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World Economic Situation and Outlook

Speech by W. Michael Blumenthal
Deputy Assistant Secretary of State
at the 39th Annual
Agricultural Outlook Conference
Washington, D. C.
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I greatly appreciate having been invited, and I am honored, to participate in your meeting this afternoon and to give you a survey of the "World Economic Situation and Outlook." To say that this is a rather formidable task to accomplish in 45 minutes would be indulging in understatement, to put it mildly. This subject is, of course, as broad as the world is wide, and to cover it thoroughly and systematically would keep us here for quite some time. I hope you will bear with me, therefore, if I take the liberty of a certain amount of simplification and selectivity. To begin with, perhaps a few very broad-brush generalizations about the situation and outlook in certain major areas of the world are in order. We can then dwell at somewhat greater length on those major developments on the international economic scene which currently occupy much of our thinking. Some are of major significance to the United States and will be of interest to this conference because of their bearing on the formation of United States foreign economic policy generally and the impact which they may have on the shape of our future domestic farm policies as well.

Beginning our broad survey with the advanced industrial countries of continental Western Europe, we have recently seen their very strong trends of economic expansion. In France, Germany, Italy and the other major countries of that area general economic activity has been at a high rate; and unemployment there, in contrast with the situation in the United States, has been very low. Over the period 1953-1960 the average annual growth of the national product for free continental Europe as a whole was over 5 percent. These conditions are likely to continue. Indeed, the great potential of the European Common Market, about which I will have more to say in a few minutes, is going to be a powerful, constructive force and will give considerable impetus to further growth and development. As you know, discussions are now under way between the United Kingdom and the six Common Market countries, which may well lead to an association of the United Kingdom with the EEC. The economic significance of such a move for Europe, and indeed for us and our other non-European friends, cannot be over-emphasized.

In Asia, Japan is, of course, the major industrial country, and it is remarkable to observe the extraordinary pace at which the Japanese have been moving forward economically in recent years. Over the period 1953-1960 the average annual growth of their national product was approximately 7 percent. Here, too, we expect the trend to continue, although perhaps at a somewhat slower pace. Here, too, there are some major challenges and opportunities for the United States and the free world foreign economic policy, for in Japan much will depend on whether the channels of international trade will be sufficiently open to her to provide the export opportunities that must be found if the Japanese are to be able to continue their economic growth.

As regards the less-developed areas of the world, there are, first of all, in Latin America many countries capable of a rapid expansion of economic

activity, in agriculture as well as in manufacturing. But attainment of these goals is by no means inevitable or automatic and faces all of the formidable obstacles to economic development and growth with which we are becoming only too familiar. What is significant in the economic outlook for Latin America, however, is that these problems are being tackled with more and more vigor and success. The Alliance for Progress, embodied in the Charter which the United States and 19 other American countries signed at Punta del Este last August, whereby we have pledged our support with economic assistance (more than \$1 billion this year) and technical aid of substantial magnitude, will no doubt play a major role in this regard. We hope and expect that the "Alianza para el progreso" will be a powerful stimulant to the economic development of the area. That program stresses the importance of developmental planning and basic internal reforms as well as the need for adequate capital from internal and external sources. The emphasis is on cooperation and self-help and many countries are now pursuing these goals energetically. We must recognize that, as the results of the Alianza become evident, they will vitally affect trading patterns between ourselves and Latin America and set in motion significant changes in the relationships of the developing Latin American economies with the rest of the world.

Economic development is also beginning in much of Africa but the needs of that continent are so enormous that the failure of the rate of growth to match the expectations of newly independent peoples may add to existing political problems. The huge task of economic development has barely been started, but Africa is another area where the outlook is for economic change and growth.

There are, of course, still many other important areas of the world which are on the threshold of development and actively pursuing new goals. Much could be said, for example, about India and her efforts to implement her third five-year plan or about the challenges and problems in other parts of Southern and Eastern Asia.

