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Remarks of
Thorsten V. Kalijarvi
Deputy Assistant Secretary of State for Economic Affairs
At 1955 Annual Agricultural Outlook Conference
Washington, D.C., November 28, 1955

Y The World Economic Situation X

Mr. Chairman, and Members of the 1955 Annual Agricultural Outlook Conference:

It is a privilege and a challenge to be a part of this conference of knowledgeable participants.

Dealing with the world economic situation is a little like trying to follow the design of a kaleidoscope. The bits and pieces remain constant but the pattern is always changing depending on the viewpoint from which the kaleidoscope is regarded. With this in mind, I thought it might be helpful to say something first about the basic pieces that go to make up the economic patterns and then describe one or two of the patterns.

Western Europe:

Let us begin with Western Europe. This is an area characterized by high industrial skills, a dynamic economic philosophy, and a political climate conducive to high-level production. This area has experienced a spectacular economic upswing since the fall of 1952, and signs are now appearing which suggest that the slack in industrial capacity and manpower may be largely taken up.

A highly significant facet of the post-war recovery of Western Europe is revealed by a close look at the prime sources of support of continued expansion in different periods. Right after the war, expansion was chiefly promoted by the reconstruction expenditures of governments. After Korea, government spending -- this time in the form of defense spending -- was again the impelling force raising the level of economic activity. A slackening occurred from mid 1951 to late 1952. Then expansion resumed and its moving force was the private expenditure of European investors and consumers. It is heartening to see this solid evidence of Europe's economic strength and of European citizens' confidence in Europe's destiny.

From

From mid 1952 to mid 1955, the Western European countries in the OEEC -- The Organization for European Economic Cooperation -- raised the total volume of their exports by more than 20 per cent, their industrial production about 15 per cent, and their gold and dollar reserves over 25 per cent. Except in the United Kingdom, hard currency reserves in Western Europe are at comfortable levels, in fact at record highs. For the first time in the postwar period the rapid economic expansion was accompanied by relative stability in wages and prices and by conservative monetary and fiscal policies. Many of the countries have undertaken extensive measures to free international trade and payments and to remove internal economic controls. Furthermore this boom was marked by substantial increases in capital investment and housing, and a rise in the production of durable consumer goods involving heavy installment credit finance.

During the last year, however, storm warnings have gone up signaling a danger that Western Europe may be straining the limits of its present capacity. The rate of expansion has been slowing down, and inflationary pressures seem to be increasing.

The high levels of economic activity caused a sharp rise in imports, largely those from the dollar area. The general trade deficit of the combined OEEC countries increased by 50 per cent in the first five months of 1955 and the rise in the dollar trade deficit in the first quarter of 1955 was even greater. The rate of increase in gold and dollar reserves has slowed down, reflecting a deterioration of the position of the U.K. and the sterling area.

Industrial production has held up but has begun to level off. By the first quarter of this year, the curve of industrial output for Norway, Denmark, and Sweden flattened out altogether and the curves for the U.K. and France look as though they may be starting to flatten also.

Wages and prices have recently risen sharply in several countries, notably the U.K. and a threat of similar increase exists in Germany.

The storm warnings are not going unheeded by European governments.

British Government raised its bank rate to 4 1/2 per cent, invoked restrictions on installment credit, trimmed the investment programs of the nationalized industries and of the

central government, and requested local authorities to take similar action.

The Federal Republic of Germany is concerned lest higher prices for imported scarce products, especially coal, and higher wages will push up prices and deteriorate Germany's competitive position. However, Germany's strong external position makes it possible to keep the price level under pressure through increased imports. Monetary and fiscal policy are likely to remain strongly conservative. And inflationary pressures among Germany's competitors are more immediate and stronger. In addition, the slow start on the German rearmament program may very well reduce the overall demand on the economy below originally anticipated levels. Thus, the German anxieties may be exaggerated.

