

EUROPEAN ECONOMIC COMMUNITY

COMMISSION

REPORT

on the

Economic Situation
in the Countries
of the Community

SEPTEMBER 1958

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PREFACE

Article 245 of the Treaty establishing the European Economic Community instructs the Commission on entering upon its duties to undertake the studies and establish the contacts which are necessary for making a general survey of the economic situation of the Community.

In order to determine the exact position at the moment at which the Community took up its activities, the Commission instructed a Working Party of experts to prepare an initial general review of the economic structure of the Member States and of the trends which will determine their future development. It was the Commission's intention that the Report of the Working Party should provide the initial general indications needed to describe and understand the various problems. The composition of the Working Party was as follows :

Chairman :

Mr. Pierre URI, directeur de la division de l'économie, Haute Autorité de la CECA, Luxembourg

Members :

Mr. W. BAUER, Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen / Ruhr.

Mr. P. DE WOLFF, Directeur van het Centraal Planbureau, Den Haag.

Mr. L. DUQUESNE DE LA VINELLE, conseiller au ministère des affaires économiques, Bruxelles.

Mr. C. GRUSON, directeur des services d'études économiques et financières, ministère des finances, Paris.

Mr. J. LEFEBVRE, directeur des investissements (T.O.M.), Communauté économique européenne, Bruxelles.

Mr. Milton GILBERT, Director of the Economic Division of the OEEC, Paris.

Mr. P. MOUSSA, directeur du Plan et des affaires économiques au ministère de la France d'outre-mer, Paris

Mr. J. VIBERT, chef de la division d'outre-mer au Commissariat général au plan, Paris.

Mr. A. SCHWINNEN, chef du service d'études et de documentation économique, ministère des affaires économiques, Luxembourg.

Professor P. SARACENO, Presidente del Comitato per lo Sviluppo dell'Occupazione e del Reddito, Roma.

Mr. R. WAGENFÜHR, Direktor der Abteilung Statistik, Hohe Behörde, Luxemburg.

The Working Party of experts has submitted the following Report. The Commission feels that with this Report the Working Party has completed the task with which it was charged and that the Report constitutes an essential contribution to the knowledge of the economic situation. The Commission considers that the Report will provide an excellent basis for the accomplishment of the tasks ahead and will certainly be of use to all institutions of the Communities and to anyone else concerned.

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Part A

Synoptic Digest

This synoptic digest of the economic situation in the European Economic Community was edited by Mr. Pierre URI, Directeur of the Economics Division in the High Authority of the European Coal and Steel Community. The work was completed with the assistance of the Working Party of experts called together by the Commission of the European Economic Community to prepare a first general survey of the structure of the economies of the Member States.

INTRODUCTION

The general survey of the economic situation of the Community called for by the Treaty is not intended to present the state of the economic situation at a given moment, but to group the basic features and the lines of development being followed by each of the economies which will be gathered together in the Common Market and the problems with which these economies will have to cope; subsequently, the survey will have to bring out those problems which will ensue from the development of the Community or for which, conversely, the development of the Community will bring solutions.

The method adopted by the Working Party was to lay down a uniform plan on the basis of which the analysis of each economy was so far as possible to be undertaken. In this way it was intended that the survey should be able in the end to present an overall picture with a triple purpose: to bring together, on comparable bases the essential data concerning the economy of each country, to show, in proper perspective, the structure and characteristic problems of each country in relation to the others, and to sketch the outlines of this new entity with which the Community will replace the individual national economies.

In this initial phase there could be no question of doing more than providing the background against which the most striking features and the basic problems would stand out, while at the same time it would bring to light the points requiring detailed study and would ensure coherence in any sector-by-sector analyses which may later be undertaken.

In this way the report differs visibly from a programme of economic policy, responsibility for which lies with the Economic Commission itself; the report does not describe future action, but merely endeavours to provide the bases on which such action can be taken.

The members of the Working Party have been struck by the fact that the greater relative volume of trade now attained in the commercial relations between the six countries, owing not only to the economic but even more to the psychological effects of the integration initiated with the establishment of the Coal and Steel Community, has already begun to make a reality of this entity, which will have to strengthen and perfect its unity.

We have not felt it possible to fit into this synoptic digest countries so different from Europe and so different from each other as are the overseas countries; nor was it possible to gather these countries together in a separate digest, desirable as this form would have been as an illustration of the extent of recasting produced by the Treaty of Rome. For these countries the reader will have to turn to the individual reports.

The work has frequently been hampered by the lack of statistical data on certain aspects — in some cases essential aspects — of the economies, by their unreliability and by the variations in the base on which they have been established. The endeavours of late years to develop statistical analyses and to ensure that they should be comparable will have to be kept up for a long time to come. General reservations must therefore be made concerning the exactitude of the statistical data, as we have seen from the revisions which are frequently published and which contain variations that are often far-reaching and unexpected.

For reviews on this scale the time available is always too short. The group of studies which we now present must be looked upon as a first examination which will make it possible to aim at more exact analyses.

The reports on individual countries, though they have been discussed within the Working Party, are the individual responsibility of each of the authors. The Working Party is jointly responsible for the synoptic digest, the preparation and editing of which were entrusted to the chairman.

A — GENERAL

The Community of the six countries forms a European entity with a population of nearly 165 millions, which will rise to 175 at the end of the transition period provided for in the Treaties of Rome. It covers an area of 1,175,000 sq. km stretching from lat. 37° to lat. 55° N. The non-European countries and territories to which the Treaty applies¹⁾ or which have been associated with the Community²⁾ are scattered all over the world, but the major part of these is found to extend over almost half the continent of Africa; between them, these countries and territories total 63 millions inhabitants.

In the new entity there are three big countries with populations between 44 and 51 millions, two with 9 and 11 millions and one with more than 300,000 inhabitants; thanks to their old-established civilisation and industries, and thanks also to an extremely rapid expansion since the last war, these countries

¹⁾ The Treaty applies to Algeria and the overseas departments of France in the conditions laid down by Article 227, § 2.

²⁾ Article 227, § 3 provides for the association of the overseas countries and territories listed in Annex 4 to the Treaty.

have reached a relatively high standard of living. Expressed in dollars at the official rate of exchange, income would be \$850 per head. This assessment does not allow for the differences in internal prices; in the United States these, largely because of housing and services, are much higher than in Europe. In real purchasing power judged on the basis of the structure of national expenditure in Europe, five countries of the Community have a very similar income per head, varying between \$1,000 and \$1,100 per annum, while the average for the Community, when Italy is included, falls to \$950. It is even on average a figure of \$1,250 which should be taken if the figure were calculated on the basis of national expenditure in the United States. These are the figures which should really be compared when we attempt to measure the comparative standards of living with the round figure of \$2,300 which represents the income per head in America ¹⁾). The present gap between the average standard of living in Italy and in all other Member States of the Community is to be explained in part by a level of unemployment which is still high but is tending to be caught up by the increased rate of expansion. This gap is not as great as that between the North and South of this one country, in which the average of \$600 is made up of \$800 in the North and only \$360 in the South. It should of course be remembered that comparisons such as these, which are perforce based on average prices, underestimate the real income of the rural population, which obtains a large part of what it consumes at lower prices than the rest of the population. This source of errors enlarges the apparent gap between the other countries and Italy, which has by far the largest proportion of agricultural population.

The extent of this unity conceals none the less differences due to the size of the national units, to the natural resources available, to density of population and also to the different emphasis of the economic policies on long-term or short-term objectives — in the degree of industrialisation, in the diversification of products and in the relative volume of trade which each economy maintains with the outside world. These are essential features which determine the different circumstances in which each country tackles economic integration, the structural changes which will have to be accepted with it and the rhythm of expansion during the period in which these changes will occur. The structure of the working population, the structure of production and of the work which goes with it, the structure of the enterprises and the structure of the regions within each economy are dealt with in Part I, which is intended to throw light on the intrinsic factors affecting development. The structure of the external balance and the trend of trade as a whole with the various groups of countries are dealt with in Part II, which endeavours to bring out elements which will allow us to judge the new trends which will ensue from the Common Market. The factors in the expansion and the changes in the pattern of trade

¹⁾ See Table 1, p. 59.

cannot however be judged except in relation to factors in economic policy which influence costs, and these may themselves be altered in accordance with the needs which will emerge from comparison between states and from the growth of the Common Market, while concrete expression is given to the harmonization needed for the proper working of the market within the Community and for the strengthening of its unity.

B — THE POST-WAR PERIOD

This detailed study cannot be undertaken without first fixing the point at which the decisive effort at integration began, i.e. the fundamental changes to which the economies of all the six countries have been subjected.

1. Although the moment of crisis and of recovery had varied, the economy of every country had suffered from the great depression of the inter-war period. The year 1937 of 1938 had however seen the peak of industrial activity in Germany, Belgium, Italy and the Netherlands. In France on the other hand industrial production at the end of this period stood at a little over 80 per cent of the 1928 level. In 1937 industrial activity in Luxembourg had reached approximately 95 per cent of its 1929 level.

For the Community as a whole the highest pre-war level was not regained till 1950; Belgium reached it in 1947, the Netherlands, Italy and Luxembourg in 1948, France in 1950, while Germany had to wait until 1951¹⁾.

In contrast to the inter-war period, economies in the post-war period developed in a world of full employment; policies were firmly directed to this end and sought constantly to combine it with the abolition of direct controls on imports and on the working of the economy. This policy of liberalisation of trade and suppression of direct controls stands in sharp contrast with the close manipulation of foreign trade which had become general before the war and with the forms of dirigisme which had been pushed to extremes in some states of the present Community.

2. The six countries have all been occupied in turn and have suffered severely from the destruction caused by war.

Except in some towns in Germany the tasks of reconstruction, in the strict sense of the word, which in 1958 still remain to be done and which are difficult to assess in the mass of new building and plant which have been constructed in such quantity during the last few years, no longer represent a major part of the investments to be made.

¹⁾ See Table 2, p. 60.

The net effect of the war, after the losses and the burdens it has brought, will have been first a slowing up of technical development in Europe, then an acceleration of progress due to absorption of techniques worked out in other countries and finally, throughout very large fields, renovation of the industrial set-up. The fact that a large part of the equipment of industry is new or recent, a part which varies in extent with the scale of destruction and of the subsequent efforts at reconstruction, is not without danger for the later stability of the economies, since the capital built up in a brief spasm is liable to require spasmodic renewal.

3. The losses in population due to the war have been made good by the rising trend of population, particularly lively in the Netherlands and still high in Italy, especially in Southern Italy. In this connection a change has occurred in France, where a birth rate 1/3 higher than the pre-war rate is leading to an increase in the population and a lowering of its average age. Germany in particular has seen a massive influx in refugees totalling more than 9 million since the end of the war and providing the main problem for the country's economy. The rising trend in population, increased or decreased in the various countries by migration, has been an essential element in expansion because of the additional markets which it provides and of the resources it offers. The need to settle the influx of population in Germany in productive occupations, the great surplus of population in Italy and a population in the Netherlands growing at one of the highest rates in the world have made it necessary to make additional productive employment available, and in these three countries this in turn has led to a more vigorous development of industry.

4. The war and the post-war period in certain countries have led to changes even in the territorial basis of their economic activity. The Federal Republic is faced with the fact of the dividing line at the Elbe. The links between the Netherlands and Indonesia have been broken on the political plane and progressively weakened on the economic plane. France has had to withdraw from Indochina and to give up its protectorate over Tunis and Morocco, which unlike Indochina have at least remained within the franc area. Italy has had to give up its colonies; it was given Italian Somaliland as a temporary trusteeship territory, but the trusteeship expires in 1960.

The results of these changes are not easy to assess and vary from one case to the next.

Western Germany contains the most highly industrialised areas, and although Saxony and Silesia were also important industrial centres, it can be said that the structure of Western Germany accords industry a greater share in total production than in the former Reich — all the more as it is in the last resort only the increased speed of industrialisation, including the

re-establishment in the West of certain enterprises blocked in the East Zone, which has made possible the productive absorption of the large mass of refugees.

The gradual reduction of trade with Indonesia, apart from the consequent repatriations which have adversely affected the employment market and the housing situation, has meant for the Netherlands a far-reaching economic change-over. The change has led to a net loss of earnings and interest on capital in Indonesia, a reduction in the processing and redistribution of Indonesian products in Europe, a reduction in the outlets provided by Indonesia for textiles and engineering. All this has meant an increase in the need for further and more rapid industrialisation.

The loss of Indochina, after a certain reduction in French exports which to a large extent went to the European population, has not prevented a substantial recovery of trade with France.

5. The destruction caused by the war, the increase in population due either to the excess of births over deaths or the influx of refugees, industrial changes forced upon countries by the breaches referred to above, the systematic policy of full employment, the care bestowed on the development of dependent territories and backward areas have led to rates of investment which, despite differences between countries, are in broad contrast with the stagnation of investments before the war.

6. The most striking outcome of all the changes that have befallen Europe — an outcome no doubt due in part to the new spirit prevailing in all sectors of the population — has been a rate of expansion that must be more or less unprecedented in its history. It would probably be misleading to extrapolate over a long period of years the increases in production observed in exceptional circumstances. To take a particular example, the influx of population which for many years made continuous expansion possible in Germany is, to a large extent, a thing of the past. During a period of reconstruction a fraction of the investments made has a very high productivity, when limited repairs suffice to restore existing set-ups. It is none the less true that the European economy has entered on a long-term period of expansion, and the dynamic spirit shown by each of the states which belong to it has undoubtedly helped to replace the restrictive or autarchic attitude of the past by the courage needed to tackle their economic integration.

C — THE MAIN TRENDS OF ECONOMIC POLICY

We ought to review very briefly the outstanding features of the economic policies which have contributed to these results.

Whatever the states in question, their policies have aimed at attaining simultaneously several basic objectives: a maximum rate of development, linked with the highest possible level of employment, stability of price levels and equilibrium in the balance of payments coupled with expansion of international economic relations. The means selected for the attainment of these objectives included the abolition wherever possible of direct controls and liberalisation of trade. But these reductions in the scale of intervention and of protection were nowhere confused with unthinking liberalism; on the contrary, they were accompanied by an endeavour to understand the economic situation as a whole and to forecast developments, to define the conditions on which these developments depend, to throw light on the action of those concerned and to encourage spontaneous co-ordination.

Against this common background of aims and means, the divergences and shocks of economic policies stem from the difficulties which from time to time have arisen from the particular economic circumstances of each country and which have faced each country in its efforts to reconcile the objectives to be pursued or the principles to be maintained; the choice made by each country can itself give rise to shocks and divergences.

Disequilibrium in the balance of payments caused Germany in 1950 and France in 1951 and again in 1957 to resort to temporary reversal of liberalisation of trade, and in 1957 Holland had to curb its expansion sharply. On the other hand, except for the 1952/53 period, France has devoted its main efforts to the rate of development, but did not succeed, except over a short period, in getting inflationary tendencies under control and in wiping out the external deficit. Belgium managed to reconcile its balance of payments with high level of income and satisfactory stability at home, perhaps at the cost of less full employment and at a lower rate of expansion than is found in the other countries of the Community.

The diversity of problems and of choices made explains the differences in stress placed on the various means and the various trends to be found in economic policy.

Germany, which before the war had had the most strictly controlled economy, has chosen a liberal economy, one exception being the sphere of housing and another the field of agriculture, in which its attitude has been systematically and resolutely protectionist, while there has been hesitation about following to its logical conclusion a liberal system for the prices of the basic products coal and steel. The incentives to investments derived from the level of profits and from taxation laws which encourage the use of company profits for investments and also, of late, the use of personal incomes for savings.

In contrast to the first post-war period, Belgium quickly re-established the stability of its currency, and at the same time it endeavoured to expand employment by methods such as public works, while its economic situation in

a world that was being rebuilt and expanded enabled it to become a country of high wages and this in turn provided an incentive to rationalisation in order to increase productivity. But these fundamental changes inevitably produced difficulties for those sectors in which increases in productivity are lower than in the rest of the economy, in particular for the coalmines.

The Netherlands managed, against a background of satisfactory stability and of success in overcoming crises in the balance of payments, to maintain exceptionally high levels of investment with relatively low rates of interest and some incentives in the tax system which encourage investments, but first and foremost by building up an atmosphere of understanding for economic necessities and of collaboration between the various social groups; this atmosphere makes it possible in periods of difficulty to curb the upward movement of wages.

Luxembourg, because of the smallness of its economy and the absolutely predominant share of iron and steel in its output, is closely dependent on economic developments abroad, but thanks to a policy of public works and of social institutions it has managed, after a period of relatively rapid reconstruction, to improve the standard of living and the equipment of the country through good use of the almost permanently favourable circumstances with which it has been blessed since the war.

Italy after a very sharp inflation, has given first priority to strict control of the currency, maintained by the classic methods in the credit field, but at the same time it has made a determined effort to ensure development of the Southern areas through systematic investments based on regular contributions from the budget and intended to increase the yield of agriculture and to provide the basic conditions required for a spontaneous establishment of new industries. This action has been gathered together in a long-term plan — the Vanoni plan — which provides the overall conditions, including some assistance from abroad, in which it might be possible to absorb both open unemployment and the concealed unemployment which exist in a large part of the country.

The most permanent feature of French post-war policy has been the establishment of a series of plans for modernisation and equipment, the first of which aimed primarily at the basic industries including agriculture. The execution of these plans, not only in the industries which have been nationalised at the end of the war — coal, gas and electricity — but in the other industries, has been helped forward by public loans and certain fiscal provisions, and it has been flanked by a vigorous and sustained investment effort in the overseas territories intended to assist their economic and social development. For the rest, the general economic policy of the country has been affected by the disturbances caused by events overseas and the shocks arising from exceptionally rapid wage increases, and it has hesitated between liberalism on principle and administrative controls on prices, on imports and on the

movement of capital. But the expansion of military expenditure in 1956 and 1957 and the calls made by the Forces on the working population have caused dislocations of such magnitude that the controls have not been able, after a period of stability in 1952-55, to prevent the rise in prices from being more rapid and the balance of payments situation from showing a greater deficit than in any other country of the Community.

I — THE PRODUCTIVE ECONOMY

The purpose of this first part is to describe the internal structure of the economies of the Member States in order to discover, on the basis of the trends of the last few years, what possibilities there are for their expansion and what is their competitive capacity.

The first factor to be considered in this field is the population; it will then be necessary to analyse the overall national product from the angle of its origin and of its disposal, and also to analyse the major sectors in order to produce a picture of the economic activities of each country. Finally, the development of productivity and of the main branches of activity will have to be studied before it will be possible to spot the disparities which, in all economies, appear between enterprise and enterprise or between the various regions which make up each economy.

A — POPULATION

The total population of a country and the evolution of this population form a basic factor in the country's economic development. It is the total population which serves as internal outlet for production. The population of working age sets the limit to the production potential and the population at work the limit of actual production. Increases in population, developments in the population of working age and increases in employment have played a decisive role in the expansion of recent years. It can even be shown, without attempting to draw hasty conclusions from this simple observation, that the largest increases in production have occurred in those states of the Community where the population has expanded most rapidly.

1. Total population

In the overall development of population a distinction must be made between the results of natural increase and those of emigration and immigration.

The birth-rates have been exceptionally high since the war, especially in the Netherlands, France and Italy. In these three countries they have now fallen somewhat, while in the other countries no appreciable variations have been recorded. By far the highest rate is found in the Netherlands, where it at one time exceeded 25 per mille and is still over 21 per mille. The most striking post-war fact is the sudden rise of the birth-rate in France, which has been more than 21 per mille and is now, with over 18 per mille, much higher than that in Germany, where the figure is around 16 per mille, and also somewhat higher than in Italy.

The natural increase which results from the excess of births over deaths depends on the average age of the population. The higher the recent increase in the population, the lower its average age and the lower the death-rate. This is the explanation of the exceptionally rapid rate of increase in the population of the Netherlands and of a rate of increase which is still higher in Italy than in France ¹⁾.

However, in Italy as in the Netherlands increases in the population have to some extent been held in check by emigration, which in the case of the Netherlands has exceeded the number of repatriates from Indonesia.

The largest factor has been the massive influx of refugees to the territory of the Federal Republic: 9 million persons since the war, 1.8 million of them during the period 1951 to 1957, a figure exactly equal to the excess of births over deaths. This fact has made both necessary and possible an extraordinarily rapid expansion: jobs had to be created, but at the same time there was no shortage of manpower to hamper economic developments. Although the movement has not ceased entirely, it cannot be expected to recur on the scale seen after the war. The great achievement of the Federal Republic in economic policy has been the integration of the mass of refugees into the economy. Consequently immigration is only of marginal importance and economic growth is due essentially to increased productivity.

The other countries in which immigration has led to considerable increases are France (about half a million) and Belgium (a little below 100,000) in the period 1951 to 1957.

Between 1950 and 1957, the population of the Community has risen all in all from 156 to 165 million inhabitants, of which 7.8 million are attributable to the single factor of the excess of births over deaths ²⁾.

2. Population of working age

In accordance with demographic changes in each country, and also in accordance with the direction, scale and character of migrations, the popula-

¹⁾ Vital statistics : see Table 3, p. 60.

²⁾ Population changes in Community countries : see Table 4, p. 61.

tion of working age, which is taken to include persons between 16 and 65, will vary in a manner which may differ from that of the total population. While there has been an increase in the total population in the countries of the Community, the population of working age has remained unchanged in Belgium and Luxembourg, in spite of the additions resulting from immigration. This stagnation or even slight decrease in the population of working age is bound to continue and calls for some limited measure of regular immigration. Despite the reduction in the rate of demographic expansion, increases in the population of working age will continue in Germany and in Italy; in France, on the other hand, it will be some years before the labour market will feel the effects of the population bulge¹).

3. Population at work

A comparison of this population of working age and of the population actually at work would be most interesting. Unfortunately this is one of the fields where statistical difficulties are greatest: they are connected with women engaged in agriculture and commerce, and they spring not only from the uncertainties of the data received but even from the differences in the conditions and methods from one country to another or even differences between one period and another inside one country. The figures must be handled with the greatest care, for in certain cases there is an *a priori* assumption that in the agricultural population women share in the work on the farms, while other figures reflect, in the form of a reduction of the number of workers, the fact that the work of farmers' wives is usually part-time. The same uncertainties do not exist in connection with industry. That is why overall figures should be supplemented by figures, less complete but more reliable, on the employment of male labour only in agriculture and commerce²).

It is with these fundamental reservations in mind that the available figures must be interpreted when seeking manpower reserves which it may be possible to find in the female population. In Germany for instance employment increased by 16 per cent between 1950 and 1957, while the population of working age increased by only 9 per cent. In Belgium, where the proportion of the population under 15 is small and the proportion of those over 65 is comparatively high, only expansion of the employment of women could increase the working population from indigenous reserves. The figures show that, taken all in all, it is in France and Germany that the proportion of the population in employment is highest in relation to the population of working age. In Italy and the Netherlands, on the other hand, where the problem of creating work

¹) Population of working age in Community countries: see Table 5, p. 61.

²) For figures of the latest censuses see Table 7, p. 62.

to cope with increases of the population and to absorb unemployment exists in acute form, the proportion of women in the working population is naturally much lower than in France or in Germany.

Now that unemployment has been dealt with in Germany, Italy is the only country in which it will be years before the problem is solved. From 1950 to 1957 the rise in employment, apart from agriculture, totalled 1.9 million and emigration accounted for 650,000, making a total of 1,550,000 persons, and this exceeded the natural increase in population by about 65 per cent. It was thus possible to reduce the number of unemployed, of whom there were 1.7 million in 1957, a figure which included 70 per cent of people who had already been in employment and 30 per cent of young persons seeking their first job. But in addition agriculture and the crafts conceal an underemployment which in the long run can produce an additional manpower supply of 100,000 to 110,000 hands per year over and above increases in the population and in the number of workers available¹⁾.

On the other hand not only Belgium but France and even Germany — in addition to any influx of population which may still come from the zone that has been cut off — are still hoping to attract manpower. It is not impossible that, as the Community is progressively established, women, giving up the difficult task of finding work in their own countries, may show themselves more ready to accept offers made in another Member State. In other words the available working population might prove to be larger for the combined Community than for the sum of the individual states²⁾.

4. Distribution of the working population by main sectors of activity

The statistical uncertainties which affect the total number of the working population recur even more noticeably in the assessment of its distribution between the main sectors of activity. The variations of employment which each of them offers can be recognized with less uncertainty than the structure of employment over a given period.

In all countries of the Community the trend shows comparable features. The working population engaged in agriculture is declining and its share in the total working population is falling even more rapidly, while the working population engaged in industry is increasing; most of this increase is to be found in Germany, but the trend is also perceptible in Italy, France and the Netherlands. Similarly there are increases of the number of those employed

¹⁾ Working population available in percentage of the population of working age : see Table 6, p. 61.

²⁾ Percentage of women in the working population engaged in the various sectors : see Table 8, p. 64.

in services, including commerce, and these increases are sufficiently large to mean an increased share in the total, despite the scale of the increase that has occurred in industry¹).

The picture which emerges shows that the Community falls into three groups based on the share of agriculture in each group: those countries where agriculture still absorbs more than 25 per cent of the working population, as it does in France and especially in Italy, where this share rises to nearly 40 per cent; at the other end of the scale Belgium and the Netherlands, where agricultural production accounts for only some 11 to 14 per cent of all employed persons; between these extremes come Luxembourg and Germany, the share in Luxembourg remaining constant at 12 per cent while that in Germany has fallen sharply from 25 per cent to 18 per cent²).

The share of service in total employment appears to be particularly high in the Netherlands, mainly owing to commercial and transport activities; it is even as high as that of industry. In France and Italy too the share of services in the working population is equal to that of industry, but the level of both is lower because of the relative importance of agriculture even today.

The predominance of industry over services is visible on the other hand in Germany and in Belgium, where industry by itself accounts for nearly half the working population.

To appreciate the probable trend of such a distribution it is necessary to examine more closely the structure of production³).

B — PICTURE OF ECONOMIC ACTIVITIES

I. Structure of production and demand

The most satisfactory analysis would be one based on the demand for goods and services by consumers, public authorities and enterprises for their investments and also by foreign markets; this would work back to the activities of each branch of production, noting the contribution made by the branch to production as a whole and to the satisfaction of the final demand. With the statistical data available such an attempt would be too hazardous. It will therefore

¹) Working population — changes in the population engaged in the main sectors of activity: see Table 7, p. 62.

²) On statistical problems concerning the employment of women see page 36 below.

³) Share of the main economic branches in the working population of the Community: see Table 7a, p. 62.

Share of each country in the working population of the main economic sectors of the Community: see Table 7b, p. 63.

only be possible, without establishing definite links between types of products and types of demand, to compare the origin of the gross national product, *i. e.* the actual share of each branch, and the use made of the gross national product, *i. e.* the share of the different ways in which this product is disposed of, and then to go on to make a rapid analysis of the main branches of the economy.

To bring out the structure of production, only the gross domestic product should be taken into consideration, without the income from capital and labour paid by the rest of the world, but including the renewal of capital, and assessing it at factor cost, *i. e.* including subsidies, which may be added to revenue, but excluding indirect taxes, as their very uneven distribution distorts the picture of the contribution to the total product made by the various branches.

It is not possible to use any particular years as base year without making sure that the share of agriculture has not been distorted by the effects on crops of the weather or the share of industry by the level of investments; nor on the other hand should averages for the too distant past be taken: this might lead to confusion of characteristic structures with the changes which emerge rapidly thanks to the unevenness of development in the various branches.

In the average for the years 1955 to 1956 the contribution to the national product made by the three main branches is shown by the following table:

Origin of the gross national product

1955 to 1956

(as percentage of the gross domestic product at factor cost)

Country	Agriculture	Industry including construction	Services	Total
Germany (F. R.)	9	51	40	100
Belgium	7	47	46	100
France ¹⁾	15	41	44	100
Italy	22	42	36	100
Luxembourg	9	54	37	100
Netherlands	11	44	45	100
Community	13	45	42	100
United Kingdom	5	50	45	100
U. S. A.	5	40	55	100

Source: OEEC General Statistics, July 1958.

¹⁾ Estimate for 1955.

The combined Community is found to be at a stage of development which lies between the comparatively undeveloped economies, where the large share of agriculture is a characteristic feature, and the more developed economies where services account for an ever increasing part of economic activity. The total share of industry is high, particularly thanks to the structure of the German economy.

The share of each branch in the value of production does not correspond exactly with its share in the working population.

In the case of Germany, and also of Luxembourg, their essentially industrial character is reflected in a contribution by industry which exceeds 50 per cent of the national product: such a proportion is found nowhere else except in the United Kingdom. The share of agriculture is still appreciably higher than that which has emerged from developments in the United States and in Great Britain.

In this connection two groups of States in the Community can be clearly distinguished: Germany and Benelux on the one hand, in which agriculture represents between 7 and 12 per cent of the national product, the Netherlands having here the highest figure; and France and Italy on the other hand, where the share of agriculture rises to 15 per cent in one case and 23 per cent in the other.

As regards services, the Netherlands and Belgium head the list, mainly because of their commercial and transport activities. France follows closely because of the scale of its commercial sector and, as in Belgium, of its hotels, restaurants and bars. The lowest figure is that for Italy, and it reflects a lower general level of development¹⁾.

With this structure of production as basis, the data available on the disposal of the national product are calculated at market prices and consequently the figures are affected by fiscal charges. In addition any picture of the various domestic means of disposal of production is affected by the balance of transactions in goods and services with the outside world: the share of internal consumption seems all the lower since there is, in the case of Germany and even more, for certain years, in the case of Luxembourg, a large surplus in the current balance²⁾.

When due allowance has been made for these observations, it can be said that three countries devote a share of some 68 per cent to private consumption; they are France, Belgium and Italy; in three other countries, Germany, the Netherlands and Luxembourg, this share does not exceed 60 per cent. But France joins Germany and the Netherlands in the group of countries where current public expenditure on goods and services is relatively high.

In private consumption, the main items which can be isolated are food, clothing, housing, durables; services are generally grouped with sundry products. The share of food in expenditure is of course higher where real incomes are lower: instead of approximately 1/3 in other countries, it is some 45 per cent in Italy. The share of clothing, which is usually 10 to 13 per cent, rises to 17 per cent in the Netherlands, a figure which is no doubt influenced by the

¹⁾ Origin of the gross national product - 1956: see Table 9, p. 64.

²⁾ Disposal of the gross national product: see Table 10, 10 a, 10 b, pp. 65-67.

rapid growth of the population. Enormous differences are found in the percentages of income spent on housing; these are affected not only by differences between the habits prevalent in the various countries, but even more by legislation concerning rents; consequently the share of this expenditure is very high in Belgium (over 13 per cent) and Luxembourg (more than 9 per cent), average in the Netherlands, and very low in France and Italy. Consumption of durable goods and services grows with increases in income, the consumption of durables in particular being much lower in Italy than in the other countries¹).

2. Main sectors of the economy

a) *Agriculture*

The combined Community produces nearly 60 per cent of the total agricultural production of Western European countries which are members of the OEEC. Its position in this respect is similar to its position in overall output, but before the war its share of agricultural production was a little larger, rising as high as 64 per cent.

Among the countries of the Community, France stands first with more than 1/3 of the total production, followed by Italy and Germany, each with 1/4, while the Netherlands account for only 8 per cent and the Belgo-Luxembourg Economic Union only 6 per cent of the total²).

To interpret these figures two parameters must be used concurrently, one representing useful surface and one the population employed. Levels of output per head of working population and per unit of surface vary on the whole in the same way: in other words, as is immediately evident from the example of countries with very large but not intensive farms, output per person employed varies inversely to yield per hectare.

From the non-built-up area must be deducted areas of woodland and heath: woodland areas represent only a small percentage in the Netherlands (7 per cent), a very high percentage in Luxembourg (33 per cent), high in Germany also (28 per cent) and about 20 per cent in the three other countries of the Community. The useful agricultural areas amount on average to 2/3 of the total area of the Community, but to only about 55 per cent of Germany, Belgium and Luxembourg. Out of this total of useful area France has almost half, Italy a little more than 1/4, Germany a little less than 1/5, Benelux a little more than 1/20. A more equitable comparison with the share of production can be obtained if all agricultural areas are reduced to comparable figures of cultivable

¹) Structure of private consumption at current prices: see Table 11, p. 68.

Structure of private consumption as percentage: see Table 11 a, p. 69.

²) See below the table on characteristic figures for agriculture.

Characteristic figures of agricultural policy

	Germany	France	Italy	Belgium-Luxembourg			Netherlands	Community
A — General yields								
Useful agricultural area, as %	18.1	49.9	26.1	2.2		0.2	3	100
Equivalent in arable land, as %	18.8	47.5	28.4	2.3		0.2	2.8	100
Gross production, as %	25.3	37.1	24.0		5.7		7.9	100
Employment (1956), as %	24.5	28.8	41.6	2		0.2	2.9	100
Persons employed per useful hectare	0.32	0.15	0.33		0.24		0.32	
Output per useful hectare, in \$	276.3	157.3	221.1		503.2		487.7	214
Output per person employed in \$	862	1 184	616		2 422		2 175	957
B — Income and productivity								
Share of agriculture in working population (1956)	17.9	26.6	39.8	10.3		22.8	12.4	25.3
Agricultural output per head of working population as % of non-agricultural incomes (1956) ¹⁾	56	57	38	58		54	76	1)
Highest post-war indices of production (1934-38 = 100)	122	128	134		163		140	128 ²⁾
C — Typical yields								
Wheat (quintals per hectare, 1952/1955)	27.6	21.8	17.7		32.9		38	20.9
Milk (litres per cow per year, 1952-1955)	2 900	2 100	1 740		3 690		3 880	—
D — Means of production								
Tractors per 1000 hectares of useful agricultural surface (1955)	32.3	9.8	8.7		14.4		15.5	14.5
Consumption of fertilizers (average 1952-53/1955-56) in kg per hectare								
Nitrogen	31.3	9.7	12.9		48.9		75.5	18.2
Phosphates	32.3	18.4	23.4		51		49.1	24.4
Potash	58	14.5	2.5		76.3		68.1	24

Source: EEC: "Statistique agricole de base - 1958".

¹⁾ For purposes of comparison: United Kingdom 83 - Denmark 74 - United States 35.

²⁾ OEEC 132.

land by suitable weighting of meadowland and pasturage. This weighting, which is inevitably arbitrary and incomplete, reduces the apparent share of France and increases somewhat that of Italy; but the differences are so slight that fairly accurate results can be obtained on the basis of hectares of agricultural land.

When production is related to surface, great differences between countries come to light, ranging from \$ 157 for France, on the 1953 basis of production, to \$ 503 for the Belgo-Luxembourg Union, with the Netherlands very close behind. The figure for Italy is \$ 221, that for Germany \$ 276. These very approximate figures have the obvious drawback of being based on very different prices; consequently the figures reduce the real value of production in the Netherlands, where agricultural prices are appreciably below those in other countries; on the other hand the figures refer to gross production, *i. e.* they are exclusive of deliveries between farmers, but no deduction has been made for imports of animal feed: in this way they increase the relative value of production in the Netherlands.

The differences in the value of output per hectare immediately bring up the question of the relationship between agricultural population and area, and also that of the choice of crops. The statistical obstacles which bedevil valid comparisons of employment in agriculture are familiar: figures for women inevitably lack precision and methods of handling the simplest data are bereft of uniformity. The divergences in the relation between working population and area are however sufficiently revealing for the order of magnitude to merit attention. It can be said in brief that Germany, Italy and the Netherlands have 1 farmer to 3 hectares, the Belgo-Luxembourg Union 1 to 4, France 1 to 7.

If output is related to employment, it appears that for each working person engaged in agriculture the Belgo-Luxembourg Union and the Netherlands are away in front with more than \$ 2,000, and next comes France with a figure of \$ 1,200; this is ahead of Germany and nearly twice the Italian figure. Divergences such as those between Belgium and the Netherlands or between France and Germany are in part due to differences in prices. It is therefore more useful to try to relate the value of output per head of working population engaged in agriculture to the value of non-agricultural categories, country by country. It becomes evident that the relationship is almost the same in Germany, France, Italy, Belgium and Luxembourg, where output per head in agriculture stands at about 56 per cent of output in the other categories, while it is nearly 80 per cent in the Netherlands but less than 40 per cent in Italy.

These figures reflect differences in productivity and in the degree of agricultural overpopulation. The United States only manages to give farmers an income equivalent to 35 per cent of that in other categories; on the other hand Denmark and New Zealand, like the Netherlands, are able, thanks to the modern and scientific character of their production, to give the farmers an income very

nearly equal to that of other categories in these countries. The difference in levels is even less in the United Kingdom, which has gone very far indeed in the reduction of the numbers engaged in agriculture.

Care should be taken not to draw hasty conclusions from these observations. The figures refer to the value of output per working person and must not be confused with income. In fact agricultural producers may benefit from supplementary earnings drawn from other activities. In addition, the strength of the working population is calculated less exactly in the agricultural field than in other branches of the economy. Above all, direct consumption by the producers is reckoned at cost price: but if their standard of living is to be judged, the prices paid by other consumers, prices swollen by costs of transport and distribution, should be taken into account when calculating their consumption, in which there have in recent years been great advances as regards quality of foodstuffs. In general, too, the rural population does not have to bear certain unavoidable expenses bound up with life in towns, even in cases where the cost of living in the country is not really lower.

The difference in the value of output per hectare and even more the difference in the number of persons employed per hectare are in the main explained by the choice of crops, itself bound up with conditions of soil and climate. The Netherlands for instance, although they use only 12 per cent of their working population in agriculture, concentrate on market gardening and cattle breeding, and these require a comparatively large amount of manpower. Market gardening is also being expanded in Italy, but its effects are not large enough to invalidate the rough correlation between a higher income per head of agricultural population and a larger share of the production of livestock, meat and dairy products in agricultural production as a whole, the proportion is only 1/3 in Italy compared with a little under 60 per cent in France and more than 2/3 in the other four countries¹).

A third essential factor is found in the differences in the means of production used.

Despite a rapid growth in all countries of the use of machinery and the application of fertilizers, the number of tractors per 1,000 hectares of area under cultivation ranges from about 10 in France and Italy to more than 30 in Germany. The use of nitrogenous fertilizers differs in the proportion of 1 in France to 7 in the Netherlands, the use of phosphates from 1 in France to 3 in the Benelux countries and the use of potash from 1 in Italy to 30 in Benelux. One notable result has been that advances over pre-war figures have been highest in the countries which were already the most advanced; taking 1934-1938 as a basis, the highest indices of production reached in recent years and not affected by the chance effects of bad harvests are 122 for Germany, 128 for France, 134

¹) Composition of agricultural production: see Table 12, p. 69. (Table 302 of the Stresa statistics, p. 320).

for Italy compared with 140 for the Netherlands and 163 in the Belgo-Luxembourg Union; this makes a figure of 128 for the Community compared with 132 for the combined OEEC countries ¹⁾).

These very serious differences in structure, in productivity and in farmers' income in the six countries would give cause for some uneasiness if the fact were not tempered by three fundamental considerations.

The first is that the expansion of agricultural production is always slow and in the long run limited; in particular the elasticity of production is not great in those countries of the Community which are technically the most advanced and in which the land is already fully under cultivation.

The second consideration is that the differences which are visible between the countries are, after all, not greater than those to be found between the different regions within one country. On this point the example of France is especially typical; the averages for basic crops such as cereals, or the yields in the production of milk are the result of superposing two fundamentally different types of farming: some very modern and with high yield, the others traditional and almost entirely lacking contact with the outside world. Certain departments in the North of France obtain the highest wheat yields in the world, of the order of 50 quintals per hectare, while in other departments wheat is still being cultivated with a yield of 16 to 17 quintals and almost entirely without the use of fertilizers; the production of milk per cow per year varies from less than 1,000 litres to as much as 3,000 litres according to region. Similar co-existence between very different agricultural regions can be found in Germany and even more in Italy. This is not so much a problem for the functioning of the Common Market, but rather for a better balance in regional development within the Community than has been attained within the individual states, especially as the highest yields in agriculture are almost always found in areas in the neighbourhood of industry.

Finally, for the Community as a whole, differences in climate suffice to ensure a diversity of products which will not compete with each other. Comparisons of yields, however brief and difficult they may be, comparisons of the means used, comparisons of the share of the main categories of production in the income of farmers, these all bring out the vastness of the progress which the Community as a whole, and France and Italy in particular, can still accomplish. This progress is already being achieved: great efforts have been made in these two countries, and they can be seen in the expansion of the tractor park, in the extension of the use made of fertilizers, and in the progressive reduction of agricultural overpopulation, while the policy now being followed aims at obtaining a more rapid expansion of livestock production. One essential condition of this progress is to be found in the improvement of the channels of distribution,

¹⁾ Trend of production and consumption of foodstuffs: see Table 13, p. 70.

i. e. the means of transport and of processing or sale of agricultural products. Provided this condition is fulfilled, the efforts made will be all the more effective because of the fact that forms of agricultural production which yield the highest returns, namely livestock production, market gardening and fruit growing, are among those in which consumption is still low in several states of the Community and in which demand rises most rapidly with increases in overall income.

b) *Industry*

If industrial production in the countries of the Community is reduced to common prices the following approximate values are obtained for 1957¹⁾:

(in '000,000,000 units of account)

Germany	France	Italy	Belgium	Netherlands	Luxembourg	Community
28.7	19.7	12.2	5.0	4.8	0.2	70.60

It is of immediate interest to compare the above distribution of industrial production and the distribution between countries of the Community of the working population engaged in industry.

(as percentage)

	Germany (F. R.)	France	Italy	Belgium	Netherlands	Luxembourg
Share in production	41	28	17	7.1	6.8	0.3
Share of industrial employment	42	26	19	6	6.3	0.2

The correlation is almost exact between the share in production and the share in employment: the conclusion which can be drawn is that, taken as a whole, *i. e.* with allowance for differences from industry to industry or enterprise to enterprise, there is no immediately discernible gap in the degrees of mechanisation or in the levels of productivity of labour between the industries of the six countries.

If the division of industrial production between the main branches of production is examined²⁾, a striking similarity is found between the structure of German industry and that of French industry. In these broad general terms it

¹⁾ Share of industry (Table 9, p. 64) in the national product of Member States worked out in European prices (Table 1 a, p. 59).

