UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

THE WORLD ECONOMIC OUTLOOK

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The year 1951 will be remembered by economists as the year when, first in one country of the free world, then in another, a war-stimulated boom suddenly leveled off. In general, the level of activity remained at unprecedented heights, and in certain cases it continued to rise, but at a much slower rate than before.

The year 1952, I think, may be remembered as the year when the world-wide lull in certain sectors of business activity completed its course, and once again the strength of public and private demand put pressure on the free-world economy. And, for reasons I shall give later, I dare say that the next decade will be remembered as an era of rising prices for primary products, that is, agricultural products and raw materials--at least in certain sections of the world.

As a matter of fact, the period from June 1950, when hostilities started in Korea, to about now, forms a complete inventory cycle. The wide swings in the rate of inventory accumulations by business and consumers occurred nearly everywhere, although the timing of this cycle varied somewhat among individual countries. In the United States, for example, the upswing phase lasted from mid-1950 through the second quarter of 1951; the downswing from the third quarter of 1951 through the second quarter of 1952; since then, signs of a less spectacular but a more sound upswing in many sectors of business activity have appeared.

The Communist attack on Korea, in June 1950, set off a wave of speculative buying the world over, in anticipation of shortages and high prices. Heavier buying was made possible by accumulated liquid savings and by liberal credit conditions generally prevailing throughout the world. It was intensified by government purchases of strategic materials for stockpiling and by rising defense expenditures. Throughout the world, this increased demand resulted in inflationary price rises.

The prices of primary products, which are the most volatile of all prices, rose most dramatically. The price of Australian wool, for example, nearly tripled between June 1950 and March 1951; that of Malayan rubber increased three and a half times; the price of tin more than doubled. With rising prices and a rising volume of sales, those countries which are the large producers of food and raw materials enjoyed an upsurge of exports and, therefore, of income. These countries are, in large part, the less economically developed countries of Asia, Africa, and Latin America. These high incomes soon led to increased purchases of consumers' goods. They also enabled governments to press forward their programs for economic development. In each case this meant an expansion of imports into these countries. More consumers' goods and capital goods were purchased from the industrialized countries of the world.

Meanwhile, the prices of manufactured goods--both consumers' and producers'--rose, but to a smaller degree than those of primary products. The industrialized countries of Western Europe found that the prices of things they had to buy had gone up more than the prices of the things they had to sell. Since these countries are highly dependent on imports for food and the raw materials, their international payments position sooner or later deteriorated. At the same time, the rise in the cost of materials gave a further impetus to the inflationary forces which were already in existence, caused by expanded defense needs and by the swollen demand of domestic and foreign consumers.

We had a similar experience in this country. We had to import more and pay higher prices for many materials. Our commodity export surplus did decline to nearly zero in the last half of 1950, but, because our reserve position is incomparably strong, we didn't have to worry about balance of payments problems. Moreover, since imports are a small percent of output, the impact on our domestic price structure of the soaring prices of imported materials was not as severe as it was abroad. By March 1951, where wholesale prices in the United States had risen only 15 percent, in England they had risen about 20 percent; in France and Belgium, about 30 percent.

In brief, this was the pattern of events throughout the free world in the upswing phase of the inventory cycle during the 9 to 12 months following the start of hostilities. Although the timing of inflationary price rises and balance of payments difficulties varied among different countries, the causes were the same. Great Britain and France, for example, lagged behind most other countries in the inventory cycle. They used existing stocks of imported food and materials during the second half of 1950 and then were forced to replenish inventories at the high prices of early 1951. These countries consequently enjoyed a favorable balance of payments position until 1951, when the necessity for larger imports and then flights of capital caused large payments deficits and loss of reserves.

The halting of the inventory boom was, in part, the result of governments' actions to stabilize their economies. In certain cases, price controls were put on. Systems of priorities and allocations for scarce raw materials were established. The International Materials Conference was formed to ensure an equitable international distribution of scarce materials. Other measures quite generally undertaken for the same purpose were tax increases, tightening of credit, and direct controls over imports and exports to achieve a balance in international payments.