The Far East:

Another piece in our kaleidoscope is the Far East. Like Europe, this area was drastically affected by World War II. Moreover, the free world and the Communist countries of the area have suffered from the economic impact of later military conflicts. If pressed for a one-sentence summary of the economic situation of the free nations of this area, I would say that the past record has not been too bright but that the economic picture is on the whole more encouraging today.

All the nations of the Far East have very low standards of living from our viewpoint. Most are new countries which have emerged from colonial status since the war. With the notable exception of Japan, they have on the whole been suppliers of raw materials and importers of manufactured goods. However, many of them now feel that they must attain a greater degree of industrial self-sufficiency as an essential factor in their national independence.

Virtually all of the countries of the Far East suffered severe damage during World War II and in every case economic patterns of long standing were disrupted. Nearly all of the free countries suffered also from Communist disruptive tactics ranging from planned rioting and strikes to armed uprising, civil war and invasion.

Let us consider the area in five parts -- Japan, Korea, the Republic of China, Communist China, and then South East Asia.

Japan:

Japan:

Japan is a nation in which the pressure of population on arable land is one of the highest in the world. Japan must trade to be able to maintain even a standard of living which is low in comparison with the West. And in the post-war period Japan's customary economic problems have been intensified due to loss of markets in China and a low level of trade with Korea and South East Asia.

Japan's importance to the United States and to the free world led us to seek to promote Japan's re-emergence as a major trading nation. All our hopes for cooperation from Japan's free-world partners have not yet been realized but there were encouraging developments in 1955.

The improvement in Japan's foreign trade and exchange position was dramatic. Exports continued their upward trend and are likely to reach an annual level of nearly \$1.9 billion, compared to \$1.6 billion in 1954 and \$1.3 billion in 1953. No similar rapid increase in imports developed. Industrial production in the first three quarters of 1955 was 6 per cent above the same period a year ago. The rice harvest is expected to be one of the largest in Japan's history.

Nonetheless, Japan still faces grave problems. The increase in foreign exchange occurred because the trade deficit was exceeded by foreign exchange receipts from other sources, notably from U.S. military procurement and troop expenditure. Other weak spots are evident. Small business is squeezed by high cost of imported raw materials, and by shortages of capital and high interest rates. Because of rising international prices of freight and raw materials, Japanese businessmen have recently again considered the possibility of increasing coal and possibly also iron ore imports from Communist China.

On balance, Japan's economy in 1955 registered a continued though moderate expansion. The inflationary pressures which had threatened internal economic stability and the foreign trade position in 1953-54 have been successfully contained by deflationary measures of the government without depressing economic growth.

The \$64 question in Japan is whether the current rate of expansion is sufficient over the longer run to absorb the rapidly expanding labor force. In the shorter run, Japan will remain very sensitive to the fluctuations of international business conditions.

Korea:

Korea:

Let us look briefly at Korea. The division of this country at the 38th parallel left the South with an overcrowded peninsula, a chaotic fiscal situation and a substantial but ill-balanced and run-down plant which Koreans could not effectively operate. Progress had been attained by the Spring of 1950 when the Communists struck and Korea became a battlefield. With the help of the U.S. and the U.N., Korea has reached a stage at which both industrial and agricultural production exceed the 1949 level. However, with the handicap of the burden of supporting a large military force, it is doubtful that Korea can soon attain the goal of self-support.

The Republic of China:

Since 1949, the Government of the Republic of China on Taiwan -- sometimes called Formosa -- has had to cope with two abnormal economic burdens: (1) the influx of some two million refugees from the mainland -- roughly an immediate population jump of one-quarter; and 2) the necessity to maintain a disproportionately large armed force in face of the Communist threat.

In spite of these abnormal burdens, the Government of the Republic of China can point to heartening production increases in industry and agriculture. A factor contributing to increased agricultural production has been the successful implementation of the land reform program.

Taiwan has made good use of U.S. economic aid. Prices have become increasingly stable. Taiwan's standard of living is considered to be the highest in the Far East, except for Japan.