²⁾ Structure of industrial production - 1955: see Table 14, p. 71.

can only be said that there is a larger share of basic metals, of metal products and of chemicals in Germany, and a larger share of foodstuffs, textiles and sundry industries in France. These facts show that the differences in production by main branches in France and in Germany correspond fairly closely with the difference in overall industrial production, which is about 45 % higher in Germany. Probably this similarity would cease if the main branches taken into consideration — mining and quarrying, foodstuffs, textiles, basic metals, metal products, chemicals, other industries, electricity and gas — were broken down into more homogeneous industries. It is possible to see how one item balances another: in metal products, machine construction is much more important in Germany than in France, but the difference in output of motor vehicles is less than the general difference in industrial output; France has a considerable aeroplane industry to which there is no counterpart in Germany; in textiles Germany leads in cotton and even more in rayons and staple fibres, but the woollen industry in France is larger than in Germany.

By comparison with this typical structure, which is found in Germany and in France and so is valid for nearly 70 % of the total industrial production of the Community, mining and quarrying, textiles and the basic metals industry are relatively much more important in Belgium: specialization in these industries reaches back far into history. The industrial structure of Belgium can be compared with that of Northern France, but in the case of Belgium these old-established industries work essentially for export. In Italy, textiles and chemicals are relatively ahead of other industries in the state of their development. Foodstuffs and the metal products industry are predominant in the Netherlands, while in Luxembourg the absolute preponderance of steel is remarkable.

In all countries the structure of industry tends to accord a growing share to production of investment goods and of durable consumption goods. This is the result of high investment levels as well as of demand for exports; with durables, demand is growing more than in proportion with increases in total income.

This trend has gone further in Germany than in the other countries when calculated from the relation between the total numbers employed in metallurgical and engineering industries on the one hand in the foodstuff and textile industries on the other hand. The first group is 1.5 times as large as the second in Germany, compared with 1.1 times in France and in Italy, and 0.95 times in Belgium and the Netherlands. In Luxembourg, for the reasons already given, this coefficient is at the extraordinarily high value of 10.8. The special position of Germany in the Community seems comparable with that of the United States, of Great Britain and of the USSR, where the corresponding values stand at 1.7, 1.6 and 1.4 respectively ¹).

¹) Structure of employment in the processing industries: see Table 15, p. 72.

When increases in production from 1950 to 1957 are examined it is evident that, except in Italy because of natural gas and also to some extent because of petroleum, and in Luxembourg because of the ore required for the iron and steel industry, the mining and quarrying industry is expanding considerably less than the manufacturing industry.

Index 1957/50*(1950 = 100)*

	Germany (F. R.)	France	Italy	Belgium	Nether- lands	Luxem- bourg	Com- munity
Mining and quarrying	147	135	226	107	107	174	135
Manufacturing industry	210	164	177	136	144	139	180

Source: OEEC: General Statistics, July 1958.

In the overall expansion of industrial production Germany holds the largest share, but the development occurring in Italy, as well as in France, is evidently very rapid. The use of 1950 as base year, however, accentuates the extent of difference in favour of Germany, which began much later than the other countries with the rebuilding of its economy and the repair of its ruins. In relation to 1938, the year 1950 in the Federal Republic stood at 94, in Italy at 126, France at 121, Luxembourg at 137, Belgium 128 and the Netherlands 145. A comparison of more recent years runs into the difficulty of a certain disparity in the cycle of development between France and Luxembourg on the one hand and the other countries on the other; only in France was 1953 a year of stagnation, and in Luxembourg even one of recession. In 1958, however, France was forging ahead at very high speed, while progress in all the other countries of the Community slowed down. In order of magnitude it can be said that over the last five years progress in Germany and France has been comparable, with a 50 per cent increase in the activities of the manufacturing industries, compared with 25 to 30 per cent for the Benelux countries; Italy, which attained a figure of 45 per cent, represents the average of the Community as a whole ¹⁾.

Within these average values the variations in the indices testify to changes in structure.

In the case of Germany the division of industry into three groups — mining and quarrying, the processing industries and building — would bring out, by value, similar trends. This picture, however, is the result of relatively great price rises in the first and third groups; by volume, expansion in the processing industries has been twice as great as in mining and quarrying and half as great again as in building. The greatest increases are found in aluminium, textiles made from artificial fibres, ship-building, crude oil output, motor vehicles, electrotechnics and refining. Of the above, only the motor vehicles and electrotech-

¹⁾ Indices of industrial production: see Table 16, p. 73.

nical industries are in the category of industries which, taken individually, represent more than 5 per cent of the net value of industrial production. This means that parallel with this expansion there is a gradual change in structure.

In France the highest rates of development appear in chemicals, paper and cardboard, printing and publishing, glass and metal products.

Italy differs from the other countries in the rapid development of its mining and quarrying industries, though their share is still small, and in the expansion of construction. Thanks to progress in the iron and steel industry, basic metals are advancing more rapidly than metal products. Apart from this, the general trends of the Community countries hold good here too, with some reduction in the relative share of the textile and food industries and increases in chemicals and metallurgy.

In the Netherlands there is not the same relatively slow growth in the textile industry, which is expanding at the same rate as the processing industries in general, but less rapidly than chemicals or the production and processing of metals; in the foodstuffs industry the rate of expansion is slower.

While in Belgium the rate of industrial expansion is between 2/3 and 3/4 of the average for the Community, it should be noted that the level attained after the war was much more favourable than in the other countries, which had suffered more destruction. Here too the industries which are above the average are chemicals and also the production and processing of metals.

In Luxembourg, despite the high degree of industrialisation and the consequent very high level of investments, expansion has come up against stagnation in the population and the progressive exhaustion of the mineral resources on which the growth of the iron and steel industry has been based; this industry is therefore being driven to seek an increase of productivity rather than to expect any large expansion of actual production. Luxembourg is faced with the problem of broadening its industrial basis; with this in view a large tyre factory has been set up in the North of the country.

c) *The services sector*

The services sector is particularly difficult to analyse because of its heterogeneous character. It embraces activities as widely different as transport and commerce, banks and insurance, hotels, personal services, health services, education and public administration. In the long run however, and despite the possibility that sudden developments in industry may for a time obscure the trend, the share of services taken as a whole is growing within the total volume of economic activities. In the countries of the Community this share tends to be around the 45 per cent which is found in Great Britain; it is still far from the 55 per cent reached by the services sector in the national product of the USA.

A comparison country by country between the share of services in total employment figures and in the national product is not very significant. The differences bring out mainly the variations in the relative importance of agriculture: the higher the agricultural population, the more its share in employment exceeds its share in the national product and consequently the more the share of the other sectors in the national product appears to exceed their share in the numbers employed. A more valid comparison between industry and services, excluding agriculture, shows that, in general, output per person employed is not appreciably different.

None the less it appears that in Germany and even more in Belgium the value of production per head is slightly higher in services, while in Luxembourg on the other hand it is higher in industry.

An unusual case is found in Italy, where output per head in industry is about 25 per cent higher than in services; this reflects the general situation on the labour market in this country, where the services sector has excessive manpower; the difference in output per person reflects the concealed unemployment which exists not only in agriculture but also in the services sector.

A statistical breakdown of the different elements in the services sector is difficult to produce. The data available refer to employment, and even then the classifications used are not the same in the various countries. Broadly speaking, the typical share of commerce can be put at 25 to 30 per cent of the total manpower strength in the services field, that of banking and insurance at 3.5 to 5 per cent, that of transport and communications (including the postal services) at 16 to 19 per cent and domestic service at 8 to 10 per cent. The figure of 8 per cent for hotels and bars in France is very high compared with figures of around 5 per cent in Germany and Italy. Apart from these indications, comparisons from country to country become very unreliable¹⁾.

The figure available for France can probably be taken as typical of the trend over the last 20 or 30 years; these figures, which reflect advances in productivity, particularly on the railways and in automatic telephone services, show a reduction of 10 per cent in the numbers employed in transport and communications when compared with the period between the wars; they also show a great drop in the use of domestic servants since the turn of the century, and an increase in administration, education and health services, with a gradual but continuous expansion in commerce.

Between 1950 and 1956 Germany saw an increase of nearly 25 per cent in the numbers employed in the services field, while the increase in industry was 35 per cent. Thus Germany, with Belgium, forms the major exception to the general rule of the Community, which reveals approximate equality in the numbers employed in industry and in services. This difference may continue, or on

¹⁾ Structure of the services sector: see Table 17, p. 75.

the contrary employment in services may develop more than in industry; in either case the possibility for industrial expansion will be affected, and consequently, too, the pattern of trade between Germany and the other Member States. Two lines of development can be pictured: Germany may expand its consumption of services bought abroad, in the form of tourism for example, paying for them with its industrial products, or it may develop its own services field, and in doing so limit the opportunity and the need for expanding its own industry.

3. Analysis of the rate of growth

The general picture for the period 1950 to 1956 and for the countries of the Community combined shows a growth of some 40 per cent in the national product at constant price, contrasting with a growth of 8 per cent in employment.

This overall growth has not the same momentum either in each country or in each of the periods 1950 to 1953 and 1953 to 1956.

For all countries except Germany 1952, also 1953 for France and Luxembourg, were years of comparative stagnation. 1955 on the other hand was a peak year, thanks to the influence of a heavy increase of investments. The increase of the national product on the 1953 basis appears more comparable between one country and another, especially if figures are taken up to the beginning of 1958. This is because the period of reconstruction and of heavy increases in employment in Germany was coming to an end, with the result that advances in production have depended mainly on advances in productivity; here the differences between countries are not as great as the figures of workers to be absorbed.

On the 1953 basis the gross national product at constant prices appears in 1957 to have risen by 34 per cent in Germany, by 24 per cent in France and in Italy, 20 in the Netherlands and 14 per cent in Belgium. In 1958, when the advance of industrial production in France appears likely to be of the order of 7 per cent but in Italy 4 per cent, in Germany 2 per cent, and in Belgium and the Netherlands no advance over the previous year is probable, the indices for the three major countries on the 1953 basis would appear to be even closer to each other¹).

In connection with this overall expansion it is interesting to examine the main elements in the demand which have contributed to this development.

In Belgium, where industry is closely dependent on exports, and also in Germany where the slowing down of the rhythm of development on the basis

¹) Volume of gross national product 1950-1957: see Table 18, p. 75; 1953-1957: see Table 18 a, p. 75.

of domestic demand might have become acute, the external surplus has proved to be a dynamic factor in expansion.

In all countries except France the formation of capital has expanded more rapidly than private consumption¹). The high rates of investment have been decisive for the high level of activity as well as for the expansion of productivity.

For the years 1950, 1953 and 1956 gross domestic fixed capital formation has borne the following percentage relation to the gross national product at market prices:

	Germany	France	Italy	Belgium	Netherlands	Luxembourg
1950	19	15.7	17.6	17.1	19.8	24.2
1953	19.9	15.6	19.3	15.8	20.7	24.2
1956	22.9	17.6	20.8	17.2	25.2	19.9

In most countries the share of investment is found to be growing within a national product that is itself growing.

The distribution of investment between dwellings, other construction, machines and equipment in the year 1956 can be taken as typical.

Distribution of investments

(as percentage)

Country	Construction		Machinery and equipment	Total
	Dwellings	Other		
Germany (F. R.)	25	22	53	100
Belgium	20	25	55	100
France	25	29	46	100
Italy	26	11	63	100
Luxembourg	21	38	41	100
Netherlands	20	27	53	100

Source: OEEC: General Statistics, July 1958. Netherlands: "Centraal Planbureau".

There are striking differences in investment for dwellings, due in part to the degree of shortage, in part to political decisions: in France for example the share of dwellings, after having for long been very low, has risen. With the share of investment in the national product in 1956 we may compare the share which is left when dwellings are excluded²).

¹) Changes in the composition of national expenditures: see Table 19, p. 76.

²) Structure of gross investment: see Table 20, p. 76.

Germany (F. R.)	France	Italy	Belgium	Netherlands	Luxembourg
17	13	16	14	20	16

Thanks to the impact of productive investments, which have made it possible to increase actual production or to reduce the manpower required for a constant volume of production, and also thanks to exceptional circumstances which continued to exist in Germany till about 1953, overall productivity has expanded at a rate bearing no relation to the long-term tendencies observed in the past.

In agriculture, it is difficult to attach a fixed value to any change in the length of the working week; productivity would be correctly measured by the relation between production and the number of persons employed, with due allowance for the chance variations in harvests caused by weather conditions. The progressive drop in the working population engaged in agriculture has gone hand in hand with a certain increase in production. The first of these factors is more important than the second in the great increase in agricultural productivity seen in Germany; on the average for the period 1950-1956 or 1957, the advance appears to be more rapid in Italy and Belgium; as the Netherlands had a long lead, progress there has been slower; in France it will not be possible to judge progress over the whole period before the results of normal harvests are available.

In industry due allowance must be made for changes in the working week, which have varied widely from country to country: Germany began with a high number of hours, but this gradually been reduced; in France on the other hand the flexibility of the overtime system leads to longer hours actually worked; in Italy too there has been an increase in the average number of hours worked, owing to the reduction in partial unemployment. If in these three countries, which between them account for 87 per cent of the industrial production of the Community, an examination is made of the trend of production, of numbers at work and of the length of the working week in 1953 to 1957, the results show almost complete identity in the advances made in productivity per man/hour.

Index of productivity 1957

(1953 = 100)

	Germany (F. R.)	France	Italy
Production	147	143	140
Employment	122	105	106
Average length of week	93	104	102
Productivity per man/hour	129	131	129

Sources: Economic Commission for Europe, Geneva Economic Survey of Europe, 1957.

It is not possible to draw general conclusions on the relation between the rhythm of expansion in industries and that of productivity in these industries. Those branches of activity in which demand is relatively stagnant find themselves forced to rationalize and this tends to bring down manpower strength; sectors which are expanding are quite frequently those which employ relatively little manpower, as *e.g.* electricity, petrol refining, a broad section of the chemical industry or the paper industry. The chemical industry in France, for example, reveals an exceptionally great advance in productivity, the 1957 index figure on the 1953 basis being 146. The textile industry, in which expansion, is slow, is reducing manpower, and in all countries reflects an increase in productivity which can be compared with that in the other industries, with the exception of Italy, where the general employment situation makes it impossible to apply the same policy.

Advances in productivity throughout the economy as a whole are not merely the average of the advances made in the various sectors. Concurrently with the changes in structure brought about by the uneven expansion of the main sectors of the economy and even of the various industries, there is a gradual expansion in the share of those industries in which productivity is increasing most rapidly. We may try to assess the impact of these structural changes on the rate of increase of overall productivity by making use of double weighting: first for the distribution of employment in the base year and then in the final year. The first weighting shows what the progress of general productivity would have been if there had been no change in structure, the second includes the effects of changes in structure. The difference is always significant, and is all the greater where there is a large flight from agriculture to other sectors. This is the explanation of the difference in productivity which exists between the countries of the Community and Great Britain, where structural change tending to reduce the share of agriculture in the working population has long since reached the limits of what is possible.

The conclusion to be drawn is that the greatest advances in productivity in the economy as a whole will in future have to be found in those of the Member States which still have the largest number of surplus agricultural population available for transfer to other industries¹).

C — DISPARITIES WITHIN NATIONAL ECONOMIES

The analyses made so far deal with the characteristic structures of the combined economies or of the sectors which constitute them. They would however be misleading and would ignore essential problems related to the effects

¹) Trend of productivity: see Table 21, p. 77.

or the success of the Common Market, unless they were supplemented by an endeavour to reduce the disparities found in the various branches of activity, between one enterprise and another within each branch also between the different regions of one state.

1. Disparities in the size of the economic units

Exact investigations should make a distinction between establishments, each of which is a technical unit, and enterprises which may cover several establishments and which are characterised by unity of economic management. The simplest criterion for judging the scale of an establishment is the number of persons it employs, but for an enterprise it is the figure of its business turnover.

For the establishments, grouped according to the numbers they employ, investigation should cover the way in which the total number of workers is divided and also the way in which the total number of establishments is distributed between the different groups. For enterprises grouped according to turnover, investigation should cover the way in which the total turnover is divided among the various industries and the way in which the total number of enterprises is distributed between the groups as defined above.

Such an analysis encounters considerable statistical difficulties. Not all countries make a clear distinction between establishments and enterprises; the dividing lines are not always drawn at the same number of workers or at similar turnover figures; even the definitions for industries vary: in one country the specialised suppliers of the automobile industry may be included with the industry, in another they will be grouped with general engineering. To obtain a reliable analysis on this point, as also on others whose economic importance is probably greater in the long run, it would be well to conduct a census of production on a common basis and for the same year in all six countries.

The best composite picture is the one which links the number of establishments and the number of workers when we take, for each industry, the percentage of total manpower absorbed by 50 per cent of the total number of establishments from the smallest upward and at the other end 20 per cent from the largest downward¹⁾.

The results show that in all industries the smallest firms, up to 50 per cent of the total, employ only 1 to 10 per cent of the total number of workers, except in the foodstuff industries in Germany; but in commerce and services on the other hand over 20 per cent of all persons employed work in the smallest establishments.

¹⁾ Degree of concentration - see Table 22, p. 78.

At the other end of the scale, the 20 per cent of establishments which are the largest in their own sector account for more than 70 per cent of the personnel working in industry, 60 per cent in commerce and 50 per cent in services.

The sparse data available on the distribution of manpower between establishments on the basis of size suggest that the average size is greater in France and in Germany than in Belgium, and that with increases in the total number of employed the rise in the number of workers is more than average in those establishments which employ more than 500 hands. The share of this class of establishment is higher in Germany than in France for the chemical and textile industries and higher in France for the basic metals and foodstuff industries. It seems therefore to be arguable that, if there are any differences among the economies of the Community in the total degree of concentration, this is above all due to the uneven shares held by the various industries and services; on the other hand there are no essential differences of structure in each of these branches taken individually. Inasmuch as the size of enterprises exerts an influence on the conditions of competition, this leads to an important conclusion: it is not between whole economies but between one branch and another that competition will develop.

The most concentrated sectors, *i. e.* the industries in which large undertakings account for nearly all the manpower in the sector and the small undertakings have only a negligible share, are essentially mining, iron and steel and automobile construction; concentration is on average greater in production goods industries than in consumption goods — particularly in the electro-technical branch, in the non-ferrous metal industry, in aeronautical construction and in chemicals.

On the other hand commerce and personal services contain a very large majority of establishments with no employees at all, to which must be added the manufacturing crafts in which, though there are a great many establishments at work, these are nearly always of purely local importance.

In agriculture the size of farms appears to be of little significance. They total more than 2 million in Germany and France, nearly 1 million in Belgium, 400,000 in the Netherlands and more than 4 million in Italy. A comparison of these figures with the total agricultural land in use immediately reveals that the average holding is appreciably larger in France than in the other countries, and that it is particularly small in Belgium. There appears to be no correlation with the value of production per hectare or per person employed; the farms vary according to the type of product handled, be it grain or market gardening, far too much for any conclusion to be drawn.

While the co-existence of enterprises of varying sizes is normal in all industries, while at the same time distribution according to size is very variable between one sector and another but not between one country and another, the

effects on the Common Market of the varying degrees of concentration none the less merit investigation.

Three sides of the question should be distinguished.

In the question of competition, what matters is the relation between concentration and economic efficiency. In this connection it is obvious that certain types of plant are inconceivable except in large-scale enterprises: the automobile industry proper and the iron and steel industry are highly concentrated. But where these technical requirements have been met and minimum dimensions attained, analyses in America have treated the problem from every angle and come to negative conclusions. What matters is not so much the degree of concentration as the degree of specialisation: large enterprises can attain increased efficiency by leaving the manufacture of certain parts to subcontractors who produce nothing else; the point of a large market is not so much to enable enterprises to attain even more vast dimensions, but to find a market large enough for highly specialised lines of production. This is where it is possible to find increases of productivity and to reduce costs of production. To assess the possible effects of competition within each sector of the Common Market, it is not so much the degree of concentration or the scale of the enterprises which must be looked at, but rather the variations in production costs within the enterprises of one and the same sector. In each industry there may be a larger or smaller proportion of enterprises in which costs of production are well above the average for the particular industry and the particular state. On this essential question no information is at present available and it is this point which should be the target of any individual sector studies which may be undertaken.

The second point to be considered is the structure of the market. It is important to know whether in a given sector the market is divided up between a large number of enterprises or whether the essential part is concentrated among a small number with decisive influence. On this point will depend both the risk of the formation of cartels and the actual form taken by prices and production policy.

Finally, an investigation must be made into the reasons underlying the differences of structure.

The trend toward concentration is not always left to itself, and the importance of the manufacturing handicrafts or of small commercial enterprises in France, for example, is enhanced by a system of fiscal discrimination. A further element in concentration, and one which determines the location within a given sector of the power of decision, is the share held by public enterprises, whether nationalised, under the majority control of the state or under the direct control of the public authorities.

Public enterprises play an important part in the economies of Italy and of France.

In Italy public control is the result of three very different movements. First, there is actual nationalisation, which often goes back even beyond 1914 in the state monopolies — salt and tobacco, postal and telegraph services and the railways, to which the telephone service was added in 1957; here the enterprises are subject to the administrative rules of the state and are generally financed directly from public funds. A second group of enterprises has come under state control after seeking state aid in order to carry on business: these enterprises are generally attached to the IRI (Istituto Ricostruzione Italiana), in some cases directly to the state, but they retain the status of limited companies and they are financed by credit operations and by the issue of minority shares on the market. The group includes a large part of the iron and steel industry, a part of the mechanical engineering industry, the air lines and the banking system. A third group of public enterprises was founded in order to apply certain principles of economic policy; typical of these is the ENI (Ente Nazionale Idrocarburi), founded in 1953 to exploit, with monopoly rights, the petroleum resources of the Po Valley and to share, in competition with private enterprises, in the prospecting and exploitation of the resources to be found in the rest of the country; ENI has also developed petroleum interests abroad. Basically, this group of enterprises is financially self-supporting. Although the public enterprises of the second and third groups employ less than 300,000 hands, they control some 25 per cent of the output of electricity, 15 per cent of the merchant navy, 55 per cent of steel, 20 per cent of refining capacity, 10 per cent of the engineering industry and nearly 100 per cent of the output of natural gas.

In France a distinction must also be made between public services which are run on lines similar to those used in the administration, and public companies proper, in which the form of management is similar to that in private enterprises. Public services include the Atomic Energy Commission, the “Inter-professional Office for Grain”, with a selling monopoly, the State Potash Mines, the Nitrogen Office and the “Agence France-Presse”. The public companies, except for the “Compagnie Nationale du Rhône” and the French National Railways, are primarily the result of the post-war nationalisation movement, especially in the field of energy, where nationalisation has affected coal, gas and electricity; of the remoulding of communal services such as the transport services in Paris; of partial nationalisation, affecting particularly enterprises in the automobile industry and in the banking and insurance sector, and also of majority holdings, especially in shipping and air lines. All told, the public sector accounts for 8.5 per cent of the working population in the production sector and contributes more than 12 per cent to the gross domestic product.

The general tendency seems to be that the highest levels of concentration and trends to increased concentration are connected with those sectors which are expanding, *i. e.* the electrotechnical industry, automobiles and chemicals,

while those sectors which are relatively stagnant, such as clothing and foodstuffs, are more dispersed and contain a larger proportion of small undertakings. It can be seen that there is some danger of a sort of cleavage within the economies between modern and more concentrated sectors and those activities in which accepted techniques and traditional methods of work are still maintained. This co-existence of a very modern sector, largely concentrated in few hands and in process of expansion, side by side with much more primitive activities is a striking feature of the Italian economy; it is also found in France, though here the ratio between the two types of activity is no doubt different.

2. Regional concentration and disparities

The national economies are far from forming an entirely homogeneous whole. The disparities in resources available in different regions, the pull exerted by certain centres, the cumulative effect of industrial expansion, which encourages the establishment of new units beside older undertakings because of the availability of supplies and of outlets, and also because of the quality of the manpower, all these factors lead to great unevenness in the distribution of activities and in the standard of living within one and the same national unit.

Even in Luxembourg there is contrast between the industrial south and the more hilly north, which is largely covered with woodlands. Belgium is faced with the problem of creating new activities in the Borinage, which is by tradition a coalmining area, but in which the nature of the deposit makes working more and more difficult; certain areas of Flanders suffer from a comparative slowing down in the expansion of the textile industry, and unemployment there tends to be above the average for the country.

In the Netherlands, activities are naturally concentrated in the coastal areas and in those areas which benefit from transport facilities as, for instance, along the arms of the Meuse and the Rhine. One estimate of income province per province gives the western provinces an average of 1,325 florins per head in 1950 against 1,055 florins for other areas. The greatest divergence is between Northern Holland, 1,391, and the Province of Drenthe, 950. Another sign of this inequality appears in the fact that 48 per cent of the population resident in the west of the country enjoy 54 per cent of the total income. Even more characteristic for the west is the development of services, in particular banking, insurance, transport, trade and administration, rather than the development of industry itself. To improve chances of a better distribution of population and of development the Netherlands has followed a policy of regional industrialisation, of improved communications and of training of manpower. Legislation on regions requiring development has provided a system of benefits for those who set up new industries.

When a comparison is made between countries it immediately becomes clear that regional divergences are much greater in countries of greater area. Diffe-

rences in natural resources and in possibilities of penetration can exert greater influence than in smaller national units. But another factor which explains the contrast between the three larger states and the Benelux states is the gap between the income of the agricultural population and the national averages; this gap is relatively small in the Netherlands, rather larger in Belgium and increases further as the share of agricultural population in the total working population grows greater. In practice the regional differences in the level of income are another sign of the difference in the share held by agriculture, industry and services in the activity of each region, inasmuch as it has already been seen that the most advanced and productive parts of agriculture are generally located in the areas nearest to industrial concentrations.

In Germany we find the exceptional industrial concentration of the Rhineland-Westphalia area. A second centre stretches from the Frankfurt/Wiesbaden/Mayence area to the Heidelberg/Mannheim/Karlsruhe area. Wurttemberg is a country of medium and small undertakings. In Bavaria, except for the Bayreuth/Hof/Culmbach area, industry is concentrated entirely around the large cities: Munich, Nuremberg, Augsburg and their immediate neighbourhood; similarly industry is concentrated around large cities in the north: Bremen, Hamburg, Kiel and a string of not very concentrated industries running from Osnabruck to Hanover. The rest of the country is predominantly agrarian, and in some region farming is carried on under rather difficult conditions, in the Eifel for instance, or in Schleswig. The policy of the Federal Government has been to endeavour to expand industrialisation in order to absorb the influx of manpower, but up to the present it is regions with old-established industries which have exerted the greatest pull on the surplus population.

The statistical data available make it possible to recognize the differences in income per head in the several Länder of the Federal Republic. This division into Länder reduces the divergence between agrarian areas and industrial areas, as most of the Länder contain both types of activity. However, in the scale of incomes per head, which in the various Länder vary by as much as 100 per cent, one is struck by the high incomes in Hamburg and Bremen, where the share of services predominates, where there is also a considerable industrial concentration, but where there is practically no room for agriculture. Closely behind we find the Land of North Rhine-Westphalia, which is characterised by its exceptionally large share in the total of industrial production, and Baden-Württemberg, in which the share of industry is higher than the national average. Hesse, Bavaria, Lower Saxony, the Rhineland-Palatinate and Schleswig-Holstein are below the federal average in net domestic product per head, owing even more to their declining share in industry than to the increasing share of agriculture in the whole of their activity ¹).

¹) See Part B, Report on Germany, Table 21, p. 196.

France is one of the first countries to have attained national unity, and trade between the different regions has long ceased to be hampered by political obstacles. Characteristic for the disequilibrium is the excess of concentration in the Paris area. The pressure exerted on the level of rents, the subsidy which arises from the deficit in public transport, suburban railways and urban transport, the trade union policy on salaries, which endeavours to reduce differences between regions, these drive business and industry to continue to locate themselves in this area where, with so many factors added to the traditional situation of the railway network centred on Paris, production costs are lower.

Hand in hand with this concentration there is a decline in certain areas in which the population is growing and the use made of it is insufficient. These areas are found beyond a line running through Saint-Malo/Nevers/Saint-Etienne/Briançon. To the North of this line lie all the richest agricultural areas and the greater part of the industries which have long existed in the North and are now developing in Lorraine and the Lyons area. The Alps however benefit from industries based on hydro-electric power, the valley of the Rhône draws wealth from the growing of fruit and early vegetables, while in the South-West the discovery of oil and, even more, of vast resources of natural gas have opened up new possibilities of development.

The distribution of private incomes between the regions can be indicated in a few figures: taking the national average as 100, private incomes stand at 162 for the Seine, 130 for the Rhône, 126 for the Nord, but only 64 for the Vendée, the Mayenne, the Côtes du Nord and the Ardèche, 60 for the Morbihan and a mere 30 for Corsica.

Surpluses of manpower will be found throughout the West from Normandy to the Vendée — areas which have always sent their emigrants to the Paris region — while there is a danger that there will also be a surplus of manpower in the North and a growing shortage in the East. A certain decentralisation policy has been pursued, but full allowance must be made for the problems of regional adjustments in supply and demand on the labour market, as they may become even more acute than they are at present.

The most typical and the most serious case of unevenness in regional development is that of Italy. Industrialisation is also entirely confined to the North. The South suffers not only from the lower level of income earned by agriculture, but agriculture is in addition less productive there than in the North. It is not that there is no agricultural population in the North around the industrial area, but in the North this overpopulation can be progressively absorbed. On the other hand agricultural overpopulation exists throughout the South. The unbalance can be shown in a series of collated figures.

	Area	Population	Income 1957	Gross fixed investment	Rate of natural increase
Centre, North	59	62	79	74	34
South	41	33	21	26	65
	100 %	100 %	100 %	100 %	100 %

Taking the national average as 100, income per head in 1950 stands at 127 for the North, 54.4 for the South; a slight improvement, to a level of average income per head rising in real value by 38 per cent, can be seen in 1957, when the ratio to the national average was 126.9 for the North and 55.5 for the South.

The most serious feature is the lack of proportion between growth of investment and growth of population, and also the low share of industrial investment in the total investment in the South: 27 per cent of the investments in the area and less than 1/6 of all industrial investments. The establishment of the Southern Fund means in effect the expansion of public moneys invested directly in agriculture or establishing an infrastructure on the basis of which productive industrial investments can develop; as a result, investment in agriculture in the South has risen to 41 per cent of the national total and in public works to 43 per cent. At least the rate of increase of investment is 11 per cent per annum in the South compared with 8 per cent in the Centre and North, and the increase of income, starting from a much lower level, has been at a rate slightly higher than that in the North.

Unevenness in regional development presents a crucial problem for the Common Market. But the thought which underlies the Treaty is that unless specific action is taken the gap may well widen progressively, as has happened in Germany with the Ruhr, in France with the Paris region and above all in Italy with the contrast between North and South. If certain basic conditions are assured — soil improvement, establishment of an infrastructure with ports, means of transport, supplies of energy, improvement of sanitary conditions and of technical training — then the areas which at the outset are least developed can reap the benefit of their own advantages: ample manpower and greater productivity for investments. The establishment of the European Investment Bank proves more clearly than anything else the attention that has been devoted to this problem. But in addition, the possibility of temporary stimulants to development will be all the more effective in that they are discriminatory, while an end will be made of subsidies, whether open or indirect and camouflaged, which have artificially contributed to the concentration of development in certain regions. Finally, once certain degrees of regional concentration are exceeded, collective costs increase in a way which itself leads to redistribution of economic activities, as can be seen in the industrial decentralisation in the United States, where development has reached its highest level.

One of the major tasks for the policy of the Economic Community and one of the touchstones of its success will be not only the effective integration of the economies one with another, but also the effective integration of the various regions through a more rapid development of those which have until now been at a disadvantage within the limits of national economies.

STATISTICAL ANNEX

PART A-I — PRODUCTIVE ECONOMY

TABLE 1

Comparison of the gross national products of the countries of the Community
(on the basis of relative European prices)

Country	Gross National Product (\$ '000,000,000) ¹⁾		Population ('000,000)		National Product per capita in \$	
	1955	1957	1955	1957	1955	1957
Germany (F. R.)	51.1	57.1	49.20	50.81	1.040	1.120
Belgium	10.0	10.6	8.90	9.02	1.120	1.170
France	43.1	48.0	43.28	44.30	1.000	1.080
Italy	26.3	29.0	48.18	48.60	550	600
Luxembourg ²⁾	0.4	0.4	0.31	0.32	1.290	1.270
Netherlands	10.3	10.9	10.75	11.10	960	980
Community	142.1	157.0	161.61	165.17	880	950

Sources: Gross national product: Figures based on the survey by Milton Gilbert and Associates, "Comparative National Products and Price Levels", Paris 1958, p. 86. These figures make no allowance for changes made in the calculation of gross national products since 1956.

Population: Figures of the Comité Mixte, Commission Expansion Générale.

¹⁾ The \$ represents a common unit of account and must not be confused with the US dollar.

²⁾ Own estimates.

TABLE 1a

Comparison of the gross national products of the countries of the Community
(on the basis of US prices)

Country	Gross national product (\$ '000,000,000)		Gross national product per capita in \$ ¹⁾	
	1955	1957	1955	1957
Germany (F. R.)	66.6	74.4	1.310	1.460
Saar ²⁾	1.2	1.3	1.180	1.280
Belgium	11.9	12.6	1.320	1.400
France	55.7	62.0	1.260	1.400
Italy	38.7	42.6	800	800
Luxembourg ²⁾	0.5	0.53	1.590	1.680
Netherlands	13.1	13.9	1.180	1.250
Community	187.7	207.3	1.140	1.250

Source: Milton Gilbert and Associates: "Comparative National Products and Price Levels", Paris 1958, p. 86.

¹⁾ All figures rounded to the nearest 10.

²⁾ Own estimates.

TABLE 2
General indices of industrial production
(exclusive of building)

(1938 = 100)

Year	Community	Germany (FR)	Saar	Belgium	France	Italy	Luxembourg	Netherlands
1901	42	38	—	52	54	31	41	—
1913	71	66	—	77	89	57	96	—
1924	68	51	—	82	96	70	98	—
1929	92	76	—	107	121	88	150	82
1933	72	52	—	82	101	73	102	74
1938	100	100	100	100	100	100	100	100
1948	83	52	68	121	108	109	137	128
1950	111	94	92	128	121	126	137	145
1952	133	120	118	143	138	150	168	154
1955	172	170	136	168	160	196	178	202

Source: Industrial Statistics 1950-55, Addendum p. 3 (OEEC, 1956).

TABLE 3
Crude birth rate and death rate in Community countries
Rate of natural increase resulting from excess of births over deaths

	1948	1950	1953	1956
<i>Germany (F. R.), excluding Saar ¹⁾</i>				
Births per 1000	16.8	16.4	15.8	16.4
Deaths per 1000	10.4	10.5	11.2	11.2
Natural increase per 1000	6.4	5.9	4.6	5.3
<i>Saar ²⁾</i>				
Births per 1000	18.7	19.5	18.9	18.4
Deaths per 1000	10.2	9.7	10.5	10.3
Natural increase per 1000	8.5	9.8	8.4	8.1
<i>Belgium</i>				
Births per 1000	17.6	16.9	16.6	16.8
Deaths per 1000	12.6	12.5	12.1	12.1
Natural increase per 1000	5.0	4.4	4.5	4.7
<i>France</i>				
Births per 1000	21.2	20.7	18.9	18.5
Deaths per 1000	12.5	12.8	13.1	12.5
Natural increase per 1000	8.7	7.9	5.8	6.0
<i>Italy</i>				
Births per 1000	21.9	19.6	17.7	18.1
Deaths per 1000	10.7	9.8	10.0	10.3
Natural increase per 1000	11.2	9.8	7.7	7.8
<i>Luxembourg</i>				
Births per 1000	14.7	14.8	16.0	15.5
Deaths per 1000	11.8	11.6	12.5	12.4
Natural increase per 1000	2.9	3.2	3.5	3.1
<i>Netherlands</i>				
Births per 1000	25.3	22.7	21.8	21.2
Deaths per 1000	7.4	7.5	7.7	7.8
Natural increase per 1000	17.9	15.2	14.1	13.4

Source: U.N. Demographic Yearbook, 1957.

¹⁾ Source: Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1958.²⁾ Source: Saarländische Bevölkerung- und Wirtschaftszahlen, 8. Jg., 1956 vol. 1/4, p. 9.

TABLE 4
Population changes in Community countries

(in thousands)

Country	Population end 1950	Excess of births 1951-57	Balance of migration	Real increase 1951-57	Population end 1957
Germany (F. R.)	47 233	+ 1 782	+ 1 798	+ 3 580	50 813
Saar	949	(+ 59)	(+ 11)	+ 70	1 019
Belgium	8 654	+ 289	+ 84	+ 373	9 027
France	41 910	+ 1 923	+ 456 ¹⁾	+ 2 379	44 289
Italy	46 768	+ 2 750	- 924 ¹⁾	+ 1 826	48 594 ¹⁾
Luxembourg	299	+ 8	+ 8 ¹⁾	+ 16	315
Netherlands	10 200	+ 1 045	- 149	+ 896	11 096
Community	156 013	+ 7 856	+ 1 284	+ 9 140	165 153

Source: Statistics of the various states.

¹⁾ Deduced from other figures.

TABLE 5
Population of working age in Community countries

(in millions)

Country	Population of working age end 1953	Natural increase 1953-57	Net immigration 1953-57	Population of working age end 1957
Germany (F. R.)	33.3	+ 1.0	+ 0.74	35.0
Saar	0.7	0	0	0.7
Belgium	5.9	- 0.06	+ 0.05	5.9
France	27.6	- 0.04	+ 0.30	27.9
Italy	31.7	+ 1.4	- 0.77	32.3
Luxembourg	0.2	0	0	0.2
Netherlands	6.5	+ 0.4	- 0.04	6.9
Community	105.9	+ 2.7	+ 0.30	108.9

Source: Economic Survey of Europe 1957, Geneva 1958, ch. II, p. 14 (figure corrected for the Netherlands).

TABLE 6
Available working population (15-65 years)
1956

(as percentage of population of working age)

Country	Population in employment	Unemployment	Total working population
Germany (+ Saar)	70.0	2.2	72.2
Belgium	59.0	1.7	60.7
France	70.2	0.6	70.8
Italy	57.3	5.3	62.6
Luxembourg	66.3	—	66.3
Netherlands	63.3	0.6	63.9

Source: Comité Mixte.

TABLE 7

Changes in the working population employed in Community countries
Excluding unemployed and national service men

(in thousands)

Country	Agriculture ⁴⁾		Industry		Services		Total ⁴⁾	
	1950	1956	1950	1956	1950	1956	1950	1956
Germany (F.R.)	5 100	4 296	8 445	11 505	6 600	8 239	20 145	24 040
Saar	(60) ¹⁾	(60)	225 ¹⁾	(244)	119 ¹⁾	(120)	(404) ¹⁾	(424)
Belgium	370	350	1 600	1 670	1 300	1 390	3 270	3 410
France	5 400 ²⁾	5 040	6 740	7 168	6 530	6 747	18 670 ²⁾	18 955
Italy	7 670	7 300	4 525	5 280	4 935	5 770	17 130	18 350
Luxembourg	35 ³⁾	33	53 ³⁾	63	46 ³⁾	49	134 ³⁾	145
Netherlands	525	509	1 572	1 759	1 611	1 833	3 708	4 101
Community	19 160 ²⁾	17 588	23 160	27 689	21 141	24 148	63 461 ²⁾	69 425

Source: National Statistics of the various countries.

¹⁾ 1951.²⁾ Estimated figure.³⁾ 1947.

⁴⁾ Figures given in brackets are estimates made by the authors because of differences in the methods used in making the censuses for agriculture, and consequently the total figures are not strictly comparable between countries.

TABLE 7a

Changes in the distribution of the working population at work in Community countries

(as percentage)

Country	Agriculture		Industry		Services		Total	
	1950	1956	1950	1956	1950	1956	1950	1956
Germany (F. R.)	25.3	17.9	41.9	47.8	32.8	34.3	100.0	100.0
Saar	14.9	14.2	55.7	57.5	29.4	28.3	100.0	100.0
Belgium	11.3	10.3	48.9	49.0	39.8	40.7	100.0	100.0
France	28.9	26.6	36.1	37.8	35.0	35.6	100.0	100.0
Italy	44.8	39.8	26.4	28.8	28.8	31.4	100.0	100.0
Luxembourg	26.1	22.8	39.6	43.4	34.3	33.8	100.0	100.0
Netherlands	14.2	12.4	42.4	42.9	43.4	44.7	100.0	100.0
Community	30.2	25.3	36.5	39.9	33.3	34.8	100.0	100.0

Source: as table 7.

TABLE 7 b

Changes in the share contributed by each Community country to the working population in employment

(as percentage)

Country	Agriculture		Industry		Services		Total	
	1950	1956	1950	1956	1950	1956	1950	1956
Germany (F. R.)	26.6	24.4	36.5	41.6	31.2	34.1	31.8	34.6
Saar	0.3	0.3	1.0	0.9	0.6	0.5	0.6	0.6
Belgium	1.9	2.0	6.9	6.0	6.2	5.8	5.2	4.9
France	28.2	28.7	29.1	25.9	30.9	27.9	29.4	27.3
Italy	40.0	41.5	19.5	19.1	23.3	23.9	27.0	26.5
Luxembourg	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Netherlands	2.8	2.9	6.8	6.3	7.6	7.6	5.8	5.9
Community	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: as Table 7.

TABLE 7 c

Distribution of the working population by industry

International standard industrial classification of all economic activities
(figures from latest census)

(in thousands)

Branch of activity	Ger- many (F. R.)	Saar	Belgium	France	Italy	Luxem- bourg	Nether- lands	United States
	1950	1951	1947	1954	1951	1947	1947	1950
0. Agriculture, etc.	5 115	61.3	423	5 213	8 261	35.0	747	7 331
incl. males	2 316	19.2	362	3 388	6 228	20.6	578	6 720
1. Mining and quarrying	595	71.0	191	383	179	3.8	51	969
2, 3. Manufacturing	6 840	119.4	1311	4 966	4 521	39.5	925	16 113
4. Construction	1 743	32.4	196.2	1 358	1 472	9.2	272	3 744
5. Electricity, gas	150	4.4	—	135	109	0.8	39	798
6. Commerce, etc.	2 198	42.0	468	2 640	1 535	11.7	545	11 082
incl. males	1 273	21.2	298	1 467	1 174	7.0	373	7 512
7. Transport, communication	1 223	23.1	244	1 005	806	8.5	241	4 184
8. Services	3 728	55.1	551	2 885	2 693	25.5	788	14 222
Armed Forces	—	—	—	—	—	—	158	—
9. Not classifiable above	484	1.8	98	240	1 094	0.9	1) 100	1 540 + 56
Total	22 074	410.5	3481	18 824	20 672	135.1	3 867	60 037
excl. women in agriculture and commerce	18 352	347.6	3250	15 826	18 278	116.0	3 526	55 856

Source: UN Statistical Yearbook 1957, Table 6.