To round out our quick survey perhaps a word or two should be said about the Communist countries. There, too, the outlook is for changes and new challenges. Taking the USSR first, the over-all rate of growth in national product in recent years, according to our estimates, has been high (around $6\frac{1}{2}$ percent) owing mainly to very rapid advances in industry. But there have been major problems in two areas - housing and agriculture. Housing construction fell behind its targets by 18 percent in 1960 and by 25 percent in the first nine months of 1961. With urbanization growing by leaps and bounds, it will take decades to create minimum standards of decent housing.

In agriculture, the Soviet leaders themselves have made no secret of the fact that progress has been slow and insufficient. During the past three years in particular agricultural output has increased little. Field crops have been disappointing. Soviet meat output was to catch up with the United States in the current year at the latest; actually it is not yet half as large. Some one has commented that Soviet agriculture is proficient mainly in one branch, the production of scapegoats. The actual causes, apart from weather, are the lack of adequate incentives under the prevailing institutions of socialized agriculture and inadequate inputs of machinery and fertilizer. Agriculture, in fact, is one area in which the Communist still have much to learn.

Eastern Europe's economic performance has been rather similar to that of the USSR. Industrial expansion has been fast, agricultural growth has for the most part been poor, and the causes are essentially the same. The result has been food rationing on a spot basis in Czechoslovakia, Rumania, and Hungary, and more intense shortages recently in Eastern Germany, where they have led to open grumbling and added to the general discontent.

In Communist China the state of agriculture has been a major calamity, with serious repercussions on the economy as a whole. In 1961 Communist China has had its third successive year of poor harvests. The shortfalls have been caused by a combination of adverse weather and mismanagement of the whole economy within the framework of an unworkable communal system. Food production seems to have increased little since 1958, during which time the population of mainland China has grown by possibly 40 to 50 million. As a result, the peiping regime has been forced to spend about \$350 million for imports of food grain from the free world in 1961 and forced to cancel its previously substantial exports of food. These developments have indirectly compelled Communist China to reduce drastically its imports of industrial goods and equipment, with the result that little industrial expansion could occur. In fact, industrial output this year on the whole, will be no greater than in 1960 and may well be less.

With this quick tour d'horizon as a background, I would now like to turn to some specific matters where the present and the foreseeable future confront the United States and the free world with challenges of the most far-reaching significance. They are the aspects of our foreign economic and commercial policy which occupy much of our thinking and efforts these days.

The first, of course, relates to the economic development of Latin America, Africa, and Asia. Here is perhaps the major phenomenon of our lives --the surging upward movement of the world's less-developed regions. Let us realize clearly that how we react to this challenge may, in large measure, determine the course of history for decades to come.

Two billion people live in the so-called less-developed areas of the world today, and the number is increasing at an explosive rate. Of two hundred children born every minute throughout the world, two-thirds or more see the light of day in the lessdeveloped regions. These peoples are firmly determined that the miserable conditions of life which their ancestors endured must be ended. The fight for political independence was one thing. Now they are demanding another kind of independence: the freedom from want and the access to the basic material requirements of life. Indeed, they are asking for even more. They do not see why they should be denied much longer at least a minimum of those other material comforts to which we in the more advanced societies have long been accustomed. They want proper medical facilities, education for their children, and opportunities for personal development. The challenge which confronts the free world is to help them achieve these goals within the framework of free societies; for, if we fail, dissatisfaction with the lack of progress may well turn these people to the dictatorial system of the Communist world.

What are the economic problems that must be faced here? One of the Characteristics of the less-developed countries is their dependence on one or two primary commodities. In Africa, for example, 17 countries depend on a single commodity for roughly one-half or more of their total export

earnings; in Latin America, 15 countries find themselves in this position.

The dependence on primary commodities is complicated by several factors. First, there is the well-known problem of cyclical and other fluctuations in demand to which these products are particularly prone, with the result that the value of a country's exports of primary commodities is subject to wide variations from year to year. An abrupt decline in the world market price of a primary commodity can result in a loss of exports earnings in a given year greater than the total amount of foreign aid received. Second, certain commodities, such as coffee, grains, and sugar, have shown a persistent tendency toward increased output. The introduction of modern farm techniques, the use of fertilizers and better disease control, not to mention governmental measures, have been important factors in this regard. As a result, the aggregate supply of some of these products tends to exceed by substantial margins current and probably future demand at reasonable prices. Finally, and most serious of all, the rate of growth in exports of primary commodities is substantially lower than the rate of growth in exports of manufactured products or the rate of growth in incomes in the industrial countries.

