

## Europe in 1951

Economic Survey of Europe in 1951 : United Nations Economic Commission for Europe, Geneva (February 1952); pp. xi-+243, price \$1.50 (Available from Oxford Book & Stationery Co., New Delhi).

**S**URVEYING economic trends in 1950 and the prospects in 1951 for the European countries, the United Nations Economic Commission for Europe (ECE) warned last May that their analysis was not such as "to invite optimism concerning the present trend of events". They took a serious view of the mounting tide of inflation, and emphasised the need for quick action. But European countries at that time were not in a mood to listen; true, the boom in raw materials prices had worsened their terms of trade. In spite of it, they felt comfortable enough for several reasons. The abnormal demand from the US for stock-piling purposes rendered dollars in the international market more plentiful than they had been for a long time; gold and dollar assets of the European countries (excluding USSR) had increased by nearly \$1.8 billion in 1950, and even though the rate of increase had slowed down in the early part of 1951, the reserves had continued to rise. Secondly, though the unfavourable terms of trade had impinged to a considerable extent on the real incomes of European countries their armaments expenditures had yet to gather momentum and make heavy drafts on the available resources. In these circumstances, they were inclined to feel that the ECE were being unduly pessimistic and to postpone resorting to policies which, however admirable on economic grounds, were likely to be politically inexpedient.

When towards the middle of 1951 the tide turned, they were rudely shaken and found the prosperity of the previous months less substantial than they thought. Especially the UK who, because of the fantastic increases in prices of sterling area products like rubber, tin and wool, had strengthened her gold and dollar reserves greatly, found them being depleted more rapidly than was thought possible. In the third quarter of 1951, UK's gold and dollar reserves fell by \$598, million which more than wiped out the addition to reserves of \$567 million in the first half of the year. Other European countries found the position in regard to balance of payments somewhat

less serious than that of the UK, since they still had access to aid under the European Recovery Programme (which had been stopped in the case of the UK late in 1950) and since they had surpluses with the UK. But they had, none the less, serious domestic inflation to contend against. It is therefore apt that the ECE, surveying economic conditions in Europe, in 1951 should choose as their main theme the "Struggle to Contain Inflation".

With the break in American stock-piling demand and the acceleration of armaments expenditure, some of the European countries found balancing of supply of resources with the demands for them increasingly difficult. While the worsening in terms of trade tended to reduce their real resources—as the same quantum of exports could be exchanged for a diminishing volume of imports — armaments demand grew apace, and was not compensated either by an appropriate reduction in civilian consumption and investment or by a spectacular increase in productivity. The position was, of course, not the same in all European countries. Western Germany, Italy, Belgium and the Scandinavian countries, for instance, had more resources than were required for armaments purposes, and could increase civilian consumption as well as domestic and overseas investments. The relative position of the western European countries in 1951 in regard to the competing demands of consumption, investment and armaments is shown in the table overleaf.

The strain is most marked in the case of the UK; despite a balance of payments deficit amounting over 4 per cent of gross national product, gross fixed capital formation had to be cut by one-half per cent to satisfy the other demands. Consumption and stock accumulation showed marginal increases; but it was armaments expenditure which absorbed the greater part of increase in available resources.

As a percentage of gross national product, government consumption (which includes defence expenditure) was highest in the UK, with

Belgium and Western Germany close seconds. This is worth noticing, because the latter countries were much better off in 1951 than in 1950, whereas UK's position in 1950 was sounder than in 1951; the percentages given in the above table are, therefore, not true indications of the relative pressures of government consumption on real resources in 1951 in these three countries. For, the percentages in the table are all in terms of the 1950 gross national product. If it is observed that real national income of the UK in 1951 was nearly one-half per cent lower than in 1950, and that of Western Germany and Belgium higher by 10 per cent and 8½ per cent respectively the relative weight of armaments expenditure in the three countries will be somewhat different. Government consumption, as a percentage of real income in 1951, will be considerably larger in the UK than in the others. At the same time UK could neither draw on idle resources to step up domestic output like Belgium and Western Germany nor resort to drastic cuts in personal consumption like the Netherlands, Denmark and Norway, for political reasons. The burden had, therefore, to be borne by the balance of payments and the gold and dollar reserves.