1) Incl. unemployed.

TABLE 8
Percentage of women in the working population

Country	Year	Agriculture ¹⁾	Manufacturing industry	Commerce	Services	Total working population
Germany (F. R.)	1950	54.7	27.8	42.1	50.3	36.0
Saar	1951	68.7	17.4	49.5	52.5	28.5
Belgium	1947	14.4	23.9	36.3	43.6	23.6
France	1954	35.0	32.0	44.4	55.1	34.6
Italy	1951	24.6	29.9	23.5	40.4	25.5
Luxembourg	1947	41.1	11.9	40.2	54.5	28.6
Netherlands	1947	22.6	16.8	31.6	51.3	24.4

Source: "Annuaire Statistique des Nations Unies 1957", Table 6.

¹⁾ The considerable differences between countries in agriculture are explained not only by the real differences in female employment but also by differences in the methods and definitions used in censuses.

TABLE 9
Origin of the gross national product¹⁾

	GERMANY (F.R.)		BELGIUM	
	('000,000 DM) (current prices) 1956	as percentage 1956	('000,000,000Bfr.) (1954 prices) 1956	as percentage 1956
Agriculture	14 053	8.4	34.7	7.2
Industry (+ construction)	84 136	50.3	228.5	47.3
Other	69 043	41.3	219.8	45.5
Gross domestic product at factor cost	167 232	100.0	483.0	100.0
	FRANCE		ITALY	
	('000,000,000Ffr.) (current prices) 1952	as percentage 1952	('000,000,000Lit.) (current prices) 1956	as percentage 1956
Agriculture ¹⁾	1 900	16.0	2 736	21.2
Industry ¹⁾ (+ construction)	5 100	42.0	5 443	42.2
Other ¹⁾	5 100	42.0	4 719	36.6
Gross domestic product at factor cost	12 391	100.0	12 898	100.0
	NETHERLANDS		LUXEMBOURG	
	('000,000 Hfl.) (current prices) 1956	as percentage 1956	('000,000 Bfr.) (current prices) 1956	as percentage 1956
Agriculture	3 020	10.9	1 735	9.0
Industry (+ construction)	12 120	43.6	10 602	55.0
Other	12 630	45.5	6 951	36.0
Gross domestic product at factor cost	27 770	100.0	19 288	100.0

Source: OEEC: General Statistics, July 1958.

For France: OEEC: General Statistics, January 1958.

¹⁾ Approximate figures.

TABLE 10

Use of the gross national product

(at current prices)

	GERMANY (F.R.)			BELGIUM		
	('000,000 DM)			('000,000,000 Bfr.)		
	1950	1953	1956	1950	1953	1956
Private consumption	61,845	86,067	114,460	267.3	298.2	336.0
Public consumption	14,350	21,380	25,470	35.1	55.5	56.6
Gross domestic fixed capital formation	18,455	28,665	44,300	60.4	67.4	85.6
Changes in stocks	3,721	2,129	2,590	0.4	0.3	3.3
External balance	- 1,171	+ 5,509	6,580	- 9.9	+ 4.6	+ 15.0
GNP at market prices	97,200	143,750	193,400	353.3	426.0	496.5

	FRANCE			ITALY		
	('000,000,000 Ffr.)			('000,000,000 Lit.)		
	1950	1953	1956	1950	1953	1956
Private consumption	(6,460)	10,175	12,685	6,231	8,393	9,925
Public consumption	(1,265)	2,309	2,710	850	1,286	1,733
Gross domestic fixed capital formation	(1,505)	2,316	3,256	1,527	2,254	3,046
Changes in stocks	(313)	89	208	123	30	105
External balance	(+ 29)	- 13	- 346	- 61	- 271	- 175
GNP at market prices	(9,572)	14,876	18,513	8,670	11,692	14,634

	NETHERLANDS			LUXEMBOURG		
	('000,000 Hfl.)			('000,000 Bfr.)		
	1950	1953	1956	1950	1953	1956
Private consumption	12,440	14,110	18,760	7,640	9,720	11,644
Public consumption	2,640	3,490	4,660	1,650	2,342	2,297
Gross domestic fixed capital formation	3,870	5,030	7,880	3,020	4,009	4,030
Changes in stocks	1,680	200	590	300	280	350
External balance	- 1,070	+ 1,430	- 650	- 150	+ 212	+ 1,975
GNP at market prices	19,560	24,260	31,240	12,460	16,563	20,296

Sources: OEEC: General Statistics, July 1958, pp. 94-118.

For Luxembourg: idem. May 1958, p. 99.

TABLE 10 a

Use of the gross national product in national currencies

(at 1954 prices)

	GERMANY (F. R.)			BELGIUM		
	('000,000 DM)			('000,000,000 Bfr.)		
	1950	1953	1956	1950	1953	1956
Private consumption	67,030	86,170	109,890	290.8	297.9	324.4
Public consumption	18,050	21,750	23,080	42.7	57.6	53.5
Gross domestic fixed capital formation	22,200	28,400	41,200	68.8	67.4	82.9
Changes in stocks	4,200	2,100	2,460	0.4	0.3	3.2
External balance	324	5,381	6,600	- 15.2	4.0	6.6
GNP at market prices	111,800	143,800	183,050	387.5	427.2	470.6

	FRANCE			ITALY		
	('000,000,000 Ffr.)			('000,000,000 Lit.)		
	1950	1953	1956	1950	1953	1956
Private consumption	(8,790)	(10,329)	(12,022)	7.243	8.530	9.432
Public consumption	(1,900)	(2,360)	(2,560)	1.985	1.291	1.520
Gross domestic fixed capital formation	(2,220)	(2,310)	(3,066)	1.729	2.265	2.927
Changes in stocks	(400)	(90)	(198)	133	30	103
External balance	(90)	(- 90)	(- 350)	- 133	- 234	- 116
GNP at market prices	(13,400)	(15,000)	(17,500)	9,957	11,876	13,866

	NETHERLANDS			LUXEMBOURG		
	('000,000 Hfl.) ¹⁾			('000,000 Bfr.)		
	1950	1953	1956	1950	1953	1956
Private consumption	14,300	14,600	18,300	8,490	9,818	11,586
Public consumption	3,100	3,650	4,050	1,840	2,366	2,286
Gross domestic fixed capital formation	4,650	5,000	7,150	3,490	3,948	3,871
Changes in stocks	1,800	200	550	320	277	565
External balance	- 950	1,850	- 500	2,780	- 186	120
GNP at market prices	22,900	25,300	29,550	16,920	16,223	18,428

Source: OEEC: General Statistics, July 1958.

¹⁾ Figures rounded off.

Note: Differences in totals are due to rounding off.

TABLE 10 b

Use of the gross national product

1956

(as percentage)

	Germany (F. R.)	Belgium	France	Italy	Nether- lands	Luxem- bourg
Private consumption	59.2	67.7	68.5	67.8	60.1	57.4
Public consumption	13.2	11.4	14.6	11.8	14.9	11.3
Gross domestic fixed ca- pital formation	22.9	17.2	17.6	20.8	25.2	19.9
Changes in stocks	1.3	0.7	1.1	0.7	1.9	1.7
External balance	+ 3.4	+ 3.0	- 1.9	- 1.1	- 2.1	+ 9.7
GNP at market prices	100.0	100.0	100.0	100.0	100.0	100.0

Source: as Table 10.

TABLE 11
Structure of private consumption
 (at current prices)

GERMANY : no information.

<i>BELGIUM</i>	('000,000,000 Bfr.)			
	1950	1953	1954	1956
Food	82.1	93.7	92.0	104.8
Clothing	32.5	28.9	27.4	31.3
Rent	30.0	37.1	42.1	44.5
Durables	122.7	24.9	26.5	28.1
Other		113.6	117.7	127.3
Total	267.3	298.2	305.7	336.0

<i>FRANCE</i>	('000,000,000 Ffr.)			
	1952	1954	1956	1957
Food	3,436	3,720	4,255	4,491
Clothing	1,435	1,465	1,737	1,944
Rent	240	337	439	489
Durables	711	819	1,113	1,293
Other	1,775	1,954	2,285	2,546
Services	2,133	2,399	2,856	3,155
Total	9,730	10,694	12,685	13,918

<i>ITALY</i>	('000,000,000 Lit.)				
	1950	1953	1954	1956	1957
Food	3,077	3,890	4,084	4,612	4,788
Clothing	794	1,061	1,006	1,068	1,131
Rent	95	189	207	276	323
Durables	199	290	295	320	338
Other	2,066	2,963	3,121	3,649	3,869
Total	6,231	8,393	8,713	9,925	10,449

<i>LUXEMBOURG</i>	('000,000 Lfr.)			
	1950	1953	1954	1956
Food	2,550	3,338	3,450	4,107
Clothing	1,130	1,462	1,490	1,566
Rent	550	919	979	1,058
Durables	640	888	896	1,147
Other	2,770	3,113	3,260	3,766
Total	7,640	9,720	10,078	11,644

<i>NETHERLANDS</i>	('000,000 Hfl.)				
	1950	1953	1954	1956	1957
Food	4,520	5,420	5,860	6,860	7,150
Clothing	2,440	2,270	2,530	3,190	3,110
Rent	740	900	1,110	1,190	1,340
Durables	1,100	1,090	1,480	1,810	1,880
Other	3,640	4,430	4,780	5,710	6,130
Total	12,440	14,110	15,760	18,760	19,610

Source : OEEC : General Statistics, July 1958.

For France, see also Report on France, Table 11, p. 274.

TABLE 11 a
Structure of private consumption
1956

	Germany (¹)	Belgium	France	Italy	Luxembourg	Netherlands
Food	32.3	31.2	33.5	46.5	35.3	36.6
Clothing	14.4	9.3	13.6	10.7	13.4	17.0
Rent	7.5	13.2	3.5	2.8	9.1	6.3
Durables	45.8					
Other Services		37.9	18.0 22.5	36.8	32.3	30.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: OEEC: General Statistics, January and May 1958.

Germany: OEEC: Statistics of National Product and Expenditure, 1938 and 1947 to 1955 - Paris 1957.

(¹) For 1955. Figures on the new basis of calculation of gross national product are not yet available.

TABLE 12
Agricultural production in the Community

	Germany (F.R.)	Belgium Luxem- bourg	France	Italy	Nether- lands	Com- munity
Share of the various coun- tries in the gross agri- cultural production (in %)	I — Gross agricultural production ¹⁾ 1953/56					
	25.3	5.7	37.1	24.0	7.9	100
Cereals	II — Composition of agricultural production (as percentage of gross agricultural production)					
	calendar year 1953/farming year 1953/54					
		²⁾ ³⁾				
Cereals	10	7 10	12	26	4	15
Potatoes	6	5 5	3	2	7	4
Sugarbeet	4	4 —	3	1	3	3
Wine	2	— 6	9	4	—	6
Fruit	5	5 1	3	10	4	6
Vegetables	2	9 —	8	7	6	6
<i>Total vegetable produce</i>	30	35 27	42	66	32	45
Cattle + sheep	14	15 15	17	8	14	13
Pigs	26	13 24	12	4	17	14
Poultry	1	1 1	7	2	1	3
Eggs	6	11 4	5	6	11	6
Milk and dairy products	22	24 28	17	13	25	18
<i>Total animal products</i>	70	65 73	58	34	68	55
Total all products	100	100 100	100	100	100	100

Source: Output and Expenses in some European Countries. F. A. O. - OEEC July 1955.

¹⁾ Gross agricultural production = total production less deliveries between farmers.

²⁾ Belgium.

³⁾ Luxembourg.

TABLE 13
Changes in production and consumption of foodstuffs

Years	Germany (F. R.)	Belgium Luxembourg	France	Italy	Nether- lands	Com- munity	OEEC
I — Indices of net agricultural production ¹⁾ 1934/38 = 100							
1947-1948	66	94	81	89	86	80	87
1948-1949	72	106	96	96	99	90	97
1949-1950	90	119	101	105	123	101	107
1950-1951	103	130	111	109	123	110	114
1951-1952	110	129	103	116	131	111	117
1952-1953	113	139	111	118	134	116	122
1953-1954	119	142	122	132	132	125	131
1954-1955	120	154	128	121	138	126	130
1955-1956	117	163	127	134	140	128	131
1956-1957	122	194	122	131	135	126	132
II — Nutritive value of foodstuffs consumed							
a) Calories per head per day							
1934-38	3 040	2 820	2 870	2 520	2 840	2 804	2 860
1953-54—55-56	2 980	2 980	2 830	2 540	2 930	2 801	2 870
1956-57	3 010	2 980	2 750	2 570	2 930	2 806	2 900
b) Protein in gr. per head per day							
1934-38	85	83	97	82	81	87	85
1953-54—55-56	79	88	99	74	81	83	84
1956-57	79	87	98	74	79	84	84
c) Fat in gr. per head per day							
1934-38	111	96	90	60	102	88	95
1953-54—55-56	110	117	92	64	119	94	99
1956-57	122	117	94	68	121	98	102

Source I: OEEC: Agricultural and Food Statistics - 1956 - Table 9.
OEEC: General Statistics - 1958.

Source II: OEEC: Agricultural and Food Statistics - 1956 - Table 36.
OEEC: General Statistics - November 1957.

¹⁾ Gross agricultural production = total production less deliveries between farmers.

Net agricultural production = gross agricultural production less fodder and cattle imported for slaughter.

TABLE 14

Structure of industrial production

1955

(as percentage)

	Germany	Saar ¹⁾	Belgium	France (1956)	Italy	Luxembourg	Netherlands	Community
Extractive industries	6.0	24.6	16.2	6.9	3.2	11.0	4.8	6.8
Manufacturing industries	89.5	67.2	81.3	89.2	90.0	85.6	90.2	88.5
Food, beverages and tobacco	10.3	4.3	10.6	15.1	10.8	4.2	18.1	9.9
Textiles	6.2	1.6	9.7	7.5	10.3	0.9	9.0	7.8
Basic metal	8.0	25.9	13.0	5.5	10.3	67.6	4.5	8.9
Metal products	32.2	21.7	27.6	27.0	18.0	5.1	37.0	29.6
Chemicals	13.0	3.6	12.2	10.3	26.1	3.4	10.8	14.6
Other	19.7	10.1	8.2	23.8	14.4	4.2	10.8	17.7
Gas and electricity	4.5	8.2	2.5	3.9	6.8	3.4	5.0	4.7
Total Industrial Production (excluding building)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Calculations based on figures of OEEC Definitions and Methods I. Indices of Industrial Production, 3rd ed., Paris 1957, Corr. A (Feb. 1958), p. 2, and on the study by Paretti and Bloch: "La production industrielle en Europe occidentale et aux Etats-Unis de 1901 à 1955".

For France, information supplied by the Office for Economic and Financial Research in the Ministry of Finance.

¹⁾ Calculated on the basis of the share of the different industries in the indices of production.

TABLE 15

Structure of employment in the processing industries

Country	Year	Manpower employed, as percentage of total manpower in processing industries			Relation between manpower employed in metal and engineering industries and food and textile industries
		Food and textiles	Metal and engineering	Other processing industries	
Germany (F. R.)	1938	31.0	44.7	24.3	1.44
	1949	31.8	41.8	26.4	1.31
	1954	30.5	45.3	24.2	1.49
Belgium	1947	39.0	32.8	28.2	0.84
	1954	37.1	35.5	27.4	0.96
France	1906	47.9	15.0	37.1	0.31
	1921	38.8	24.0	37.2	0.62
	1936	35.8	25.9	38.3	0.72
	1946	30.9	27.7	41.4	0.90
	1954	33.9	37.1	29.0	1.09
Italy	1947	39.9	38.3	21.8	0.96
	1954	36.1	39.3	24.6	1.09
Luxembourg	1947	7.6	80.5	11.9	10.6
	1954	7.6	82.0	10.4	10.8
Netherlands	1948	39.2	33.3	27.5	0.85
	1953	37.7	35.8	26.5	0.95
for purposes of comparison :					
United States	1880	39.6	21.7	38.7	0.55
	1900	32.6	27.1	40.3	0.83
	1919	27.6	32.3	40.1	1.17
	1939	34.0	30.7	35.3	0.90
	1947	27.0	38.8	34.2	1.44
	1954	24.2	41.4	34.4	1.71
Great Britain	1911	50.3	30.2	19.5	0.60
	1921	41.7	38.2	20.1	0.92
	1931	44.5	35.2	20.3	0.79
	1951	30.7	49.4	19.9	1.61
USSR	1933	35.5	35.3	29.2	0.99
	1940	35.9	37.2	26.9	1.04
	1950	29.4	41.4	29.1	1.41
	1955	29.9	41.9	28.2	1.40

Source: "The Working Population of the World": Internat. Lab. Review, vol. LXXIII, no. 5, May 1956; for Luxembourg: "Annuaire Statistique 1955"; for USSR see the Statistical Yearbook, Moscow 1957, p. 24. The metal and engineering industries include iron and manganese mines.

TABLE 16

Indices of industrial production in the different countries of the Community

(1950 = 100)

	1951	1952	1953	1954	1955	1956	1957
<i>GERMANY (F. R.)</i>							
Total industrial production	118	126	139	156	179	193	204
Extractive industries	112	120	123	128	136	142	147
Manufacturing industries, including :	120	127	141	158	183	199	210
Food, beverages, tobacco	113	123	143	151	166	179	195
Textiles	113	109	130	139	151	160	166
Basic metals	119	133	127	147	178	190	195
Metal products	131	146	154	182	223	243	254
Chemicals	120	121	142	163	184	201	224
<i>BELGIUM</i>							
Total industrial production	114	109	108	114	125	132	132
Extractive industries	109	110	109	105	109	109	107
Manufacturing industries, including :	115	107	106	114	128	136	136
Food etc.	104	108	110	113	116	119	122
Textiles	98	84	93	97	101	109	112
Basic metals	130	126	115	123	146	157	151
Metal products	118	114	109	116	137	147	147
Chemicals	130	119	120	141	143	155	154
<i>FRANCE</i>							
Total industrial production	111	110	112	122	131	145	157
Extractive industries	108	117	112	116	112	127	135
Manufacturing industries, including	112	109	111	121	131	144	164
Food etc.	100	92	101	101	106	107	—
Textiles	102	94	98	104	100	108	120
Basic metals	118	123	110	125	148	154	168
Metal products	116	122	122	135	150	177	191
Chemicals	122	114	123	141	162	177	196
<i>ITALY</i>							
Total industrial production	114	117	128	140	153	164	177
Extractive industries	109	128	145	159	178	201	228
Manufacturing industries, including	114	115	128	140	153	164	177
Food etc.	103	107	110	118	124	132	140
Textiles	107	99	104	107	99	104	115
Basic metals	128	142	140	168	208	228	256
Metal products	107	115	128	132	149	163	177
Chemicals	130	127	152	186	205	226	238

(see over)

TABLE 16 (continued)

Indices of industrial production in the different countries of the Community

(1950 = 100)

	1951	1952	1953	1954	1955	1956	1957
<i>LUXEMBOURG</i>							
Total industrial production	122	122	112	116	130	139	142
Extractive industries	134	163	161	134	160	168	174
Manufacturing industries, including	123	119	108	113	127	137	139
Food	113	110	111	113	126	138	159
Basic metals	126	124	108	113	128	139	140
Chemicals	132	128	123	133	160	179	177
<i>NETHERLANDS</i>							
Total industrial production	103	103	114	125	134	141	143
Extractive industries	102	102	102	102	103	105	107
Manufacturing industries, including	103	103	114	126	135	142	144
Food etc.	101	104	110	113	119	124	127
Textiles	106	105	119	127	130	144	133
Basic metals	114	111	137	160	182	179	185
Metal products	105	107	122	146	163	173	167
Chemicals	106	100	108	118	126	132	142
<i>COMMUNITY</i>							
Total industrial production	115	118	125	138	153	165	176
Extractive industries	109	115	116	119	126	130	135
Manufacturing industries, including	115	116	125	138	154	168	180
Food etc.	107	111	123	130	138	147	158
Textiles	107	100	111	118	119	127	136
Basic metals	122	130	122	139	167	178	188
Metal products	120	129	133	150	176	195	205
Chemicals	121	118	135	157	176	192	209

Source: OEEC: General Statistics, May and July 1958.

TABLE 17
Structure of services sector (on the basis of employment)

(by %)

	Germany (F. R.)	France	Netherlands	Italy	Luxembourg
	1956	1954	1956	1951	1956
1. Commerce	27.5	30.4	29.3	27.3	25.4
2. Banking, insurance	4.6	5.2	3.9	3.5	
3. Transport and commu- nications	17.4	16.0	18.8	15.6	19.4
4. Hotels and bars	4.6	8.5		5.5	
5. Domestic services	9.9	8.2	9.3	¹⁾	55.2
6. Administration	12.9	9.1	18.0 ²⁾	16.7	
7. Education	4.3 ²⁾	6.7	5.6		
8. Health	18.8	6.5	15.1	31.4	
9. Other		9.4			
	100.0	100.0	100.0	100.0	100.0

Sources : Germany : Statistisches Jahrbuch 1957. France : French Report. Netherlands : Netherlands Report. Italy : Annuario Statistico Italiano 1957. Luxembourg : Luxembourg Report.

¹⁾ Included under "Other".

²⁾ Includes religions sects.

³⁾ Includes armed forces.

TABLE 18
Gross national product at 1954 prices

(1950 = 100)

Country	1951	1952	1953	1954	1955	1956	1957
Germany (excluding Saar)	112	119	129	138	154	164	172
Belgium	105	106	110	114	118	121	125 ¹⁾
France	104	107	108	113	120	126	134
Italy	108	111	119	125	134	139	147
Luxembourg	95	94	96	100	105	109	111 ¹⁾
Netherlands	99	102	110	116	125	129	133
Community	107	111	117	123	133	140	148

Source : O.E.E.C., General Statistics, January and May 1958.

¹⁾ Estimate.

TABLE 18 a
Gross national product at 1954 prices

(1953 = 100)

Country	1954	1955	1956	1957
Germany (F. R.) (excluding Saar)	107	120	127	134
Belgium	103	107	110	(114)
France	105	111	117	124
Italy	105	112	116	124
Luxembourg	105	110	114	(116)
Netherlands	105	113	117	(120)
Community	106	114	120	126

Source : See Table 18.

TABLE 19

Changes in the composition of national expenditures
1950 - 1956

(by volume, 1950 = 100)

Country	Private Consumption		Public Consumption		Gross fixed capital formation		Exports of goods and services		Imports of goods and services		Total GNP	
	1953	1956	1953	1956	1953	1956	1953	1956	1953	1956	1953	1956
Germany (F. R.)	129	164	120	128	128	185	187	310	151	268	129	164
Belgium	102	112	135	125	98	120	125	175	105	147	110	121
France	(113)	(137)	(124)	(129)	(103)	(133)	(120)	(142)	(134)	(170)	(109)	128
Italy	118	130	131	154	131	169	136	189	141	177	119	139
Luxembourg	116	136	129	124	113	111	110	143	148	188	96	109
Netherlands	102	128	118	131	108	154	142	184	108	171	110	129

Source: OEEC General Statistics July 1958; France: General Statistics January 1958.

TABLE 20

Structure of gross investments

(at current prices)

Country	Year	Construction :		Machinery and Equipment	Gross domestic fixed capital
		Dwellings	Other		
Belgium (^{'000,000,000 Bfr.})	1950	15.4	18.9	26.1	60.4
	1956	16.9	21.9	46.8	85.6
France (^{'000,000,000 Ffr.})	1950	240	545	720	1 505
	1956	1 739		1 717	3 256
Germany (F. R.) (^{'000,000 DM})	1950	9 045		9 410	18 455
	1956	20 900		23 400	44 300
Italy (^{'000,000,000 Lit.})	1950	230	175	1 122	1 527
	1956	827	333	1 886	3 046
Luxembourg (^{'000,000 Lfr.})	1950	1 350		1 670	3 020
	1956	850	1 530	1 650	4 030
Netherlands (^{'000,000 Hfl.})	1950	670	980	2 220	3 870
	1956	1 560	2 180	4 170	7 910

Source: OEEC: General Statistics January-July 1958, amended for the Netherlands.

TABLE 21

Trend of productivity
(overall and by production sectors)

Country and Years	Agriculture		Industry		Services		Overall adjusted for changes in the structure of employment		Overall assuming no change in structure of employment when compared with base year	
	Index	ann. rate %	Index	ann. rate %	Index	ann. rate %	Index	ann. rate %	Index	ann. rate %
Germany (F.R.)										
1950-1956	143.7	6.2	135.3 ¹⁾	5.2	119.4	3.0	137.0 ²⁾	5.4	129.4	4.4
1953-1956	102.9	1.0	114.0 ³⁾	4.5	111.2	3.6	114.7 ⁴⁾	4.7	112.1	3.9
Belgium										
1950-1956							117.8	2.8	117.2	2.7
1953-1956	108.2	2.7	114.1	4.5	108.1	2.6	110.3	3.3	109.9	2.4
France										
1950-1956							124.7 ⁵⁾	3.7	122.3	3.4
1954-1956	98.1	-1.0	114.1 ⁶⁾	6.8	110.9 ⁷⁾	5.3	111.6 ⁸⁾	5.6	110.6	5.2
Italy										
1950-1957	129.8	3.8	157.5 ⁹⁾	6.7	109.4	1.3	137.9	4.7	131.6	4.0
Luxembourg										
1950-1956	110.1	1.6	126.8	4.1	116.9	2.7	121.6	3.3	119.5	3.0
Netherlands										
1950-1956							116.2	2.5	115.5	2.4
1953-1956	103.9	1.3	110.0 ¹⁰⁾	3.2	108.1	2.6	108.7	2.8	108.4	2.7

Sources :

Germany: 1950-1956, *Mitteilungen des Rheinisch-Westfälischen Instituts für Wirtschaftsforschung*, Essen, 9. Jahrgang, No. 3/4, March/April 1958.

Belgium: 1950-1956, OEEC General Statistics, January 1958. Figures from the Report of Commission Expansion Générale du Comité Mixte.

France: 1950-1956, Figures from the Report to the Commission of the EEC. Figures from the Report of Commission Expansion Générale du Comité Mixte.

Italy: 1950-1957, Figures from the Report to the Commission of the EEC.

Luxembourg: 1950-1956, OEEC General Statistics, January 1958. Figures from the Report of Commission Expansion Générale du Comité Mixte.

Netherlands: 1950-1956, *Centraal Economisch Plan 1957*. Figures from the Report to the Commission of the EEC. Figures from the Report of Commission Expansion Générale du Comité Mixte.

¹⁾ Estimates of corresponding productivity per hour: 135.8.

²⁾ Estimates of corresponding productivity per hour: 137.1.

³⁾ Estimates of corresponding productivity per hour: 113.8.

⁴⁾ Estimates of corresponding productivity per hour: 114.4.

⁵⁾ Estimates of corresponding productivity per hour: 122.7.

⁶⁾ Estimates of corresponding productivity per hour: 112.1.

⁷⁾ Estimates of corresponding productivity per hour: 110.5.

⁸⁾ Estimates of corresponding productivity per hour: 110.4.

⁹⁾ Estimates of corresponding productivity per hour: 155.5.

¹⁰⁾ Estimates of corresponding productivity per hour: 107.9.

TABLE 22

Degree of concentration on the basis of number of persons employed

If the establishments in any branch of industry are placed in order of size (calculated on the basis of number of persons employed) it appears that

a) The following percentages of the total number employed in a branch are employed in the 50 % of smaller establishments :

Branch	Germany excl. Saar	Saar	Belgium	France	Italy	Netherlands
	1950	1951	1947	1953-54	1951	1950
1. Basic metals	2	1	2	1	2	6 ¹⁾
2. Chemicals	3	8	3	4	3	5
3. Mining	2	0.5	2	3	5	1
4. Metal Products	6	5	8	6	9	6 ¹⁾
5. Energy	4	3	3	—	7	5
6. Textiles and clothing	9	13	10	7	—	8
7. Timber, paper, printing	11	13	13	9	—	7
8. Construction	11	10	14	11	—	11
9. Food, beverages and tobacco	19	20	17	11	14	11
10. Commerce	19	19	28	21	—	21
11. Services	23	27	38	20	—	33
Weighted average of the 11 branches of industry	12	9	16	12	—	12

b) The following percentages of the total numbers employed in a branch are employed in the 20 % of larger establishments :

1. Basic metals	89	91	87	90	90	83 ¹⁾
2. Chemicals	90	76	89	86	91	84
3. Mining	88	95	79	89	85	97
4. Metal Products	87	87	84	87	84	83 ¹⁾
5. Energy	82	79	85	—	81	80
6. Textiles and clothing	80	69	82	84	—	82
7. Timber, paper, printing	73	68	72	78	—	79
8. Construction	72	72	71	76	70	70
9. Food, beverages and tobacco	64	54	71	74	70	70
10. Commerce	61	59	50	60	—	53
11. Services	53	47	42	57	—	51
Weighted average of the 11 branches of industry	73	78	68	75	—	68

¹⁾ Production and processing of metals are not given separately in Netherlands figures.

TABLE 22 a

Degree of concentration (Gini coefficient) in the various branches of industry ¹⁾

Industrial	Germany 1950	Saar 1950	Belgium 1947	France 1953/54	Italy 1951	Netherlands 1950
1. Mining	0.83	0.85	0.74	0.80	0.80	0.95
2. Energy	0.78	0.78	0.77	—	0.75	0.75
3. Basic metals	0.86	0.81	0.80	0.85	0.88	0.78
4. Metal products	0.83	0.81	0.78	0.82	0.78	
5. Chemicals	0.86	0.68	0.84	0.82	0.87	0.78
6. Timber, paper, printing	0.71	0.63	0.66	0.72	—	0.72
7. Textiles and clothing	0.74	0.62	0.74	0.78	—	0.77
8. Food, beverages and tobacco	0.50	0.46	0.60	0.67	0.64	0.67
9. Construction	0.66	0.66	0.62	0.69	—	0.64
10. Commerce	0.50	0.52	0.37	0.49	—	0.44
11. Services	0.43	0.35	0.28	0.47	—	0.40
Weighted average of the 11 branches	0.67	0.69	0.59	0.68	—	0.65

Source:

Germany (F. R.): Die nichtlandwirtschaftlichen Arbeitsstätten in der Bundesrepublik Deutschland nach der Zählung vom 13. 9. 50. Heft 1, Statistisches Bundesamt.

Saar: Statistisches Amt des Saarlandes.

Belgium: Recensement général de la population, de l'industrie et du commerce au 31 décembre 1947, tome 9 et 10. Institut National de Statistique.

France: Bulletin Hebdomadaire de Statistique, ed. l'INSEE, N^{os} 361 et 365 (2. 4. et 30. 4. 1955).

Italy: III Censimento Generale dell'Industria et del Commercio, volume XVII. Date Generale Reassuntivi, Istituto Nazionale di Statistica.

Netherlands: 2^e Algemene Bedrijfstelling (16 oct. 1950) Deel 2, ed. Centraal Bureau voor de Statistiek, Utrecht 1955. Tabl. 3 et 8.

¹⁾ The more unequal the establishments are, the nearer the coefficient will be to unity, and this in fact means that there are greater concentrations in a sector.

II — THE EXTERNAL BALANCE

A — GLOBAL STRUCTURE OF THE BALANCE OF PAYMENTS

While the structural similarities between the countries of the Community are greater than the differences and reflect more or less comparable levels of development, differences of some importance are found to occur in economic relations with the rest of the world. The scale of these relations, the share held by exports of goods in total receipts, the type of goods and services from which the incomes derive and the geographical distribution of trade are all elements of dissimilarity between the countries of the Community. What is important and difficult is to separate passing factors from those which form lasting elements in the overall structure.

The characteristic feature of the post-war period is the recovery of the balance of payments in the countries of the Community taken as a whole. To cope with reconstruction and to meet large deficits these countries had at first to rely on foreign aid. Credits from international institutions, loans from the United States Government and the Export-Import Bank, Marshall aid and military aid have in turn made it possible to maintain the flow of imports essential to the functioning and expansion of the national economies. An additional difficulty arose from the considerable drop in the income from investments which, prior to the last war and even more before 1914, had made it possible to cover the current deficits. The loss of investments abroad through wars and revolutions has been the common lot of France, of Germany and of the Netherlands.

While assistance was being received from abroad, there was a gradual increase in payments — such as reparations by Germany and transfers from France to overseas countries — made by the countries of the Community. The combined foreign exchange reserves of the Community increased by \$1,500 million from 1951 to 1953; over a similar period in 1956 and 1957 they increased by \$3,000 million.

In fact, apart from certain temporary difficulties conditioned by the cycle of trade, all countries save France attained an equilibrium in their overall

balance of payments. The surpluses regularly accumulated by Germany are even larger than the deficits of France, whose correlation with both the rate of internal expansion and the burden of military operations abroad is clearly apparent from the whole post-war experience. The net balance of the Community as a whole thus already shows a surplus, as is normal if advanced countries are to play their part in the international flow of capital in order to further the development of less favoured regions. This general situation still conceals however certain internal maladjustments which have to be corrected; and in addition the differences in the intensity of trade with other countries and in commercial policies, which in part cause these differences, will tend to diminish. The adjustments which will have to take place are already discernible and a comparison of these adjustments between one country and another will make it possible to indicate their scope and trend ¹).

The most characteristic feature in the balance of payments of any country is the part which the import and export of goods plays in the total figure of receipts and expenditure. The importance for the equilibrium of the external balance assumed by services such as transport, by the earnings of the tourist industry and by emigrants' remittances underline the importance of those provisions of the Treaty of Rome which apply to sectors of economic activity other than trade in goods. Finally, reference should also be made to those items in current receipts and expenditure which are attributable to political circumstances, such as contributions for the maintenance of foreign troops, the value of services rendered to these troops and subsidies for territories outside the mother countries ²).

A first group which stands out consists of Germany, Belgium and Luxembourg, export of goods from these countries provides some 80 per cent of their total receipts.

The second group consists of the Netherlands and Italy, where invisible transactions, the net balance of services — in the Netherlands mainly from transport, trade and financial transactions, in the case of Italy from tourism and emigrants' remittances — provide essential elements for the maintenance of the balance of payments and for covering the normal excess of imports over exports.

France is placed in a special position by the large share in its total external transactions which it incurs in connection with those overseas countries with

¹) See Table 1 "Balance of Payments of the Countries of the Community", p. 103.

²) Table 3 *a* shows the percentage share in the current balance of payments of goods, services, earnings and income from capital as well as receipts and expenditure connected with political circumstances as well as the overall surpluses or deficits in their relation to overall current expenditure. In the case of France, the balance relates to the franc area, whereas in the text, however, use has been made of factors in a balance which covers France only, and this cannot be given in a form fully comparable with the forms used for the other countries.

which a special relationship is maintained; this share is swollen by expenditure in these countries covering such items as administrative and military outlay, subsidies and investments. In any case it would seem that France, like Germany and Belgium, will in future have to balance its external trade in order to ensure the maintenance of its overall balance of payments.

B — SPECIAL AND NON-COMMERCIAL FACTORS

When due allowance has been made for non-speculative movements of capital and for permissible variations in the reserves, and assuming that supply and demand on the labour market are satisfactory, the state of the overall balance of payments in each country determines the conditions in which the Common Market will function normally. In other words, if the proper balance is found to exist, it will prove the correctness of the rate of exchange on which competition between the economies will rest when there is no further manipulation through customs duties, subsidies and quotas.

1. Special factors

Any attempt to assess the structural characteristics of the balance of payments of the Member States and the chances of attaining a satisfactory equilibrium in the course of the progressive development of the Common Market will first have to distinguish the receipts and expenditure which are due to political circumstances. This is not to say that most of them may not last a long time, but their maintenance, suppression or change is dependent upon political decisions or developments and is not directly linked to the economic situation. Thus the temporary surplus in the French balance of payments in 1954 and 1955 is attributable to the large sums arising from the United States contribution to the expenses in Indochina and from off-shore orders. These receipts had amounted to more than 300,000 million Ffrs., but in 1957 fell to 56,000 million Ffrs¹⁾. The operations in Algeria, on the contrary, mean a direct increase in purchases of military equipment abroad, of between \$100 million and \$200 million per annum. Moreover, these military orders exert an important influence on export possibilities and incentives for the machinery and equipment industries. Finally, transfers to the budgets of the overseas territories show steadily growing amounts which reached more than 600,000 million Ffrs. in 1957²⁾.

While the Italian balance of payments attained an equilibrium of current transactions for the first time in 1957, it should be recalled that private gifts,

¹⁾ "Rapport sur les Comptes de la Nation de l'exercice 1957", Table 49, p. 57.

²⁾ Ibid. Table 50, p. 59.

off-shore orders and other extraordinary receipts contributed some 135,000 million lire.

In the balance of payments of the Federal Republic of Germany, income from services rendered to Allied Forces grew from 1,022 million DM in 1954 to 2,660 million DM in 1957. This factor plays an essential part in reducing the dollar deficit. Conversely, Germany effects unilateral transfers, which in 1957 amounted to 1,650 million DM, for the liquidation of former debts and as reparation payments to certain countries.

Another factor which must be considered separately is the effect of the weather on export possibilities or import needs in agricultural products. Whereas this factor did not influence the French balance of payments unfavourably in 1954 and 1955, it affected the balance most adversely in 1956 and 1957, years with extremely bad harvests, in which the balance was burdened by heavy imports of wheat and wine.

By far the most important factor which has to be eliminated in any analysis of the structural elements of the balance of payments is the huge surplus or deficit attributable to irregularities in expansion or to disparities in price. Thus, for example, the equilibrium of the French balance of payments in 1954 and 1955 was facilitated by the fact that the other European countries had already begun to recover from the fall in the rate of expansion which occurred in 1953. The present difficulties in France, on the other hand, can be in part explained by the fact that the country has kept up a higher rhythm of expansion than the other European countries, these having experienced either a considerable slowing of their economic progress or stagnation or even, in some cases, a fall in production below the level of previous years. Nor is it possible to extrapolate indefinitely the effect of inflationary pressure such as can still be observed in France or, conversely, the surpluses which accumulate year by year in the foreign trade balance of Germany (especially from trade with its European partners). In the end these surpluses, unless consolidated by a systematic export of capital, will have to be absorbed either by an increase in domestic demand or by an adjustment in the relative values of the currencies.

2. Incomes and services

As already pointed out, income from capital at present plays a relatively minor role in European balances of payments. After the losses suffered by earlier investments, it will be many years before the accumulation of fresh foreign investments yields enough income to contribute appreciably to the balance. Moreover, a considerable proportion of the earnings of enterprises established abroad or in the overseas countries and territories is reinvested on the spot. The same applies in the reverse direction to a part of the earnings of foreign companies in Europe. The balance of payments shows only transfers of

income in one direction or the other. Though at present France, the Netherlands and Belgium still have a credit balance, this represents only 1 to 2 per cent of the total of debit items. The debit balance of Germany represents only 1.5 per cent of its income, that of Luxembourg 3 per cent and that of Italy less than 1 per cent.

In Italy, on the other hand, income from emigrants' earnings and remittances and from private gifts — mostly from Italians living abroad — covers 7-8 per cent of the total sums expended abroad. In the case of the Netherlands, it covers 3 per cent. For France — where the number of immigrants is large — a relatively important debit item is created by these transfers, which go in part to other European countries and in part to North Africa. Estimates on manpower requirements and on changes in the working population, as well as the provisions of the Treaty of Rome on the freedom of movement for workers, make it likely that this factor will be permanent or may even grow in importance, and it is possible that Belgium and even more Germany show increasingly high debit items in this respect.

Among services — particularly with insurance and with transport — the banking and insurance sector is as a rule approximately in a state of balance in each country; the Netherlands show a relatively high credit balance. In transportation the situation is different. Here, Italy has achieved an equilibrium which means that it is comparatively unaffected by fluctuations in freight rates. Net income from transport plays an important role in the Dutch balance of payments and covers one third of the deficit on the balance of trade. In this field, Germany and the franc area had a large deficit only during the Suez crisis. France by itself normally has a slight credit balance as a result of its trade with the overseas countries.

The most important item apart from trade in commodities and payments by governments is tourism, which brings Italy a net income of 8 per cent of the total of its receipts from abroad, and Germany 500 million DM per annum. France too, because of its monetary situation, is incurring heavy net losses in this field, since fewer tourists come and since those who do come change their money to a large extent abroad instead of feeding it into the normal channels. A different monetary situation would no doubt make it possible to convert outgoings of 60 million dollars into a substantial surplus.

It is none the less true that by far the most important element in the balance of payments of each country is the trend of exports and imports taken together with increases in national output.

C — IMPORT AND EXPORT SITUATION

1. Imports

An analysis for 1956 reveals remarkable similarity in the various countries of the Community, in all of which imports of goods amounted to 73-83 per cent of current expenditure, except in Luxembourg, where the figure was more than 90 per cent. The following table shows overall purchases of goods and services abroad and ¹⁾ commodities in the strict sense of the word expressed in per cent of the gross national product.

	Germany	France	Italy	Belgium	Luxembourg	Netherlands	Benelux ¹⁾
1. Goods and services as % of GNP	23	18	17	33	90	61	
2. Commodities as % of 1. above	75	73 ²⁾	80	80	93 ³⁾	83	
3. Commodities as % of GNP	18	13.1	13.6	26.4	83 ³⁾	51	34

Sources: OEEC.

¹⁾ Excl. commodities trade between the B.L.E.U. and the Netherlands.

²⁾ OEEC estimates.

³⁾ Ministry of Economic Affairs - Luxembourg.

This table shows at once a major difference between the three Benelux countries on the one hand and the three larger countries of the Community on the other hand. In the three small countries dependence on foreign trade is much larger, although here, too, considerable differences are apparent owing to the exceptionally high dependence on imports of the Netherlands and to the quite unique situation of Luxembourg. This relation between imports and gross national product may be considered as one of the main economic constants of the three Benelux countries.

Of the three larger countries, it is in France that this percentage is found to be most stable, but in Germany that it is growing most rapidly. But in the case of France, quantitative restrictions unquestionably distort the correlation between imports and the development of the gross national product.

The following table shows imports rearranged under a small number of headings:

¹⁾ At factor cost.