Communist China:

As for Communist China, its government has embarked on an ambitious program calling for the development of heavy industries and socialization in which the consumer receives no priority.

The economy of Communist China continued to expand during the past year, but at only about one-half of the 10 per cent rate of increase achieved from 1950 through 1954. In looking at these figures, it is well to remember that they reflect increases over a very low base. Industrial output is to rise only 5 per cent under the 1955 plan, compared to the reported

rise

rise of 17 per cent during 1954. Agricultural output appears to have recovered from the sharp setback it received in 1954 when the rice crop was below the previous year's level and cotton production was considerably reduced by the wide-spread floods. Prices remain stable largely because of the Government controlled distribution system.

The government in 1955 continued to invest largely in heavy industry and transport and communications and budgeted an increase in military expenditures of 20 per cent over that of 1954.

Despite the Communist efforts, the increase in food production per capita on Taiwan has been far greater than on the mainland.

South East Asia:

The kaleidoscope contains some highly important bits and pieces often grouped together as the countries of South East Asia. These countries may be generally classified as under-developed countries. They have very limited industrial developments, and low per capita income, and are largely dependent upon the demand for and price of their three basic commodities: rice, tin and rubber.

With the exception of Burma, the economic picture in these countries has improved considerably during the past year. In Thailand, Malaya, Indonesia and the Philippines, the budgetary situation, the balance of payments and foreign exchange reserves have all been strengthened. The surplus commodity problem, which appeared extremely serious at the beginning of the year, was, for the most part, overcome when Thailand and, to a lesser extent, Burma largely disposed of their surplus rice. The world market for rubber and tin continues strong and the rapidly increasing price for rubber, which has developed, has served to bolster the economies of those countries that produce it.

Viet-Nam, Laos and Cambodia still suffer from the dislocations resulting from seven years of strife and much of the rice lands are still out of production. In these countries, it now appears desirable to shift our aid programs from measures designed to meet emergency war-time situations to longer-range programs which will help restore the productivity of its land and encourage the industry of its people.

Summary.

Summary:

A summary view of recent economic developments in South and South East Asia must clearly make allowances for the exceptionally favorable conditions due to good crop yields. The governments are determined to speed economic growth but they have many problems before them. The absence of an indigenous entrepreneurial class, and the association of foreign private capital with colonialism, along with the oppressive poverty which makes domestic savings and investment very difficult, are tremendous obstacles to economic growth in the underdeveloped countries of the world.

India:

A particularly interesting fragment in the kaleidoscope is India. Large in terms of population, area and production, India has been experiencing a substantial and a rising rate of economic growth. Attributable in part to exceptional weather bringing good crops, these increases were accompanied by drops in prices despite increased government expenditures and a record pace of investment expenditure making up for the slow progress of earlier years. But it has yet to be determined whether in the absence of fortuitous factors a rate of investment can be sustained at levels required for steady growth in per capita income. This is a key element of the appraisal of the prospects for the success of the Indian 5 year plan. Another is the climate for investment which India is prepared to create.

The Near and Middle East:

The vast area comprising the Near East, South Asia and Africa is large geographically. It does not loom so large in the economic kaleidoscope today. However, this area is in a state of economic and political transition. As a whole, it is usually regarded as an under-developed area. The population is unevenly distributed and there has been relatively little systematic development of the natural resources with which many countries in the area are richly endowed. Moreover, by and large, this area of the world stands in vivid contrast with the nations in which education, industrial training, economic philosophy and political outlook are all consistent with high-level and expanding production and rising living standards. Except for Greece and Turkey, there is little evidence that the rate of growth in the Near and Middle East is on a level which can achieve steady increases in per capita income. In Greece and especially Turkey the process of development has brought with it internal inflation and external

balance of payments problems. But these may well be economic growing pains.