Secondly, supplies meanwhile were expanding. Vigorous programs to expand capacity were undertaken. And the anticipated shortages did not prove to be as serious as people had thought they were going to be.

But most important, perhaps, in curtailing the rise in prices was the level of inventories which had been accumulated during the earlier period. Stocks had become so large that buying would have declined, balances of payments would have improved, and inflationary forces would probably have abated somewhat even without governmental measures to control them.

The easing of demand beginning in the spring of 1951 marked the advent of the downswing phase of the inventory cycle, and caused a collapse of a large number of primary prices. In general, those prices which had climbed the highest fell the most. We in this country do not appreciate the devastating effects on an economy which can result from such violent swings in world raw material prices. We are fortunate in not being heavily dependent on imports for supplies of most raw materials--at least for the present. Because we supply such a large proportion of our own needs, we were able to institute price controls and make them effective without resort to expensive subsidies. Also, because we purchase such a large proportion of world output of those materials we do import, and because dollars are a preferred currency, it was possible to negotiate contracts on favorable terms. For example, while in 1951 we were getting copper from Chile at 27 cents a pound, some countries in Western Europe were paying as high as 56 cents. Smaller countries, where imports may comprise 20 or 25 percent of the value of total output, as is the case with most Western European countries, find it practically impossible to insulate their economies from the inflationary effects of such increases in costs.

The same violent instability is experienced by countries whose chief source of income lies in the production of primary products. For example, average monthly exports from Malaya, whose chief source of income is tin and rubber, more than tripled between the first quarter of 1950 and the first quarter of 1951; those of Pakistan--cotton and jute--did the same. Such high earnings on the part of exporters are likely to be followed by greater spending on consumers' goods and therefore by high imports. Actually, the larger flow of imported capital and consumer goods into these primary producing countries started just at the time that their exports began to decline. Then imports continued high while the value of exports collapsed. Sooner or later, these countries were forced to curtail their imports.

The decline in raw material prices helped the international financial position of the industrialized countries. By the end of 1951, most of the industrialized countries of the world were experiencing improved balance of payments positions. This did not apply, however, to England and France. Their reaction to the outbreak of the Korean war had occurred later than that of the others. At the end of 1951, they found it necessary to undertake vigorous measures to protect their rapidly dwindling reserves. By mid-1952, however, despite a decline in commodity exports due to the import restrictions imposed by other countries, the United Kingdom had achieved over-all balance in its international accounts, even excluding United States aid. The French deficit was also brought under control.

The abatement of demand after the first quarter of 1951 was primarily the result of a world-wide decline in the demand for certain consumers' goods and in the rate at which business accumulated inventories. As 1951 progressed, the market for textiles in every country of the world felt the effect of a slump in the demand for textiles, although, again, the timing varied from country to country. In general, however, despite the lull in certain consumer markets, a high rate of activity in the construction and private investment industries, together with rising rates of defense production, kept the industrialized countries operating at a high level of economic activity.

This high level has been generally maintained in 1952. In Western Europe, it represents a remarkable recovery from the losses of World War II, and even some improvement over prewar levels. Total real output in Western Europe is over 20 percent greater than it was before the war in 1938. Per capita output is 9 percent higher. This is small compared with the 68 percent increase in per capita output of the United States, but we did not have to repair the ravages of war. Also, at the beginning of the war, our economy had much more slack in it than theirs. Since 1948, industrial production in Western Europe has risen 37 percent, compared with 12 percent in the United States. Agricultural production is about 15 percent above the 1948 level. In 1952, output in Western Europe did not reach new postwar peaks as it had in previous years, but it continued at the 1951 postwar high.