Percentage share of major groups of imports in overall imports by countries

(Average 1956-1957)

SITC Group	Germany	France	Italy	B.L. E.U.	Netherlands	Community Total	Rest of World
0, 1. Food	28	25	17	15	14		
2, 4. Crude materials and fats	30	27	33	24	15		
3. Energy and lubricants	12	18	21	11	17		
7. Machinery and transport equipment	6	11	11	20	20		
5, 6, 8 and 9. Chemicals and manufactured goods	24	19	18	30	34		
Crude materials and energy (groups 2, 3 and 4)	40	45	44	35	32	43	50
Primary products (groups 0, 4)	70	70	71	50	46	63	73

This table reveals certain remarkable facts. If we place in one group the primary products (food, beverages, tobacco, edible fats, crude materials, coal, petroleum products and lubricants), and in another group the manufactured products, such as chemical products, plant and transport equipment and other manufactured products, we find that, in the three big countries, primary products represent 70 per cent of the imports, whereas in Belgium and Luxembourg imports of manufactured and of primary products are balanced and in the Netherlands the share of imported manufactured products is preponderant.

Within these large groups it is apparent that Germany differs from France and Italy in the extent to which it depends on imports of energy. Germany has the advantage of its enormous resources in coal and lignite, but it is far more dependent upon imports for its food supply, whereas French food imports come largely from Algeria and the overseas territories which supply wine, fruit and fats¹). France and Italy import relatively more plant than Germany, which in fact is largely an exporter in this field. The growth of imports of manufactured products into Germany reflects, when compared with France, a more liberal economic policy, and when compared with Italy, a higher real income per head. For the Benelux countries, the high import level of plant and transport items is easily explained, for they have no automobile industry of their own but only assembly plants. The imports of manufactured goods reflect both a more liberal economic policy, a more limited range of production than in the larger countries, and also the intensity of trade in these products between the member states of Benelux.

¹) The percentage to which domestic production covers the demand for food-stuffs is one of the most important factors affecting the structure of imports (see Table 4, p. 111).

2. Exports

The following table is comparable with that prepared for imports and shows the relation between the gross national product and the sales of goods and services, the share in these sales of the export of commodities in the strict sense of the word and the relation between exports and gross national product (at factor cost).

(Year 1956)

	Germany	France	Italy	Belgium 1953	Luxem- bourg	Nether- lands	Benelux ¹⁾
1. Sale of goods and services % of the GNP	26.9	15.7	15.6	34.2	99.5	60	
2. Sale of commodities as % of 1. above	80	70	62	78	95 ²⁾	66	
3. Exports as % of the GNP	23	11	1.7	26	95 ²⁾	40	32

¹⁾ Excl. trade in commodities between the B.L.E.U. and the Netherlands.

²⁾ Ministry of Economic Affairs - Luxembourg.

Naturally the relation of total sales of goods and services to the gross national product corresponds closely to that of purchases. However, the table below brings out the main structural difference: whereas the share of imports in the total purchases of goods and services from abroad is comparable in all countries, the share of exports in total sales differs rather widely and reflects in particular the importance of tourism and services in Italy, in France and in the Netherlands, while in Belgium and in Germany the share of exported commodities in total exports is comparable with that of imported commodities in total purchases.

The structural differences in exports appear from the following table, based on the same reclassification as was used for imports.

Percentage share of major groups of exports in overall exports by countries

(Average 1956-1957)

SITC Group	Germany	France	Italy	B.L.E.U.	Nether- lands	Communi- ty Total	Rest of World
0, 1. Food etc.	2	16	23	4	28		
2, 4. Crude materials and fats	3	9	5	8	9		
3. Energy and lubricants	7	8	8	6	14		
7. Machinery and trans- port equipment	27	18	23	11	15		
5, 6, 8 and 9. Chemicals and manufactured goods	61	49	41	71	34		
Relation of the first three to the last two groups	12/88	33/67	36/64	18/82	51/49	26/74	21/79

The absolute preponderance of industrial exports in the cases of Germany and Belgium is immediately evident, while in each case the export of energy, *i. e.* coal, is not negligible. The export of foodstuffs, on the other hand, is extremely low.

The structure of exports in France and Italy appears to be closely comparable, industrial items of all sorts representing in the one case more than two thirds, a little less than two thirds in the other, and the export of energy in the form of refined petroleum products being rather high in both countries. Agriculture makes substantial contribution, higher in Italy than in France.

Exports from the Netherlands fall into two large groups of almost equal size; the share of foodstuffs and mineral products is higher than in any other country of the Community, as is also that of petroleum products.

It is also interesting to compare the share of plant and transport equipment — most important export item of the mechanical industries — with the export of other industrial products. Owing to recent developments this share amounts to 56 percent in Italy, while it is 44 per cent in Germany and the Netherlands, and only to 36 per cent in France. For Belgium it is a mere 15 per cent, the country having a net import balance in this sector.

D — DEVELOPMENTS IN FOREIGN TRADE

The comparisons made above are intended solely to serve as a basis for estimating the trend of foreign trade in the various countries and any future changes in this trade.

With increased production all countries of the Community will have to import increasing quantities of raw materials and a steadily growing fraction of their energy supply in the form of coal and above all of oil. Moreover, a higher real income does not mean that all forms of consumption will expand at the same rhythm. Expenditure on grain and potatoes is stagnant or even falling, whereas the consumption of milk products, meat and fruit is growing. Expenditure on textiles rose a little more than in proportion to income, whereas there is a far more than proportionate increase in the demand for durable consumer goods and for services, including transport and tourism.

The share of imports destined to be absorbed in the production process or the direct purchase of processed goods and of services depends on the possibilities of national production as well as on the effect of price ratios on demand. The price situation is naturally affected by customs policy, whereas the quantitative restrictions upset the effect of price ratios on demand.

Owing to the existence of several factors with an influence upon trade, the developments of recent years do not provide a satisfactory basis for appraising the effect on foreign trade of the expansion of the gross national product.

All countries of the Community started with a large deficit and were faced with the task of building up current income. In almost all countries, exports as well as imports have benefited from the accelerated abolition of quantitative restrictions. It is with these reservations in mind that overall data on the expansion of exports or imports will have to be interpreted.

An analysis of the comparative rates of increase of imports and of the gross national product would produce a misleading picture of developments extrapolated for the future, as the last few years have been exceptional. In order to compare changes in foreign trade with variations in production — for the national income determines to a large extent the need for imports, and export is one way of disposing of national resources and is also a factor in demand — an analysis of their relation to the national product provides the most directly useful pointers. This not only avoids very delicate statistical problems concerning the measurement of volume and the choice of base years, it also helps to show whether the proportions which emerge from this trend are in process of stabilization at a figure which can be looked on as normal, or whether further changes are still probable or necessary.

Goods exported and imported are calculated at their foreign currency prices, so that customs duties and indirect taxes are not included. It is therefore with the gross national product at factor costs that the comparison must be made, as this does not include the indirect taxes imposed on domestic production.

Most important is the comparison between the overall purchase of goods and services and not between exports and imports of commodities. An analysis of trends, based on the data available, proves that in Belgium the relation of both purchases and of rates to gross national product remains fairly constant at about one third. Luxembourg, on the other hand, experiences very wide fluctuations in its exports (which are almost entirely confined to iron and steel products) and consequently, though to a lesser degree, also in purchases of goods and services from abroad.

An extremely rapid rise in the share of sales of goods and services in the GNP was achieved between 1950 and 1952 by the Netherlands, which has since maintained a percentage of between 57 and 60. Since 1951, their purchases have reached and are being maintained at a share of 51-61 per cent of the gross national product. These figures fluctuate rather more widely than those concerning sales. In Italy, from 1950 onward, we find a growing dependence upon purchases from abroad, but it is slow and suffered a slight check in 1954-1955. Sales of goods and services, on the other hand, are expanding steadily. The most striking case is that of Germany, where the share of purchases and sales in the national product has advanced steadily between 1950 and 1957, purchases rose from 15 to 25 per cent, and sales from 14 to almost 30 per cent. In France, on the contrary, the percentage of goods and services

purchased abroad was the same in 1957 as in 1952, after a slight decrease in the intervening period. Sales abroad, on the contrary, show a slightly lower proportion than in 1952 or 1953, after their share had increased in 1954 and 1955¹⁾).

On the whole, French exports and imports, unlike those of other countries, increase at very much the same rate as national production. By volume the increase in imports would be slightly higher, but this relative increase is offset by the fall in import prices. Similarly, owing to the different trends in domestic and foreign prices, the value of exports is growing somewhat less than the national product while its volume, especially in 1955 and again in 1958, is growing somewhat more.

However summary these pointers may be, they suffice to show that the difficulties in the French balance of payments are in no way attributable to an abnormal increase in imports, as their share in the national product and the relation of their increase to the national product is lower than in other countries of the Community. The main weakness of the French economy in recent years is due rather to a combination of factors which impede the expansion of exports and of invisible receipts such as tourism, where a vigorous expansion was necessary to counterbalance the disappearance of several forms of foreign aid.

An appraisal of the future trends of foreign trade in the various countries is possible only on the basis of a more detailed analysis of the main import needs and of the types of export.

For all countries of the Community, raw materials and energy provide between one third and 45 per cent of all imports, the major items being textiles (wool, cotton, jute), non-ferrous metals and oil.

The example of the Netherlands shows a slower rate of increase in the sales of foodstuffs than in the sales of industrial products. This is due partly to fluctuations in consumption, partly also to fluctuations in production and finally, even principally, to the protection which it is normal for each country to accord to its own producers. Through the expansion of oil refineries it has become possible to meet a larger part of the energy demands of Western Europe. Owing to strong investment activity in Europe and to the establishment in the Netherlands of certain foreign industrial enterprises, the share of machinery is growing.

In the case of Belgium, foreign outlets account on average for 50 per cent of the total turnover of industry. For textiles the figure is almost 60 per cent, for the iron and steel industry almost 75 per cent, and almost 90 per cent for the non-ferrous metals. There is a very close correlation between exports and overall production and hence between the level of industrial activity and that

¹⁾ See Table 6, p. 112.

of those Western Europe countries with which Belgium maintains close commercial relations.

Italy shows an expansion of exports in the field of machinery and of chemicals, especially pharmaceutical articles and fertilizers, which is far above the average, while fluctuations in the consumption of fruit and vegetables have led to considerable increases in the export of agricultural products and foodstuffs.

An examination of German exports sector by sector brings out those industries which not only have an exceptionally high percentage of exports in their total output but which make a large absolute contribution to the total figure for export. This applies to shipbuilding, the optical and precision instrument industry, to machine construction, automobile and chemicals, to hard-coal mining and to the electrotechnical industry.

In view of Germany's extraordinary success in the export field the importance of its industrial structure and of its exports for the equilibrium of the external trade balance is evident.

France, on the other hand, which normally has a well balanced trade in foodstuffs with foreign countries but is a net importer from its overseas territories, suffers from the inadequacy of its exports of manufactured products. There is a large debit balance in energy as well as in raw materials and semi-finished products despite the great contributions made to exports by the iron and steel industry; it also has a debit balance in the machine industry and a slight credit balance as regards finished industrial products as a whole.

The foreign trade balance is affected not only by the changing relationship between imports and exports, but also by changes in price. Sudden surges of activity in the world lead to higher raw material prices and freight charges, whereas increases in production and the availability of freight space later cause prices to fall again. Profits, however, are smaller when a country exports foodstuffs or when it has an excess or even just a sufficiency of freight services.

The following table shows the development of the terms of trade on the 1953 basis.

Changes in the relation of export and import price indices

(1953 = 100)

Year	Germany	France	Italy	B.L.E.U.	Netherlands
1950	86	94	104	102	102
1951	83	85	95	110	97
1952	94	92	93	112	98
1953	100	100	100	100	100
1954	100	93	104	98	100
1955	98	97	100	101	101
1956	99	98	92	104	100
1957	100	96	100	104	98

Source: OEEC: General Statistics - July, 1958.

The stability of this index in the Netherlands is remarkable and is explained by the large share of agricultural products in both exports and imports. Figures for 1951 and 1952 show that, owing to the export of steel and non-ferrous metals, peak periods are favourable for the Belgo-Luxembourg Economic Union but unfavourable for Italy. Compared with 1951 the position of Germany and of France has improved, but since 1953 changes in the terms of trade have decreased notably.

While this factor is important for the balance of payments, its influence on real income depends upon the share of foreign trade in the national product. For the Community as a whole this factor is of secondary importance compared with the increased need for imports and the necessity of maintaining a high level of exports.

The development of the external trade of each country is also dependent upon the geographical distribution of this trade, *i. e.* the origin of imports and the destination of exports.

E — GEOGRAPHICAL DISTRIBUTION

For all countries of the EEC, trade with other European countries constitutes a major part of their foreign trade. This share is likely to be weaker in the case of France, owing to the importance of its relations with the overseas territories associated with the franc zone, but stronger for the Belgo-Luxembourg Economic Union and the Netherlands because of the intensity of trade which springs from the very existence of Benelux.

It is interesting to compare the share of the EEC and the share of the combined OEEC countries in the total imports and exports of each country. In addition to this, France's trade with foreign countries has been considered separately, and in the case of the Netherlands and Belgium-Luxembourg the foreign trade of Benelux has been considered as a separate entity.

The results are given in the following table:

Share of EEC and of OEEC countries in the trade of the Member States of the EEC¹

(as percentage)

	Germany	Italy	France		B.L.E.U.	Netherlands	Benelux ²⁾
			Total	Foreign			
EEC							
Imports	24	24	21	29	41	41	30
Exports	30	25	25	35	45	40	30
Remaining OEEC countries							
Imports	22	20	13	18	16	16	19
Exports	31	28	19	27	20	25	29
Total OEEC							
Imports	46	44	34	47	58	63	49
Exports	61	53	44	62	64	60	59

¹⁾ Imports CIF.

²⁾ Excl. internal trade.

Conversely it is possible to consider the share of each country both in the total external trade of the Community, including trade within the Community itself, and also in the trade of the Community with countries outside the Community. The two shares will be found to be more or less comparable except in the case of France which, because of its relations with the overseas territories, has more lively contacts with outside countries, and in the contrasting case of Benelux, whose share in trade with non-member countries is smaller than in total trade.

**Share of each Member State in the trade of the Community:
Total trade and trade with countries outside the Community**

(as percentage of totals)

	Germany	France	Italy	B.L.E.U.	Netherlands
World incl. EEC					
Imports	29	25	15	15	16
Exports	36	23	11	16	14
World excl. EEC					
Imports	31	28	16	12	14
Exports	38	26	12	13	12

These comparisons make it possible to analyse the role of Benelux, the commercial relations within the Community, and also trade with the overseas territories associated with the monetary zones of the Member States.

For the B.L.E.U., exports to the Netherlands cover almost half the exports to the countries of the Community, France coming second, followed closely by Germany. For the Netherlands, exports to the B.L.E.U. represent more than one third of their exports to the Community, Germany, which takes 45 per cent, being the main customer.

Turning to imports, the Netherlands procure from the B.L.E.U. 31 per cent of their purchases from the Community as a whole, but exactly the same amount from Germany. Imports from France and Italy amount only to 10 per cent. In the case of the B.L.E.U., imports from Italy are also very weak, but France is here a larger supplier than Germany.

The shares of the other groups in the exports of each of the customs entities within the Community are listed in the following table in the order of their importance ¹⁾.

(Year 1956)

(as percentage)

Germany		France		Italy		Benelux	
Netherlands	31	Germany	41	Germany	53	Germany	57
France	27	B.L.E.U.	31	France	28	France	34
B.L.E.U.	23	Italy	16	Netherlands	10	Italy	9
Italy	18	Netherlands	11	B.L.E.U.	9		

¹⁾ See Tables 8 and 8a, pp. 113 and 114.

In looking at those regions of the world where a country attains a share in the commerce of the Community which is considerably above its average share in the total trade, one is immediately struck by the role of the areas associated with the countries of the Community. Owing to its relations with Northern Africa and the Union Française, France takes 68 per cent of the imports of the Community from these areas and provides 76 per cent of its exports to these areas. From them France obtains 24 per cent of its imports, to them it sends 31 per cent of its exports. Belgium's trade with the Congo amounts to between 5 and 8 per cent of its total foreign trade. On the other hand, the combined zones associated with the countries of the Community at present represent for the other four countries only an extremely unimportant part of their foreign trade, generally less than 3 per cent. These comparisons give some picture of the scale of the changes in the pattern of trade which must result from the application of the Treaty and from the affiliation or association with the Treaty of those non-European territories which have specific relations with the Member States. No doubt French exports to these territories benefit to some degree from preferential tariffs and more generally from the control of foreign exchange and also the huge contribution of the mother country to the budget and to the economic and social development of these territories. The contributions of the other member countries to these costs of development, the increase in quotas and the suppression of all tariff discrimination must in the end expand the mutual markets formed by these non-European countries and territories and the combined Community. In particular it must be stressed that a large part of the agricultural production of these overseas countries comes from small native farms, so that increased sales will find immediate expression in increased purchasing power.

Apart from trade relations within the Community itself or with the associated areas, it is also interesting to group the various regions of the world, according to the conditions in which their markets are open and are likely to develop¹⁾, *i. e.* the other members of the OEEC; the rest of the sterling area; the United States and Canada; the Communist Block (the countries of the East and China); and the rest of the world.

Within the OEEC, the share of both exports and imports between the different countries of the Community and the United Kingdom is more or less comparable with their overall trade, in the region of 6 per cent. The Netherlands are an exception, as they procure from the United Kingdom 10 per cent of their supplies and sell there 12 per cent of their exports. The other Western European countries (less the countries of the Community and the United Kingdom) are important outlets particularly for Germany and Italy.

¹⁾ Distribution of external trade of the EEC countries 1956 : See Table 6, p. 112. Share of individual member countries in external trade of the Community : See Table 7, p. 112.

France and Italy receive appreciably more supplies from the Sterling area excluding the United Kingdom itself, than do the other countries of the Community, but these two countries do not make corresponding sales in this area, while other countries maintain a more or less balanced trade with the Sterling area.

Imports from the United States and Canada are nearly twice as high as are exports to the area. Only the Belgo-Luxembourg Union and to a less extent Italy enjoy a better ratio in their exports to the two countries. Germany's share of both import and export trade with Eastern Europe and China and also with the other areas in the world which have not yet been analysed, in particular Latin America, is considerably higher than its average share in the total trade of the Community. This shows the broadness of the basis attained by this country despite the predominance of its trade with Europe itself.

If from an overall comparison of the internal and external trade in the Community we pass to an analysis by groups of commodities, we find striking differences in the composition of this trade. Of imports, non-member countries supply some 72 per cent of the total, but the scale ranges from some 80 per cent for foodstuffs and energy, and nearly 90 per cent for raw materials, to a mere 50 per cent for manufactured goods, especially for machinery and transport equipment. Of exports, non-member countries take 62 per cent of the total. The percentage is the same for foodstuffs, but only 46 for raw materials and 53 for energy; on the other hand it rises to 72 for manufactured goods.

Within these groups it is striking that the Belgo-Luxembourg Union receives from the Community itself a proportion of its needs of primary products, food, raw materials and energy which is well above the average, and the Netherlands a specially high percentage of plant and manufactured goods.

On the other hand the highest proportion of imports from non-member states is found in France for food and raw materials, in Italy for energy, in Germany for plant, because this country exports a great deal itself under this heading and imports primarily from the United States — and not from the Community — the plant or vehicles which it does not produce for itself.

On the export side Benelux and also Italy find within the Community a very large proportion of their agricultural outlets; the same applies to France and Benelux for raw materials, to Germany and the Netherlands for energy, in the one case coal, in the other refined petroleum products; it applies to Belgium for engineering equipment and to the combined Benelux countries for manufactured goods.

At present there is no statistical breakdown of the balance of payments with the different currency areas in the world. In any case this question loses in importance as international relations move away from the bilateralism in which they were confined some years ago and as, with the gradual reduction of credit margins in the European Payments Union, international settlements

are having in the last resort to be made in gold or in convertible currencies. Data exist concerning the overall balance with the Dollar area; with this area only France, because of the services rendered to American bases, and Italy, thanks to tourism, have shown a surplus; but the Community as a whole is in deficit. On the other hand it has always, owing to the position of Germany, had a surplus in the European Payments Union.

In merchandise trade the Community has a small surplus vis-à-vis the other countries of the European Payments Union, including the Sterling area, a surplus produced by exports from Germany. With those countries of the OEEC which are not members of the Community all Member States of the Community have trade surpluses which every year add up to more than \$1,000 million. The trading deficit of the Community with the Dollar area is much higher than the overall deficit in the balance of payments. With the remaining areas in the world there is rough equilibrium¹⁾.

Some figures will serve to bring out the importance of the Community taken as a whole.

As an importer of foodstuffs and raw materials, the Community accounts for 31 per cent of world trade compared with the 16 per cent of the United States and the 18 per cent of the United Kingdom. In other words, it offers these products an outlet nearly twice as large as that of the United States and 2/3 higher than that of the United Kingdom.

As an exporter of industrial products the Community accounts for some 33 per cent of world trade compared with the 26 per cent of the United States and the 16 per cent of the United Kingdom. In other words, its sales are double those of the United Kingdom and nearly 30 per cent higher than those of the United States.

When we examine origin and destination, we can see how large is the trade in primary products within the Community itself and how heavy are the imports from the United States; this country on the other hand provides no outlet for the primary products of the Community. The sales of industrial products within the Community itself are nearly four times as high as those made by member countries in the United States.

If finally we exclude trade between countries of the Community, the United States and the United Kingdom in order to see what these three big trading countries mean to the rest of the world, we find that industrial exports from America to the rest of the world are still larger than those of the Community, which in turn are 40 per cent higher than the sales made by Britain; but as a buyer of primary products from the remaining areas the Community is as much as 1/3 ahead of the United States, whose purchases are hardly any larger than those made by the United Kingdom²⁾.

¹⁾ See Tables 11 and 11a, p. 119 and 120.

²⁾ See Tables 12 to 15, p. 121 and 122.

These striking figures make evident the responsibility which will rest on the Community for the stability of the market in primary products and for increasing the outlets available to them, in other words for the economy of those areas for which exports of these products are also their only source of income and the essential basis of their development. The benefits which Europe derives from lower prices in depressed markets in no way makes up for the loss of outlets and for the effects produced on the level of business. In particular, steady increases in engineering and plant production, which have made possible the recovery of equilibrium in most European states, themselves lead to increased danger of instability, since investment and even more the export of equipment goods are always liable to greater fluctuations than other economic activities.

A policy which aims at stabilisation of the trade cycle and has, in a powerful group of countries, increased facilities at its disposal, will probably be the main contribution which an integrated Europe can make not only to its own expansion but also to the countries in the course of development, which are at one and the same time its suppliers and its customers.

F — COMMERCIAL AND CUSTOMS POLICY

The establishment of a customs union has two facets: the higher the initial level of customs duties in each state, the greater the absolute value of the reduction to be made in it, and the degree of preference which the member states grant to each other is proportional to the height of the final common tariff. But in addition any remaining quantitative restrictions between the states and the union are progressively abolished and in the end direct manipulations of imports should not be used by Members of the Community, except in cases of individual difficulties, as a normal means of Community policy towards non-member countries.

At the outset the main difference which separates Member States is the degree of liberalisation attained by them both within OEEC and in their relations with other areas in the world.

In accordance with the aims of OEEC, liberalisation of trade has been the common objective of the policy of all its Members; but the rules used in checking the extent to which obligations have been met are based on a weighting of 1948 imports and can leave large sectors subject to regulation even when the apparent level of liberalisation of trade is nearly 100 per cent.

The level of liberalisation reached in the various countries is, on the above basis:

Germany (F.R.) : 94,

Benelux : 91.1,

Italy : 98.4.

The situation which cuts across all others is in this case that of France, where the balance of payments situation has led to a general re-introduction of quantitative restrictions and where it was not possible to carry through the promised partial restoration of liberalisation in July.

The obligations in the Treaty include gradual enlarging of quotas in geometrical progression from the sum of existing quotas, commodity by commodity, with a minimum rate of increase for each commodity and an average weighted rate to be attained on the whole amount. Under this provision the first increases are relatively small, but later they grow more and more rapidly. The most important change, which is to occur on 1 January 1959, is the obligation to offer minimum quotas equal to not less than 3 per cent of the corresponding national output. The implementation of this step cannot in general produce serious results for the output of the sectors concerned, but on the other hand the sum of these quotas all opened simultaneously can mean a considerable increase in imports; how great this increase will be will depend primarily on price relationships at this date, with due allowance for exchange rates and customs duties.

In customs matters it is less the average level of the tariffs than the forms and the extent of differentiation which have a specific impact. A uniform tariff for all products has the same effect as a rise in the exchange rate of foreign currencies and puts up import prices.

An illustration of the importance attaching to the varied incidence of duties rather than to their level is provided by the motorcar assembly works in Benelux, which are founded on the differences in customs duties applicable to parts and to complete vehicles, to which must be added the quota restrictions on the cars themselves. As customs duties cease to exist inside the Common Market these assembly works will lose this artificial advantage; on the other hand Benelux will no longer be faced with the same internal market limits on development of the engineering industries and, to recall our example, on the motorcar industry. The clearest problems which will arise in the Common Market will result from the suppression of differences in customs protection previously enjoyed by certain industries, especially in those cases where the common tariff raises the rates applicable to the raw materials and the semi-manufactured goods on which their production is based.

The tariff policy of all countries is founded on the same principle: avoidance in practice of duties on raw materials except for those which are produced in the country concerned or in areas to which the country grants a preference, a moderate rate of duties on semi-manufactured goods, and higher rates on finished goods. It is a graded system such as this which gives the producers of a country the greatest protection, as it avoids rises in costs due to the taxation of raw materials or to comparatively high rates on semi-manufactured goods. A proper estimate of the effect of reducing customs duties

will in theory be obtained only when the duties charged on raw materials are deducted from the duties charged on finished goods, since the latter are in part balanced by the former.

There is no reliable statistical yard-stick for the average level of duties in the whole of a tariff or in the main groups of products. An average which is not weighted puts all items on the same level, whether they represent large-scale imports or a minor article. A weighting by imports is an even worse formula and leads inevitably to errors. We may have a country which has no duties on the raw materials which it in fact imports and prohibitive duties which prevent any importation of manufactured goods; with this system of weighting the average of protection would apparently be nil. The only proper method would be one which weights each duty in relation to the corresponding consumption in the country concerned, as this places a correct value on the product, and the system would throw light on the extent of protection really given by the tariff. But this statistical yard-stick is not available.

The arithmetical average gives at least a rough indication of trends. With this end in view we have set out in the table below a few figures indicating the average duties which are actually in force and which differ from the rates shown in the tariff because of autonomous or conventional suspensions or temporary reductions.

	Benelux	France	Germany	Italy
Foodstuffs, beverages, tobacco	10	20/25	15	20 (30 for wheat)
Crude materials	75 % exempt, remainder 6	45 % exempt, remainder 5 - 7	60 % exempt, remainder 3 - 4	exempt, except certain products such as sulphur
Semi-manufactured products	5 - 7	15	8 - 10	15
Finished goods	10 - 15	20	15	20 - 25 plant for the Southern area exempt

The most striking differences can be seen:

- a) in the share of raw materials exempt from duties; this is lower in France largely because of the preference given to products from overseas;
- b) in the charges on semi-manufactured products, which are appreciably heavier in France and in Italy than in the other Member States.

These two fundamental differences partially explain the difference also found in finished goods, the real extent of which is reduced by the differences in the rate of duties applicable to raw materials and semi-manufactured products.

Of course an analysis sector by sector would show the importance of the customs tariffs and of the changes which will be made to them, especially as part of the common customs tariff has not yet been fixed.

The most that can be done is to obtain some pointers from the analyses of the foreign trade structure of each country and from the Benelux experiment.

The volume of imports into industrialised countries, however liberal their policy, is determined by their needs for primary products, and for raw materials these needs rise with the level of their production; economic policy has a more direct impact on the share of foodstuffs supplied from domestic production, but this is limited in quantity and in range of products by soil and climate conditions. There is therefore likely to be an increase in the sales of agricultural products, and this incidentally will be on lines helpful to the balance of trade and of payments.

The main effect of the customs union will be not so much the overall increase in trade as the decisive increase in the sales of manufactured goods among Member States. The table below will show the results of the Belgo-Luxembourg experiment.

**Composition of exports from B.L.E.U. by degree of processing
and by area of destination - 1956**

(as percentage of total exports to each area)

	Netherlands	Other Community countries	Rest of world
Raw materials and semi-manufactured products	15.1	30.0	22.0
Finished goods	58.3	24.5	42.9
ECSC products	19.9	31.5	31.2
Foodstuffs	3.5	8.5	3.9
Other	3.2	5.5	—
Total	100.0	100.0	100.0

Another characteristic experiment can be seen in the series of autonomous reductions in duties introduced by the German Government in its fight against inflationary tendencies and its effort to reduce the surplus in the balance of payments. The first reduction came into force in December 1955 and affected industrial products and some foodstuffs; the second, in January 1956, supplemented the first in respect of certain industrial headings; the third, in July 1956, lowered *ad valorem* rates by between 1/5 and 1/4, but excluded certain industrial products and in particular foodstuffs. These moves were followed in August 1957 by a decision to lower by 25 per cent the rates on 6,000 industrial headings, on which to-day 4/5 of the rates stand at between 0 and 10 per cent, only 2 per cent of the duties being higher than 15 per cent. A comparison of total imports and the imports of semi-manufactured industrial products shows that these successive and cumulative reductions in duty rates have

reached the point where imports have expanded substantially. From 1955 to the second quarter of 1957 the proportion of manufactured goods to overall imports remained remarkably constant at 29 to 31 per cent. It rose gradually to more than 35 per cent in 1958. In the same period, because of the slowing down in expansion, total imports fell again to the level of the first 6 months of 1957, while from one year to the next imports of industrial products rose by more than 20 per cent.

The expansion of imports of finished goods cannot be a matter of one-way traffic, and general disalignment of prices cannot in the long run continue to exist in a common market. The Benelux experiment shows in fact that, in a given branch of industry such as, for instance, textiles, changes occur in both directions; they are both cause and effect of greater specialisation. We should not however underestimate the danger that a setback in the trade cycle may lead enterprises to back-pedal in the effort to pick out in their range of products those articles which would be least affected by the fall in demand.

The most decisive factor for the success of the Common Market is the upward movement of production and of income; expansion for all means an increase in mutual outlets and at the same time makes it possible for each state to absorb without hurt the increases in imports which were caused by the expansion.

STATISTICAL ANNEX
PART A-II — THE EXTERNAL BALANCE

TABLE I

Balance of payments of the countries of the Community

(overall balance, including trade between the countries of the Community)

	Merchandise		Services and miscellaneous (net)	Private transfers (net)	Current balance	Long-term private capital (net)	Other capital (net)	Errors and omissions (net)	Capital balance	Current balance plus capital balance	Foreign Aid	Changes in gold and dollar assets (net)	Other short-term claims	Total of last three columns
	Import	Export												
1954														
B.L.E.U.	2 345	2 373	28	14	25	54	74	79	59	—	1	6	39	35
France	3 675	4 104	429	47	585	40	534	314	260	405	186	334	257	405
Germany	4 426	5 360	934	14	916	85	145	99	329	587	63	759	109	587
Italy	2 217	1 582	— 636	409	115	51	92	36	107	8	63	141	86	8
Netherlands	2 339	2 282	— 257	347	— 100	72	152	38	42	58	6	72	8	58
Total EEC	15 202	15 701	499	150	1 510	55	665	138	582	1 007	319	1 311	17	1 007
1955														
B.L.E.U.	2 594	2 837	243	16	293	170	46	74	198	94	0	134	39	94
France	4 017	4 720	703	38	1 010	30	686	107	549	461	59	594	74	461
Germany	5 478	6 264	786	— 84	656	66	192	54	204	451	24	379	95	451
Italy	2 439	1 777	— 662	139	— 71	101	72	31	142	71	37	200	92	71
Netherlands	2 735	2 558	— 177	10	262	19	66	173	258	4	—	12	9	4
Total EEC	17 263	18 156	893	157	2 150	124	826	118	1 068	1 081	120	1 319	108	1 081
1956														
B.L.E.U.	2 489	3 243	254	20	366	185	29	91	305	62	0	23	39	62
France	4 957	4 513	— 444	69	— 923	14	653	595	44	967	86	725	156	967
Germany	6 153	7 510	1 357	— 48	1 259	2	272	151	123	— 1 136	29	1 025	— 140	1 136
Italy	2 800	2 094	— 706	182	— 74	135	61	33	163	88	22	127	17	88
Netherlands	3 206	2 711	— 495	317	— 173	21	63	13	71	238	1	101	136	238
Total EEC	20 105	20 071	— 84	226	455	60	956	635	381	81	188	348	129	81

(000,000 \$)

TABLE 2
Current balance of payments between the countries of the
Community and the dollar area

(in '000,000 \$)

	Merchandise			Services and miscellaneous (net)	Private transfers (net)	Current balance
	Import	Export	Balance			
1954						
B.L.E.U.	348	255	— 93	— 30 ¹⁾		— 123
France	395	262	— 133	773	2	642
Germany	653	577	— 76	226	9	159
Italy	338	215	— 123	266	81	224
Netherlands	430	152	— 278	81	0	— 197
Total EEC	2 164	1 461	— 703	1 316	92	705
1955						
B.L.E.U.	390	331	— 59	— 30 ¹⁾		— 89
France	464	322	— 142	913	3	774
Germany	1 001	723	— 278	210	3	— 65
Italy	448	265	— 183	275	105	197
Netherlands	473	205	— 268	59	0	— 209
Total EEC	2 776	1 846	— 931	1 428	111	607
1956						
B.L.E.U.	477	426	— 51	— 30 ¹⁾		— 81
France	689	380	— 309	380	13	84
Germany	1 318	908	— 410	324	1	— 84
Italy	574	350	— 224	268	116	160
Netherlands	541	172	— 369	32	— 1	— 338
	3 599	2 236	— 1 363	976	129	— 258

Source: OEEC.

¹⁾ Contained in item "Services and miscellaneous (net)".

TABLE 3 (1)
General balance of current payments - Germany
1956

(in '000,000 DM)

	Income	% of total income	Expenditure	% of total expenditure	Balance
A — <i>Merchandise (fob)</i>	31 541	80.6	25 533	73.5	+ 6 008
B — <i>Services and transfers</i>					
Transport	2 704	7.0	3 590	10.3	— 886
Banking and insurance	147	0.4	211	0.6	— 64
Tourism	1 555	4.0	1 078	3.1	+ 477
Income from capital	290	0.7	732	2.2	— 442
Emigrants' earnings and remittances	149	0.4	311	0.9	— 162
Private donations	58	0.1	267	0.8	— 209
Other services and incomes ¹⁾	266	0.7	1 294	3.7	— 1 028
C — <i>Governmental transactions and services</i>					
Military expenditure ²⁾	1 757	4.5	—	—	+ 1 757
Transfers and services ³⁾	644	1.6	1 701	4.9	— 1 057
Total	39 111	100.0	34 717	100.0	+ 4 394

Source: Statistisches Jahrbuch für die Bundesrepublik Deutschland - 1957.

¹⁾ This item includes "Commission, Expenses for Publicity and Trade Fairs, Licences and Patents".²⁾ "Services for the Allied Forces".³⁾ "Postal and other Services, Governmental Transfers".

TABLE 3 (2)

General balance of current payments - France

1956

(in '000,000 Fr.)

	Income				Expenditure			% of total expenditure
	Metropolitan France	Overseas territories	Total	% of total income	Metropolitan France	Overseas territories	Total	
A - <i>Merchandise</i>	1 147 350	143 161	1 290 711	70.8	1 430 571	186 685	1 617 257	76.5
B - <i>Services and transfers</i>								
Transport	55 930	5 032	58 962	3.2	136 516	14 329	150 845	7.1
Banking and insurance	10 818	281	11 099	0.6	13 967	485	14 453	0.7
Tourism	53 402	751	54 153	3.0	76 571	4 876	81 447	3.8
Income from capital	68 855	896	69 751	3.8	32 861	3 387	36 248	1.7
Emigrants' earnings and remittances	3 592	277	3 069	0.2	43 723	1 814	45 537	2.2
Other income and services ¹⁾	74 440	3 581	78 021	4.3	82 137	3 559	85 696	4.1
Other items ²⁾	41 589	10 476	52 065	2.9	13 980	12 165	26 145	1.2
C - <i>Governmental transactions and services</i> ³⁾	193 619	10 284	203 903	11.2	56 891	413	57 304	2.7
Total	1 647 795	174 739	1 822 534	100.0	1 867 217	227 713	2 114 932	100.0
Balance of current payments	- 239 422	- 58 974	- 292 398					

Source: Ministry of Finance - No. 112, April 1958. Statistiques et Etudes Financières.

¹⁾ Income from licences and patents, P. T. T., broadcasting, etc...²⁾ Other transactions, cancellations and re-transfers.³⁾ Incl. "Settlement of transactions initiated during the period of hostilities".

TABLE 3 (3)

General balance of current payments - Italy

1956

(in '000,000,000 Lit.)

	Income	% of total income	Expenditure	% of total expenditure	Balance
A — <i>Merchandise (fob)</i>	1 301.9	61.1	1 759.2	80.5	— 457.0
B — <i>Services and transfers</i>					
Transport	272.8	12.8	269.8	12.4	+ 3.0
Banking and insurance	160.6	7.5	26.1	1.2	+ 134.5
Tourism	23.5	1.2	40.4	1.8	— 16.9
Income from capital	112.8	5.3	4.9	0.2	+ 107.9
Emigrants' earnings and remittances	145.8	6.8	47.7	2.2	+ 98.1
Private donations and sundry items					
C — <i>Governmental transactions and services</i>					
Military expenditure	81.8	3.8	6.4	0.3	+ 75.4
Services, transfers, donations ¹⁾	31.5	1.5	30.5	1.4	+ 1.0
Total	2 130.7	100.0	2 185.0	100.0	— 54.3

Source: "Relazione generale sulla situazione economica del Paese" - 1957.

¹⁾ Incl. reparations payments (5,300,000,000 Lit.).

TABLE 3 (4)

General balance of current payments - B.L.E.U.

1956

(in '000,000,000 Bfr.)

	Income	% of total income	Expenditure	% of total expenditure	Balance
A — <i>Merchandise</i> ¹⁾ (fob)	152.0	77.6	144.4	79.0	+ 7.7
B — <i>Services and transfers</i>					
Transport	12.8	6.5	15.5	8.5	— 2.7
Banking and insurance	1.1	0.6	1.2	0.7	— 0.1
Tourism	4.0	2.1	2.8	1.5	+ 1.2
Income from capital	8.4	4.3	4.9	2.7	+ 3.5
Emigrants' earnings and remittances	3.2	1.6	1.6	0.9	+ 1.6
Other income and services	9.3	4.7	7.2	3.9	+ 2.1
Private donations	2.1	1.1	1.1	0.6	+ 1.0
C — <i>Governmental transactions and services</i>					
Military expenditure	3.0	1.5	4.0	2.2	— 1.0
Transfers and services ²⁾					
Total	159.9	100.0	182.6	100.0	+ 13.3

Source: Rapport sur la Situation économique de la Belgique.

¹⁾ Incl. gold other than coins.²⁾ Military expenditure and governmental transfers should probably be included in the item: "Governmental transactions not otherwise accounted for".

TABLE 3 (5)

General balance of current payments - Grand Duchy of Luxembourg
1956

(in '000,000 Bfr.)

	Income	% of total income	Expenditure	% of total expenditure	Balance
A — <i>Merchandise</i>	17 795	95.3	15 505	92.9	+ 2 290
B — <i>Services and transfers</i>					
Transport	200	1.1	—	—	+ 200
Tourism	360	1.9	275	1.7	+ 85
Banking and insurance	—	—	35	0.2	— 55
Income from capital	300	1.6	845	5.1	— 545
C — <i>Governmental transactions and services</i>					
Transfers and services	27	0.1	7	0.1	+ 20
Total	18 682	100.0	16 687	100.0	+ 1 995

Source: Rapport sur la Situation Economique du grand-duché du Luxembourg - 1958.

TABLE 3 (6)

General balance of current payments - Netherlands
1956

(in '000,000 Hfl.)

	Income	% of total income	Expenditure	% of total expenditure	Balance
A — <i>Merchandise (fob)</i>	10 415	72.5	12 302	81.9	— 1 887
B — <i>Services and transfers</i>					
Transport	1 691	11.8	1 064	7.1	+ 627
Banking and insurance	36	0.3	—	—	+ 36
Tourism	234	1.6	285	1.9	— 51
Income from capital	701	4.9	455	3.0	+ 246
Other income and services ¹⁾	1 030	7.2	545	3.6	+ 485
Private donations	86	0.6	72	0.5	+ 14
C — <i>Governmental transactions and services</i>					
Military expenditure ²⁾	107	0.7	167	1.1	— 60
Transfers and services	58	0.4	125	0.9	— 67
Total	14 358	100.0	15 015	100.0	— 657

Source: "Rapport sur la Situation Economique des Pays-Bas - 1958.

¹⁾ Incl. emigrants' earnings and remittances.²⁾ Military expenditure is probably included in the item: "Governmental transactions not otherwise accounted for".

TABLE 3 a (1)
General balance of current payments - Germany
 1956

(in '000,000 \$)

	Income	Expenditure	Balance
A — <i>Merchandise (fob)</i>	7 510.0	6 079.4	+ 1 431.7
B — <i>Services and transfers</i>			
Transport	643.8	854.8	— 211.1
Banking and insurance	35.0	50.3	— 15.3
Tourism	370.2	256.9	+ 113.7
Income from capital	69.0	174.4	— 105.3
Emigrants' earnings and remittances	35.5	74.1	— 38.6
Private donations	13.8	63.6	— 49.8
Other income and services ¹⁾	63.3	308.4	— 245.0
C — <i>Governmental transactions and services</i>			
Military expenditure ²⁾	418.3	—	+ 418.7
Transfers and services ³⁾	153.3	405.3	— 251.9
Total	9 312.2	8 266.1	+ 1 046.1

Source: Statistisches Jahrbuch für die Bundesrepublik Deutschland - 1957.

¹⁾ This item includes "Commission, Expenses for Publicity and Trade Fairs, Licences and Patents".

²⁾ "Services for the Allied Forces".

³⁾ "Postal and other Services, Governmental Transfers".

TABLE 3 a (2)
General balance of current payments - France
 1956

(in '000,000 \$)

	Income			Expenditure		
	Metropol- itan France	Overseas territories	Total	Metropol- itan France	Overseas territories	Total
A — <i>Merchandise</i>	3 278 713	409 031	3 687 744	4 087 347	533 386	4 620 733
B — <i>Services and transfers</i>						
Transport	154 086	14 376	168 462	390 046	40 939	430 985
Banking and insurance	30 908	803	31 711	39 906	1 387	41 293
Tourism	152 576	2 145	154 721	218 774	13 932	232 706
Income from capital	196 729	2 560	199 289	93 890	9 677	103 567
Emigrants' earnings and remittances	10 262	791	11 053	124 924	5 183	130 107
Other income and services ¹⁾	212 687	10 233	222 920	234 676	10 169	244 845
Other items ²⁾	118 827	30 930	149 757	39 942	34 755	74 697
C — <i>Governmental transactions and services</i> ³⁾	553 197	29 383	582 580	162 547	1 179	163 726
Total	4 707 985	500 252	5 208 237	5 392 052	650 607	6 042 659
Balance of current payments	-684 067	-150 355	-834 422			

Source: Ministry of Finance: Statistiques et Etudes Financières - No. 112, April 1958.