Agricultural production in the Near East in 1955 seems to be larger than in the previous year with particularly good crops in Greece and Turkey. The Turkish crop failure of 1954, as a result of a serious drought, was one of the major factors contributing to the rapid inflation and the substantial foreign trade deficit of that year and the even greater one in the first half of 1955, which resulted in a 26 per cent drop in foreign exchange reserves from mid-54 to mid-55.

Industrial production has continued to expand at a fairly rapid rate in the more developed countries of the area, including Greece, Lebanon, and Israel. Industrial production in Greece was more than 10 per cent above 1954 in the first half of 1955. Production in Turkey continued its steady rise even though hampered by shortages of imported raw materials.

There has been a steady upward trend in petroleum production in the Near East which continued into the first half of 1955 reaching a new high point.

Well over half of the exports of the Near Eastern countries consists of petroleum. In 1954 the four major petroleum exporters of the area -- Iraq, Iran, Saudi Arabia, and Kuwait -- increased their exports and with them, despite an increase in imports, their already substantial foreign trade surplus.

The other countries of the area continued to run a large foreign trade deficit even though imports were restricted below their peak 1951 level and total exports were slowly rising, approaching the 1951 peak. Egypt's position shifted from a modest surplus in the first half of 1954 to a moderate foreign trade deficit in the first half of 1955, largely as the result of a sharp drop in exports. This reflected lower cotton prices and difficulties in marketing the crop. Barter agreements with Soviet Bloc countries were made in an attempt to alleviate the serious foreign trade problem of the country.

The European-Soviet Bloc:

Another piece in the global economic kaleidoscope is the European-Soviet Bloc.

Eastern Europe and the USSR showed continued increases in total production in 1954 and 1955 although this growth in the satellites was not as smooth as in the USSR. In the latter

countries

countries the rate of industrial growth slackened in 1954 and agricultural production was subnormal. 1955 brought considerable recovery in both regards.

Agricultural and industrial output in the Bloc both rose in 1955. As regards agriculture, the increase was attributable to the combined impact of good weather, expanded acreage and greater use of fertilizer and machinery. Industrial production in the European-Soviet Bloc in the first six months of 1955 was generally 10 per cent higher than in the first half of 1954.

Some attempt was made to ease domestic economic problems by an expansion in imports from the non-Communist world financed through an increase in exports and partly through gold shipments. Both the expansion of trade and the shipment of gold started during the latter half of 1953 and has continued to date. A substantial part of the increase in imports in 1954 from the non-Communist world consisted of foods. There was no significant change in imports of capital goods or of industrial raw materials. But with the total imports of the European-Soviet Bloc from the non-Communist world amounting to only \$1.5 billion per year, the impact of even large changes in this on the total economy of the Bloc must necessarily be quite limited.

The outlook for continued rapid economic expansion in the Bloc is good since a high rate of investment continues to be maintained.

Latin America:

Now let us look at some of the Western hemisphere pieces in our economic kaleidoscope: First of all -- Latin America. The economic outlook for Latin America over any short-run period simply is the outlook for a relatively small number of export products. Most of these countries are still dependent in large measure on their export trade. A number still possess primarily one commodity economies.

Chile, for example, depends principally on copper for the foreign exchange with which she buys her imports. At the moment copper prices are relatively high and prospects are good, at least for the near future. In spite of the favorable prices now obtaining, however, Chile has a balance of payments problem, and has had to maintain controls on imports as a result of internal inflation which has plagued the country for a number of years.

Bolivia

Bolivia has a similar problem. Tin prices are far below war-time peaks. Production has declined in recent years, and the Government is experiencing great difficulty in providing adequate foreign exchange for even essential imports. Bolivia is one of the few countries in Latin America which has received grant aid from the United States in the form of surplus agricultural commodities, although a number of others have arranged to purchase cotton and foodstuffs for local currencies, under the provisions of Title I of Public Law 480.