There have been indications in the United States recently that the rate of consumer spending is picking up. With private investment and defense expenditures maintaining or surpassing the current high rates, incomes will rise, at least over the next 6 months. Although economic developments in Western Europe often lag behind those in the United States, there are already indications of similar developments there. Production of defense and investment goods has continued high and is likely to increase; recently, textile prices in certain markets have risen; exports of some textiles from the United Kingdom to nonsterling countries are rising. Inventories of imported raw materials and consumers' goods in certain countries are low. Also those countries producing primary products, which in late 1951 developed balance of payments deficits and thereupon undertook corrective measures, by mid-1952 could notice improvement. Then, too, declines in the world prices of primary products had eased and in come cases been reversed.

Thus, we have come full circle. Western Europe and North America in the coming months may feel some re-emergence of inflationary pressures, but in a much more moderate degree than those experienced in late 1950 and early 1951, for, barring a turn for the worse in the international political outlook, abnormal speculative purchases are likely to be absent.

You may have read certain newspaper reports recently which have talked in terms of "stagnation" in Western Europe. My apparent optimism about its current position may, therefore, surprise you. Actually, the situation as I have outlined it seems to me to be the realistic interpretation. Western Europe has made a remarkable recovery since the war. The leveling off of 1951-52 is part of the normal consequence of the excesses of 1950. It affected primarily the soft goods industries. It parallels in many ways what we have experienced in the United States.

Concern, even pessimism, about this leveling off is nonetheless understandable. I spent the week before last in Paris, talking with economists from Britain, France and the other Western European countries. Two problems were uppermost in their minds. First, are we going to have a depression--in the United States and in Europe--when U. S. defense spending levels off? Second, at the other extreme, how can the impact of the defense program upon their economies--particularly the inflationary impact--be contained?

These fears are the result of their experience in the interwar years between 1918 and 1939. After the first World War, some of these countries went through a period of hyperinflation when savings were obliterated, when prices rose so rapidly that, at first, shopkeepers changed their price tags several times in an hour--and then finally closed their shops completely and refused to sell at all.

About a decade later, in the early thirties, the situation was reversed. Prices collapsed. Unemployment and social unrest produced results which are only too well known.

Memories of the chaos of extreme inflation and deflation linger long. It is not surprising that Europeans want to avoid a repeat performance of either, and are jittery about a tendency in either direction. But a state of full employment with no minor fluctuations up or down is impossible to achieve. Europe from June 1950 to mid-1951 was subject to inflation; subsequently there was a lull in private demand, partly the result of corrective measures which were introduced. The leveling off of European output is less to be desired than continued growth, but stability at a high level is hardly "stagnation."

The present situation is not without its dangers, however. If we do not manage our economic affairs wisely in the United States, we could experience a recession when military spending levels off. And even a moderate recession in this country has major consequences in other countries. But for reasons which I have elaborated at length elsewhere, and which would take too long to repeat here, I do not believe that a recession in the United States is inevitable, or even likely if, both in private business and in government, we act sensibly and use the tools available to us.

On the other hand, especially in the months immediately ahead, the total demands which consumers, business, and government will place upon productive resources may verge upon the inflationary. This is more likely in Europe than here. For one thing, in the United States, our higher rate of saving permits a larger proportion of resources to be devoted to defense production or investment without inflationary strains. The point at which a state of full employment is ballooned into inflation comes sooner in Europe. Then, too, a high rate of industrial production over the world means a high demand for raw materials and therefore the possibility of rising import prices, which could also add to inflation.

To summarize the ground we've covered thus far, we can say that today the free world economy has recovered from the first shock of armed conflict in Korea and is adjusting itself to the necessity for defense production. Most countries throughout the world have achieved a substantial measure of stability. Production, though not rising as rapidly as in recent years, is at high levels. If the economic policies pursued by governments in the near future are reasonable, the world can look forward to moderate and sustained growth for at least the next year or two.

Is there anything we can say about the longer run? Are there any developments which have persisted for a sufficiently long period in the recent past to enable us to project their consequences farther into the future? I think there are--and in a sector of the world economy with which you are concerned.