¹⁾ Income from licences and patents, P. T. T., broadcasting, etc...

²⁾ Other transactions, cancellations and re-transfers.

³⁾ Incl. "Settlement of transactions initiated during the period of hostilities". Any breakdown of military expenditure could only be extremely arbitrary.

TABLE 3a (3)
General balance of current payments - Italy
 1956

	(in '000,000 \$)		
	Income	Expenditure	Balance
A — <i>Merchandise</i> (fob)	2 083.0	2 814.7	— 731.2
B — <i>Services and transfers</i>			
Transport	436.5	431.7	+ 4.8
Banking and insurance	257.0	41.8	+ 215.2
Tourism	37.6	64.6	— 27.0
Income from capital			
Emigrants' earnings and remittances	180.5	7.8	+ 172.6
Private donations and other items	233.3	76.3	+ 157.0
C — <i>Governmental transactions and services</i>			
Military expenditure	130.9	10.2	+ 120.6
Services, transfers, donations ¹⁾	50.4	48.8	+ 1.6
Total	3 409.1	3 496.0	— 86.9

Source: "Relazione generale sulla situazione economica del Paese" - 1957.

¹⁾ Incl. reparations payments (8,500,000 \$).

TABLE 3a (4)
General balance of current payments - B.L.E.U.
 1956

	(in '000,000 \$)		
	Income	Expenditure	Balance
A — <i>Merchandise</i> ¹⁾ (fob)	3 022.4	2 869.3	+ 153.1
B — <i>Services and transfers</i>			
Transport	254.5	308.2	— 53.7
Banking and insurance	21.9	23.9	— 2.0
Tourism	79.5	55.7	+ 23.8
Income from capital	167.0	97.4	+ 69.6
Emigrants' earnings and remittances	63.6	31.8	+ 31.8
Other income and services	184.9	143.2	+ 41.7
Private donations	41.8	21.9	+ 19.9
C — <i>Governmental transactions and services</i>			
Military expenditure	59.7	79.5	— 19.8
Transfers and services ²⁾			
Total	3 895.3	3 630.9	+ 264.4

Source: Rapport sur la Situation Economique de la Belgique.

¹⁾ Incl. gold other than coins.

²⁾ Military expenditure and governmental transfers should probably be included in the item: "Governmental transactions not otherwise accounted for".

TABLE 3a (5)

General balance of current payments - Grand Duchy of Luxembourg

1956

(in '000,000 \$)

	Income	Expenditure	Balance
A — <i>Merchandise</i>	353.8	308.3	+ 45.5
B — <i>Services and transfers</i>			
Transport	4.0	—	+ 4.0
Tourism	7.2	5.5	+ 1.7
Banking and insurance	—	1.1	— 1.1
Income from capital	6.0	16.8	— 10.8
C — <i>Governmental transactions and services</i>			
Transfers and services	0.5	0.1	+ 0.4
Total	371.5	331.8	+ 39.7

Source: Rapport sur la Situation Economique du grand-duché du Luxembourg - 1958.

TABLE 3a (6)

General balance of current payments - Netherlands

1956

(in '000,000 \$)

	Income	Expenditure	Balance
A — <i>Merchandise (fob)</i>	2 741.2	3 237.9	— 496.7
B — <i>Services and transfers</i>			
Transport	445.1	280.0	+ 165.0
Banking and insurance	9.5	—	+ 9.5
Tourism	61.6	75.0	— 13.4
Income from capital	184.5	119.8	+ 64.7
Other services and incomes ¹⁾	271.1	143.4	+ 127.7
Private donations	22.6	20.0	+ 3.7
C — <i>Governmental transactions and services</i>			
Military expenditure ²⁾	28.2	44.0	— 15.8
Transfers and services	15.3	32.9	— 17.6
Total	3 779.1	3 952.0	— 172.9

Source: Rapport sur la Situation Economique des Pays-Bas.

¹⁾ Incl. emigrants' earnings and remittances.²⁾ Military expenditure is probably included in the item: "Governmental transactions not otherwise accounted for".

TABLE 4
Rate of self-supply in selected agricultural products

Average 1953-54 to 1955-56

(Domestic production of selected foodstuffs in % of total amounts available)

	Germany (F. R.)	Belgium Luxem- bourg	France	Italy	Nether- lands	Commu- nity
Bread grain	74	54	119	92	46	92
Coarse grain	76	44	95	95	40	80
Rice	0	—	61	142	—	
Potatoes (incl. potato flour)	99	96	101	100	141	103
Refined sugar	83	140	126	98	96	107
Pulses	51	93	75	104	146	93
Vegetables	83	99	97	111	143	101
Fruit	62	78	61	126	96	87
Meat	94	96	102	91	128	99
Eggs	64	102	97	92	241	97
Fish	93	62	95	66	214	92
Milk						
Cheese	82	34	103	98	214	100
Butter	94	93	102	91	244	102
Other fats and oils	28	24	45	75	36	
Total fats and oils	43	47	66	77	51	52
<i>Share of own total production</i>						
1) weighted on the basis of prices	74	70	98	98	113	92
2) weighted on the basis of calories	65	60	95	95	73	82

Source: OEEC Agricultural and Food Statistics, Paris 1956.

TABLE 5
Percentage share of exports and imports of goods and services
in the G.N.P. at factor cost and current prices

Year	Germany		Belgium		France		Italy		Netherlands		Luxembourg	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1950	15.3	14.0	—	—	—	—	13.5	12.7	41.0	39.6	70.7	69.3
1951	16.5	16.5	—	—	—	—	16.3	14.6	54.0	47.9	83.5	102.8
1952	17.1	17.1	—	—	18.3	17.1	16.8	12.7	60.8	60.4	86.1	105.8
1953	17.0	21.5	33.0	34.2	16.8	17.6	16.2	13.6	50.8	60.0	83.3	84.7
1954	20.1	24.2	35.2	35.5	16.9	18.1	15.3	14.0	50.6	57.3	79.1	81.4
1955	22.1	25.0	—	—	16.4	18.1	15.5	14.4	56.0	57.4	86.6	90.5
1956	23.0	26.9	—	—	17.9	15.7	17.0	15.7	55.3	59.0	89.0	99.5
1957	24.8	29.4	—	—	18.2	15.9	18.6	17.7	61.4	59.1	—	—

Source: OEEC Statistical Bulletin, General Statistics, July 1958.

TABLE 6
Distribution of external trade of EEC countries
 1956
(Distribution by geographical areas in %)

Geographical areas	Germany		B.L.E.U.		France/Saar		Italy		Netherlands		Total EEC	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Imp.	Exp.
E E C	26.9	29.8	42.9	45.1	24.0	24.9	23.8	25.5	41.4	41.0	31.1	32.2
United Kingdom	5.2	4.1	6.7	6.4	5.5	6.0	5.9	6.6	8.2	11.9	6.5	6.3
Rest of Western Europe	20.9	30.6	8.9	13.6	8.8	15.9	16.3	23.7	8.4	15.5	13.3	21.7
Rest of sterling area ¹⁾	10.1	8.4	7.7	6.8	15.1	4.4	17.1	9.5	6.4	8.0	11.4	7.3
Associated areas ²⁾	2.8	1.4	8.0	5.7	23.6	31.3	2.5	2.7	2.2	3.9	8.6	9.4
USA and Canada	15.6	8.0	15.3	11.3	11.6	5.6	18.6	11.0	17.2	7.1	15.2	8.1
Eastern Europe and China	4.2	3.0	2.1	2.5	2.2	2.5	2.4	3.2	2.5	2.1	2.8	2.7
Rest of world ³⁾	14.3	14.7	8.4	8.6	9.2	9.6	13.4	17.8	8.8	10.5	11.1	12.3
World excl. EEC	73.1	70.2	57.1	54.9	76.0	75.1	76.2	74.5	55.6	59.0	68.9	67.8
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

¹⁾ Incl. the British colonies.

²⁾ Not incl. the sterling area.

³⁾ Japan, Latin America and "Other Countries exporting primary products".

TABLE 7
Share of individual member countries in external trade
of the Community with different geographical areas
 1956
(as percentage)

Geographical areas	Germany		B.L.E.U.		France/Saar		Italy		Netherlands		Total EEC	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Import () = million \$	Export () = million \$
E E C	24.9	33.7	20.4	22.0	19.3	17.9	11.1	8.4	24.3	18.0	100.0 (6 437)	100.0 (6 437)
United Kingdom	23.3	24.0	15.4	16.1	21.3	22.2	13.4	11.0	26.6	26.7	100.0 (1 340)	100.0 (1 253)
Rest of Western Europe	45.2	51.4	9.8	9.9	16.4	16.9	17.9	11.7	10.7	10.1	100.0 (2 761)	100.0 (4 329)
Rest of sterling area	25.4	42.0	10.0	14.7	33.0	14.0	21.9	13.9	9.7	15.4	100.0 (2 361)	100.0 (1 463)
Associated areas	9.5	5.3	13.7	9.5	68.2	76.4	4.2	3.0	4.4	5.8	100.0 (1 784)	100.0 (1 889)
USA and Canada	29.3	35.9	14.8	21.8	19.0	15.7	17.8	14.3	19.1	12.3	100.0 (3 160)	100.0 (1 628)
Eastern Europe and China	42.8	41.2	10.8	14.6	19.1	20.2	12.2	12.9	15.1	11.1	100.0 (582)	100.0 (534)
Rest of world	37.1	43.6	11.2	11.0	20.7	18.0	17.5	15.4	13.5	12.0	100.0 (2 299)	100.0 (2 456)
World	28.7	36.4	14.8	15.7	24.9	23.1	14.6	10.7	17.0	14.1	100.0 (20 724)	100.0 (19 989)
World excl. EEC	30.5	37.7	12.2	12.7	27.5	25.6	16.1	11.7	13.7	12.3	100.0 (14 287)	100.0 (13 552)

TABLE 8
Internal trade between the countries of the EEC
 1956

(in '000,000 current dollars, fob prices)

Export Import	Germany	France	Italy	Benelux			EEC
				B.L.E.U. ¹⁾ (a)	Nether- lands ¹⁾ (b)	Total Benelux ²⁾ (a + b)	
Germany	—	475	288	(322)	(516)	838	1 601
France	586	—	153	(339)	(162)	501	1 240
Italy	395	186	—	(64)	(73)	137	718
Benelux							
B.L.E.U. (a) ¹⁾	502	356	49	—	(406)	²⁾	(1 313)
Netherlands (b) ¹⁾	686	132	53	(694)	—	²⁾	(1 565)
Total Benelux (a + b) ²⁾	1 188	488	102	²⁾	²⁾	²⁾	1 778
E E C	2 169	1 149	543	(1 419)	(1 157)	1 476	5 337
Balance of total trade of each country within the EEC							
(Total of exports or imports)	+ 568	— 91	— 175	(+ 106)	(— 408)	— 302	± 0

¹⁾ Incl. internal trade (figures in brackets).²⁾ Excl. internal trade.

TABLE 8a

Internal trade between the countries of the EEC

1956

(in % of the total trade by each member country with the other member countries)

Country	Germany		France		Italy		Benelux						EEC	
							B.L.E.U. 1)		Netherlands 1)		Total Benelux (a + b) 1)			
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Germany	—	—	41.3	47.3	53.0	55.0	(22.7)	(38.3)	(44.6)	(43.8)	56.8	66.8	30.0	40.6
France	27.0	29.7	—	—	28.2	25.9	(23.9)	(27.1)	(14.0)	(8.4)	33.9	27.5	23.2	21.5
Italy	18.2	18.0	16.2	12.3	—	—	(4.5)	(3.7)	(6.3)	(3.4)	9.3	5.7	13.5	10.2
Benelux														
B.L.E.U. (a) 1)	23.2	20.1	31.0	27.3	9.0	8.9	—	—	(35.1)	(44.4)	2)	2)	17.0	13.6
Netherlands (b) 1)	31.6	32.2	11.5	13.1	9.8	10.2	(48.9)	(30.9)	—	—	2)	2)	16.3	14.1
Total Benelux (a + b) 2)	54.8	52.3	42.5	40.4	18.8	19.1	2)	2)	2)	2)	2)	2)	33.3	27.7
EEC	100.0	100.0	100.0	100.0	100.0	100.0	(100.0)	(100.0)	(100.0)	(100.0)	100.0	100.0	100.0	100.0

1) Incl. internal trade (figures in brackets).

2) Excl. internal trade.

TABLE 9

Imports of Member States, by SITC Groups

1956

(in '000,000 \$)

Country	SITC Groups															
	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9					
	World	World less EEC	World	World less EEC	World	World less EEC	World	World less EEC	World	World less EEC	World	World less EEC				
Germany	1 887.2	1 441.4	2 083.0	1 875.2	714.5	563.4	78.9	331.4	239.2	72.2	1 600.4	928.1	58.0	6 616.0	5 047.4	76.3
France	1 365.1	1 232.0	1 570.4	1 468.6	997.0	781.8	78.4	581.8	315.5	54.2	1 038.9	584.2	56.2	5 553.3	4 382.0	78.9
Italy	475.8	412.2	1 059.4	925.3	624.7	549.6	88.0	331.8	177.0	53.3	677.2	406.7	60.1	3 168.9	2 470.9	78.0
B.L.E.U.	480.1	319.4	766.5	556.5	365.2	218.2	59.7	571.2	238.6	41.8	1 094.7	592.0	54.1	3 277.7	1 924.7	58.7
Netherlands	546.8	484.5	644.9	550.3	559.3	451.1	80.7	695.2	262.2	37.7	1 265.7	423.8	33.9	3 711.9	2 176.8	58.6
Total	4 755.0	3 889.5	6 124.2	5 375.9	3 260.7	2 563.8	78.6	2 511.4	1 232.5	49.1	5 676.9	2 939.8	52.8	22 328.3	16 001.8	71.7
Germany	39.7	37.1	34.0	34.9	21.9	22.0		13.2	19.4		28.2	31.6		29.6	31.5	
France	28.7	31.7	25.6	27.3	30.6	30.5		23.2	25.6		18.3	19.9		24.9	27.4	
Italy	10.0	10.6	17.3	17.2	19.2	21.4		13.2	14.4		11.9	13.8		14.2	15.4	
B.L.E.U.	10.1	8.2	12.5	10.4	11.2	8.5		22.7	19.4		19.3	20.1		14.7	12.0	
Netherlands	11.5	12.5	10.5	10.2	17.2	17.6		27.7	21.3		22.3	14.6		16.6	13.6	
Total	100.0	100.0	100.0	100.0	100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0	

(as percentage)

TABLE 9 a

Imports of Member States, by SITC Groups

1957

(in '000,000 \$)

Country	SITC Groups																	
	0 and 1		2 and 4		3		7		[5, 6, 8 and 9		0 to 9							
	World	World less EEC	World	World less EEC	World	World less EEC	World	World less EEC	World	World less EEC	World	World less EEC						
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%						
Germany	2 057.7	1 524.7	74.1	2 319.6	2 103.5	90.7	867.2	724.1	83.5	440.8	313.0	71.0	1 813.7	1 070.4	59.0	7 499.0	5 735.7	76.5
France	1 327.3	1 222.0	92.1	1 741.9	1 650.1	94.7	1 260.2	981.3	77.9	699.4	375.7	53.7	1 088.5	580.3	53.3	6 116.8	4 808.9	78.6
Italy	509.6	444.7	87.3	1 232.7	1 080.0	87.6	754.8	679.1	90.0	405.6	204.2	50.3	723.2	434.5	60.1	3 626.0	2 842.6	78.4
B.L.E.U.	477.4	289.1	60.6	786.1	584.5	74.4	441.6	262.9	59.5	580.2	234.0	40.3	1 131.4	559.1	49.4	3 416.7	1 929.6	56.5
Netherlands	579.5	495.0	85.4	676.4	582.9	86.2	692.0	581.2	84.0	790.4	310.8	39.3	1 366.2	446.5	32.7	4 104.5	2 416.4	58.9
Total	4 951.5	3 975.5	80.3	6 756.7	6 001.0	88.8	4 015.8	3 228.6	80.4	2 916.4	1 437.7	49.3	6 123.0	3 090.8	50.5	24 763.0	17 733.2	71.6
Germany	41.6	38.4		34.3	35.0		21.6	22.4		15.1	21.8		29.6	34.6		30.3	32.3	
France	26.8	30.7		25.8	27.5		31.4	30.4		24.0	26.1		17.8	18.8		24.7	27.1	
Italy	10.3	11.2		18.2	18.0		18.8	21.0		13.9	14.2		11.8	14.1		14.6	16.0	
B.L.E.U.	9.6	7.3		11.6	9.7		11.0	8.1		19.9	16.3		18.5	18.1		13.8	10.9	
Netherlands	11.7	12.5		10.0	9.7		17.2	18.0		27.1	21.6		22.3	14.4		16.6	13.6	
Total	100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0	

(as percentage)

TABLE 10

Exports of Member States, by SITC Groups

1956

(in '000,000 \$)

SITC Groups Destination	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9					
	World	World less EEC		World	World less EEC		World	World less EEC		World	World less EEC					
		\$	%		\$	%		\$	%		\$	%				
Germany	180.3	134.7	74.7	258.3	573.6	233.6	40.7	2 974.4	2 160.7	72.6	3 371.1	2 530.4	75.1	7 357.7	5 189.2	70.5
France	649.6	498.7	76.8	427.5	317.9	210.5	66.2	797.5	647.9	81.2	2 349.0	1 857.1	79.1	4 541.4	3 393.3	74.7
Italy	486.8	291.8	59.9	123.9	175.1	160.4	91.6	454.3	353.7	77.9	917.1	742.9	79.0	2 157.2	1 614.0	74.8
B.L.E.U.	130.6	55.9	42.8	239.8	194.0	65.6	33.8	363.3	183.3	50.5	2 239.9	1 344.6	60.0	3 167.5	1 748.9	55.2
Netherlands	864.8	452.8	52.4	259.6	349.6	234.1	57.0	420.4	292.5	69.6	967.3	607.9	62.8	2 861.7	1 705.2	59.6
Total	2 312.1	1 433.9	62.0	1 309.1	1 610.2	904.2	56.2	5 009.9	3 638.1	72.6	9 844.4	7 064.9	71.8	20 085.5	13 650.6	

(as percentage)

Germany	7.8	9.4		19.7	35.6	25.8		59.4	59.4		34.2	35.8		36.6	38.0	
France	28.1	34.8		32.7	19.7	23.3		15.9	17.8		23.9	26.3		22.6	24.9	
Italy	21.1	20.3		9.5	10.9	17.7		9.1	9.7		9.3	10.3		10.7	11.8	
B.L.E.U.	5.6	3.9		18.3	12.0	7.3		7.3	5.0		22.8	19.0		15.8	12.8	
Netherlands	37.4	31.6		19.8	21.7	25.9		8.4	8.0		9.8	8.6		14.3	12.5	
Total	100.0	100.0		100.0	100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0	

TABLE 11

Foreign trade of EEC countries by currency areas

1956

(in '000,000 \$)

Country	European Payments Union (incl. sterling area)	Dollar area	Other countries	Total
I — Imports (cif)				
Germany (F. R.)	3 945.9	1 503.5	1 167.1	6 616.5
Belgium-Luxembourg	2 418.2	539.3	320.2	3 277.7
France	4 118.4	818.1	616.8	5 553.3
Italy	2 009.8	617.9	541.2	3 168.9
Netherlands	2 582.1	755.6	374.2	3 711.9
Total EEC	15 074.4	4 234.4	3 019.5	22 328.3
II — Exports (fob)				
Germany (F. R.)	5 230.7	926.6	1 200.4	7 357.7
Belgium-Luxembourg	2 398.1	453.1	316.3	3 167.5
France	3 656.7	361.4	523.3	4 541.4
Italy	1 394.4	335.4	427.4	2 157.2
Netherlands	2 291.0	284.3	286.4	2 861.7
Total EEC	14 970.9	2 360.8	2 753.8	20 085.5
III — Balance of exports				
Germany (F. R.)	+ 1 284.8	— 576.9	+ 33.3	+ 741.2
Belgium-Luxembourg	— 20.1	— 86.2	— 3.9	— 110.2
France	— 461.7	— 456.7	— 93.5	— 1 011.9
Italy	— 615.4	— 282.5	— 113.8	— 1 011.7
Netherlands	— 291.1	— 471.3	— 87.8	— 850.2
Total EEC	— 103.5	— 1 873.6	— 265.7	— 2 242.8

Source: OEEC Statistical Bulletins, Foreign Trade.

TABLE 11a

Foreign trade of EEC countries by currency areas

1957

(in '000,000 \$)

Country	European Payments Union (incl. sterling area)	Dollar area	Other countries	Total
<i>I — Imports (cif)</i>				
Germany (F. R.)	4 307.6	1 998.1	1 193.3	7 499.0
Belgium-Luxembourg	2 536.3	549.5	330.9	3 416.7
France	4 448.8	1 044.1	623.9	6 116.8
Italy	2 128.1	824.7	673.2	3 626.0
Netherlands	2 815.9	835.4	453.2	4 104.5
Total EEC	16 236.7	5 251.8	3 274.5	24 763.0
<i>II — Exports (fob)</i>				
Germany (F. R.)	6 011.5	1 134.5	1 428.7	8 574.7
Belgium-Luxembourg	2 414.4	403.7	353.3	3 171.4
France	4 108.1	411.9	527.4	5 047.4
Italy	1 629.2	395.2	516.2	2 540.6
Netherlands	2 498.5	271.4	327.5	3 097.4
Total EEC	16 661.7	2 616.7	3 153.1	22 431.5
<i>III — Balance of exports</i>				
Germany (F. R.)	+ 1 703.9	— 863.6	+ 235.4	+ 1 075.5
Belgium-Luxembourg	— 121.9	— 145.8	+ 22.4	— 245.3
France	— 340.7	— 632.2	— 96.5	— 1 069.4
Italy	— 498.9	— 429.5	— 157.0	— 1 085.4
Netherlands	— 317.4	— 564.0	— 125.7	— 1 007.1
Total EEC	+ 425.0	— 2 635.1	— 121.4	— 2 331.5

Source: OEEC Statistical Bulletins, Foreign Trade.

TABLE 12

EEC imports of foodstuffs and crude materials

1956

(in '000,000 \$)

	EEC	USA	United Kingdom
Food, beverages, tobacco	4 755	3 271	4 064
Animal and vegetable oils and fats	475	92	161
Total of agricultural products	5 230	3 363	4 225
Crude materials (excl. foodstuffs and fuels)	5 649	2 848	2 929
Mineral fuels, etc.	3 261	1 278	1 158
Total of crude materials	8 910	4 126	4 087
Total of foodstuffs and crude materials	14 140	7 489	8 312
Estimated share of foodstuffs and crude materials in world trade ¹⁾	31 %	16 %	18 %

Source: Yearbook of International Trade Statistics 1956 - vol. I - United Nations. OEEC Foreign Trade Statistics, Series IV.

¹⁾ Based on approximately 90 % of total world trade.

TABLE 13

Imports of foodstuffs and crude materials, by areas of origin

1956

(in '000,000 \$)

Area of origin	Areas of destination		
	EEC	USA	United Kingdom
EEC	2 311	251	642
USA	2 017	—	783
United Kingdom	286	169	—
Rest of world	9 526	7 069	6 887

Source: OEEC Foreign Trade Statistics, Series IV.

TABLE 14

EEC Exports of industrial products
1956

(in '000,000 \$)

	EEC	USA	United Kingdom
Chemicals	1 718	1 273	685
Machinery and transport equipment	5 010	6 625	3 450
Miscellaneous manufactured articles	7 907	3 987	3 202
Total of industrial products	14 634	11 884	7 337
Estimated share of industrial products in world trade ¹⁾	33 %	26 %	16 %

Source: OEEC Foreign Trade Statistics, Series IV.

¹⁾ Based on approximately 90 % of total world trade.

TABLE 15

Exports of industrial products by areas of destination
1956

(in '000,000 \$)

Area of Origin \ Destination	EEC	USA	United Kingdom
EEC	4 118	922	902
USA	1 192	—	533
United Kingdom	711	267	—
Rest of world	8 618	10 695	5 903

TABLE 16

Imports by groups of products

1956 and 1957

GERMANY (F. R.)

(in '000,000 \$ as percentage)

SITC Groups Area of origin	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1956												
Benelux	225.3	11.9	118.5	5.7	64.3	9.0	43.7	13.2	344.6	21.5	796.4	12.0
Other EEC countries	220.5	11.7	89.3	4.3	86.8	12.1	48.5	14.6	327.7	20.5	772.7	11.6
(Total EEC)	(445.8)	(23.6)	(207.8)	(10.0)	(151.1)	(21.1)	(92.2)	(27.8)	(672.3)	(42.0)	(1 569.1)	(23.7)
Other OEEC countries	307.8	16.3	421.7	20.2	374	5.2	157.4	47.5	486.9	30.4	1 411.3	21.3
(Total OEEC)	(753.6)	(39.9)	(629.5)	(30.2)	(188.5)	(26.4)	(249.6)	(75.3)	(1 159.2)	(72.4)	(2 980.4)	(45.0)
O.T.s of the country	—	—	—	—	—	—	—	—	—	—	—	—
of other	38.1	2.0	90.6	4.3	42.9	6.0	0.0	0.0	2.1	0.1	173.7	2.6
EEC countries	(17.0)	(0.9)	(46.4)	(2.2)	(27.0)	(3.8)	(44.4)	(13.4)	(135.4)	(8.5)	(270.2)	(4.0)
(OEEC)	174.2	9.2	377.0	18.1	88.5	12.4	0.1	0.0	43.7	2.7	683.5	10.3
other	(191.2)	(10.1)	(423.4)	(20.3)	(115.5)	(16.2)	(44.5)	(13.4)	(179.1)	(11.2)	(953.7)	(14.4)
(total)	461.0	24.4	498.3	23.9	276.9	38.8	76.6	23.1	190.7	11.9	1 503.5	22.7
Dollar area	460.3	24.4	487.6	23.4	117.7	16.5	5.1	1.5	204.7	12.8	1 279.4	19.3
Rest of world	—	—	—	—	—	—	—	—	—	—	—	—
Grand total	1 887.2	100.0	2 083.0	100.0	714.5	100.0	331.4	100.0	1 600.4	100.0	6 616.5	100.0
1957												
Benelux	250.6	12.2	124.8	5.4	54.5	6.3	46.9	10.6	374.3	20.6	851.1	11.3
Other EEC countries	282.4	13.7	91.3	3.9	88.6	10.2	80.9	18.4	369.0	20.3	912.2	12.1
(Total EEC)	(533.0)	(25.9)	(216.1)	(9.3)	(143.1)	(16.5)	(127.8)	(29.0)	(743.3)	(40.9)	(1 763.3)	(23.5)
Other OEEC countries	331.3	16.1	448.4	19.3	26.7	3.1	187.4	42.5	536.9	29.6	1 530.7	20.4
(Total OEEC)	(864.3)	(42.0)	(664.5)	(28.6)	(169.8)	(19.6)	(315.2)	(71.5)	(1 280.2)	(70.5)	(3 294.0)	(43.9)
O.T.s of the country	—	—	—	—	—	—	—	—	—	—	—	—
of other	20.3	1.0	74.0	3.2	30.2	3.5	0.0	0.0	3.2	0.2	127.7	1.7
EEC countries	(27.8)	(1.4)	(42.7)	(1.8)	(16.1)	(1.9)	(58.0)	(13.2)	(139.7)	(7.7)	(284.4)	(3.8)
(OEEC)	174.6	8.5	410.5	17.7	97.7	11.3	0.1	0.0	57.2	3.2	740.1	9.8
other	(202.4)	(9.9)	(453.2)	(19.5)	(113.9)	(13.2)	(58.1)	(13.2)	(196.9)	(10.9)	(1 024.5)	(13.6)
(total)	545.9	28.5	654.1	28.2	443.0	51.1	120.9	27.4	234.2	12.9	1 998.1	26.6
Dollar area	452.6	22.0	516.5	22.3	126.5	14.6	4.6	1.0	238.9	13.2	1 339.1	17.8
Rest of world	—	—	—	—	—	—	—	—	—	—	—	—
Grand total	2 057.7	100.0	2 319.6	100.0	867.2	100.0	440.8	100.0	1 813.7	100.0	7 499.0	100.0

TABLE 17

Imports by groups of products
1956 and 1957

B. L. E. U.

(in '000,000 \$ as percentage)

SITC Groups	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
<i>1956</i>												
Area of origin												
Benelux	104.4	21.7	50.1	6.5	58.3	16.0	57.4	10.0	157.7	14.4	427.9	13.1
Other EEC countries	56.3	11.7	159.9	20.9	88.7	24.3	275.2	48.2	345.0	31.5	925.1	28.2
(Total EEC)	(160.7)	(33.4)	(210.0)	(27.4)	(147.0)	(40.3)	(332.6)	(58.2)	(502.7)	(45.9)	(1 353.0)	(41.3)
Other OEEC countries	36.2	7.5	99.1	12.9	12.5	3.4	120.6	21.1	241.9	22.1	510.4	15.6
(Total OEEC)	(196.9)	(40.9)	(309.1)	(40.3)	(159.5)	(43.7)	(543.2)	(79.3)	(744.6)	(68.0)	(1 863.4)	(56.9)
of the country	10.7	2.2	66.8	8.7	0.0	0.0	0.5	0.1	165.0	15.1	243.0	7.4
of other												
T.O.s } EEC countries	3.6	0.7	14.4	1.9	8.6	2.4	0.3	0.1	0.6	0.1	27.5	0.8
} (OEEC)	(12.6)	(2.6)	(19.8)	(2.6)	(12.5)	(3.4)	(76.1)	(13.3)	(150.0)	(13.7)	(270.9)	(8.3)
} other	21.8	4.6	162.1	21.1	56.6	15.5	0.2	0.0	27.6	2.5	268.4	8.2
Sterling area } (total)	(43.4)	(7.2)	(181.9)	(23.7)	(69.1)	(18.9)	(76.3)	(13.3)	(177.6)	(16.2)	(539.3)	(16.5)
Dollar area	154.1	32.1	108.7	14.2	71.9	19.7	112.8	19.7	100.9	9.2	548.4	16.7
Rest of world	93.0	19.4	105.4	13.8	68.6	18.8	4.2	0.7	56.0	5.1	327.0	10.0
Grand total	480.1	100.0	766.5	100.0	365.2	100.0	571.2	100.0	1 094.7	100.0	3 277.7	100.0
<i>1957</i>												
Benelux	106.9	22.4	42.6	5.4	76.5	17.3	72.2	12.4	185.7	16.4	483.8	14.1
Other EEC countries	81.4	17.0	159.0	20.2	102.2	23.2	274.0	47.2	386.6	34.2	1 003.3	29.4
(Total EEC)	(188.3)	(39.4)	(201.6)	(25.6)	(178.7)	(40.5)	(346.2)	(59.6)	(572.3)	(50.6)	(1 487.1)	(43.5)
Other OEEC countries	35.9	7.5	102.9	13.1	16.5	3.7	133.7	23.1	249.7	22.1	538.7	15.8
(Total OEEC)	(224.2)	(46.9)	(304.5)	(38.7)	(195.2)	(44.2)	(479.9)	(82.7)	(822.0)	(72.7)	(2 025.8)	(59.2)
of the country	10.9	2.3	67.1	8.5	0.0	0.0	0.7	0.1	109.5	9.7	188.2	5.5
of other												
T.O.s } EEC countries	1.6	0.3	6.3	0.8	8.2	1.9	0.2	0.0	0.4	0.0	16.7	0.5
} (OEEC)	(10.8)	(2.3)	(20.0)	(2.5)	(16.4)	(3.7)	(87.7)	(15.1)	(150.0)	(13.0)	(248.9)	(8.5)
} other	19.5	4.1	169.5	21.6	55.8	12.6	0.2	0.0	32.7	2.9	277.8	8.3
Sterling area } (total)	(30.3)	(6.4)	(189.5)	(24.1)	(72.2)	(16.3)	(87.9)	(15.1)	(182.7)	(16.2)	(562.7)	(16.4)
Dollar area	120.9	25.3	130.3	16.6	95.8	21.7	94.5	16.3	108.0	9.5	549.5	16.0
Rest of world	100.3	21.0	108.4	13.8	86.6	19.6	4.7	0.8	58.8	5.2	358.7	10.4
Grand total	477.4	100.0	786.1	100.0	441.6	100.0	580.2	100.0	1 131.4	100.0	3 416.7	100.0

TABLE 18

Imports by groups of products

1956 and 1957

FRANCE¹⁾

(in '000,000 \$ as percentage)

SITC Groups Area of origin	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
<i>1956</i>												
Benelux	75.3	5.5	57.2	3.6	62.9	6.3	39.5	6.8	226.3	21.8	461.2	8.3
Other EEC countries	57.8	4.2	44.6	2.8	152.6	15.3	226.8	39.0	228.4	22.0	710.1	12.8
(Total EEC)	(133.1)	(9.8)	(101.8)	(6.5)	(215.5)	(21.6)	(266.3)	(45.8)	(454.7)	(43.8)	(1 171.3)	(21.1)
Other OEEC countries	109.5	8.0	161.2	10.3	23.0	2.3	150.0	25.8	209.2	20.1	653.0	11.8
(Total OEEC)	(242.6)	(17.8)	(263.0)	(16.7)	(238.5)	(23.9)	(416.3)	(71.6)	(663.9)	(63.9)	(1 824.3)	(32.9)
O.T.s of the country	803.4	58.9	367.3	23.4	2.4	0.2	1.6	0.3	89.9	8.7	(1 824.3)	22.8
of other												
(EEC countries)	1.3	0.1	16.8	1.1	12.1	1.2	0.0	0.0	32.6	3.1	62.8	1.1
(OEEC)	(34.2)	(2.5)	(19.1)	(1.2)	(20.5)	(2.1)	(79.2)	(13.6)	(87.6)	(8.4)	(240.7)	(4.3)
other	22.8	1.7	415.5	26.5	421.0	42.2	—	—	32.0	3.1	891.3	16.0
(total)	(57.0)	(4.2)	(434.6)	(27.7)	(441.5)	(44.3)	(79.2)	(13.6)	(119.6)	(11.5)	(1 132.0)	(20.4)
Sterling area	135.3	9.9	192.9	12.3	158.3	15.9	160.7	27.6	171.0	16.5	818.1	14.7
Dollar area	159.7	11.7	314.9	20.1	164.7	16.5	3.2	0.6	49.5	4.8	692.3	12.5
Rest of world												
Grand total	1 365.1	100.0	1 570.4	100.0	997.0	100.0	581.8	100.0	1 038.9	100.0	5 553.3	100.0
<i>1957</i>												
Benelux	52.4	3.9	49.7	2.9	86.6	6.9	45.1	6.4	239.4	22.0	473.2	7.7
Other EEC countries	52.9	4.0	42.1	2.4	192.3	15.3	278.6	39.8	268.8	24.7	834.7	13.6
(Total EEC)	(105.3)	(7.9)	(91.8)	(5.3)	(278.9)	(22.1)	(323.7)	(46.3)	(508.2)	(46.7)	(1 307.9)	(21.4)
Other OEEC countries	75.6	5.7	153.5	8.8	28.4	2.3	152.9	21.9	215.4	19.8	625.8	10.2
(Total OEEC)	(180.9)	(13.6)	(245.3)	(14.1)	(307.3)	(24.4)	(476.6)	(68.1)	(723.6)	(66.5)	(1 933.7)	(31.6)
O.T.s of the country	729.7	55.0	279.9	16.1	3.0	0.2	1.3	0.2	55.5	5.1	1 069.4	17.5
of other												
(EEC countries)	1.2	0.1	19.2	1.1	3.3	0.3	0.0	0.0	23.9	2.2	47.6	0.8
(OEEC)	(19.6)	(1.5)	(17.7)	(1.0)	(25.4)	(2.0)	(79.8)	(11.4)	(92.3)	(8.5)	(234.8)	(3.8)
other	14.1	1.1	545.5	31.3	410.8	32.6	—	—	31.4	2.9	1 001.8	16.4
(total)	(33.7)	(2.5)	(563.2)	(32.3)	(436.6)	(34.6)	(79.8)	(11.4)	(123.7)	(11.4)	(1 236.6)	(20.2)
Sterling area	85.8	6.5	235.0	13.5	346.5	27.5	215.7	30.8	161.1	14.8	1 044.1	17.1
Dollar area	315.6	23.8	417.0	23.9	189.3	15.0	5.8	0.8	93.0	8.5	1 020.2	16.7
Rest of world												
Grand total	1 327.3	100.0	741.9	100.0	1 260.2	100.0	699.4	100.0	1 088.5	100.0	6 116.8	100.0

1) Incl. Saar.

TABLE 19
Imports by groups of products
1956 and 1957

(in '000,000 \$ as percentage)

ITALY

SITC Groups Area of origin	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1956												
Benelux	37.9	8.0	28.2	2.7	3.1	0.5	14.0	4.2	54.0	8.0	137.3	4.3
Other EEC countries	25.7	5.4	105.9	10.0	72.0	11.5	140.8	42.4	216.5	32.0	560.7	17.7
(Total EEC)	(63.6)	(13.4)	(134.1)	(12.7)	(75.1)	(12.0)	(154.8)	(46.7)	(270.5)	(40.0)	(698.0)	(22.0)
Other EEC countries	110.3	23.2	205.3	19.4	12.0	1.9	93.5	28.3	191.6	28.3	612.8	19.3
(Total OEEC)	(173.9)	(36.5)	(339.4)	(32.0)	(87.1)	(13.9)	(248.3)	(74.8)	(462.1)	(68.3)	(1 310.8)	(41.4)
O.T.s } of the country	—	—	—	—	—	—	—	—	—	—	—	—
of other	22.6	4.7	46.7	4.4	3.8	0.6	0.1	0.0	11.0	1.6	84.2	2.7
EEC countries	(8.5)	(1.8)	(28.8)	(2.7)	(1.9)	(1.9)	(49.7)	(15.0)	(77.1)	(11.4)	(175.9)	(5.6)
(OEEC)	50.9	10.7	256.0	24.2	245.5	39.3	0.2	0.1	38.9	5.7	591.6	18.7
other	(59.4)	(12.5)	(284.8)	(26.9)	(257.4)	(41.2)	(49.9)	(15.1)	(116.0)	(17.1)	(767.5)	(24.2)
Sterling area } (total)	49.1	10.3	236.7	22.3	156.0	25.0	79.0	23.8	97.1	14.3	617.9	19.5
Dollar area	179.3	37.7	180.6	17.0	132.3	21.2	4.2	1.3	68.1	10.1	564.4	17.8
Rest of world	—	—	—	—	—	—	—	—	—	—	—	—
Grand total	475.8	100.0	1 059.4	100.0	624.7	100.0	331.8	100.0	677.2	100.0	3 168.9	100.0
1957												
Benelux	40.2	7.9	29.3	2.4	1.3	0.2	16.3	4.0	53.9	7.5	141.0	3.9
Other EEC countries	24.7	4.8	123.4	10.0	74.4	9.9	185.1	45.6	234.8	32.5	642.4	17.7
(Total EEC)	(64.9)	(12.7)	(152.7)	(12.4)	(75.7)	(10.0)	(201.4)	(49.6)	(288.7)	(39.9)	(783.4)	(21.6)
Other OEEC countries	132.5	26.0	205.2	16.6	6.6	0.9	101.1	24.9	217.5	30.1	662.8	18.3
(Total OEEC)	(197.4)	(38.7)	(357.0)	(29.0)	(82.3)	(10.9)	(302.5)	(75.6)	(506.2)	(70.0)	(1 446.2)	(39.9)
O.T.s } of the country	—	—	—	—	—	—	—	—	—	—	—	—
of other	18.9	3.7	16.3	1.3	6.0	0.8	0.0	0.0	10.6	1.5	51.9	1.4
EEC countries	(12.7)	(2.5)	(32.0)	(2.6)	(6.5)	(0.9)	(53.6)	(13.2)	(81.1)	(11.2)	(185.9)	(5.1)
(OEEC)	45.7	9.0	310.5	25.2	174.8	23.2	0.3	0.1	27.6	3.8	559.0	15.4
other	(58.4)	(11.5)	(342.5)	(27.8)	(181.3)	(24.0)	(53.9)	(13.2)	(108.7)	(15.0)	(744.9)	(20.5)
Sterling area } (total)	52.8	10.4	331.9	26.9	223.7	29.6	99.5	24.5	116.9	16.2	824.7	22.7
Dollar area	194.8	38.2	216.1	17.5	268.0	35.5	3.3	0.8	61.9	8.6	744.2	20.5
Rest of world	—	—	—	—	—	—	—	—	—	—	—	—
Grand total	509.6	100.0	1 232.7	100.0	754.8	100.0	405.6	100.0	723.2	100.0	3 626.0	100.0

TABLE 20

Imports by groups of products

1956 and 1957

NETHERLANDS

(in '000,000 \$ as percentage)

Area of origin	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1956												
Benelux	25.9	4.7	38.2	5.9	57.4	10.3	132.4	19.0	447.7	35.4	701.1	18.9
Other EEC countries	36.4	6.7	56.4	8.7	50.8	9.1	300.6	43.2	389.2	30.7	833.6	22.5
(Total EEC)	(62.3)	(11.4)	(94.6)	(14.6)	(108.2)	(19.4)	(433.0)	(62.2)	(836.9)	(66.1)	(1 535.1)	(41.4)
Other OEEC countries	46.0	8.4	105.0	16.3	29.3	5.2	170.1	24.5	238.8	18.9	589.0	15.9
(Total OEEC)	(108.3)	(19.8)	(199.6)	(30.9)	(137.5)	(24.6)	(603.1)	(86.7)	(1 075.7)	(85.0)	(2 124.1)	(57.3)
of the country	0.7	0.1	1.2	0.2	18.4	3.3	0.1	0.0	1.0	0.1	21.4	0.6
of other												
T.O.s { EEC countries	21.5	3.9	26.4	4.1	0.3	0.1	0.1	0.0	1.9	0.2	50.4	1.3
{ (OEEC)	(18.0)	(3.3)	(15.1)	(2.3)	(29.2)	(5.2)	(112.6)	(16.2)	(133.1)	(10.5)	(308.0)	(8.3)
other	52.2	9.5	64.4	10.0	119.1	21.3	0.7	0.1	13.6	1.1	249.9	6.7
Sterling area { (total)	(70.2)	(12.8)	(79.5)	(12.3)	(148.3)	(26.5)	(113.3)	(16.3)	(146.7)	(11.6)	(557.9)	(15.0)
Dollar area	224.9	41.1	142.6	22.1	199.8	35.7	84.5	12.2	103.8	8.2	755.6	20.4
Rest of world	139.2	25.5	210.7	32.7	84.2	15.0	6.7	1.0	69.7	5.5	510.5	13.8
Grand total	546.8	100.0	644.9	100.0	559.3	100.0	695.2	100.0	1 265.7	100.0	3 711.9	100.0
1957												
Benelux	29.7	5.1	39.9	5.9	61.0	8.8	150.4	19.0	460.0	33.7	741.0	18.1
Other EEC countries	54.8	9.5	53.6	7.9	49.8	7.2	329.2	41.6	459.7	33.6	947.1	23.1
(Total EEC)	(84.5)	(14.6)	(93.5)	(13.8)	(110.8)	(16.0)	(479.6)	(60.6)	(919.7)	(67.3)	(1 688.1)	(41.2)
Other OEEC countries	52.1	9.0	113.4	16.8	27.4	4.0	200.7	25.4	250.5	18.3	644.1	15.7
(Total OEEC)	(136.6)	(23.6)	(206.9)	(30.6)	(138.2)	(20.0)	(680.3)	(86.0)	(1 170.2)	(85.6)	(2 332.2)	(56.9)
of the country	0.9	0.2	1.7	0.3	19.8	2.9	0.1	0.0	0.5	0.0	23.0	0.6
of other												
T.O.s { EEC countries	15.9	2.7	16.5	2.4	—	—	0.0	0.0	1.6	0.1	34.0	0.8
{ (OEEC)	(22.3)	(3.8)	(16.5)	(2.4)	(27.2)	(3.9)	(125.9)	(15.9)	(141.5)	(10.4)	(333.5)	(8.1)
other	49.2	8.5	64.0	9.5	141.8	20.5	0.6	0.1	15.3	1.1	270.8	6.6
Sterling area { (total)	(71.5)	(12.3)	(80.5)	(11.9)	(169.0)	(24.4)	(126.5)	(16.0)	(156.8)	(11.5)	(604.3)	(14.7)
Dollar area	198.8	34.3	160.0	23.7	270.2	39.0	102.6	13.0	103.9	7.6	835.4	20.4
Rest of world	178.1	30.7	227.3	33.6	122.0	17.6	6.8	0.9	74.7	5.5	609.1	14.8
Grand total	579.5	100.0	676.4	100.0	692.0	100.0	790.4	100.0	1 366.2	100.0	4 104.5	100.0

TABLE 21

Exports by groups of products

1956 and 1957

GERMANY (F. R.)