Venezuela derives 70 per cent of its foreign exchange from exports of petroleum and related products; the petroleum industry has had a rapid expansion throughout the past decade, and the Venezuelan market is and should continue to be, one of the best in Latin America for both agricultural and industrial exports from the U.S.

Sugar is the principal export of Cuba, Haiti and the Dominican Republic, and is also important in the trade of Peru, Mexico and Nicaragua. Sugar has been in surplus supply for several years. During the past year prices have been relatively stable at, or slightly below, the lower limit provided under the International Sugar Agreement. Consideration is now being given to renewal of the agreement, and it is hoped that, when renegotiated, it will cover an increased share of the world trade in sugar and provide a greater measure of price stability.

Latin America's most important export, both from the standpoint of total value and as to number of countries affected, is coffee. It is exported by 14 countries, and is the most important export of five of these countries. In 1954 coffee accounted for 61 per cent of the total value of Brazil's exports, for 84 per cent of Colombia's, for 88 per cent of El Salvador's, 78 per cent of Guatemala's and 79 per cent of Haiti's. Considering the 20 American Republics as a whole, coffee exports represented 36 per cent of the total value of their exports in 1954.

Coffee prices are currently at approximately the 1953 level, and if they remain near this level the producing countries will have little cause for concern. However, coffee future prices are currently well below the spot market level, reflecting an anticipated decline in price as production increases over the next few years, with large new plantings coming into bearing, and the producing countries are greatly concerned that this may mark the beginning of a long-term downward price trend. They recall the ruinously low prices which prevailed throughout the 1930's and 1940's, and are

endeavoring

endeavoring to agree upon measures for joint action to stabilize prices. The outlook for American exports in this area depends to a considerable degree on whether or not these measures are successful.

Something might perhaps be said about the political outlook in certain areas where trade has been affected by political developments. With the new regime in Argentina there is reason to expect an increase in agricultural production, which was formerly the backbone of the Argentine economy. The new Minister of Commerce has announced that, to remunerate producers and promote expansion of areas under cultivation, prices of 1955-56 agricultural crops will be raised across the board. The new Minister of Trade has stated that Argentina's future trade policy would be aimed at freeing overseas trade, returning the trade to private enterprise, and encouraging an expansion of exports. These policies, if carried out successfully, will bolster Argentina's internal economy, encourage new capital investment and lead to a sound expansion that will benefit both Argentina and the countries which trade with her.

Guatemala is recovering rapidly from the revolution against the Communist regime which disrupted her economy last year. This recovery should be furthered by the decision of the U.S. to help complete the Inter-American Highway within 3 years if possible. When completed, this through route from the Mexican border to Panama should lead to a considerable expansion of tourist traffic and, later, to the development of an increasing trade with the Central American countries which it traverses.

Haiti, which suffered serious hurricane damage last year, has also made a rapid recovery.

Brazil, by its very size, is a factor of importance in any appraisal of the outlook for Latin America. Coffee is its principal export, and there, as I have said, the long-run outlook is somewhat doubtful. However, Brazil's coffee exports during the past two months have been very high, in relation to those of earlier months of this year. The newly elected government will come to power in January with a somewhat less pressing fiscal problem than might have been predicted a few months ago, and the outlook for containing inflation, and possibly relaxing import controls is brighter than in some time.

Other

Other Countries:

Time does not permit even a brief mention of all countries in the world. I am especially conscious of having omitted most of the British Commonwealth countries. Of these, Australia, New Zealand, Canada, and the Union of South Africa, are rapidly developing countries of the British Commonwealth facing the problem of maintaining growth without inflation.

The United States:

Before we finish with the bits and pieces of the world economic situation a word about the U.S. is in order. The phenomenal economic growth of our country is staggering to foreign observers as it often seems to many of us at home. The extent to which all levels have shared this prosperity is perhaps less widely realized abroad than here. However, many of our friends abroad who follow developments here are keenly conscious of the grave problem of the discrepancy in the economic position of agricultural and non-agricultural sectors of our economy. And they are understandably interested in the course of action we plan to take to resolve this dilemma.