For some time, and especially in the last 15 years, the world supply of primary products--food and raw materials--has been falling behind world demand. Let us consider first industrial raw materials--metals and minerals, and agricultural products such as cotton, tobacco and lumber, but not food. The demand for these raw materials is determined by the volume of manufacturing production. An increase in the output of manufactured goods requires a larger volume of primary products. The ratio over time won't necessarily be 1:1, for changes in technology--for example, the development of plastics--will mean that the same volume of manufactured goods is produced by both a different assortment of raw materials and a different quantity. Technological progress probably implies increasing economy in raw material use. Bot the total production of manufactured products and of raw materials over a long period of time, cannot grow at widely differing rates without serious effects on their relative prices.

This chart that I have with me shows changes in the physical volume of production for the whole world, excluding Russia. You will note that the volume of manufacturing production in 1950 was over 40 percent larger than in 1937. Over the same period, however, the volume of raw materials produced had increased by only 20 percent. Moreover, agricultural raw materials--products of the farm and animal products--actually declined by 8 percent, while output of metals and fuels had nearly kept pace with total manufacturing production.

World-wide figures, however, conceal some significant geographical changes. Since 1937, manufacturing production in the world, excluding the United States as well as the USSR, has grown by slightly more than 20 percent, while in the United States it has grown by about 80 percent. Moreover, the United States and Canada account for practically all of the increase there has been in free-world production of primary products as far back as 1913. This lack of growth in the production of primary products in the rest of the world is in large part explained by the relatively low rate of foreign investment in primary producing countries other than Canada between 1913 and 1950. The nub of the matter is this: The failure of raw material production to keep pace with manufacturing output has resulted in a growing scarcity of raw materials.

In the case of the production of food, the picture is the same except that the divergence between demand and supply has become even more acute in recent years. The demand for food depends on the size of the population and income.

This second chart shows that between 1937 and 1950, while the world population increased by 11 percent, food production increased by only 5 percent. Most of this increase in production, moreover, took place in Canada and the United States. In this country, food production increased 36 percent while population increased 18 percent. In the countries of south and southeast Asia, total production of food is actually below its prewar level. It is difficult to estimate real income in the world but roughly, between 1937 and 1950, the increase was about 40 percent. In the United States anc Canada, it was about 90 percent; in Western Europe, 15 percent.

The demand for primary products in general, then, and agricultural products in particular, has run ahead of supply over the last 15 years. The result has been a world-wide increase in the prices of primary products relative to the prices of manufactures. What is the likelihood that in the future the supply of agricultural products will catch up with or overtake demand and thereby cause a decline in agricultural prices in relation to prices of manufactured goods?

Such a long-term decline in relative prices does not seem likely. First, the population of the world is increasing and gives every indication of continuing to increase. The rates of growth are increasing the world over. In the economically developed countries, this increase in the rate of population growth is the combined result of a gradually declining death rate, and the fact that the average size of a family has increased and the average age of marriage is earlier. That is, each generation is getting larger, and because of an earlier marriage age, each generation comes around more quickly. Meanwhile, in economically under-developed countries--such as Japan and India--falling death rates have maintained or increased the rate of population growth despite the fact that in certain countries the birth rate has declined.

The United States and Western Europe have come to have a rate of natural increase in their population of $1\frac{1}{2}$ percent a year. It may surprise you to learn that this is the same as that of India, where a higher birthrate is balanced by a higher death rate. In Latin America, other parts of south and southeast Asia and Canada, the rate of natural increase is higher. Consequently, it appears likely that the free world population over the next decade or two will be increasing at more than 1 percent a year. The demand for farm products, moreover, should increase, not only because of a growing population, but because per capita demand will increase as real income grows and standards of living advance. This should be true not only in industrialized countries but in the under-developed countries as they make progress in their programs for economic development.