(in '000,000 \$ as percentage)

Area of destination	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
<i>1956</i>												
Benelux	21.1	11.7	55.9	21.6	143.3	25.0	476.5	16.0	409.8	14.6	1 187.6	16.1
Other EEC countries	24.5	13.6	72.6	28.1	196.7	34.3	337.2	11.3	349.9	10.4	980.9	13.3
(Total EEC)	(45.6)	(25.3)	(128.5)	(49.7)	(340.0)	(59.3)	(813.7)	(27.3)	(840.7)	(25.0)	(2 168.5)	(29.4)
Other OEEC countries	57.6	31.9	70.3	27.2	175.1	30.5	928.0	31.2	1 033.9	30.7	2 264.9	30.8
(Total OEEC)	(103.2)	(57.2)	(198.8)	(76.9)	(515.1)	(89.8)	(1 741.7)	(58.5)	(1 874.6)	(55.7)	(4 433.4)	(60.2)
O.T.s { of the country	—	—	—	—	—	—	—	—	—	—	—	—
{ EEC countries	1.7	0.9	2.1	0.8	0.0	0.0	35.8	1.2	41.5	1.2	81.1	1.1
{ (OEEC)	(10.7)	(5.9)	(12.2)	(4.7)	(4.7)	(0.8)	(134.3)	(4.5)	(165.9)	(4.9)	(327.9)	(4.5)
{ other	11.1	6.2	11.2	4.3	0.9	0.2	286.1	9.6	306.0	9.1	615.1	8.3
{ (total)	(21.8)	(12.1)	(23.4)	(9.0)	(5.6)	(1.0)	(420.4)	(14.1)	(471.9)	(14.0)	(943.0)	(12.8)
Dollar area	19.4	10.8	20.9	8.1	4.8	0.8	345.8	11.6	535.7	15.9	926.6	12.6
Rest of world	44.9	24.9	25.3	9.8	52.8	9.2	565.0	19.0	613.3	18.2	1 301.5	17.7
Grand total	180.3	100.0	258.3	100.0	573.6	100.0	2 974.4	100.0	3 371.1	100.0	7 357.7	100.0
<i>1957</i>												
Benelux	33.4	19.0	60.1	21.4	165.3	26.6	507.9	14.3	582.1	14.8	1 348.7	15.7
Other EEC countries	25.8	14.6	77.2	27.5	228.5	36.8	425.9	12.0	396.7	10.1	1 154.2	13.5
(Total EEC)	(59.2)	(33.6)	(137.3)	(48.9)	(393.8)	(63.4)	(933.8)	(26.3)	(978.8)	(24.9)	(2 502.9)	(29.2)
Other OEEC countries	55.8	31.7	78.6	28.9	163.5	26.4	1 057.2	29.7	1 169.1	29.7	2 524.2	29.4
(Total OEEC)	(115.0)	(65.3)	(215.9)	(76.9)	(557.3)	(89.8)	(1 991.0)	(56.0)	(2 147.9)	(54.6)	(5 027.1)	(58.6)
O.T.s { of the country	—	—	—	—	—	—	—	—	—	—	—	—
{ EEC countries	1.7	1.0	1.1	0.4	0.2	0.0	27.0	0.8	37.9	1.0	67.9	0.8
{ (OEEC)	(11.7)	(6.6)	(13.4)	(4.8)	(1.5)	(0.2)	(164.1)	(4.6)	(170.2)	(4.3)	(360.9)	(4.2)
{ other	10.3	5.8	10.7	3.8	1.0	0.2	386.6	10.9	371.5	9.4	780.2	9.1
{ (total)	(22.0)	(12.4)	(24.1)	(8.6)	(2.5)	(0.4)	(550.7)	(15.5)	(541.7)	(13.7)	(1 141.1)	(13.3)
Dollar area	22.1	12.5	20.3	7.2	4.6	0.7	502.4	14.1	585.2	14.9	1 134.5	13.2
Rest of world	27.0	15.3	32.8	11.7	57.3	9.2	653.4	18.4	794.5	20.1	1 565.0	18.3
Grand total	176.1	100.0	280.8	100.0	620.4	100.0	3 560.4	100.0	3 937.0	100.0	8 574.7	100.0

TABLE 22

Exports by groups of products
1956 and 1957

B. L. E. U.

(in '000,000 \$ us percentage)

Area of destination	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1956												
Benelux	22.8	17.5	30.8	12.8	66.0	34.0	131.3	36.1	443.4	19.8	694.3	21.9
Other EEC countries	51.9	39.7	109.4	45.6	62.4	32.2	48.7	13.4	451.9	20.2	724.3	22.9
(Total EEC)	(74.7)	(57.2)	(140.2)	(58.4)	(128.4)	(66.2)	(180.0)	(49.5)	(895.3)	(40.0)	(1 418.6)	(44.8)
Other OEEC countries	21.8	16.7	48.9	20.4	60.3	31.1	38.4	10.6	398.4	17.8	567.8	17.9
(Total OEEC)	(96.5)	(73.9)	(189.1)	(78.8)	(188.7)	(97.3)	(218.4)	(60.1)	(1 293.7)	(57.8)	(1 986.4)	(62.7)
of the country	9.2	7.0	1.9	0.8	2.3	1.2	44.0	12.0	84.1	3.8	141.6	4.5
of other												
O.T.s { EEC countries	8.3	6.4	1.5	0.6	0.1	0.0	3.6	1.0	14.9	0.7	28.4	0.9
{ (OEEC)	(13.9)	(10.6)	(27.2)	(11.3)	(14.8)	(7.6)	(9.2)	(2.5)	(146.9)	(6.6)	(212.0)	(6.7)
other	7.0	5.4	7.6	3.2	0.7	0.4	24.7	6.8	176.3	7.9	216.3	6.8
Sterling area { (total)	(20.9)	(16.0)	(34.8)	(14.5)	(15.5)	(8.0)	(33.9)	(9.3)	(323.2)	(14.5)	(428.3)	(13.5)
Dollar area	3.8	2.9	12.7	5.3	0.0	0.0	30.4	8.4	406.3	18.1	453.1	14.3
Rest of world	5.8	4.4	27.0	11.3	2.2	1.1	42.2	11.6	264.6	11.8	341.7	10.8
Grand total	130.6	100.0	239.8	100.0	194.0	100.0	363.3	100.0	2 239.9	100.0	3 167.5	100.0
1957												
Benelux	25.6	21.1	32.6	13.7	69.5	33.6	148.4	38.8	444.9	20.0	721.0	22.7
Other EEC countries	42.6	35.2	111.7	47.0	77.5	37.5	54.6	14.3	454.0	20.4	740.4	23.3
(Total EEC)	(68.2)	(56.3)	(144.3)	(60.7)	(147.0)	(71.1)	(203.0)	(53.1)	(898.9)	(40.4)	(1 461.4)	(46.0)
Other OEEC countries	19.4	16.0	45.2	19.0	55.1	26.7	41.5	10.9	389.9	17.5	551.2	17.4
(Total OEEC)	(87.6)	(72.3)	(189.5)	(79.7)	(202.1)	(97.8)	(244.5)	(64.0)	(1 288.8)	(57.9)	(2 012.6)	(63.4)
of the country	9.5	7.8	1.8	0.8	0.7	0.3	40.1	10.5	87.1	3.9	139.3	4.4
of other												
O.T.s { EEC countries	2.3	1.9	0.8	0.3	0.3	0.1	2.5	0.6	12.0	0.5	18.0	0.6
{ (OEEC)	(12.9)	(10.7)	(23.2)	(9.8)	(13.8)	(6.7)	(13.0)	(3.6)	(125.1)	(5.6)	(188.8)	(6.0)
other	5.8	4.8	4.5	1.9	1.1	0.5	22.9	6.0	162.4	7.3	196.8	6.2
Sterling area { (total)	(18.7)	(15.5)	(27.7)	(11.7)	(14.9)	(7.2)	(36.8)	(9.6)	(287.5)	(12.9)	(385.6)	(12.2)
Dollar area	3.7	3.1	11.9	5.0	0.0	—	25.9	6.8	362.2	16.3	403.7	12.7
Rest of world	12.2	10.1	29.2	12.3	2.4	1.2	46.5	12.1	311.2	14.0	401.0	12.6
Grand total	121.1	100.0	237.7	100.0	206.6	100.0	382.4	100.0	2 223.7	100.0	3 171.4	100.0

TABLE 23

Exports by groups of products
1956 and 1957
FRANCE¹⁾

(in '000,000 \$ as percentage)

SITC Groups Area of destination	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
<i>1956</i>												
Benelux	54.9	8.5	141.0	33.0	18.3	5.8	91.9	11.5	180.4	7.7	486.6	10.7
Other EEC countries	96.0	14.7	107.2	25.1	89.1	28.0	57.7	7.2	311.5	13.3	661.5	14.6
(Total EEC)	(150.9)	(23.2)	(248.2)	(58.1)	(107.4)	(33.8)	(149.6)	(18.7)	(491.9)	(21.0)	(1 148.1)	(26.3)
Other OEEC countries	117.4	18.1	94.6	22.1	75.5	23.7	101.8	12.8	399.7	17.0	788.9	17.4
(Total OEEC)	(268.3)	(41.3)	(342.8)	(80.2)	(182.9)	(57.5)	(251.4)	(31.5)	(891.6)	(38.0)	(1 937.0)	(42.6)
of the country	257.9	39.7	35.9	8.4	99.2	31.2	287.5	36.0	741.2	31.6	1 421.7	31.3
O.T.s { of other	2.0	0.3	0.1	0.0	1.7	0.5	3.2	0.4	7.3	0.3	14.3	0.3
{ (EEC countries)	(59.5)	(9.2)	(52.9)	(12.4)	(24.0)	(7.5)	(20.6)	(2.6)	(126.9)	(5.4)	(283.9)	(6.3)
{ other	22.3	3.4	2.0	0.5	7.7	2.4	39.1	4.9	132.5	5.6	203.6	4.5
(total)	(81.8)	(12.6)	(54.9)	(12.9)	(31.7)	(10.0)	(59.7)	(7.5)	(259.4)	(11.0)	(487.5)	(10.8)
Dollar area	47.5	7.3	19.6	4.6	0.2	0.0	56.7	7.1	237.5	10.1	361.4	8.0
Rest of world	51.6	7.9	27.1	6.3	26.2	8.3	159.6	20.0	338.9	14.4	603.4	13.3
Grand total	649.6	100.0	427.5	100.0	317.9	100.0	797.5	100.0	2 349.0	100.0	4 541.4	100.0
<i>1957</i>												
Benelux	79.0	10.5	140.7	31.3	15.5	5.3	91.7	9.3	194.5	7.6	521.5	10.3
Other EEC countries	113.1	15.0	126.4	28.1	94.0	32.0	75.0	7.6	344.7	13.5	753.1	14.9
(Total EEC)	(192.1)	(25.5)	(267.1)	(59.4)	(109.5)	(37.3)	(166.7)	(16.9)	(539.2)	(21.1)	(1 274.6)	(25.2)
Other OEEC countries	154.0	20.4	91.9	20.4	61.0	20.8	121.0	12.3	398.8	15.6	826.9	16.4
(Total OEEC)	(346.1)	(45.9)	(359.0)	(79.8)	(170.5)	(58.1)	(287.7)	(29.2)	(938.0)	(36.7)	(2 101.4)	(41.6)
of the country	252.0	33.4	29.9	6.6	57.9	19.7	313.8	31.8	712.0	27.8	1 365.6	27.0
O.T.s { of other	1.9	0.3	0.1	0.0	0.8	0.3	4.3	0.4	8.4	0.3	15.6	0.3
{ EEC countries	(88.8)	(11.8)	(46.1)	(10.2)	(11.7)	(4.0)	(22.6)	(2.3)	(116.4)	(4.5)	(285.5)	(5.6)
{ other	20.7	2.7	1.8	0.4	11.5	3.9	58.2	5.9	123.2	4.8	215.6	4.2
(total)	(109.5)	(14.5)	(47.9)	(10.6)	(23.2)	(7.9)	(80.8)	(8.2)	(239.6)	(9.3)	(501.1)	(9.9)
Dollar area	50.8	6.7	17.2	3.8	0.2	0.1	109.4	11.1	234.4	9.1	411.9	8.1
Rest of world	83.0	11.0	41.8	9.3	52.7	17.9	214.1	21.7	546.0	21.3	937.3	18.5
Grand total	754.5	100.0	449.8	100.0	293.6	100.0	987.5	100.0	2 562.0	100.0	5 047.4	100.0

1) Incl. Saar.

TABLE 25

Exports by groups of products

1956 and 1957

NETHERLANDS

(in '000,000 \$ as percentage)

Area of destination	0 and 1		2 and 4		3		7		5, 6, 8 and 9		0 to 9	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1956												
Benelux	98.4	11.4	43.4	16.7	48.9	14.0	58.7	14.0	156.6	16.2	406.0	14.2
Other EEC countries (Total EEC)	313.6 (412.0)	36.3 (47.7)	98.3 (141.7)	37.9 (54.6)	66.6 (115.5)	19.1 (33.1)	69.2 (127.9)	16.5 (30.5)	202.8 (359.4)	21.0 (37.2)	750.5 (1156.5)	26.2 (40.4)
Other OEEC countries (Total OEEC)	218.1 (630.1)	25.2 (72.9)	54.2 (195.9)	20.9 (75.5)	163.1 (278.6)	46.7 (79.8)	82.2 (210.1)	19.6 (50.1)	199.5 (558.9)	20.6 (57.8)	717.2 (1873.7)	25.1 (65.5)
O.T.s { of the country of other	11.0	1.3	0.8	0.3	10.6	3.0	11.1	2.6	16.7	1.7	50.1	1.8
{ EEC countries	22.3	2.6	2.9	1.1	0.9	0.3	9.3	2.2	17.5	1.8	52.9	1.8
{ (OEEC)	(168.7)	(19.5)	(23.8)	(9.2)	(58.5)	(16.7)	(29.4)	(7.0)	(70.4)	(7.3)	(350.8)	(12.3)
{ other	67.0	7.7	4.6	1.8	10.3	2.9	39.2	9.3	102.5	10.6	223.6	7.8
{ (total)	(235.7)	(27.2)	(28.4)	(11.0)	(68.8)	(19.6)	(68.6)	(16.3)	(172.9)	(17.9)	(574.4)	(20.1)
Sterling area	70.4	8.1	24.0	9.2	0.8	0.2	65.5	15.6	123.7	12.8	284.3	9.9
Dollar area	64.0	7.4	31.4	12.1	48.4	13.8	85.2	20.3	148.0	15.3	377.1	13.2
Grand total	864.8	100.0	259.6	100.0	349.6	100.0	420.4	100.0	967.3	100.0	2861.7	100.0
1957												
Benelux	102.6	11.8	40.7	15.7	76.0	17.1	73.8	16.1	187.4	17.6	480.5	15.5
Other EEC countries (Total EEC)	324.5 (427.1)	37.3 (49.1)	98.1 (138.8)	37.9 (53.6)	77.8 (153.8)	17.6 (34.7)	77.1 (150.9)	16.8 (32.9)	229.6 (417.0)	21.5 (39.1)	807.1 (1287.6)	26.1 (41.6)
Other OEEC countries (Total OEEC)	197.1 (624.2)	22.7 (71.8)	54.9 (193.7)	21.2 (74.8)	206.4 (360.2)	46.6 (81.3)	106.0 (256.9)	23.1 (56.0)	225.9 (642.9)	21.2 (60.3)	790.3 (2077.9)	25.5 (67.1)
O.T.s { of the country of other	11.9	1.4	1.1	0.4	13.8	3.1	10.4	2.3	17.7	1.7	54.9	1.8
{ EEC countries	13.8	1.6	1.5	0.6	2.2	0.5	4.7	1.0	14.7	1.4	36.9	1.2
{ (OEEC)	(150.3)	(17.3)	(23.8)	(9.2)	(67.7)	(15.3)	(30.9)	(6.7)	(77.6)	(7.3)	(350.3)	(11.3)
{ other	69.6	8.0	2.8	1.1	13.3	3.0	42.1	9.2	104.3	9.8	232.1	7.5
{ (total)	(219.9)	(25.3)	(26.6)	(10.3)	(81.0)	(18.3)	(73.0)	(15.9)	(181.9)	(17.1)	(582.4)	(18.8)
Sterling area	75.6	8.7	25.5	9.8	1.3	0.3	55.0	12.0	114.1	10.7	271.4	8.8
Dollar area	74.0	8.5	34.4	13.3	52.4	11.8	90.1	19.6	173.2	16.2	424.2	13.7
Grand total	869.1	100.0	259.0	100.0	443.2	100.0	459.2	100.0	1066.9	100.0	3097.4	100.0

III — PRICES AND CURRENCY

So far we have been seeking to describe the internal structure of the economies and their relations with the outside world without taking into account changes in prices, actions taken in order to alter prices and the broad conditions or factors peculiar to particular sectors by which the prices are determined. The aim of Part III will be to describe price policy in the different countries of the Community and the changes which occur in general level of prices or their relations to each other, the particular reasons for these changes, the character of public finance, including the system of social security and, finally, the requirements and availability of capital on which depend the balance of the economy and the rhythm of its expansion.

A — PRICE POLICY

Trade and customs policy is an integral part of price policy. For example, governments expected anti-inflationary effects would follow from the liberalisation of trade, from reductions in customs duties such as those systematically pursued in Germany and which have been followed by a 10 per cent reduction in Italy, and also from the suspension of duties or even from “shock” imports made in particular sectors in all countries.

It is not surprising that the one country in the Community which has been least successful in pursuing steady liberalisation of trade is the only one to subject the whole price structure to a system of controls. Industrial prices in France are settled in one of three ways: by direct control; by controlled freedom, price schedules being submitted to the Directorate of Prices; or in complete freedom. The trend aimed at is a gradual move from the first method to the second and even to the third; but in practice effective freedom has only existed during the period of stability from 1952 to 1955. Since that time general price stops have followed one upon the other, with waivers to make them more supple. The present status is that of a stop at the July 1957 level, with some exceptions made in November and December. Policy has also fluctuated between main-

tenance of the level of prices by means of subsidies and of tax reliefs — to avoid the cumulative effects bound up with the sliding scale, but at the risk of increasing the budget deficit and the concealed inflation with its implications for the balance of payments — and a tidying up which gets rid of some of these artificial controls, but which has led to successive increases in the guaranteed minimum wage.

Belgium requires advance notice of increases in prices, which are submitted to a committee for discussion, but it does not require authorisation: this provides a psychological but not legal brake.

In Luxembourg all price increases are subject to prior approval, except for non-essential items if the increase does not exceed 5 per cent of the cost of living index as at 30 October, 1956.

Apart from these cases the general rule in the Community is that the regulation of industrial prices is carried on by indirect methods. Germany and the Netherlands possess legislation on cartels. The German law, which came into force on 1 January 1958, rests on the principle that cartels are forbidden except where specifically approved. The Netherlands' system has for long made provision for compulsory notification of understandings, and the state is entitled to intervene. The other method of general interest is one by which, in the Netherlands, agreement is reached between employers' and workers' organizations to limit wage increases in connection with the requirements of the balance of payments.

The abolition of direct price controls in industrial fields reached its logical conclusion when decisions on coal and steel prices were placed in the hands of the High Authority and the High Authority freed the price of steel and gradually freed the price of coal. None the less one can still find forms of pressure being exercised by governments in the attempt to avoid price rises or conversely to limit the competition of imports.

The principle of a freedom of prices which relies for the avoidance of excessive fluctuations on the growing liberalism of international trade explains why official intervention in the field of prices falls into two categories: a policy of direct action on agricultural prices, which are to a large extent shielded from competition from abroad — this action often helps to support prices rather than to bring them down; and pressure on those prices which are not affected by international competition, largely those in the field of the main public utilities, housing and transport.

1. Agricultural price policy

No state in the Community allows full rein to competition and uncontrolled price movements among basic agricultural products. Each country is anxious to ensure a reasonable income to farmers and to limit fluctuations in prices. The

method chosen is to give home agricultural producers priority on the home market. In addition France, Italy and the Netherlands endeavour to retain or to win markets abroad, and they take certain official action with this end in view. The problem is of particular importance to the Netherlands, which long ago decided to build up a form of agricultural processing industry based on imports of grain and fodder and exports of meat and dairy produce.

A fairly clear dividing line separates the fruit and vegetable market from the market in basic produce. No doubt aids to exportation, often indirect in the form of favourable transport tariffs, play their part even in connection with these products. Similarly bans on imports at times when home-grown supplies are available ensure the sale of this domestic produce; customs duties on vegetable and fruit which cannot be grown at home, for instance on citrus and tropical fruit in Germany, help to keep up the demand for home-produced fruit.

But behind this protective screen direct regulation normally occurs only in grain, in cattle and meat, in dairy produce and wine. For grain France has entrusted a public body with a sales monopoly. Belgium requires millers to include a proportion of home-grown grain with imports. The most systematic market organization is that found in the import and stock-piling offices in Germany, which deal with meat and cattle, sugar, grain, milk and fats. These offices have control of imports, they fix the prices at which the imported goods are bought and resold on the market and they intervene on the home market by purchases for stock-piling. In the case of grain and sugar, price guarantees are also given and these may take the form of fixed prices or of maximum and minimum prices.

Guaranteed prices have long been offered in France for grain and beet, for which the government each year fixes the prices on the basis of formulae laid down in advance. Milk has been guaranteed a minimum legal price. The wine market has long been kept orderly by the fixing of producers' prices and control of marketing in years of overproduction. Maximum and minimum prices are laid down for beef and pork, and beyond these action is taken, either by stock-piling or by importing, to keep the market healthy. Since 1957 wider use has been made of the system of target prices intended to produce changes in agricultural output by encouraging the expansion of animal products and the reduction of certain lines of vegetable produce; but these failed to achieve their purpose when the vegetable produce in question fetched prices which may lead to relative overproduction. The target prices are given a fixed basis which is varied by an index related to the cost of living and to the cost of both the industrial products used in agriculture and of farm wages.

Italy gives support to corn, rice, beet and hemp; it grants sporadic aid to olive oil, wine and cheese, and also encourages exports of fruit and vegetables through special transport tariffs.

Belgium has increased protection of agriculture at home by means of quota restrictions on imports and by imposing charges, varying with the state

of the home market, on wheat, meat, dairy produce and eggs. This country has a protective duty on sugar and uses temporary closure of frontiers to support its fruit and vegetables.

Luxembourg practises strict protection for its agriculture and makes use of subsidies to guarantee that producers obtain prices based on production cost for bread grains, milk, pork and cattle, while avoiding rises in the retail price of bread, milk, butter and meat, as the impact of these items on the index would bring into play the sliding scale for wages and salaries.

The acute problem which has been facing the Netherlands in the last few years has been the rise in cost prices among farm products; from 1950 to 1957 this was as much as 50 per cent for corn, 35 per cent for eggs and more than 20 per cent for pork, while export prices remained on the whole unchanged, except for the peak in 1952 at the time of the Korea crisis; since 1957 they have even begun to fall. Subsidies from the budget or levies controlled by the farmers' organizations make it possible to cope with the widening gap and at the same time to maintain guaranteed prices, particularly on milk and dairy produce. This is the double problem with which further exports from the Netherlands would have been faced had there been no Common Market, owing to competition from producers abroad coupled with protection of home producers in the markets of Europe.

2. Controlled sectors

In all countries there is control over the prices of public services, in particular of gas and electricity, although its form and its extent may vary. Italy, however, does not control all electricity prices, but only those affecting supplies to domestic consumers and to industrial users with less than a certain installed power; there is a system of compensation between different producers, to avoid differences between power from hydro-electric plant and from thermal plant, between old and new stations and above all between the North and the South of the country. Other forms of intervention, less systematic in character, are more widespread than in other countries except France. They cover certain basic materials required by industry, such as petroleum products, pyrites, aluminium, natural gas, cement and glass for industrial vehicles; similarly prices are controlled for certain goods of general use such as sugar, pharmaceutical products or newspapers; but the commonest form of intervention is the limitation of the price of agricultural raw materials such as fertilizers or copper sulphate. To a large extent the policy of control, which was born of the struggle against inflation, has in Italy been evolving as a control of monopoly prices in the interests of the unorganized and weaker elements of the economy.

In housing, it is only Belgium that has in practice decontrolled rents, while in Luxembourg freedom has had to be limited. Because of the urgency of the

needs the most extensive control of housing, a control reinforced by a certain system of allocation, is found in the Netherlands. In other countries, control is applied mainly to old buildings and to those financed or partly financed from public funds. This is the rule in Germany, in Italy and in France. Germany is moving towards complete liberalisation when the balance has been reached between supply and demand. For controlled rents France and Italy have a system of annual increases intended to restore economic viability to real estate.

In Italy it is estimated that about 1/3 of the dwellings are controlled, while the state finances about 30 per cent of new housing. Between them, these measures have made it possible to keep the rise in the cost of housing down to about half the rise recorded in the general price level.

3. Transport

Not only is the transport sector not without controls in any country, but in all countries of the Community the railways are run by the state.

Since the days when the railways had in fact a monopoly it has been the practice to have controls, and these have been maintained partly in connection with the fight against rising prices; broadly speaking, they have assumed complex forms in the effort to avoid excessive deficits being caused by the burdens which, as a result of the competition which has arisen between the railways and other forms of transport, now fall on the railways.

In Luxembourg and in Italy waterways are of no importance; they account for 10 per cent only for the transport of goods in France. In the various countries the distribution of goods traffic appears to be as follows:

(in tons-km.)

	Germany	France	Italy ¹⁾	Belgium ¹⁾	Netherlands
Rail	55	60	40	47	15
Road	16	30	60	23	40
Water	29	10	—	30	45

Source: Transport Division of the High Authority of the ECSC.

¹⁾ Very approximate estimates for the share of road transport in Italy and Belgium.

Navigation on inland waterways is everywhere subject to control not only in the form of fixed rates for freights but through allocation of work to be undertaken; in order to avoid a collapse in the rates this allocation is based on a rota. International shipping on rivers on the other hand is a free market. The dovetailing of the two systems, in which differences of treatment amount to discrimination between internal transport and transport to or from other

countries, will be as much a problem for the general common market as it has been for the common market in coal and steel.

All forms of road transport in the Netherlands, except passenger coaches, are subject to maximum tariffs. In Germany they are required to apply the same tariffs as the railways for transport of goods. In France, on the other hand, tariffs are not controlled. In the Netherlands, in Germany and in France there are limitations on the right of conveyance by road. The Netherlands have a licence system for the establishment and running of transport undertakings; in Germany short and long distance transport is regulated and there are very heavy taxes on transport owned directly by individual enterprises. All countries have heavy taxes on petrol, in many cases differing widely from the taxes on other forms of road fuel, and in addition there are annual taxes on lorries.

It has been the normal practice for transport charges on the railways to be based on a uniform rate per kilometre, whatever the economic and technical features of the line; on the other hand charges have varied with the value of the goods. This combination is largely responsible for the deficits of the railways, which have to accept losses on certain lines; the combination makes it impossible for these lines to take full advantage of cost prices on the most important connections, while it allows other forms of transport to cream off traffic in the most profitable goods. France however is leaning towards a system of tariffs which would allow for production costs; Germany, which maintains the principle that transport rates must be subordinated to the interest of the economy as a whole, is in fact having to increase the number of special tariffs and to limit competition from road traffic by imposing tariffs based on that of the railways; the Netherlands, where the accent is on freedom for transport, move a very long way from the principle of uniformity of tariff when they make use of secret contracts, these being the chief weapon of the railways in their competition with waterways and road transport.

If the Netherlands railways are the only ones which show a profit, this is in part due to their freedom to negotiate and to close systematically lines that are unprofitable, and also to the fact that the retirement pensions of railways staff are paid from the state budget. The deficit in Italy is of the order of 20 per cent of takings, and in France the percentage is much the same.

In Belgium transport of manpower by rail is subsidised in order to avoid the drawbacks of excessively large built-up areas. In nearly all the countries the urban transport in the large towns and transport to the nearer suburbs show very large deficits, and these help to crowd the population together in the major centres.

It is difficult to know to what extent road transport really covers, by means of the various taxes to which it is subjected, the cost of the infrastructure and of the other public services from which it benefits. Canal dues are generally well below what would cover capital charges and costs of maintenance.

Transport by sea benefits from varying degrees of aid in the different countries, the smallest being no doubt the special investment allowance made in the Netherlands in the income tax system, although it is temporarily suspended in the other industries.

Air transport consists in the main of public enterprises with majority holdings in the hands of the state; its financial situation has improved as traffic has expanded, but infrastructure costs are not in general covered by the transport tariffs.

Transport is one of the fields in which decisions on new principles will be essential if within the Common Market serious distortions are to be avoided in the conditions of competition and of development for the various industries, while at the same time ensuring a rational distribution of traffic between the various means of transport in accordance with the characteristics of each; so far the arbitrary regulations which in each state were intended to alleviate the effects of out-dated tariff methods have failed to produce such a distribution.

B — PRICE LEVELS AND TRENDS

1. The general trend

The most satisfactory picture of the general trend of prices is obtained if we compare developments in the gross national product at market prices calculated at current prices and at prices of a given year. Calculations at constant prices have been made on the 1954 basis. Comparisons of the national product at current prices and at 1954 prices are available as far as 1956. It is interesting to see the general trend of prices in comparison first with 1950 and then with 1953.

Indices of value, volume and price of the gross national product
1956

	Germany	France	Italy	Belgium	Nether-lands	Luxem-bourg
			<i>1950 = 100</i>			
Value	199	(193)	169	141	160	163
Volume	164	(126)	139	121	129	109
Price	122	(149)	122	116	124	150
			<i>1953 = 100</i>			
Value	135	124	125	117	129	123
Volume	127	117	117	110	117	114
Price	106	107	107	106	110	108

Source: OEEC: General Statistics - July 1958. For France: *ibid.* January 1958.

While for 1950 to 1956 as a whole the rise in prices is much greater in France and in Luxembourg than in the other countries, the gap is entirely due to rises which occurred before 1953. From 1953 to 1956 on the other hand

changes in prices are very closely comparable in all countries of the Community. Since 1956 no such generalization can be made, but wholesale and retail indices indicate that prices in France have broken away from those of the other countries.

It is tempting to assess the overall level of prices in each country by comparing the value of the national product on the basis of the exchange rate and its value at average European prices¹). The data available refer to 1955 and are therefore out of date. The figures which it has been possible to work out for 1957 cannot be compared with those for the national product in terms of dollars at the rate of exchange, as the franc rate was changed during the course of the year. Figures will have to be worked out for 1958: there can be no doubt that they will show that on the average prices are lower in Germany, in the Netherlands and to a certain extent in Italy, higher in Belgium, Luxembourg and France. This provides an indispensable gauge for assessing the real level of living more accurately than by comparison of actual wages and salaries. But the internal purchasing power parities are not the same as that of exchange parity, which determines the external equilibrium: the balance of payments is concerned with only a fraction of the commodities and services imported and exported, with conditions of demand which differ from those applicable to internal production, and with non-commercial items such as the movement of capital. Disparities in prices must be looked at in relation to the equilibrium or disequilibrium existing in the balance of payments.

2. Internal divergences in prices

Diverging trends of prices between the countries of the Community tend to produce tensions in the relations between national economies. Diverging trends of prices in the various categories of commodities or services produce tensions within the individual economies. In this connection a comparison should be made between the development of industrial prices and that of agricultural prices, which themselves are split into prices for animal products and for vegetable products.

On the 1950 basis the terms of trade between agricultural products and industrial products in 1957 were as follows:

Relation of agricultural price index to industrial price index

	Germany	France	Italy (1953 basis)	Belgium	Netherlands
Vegetable production	120	90	102	88	86
Animal production	97	104	106	91	89
Overall agricultural production	105	99	103	91	88

Source: OEEC: General Statistics - 1958.

¹) See Introduction, p. 19.

A definitely unfavourable trend in agricultural prices is found in Belgium and the Netherlands, more particularly in the prices for vegetable produce. In Italy the policy of support for agricultural prices has served as a temporary expedient in order to avoid a reduction in the resources of a part — a very important part — of the total working population; such a reduction would affect the main source of incomes in the Mezzogiorno.

These calculations are, no doubt, largely dependent on the base year chosen, and if we started from 1949 we would find in France a certain amount of distortion unfavourable to agricultural producers as a whole, but is not found on the 1950 basis. As a general rule, prices for animal products have been maintained better than those for vegetable produce except in Germany, where agricultural policy has led to particularly large rises in prices for vegetable produce.

Changes in prices alone are no doubt not the only factor affecting incomes, as these depend also on the trend of costs. Such comparisons, however, require a brief analysis of the factors which can lead to divergence between industrial prices and agricultural prices.

3. The influence of wage changes

In a modern economy there is unquestionably a tendency for industry to keep for itself and for its workers any gains arising from advances in productivity; this occurs in industry to a much greater extent than in other sectors. Wages and profits rise in proportion to productivity without leaving any margin for price reductions which would allow others, the users, to share in the benefits. Since, moreover, when income levels are high it is expenditure on food which rises least, the disproportionately high demand for industrial products and for services tends to keep prices up by comparison with prices for agricultural products.

While such estimates can only be approximate, it can be said that from 1953 to 1957 wages in the processing industries rose at the same rate as the average productivity of this group of industries: only in the Netherlands, where changes had long been subjected to curbs, has the rise been appreciably more rapid, with the result that the cost of labour has increased. The upward movement in real wages which emerges from a comparison between the index for wages per hour and the cost-of-living index is, however, less than the rise in pay because of rising prices. In order to improve the basis of assessment we should also take into account developments in social benefits, including such items as the increase of pensions in Germany and the Netherlands and the collective benefits accruing from certain public expenditure. A few figures may serve to illustrate these observations.

Wages and productivity in the processing industries

1957

(1953 = 100)

	Germany	France	Italy	Belgium (1956)	Netherlands
Index of hourly wages	131	132	123	118	133
Productivity per hour	129	131	129	118	115
Cost of labour (1 : 2)	102	101	95	100	115
Consumer prices	107	111	108	103	117
Real wages per hour (1 : 4)	122	120	114	115	114

Source : Wages and productivity per hour : ECE. Consumer prices : OEEC : General Statistics - July 1958.

4. Influence of distribution costs

It is desirable to be able to compare the changes in production prices with the changes in consumer prices in order to try to see whether transport and distribution margins have increased or decreased. But a large proportion of the products of industry is not intended for consumption; even in agriculture a part of what is produced may be exported and a part of what is consumed may come from imports. Consequently a comparison of price indices at producers level and of changes of retail prices or of the cost of living may lead to mistakes. It can only be said that in Belgium and the Netherlands, where prices received by agricultural producers have fallen, especially for the Netherlands in connection with agricultural exports, there has not been a fall in consumer prices for foodstuffs, but quite the reverse. In Italy the rise in retail prices is greater than the prices paid to the producer. On the other hand, rises have been smaller in consumer prices in Germany and in France.

For all consumer prices taken together and including both industrial products and foodstuffs, we again find that in the Netherlands, Belgium and Italy there is a greater rise than in industrial prices; in France the rise is slightly and in Germany definitely less. These changes are due more to changes in sources of supply, to subsidies and to reduction in taxes, or on the other hand to changes in the incidence of indirect taxes, and less to changes that are immediately apparent in the structure of distribution.

A rationalization of the channels of distribution has certainly occurred in Germany, where no particular measure has been passed which would give protection to the existing forms of trade; it can at most be said that legislation on the hours of opening and closing of shops tends to favour the forms of trade which employ a comparatively large amount of manpower at the expense of those which require greater capital expenditure. In France there have been signs that more modern and far more economic forms of distribution are being developed, even though certain forms of fiscal discrimination or of more direct

intervention have been retained in order to safeguard the accepted forms of trade. In Italy the trend towards higher retail prices reflects the low level of productivity in the services sector, in which a large number of persons are underemployed.

Unduly long distribution channels and markets which are materially ill-organized, as with many markets for foodstuffs in France, have serious consequences both for agriculture and for industry. They limit, through costs which often go back to losses on items that have become unusable, the possible expansion of demand for agricultural products, and they lead to increases in the cost of living which in turn affect the cost of manpower in industry. These however will not be directly affected by the establishment of the Common Market.

In the possible rise of industrial prices, or even in consumer prices when compared with agricultural prices, we must not forget the part played by indirect taxation, from which agricultural products are to a large extent exempt; inclusion of these charges in consumer goods purchased by the farming population is one of the means of making good the smallness of the contribution required of agriculture in the total volume of direct taxes, at least in France, Germany and Italy.

C — PUBLIC FUNDS AND SOCIAL SECURITY

1. The fiscal burden

There is no method of comparing the relationship of the fiscal burden with the national income which will give an answer entirely free from the influence of differences in the structure of taxes.

First, taxes and social service contributions must be taken as a whole unless one is to create an artificial distinction between countries where all social benefits are entirely independent of the budget and countries where they are supplied completely or in part by the state or other public bodies.

One solution would be to compare the total burden with the net national income at factor cost, this being the sum on which the taxes can be paid. Strictly speaking, as income is made up of prices less indirect taxes but with subsidies added, indirect taxes, which are relatively more important in the fiscal system, are in part reckoned twice; they reduce the total of the national income at factor cost in relation to market prices. In addition, the more highly developed the system of re-distribution, the higher the apparent burden, although the recipients of social benefits join those who earn their own incomes by paying their share of the taxes which are included in prices.

When the total figure for taxes and social security contributions is compared with the gross national product at market prices, the relative share of indirect

taxes does not occur in the artificially enlarged form found in the method of calculation just described. On the other hand, as this share grows larger the percentage share of direct taxes in the total product falls. In the end, the effect of these transfers is no better corrected than in the system of calculations based on income at factor cost.

A third method which reduces the distortions due to the scale of transfers consists in assessing the total of taxes and social contributions as a percentage of the gross national product at market prices with the transfers added.

It is interesting to compare the results obtained by these three methods in order to ensure that there are no great divergences between them in the assessment of the comparative burden in the several states, and to interpret such differences as are found to exist between the results obtained.

Comparison of total tax burdens

1956

	Germany	France	Italy	Belgium	Nether-lands	Luxem-bourg
% of gross national income at factor cost	40	41	42	29	37	38
% of GNP at market prices	32	31	30	24	30	29
% of GNP at market prices with domestic transfers added	29	27	25	21	28	26

The first conclusion that can be drawn is that the total fiscal burden is high in all countries of the Community, although appreciably less heavy in Belgium. The difference in the scale of the burdens when the comparison is made at factor cost, and of the same burdens when the comparison is at market prices, brings out the importance of indirect taxes and charges in France and Italy, where they increase the ratio of apparent burden to net income. The difference in burden when the gross national product alone is taken and when it is taken with domestic transfers added, brings out once more the importance of the transfers financed by these charges in France and Italy.

This then leads us to the examination of the structure of fiscal systems and of public expenditure as a whole.

2. Structure of fiscal charges

A typical comparison is that of the relative share, in total public receipts, of direct taxes on capital or income, to which we must add social contributions from wage earners and independent workers, with the share of indirect taxes, to which must be added the social contribution made by employers¹). As was

¹) Fiscal receipts in the various states : see Table 2, p. 158.

suggested by the comparisons of overall fiscal burden, the proportion of indirect taxes in the total of receipts is most marked in Italy and in France. The effect of this situation is further increased by the large share of contributions made by employers under the social security system, amounting to 80 per cent of the total in France, 92 per cent in Italy, 75 per cent in the Netherlands and Luxembourg, 70 per cent in Belgium, but only 64 per cent in Germany.

The table below has been drawn up on the basis of the sum of all taxes paid in 1956, while the division of contributions between insured persons and employers is shown in the figures available for 1954¹⁾; it is assumed that there has been no substantial change since then.

