innovator in this industry. Its postwar growth was rapid and in large measure accounted for yearly trade surpluses through the 1960s. During the 1970s, however, exports of capital goods stagnated. In 1970 this sector's exports accounted for 31.9 percent of all exports, while in 1979 it was 31.7 percent. On the other hand, US imports of capital goods as a percentage of all imports (excluding oil) rose from 10.2 in 1970 to 16.4 at the end of the decade. Therefore, while capital goods still ran a surplus of $33 billion in 1979, the United States was clearly losing its leadership position in the very sector that had provided the country with its greatest comparative advantage. Remedies for this problem lie in diverse directions and may be difficult to implement.

First, US controls on exports for reasons of foreign policy have hurt the sale of capital goods, but here the determinants of such decisions depend on the state of world peace rather than economics per se. Second, the United States has never had the credit and financing facilities for its exporters that other industrial countries provide, although in 1979 the US Export-Import Bank moved in the direction of more and easier credit for exports. Third, implementation of the GATT agreement to reduce "hidden barriers" and abolish preferential procurement by foreign governments would help US capital exports. Fourth, domestic policies aimed at stimulating innovation and increasing productivity in firms on the leading edge of technology may be forthcoming through changes in the US tax system.

Another significant problem is that the United States has fallen behind every other major industrial nation in productivity gains. In 1979 the US Bureau of Labor Statistics reported a gain of 1.5 percent, while Japan registered 8.3 percent; France, 5.4 percent; West Germany, 5.2 percent; Italy, 8.7 percent; and the United Kingdom, 2.2 percent. The continuation of such relatively low productivity gains by the United States can only result in further deterioration of its trade balance. With policymakers in 1980 sufficiently alerted to this fact, the nation may expect legislation designed to encourage greater growth in productivity.

The most recent change in US export policy has been an expansion in funding by the Export-Import Bank. In 1977 the Bank extended only some $700 million in credits for exports by US firms, but by fiscal 1979 this credit had expanded to $3.6 billion. Furthermore, the Bank became more aggressive with regard to interest rates charged to foreign buyers of US goods. By agreement of the industrial countries, interest rates on loans by government financing agencies are not to go below 7.25 percent. Unfortunately, many countries, eager for foreign sales, have breached this agreement. In an extreme case, France offered a 30-year loan at 3 percent to Indonesia for financing a new airport. The United States has opposed such subsidized credits and has attempted, without success, to convince other countries to discontinue the practice. As a result, in 1979 the Export-Import Bank lowered its schedule of interest rates to 7.75-8.75 percent to match the low terms of other nations. It went so far as to match a French offer of 6 percent to Cyprus in order to win a telecommunications contract for a US firm. In addition, the Carter administration expanded the Export-Import Bank's lending authority for fiscal 1980 to $4.1 billion. This figure does not include funding for credits to China, which are to be extended under the trade agreement submitted to Congress in 1979.

Congress has acted in a number of other directions to encourage US exports. Thus, the Export Administration Act of 1979 clarifies and eases licensing procedures and reduces the number of items controlled by licenses for national security reasons. The act also calls for more public accountability of export controls when used for purposes of foreign policy. In addition, Congress has attempted to modify the Webb-Pomerene Act of 1918, which allows US exporters to form associations for trade purposes, with immunity from antitrust laws, in order to compete with foreign cartels. But the immunity applies only if the association does not "substantially lessen" domestic competition. This clause has been subject to such wide interpretation that exports under the act have accounted for a mere 2 percent of the US total. Congress envisages setting up a preclearance procedure, similar to the preclearance of mergers, which would allow more associations to be formed for export purposes. This move could have important expansionary results in such sectors as construction, management, and consulting, to which little attention has hitherto been paid.

Yet another change in US trade policy may soon be in the offing. American exporters have been at a disadvantage vis-à-vis EEC exporters with regard to tax rebates because, under GATT rules, rebates on the Common Market value-added tax are permitted on exports while rebates on income taxes—the pillar of the US tax structure—are not. This gives an immense advantage to European over US firms since the value-added tax that is rebated ranges from 12 to 20 percent. Congress is contemplating means for redressing this disadvantage: one proposal is to lower the corporate income tax on profits stemming from foreign sales.

Meanwhile, the overall US trade deficit remains large: $26.5 billion in 1977, $28.5 billion in 1978, and $24 billion in 1979. The slight improvement in 1979 reflected a 27 percent increase in exports over the previous year, due in part to increased growth of incomes abroad and in part to the earlier depreciation of the dollar. Yet the US share of world exports of manufactured goods still fell below that of the early 1970s.