In fact, it would seem there is a good deal of similarity between the problems of the farm sector within an industrial country, such as the United States, and the difficulties of primary product producing countries vis-a-vis industrial countries. One difference is that in most industrial countries the government have arranged to provide minimum incomes to the farmer by one means or another--not always by economically sound means. On the international scene, however, it has not been possible to bring about a similar result.

The United States Government is now very actively concerned with this problem of primary product markets throughout the world. We know that a reasonable measure of stability in export earnings is essential for economic growth. Clearly, no rational planning can take place and no development plans can be sustained if the export earnings of the developing countries are subject to violent fluctuations which are not offset in some way. Furthermore, we know that political stability can be affected by those swings. Accordingly, we are trying to develop in collaboration with other governments suitable means to deal with individual commodity situations--preventing world market prices from falling sharply in cases where sound and practical means can be developed, and seeking to bring about, in the long run, a better balance of supply and demand.

One of the fundamental solutions to this problem is, of course, diversification and industrialization in the less-developed regions. Where it is successful it reduces reliance on export earnings from primary products alone. But this leads to the further question of what type of diversification and what kind of industrialization is appropriate and feasible. To take an obvious example, when we wish to encourage Brazil to reduce the mountainous over-supply of coffee, what products for which Brazil is suited should be developed instead? Sugar? Cotton? Wheat? You know the problems with each of these.

If, on the other hand, industrialization is to be emphasized, what line of industry? The obvious answer is that development should occur first in labor-intensive light manufacturing types of activities, for these are the products which the developing countries are best able to produce.

But here we encounter a different though equally vexing problem. The developing countries need markets for these new products, and the competition they create for the established industries of the advanced countries presents, at times, considerable difficulties. Yet, if we do not make outlets for their products available, our aid efforts will have been in vain, and we will be justly accused of operating under the slogan "Aid not Trade"--an irrational slogan indeed.

The world textile situation at present poses a problem of this kind, and the United States has taken initiatives to develop totally new forms and procedures to obtain international cooperation between the advanced and the less developed countries. Recently, we have been participating in a multilateral effort of textile producing and consuming countries to bring about a world agreement which we hope will promote the steady growth of international trade in textiles on an orderly basis. Consuming countries would be pledged to grant increasing access to their markets for textiles from the less-developed countries; each exporting nation would be required to cooperate within the framework of international standards designed to prevent the disruption of markets and undue damage to industries in the consuming countries. In this way, we hope to avoid resorting to excessive protectionism or unilateral restrictions which would obstruct the growth of the developing countries. At the same time we and other industrial countries give our own textile industries the kind of safeguards and assistance they need and, indeed, are entitled to have.

Another major development of our time is without question the European Common Market. That extraordinary undertaking, originally regarded by many people as visionary and impractical and in its early stages mistrusted and resisted by the industrial leaders of Western Europe, has not only become a reality and a success but is changing the face of Europe and is affecting trading patterns throughout the world.

The Common Market will encompass 300 million people and within it enterprises are being adapted, plants modernized, and production rationalized to serve its consumers effectively and efficiently. The European industrialist has found that the Common Market rather than being a danger is a gold mine. The rate of over-all economic expansion has increased substantially and a state of prosperity has spread throughout the Community. And now the United Kingdom is about to negotiate accession to this Market and other European countries may well follow suit.

For us in the United States the Common Market is of major significance. In the first place, it reinforces the imperative for us to think out anew our own trade policies, approaching the subject with a fresh viewpoint and free of the preconceptions of the past. The new Europe is presently growing at a rate more than twice our own. Our industries are faced with the prospect of competing with industries in Europe which enjoy free access to all Common Market customers. How well we are able to increase our efficiency at home and to adjust our trade policies and related internal policies to this new situation will determine the extent to which we will benefit from these new developments in Europe - developments which present us with tremendous opportunities as well as great problems.