Structure of public receipts

(as percentage)

	Germany	France	Italy	Belgium	Netherlands	Luxembourg
State taxes	100	100	100	100	100	100
— direct	53	40	30	47	60	59
— indirect	47	60	70	53	40	41
Social contributions	100	100	100	100	100	100
— from insured persons	36	20	8	30	25	25
— from employers	64	80	92	70	75	75

a) *Direct taxation*

While the comparison between the total burden and net national income at factor cost suffers from the distortions already referred to, the comparison between direct taxes and this income is a sound method.

Direct taxes as percentage of national income at factor cost

1956

Germany	France	Italy	Belgium	Netherlands	Luxembourg
16.4	9.5	7.8	9.4	17.3	16.1

Doubtless differences in the impact made by the contributions of wage earners or self-employed persons spring from a basic difference in the systems of financing social security. Except however in Belgium, where public expenditure is in general lower, the differences in the burden of direct taxation appear to be due less to the rates of contribution and to the rules by which they are governed than to the degree of strictness with they are applied.

Among the direct taxes we find that three countries — Germany, Luxembourg and the Netherlands — make a regular small levy on capital, and as far

¹⁾ Source : I.L.O.

as can be seen this tax has not led to reductions in investment, nor has it caused flight of capital. This difference between the taxation of income from capital and of earned income brings in only a small fraction of the total takings, but the cross-checks on incomes which it makes possible are perhaps not unrelated to the greater efficiency of the system of direct taxation in those countries where the system is in force. Germany also applies a special levy on capital to cover the costs arising from the war and from destruction. Those countries which have no annual taxes on capital have however, like the others, taxes on transfers of capital which are often very heavy; in France these affect in particular sales of property, and everywhere there are death duties.

The different countries of the Community make differences in the taxation of the income of corporations and of the income of individuals or single undertakings. For corporations the rate of tax is proportional or it rises very slightly with the absolute amount of the profits; the latter system is in force in Belgium, in the Netherlands and in Luxembourg, also to some extent in Italy, where a total rate comparable with that of other countries is produced by the cumulative effects of a series of different taxes. Furthermore a distinction is made, except in Italy, between profits distributed and profits transferred to reserves, either by making a distinction in the rate of tax itself, as in Germany, or else by adding or applying exclusively a system which imposes cumulatively a tax on all profits made by corporations plus a tax on profits distributed. It appears that a taxation rate of 40 per cent on the profits of corporations is typical, but differences in the basis of establishing the tax payable, in particular the calculation of depreciation, in the treatment of increased values in the credit items, in assessment of gains in the value of stocks are in the long run more important than differences in the nominal rate of tax imposed after assessment of taxable profits.

All countries apply a progressive tax on personal income; this tax may be simple, or may be made up of taxes with gradual increases on income under each heading plus a further tax, more steeply graded, on the total of these elements in the income of each taxpayer. Tax-free allowances are used to exempt small incomes from taxation, and in addition there are tax reductions related to family responsibilities. The French system, which breaks down income according to the size of a family, is by far the most favourable, for its effect is to reduce considerably the rate of increase in taxes on persons having family responsibilities.

b) *Indirect taxation*

Differences in the structure of indirect taxation are more fundamental. We must begin by treating separately taxes on particular commodities or excise

duties. Tobacco is a government monopoly in France and in Italy, and the profits from this can be compared with the very high taxes imposed on tobacco in the other countries. Taxes on petrol are everywhere several times the basic value of the commodity; they are heaviest in France and in Italy, average in Belgium, Luxembourg and Germany, and lower in the Netherlands. A large part of the money taken by the customs services is drawn from the duties on petroleum products or, till recently, on crude oil in Germany; customs dues from other sources form a major item in the Benelux countries in particular, these countries importing a great deal since they have few quotas and their duties are not prohibitive.

In all countries the major part of indirect taxation consists of taxes on turnover. In this matter there is a division between five countries, which have retained the system of cumulative taxes charges on the total value of all transactions, and the French system of a tax on increase in value (*taxe sur la valeur ajoutée*), which in each undertaking is imposed on the difference between sales and purchases, with the result that at the end of the processing of a commodity it represents a percentage of the final value of the commodity which does not depend on the number of transactions or processes through which the commodity has passed. The French system is in principle the only one which avoids distortions between one enterprise and another arising from the extent of their vertical integration; the other states endeavour to limit the distortions by laying down stages as the article moves through one and the same enterprise, as in Italy, or by exempting certain transactions, for instance those of a commercial nature which arise during industrial operations, as in the Netherlands, or else by replacing, within certain important sectors, the total cumulative taxes by a single compounded tax, as in Belgium.

One of the main effects produced by the French system is that, after a transitional period, it has brought plant into line with other purchases in such a way that the taxes paid when plant is bought can be subtracted from taxes on sales within one and the same enterprise or, in effect, that plant does not pay indirect taxes. But this system is not based on one tax only, it contains besides the tax on increase in value a tax on services rendered, in particular on gas, electricity and transport; neither form of tax can be subtracted from the other. In addition diesel oil was for a long time subject to a special tax, which could not be deducted from other taxes, at a rate lower than that on coal — this was consequently of less advantage to enterprises which pay the tax on increase in value, but more helpful for those liable to the tax on services rendered.

Retail dealings of a commercial nature pay no tax in the Netherlands, while in France they are subject to a system which differs from that of the increase in value. In several countries, in addition, they are subject to local taxes.

As a general rule indirect taxation is so arranged as to favour agricultural products, which either pay no taxes or pay at a reduced rate. Reduced rates are also found in the French system and are intended to help certain essential products such as coal, but in the long run this difference affects the cost of coal only for enterprises subject to taxes on services rendered, and for domestic consumers. Frequently there are also surcharges, which in effect are luxury taxes on commodities or services which are looked upon as non-essential.

All countries have a system of exempting exports from taxation, coupled with a compensatory tax on imports, with the result that in each market products are subject to the taxes of the receiving country. Exemption and compensation are applied with precision in the French system of taxes on increases in value, where the rate is always a given percentage of the value of the product. The other countries avoid indirect taxation of export business; in addition Germany, the Netherlands and Italy have lump sum rebates representing the whole or part of the indirect taxes added to prices as a result of earlier transactions. For each commodity compensating duties charged on importation are equal to the sum of tax exemptions and drawbacks on exportation.

As long as indirect taxation continues to differ from country to country, and in particular while there are variations even within one state, this system of exemptions and compensation is necessary to avoid distortions in international trade. But in the advance towards economic union it should be possible to eliminate charges made at frontiers by introducing a modern system of indirect taxation common to all states, a system which would no doubt tend to follow the lines of a general and coherent tax on increase in value.

3. Public expenditure

If taxes and social contributions are added together and then compared with the transfers made by the various public accounts without corresponding services in return — *i. e.* subsidies, aids, interest on the public debt and social benefits, even without counting war damage payments — we obtain the share of total taxation which is to be redistributed: in Italy 63 per cent, in France and Belgium 50 per cent, in Luxembourg 44 per cent, in Germany 40 per cent and in the Netherlands 28 per cent. In other words it is only the balance of tax revenue which is available to meet the public authorities' needs for goods and services — and even so, money spent by the state on education and public health replaces expenditure which should fall on individuals.

Another difficulty arises from the division of responsibilities between the state and local authorities or, under federal constitutions, between the federation and its Member States. The soundest picture is obtained by taking together all public accounts, whether they be those of the State or of the other authorities or of the social security system, but excluding transfers between

these various accounts, in particular the grants made by the state to local authorities or to the social security organization, as these must be cancelled out in a consolidated total.

Besides the difference between expenditure on transfers and direct public expenditure, whether this be directly in the interest of the public authority or, as in the case of education, in the interests of individuals, a distinction must be made between current expenditure and expenditure which increases the national capital, such as investments in the public sphere, grants for reconstruction and loans for investments in the economic field.

The share of the gross national product at market prices representing expenditure by all forms of public authority is 13 per cent in Germany, 15 per cent in France, 12 per cent in Italy, 11 per cent in Belgium and in Luxembourg and 15 per cent in the Netherlands¹⁾.

Since we have no comparable data on public budgets as a whole, we should be aware of the main sources of difference in the size of state budgets. If the ratio of budget to national product is lower in Italy, this is because of the reduction of capital expenditure — intervention by the state in the field of investment takes other forms —, of the absence in practice of subsidies, and of the watertight division between the public accounts and social transfers. This last factor is also the reason for expenditure on transfers being lower in the budget of the Netherlands than in the budget of other states. Undue importances should not therefore be attached to the fact that the ratio of total state expenditure by itself to the national products is 30 per cent in France and in Germany, 25 per cent in the Netherlands, 20 per cent in Belgium and Luxembourg.

Normally current expenditure represents three quarters and capital expenditure the fourth quarter of state expenditure. The proportion of capital expenditure tends however to be larger in France; an exception is formed by Italy, where capital expenditure is only 16 per cent of the total.

Within current expenditure purchases of goods and services, *i. e.* expenditure for equipment and personnel, represent one half and transfers the other half, except in Italy and the Netherlands, where the share of direct expenditure in the state budget is perceptibly greater.

In current expenditure for goods and services the share of military expenditure is considerably more than one half in France, it is around one half in the Netherlands, is 40 per cent in Belgium, one third in Germany and Italy and one quarter in Luxembourg²⁾.

It would be useful to separate public expenditure on education, especially on public and private education; the division of responsibilities between the

¹⁾ See Table 10 *b*, p. 67.

²⁾ For state expenditure in Community countries see Table 3, p. 159.

various public authorities and the mutual payments which they make to each other in the financing of this activity inject great uncertainties into the comparisons, which show rates of public expenditure on education varying, according to country, between 2 and 3 per cent of the gross national product at market prices. The heaviest burden is evidently that found in the Netherlands; it corresponds with the higher rate of increase in the population.

On the role of transfers in the broad picture of state and public budgets we must perforce be satisfied here with brief indications. A distinction should be made between those intended to meet the consequences of the war, especially grants for reconstruction — these transfers will gradually reduce their own volume — and the enormous sums which, in Germany, are needed for the support of refugees and as subsidies for Berlin. In addition means should be provided for the establishment of a consolidated social budget covering each state; this budget should bring out the form of the benefits accorded and indicate the organ by which they are paid, whether it be the state, the local authorities, the social security funds, special schemes set up in certain sectors, or even the enterprises themselves. Characteristic of all countries in the Community is the great extent of cover given to social risks, and the increasingly large proportion of benefits which are unrelated to work performed but are intended to meet essential needs. All countries have a system of family allowances, maternity grants, old-age pensions, sickness insurance and unemployment payments. The share of the state budget differs from case to case; it is large in Belgium because of the subsidies paid to maintain the balance of social security payments, and also in Germany since the reform of pensions placed a considerably larger burden on the federal budget. Family allowances are of particular importance in France and Italy, retirement pensions in Germany. In all countries contributions by employers are larger than those made by workers, while it is primarily in France and in Italy that the costs complementary to wages form the major item in the financing of social security.

As the state is called upon to cover, if only in the form of an advance of funds, the current deficits of the other authorities or of social security, the credit or debit balance of the budget serves in the end as an overall picture of the public finances. This picture is very different when we relate normal current receipts to total expenditure and when we relate these receipts to current expenditure only, excluding investments in the public sphere, transfers for reconstruction and subsidies or loans for productive investments.

Significant is the figure showing the excess of receipts over current expenditure not only in the state budget but also in the budget of all public organizations taken together, after cancellation of mutual transfers between them. Whether or not this amount is directly invested or loaned by the state, it represents the contribution of public savings to the financing of investments.

D — THE FINANCING OF INVESTMENTS

1. The capital account

The best picture of the overall financial situation in a country's economy is given by a capital account which shows on one side the external surplus and investments, on the other side the surplus in the public budget and the savings made by enterprises and individuals. If investment is taken at the gross figure, including replacements, depreciation appears on both sides of the account, in the sum of investments and in the sum of resources from which they can be met. It is evident that the item for the external balance and the item for the public budget may have cumulative effects, i.e. a debit external balance means an increase in real resources and a corresponding reduction in the need to take from consumption the amount required for the formation of capital; and while a budget surplus is in effect one form of saving, a deficit is in effect a supplementary charge to be met by savings.

And endeavour has been made to draw up an account for 1956¹⁾ on a similar basis for all the six states²⁾.

Here we come up against the peculiar feature of the external balance in the French economy: the contribution to the financing of the economy made by the surplus of purchases of goods and services abroad, a surplus which has only grown larger in the subsequent financial year.

The policy followed by the Netherlands has tended to absorb the external deficit. The small Italian deficit was wiped out in 1957.

These various situations in respect of the balance of payments are bound up with the general circumstances which affect the financing of the economy.

If we exclude from current state expenditure the war damage payments and subsidies for equipment at home and the overseas territories, we find a credit balance of receipts over current expenditure even in France and even for the year 1956, which is a particularly unfavourable year for such a comparison. If we mean only an excess of receipts over current expenditure within the limits defined above, the situation has been systematically improved in 1957.

The most striking situation in this respect is that in Germany, where the surplus in public accounts, even after deduction of the amounts required for public investments in the strict sense, still shows a balance which corresponds

¹⁾ More than anywhere else, the general reservations concerning figures must be kept in mind here.

²⁾ See Table 4 and 4a, p. 160.

exactly with the savings made by enterprises. This situation is reflected in the increase of government holdings deposited with the Federal Bank. Whether budget surpluses are used directly in the form of loans or whether they are banked, they in the long run provide, through the banking system, similar facilities for covering investment in the remainder of the economy.

2. The financing of enterprises

With this overall picture as a basis it is possible to see how finance becomes available for investments in the production field. The comparison between the savings of enterprises and their investments, first including then excluding depreciation, gives the figures for gross and for net self-financing. Apart from the exceptional case of Luxembourg, where self-financing covers some 90 per cent of investments, we find very similar rates in all countries, some 75 per cent of gross investment being covered by the undistributed company profits or by profits directly reinvested by individual enterprises¹).

In the case of Germany it should be noted that the effective rate of net self-financing in industry is higher than the rate shown by this overall picture: statistically all construction of dwellings is included in investments by enterprises, of which it constitutes more than 1/3, while in this field true financing is extremely limited. Even where a private owner builds for himself, the building is put down as the work of an enterprise and the individual who saves in this way appears to be making a loan to the enterprise; the apparent level of self-financing by enterprises is correspondingly reduced. This is what is found in the French system of economic accounting: if instead of taking investments globally and setting opposite them the savings of enterprises, we take out the part related to the building of dwelling on private account and the payments which correspond to this building activity, the gross rate of self-financing in enterprises for all other investments rises from 73 per cent to 78 per cent and the rate of net self-financing from 45 per cent to 53 per cent.

To the divergence between net investments and net savings by enterprises must be added the expansion of their financial assets, whether in cash or in the form of holdings or investments, so as to obtain the full picture of their need of outside finance.

On this basis we can see how financing is managed in Germany, France and Italy.

¹) For the system of financing of investments in the production sector, see Table 5, p. 161.

Means of meeting the financial needs of enterprises*(as percentage)*

	Germany		France		Italy
	1956	1957	1956	1957	Average of recent years
Bank credits	48	38	32.6	26	32
Savings institutions (building societies, insurance, lending houses)	17	15	—	—	34
Treasury and public bodies	19	23	43	40	—
Capital market	11	12	20	28	34
Foreign loans	5	12	4	6	—

A healthy development can be seen in the gradual reduction of the proportion of bank credits and the expansion of the share of the capital market. This appears to be particularly true for France, where the expansion of bank credits had reached a maximum rate in 1951 and then fell appreciably, except for a new high in 1956. The table above also shows that in Germany the share of banks in financing has tended to decline between 1956 and 1957.

The extensive participation of the banks in Germany reflects a difference in the structure of its banking system, where we do not find the rigid division between deposit banks and long-term finance which is required by law in Belgium and Italy, and which is very common in practice in France.

3. The part played by the state

If we add up all the contributions made by public authorities to the total of net investments, *i. e.* the whole body of direct public investment, of capital transfers in the form of compensation for war damage or of subsidies, of housing subsidies and of loans and advances to the private sector, the total obtained in Germany and in the Netherlands is more than 50 per cent of all net investment and in France nearly 2/3.

In Belgium and Italy it is possible to distinguish investments made by the public hand from those made by private interests; the former amount to about 20 per cent in Belgium and it total 25 per cent in Italy, or 30 per cent if housing is included.

It is in housing that most of the direct loans or subsidies by the state are to be found in Germany and the Netherlands. State aid in this field is also very extensive in France. For the rest, it is in France more than elsewhere that investment in other fields benefits, in the form of loans, from direct support by the public purse; Italy makes annual grants to the Southern Fund.

In several countries, particularly in France and Italy, the agricultural sector has the advantage of a specially low rate of interest.

Apart from direct help from the state, long-term financing in nearly all countries is in the hands of public or semi-public institutions. This applies to the Bank for Reconstruction in Germany, to the "Crédit National" in France, to the "Société Nationale de Crédit à l'Industrie" in Belgium and to many establishments whose work has been facilitated in Italy either by receipt of budgetary funds, or by the granting of credit guarantees and of tax reliefs.

While the support of public funds or the public character of lending institutions leads in the end to direct steering of investments or at least to supervision of the purposes for which they are used, reference should also be made to the importance of the public sector or of activities under public control in the economies of France and Italy. It may be doubted whether the investments in the coalfields or in electricity would in other circumstances have reached the scale that is found in France. The financing of IRI and ENI in Italy is based essentially on the market, but together they absorb some 70 per cent of all issues of industrial bonds.

The part played by the state is not limited to direct support or to steering by an intermediary. The system of taxation has in nearly all states been planned with an eye to encouraging the growth of the necessary investments. Depreciation facilities for instance have played an essential part in Germany and later in France and the Netherlands. Exemption from the profits tax of increases in value on the sale of fixed assets is only granted in France provided that the proceeds of the sale are re-used within a given period. The Netherlands grant a reduction in the profits tax which is related to large-scale investments, while retaining the right to suspend this concession when the state of the market calls for restrictive measures. In the French expansion of recent years an important part has been played by changes in the basis of industrial taxation, in which investment purchases are, with certain exceptions, treated on the same footing as current purchases in calculating the sums for which enterprises are liable on the difference between sales and purchases under the tax on increase in value. The result is a compensatory rise in the rate of taxation which transfers to consumption of industrial products the burden taken off investment goods. For farmers, to whom the tax on increase in value does not apply, a rebate on equipment replaces the tax reliefs accorded to industrial enterprises.

The extent of direct contribution by the state or of indirect contributions through the tax system cannot be appreciated exactly without at the same time examining the manner in which the state ensures full cover for its expenditure. In this respect the situation in Germany is the reverse of the situation in all the other countries. Borrowing by the Federal Government is nil and also the demand for credit is negligible; this is far below the increase in liquid assets held by the public; these savings by the public can absorb any inflationary effects due to the enormous growth in the value of the credits which the banks advance for investment by enterprises. The Italian State receives a modest

amount of help from the Issuing Institution; of recent years the French State has had to turn several times to the Bank of France for advances. The proportion of calls on the capital market made by the state has steadily declined in Italy, while the current surplus covers about 1/3 of capital expenditure. In France the proportion of these calls is erratic; very big loans are floated at intervals of two or three years while current surplus has to cover about 1/2 of capital expenditure. In Belgium the state accounts for the major part of such calls, 75 per cent of the loans floated going to cover the budget deficit of the state and of the public authorities; they cover about 5/6 of direct investments and aid to investments, the last sixth being covered from current surpluses.

Evidently the net support given by the state is all the more valuable when its finances are firm and it does not compete with others who turn to the market. If on the other hand the state grants building or certain investments facilities for re-financing with the Issuing Institution, or if the state itself turns to the Institution to cover the equivalent of the credits it advances, then public financing is less a means of ensuring supplementary resources which would make a high level of investment possible without leading to inflationary pressure than a means of steering investments in the interest of overall economic development.

4. The capital market

The total value of loans floated in Belgium was already high toward 1950; since that time their increase has not been particularly rapid. If we deduct the issues made by enterprises, the increases in France have been steady. In Germany too the capital market has been expanding, especially since 1957. The sharpest increase in issues for the economic sector is found in the Italian market. If in the private sector in Belgium shares are far more widely used than bonds, this is because of the different methods of taxing fixed-interest securities in the public and in the private sectors. If the converse is true for Germany, the reason must be sought in the differences in the way the two types of securities affect the taxation of business houses; the tax reform now under consideration tends to reduce the taxation of distributed income and consequently to reduce the incentive to self-financing and to encourage the market in securities with variable interest ¹⁾.

The divergences which existed in the net yields from securities have tended to diminish now that the Netherlands have dropped their systematic cheap money policy and that there has been a gradual rise in rates owing to the large issues floated by public authorities in Belgium. The cost of long-term money, including overheads, is still around 9 per cent in Italy and 7 per cent in France. Germany has for long had long-term interest rates which were the highest in the

¹⁾ Trend of loans floated in Community countries - See Table 6, p. 161.

Community; but as a result of the successive reductions in the discount rate in 1957 and 1958 and of the growth of savings and of some influx of capital, the last few months have seen a rapid fall in the interest earned by securities, which now runs at between 5 and 6 per cent.

If we compare the figure for the issues floated by the economic sector with the figure for net investments other than investments by public authorities, we find that the contribution of the capital market rises slowly from 20 per cent to 25 per cent in Germany and in France and stands at some 30 per cent in Italy. In Belgium uncertainties concerning the division of savings of enterprises between depreciation and net profits makes such a comparison unsafe; analysis of the forms taken by private savings shows a rather striking lack of change in the methods of using the money available; there was a peak in the floating of loans in 1954, and a slow increase in insurance. A similar analysis for France would bring out the increased amount of savings invested direct by individuals encouraged by building grants; as a result of this increase we would find, despite the growing scale of loans floated on the capital market, a relative decrease, when compared with the total national product, of the support given to the financing of the economy by personal savings.

The proportion of personal savings must not be considered as an absolute value, but in connection with the state of the public finances. Therein lies the basic difference between the situation in Germany and the situation in France. In Germany personal savings find a complement in the budget surpluses and also in the piling up of reserves of public money caused in part by the rate of expansion of military expenditure being slower than was assumed at the time the budget was drawn up; these factors contribute to the maintenance of foreign exchange surpluses whose inflationary effects are then tackled by a strict financial policy. When on the other hand public finances are far from being able to cover the requirements of investment, personal savings, with a ratio to the national income not very different from that in Germany, prove to be quite insufficient in France, and this leads to dependence on external support which, to a large extent occurs in the form of re-transfer from the overseas territories of part of the important transfers covered by the budget of the mother country. In the long run it is Italy, a country now in the process of development, which ought to be in a position to count not only on its own capital market but also on an increase in help from outside, help which in recent years has been used to rebuild the country's currency reserves.

These brief observations show the importance for the development of the Community of a coordination of financial policies; they also bring out the scale of the work still to be accomplished if a broader capital market is to be formed. Such a market would no doubt have better chances of coming into existence again in the huge area of the Community than in the separate national economies.

STATISTICAL ANNEX

PART A-III — PRICES AND THE FINANCIAL STRUCTURE

TABLE 1

Index of wholesale and retail prices

1957

(1950 = 100)

Products and Consumption	Germany	Belgium	France	Italy		Nether-lands	Luxem-bourg
				(1950 = 100)	(1953 = 100)		
<i>Index of wholesale prices</i>							
Industrial products	124	114	138	—	103	123	—
Producer prices of agricul-tural products (total)	130	104	137	112	106	108	—
Vegetable products	149	100	124	117	105	106	—
Animal products	120	104	143	110	109	109	—
<i>Index of retail prices</i>							
Total consumption	115	117	136	132	113	136	117
Food consumption	122	119	128	126	111	130	114

Source: OEEC: General Statistics, July 1958.

TABLE 2

Revenue of the Member States

	Germany 1957		Belgium 1957		France 1957		Italy 1957		Luxembourg 1956		Netherlands 1956	
	'000,000,000 DM	% of total	'000,000,000 Bfr.	% of total	'000,000,000 Ffr.	% of total	'000,000,000 Lit.	% of total	'000,000,000 Bfr.	% of total	'000,000 Hfl.	% of total
Total yield	50.6	100	89.2	100	4 209	100	3 455.8	100	4.23	100	7 092	100
Breakdown												
<i>Taxes on income and property :</i>												
Income tax	27.0	53.3	41.8	46.9	1 690	40.1	1 038.9	30.1	2.49	58.9	3 784	53.4
Property tax	16.7	33	35.9	40.2	1 353 ¹⁾	32.1	949.6 ²⁾	27.5	2.24	53.0	3 520	49.6
Taxes on transfer of property	2.9	5.7	—	—	—	—	—	—	0.08	1.9	137	1.9
Tax on ownership of land and business	0.9	1.8	5.5	6.2	337	8	89.3	2.6	0.17	4.0	127	1.8
<i>Taxes on circulation of income:</i>												
Transport duty	6.5	12.8	0.4	0.5	—	—	—	—	—	—	—	—
Turnover tax	23.6	46.7	47.4	53.1	2 077	49.3	2 210.8	64.0	1.37	32.4	3 308	46.6
Consumption tax and duties on expenditure (excises)	1.3	2.5	2.2 ³⁾	2.5	17	0.4	17.6 ⁴⁾	0.5	0.12 ⁵⁾	2.8	91	1.3
<i>Other receipts</i>	12.8	25.4	34	38.1	1 859	44.1	1 374.9	39.8	1.23 ⁶⁾	29.1	2 020	28.5
<i>Monopoly duties</i>	9.5	18.8	11.2	12.5	201	4.8	818.3	23.7	0.02	0.5	637	9.0
					195	4.6	206.1	5.9	0.37	8.7	560	7.9
					247	6.0						

Sources :

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- 1) These include in particular all taxes levied on the basis of the taxation lists.
- 2) Road tax for motor vehicles.
- 3) Incl. also property tax.
- 4) Means of transport and other services, especially public services.
- 5) Motor vehicle tax and taxes on transport.
- 6) Incl. customs duties and countervailing excise tax.

TABLE 3

National Budgets

	Germany Budget 1957		Belgium Budget 1957		France Draft budget 1958		Italy Budget 1957-1958		Luxembourg Budget 1957		Netherlands Budget 1957	
	'000,000,000 DM	% of total	'000,000,000 Bfr.	% of total	'000,000,000 FFr.	% of total	'000,000,000 Lit.	% of total	'000,000,000 Bfr.	% of total	'000,000 Hfl.	% of total
Total expenditure incl.	66.2	100	108.5	100	5 936	100	3 053.6	100	4.9	100	7 208	100
Subsidies	1.4	2.1					86.5	2.8	0.6	12.2	429	6.0
Social expenditure	14.7	22.2	30.9	28.7	1 533	25.9	386.4	12.6	0.7	14.3	869	12.1
Administrative expenditure	14.2	21.4	32.1 ¹⁾	29.4	1 623	27.3	1 055.0	34.6	1.6	32.7	2 158	29.9
Other expenditure in the civil field	6.4	9.7	3.9	3.6	— ³⁾	—	385.6	12.6	— ³⁾	—	902	12.5
Building, other invest- ments and loans	13.5	20.4	21.2 ⁴⁾	19.5	1 254	21.1	600.6	19.7	1.0	20.4	651	9.0
Defence expenditure	8	12.1			1 282	21.6	7.8	0.3	0.4 ²⁾	8.2	1 356	18.8
Public debt	3.3	5.0	17.6	16.2	244	4.1	216.9	7.1	0.5	10.2	833	11.6
Other expenditure	4.7	7.1	2.8	2.6	—	—	314.8	10.3	0.1	2.0	10	0.1

Sources:

Germany: Report by Mr. Bauer.

Belgium: Ministère des Affaires Economiques. Bulletin Mensuel de la Direction générale des études et de documentation, April 1958, No. 4.

France: Ministère des Finances. Statistiques et Etudes financières, March 1958.

Italy: Comparative table of the national budgets of 1953-54 and 1957-58, from an article by A. Fanfani in Il Popolo of 30 April 1958.

Luxembourg: Ministère des Finances. Draft law on the budget of state income and expenditure for the financial year 1958.

Netherlands: Miljoenennota 1957.

¹⁾ Incl. military administration.²⁾ Incl. investment expenditure.³⁾ Items included under administrative expenditure.⁴⁾ Incl. military supplies.

TABLE 4
Capital account of the economies of the Community
 1956

	Germany	France	Italy	Belgium	Netherlands
	'000,000,000 DM	'000,000,000 Ffr.	'000,000,000 Lit.	'000,000,000 Bfr.	'000,000 Hfl.
Gross public investments	5.5	386	475	21.6	950
Gross private investments	38.8	2 970	2 571	64	6 930
Stocks	2.6	208	105	3.3	590
External balance	4.3	- 335	- 54	15	- 650
Total :	51.2	3 229	3 097	103.9	7 820
Public surplus	16	281	262	5.4	2 210
Depreciation by enterprises	17.5	1 335	1 305	46.7	2 570
Undistributed profits	10.8	625	650	10.4	1 270
Personal savings	6.9	988	880	41.4	1 770
Total :	51.2	3 229¹⁾	3 097	103.9	7 820
Percentage ratio of gross fixed investments to national product	22.9 %	17.6 %	20.8 %	17.2 %	25.2 %

The figures for investments and for stocks and external balance have been taken, except where otherwise stated, from Table 10 b of Part I.

The remaining information comes from the following sources :

Germany: Report by Mr. Bauer. Vierteljahresheft für Wirtschaftsforschung, 1958, Vol. 1, pp. 38-39 and Monatsberichte der Deutschen Bundesbank, June 1958, p. 48.

France: Comptes de la Nation.

Italy: Rapporto Saraceno e Relazione generale sulla situazione economica del Paese, 1958.

Belgium: Caisse Générale d'Epargne et de Retraite and Report of the Bank of International Settlements.

Netherlands: Report by Mr. de Wolff.

¹⁾ The figures given here differ from those shown in French national accounting in the following respects :

- a) The formation of public capital abroad and in the overseas territories and the subsidies given to the Development Fund for the overseas countries and territories, amounting altogether to 68,000 million francs, are excluded from the deficit in the balance of payments.
- b) They are also excluded from the current public deficit, as are war damage expenditure (248,000 million francs) and equipment subsidies (127,000 million francs), which are balanced by corresponding reductions in the net savings of enterprises and individuals.

TABLE 4a
Capital account of the economies of the Community

1956

(as percentage of national product)

	Germany	France	Italy	Belgium	Netherlands
Gross public investments	2.9	2.1	3.2	4.4	3.0
Gross private investments	19.7	16.0	17.6	12.8	22.2
Stocks	1.4	1.1	0.7	0.7	1.9
External balance	2.2	- 1.8	- 0.3	3.0	- 2.1
Total :	26.2	17.4	21.2	20.9	25.0
Public surpluses	8.4	1.5	1.8	1.1	7.1
Depreciation by enterprises	8.7	7.2	8.9	9.4	8.2
Undistributed profits	5.5	3.4	4.4	2.1	4.0
Personal savings	3.6	5.3	6.0	8.3	5.7
Total :	26.2	17.4	21.2	20.9	25.0
Percentage ratio of gross fixed investments to national product	22.9	17.6	20.8	17.2	25.2

TABLE 5

Financing of investments in the production sector

	Germany	France	Italy	Belgium	Netherlands	Luxembourg
	'000,000,000 DM	'000,000,000 Ffr.	'000,000,000 Lit.	'000,000,000 Bfr.	'000,000 Hfl.	'000,000 Bfr.
1. Gross public investments	5.5	386	475	21.6	950	965
2. Gross private investments	38.1	2 970	2 571	64	6 930	3 065
3. Stocks	2.6	208	105	3.3	590	350
4. Private depreciation	17.5	1 615	1 305	46.7	2 750	—
5. Net private investments incl. stocks	23.9	1 563	1 371	20.6	4 950	—
6. Undistributed profits and gross investments by single enterprises	10.8	714	650	10.4	—	—
7. Gross rate of self-financing (i. e. $\frac{4+6}{2+3}$)	69 %	72 %	73 %	77 %	—	—
8. Net rate of self-financing ($\frac{6}{5}$)	45 %	45 %	48 %	50 %	—	—
9. Increase of financial assets	4.9	861	—	—	—	—
10. External finance requirements (5 - 6 + 9)	18	1 406	—	—	—	—

TABLE 6

Loans floated

	Germany			France			Italy			Belgium			Netherlands
	'000,000 DM			'000,000,000 Ffr.			'000,000,000 Lit.			'000,000,000 Bfr.			'000,000 Hfl.
	1951	1956	1957	1954	1956	1957	1950	1954	1957	1950	1954	1956	1956
Total	912	4 401	5 815	426	806	743	352	514	551	15	40	28	684
Public authorities				91	413	105	212	207	141	9.3	26.7	15.2	414
Financial institutions	747	2 564	4 184	110	78	164	52	131	138	2	5.2	4.7	124
Industries				225	315	474	38	36	102	1	2.5	1.5	
Shares				51	138	170	2.7	5.6	6.6	146			

CONCLUDING OBSERVATIONS

Studies such as this do not strictly speaking have a conclusion. No attempt has been made to forecast the general development of the Community, the trend or the prospects of the individual economies within it. Our purpose has been to find the basis on which changes can be measured or more advisedly prepared. The survey helps to locate the task which will face the Community without claiming to define the policy which will enable the Community to deal with this task.

Our survey brings out more clearly the character of the entity which is to become a customs union. We are dealing with economies which resemble each other as closely as is possible among separate states in our world of water-tight markets. The standard of living is very closely comparable and industrial structures are very similar to each other; the differences are found primarily in agriculture and, even more clearly, in the relative volume and the direction of external trade.

In point of fact the available information is not sufficiently precise or sufficiently detailed to pinpoint in advance the difficulties liable to beset some industry or some branch of industry in some country. It has been seen in passing that no data are available on one essential factor, the wide dispersal in cost prices within each state. It must again be pointed out how important it would be, how much in the interest of the producers themselves, if we could locate potential difficulties in advance; to do this, a census of production must be carried out in six countries on the same date and on the same basis.

It should be noted at once that difficulties in competition, which will appear as the Common Market develops, cannot be deduced from existing elements without making an appreciation of the changes likely to affect them. In the economic relations between the Member States, the effect of the economic union and of the rules governing it, is to alter gradually the relative advantages enjoyed by each economy. The costs of labour will tend gradually to level out, there will be an end to the distortions which result from the different methods of financing social security, the cost of capital will tend to fall into line because it will be able to circulate freely and, finally, the advantages and disadvantages accruing to particular sectors from the general state of the balance of payments — increased activity owing to an overall surplus or the risk of a disturbance of

production when there is a deficit — will not in the long run be compatible with the market where disequilibrium in the balance of payments or the rate of exchange can no longer be tackled by the imposition of unilateral restrictions.

In the end these factors in the overall economic situation are more decisive than those problems which may arise at the level of enterprises. With the progressive removal of the possibility of using the protective measures which palliate the effects of divergent or clumsy economic policies, even greater importance attaches to the coordination of economic policy between Member States. It will be useful to delimit the fields where such coordination is essential.

To maintain the balance advances in productivity do not need to be comparable at all points, provided at least that appropriate differences in the trend of wages maintain equilibrium in the costs of labour. Still less is it necessary for the instruments of political economy to be applied everywhere in the same manner; on the contrary, with different situations existing in every country, the maintenance of equilibrium may call for measures which are not identical but which complement each other in the pursuit of a common objective. What matters is to avoid in each country deflationary or inflationary changes which would either upset mutual balances or would spread to other states. But we must not shut our eyes to the fact that the means available to the Community to ensure such coordination have not yet been adequately worked out.

The need for a co-ordinated financial policy arises first in connection with the most pressing problem which will face the Community: the deficit in the French balance of payments and the surplus in the German balance, which is all the more serious as most of it arises inside Europe.

Analysis shows that this is not a structural problem. At the present rate of expansion of the French economy, the share of national resources which must be deflected from uses at home if the external balance is to be restored is a fraction of the annual increase in resources; the task does not call for austerity but only for a change of habits or of attitude and for a more rigorous financial policy, since the expansion of production makes it possible to combine this action with maintenance or even expansion of the share used at home.

The structure of French industrial production does not appear to be badly adapted to this effort; in addition, the arrangements made for the Common Market must lead to increased exports of agricultural produce and also to transfers from the other countries in the form of contributions to the development of the overseas territories. Correction of certain weaknesses in financial policy, certain changes in the price relations between the French and the other economies will of themselves produce the expansion of internal savings which goes with the re-establishment of the balance of foreign payments.

On the German side, expansion of imports at a rate higher than the increase of production, the maturing of public expenditure for which cover had been provided in advance but which had been carried through at a rate lower

than expected, the trend towards a reduction in the length of the working week without reduction in wages, all these will gradually change the excessively strong position of Germany.

In the even longer run, the external balance of each country will be affected by the increases in mutual purchases of goods and services; the customs union will lead to an expansion of the share of trade falling to manufactured goods; the structure of the Community also entails large-scale trade in primary products, whether these be agricultural produce or supplies of energy. Imports from the overseas territories, still small in those Member States with whom the territories were not linked, will be greatly expanded under the influence of the association established by the Treaty.

For the Community taken as a unit the relative increase of imports, exclusive of mutual trade between Member States, is smaller than the increase for each state taken individually and including mutual trade.

This fact increases the freedom of the Community to ensure its own continued expansion. The effects of the establishment of the Common Market will be more easily absorbed when accompanied by general expansion. Already it has been possible to see that the rapid advance of each individual economy inside the Community was not occurring without fundamental changes in structure, such as the establishment of new activities and great changes in the contribution of the various industries to the total product. The point of the Common Market is to make possible the maintenance of a higher rate of expansion when in individual states the rate might fall off. An immediate example of this possibility of injecting new vigour is provided by the smallest countries, which are directly dependent on external markets. We can see the Netherlands fighting against the contraction of the markets for their agricultural products caused by the competition of distant producers and the rise in production costs. In Belgium the economy is affected by fluctuations in the world economic situation. Luxembourg is finding that the mineral resources on which its extra-ordinary expansion has been founded are running out. A larger interior market is opening up for advances in production and for the broadening of the economic basis.

The prospect of competition increases the incentive to invest in order to modernize the means of production and to retain or expand markets. The combined Community can base the development of its production on an active population larger than that of its individual states added together, not only by helping to absorb the unemployment which is prevalent in certain areas only, and by thus turning what is a burden for one state into an asset for the Community, but also by offering a chance of work to women who, on too narrow markets, were inclined to give up from the start their attempt to find work.

The fusion of economies does not require this rhythm of development to be parallel everywhere. It is on the contrary one of the major tasks of the Com-

munity to ensure that the speed be higher in those areas which are least advanced. This is one of the tasks incumbent on the European Investment Bank; it is also a task for the overall economic policy, especially for those who manage the assistance which, not being as a rule available to the other regions, will have all the more effect in the areas which are to be given differential treatment. If help from outside is to be provided, it will be primarily in support of areas such as these, for whose development such help means both material resources and technical assistance.

These prospects suggest that two sorts of structural change are going on concurrently: those due to expansion and those caused by the progressive fusion of the economies. In order that these shall produce as few difficulties and shocks as possible, there must be greater efforts to understand, to foresee and to inform. Those concerned must know what is going on elsewhere and what markets are opening. The light thrown on short and medium-term trends and the overall picture of the changes occurring in the Community will make it easier for both governments and business to take the necessary steps to adapt themselves along the right lines.

We must not underestimate the dangers of increased instability in the European economy which may result from the greater specialisation required by advances in production, from the larger share of investment in total demand and from a possible unevenness in the rhythm of replacement of plant and also from the increase in the part played by exports in markets as a whole, especially in the shape of equipment items. On the other side of the balance-sheet we have infinitely greater possibilities for a policy of stabilising the economic trend; difficulties in the balance of payments are usually the obstacle to expansion for countries working individually, and at the same time they force these countries to adjust themselves in some degree to the lower level of business abroad. The powerful unit that will be formed by the Community will eliminate, throughout a large section of trade, the chain reaction of economic influences from abroad inevitably exerted on each other by countries whose economic scale is in no way comparable with that, for instance, of the United States. But the opportunity which offers must be grasped, joint action must be as vigorously conceived and organized as the action of any state could be, and its chances of success will be all the greater if it fits into a policy of long-term expansion which means at the same time an orderly change in structures.

Attention has been drawn to the situation of the Community as major customer of the primary producing countries and as their first supplier in the near future for equipment and manufactured products. A policy of stabilising the economic trend — and for such a policy the Community possesses the necessary means — is one of the main contributions which it can make to the development of these countries and to the conditions of progressive industrialisation on which depends the raising of their standard of living.

Already the Community is beginning to show overall surpluses in its external balance with the rest of the world. Europe will thus assume once more the traditional role which European countries have had, one after the other, to give up under the force of circumstances, and it will give direct assistance in the development of the less advanced countries, whose choices will count heavily in the history of our era. This observation alone must suffice to show the importance of the economic union of Europe as a turning point in the political destinies of the world.

Part B

Germany
(Federal Republic)

This report was prepared by Mr. Wilhelm BAUER, of the Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen, at the request of the Commission of the EEC.

FOREWORD

This report provides a survey of the most important features in the economic structure of the Federal Republic of Germany to-day and of trade trends which have appeared in the post-war period. The report keeps closely to the form elaborated by the Working Party of the Commission of the European Economic Community. Only in section III did a different arrangement of the material appear to be required.

The statistical material is in the main taken from official sources. The problems which face the statisticians in the Federal Republic because of the country's division into areas are well known. Every table therefore carries an indication of the area to which the figures refer. The major portion of the work was completed in July 1958 and consequently could be based only on statistics published up to that date.

I — STRUCTURE OF THE ECONOMY

A — INTRODUCTION

1. Reconstruction, surplus population and adaptation

The present economic structure of the Federal Republic of Germany is very largely a consequence of the fundamental changes in the basis of economic, social and political life caused by the war itself and by the way this war ended. These changes fall into three groups:

1. Losses of fixed assets owing to war damage, interruption of replacements during the war and in the early post-war period, dismantling by the occupation forces, etc...

2. After the war a stream of 8 to 9 million "refugees" flowed into the Federal Republic, mainly from the Eastern territories of the former German Reich.

3. As a result of the division of Germany caused by post-war political developments the Federal Republic, which till then had formed part of a unified economic area, became an autonomous economic area.

Common to all three groups is the high level of investment demand in all forms to which these factors have given rise. An economic policy related to these factors inevitably produces an abnormally high investment rate (ratio of investments to the national product) and this in turn explains why the speed of German economic expansion in the last few years has been so high in comparison with other periods and also with other countries of similar economic structure.