On the supply side, what can be said? In the countries of Western Europe, Australia and New Zealand, and North America output per man at work in agriculture has been increasing substantially as a result of mechanization, fertilizers, greater knowledge of the science of farming, etc. On the other hand, in these countries, there has been a marked decline in the rural labor force. Between 1940 and 1950, the male rural labor force fell by 15 percent or more in the United States, Australia, Canada, New Zealand, and Sweden. In the Western countries these trends are likely to continue, with increases in output per man partially counterbalanced by decreases in the number engaged. In the less economically developed countries little information on productivity is available, but the evidence indicates a very slight increase in output per man, and in some countries an actual decrease. Primarily, their lack of progress can be attributed to the fact of underdevelopment. If the plans and programs of these countries for economic development are carried through declines in the numbers engaged in agriculture are likely to be more than counterbalanced by the increases in productivity which follow improved techniques. At the same time, however, the higher real incomes enjoyed in these countries will probably cause a substantial increase in their per capita demand for agricultural products.

On balance, then, it appears that over the next decade or two the demand for agricultural products throughout the world will be strong in relation to supply, and therefore that agricultural prices will continue to bear a favorable relationship to prices of manufactured goods.

Whether agriculture in the United States will share in this strong world demand--whether United States exports of agricultural commodities will maintain their present relative share of total world exports--however, is quite another question. The answer to this question depends on how this country, together with other countries of the free world, solves the problem of equating the demand for American goods with the ability to pay for them. This inequality manifests itself in a scarcity of dollars.

If dollars continue to be scarce for foreign countries, United States agriculture is not likely to maintain its share in the strong world markets of the future. Under such conditions, foreign countries will have to choose which United States goods they need most. Except in time of drought or short crops elsewhere in the world, because agricultural commodities are so highly standardized, they can often be obtained elsewhere. Such is not true to the same degree of manufactured goods. Those foreign countries that already have United States machinery will continue to purchase parts and replacements from this country. For many of the new developments of American technology, the United States may, for a time at least, be the only source of supply. To put it bluntly, agricultural exports are likely to suffer more than many other types of exports, over the long pull, unless a lasting solution to the scarcity of dollars can be found.

This is not an easy problem, and although I can pose it, I do not propose to solve it. Over the past 3 years between one-quarter and one-third of United States exports of goods and services has been financed by foreign aid programs. People in foreign countries are as anxious as we are to have done with these gifts, and to provide for their needs, including defense, themselves. Unfortunately, however, it seems reasonable to assume that, over the next few years at least, the necessity for programs of defense production will continue and that productive resources will continue to be used to produce arms. Further, it is an unfortunate fact, but still a fact that must be recognized, that the resources of Western Europe are not yet adequate to support defense production and at the same time provide the rising standards of living which are the only really effective answer to the Communist propaganda. The threat of Communist aggression exists. But this is another way of saying that the scarcity of dollars, at least for Western Europe, has been aggravated by the Communist threat and will probably continue.

But the threat of Communism is probably even more serious in the non-European countries, as we have seen in China. It can take the form of propaganda whose appeal is based on existing social and economic inequities. The most susceptible peopl are those whose standards of living are lowest. This means that the areas that could most easily be led into Communism are the economically underdeveloped areas of the world. People in these areas are aware that life can be more comfortable and convenient than theirs is. Knowing that something better is possible, they want a change. And one thing we can be quite certain about: They will get a change. Either their standards of living will be increased through the development of their economies, or they will be deluded into choosing Communism as the alternative means of accomplishing this end. Progressor Dennis Robertson, an eminent British economist, spoke with biting irony when he said:

> "We ought perhaps to have foreseen the emergency of the revolutionary notion that some day a thousand million Asiatics would take it into their heads to expect to have enough to eat."

Unless programs for economic expansion go forward in underdeveloped countries, the gulf between living standards there and in developed countries, already very great, will get even wider. On grounds of self-interest, as well as on broader, humanitarian grounds, it is imperative that this potentiality be prevented from becoming an actuality, for it is important that these countries continue to be part of the free world. In population, area, and natural resources, they outdo the industrialized countries of the free world.