Of great interest to this conference, no doubt, is the potential effect of the Common Market on our agricultural exports. There are dangers here: the Common Agricultural Policy which is being developed now in the European Economic Community could lead to excessive protectionism and stimulation of uneconomic production. In cereals and coarse grains there could be substantial shifts in world trade and the effect on our exports could be serious.

We in the Department of State and Department of Agriculture are studying this problem very carefully. We are working closely with our European friends and seeking ways of ensuring that in the end they decide upon measures and policies which will afford reasonable treatment to the export trade of other countries including the United States and our friends in Latin America and elsewhere.

Finally, I should like to invite your attention for a moment to two problems of our own in the United States. These are not of the same order of magnitude as the rise of the less-developed regions or the development of the European Common Market, but they are important to us as Americans. The first is the unemployment problem. For about a year the seasonally adjusted unemployment rate has been around 6.8 percent of the civilian labor force, even though the number of persons employed has reached a record high. The unemployment figures mean human hardship and privation on a scale which we cannot accept. In addition, they mean a waste of our economic resources which we cannot afford, considering the dangers and challenges confronting us as a nation.

The second point which I should like to mention is our balance of payments problem. Ever since 1950, with minor exceptions, we have been running a deficit in our over-all balance of payments, and in the past three years it has reached serious proportions. The over-all deficit in 1960 was \$3.9 billion, of which the short-term capital outflow represented \$2.0 billion and the basic deficit \$1.9 billion. It is this basic deficit, which excludes short-term capital movements, which is important. It results in an outflow of gold or an increase in foreign claims on the United States or both. In 1960 we reached the point where aggregate foreign claims exceeded for the first time the United States gold stock. Despite some improvement in 1961, the problem remains very serious. The condition is one which cannot be allowed to continue, either from the standpoint of the United States alone or from the standpoint of the financial and trading system of the entire free world.

Both of these are persistent and serious problems. In both cases, as I have said, we cannot tolerate a continuation. The question is, what sort of a solution, or solutions, are we going to adopt? We cannot adopt the solution of cutting back on foreign aid. The dangers and challenges confronting us in the world rule this out. - Nor can we adopt the solution of restricting imports. To do so would be to fail to measure up to the necessities of the time.

Instead, we need to direct our efforts toward increasing our \$5 billion favorable balance of trade by raising the level of our exports. The agricultural sector of our economy can and should play a major part in this effort. In 1961, approximately \$5 billion of United States agricultural

products will be exported, mainly for payment in dollars, and we must continue to emphasize and capitalize on those natural advantages which we possess in the agricultural sector of our economy.

On the industrial side, we must repudiate protectionism and accept the challenge of competition in world markets. To do so, we must increase our productivity and lower production costs at home. This is the best method of controlling inflation and it is consistent with our traditional free enterprise system.

What is general pattern which emerges from all this? I think it is two-fold. In the first place, we need to develop new policies and new concepts in the field of foreign trade. As Mr. George Ball, Under Secretary of State for Economic Affairs, brought out in his address in New York on November 1: "If we are to bring about the kind of open trading world in which our most efficient export industries can share the potential of (Europe's) new market, we shall need tools adapted to the task".

Furthermore, in order to enable us to negotiate effectively with the European Common Market for reduction in tariffs and other trade restrictions, we need broader authority from Congress. Again quoting Under Secretary Ball, "We must authorize our negotiators to strike much broader and more ambitious bargains on behalf of United States industry...What we must seek in a broad-side opening of the European market to our producers--and this is what we shall have to provide them in turn". These are concepts on which we are actively working and which will be spelled out in detail in coming months.

A second conclusion that emerges is that, as in the case of the textile industry, though of course not necessarily in the same way, we will have to develop new forms and procedures for international cooperation in dealing with some especially difficult and important problems. For we have responsibilities abroad as well as at home and we must meet the challenge to find adequate solutions for both within the proper context of international cooperation and responsibility.

Above all, we need to recognize that we are living in an era of rapid change, of great challenges and of need for great responses. The United States cannot just look backward wishfully to time of prosperity in the past. We must reorient our thinking and reshape our policies to the world of today. We must exercise imagination and leadership in helping to mold the world of the future .