The relatively favourable positions of the continental countries was to some extent a reflection of the deterioration in the positions of Britain and France. For, a good portion of the balance of payments surplus of European countries was garnered at the expense of UK and the sterling area. As against net claims on the European Payments Union (EPU) of \$47 million in the first half of 1951, the UK had net liabilities to the EPU of \$255 million in the third quarter and \$528 million in the fourth quarter of 1951. Similarly France's position *vis-a-vis* the EPU changed from that of creditor to debtor. Between July and November 1951, France paid to the EPU \$62 million in gold and dollars, and moreover, added \$231 million to her net liabilities to the EPU. Both countries were, further, unable or unwilling to bring internal inflation under control. As already men-

tioned, measures to curb domestic consumption in the UK were not as effective as was necessary; wholesale prices and cost of living continued to increase and by September 1951, they were respectively 19 per cent and 12 per cent higher than in September 1950. In the case of France, improvement in the balance of payments position in the earlier part of 1951 led to a stimulation of imports of consumer goods and restriction of exports of scarce commodities. While these measures contributed to a worsening of the balance of payments, they failed to correct substantially prices and cost of living. In September 1951, wholesale prices were 23 per cent higher than in September 1950. Increase in cost of living in the same period was of the order of 18 per cent.

In the opinion of the ECE, these developments were inevitable in view of the conflicting aims of government policies. Most of the governments were unwilling till the last quarter of 1951 to retreat from trade liberalisation which they accepted as members of the EPU and contracting parties to the General Agreement on Trade and Tariffs. Nor were policies of credit restriction enforced rigorously enough to

have a disinflationary effect. And no resort was had to upward adjustment of exchange rates as recommended by the ECE in their *Survey* last year. This policy of upward adjustment of exchange rates "though it would have certainly been anti-inflationary, was unacceptable for other reasons; its rejection involved the acceptance of inflation". Having chosen this alternative, they had to operate on prices in a direct manner. "But attempts to overcome this (i.e., inflation) by operating directly on prices would have implied a readiness to employ a very extensive, carefully co-ordinated system of controls involving among other things heavy export taxes and import subsidies. Such a readiness was nowhere present: everywhere the general mood, as reflected in successive elections in different countries, was becoming less favourable to controls. Subsidies on consumer goods, which could have kept retail prices down, had, moreover, become less attractive to Government because they would involve additions to public expenditure at a time when it was already increasing because of increased armament programmes. If they were to be financed out of direct taxation or the taxation of luxuries, they would

aggravate a transfer problem which was already severe in heavily taxed countries; if not they would increase inflationary pressure by freeing incomes for other uses as much as they damped down the price-wage spiral.

"In the meantime, Governments in most European countries recognised a need to increase reserves of foreign exchange, or at least to prevent their decline beyond a certain point. Every move to aid this by hampering imports or stimulating exports was bound to have inflationary effects at home. All these difficulties induced a number of Governments to seek escape during the year through a severe rationing of credits, which, by curtailing stock-building and to a lesser extent other investments and consumption, could be used to reduce inflationary pressure at home and simultaneously improve the balance of payments."

The main impression one gets from a study of the *Economic Survey of Europe in 1951* is that of failure of the European countries to avoid or mitigate a crisis which "more than any other could have been foreseen and advance preparations made to deal with it". It