You may be proud that it was a former county agent, Horace Holmes of Tennessee, who, working under the Point Four Program in the Etawah region of India, has done perhaps more than any other American to revive in the people of India the hopes for a better daily existence. This revival of hopes, moreover, is firmly based in increased agricultural yields achieved by simple changes in tools and techniques that the farmers can understand. By ordinary crop rotation, inexpensive tools, and better varieties of seed, the wheat crop in this region has been increased by more than 60 percent, the potato crop by more than 110 percent. These improvements, moreover, have been achieved at negligible cost. The increase in wheat production alone was worth ten times the annual cost of the project.

Over-all economic development, however, entails the need for capital equipment. It means building transportation and communication systems, roads, bridges, harbors, railroads, as well as improving methods of production of the goods already produced there. Irrigation and floor control projects, production of electric power--these are fundamental to a higher level of production. But they are also the public-utility type of project that, in an underdeveloped country, only a government will undertake. They not only cost money, they all involve expensive imports. Whether or not we increase the amount of money that we have been lending and giving to these countries to help finance this development, it is likely that their demand for imports in general, and imports from the United States in particular, will exceed the supply of dollars currently becoming available to them from their exports. They will proceed with their plans. The rate of their progress, however, will be determined by the amount of help they have.

What, then, can be done to alleviate the imbalance between the demand for American goods and the ability to pay for them, and thereby enable American producers of primary products to share in the strong world demand of the future? This is the same question as "How can we make more dollars available to friendly foreign countries?" Apart from an increase in foreign aid by the Federal Government, there are only two things that we can do: Investment of private United States capital abroad must increase, or our imports of goods and services must rise.

Although foreign capital is desperately needed by underdeveloped countries, as I have just indicated, private investment of United States capital on a sizable scale is not likely for two reasons. First, in many cases the types of development which require capital first are not those into which private initiative is likely to go. The construction of roads, harbors, multipurpose power, irrigation, and flood control facilities and such are properly public projects. The existence of such facilities is necessary to the production of goods and services by modern methods.

Second, the political stability of many of the underdeveloped countries is quite precarious. This fact, of course, often makes the risks to investors prohibitive. Also, the existence of nationalistic legislation, such as discriminatory taxation, has made investment in certain countries unattractive. In spite of the guarantees now offered by the Federal Government, it does not seem likely that private capital will flow into these countries in any large volume until they have moved sufficiently along the road to development so that these impediments are overcome.

I do not mean to imply that private investment of U. S. capital abroad is unimportant, nor that we should not continue to take steps to increase it. But its contribution toward solving the dollar shortage will of necessity be small--especially in the decade or so immediately ahead. In the main, apart from any further government grants and loans, the primary means available to the United States for alleviating a world-wide inadequacy of dollar purchasing power lies in increased U. S. imports of goods and services. The problem thus largely resolves itself into a choice between alternatives. Either we can import more goods and services, or our exports of agricultural goods are likely to fall behind those of the world. I think you will agree that this offers little choice. An increase of our imports brought about through a gradual reduction in our tariffs and other trade restrictions, if started immediately, would bring the additional benefit of decreasing the need for aid abroad. But the problem here is this: Can we, by tariff reductions, cause United States purchases abroad to increase enough to eliminate, eventually, the scarcity of dollars without doing serious injury to certain important domestic industries? And are foreign resources large enough, or can they be expanded enough, to produce the necessary goods for export?

This entire problem, with its implications for the future, is too large for me to attempt to cover here. In recognition of its importance--and difficulty--the President recently requested the Public Advisory Board to the Director for Mutual Security to undertake a thorough review of our entire foreign trade policies. It will be studied carefully by the Congress when the question of extending the Reciprocal Trade Agreements Act comes up at the next session. I can only state the problem and indicate its significance to agriculture. It is a problem which is worthy of your most careful attention.