In foreign eyes, the U.S. is often awefully viewed as the economic giant which, through its unprecedented vast market and economic strength affords opportunities for economic growth, but which by the same token can plunge the world into economic disaster. Two heartening developments to them were the fact that U.S. economic growth has indeed been spectacular and that the slackening of activity here which ended a year ago was short lived and did not herald a down-turn of the economic activity of the free world.

Recapitulations:

We have looked at the pieces in our kaleidoscope. Let us now look at two patterns formed by those pieces; first, for the immediate future; and second, the long-range outlook.

a) Immediate Outlook:

In examining the immediate outlook it should be noted that in 1955 the more highly industrialized countries of the free world continued to maintain their rate of unprecedented economic expansion, and Western Europe increased its gross production over 5 per cent. Western Europe is on the verge of pressing to the limit its plant capacity and available manpower. Inflationary

pressures

pressures are evident in some countries. Orthodox measures are being adopted to combat inflation in response to these signs of economic and financial strain. With the major exception of the U.K., the international economic position of this part of the free world both in terms of current transactions and size of financial reserves, is quite good.

In contrast only a few of the less industrialized, or so-called under-developed, countries of the free world have been able to expand their production at half the rate of Western Europe. Economic progress in most of the under-developed countries has barely kept pace with population growth. The immediate prospects of these countries is bound up with a world-wide fall in all agricultural prices, with the major exception of rubber, and with the appearance of surpluses of most major crops. The most troublesome surpluses are those of wheat, rice and cotton.

Although some of the under-developed countries may have experienced fairly good overall rates of growth during the post-war period as a whole, per capita wise output has been constant since 1951 and investment particularly has fallen below the 1951 and 1952 levels. Furthermore, the post-war growth was in part the result of the especially good crops of 1952-53 and 1953-54. These factors may have resulted in a higher rate of economic expansion than can be sustained in the face of such a development as a fall in cereal production. Even in the case of India, with its ambitious program for expansion, there is concern that a sufficient volume of capital formation is not being attained to sustain a steady increase in per capita income.

This somewhat sombre picture does not presage an immediate and rapid economic growth throughout the free world. Nor does it suggest that the problems associated with agricultural surpluses are soon to evaporate.

b) Long-Range Outlook:

Now let's discuss the long-range outlook which incidentally has a brighter aspect. On a long-term basis the record of economic growth is distinctly favorable in the U.S., Canada, Western Europe and

Latin America. Western European capacity to save is proving sufficient, not alone for its own investment needs, but is also furnishing a source of capital for under-developed countries.

In the under-developed countries profits make possible comparatively favorable rates of return on direct investments. Whether these rates will in fact be favorable enough to attract adequate capital for sustained economic growth depends on a variety of factors, including political developments in these countries.

It is note-worthy that although on an over-all basis in South Eastern Asia and Latin America economic growth has barely kept pace with the growth of population, this is not true of all countries and per capita economic progress has been significant in several. There is also evidence that South East Asia may be moving off dead center after a period of stagnation.

Perhaps the most reassuring indication is the fact that thus far the dislocations and economic down-turns have shown no tendency to snowball. Evidence of a latent basic economic strength in the free world, hitherto not fully appreciated, appeared during this period. For example:

- Western Europe maintained its rate of investment when U.S. aid slackened off.

- Western Europe is also turning out to be a good market for Latin America.

- The U.S. economy has proved stable and has demonstrated a striking capacity to adjust itself without capsizing, as some foreign observers feared it might.

Some years ago, apprehensions were epitomized in the phrase: "When the U.S. sneezes, Europe gets pneumonia". These forebodings saw no realization in 1954. In fact, sustained European purchases in the U.S. during this period actually helped our recovery from what turned out to be only a mild cold.

Thus the prospects for continued economic growth in the free world give us good grounds for encouragement -- but not for complacency.