## CHANGES IN AVAILABLE RESOURCES AND THEIR ALLOCATION BETWEEN 1950 & 1951

*Percentages of 1950 gross national product*

Change in	United Kingdom	Ireland	Netherlands	Denmark	Norway	Sweden	Finland	Belgium	France	Italy	Western Germany	Austria
Gross national product	+2-2½	+3½	+3	+1	+3	+3	+9	+6	+6	+6-7	+11	+5-7
Terms of trade *	-- 2½	-- 4	-- 3	-3½	+4	+5	+5	+2½	-1½	-1	-1	...
Real national income	-- 0-½	-- ½	0	-2½	+7	+8	+14	+8½	+4½	+5-6	+10	+5-7
Balance of payments	-4-4½	-7½	+4½	+3	+6	+2	+4	+6	-1	-1	+2½	...
Resources available for domestic use.	+4	+7	-- 4½	-5½	+1	+6	+10	+2½	+5½	+6-7	+7½	+5-7
Government consumption	+2½	...	...	+1	+1½	+1	...†	+2	+1½	+0/1	+2	...
Gross fixed capital formation	-½	...	-½	...	-1	+1	+3½	...	+1	+2	+2½	...
Personal consumption	+0-1	...	-1	-3	-2	+0½	...	...	+2	...	+2	...
Stock accumulation	+1-2	...	-1-3	-3½	+2½	+3½-4	+6½	...	+1	+4	+1	...

*Note.*—Provisional estimates based mostly on data available in November 1951.

\* Including the effect on real income of changes in invisible items in balance of payments.

† Included in personal consumption. Reparation deliveries are excluded from economic resources.

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was not only the European countries which failed to adjust their institutions and policies on the basis of sufficiently long-term expectations. A great deal of the blame attaches to the USA also, which switched stock-piling on and off without giving sufficient thought to the repercussions on other countries. In view of the close dependence of the fortunes of most countries in the "free world" on American decisions to import sudden changes of policy by the USA inevitably drive the rest of the world from one form of crisis to another. Events in 1951 are a supreme example of the enormous influence which the USA exerts in the international market, and the woeful lack of realisation on her part of the fact that other countries cannot move at the same pace as she does. She was impatient to suspend aid under the ERP to the UK as soon as the UK's gold and dollar reserves shot up in the months following the Korean outbreak. "At the same time, on the strength of the temporarily continuing rise in gold and dollar reserves abroad, the effort was made to press on towards the long-term objectives of freeing international trade and payments from quantitative controls and other forms of direct State intervention, while the United States itself, laced with the necessity of firm controls to execute its armaments programme and yet restrain inflation, resorted to State trading on an extensive scale for the procurement of strategic commodities and to the tightening of export controls for a wide range of goods in short supply." The point to note here is the lack of consistency in policies simultaneously pursued, and the apparent failure of the US to appreciate adequately the international repercussions.

The greater part of the Survey is, naturally, concerned with developments in the Western European countries, and with the short-term measures adopted to meet the situation. The Commission have not, however, ignored the long-term problems of Western Europe or developments in the USSR and Eastern European countries. From the long-term point of view they consider that for viability in the international market, Western European countries would depend essentially on two broad groups of commodities; firstly, metals and engineering products and secondly, textile manufactures. The prob-

lem as the Commission see it, is one of increasing the availabilities of the former and improving the sales of the latter. They pay special attention to the position regarding textile manufactures and are of the view that India and Japan might become formidable competitors should enough supplies of raw cotton become available to India, and should Japan, cut off from her natural markets on the Asian mainland, resort to discriminatory practices in commercial policy. These portions of the Survey (pp. 88-101) should be of special interest to us, especially in view of the prevailing fears about increased supplies of raw cotton disorganising textile production.

The Survey for 1951 contains more information about Eastern European countries and the USSR than the previous Surveys. The Eastern European countries could insulate their domestic economies better because of greater control exercised by the governments on economic activity. Even so, they could not escape the impact of deterioration in terms of trade, or of the intensification of armaments expenditure. Hungary increased her armaments outlay by as much as 3 per cent of the gross national output of 1950 (cf. table on p. 378 for comparable figures in other countries); Poland raised her defence expenditure by 46 per cent. What effects these increases, together with the need to provide incentives for production, had on prices and wages is not clear. But since the Eastern European countries do not, because of the small volume of their foreign trade, have the facility of enlarging greatly their balance of payments deficits, and since the emphasis in all these countries is on investment in heavy industries, it would seem that the choice has been between defence and private consumption.

Somewhat more extensive data on development in the USSR have been culled from the report on the fourth Five-Year Plan (1946-51) and from Mr Beria's speech in November 1951, giving the estimates for the year as a whole. Soviet industrial production continued to increase faster than agricultural production; and within the industrial sector, heavy capital goods industries received greater attention than light consumer goods industries. Figures relating to increases in Soviet production since

1946 are given in the table on next page. While these figures give a fair idea of developments on the supply side, not much information is available about the distribution of increased output between defence, investment and consumption. Roughly, the utilisation of the national product was as follows:

**Percentage Share in National Income**

	1940	1950
Consumption . . .	74	73.8
Investment & Defence . . .	26	26.2

It would thus seem that the proportion of national product used for consumption purposes remained unchanged in the USSR between 1940 and 1950. The Commission are, however, of the opinion that although the share of consumption in total money income remained stationary, prices of consumption goods have increased substantially between 1940 and 1950 in relation to other prices. In consequence, it is argued that consumption in real terms was a smaller proportion of the real national income.

Planned direct expenditure on defence increased from 82.9 billion roubles in 1950 to 96.4 billion roubles in 1951, as against an increase in gross investment (civilian and defence) from 119.3 billion roubles in 1950 to 124.4 billion roubles in 1951. In other words, increase in gross investment during 1951 was less than that in the defence allocation. Thus in the USSR also, armaments expenditure seems to have meant a reduction more in resources available for civilian investment than in consumption.

\* \* \*

Economic Survey of Europe in 1951 maintains the high standard both in presentation of data and in their interpretation set by its predecessors. These annual surveys have a purpose in view, which is to draw the attention of the European countries and of the world in general to the problems they have had to face, and the adequacy of measures adopted by them. They are, therefore, not to be treated merely as studies in applied economics. What they contain is more than ordinarily important. It is for that reason that an attempt has been made here to give the gist of the Survey rather than to judge it merely as a book.

## INDUSTRIAL PRODUCTION IN THE SOVIET UNION BY PRINCIPAL COMMODITIES

## CAPITAL GOODS

Commodity	Unit		1937	1940	1946	1947	1948	1949	1950		1951
									Plan	Actual	Provi- sional
<b>Energy</b>											
Coal and Lignite	Million Tons	..	127	166	162	182	207	234	250	260	284
Crude Petroleum	Million Tons	..	28.5	31.0	21.8	26.0	29.4	33.5	35.4	37.8	42.3
Electric Power	Billion KWH	..	36.4	48.3	49.5	56.9	66	78	82	90.3	104
<b>Metals</b>											
Pig Iron	Million Tons	..	14.5	15.0	10.0	11.5	14	16.6	19.5	19.4	22.1
Crude Steel	Million Tons	..	17.7	18.3	13.3	14.5	18.6	23.3	25.4	27.3	31.3
Rolled Steel Products	Million Tons	..	12.9	13.1	9.4	10.9	14	17.9	17.8	20.8	23.8
Copper	Thousand Tons	..	97.5	161	148	162	195	235	225	255	..
<b>Engineering</b>											
Equipment for											
Iron & Steel Mills	Thousand Tons	..	17*	28	..	49	95	120	102.9	..	..
Spinning Frames (Spindles)	Thousands	..	..	..	..	..	..	..	1,400	134	..
Looms	Thousands	..	4	..	..	..	..	..	25	..	..
Long-distance											
Steam Locomotives	Numbers	..	1,581	917	..	..	..	..	2,200	..	..
Freight Cars	Thousand 2-Axle	..	59	47	..	..	..	..	146	..	..
Passenger Coaches	Numbers	..	912	..	..	..	..	..	2,600	..	..
Trucks	Thousands	..	181.8†	147.0	120.8	157.0	..	..	428	..	..
Passenger Cars	Thousands	..	18.2	..	..	..	..	..	65.6	..	..
Tractors	Thousands	..	51	31.1	..	..	..	..	112	..	..
Tractors	Thousand 15 H.P.	..	79	..	..	..	..	150‡	..	180‡	137‡
Combine Harvesters	Thousands	..	22.9*	13	..	2.7	14	29	..	46	54
<b>Chemicals</b>											
Mineral Fertilizers	Thousand Tons	..	..	2,608	..	..	..	..	5,100	5,100	..
Synthetic Dyes	Thousand Tons	..	35*	35	21.9	31.5	42.5	47.6	43	51.8	..
<b>Building Materials</b>											
Cement	Million Tons	..	5.5	5.8	3.3	4.6	6.4	8.1	10.5	10.3	12.3
Slate	Million Sheets	..	186.9	205	140	200	270	370	410	440	..
Window Glass	Mil. Sq. Metres	..	60*	44.4	46.7	55.6	66.8	79.5	80.0	84.3	..
<b>Timber</b>											
Haulage of Industrial Timber	Mil. Cub. Metres	..	113.3	119	80	101	134	154	190	162	..

## CONSUMPTION GOODS. \*

Commodity	Unit		1937	1940	1946	1947	1948	1949	1950		1951
									Plan	Actual	Provi- sional
<b>Food</b>											
Butter	Thousand Tons	..	185	207	185	208	285	303	275	325	351
Vegetable Oil	Thousand Tons	..	495	724	312	387	515	680	880	775	1,046
Fish	Million Tons	..	1.6	1.4	1.1	1.5	1.5	1.8	2.2	1.8	1.9
Meat	Thousand Tons	..	797.2	..	..	..	..	..	1,300	..	§
Flour	Million Tons	..	15	..	..	..	..	..	19	..	..
Alcohol	Million Litres	..	763	..	..	..	..	..	1,008	..	..
Sugar	Thousand Tons	..	2,421	2,150	465	978	1,663	2,045	2,400	2,515	3,118
Matches	Billion Boxes	..	7.1	..	2.4	3.3	5.3	..	9.9	..	..
Leather Shoes	Million Pairs	..	164	205	78	109	135	165	240	205	..
Paper	Thousand Tons	..	831	812	556	696	836	995	1,340	1,194	..
Soap	Thousand Tons	..	2,421	2,150	245	314	456	775	870	866	..
<b>Textiles</b>											
Cotton Fabrics	Million Metres	..	3,442	3,886	1,878	2,498	3,098	3,532	4,686	3,815	..
Woollen Fabrics	Million Metres	..	105	120	79	106	136	162	159.4	167	..
Silk Fabrics	Million Metres	..	57.9	69.5	..	..	80	102	141	125	..

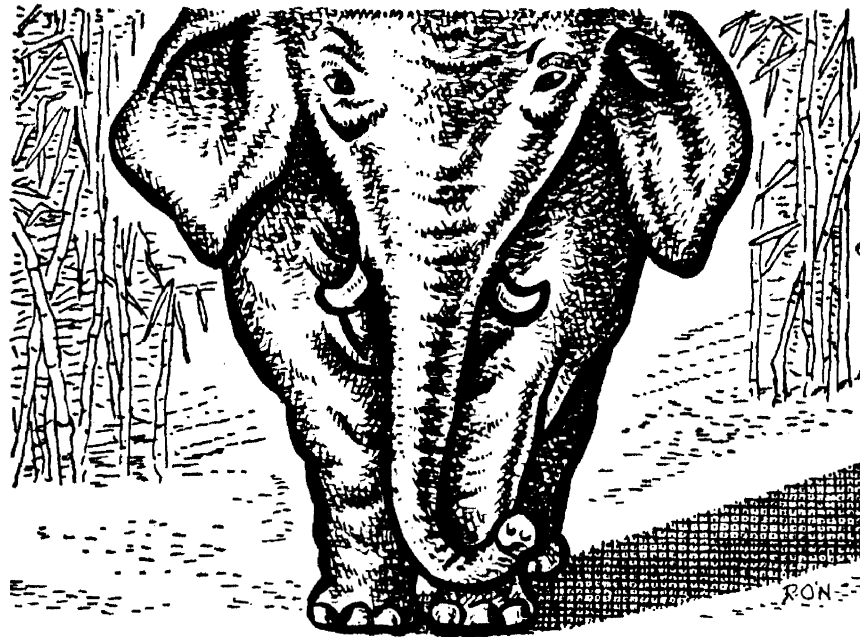
\* 1938. † Including motor buses.

‡ Data relate only to deliveries to agriculture.

§ Percentage increase in sales from 1950 to 1951 as given in L. Beria's speech of 6th Nov. 1951 is 20 per cent.

.. Indicates information not available.

Source: ECONOMIC SURVEY OF EUROPE IN 1951.



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