Expansion at such a pace was possible partly because the surplus population meant that there was ample manpower, producing the classic situation of under-employment, and partially because the war economy had shifted a large part of economic output to investment goods (in the technical sense) with the result that despite the destruction due to war a comparatively well-developed set-up was available for the production of equipment goods. Moreover in removing war damage a comparatively small investment effort sufficed to bring the broken production lines fully back into service. (The marginal productivity of capital was in other words relatively high during the first years of reconstruction).

As reconstruction, integration of "refugees" and adaptation to the new territorial boundaries progressed, and under-employment gave way to full employment, the rate of expansion of course fell correspondingly.

The new demographic situation in the Federal Republic after the war inevitably meant that the economic structure could only move in the direction of further industrialisation. Economic policy therefore has taken this development as its basic objective.

The conditions for an increase in industrialisation were (and are) favourable, inasmuch as the Federal Republic has always contained most of the major industrial centres of Germany, especially the industrial area of Rhineland-Westphalia. The importance of this infrastructure for the industrialisation and concentration of existing industrial organizations has once more been proven. Existing agricultural areas have not, except on the borders of existing industrial areas, been industrialised to any appreciable degree.

Reference should also be made to one result of this rapid reconstruction which can affect economic trends. The fixed assets of the Federal Republic are comparatively "young", *i. e.* a relatively large part consists of plant which has only come into existence during the last 8 or 10 years. Unquestionably this has a beneficial influence on economic productivity as a whole, but on the other hand this unbalanced age structure of fixed assets involves a danger of replacement by waves, and these can create even greater problems for the policy dealing with economic trends when the general economic expansion is losing momentum.

2. Basis of economic policy

The change in the political regime from the collectivist and totalitarian system to the free democratic system following the military and political collapse in Germany made a re-orientation of economic policy possible, indeed essential. In harmony with the line of political thinking, the decision could fall only in the direction of an economic system which restored individual initiative and freedom of decision as cornerstones of economic life. With this went the conviction that advances in general well-being and — in the existing circumstances — increased industrialisation would be best promoted by an economic order which allowed the natural forces in the market to get through and to develop.

Consequently the Federal Republic, after the years of war economy and of a controlled economic system, has changed over to a system based on marked influences (social market economy); since the currency reform in June 1948 it has been possible to apply this system fairly rapidly in many though not in all sectors.

The principle of market economy has so far not been applied to housing, despite the great efforts to reach a certain balance of supply and demand in this field through state aid for the building of homes.

All the major sectors of agricultural production are on principle excluded from this market economy in the strict sense of the word. As in all Western European countries agricultural policy is consciously protectionist.

In the field of transportation, too, it is considered that overall development will benefit more from state intervention in the free play of economic processes than if this were left to themselves. The same applies to some extent also to the supply of energy.

B — DEMOGRAPHIC SITUATION AND LABOUR MARKET

The fundamental importance of the population factor for the changes which have occurred in the economic structure of the Federal Republic of Germany has already been referred to in the introduction.

The main data are therefore given in summary form below:

TABLE 1

Population in the territory of the Federal Republic

(000)

	17. 5. 1939	31. 12. 1949	31. 12. 1957
Population (residents)			
excl. Saar	39,337.5	46,579.4	50,812.8
incl. Saar	40,247.1	47,514.9	51,832.0
Density of population (per sq. km)			
excl. Saar	160	190	207
incl. Saar	162	192	209

Source: Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1957. Statistische Berichte, Arb.-No. VII/7/68 26 April 1958.

The increase in population between pre-war days and 1950 is primarily a result of the influx of "refugees"¹⁾. The 1950 census in the Federal area (excl. the Saar) shows 7,876,000 "refugees". This number has subsequently increased and at the end of 1957 it stood at 9,148,000.

¹⁾ "Refugees" are defined as persons who on 1 September 1939 were domiciled in those Eastern territories of the German Reich (as on 31. 12. 57) now under foreign administration, in the Saar or abroad, excluding foreigners and stateless persons. Since 1. 1. 1954 people domiciled on 1. 9. 1939 in the Saar have not been reckoned as refugees but as "immigrants".

To this somewhat extraordinary influx of population must be added, in every post-war year, the movement of persons from Berlin and the Soviet zone of occupation; the result has been that even in the last few years more than half the growth in the population derived from this movement.

TABLE 2

Increase of population in the Federal Republic (excl. Saar) - 1950 to 1957
Immigration and excess of births over deaths

('000)

Year	Total	Increase of population by		Population at end of year
		Excess of births over deaths	Increase due to immigration	
1949	—	—	—	46,579
1950	+ 654	+ 279	+ 375	47,233
1951	+ 364	+ 251	+ 113	47,597
1952	+ 302	+ 254	+ 48	47,899
1953	+ 569	+ 221	+ 348	48,468
1954	+ 486	+ 264	+ 222	48,954
1955	+ 554	+ 244	+ 310	49,508
1956	+ 603	+ 264	+ 339	50,111
1957	+ 702	+ 284	+ 418	50,813

Source: Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1957. Statistische Berichte, Arb.-No. VII/7/68, 26 April 1958.

These figures explain why in the last eight years (1950 to 1957) the population of the Federal Republic has with an average annual rate of 1.1 per cent been increasing more than twice as rapidly as would be expected on the basis of natural demographic conditions (excess of births over deaths)¹).

The "refugees" and the large, continuous influx of population at first proved to be a considerable burden on the labour market, and this was reflected in the form of comparatively high unemployment. To the extent however that the surplus population was drawn into the machinery of production the number of the unemployed fell, and so a situation of full employment was created; this influx of workers from outside became an important pre-condition for any further expansion. It was all the more important because the number of school leavers, who form the natural source for the growth of the labour force, has fallen considerably of recent years owing to the effects of the war on the annual number of births; it will continue to fall in the coming years till it reaches its lowest ebb in about 1960.

¹) The average number of life births in the eight years 1950 to 1957 was fairly constant at about 16 per thousand, the average number of deaths at about 11 and so the excess of births over deaths at about 5.

TABLE 3

Number of school leavers in the Federal Republic - 1951 to 1957

1951	836,000
1952	830,000
1953	835,000
1954	952,000
1955	869,000
1956	783,000
1957	710,000

Source: Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.

A further source for an additional supply of manpower has been found in recent years in the so-called invisible reserves, consisting of persons who have not yet or no longer been gainfully employed. These are mainly women. It can be assumed that this supply of manpower responds particularly easily to changing situations on the labour market and to wage trends. The part played by this source in the expansion of the total number of gainfully employed can be seen from the fact that between 1950 and 1957 the population of working age increased by about 9 per cent, while the number of persons gainfully employed increased by 16 per cent.

The next table covers the most important figures concerning the development of the resident population and of gainful employment between 1950 and 1957.

TABLE 4

Population trend in the Federal Republic
Persons of working age and persons gainfully employed

(Average for the year)

Year	Population	Persons of working age (i. e. persons gainfully employed plus unemployed)	Persons gainfully employed
		'000	
1950	46,907.9	21,725	20,145
1954	48,709.9	23,607	22,387
1957	50,472.8	25,300	24,640
		1950 = 100	
1950	100.0	100.0	100.0
1954	103.8	109.0	111.5
1957	107.5	116.1	122.6

Source: Publications of the Statistisches Bundesamt and of the Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.

Attention must be drawn to two further trends in employment in the Federal Republic, both of them typical of the increasing industrialisation:

1. The number of workers employed in agriculture is decreasing steadily (flight from the land). Both agricultural wage-earners and members of the family who help on farms are constantly migrating to industry and to the other non-agricultural sectors, so that the share of agriculture (including forestry and fishing) has fallen in six years from 25 per cent in 1950 to 18 per cent in 1956 (and has not sunk further since).

It is only the flight from agriculture which can explain that the number of gainfully employed persons in industry and the handicrafts could rise nearly twice as fast between 1950 and 1956 as the total number of gainfully employed. As a consequence the share of industry (including handicrafts, mining, energy and building) in the total number of gainfully employed persons rose during the same period from 42 to 48 per cent and must by now have reached some 50 per cent.

TABLE 5
Working population in the Federal Republic - 1950 to 1956
(by industrial sectors)

Year	Agriculture, forestry and fishing	Industry and handicrafts ¹⁾	Other sectors	Total gainfully employed
<i>(Average for the year)</i>				
				<i>'000</i>
1950	5,100	8,445	6,600	20,145
1952	4,770	9,300	7,039	21,109
1954	4,514	10,265	7,608	22,387
1956	4,296	11,505	8,239	24,040
<i>1950 = 100</i>				
1950	100	100	100	100
1952	94	110	107	105
1954	89	122	115	111
1956	84	136	125	119
<i>percentage share</i>				
1950	25	42	33	100
1952	23	44	33	100
1954	20	46	34	100
1956	18	48	34	100

Source: *Wirtschaft und Statistik*, 1958, vol. 3, p. 152.

¹⁾ Including mining, energy and building.

2. The number of wage-earners (workers, employees and officials) is increasing considerably more rapidly than the number of other gainfully employed persons, *i. e.* the self-employed and members of a family who assist at work. In the main this is only another facet of the flight from the land, a typical effect of which is that the number of members of families helping at work — who play such an important part in agriculture — is falling while the number of self-employed is still rising, even if very slowly.

TABLE 6

Working population in the Federal Republic - 1950 to 1956
(by status)

(Average for the year)

Year	Self-employed	Family members helping	Wage-earners	Total gainfully employed
	'000			
1950	3,258	3,060	13,827	20,145
1956	3,416	2,568	18,056	24,040
	1950 = 100			
1950	100	100	100	100
1956	105	84	131	120
	percentage share			
1950	16	15	69	100
1956	14	11	75	100

Source: Estimate based on data from the Statistisches Bundesamt and the Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.

All these factors have contributed to a situation in which, during the years prior to 1957, employment in the strict sense, *i. e.* the number of wage-earners at work, was able to rise comparatively rapidly, considerably more rapidly than unemployment fell. From the end of September 1949 to the end of September 1957 the number in employment rose by 5,303,000; at the same time the number of unemployed fell by 947,000. This means that during this period some 4,356,000 additional workers flowed into the labour market from various sources.

TABLE 7

Trend of employment and unemployment

('000)

	1949	1950	1951	1952	1953	1954	1955	1956	1957
	<i>As at 30 September of each year</i>								
employed	13,604	14,296	14,885	15,456	16,044	16,831	17,807	18,610	18,907
unemployed	1,314	1,272	1,235	1,051	941	823	495	411	367
	<i>Changes in relation to previous year</i>								
employed	—	+ 692	+ 589	+ 571	+ 588	+ 787	+ 976	+ 803	+ 357
unemployed	—	— 42	— 37	— 184	— 110	— 18	— 328	— 84	— 44
Additional man-power	—	+ 650	+ 552	+ 387	+ 478	+ 669	+ 648	+ 719	+ 313

Source: Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.

During this period the proportion of unemployed in the total body of wage-earners fell from nearly 9 per cent at the end of September 1949 and over 8 per cent at the end of September 1950 to 1.9 per cent at the end of September 1957. Although the average percentage of unemployment throughout the year fell rather less during the same period and in 1957 was about 3.4 per cent, this was only the result of the great seasonal fluctuations in employment. In order to bring this percentage down further, seasonal stoppages of work in winter, especially in the building sector, would have to be restricted. Efforts in this direction are indeed being made, but it is evident that in view of existing climatic and technical conditions the possibilities are relatively limited.

TABLE 8
Percentage of unemployment ¹⁾

	1950	1951	1952	1953	1954	1955	1956	1957
Average for the year	10.3	9.0	8.4	7.5	7.0	5.1	4.0	3.4
As at 30 September	8.2	7.7	6.4	5.5	4.7	2.7	2.2	1.9

Source: Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.

¹⁾ The number of unemployed as percentage of the total body of wage-earners (in employment and unemployment)

In the last few years the increases in the numbers of employed persons have been less rapid, and a further reduction in the rate of increase must be expected. The reserves of unemployed are exhausted; the supply of school leavers is falling and at the same time the loss of manpower through death, invalidity and retirement is increasing. In addition the call-up to the Forces will deprive the labour market of tens of thousands of workers for each of the next four or five years. The supply of manpower from internal hidden reserves (increase of the percentage of working population) is more likely to fall off than to increase as these reserves slowly run out. Whether migration from the East will continue on the existing scale is uncertain, as its level depends to a very large extent on political factors.

It would seem highly probable that for the Federal Republic of Germany the days of primarily quantitative economic growth, *i.e.* growth primarily based on the arrival of fresh manpower, are over. In the future, economic expansion will depend more than heretofore on increases in the productivity of labour.

C — ECONOMIC STRUCTURE OF THE FEDERAL REPUBLIC

1. The trend toward increased industrialisation

The effects of increased industrialisation on the vocational composition of the population have already been described above. The trend to increased in-

dustrialisation can be seen even more clearly in the contributions to the national product made by the various economic sectors.

To allow international comparison the table below shows a breakdown of the gross domestic product (*i. e.* gross national product less earnings of German nationals abroad and less income from the capital of German nationals abroad

TABLE 9

Composition of the gross domestic product of the Federal Republic - 1950 to 1956
Contribution of the three main economic sectors

Year	Agriculture ¹⁾	Industry ¹⁾	Other sectors ¹⁾	Gross domestic product
<i>At current prices for the year in '000,000 DM</i>				
1950	9,790	48,698	38,663	97,151
1952	12,815	69,037	52,168	134,020
1954	13,215	81,338	59,854	154,407
1956	14,554	102,474	76,998	194,026
1957 ²⁾	15,362	110,383	84,433	210,178
<i>1950 = 100</i>				
1950	100	100	100	100
1952	131	142	135	138
1954	135	167	155	159
1956	149	210	199	200
1957 ²⁾	157	227	218	216
<i>As percentage share</i>				
1950	10	50	40	100
1952	9	52	39	100
1954	8	53	39	100
1956	7	53	40	100
1957 ²⁾	7	53	40	100
<i>At 1954 prices in '000,000 DM</i>				
1950	10,430	54,330	46,980	111,740
1952	12,790	67,350	53,130	133,270
1954	13,215	81,338	59,854	154,407
1956	12,760	100,420	70,460	183,640
1957 ²⁾	12,790	104,870	75,040	192,700
<i>1950 = 100</i>				
1950	100	100	100	100
1952	123	124	113	119
1954	127	150	127	138
1956	122	185	150	164
1957 ²⁾	123	193	160	172
<i>As percentage share</i>				
1950	9	49	42	100
1952	10	50	40	100
1954	8	53	39	100
1956	7	55	38	100
1957 ²⁾	7	54	39	100

Source: Wirtschaft und Statistik, 1957, vol. 7, p. 354. 1958, vol. 3, p. 152, vols. 5 and 6.

¹⁾ Exact definition of the sectors is given in the text.

²⁾ Provisional figures.

but including earnings and income from the capital of foreigners in the Federal Republic) by three main sectors: agriculture, industry and other activities¹).

In this breakdown agriculture covers forestry and fishing, industry covers handicrafts and mining, energy and building, and the third sector includes trade, transport and communications, banking and private insurance, accommodation, administration and other services.

Since 1950 the share of agriculture in the total gross domestic product has fallen from about 10 per cent to 7 per cent. The share of industry (as defined above) has risen, and to-day it accounts for 53 to 55 per cent of the gross domestic product. The share of the so-called "tertiary" industries, *i.e.* of the various services, has since 1950 remained more or less constant at 40 per cent; in other words, the net value added by this group has risen to about the same extent as the gross domestic product as a whole.

2. The structure of agricultural production

In Western Germany, as in all thickly populated industrial countries of Western Europe in which agriculture rests primarily on a traditional farming basis, the proportion of processed products in agricultural production by far exceeds the output of vegetable produce; livestock products account for some 72 per cent in 1956/57 and vegetable produce for some 28 per cent by value of foodstuff production.

Vegetable produce in turn consists of three very roughly equal parts: grain; potatoes and sugar beet; wine, fruit and vegetables. Surprisingly enough, market gardening, with 3.5 per cent (of overall agricultural production) is relatively unimportant in comparison with other countries where climatic and economic conditions are similar.

On the livestock side, pig-breeding and dairy farming are by far the most important. Seven-tenths of all livestock production, or half the total production of foodstuffs, are accounted for by these two items.

¹) The difference between gross domestic product and gross national product is very small in Western Germany. The gross domestic product was, of recent years, always some 0.3 per cent larger than the gross national product.

TABLE 10

Value of foodstuff production ¹⁾ - 1956/57

	'000,000 DM	as percentage
Grain	1,764	9.2
Potatoes	1,038	5.4
Sugar-beet	514	2.7
Vegetables	675	3.5
Fruit	910	4.7
Cider	184	1.0
Hops	165	0.9
Tobacco	80	0.4
Other crop produce ²⁾	37	0.2
Total of crop produce	5,367	28.0
Cows and calves	2,765	14.5
Pigs	5,019	26.2
Poultry	216	1.1
Milk	4,630	24.2
Eggs	1,080	5.7
Sheep and wool ³⁾	64	0.3
Total of animal products	13,774	72.0
Total foodstuffs production	19,141	100.0

Sources: Agrarwirtschaft, Feb. 1958, pp. 38-39.

¹⁾ Quantities used for human consumption (including production for industrial processing and production from imported fodder) are reckoned at producer prices. Agricultural produce used for fodder and seed has been deducted.

²⁾ Edible pulses, turnips, oil-seed, flax and hemp.

³⁾ Including changes in head of cattle.

3. The structure of industry

The industrial structure of an economy can be looked at from various angles. Here we shall select only three angles which are of particular importance for the Common Market: *a)* Which are the most important industries in the Federal Republic of Germany? *b)* Which industries in the Federal Republic are to be counted among the "young" industries? *c)* What is the importance of exports for the individual industries?

a) The most important industries

On the basis of the net value of output in 1957 the 10 branches of industry listed below were the most important of the 49 branches of industry shown in the West German Index of net industrial output.

Share of industrial output by net value - 1957

Chemicals incl. by-products of coal	9.8
Machinery	9.3
Textiles	8.9
Electrotechnical industry	6.9
Vehicles	5.8
Tobacco processing	5.0
Railway construction material	4.7
Iron and steel industry	4.1
Coalmining	4.0
Electricity	4.0

The complete list of all 49 branches of industry is reproduced in Table 42, p. 229.

The list above suggests that the main weight of industrial production in the Federal Republic is in the capital goods industries and raw material industries, if we exclude textiles and tobacco, which in most industrial countries stand relatively high on the list of industries. In 1957 the first seven of the industrial branches listed above accounted by themselves for about half the total net value of industrial output.

Because of differences in the productivity (and also in rates of pay) the sequence of the individual industries varies somewhat when we take not the net value of output but the number of employees as yard-stick for the importance of the various industries (*cf.* Table 11).

TABLE 11

**The ten most important branches of industry in the Federal Republic
by number of persons employed¹⁾**

	Number employed end Sept. 1957 '000	Percentage share in total manpower employed in industry
Machinery	834	11.3
Textiles	651	8.9
Coalmining ²⁾	588	8.0
Electrotechnical industry	574	7.8
Food	418	5.7
Chemicals	412	5.6
Railway construction material	369	5.0
Vehicles	329	4.5
Clothing	323	4.4
Mining, quarrying and allied industries	268	3.6
Total of above industries	4,766	64.8
For comparison : all industries	7,354	100.0

Source: Industriebericht (covers only those enterprises with ten or more employees). Statistisches Jahrbuch 1958, p. 179.

¹⁾ Persons at work: Self-employed and employees (incl. commercial apprentices), wage-earners and industrial apprentices.

²⁾ Incl. undertakings dealing with by-products of coal and attached to coalmines.

On this basis machinery, textiles, coalmining and the electrotechnical industry are, if measured in terms of the number of employees, the four leading industries. These four cover over 1/3 of all persons employed in industry, and the ten industries listed above cover nearly 2/3 of the total.

b) *The "young" industries*

If in rather broad terms we define as "young" industries those in which output has increased at the highest rate in the last eight years, we find that in the Federal Republic the term covers:

	(1950 = 100)
	Index of production - 1957 -
Crude aluminium production	553
Processing of plastics	475
Shipbuilding	392
Petroleum and natural gas	368
Vehicles	317
Meat processing	299
Electrotechnical industry	291
Processing of mineral oils	289
Breweries	283
Musical instruments, toys, jewellery	270

) For the full list of indices, see Table 42, p. 229.

The above figures can be better appreciated if we point out that the overall index of industrial production in 1957, on the basis of 1950 = 100, was 203.

The share of the "young" industries in total industrial output is not large; the "young" industries listed above account for less than 20 per cent of the (estimated) total output in 1957. Of these industries only the motor vehicle and electrotechnical industries rank amongst the most important because of the net value of their output.

c) *The bonds of industry with markets abroad*

The bonds with markets abroad built up since the war by individual industries in the Federal Republic vary extraordinarily. Industries which work exclusively or almost entirely for export, and confine practically all their range of products to the requirements of export, do not exist in the Federal Republic. At present only shipbuilding devotes more than 50 per cent of its output to export. For industry as a whole in 1957 the share of exports was 15 per cent.

The table below lists the 11 industries which in 1957 showed the highest proportion of exports.

TABLE 12

Industries with the highest ratio of turnover abroad - 1957
(as percentage of each industry's total turnover)

	Share of turnover abroad in total turnover	Sales abroad ('000,000 DM)
Shipbuilding	55.5	1 368
Precision and optical instruments, watches and clocks	38.3	791
Musical instruments, toys, jewellery and sports eqpt.	36.1	345
Motor vehicles incl. lorries	33.7	3 417
Machinery	31.2	5 673
Potash, rock-salt and salt mines	29.2	154
Fluor spar, heavy spar, graphite and other mines, peat	26.1	29
Chemicals	22.9	3 745
Coalmining	20.4	1 697
Ceramics (art)	19.9	227
Electrotechnical industry	19.7	2 568

Source : Statistisches Jahrbuch 1958, p. 173.

The industries with the highest export ratios are by no means the same as the most important exporting industries, *i. e.* those industries which, on the basis of value, attain the highest export returns. From this point of view the five leading industries are machinery, chemicals, vehicles, iron and steel and the electrotechnical industry. With a sales turnover in 1957 of 21,300 million DM these five industries accounted for 70 per cent of the total foreign turnover of industry.

Apart from chemicals and iron and steel, these industries are the main capital goods industries. This, no doubt, involves a certain risk in connection with economic trends, for these industries are those most exposed to fluctuations in demand from abroad, and at the same time they are those which react most sharply to fluctuations in the expansion of the economy. On the other hand, however, these industries benefit from the fact that they — this applies especially to vehicles and the electrotechnical industry — are among the “young” industries with a comparatively sharp upward trend in their rate of expansion.

4. The structure of the “tertiary” sector

For our purposes the “tertiary” sector comprises all branches of activity which are not directly concerned with the production of goods but which “produce” and offer services in the widest sense of word.

In the discussion of the trend toward increased industrialisation it has already been noted that between them these “tertiary” branches of activity account for some 40 per cent of the gross domestic product, and that they there-

fore play a considerable part in the creation of the national product as a whole (cf. Table 9, p. 181).

Many writers have discussed the point that as the economy develops the share of the "tertiary" branches in the total economic output grows steadily, but as we have already pointed out post-war trends in the economy of the Federal Republic do not so far confirm this observation, although over much longer periods a change of emphasis in the composition of the economic output has no doubt occurred in Germany.

Details of the services included in the "tertiary" sector can be seen in Table 13 below, which gives a breakdown of the contributions made by the individual activities to the gross domestic product.

TABLE 13

Contributions of "tertiary" activities to the gross domestic product - 1956
(at 1956 prices ¹)

	Contribution to gross domestic product	
	'000,000 DM	As percentage of gross domestic product
Commerce	26 182	14.5
Transport and communications	13 672	7.0
Banking and insurance	6 015	3.1
Accommodation	4 636	2.4
Public administration	14 404	7.4
Other services	12 089	6.2
Total of "tertiary" activities	76 998	39.7
Total of gross domestic product	194 026	100.0

Source: Statistisches Jahrbuch 1958, pages 478-479.

¹) Apparent gains and losses eliminated

With about 1/7 of the total gross domestic product commerce is by far the leading item among "tertiary" branches of the economy. Transport, the administration and the group of "other services" each contribute 6 to 7 1/2 per cent to the total economic output.

Similar gradations are found in the structure of numbers employed (in Germany the routine statistical returns for each branch of industry do not cover the self-employed, but only wage-earners, employees and officials).

TABLE 14
Numbers employed in the main "tertiary" branches - 1957
 (at end of September)

	'000	As percentage of all persons in employment
Commerce and ancillary	2 003	10.6
Administration	893	4.7
Domestic service	660	3.5
Federal railways	534	2.8
Post	336	1.8
Nursing (excl. baths)	336	1.8
Hotels and catering	335	1.8
Money, banking and insurance (excl. social security)	328	1.7
Defence and missions abroad	296	1.6
Education, churches	289	1.5
Rail traffic, motor transport and cartage, air services	202	1.1
Hairdressing	127	0.7
Shipping, harbours and inland waterways	123	0.6
Social service and assistance	104	0.5
Other "tertiary" branches	471	2.5
Total "tertiary" branches	7 037	37.2
Total for all branches of industry	18 967	100.0

Source: Statistisches Jahrbuch 1958, p. 115.

These figures too serve to show the great importance of the "tertiary" branches for the economy as a whole. Of some 19 million employees all told (end of September 1957) some 7 million or 37 per cent were engaged in the "tertiary" sector. Although the breakdown of statistics on the labour market from which the figures of Table 14 are taken does not quite tally with that of the total economic assessment, it too shows that commerce and public administration are the main items in the "tertiary" sector ¹).

D — USE MADE OF THE NATIONAL PRODUCT AND ANALYSIS OF RATES OF GROWTH

1. Use of the national product

The table below gives figures on the basis of the new computations of the Federal Statistical Office, which now follow to a considerable extent the normal international terminology and definitions.

¹) In addition to wage-earners, the "tertiary" sector contains the self-employed and helping family members, who play an important part as manpower. In 1950 all "tertiary" activities taken together covered 1.35 million self-employed and family members, 800 000 of them in commerce alone (including banking and insurance).

TABLE 15

Use made of national product - 1950 to 1957

	1950	1952	1954	1956	1957 ¹⁾
	<i>'000,000,000 DM (at current prices of each year)</i>				
Consumers' expenditure	61.8	79.1	92.3	114.5	123.0
Government expenditure	14.4	21.1	22.4	25.5	28.0
Current purchases for civil requirements	(10.0)	(13.6)	(16.4)	(20.1)	(21.7)
Defence expenditure ²⁾	(4.4)	(7.5)	(6.0)	(5.4)	(6.4)
Investments	22.2	30.6	33.9	46.9	50.3
Fixed asset production	(18.5)	(25.5)	(32.2)	(44.3)	(46.1)
Change in stocks	(+ 3.7)	(+ 5.1)	(+ 1.7)	(+ 2.6)	(+ 4.2)
External contribution	- 1.2	+ 3.4	+ 5.3	+ 6.6	+ 8.3
Gross national product	97.2	134.2	153.9	193.4	209.6
	<i>Percentage share</i>				
Consumers' expenditure	63.6	59.0	60.0	59.0	58.7
Government expenditure	14.8	15.7	14.5	13.2	13.4
Current purchases for civil requirements	(10.3)	(10.1)	(10.7)	(10.4)	(10.4)
Defence expenditure	(4.5)	(4.6)	(3.8)	(2.8)	(3.0)
Investments	22.8	22.8	22.0	24.3	24.0
Fixed asset production	(19.0)	(19.0)	(20.9)	(22.9)	(22.0)
Change in stocks	(3.8)	(3.8)	(1.1)	(1.4)	(2.0)
External contribution	- 1.2	2.5	3.5	3.5	4.0
Gross national product	100	100	100	100	100

Source: Wirtschaft und Statistik, 1957, vol. 7, 1958, vol. 1, 5 and 6.

¹⁾ Provisional.

²⁾ Till 5 May 1955: Occupation costs.

In the course of these years private consumption fell. In 1950 it was comparatively high, firstly because investments absorbed a smaller percentage of the national product than they do to-day, and also because there was a debit figure for the so-called external contribution (*i. e.* the balance of trade in goods and services with foreign countries, Western Berlin and the Soviet Occupied Zone).

It should not be forgotten, especially when making international comparisons, that the level of economic consumption is not independent of the system of taxation.

Statistics in Germany do not at present provide figures on the composition of private consumer expenditure broken down by the various types of consumption; it is not therefore possible to follow the changes in consumption accompanying rises in income and the influence exerted by changes in price relations.

The share of public consumption has also fallen in the period under review. Within this item expenditure by the state on current purchases of goods and services has remained fairly steady in relation to the gross national product. The slight reduction was caused by the transition from the status of

an occupied country to the system by which the country rearmed itself. Actual expenditure for this purpose has only slowly begun to rise. In the coming years a considerable increase can be expected, leading to rising demands on the national product from this quarter.

Over the years there has been a steady increase in the percentage rate of of investments, in particular of the share in the gross national product taken up by capital investments. At present this rate is still exceptionally high. (The highest rate was 25.7 per cent in the boom year 1955). As reconstruction approached completion and as the economy — apart from market fluctuations — moved from under-employment to full employment, the rate of investment showed a tendency to rise. The reasons were the following: in the stage of reconstruction of an economy that has been destroyed the marginal productivity of capital is abnormally high, the marginal coefficient of capital is therefore low and for a given rate of expansion the percentage rate of investment is also relatively low. It has to rise as soon as these conditions cease to exist. That the transition to full employment at a given rate of expansion produces a trend to increased percentages in the rate of investment needs no proof.

The percentage level of investment throughout the post-war period in the Federal Republic has been comparatively high because of the large scale of investments for building, especially housing, and in the public sector. A breakdown of capital investments into investment in equipment and investment in building is given in Table 16. This shows that the value of investment in building is but little less than that of investment in equipment, and that in the past few years investment in building has accounted for nearly half of the total of capital investments.

TABLE 16

Gross capital investments - 1950 to 1957

('000,000,000 DM at current prices)

	1950	1952	1954	1956	1957 ²⁾
Investment in equipment	9.4	13.8	17.0	23.4	24.1
Investment in building	9.0	11.7	15.2	20.9	22.0
Gross capital investment ¹⁾	18.5	25.5	32.2	44.3	46.1

Source: As Table 15, p. 189.

¹⁾ The apparent discrepancies in the total figures are due to rounding off.

²⁾ Provisional.

If we break down the total of capital investments by economic sectors making these investments, the processing industries (including building trades) head the list with about one quarter of the total. The importance of investments

in housing is scarcely less, and the third place is held by transport and communications.

TABLE 17

**Gross capital investment¹⁾ - 1950 to 1956
by branches of industry**

(in '000,000 DM at current prices)

	1950	1952	1954	1956 ²⁾
	<i>'000,000 DM</i>			
Agriculture, forestry and fishing	1 750	2 200	2 700	3 800
Mining and quarrying	650	1 100	1 350	1 650
Processing industries (incl. handicrafts and building trades)	5 200	6 700	7 700	11 600
Public utilities (electricity, gas and water)	1 500	2 300	2 600	3 300
Transport and communications	2 400	3 300	4 550	6 600
Housing	3 880	6 150	8 900	11 000
Public administration	1 250	1 830	2 170	2 850
Miscellaneous	1 825	1 890	2 235	3 300
Total gross capital investment	18 455	25 470	32 205	44 100
	<i>as percentage</i>			
Agriculture, forestry and fishing	9.5	8.6	8.4	8.6
Mining and quarrying	3.5	4.3	4.2	3.7
Processing industries (incl. handicrafts and building trades)	28.2	26.3	23.9	26.3
Public utilities (electricity, gas and water)	8.1	9.0	8.1	7.5
Transport and communications	13.0	13.1	14.1	15.0
Housing	21.0	24.1	27.6	24.9
Public administration	6.8	7.2	6.7	6.5
Miscellaneous	9.9	7.4	7.0	7.5
Total gross capital investment	100	100	100	100

Source: Bundesministerium für Wirtschaft; Sonderhefte zum Bericht über die wirtschaftliche Lage in der Bundesrepublik, vol. 4, Nov. 1957.

¹⁾ Excl. investments for the occupation forces and defence.

²⁾ Provisional estimate of the Ministry of Economic Affairs.

The total volume of public investment cannot be seen directly from this breakdown. In addition to direct investments by the Administration, investments financed directly or indirectly from public funds are found in the investments of the public utilities of transport and communications and in housing.

2. Analysis of rates of growth

Table 18 (p. 192) reproduces the rates of growth of the gross national product from 1951 to 1957.

TABLE 18

Rates of growth of the gross national product - 1951 to 1957*(Percentage increase or decrease on previous year)*

Year	At 1954 prices	At current prices
1951	+ 11.8	+ 23.0
1952	+ 6.8	+ 12.2
1953	+ 7.8	+ 7.1
1954	+ 7.1	+ 7.1
1955	+ 11.8	+ 14.1
1956	+ 6.4	+ 10.1
1957 ¹⁾	+ 5.0	+ 8.4

Source: As for Table 15, p. 189.

¹⁾ Provisional figures.

Several references have already been made to the reasons for the rapid growth of the national product even when based on the trend at constant prices: recovery, surplus population and the pressure towards industrialisation were in the first years after 1950 the main elements which made possible a relatively rapid growth of the national product.

In the last few years however there has definitely been an appreciable fall in the rate of growth, except for 1955, when an exceptionally strong phase of investment produced a decided boom. It is just from this year on that it has become evident that the actual possibilities of growth are now limited, and that in particular an unlimited supply of manpower is no longer available. In addition Western Germany has of recent years been increasingly affected by the trend towards reduction in the number of hours worked.

Here we must also point to another factor: the definition of the gross national product and the method by which it is computed means that the side showing the use made of the product includes the so-called "external contribution", and for the Federal Republic this has of course, for one reason or another, regularly shown a high and appreciably growing balance of exports. If we review the supply of merchandise and services really available for domestic use and investment, we find that economic growth in the Federal Republic has of recent years slowed down even more than appears from the figures of the actual gross national product. For 1956 the rate of growth falls to 5.5 per cent and for 1957 to an estimated 4.5 per cent.

A comparison of the rates of growth at constant prices and at the prices for the current year shows that the continued surpluses in the external trade balance of nearly every year since 1950 has, among other things, made it possible for a steady initiation of the level of prices to occur. The "level of prices", defined as the quotient of the gross national product at current prices of the

year over gross national product at constant prices (in this case at 1954 prices) has developed as follows:

1950	87
1951	96
1952	101
1953	100
1954	100
1955	102
1956	106
1957	109 (provisional)

The trend in 1958 appears to suggest that the general rise in prices has slowed down and may indeed even have come to a halt; but there is as yet no suggestion of a fall which would counter-balance the previous increases. Here we have one of the big problems facing the economic policy of Germany.

E — CONCENTRATION OF PRODUCTION

In the matter of horizontal concentration, *i. e.* the distribution of production in individual branches of industry between large, medium and small establishments, the Federal Republic offers the characteristic picture of a country in which concentration is highest in mining and decreases via the raw material industries and capital goods industries down to the consumption goods industries. The main exception to this rule is provided by the large “young” industries; in these, large establishments are the general rule, no matter at what level they stand in the vertical structure of production.

If we assume that with increasing industrialisation the weight of production will continue to shift towards capital goods and the “young” industries (as is natural) we must also reckon on further increases in horizontal concentration. This of course applies in the existing conditions of production techniques.

Table 20 (p. 194) shows the degree of concentration in certain branches of industry in 1952 and 1957. During this period some increase in concentration could be observed in iron and steel, in chemicals and in the electrotechnical industries. In iron and steel and in chemicals the degree of concentration is in fact very high: if we take the ten per cent of largest establishment (on the basis of size of staff), we find that they employ nearly 90 per cent of the total manpower in each industry; the corresponding two per cent of largest establishments employ more than 60 per cent of the total manpower.

TABLE 19

Turnover in industries by size of establishments in September 1957¹⁾

Percentage share (in total turnover of combined enterprises) of those enterprises employing

	1-99	100-499	500-999	1000 and more
Mining	2.9	11.5	8.0	77.6
incl. hard-coal mining	1.0	5.6	3.0	90.4
Primary products and production goods industries	13.7	17.8	11.7	56.9
incl. iron and steel	0.3	3.3	3.2	93.3
non-ferrous metals	7.1	18.7	15.0	59.2
chemicals	12.8	16.7	9.1	61.4
Capital goods industries	11.4	25.2	13.4	50.1
incl. mechanical engineering	10.6	28.4	12.6	48.4
motor vehicles	2.5	7.1	5.3	85.1
electrotechnical industry	6.3	22.3	18.1	53.2
Consumption goods industries	26.0	40.4	16.7	16.9
incl. textiles	16.3	39.2	21.6	23.0
clothing	32.1	45.3	14.8	7.8
Foodstuffs, beverages and tobacco	34.0	34.5	18.2	13.4
Total	18.0	27.0	14.1	40.9

Source: Statistisches Bundesamt "Die Industrie der Bundesrepublik Deutschland" series 4, vol. 19 p. 48.

¹⁾ The apparent discrepancies in the totals are due to rounding off.

Of course the period of five years is too short to allow reasonably safe conclusions to be drawn concerning the tendency to horizontal concentration.

There is an unmistakable tendency towards concentration in retail trading thanks to the advance of new sales methods which produce an increase in capital expenditure and a reduction in the amount of human effort.

TABLE 20

Concentration in certain branches of industry - 1952 and 1957

(in September of both years)

Percentage of total number of enterprises	Iron and steel		Chemicals		Machinery		Electro-technics		Railway construction material		Textiles		Total	
	1952	1957	1952	1957	1952	1957	1952	1957	1952	1957	1952	1957	1952	1957
10	89	89	85	87	67	57	71	74	63	65	63	64	73	74
5	77	79	79	77	54	53	55	58	48	49	46	45	61	62
2	54	60	62	64	38	38	36	39	31	32	28	28	46	47

Source: Own calculation on the basis of information contained in the "Industriebericht".

In the last few years the vertical concentration of production has, thanks to reconcentration in coalmining and in the iron and steel industry regained roughly its pre-war level. The process of concentration on these lines does not yet appear to be at an end. Statistical investigations on this phenomenon are not available.

F — REGIONAL DIFFERENCES

It has already been pointed out in the introduction that despite the drastic effects of the war and the post-war period no great changes have come about in the regional structure of the Federal Republic. The majority of industry is still found in the West of the country.

The Rhineland-Westphalian industrial area is the real centre of industry. Just South of this lies the industrial area of the middle Rhine, stretching from Frankfurt-Wiesbaden-Mainz in the North to Heidelberg-Mannheim-Karlsruhe in the South. This is followed to the East by the not very concentrated industrial area of Wurttemberg, characterised by rural settlements and by medium and small establishments. By way of contrast, industry in Bavaria is concentrated, apart from the upper Franconia area around Bayreuth-Hof-Kulmbach, mainly in the cities of Munich, Nuremberg and Augsburg and their immediate neighbourhoods.

In the North of the Federal territory too industry is confined largely to the urban areas (Bremen, Hamburg, Lübeck and Kiel).

A somewhat loose and disconnected area stretches from Rhineland-Westphalia (Osnabrück, Bielefeld) towards the Hannover region. All other districts of the Federal Republic are more or less agricultural in character.

Because of the uneven distribution of population created by the "refugees", economic policy has endeavoured to industrialise hitherto agricultural areas. As already stated, the regional structure has not been essentially changed by these endeavours. The internal migration of recent years has shown that the old industrial areas have continued to exert the greatest attraction on the surplus population.

Statistical material on differences of income between regions is available only for the several "Länder" of the Federal Republic. The figures reflect the variations in income between the industrialised areas and the agricultural areas only in blunted form, as each "Land" contains, though in widely differing degrees, both industrial areas and purely agricultural areas. None the less, the gradation of net domestic product per head follows very closely the degree of industrialisation: it is highest in Hamburg and Bremen and lowest in Schleswig-Holstein, where the share of agriculture in the net domestic product

is highest. The differences are considerable: the net domestic product per head in Hamburg is more than twice as high, in Bremen nearly twice as high as in Schleswig-Holstein. At the same time it must not be forgotten that computation of the national product can never reflect accurately the true difference in real income between town and country. Real income in agriculture is of course always underestimated in statistics.

TABLE 21

**Net domestic product per head in the various "LÄNDER" of the Federal Republic
1955**

	Net domestic product per inhabitant ¹⁾		Percentage share of the main economic sectors in the net domestic product		
	DM	Average for Germany (F. R.) = 100	Agriculture ²⁾	Industry ²⁾	Other branches ²⁾
Hamburg	4 382	159	1	41	58
Bremen	3 915	142	3	41	56
North-Rhine-Westphalia	3 223	117	5	60	35
Baden-Wurttemberg	2 862	104	10	54	36
Hesse	2 659	96	9	47	44
Bavaria	2 338	85	15	45	40
Lower Saxony	2 288	83	18	42	40
Rhineland-Palatinate	2 172	79	14	45	41
Schleswig-Holstein	1 971	71	19	36	45
Western Germany	2 758	100	10	51	39

Source: *Wirtschaft und Statistik* vol. 11, 1957.

¹⁾ Net domestic product at factor cost without corrections for apparent gains and losses.

²⁾ For definitions cf. Table 9, and text p. 181.

II — EXTERNAL TRADE RELATIONS

A — GENERAL

The Federal Republic of Germany as a thickly inhabited industrial country with relatively small natural resources is largely dependent on imports for its supplies of raw materials and foodstuffs, for which it must in the main pay out of the receipts from its exports. Consequently imports consist primarily of raw materials, semi-manufactured goods and foodstuffs, exports primarily of finished goods, and of these capital goods account for by far the largest part.

Table 22 below makes this clear: the first five sections of the Standard International Trade Classification cover 70 per cent of the imports, the last five sections 87 per cent of the exports.

TABLE 22

Composition of exports and imports - 1957¹⁾

by SITC sections

	Imports		Exports	
	'000,000 DM	%	'000,000 DM	%
Food	8 018.6	25.4	627.2	1.7
Beverages and tobacco	622.4	2.0	112.0	0.3
Crude materials	9 024.2	28.6	1 050.5	2.9
Mineral fuels, etc.	3 637.7	11.5	2 605.7	7.2
Animal and vegetable oils and fats	717.1	2.3	127.3	0.4
Chemicals	953.9	3.0	3 781.9	10.5
Manufactured goods	5 747.1	18.2	9 656.5	26.8
Machinery and vehicles	1 802.1	5.7	14 931.6	41.5
Miscellaneous finished articles	697.9	2.2	2 944.8	8.2
Miscellaneous commodities	369.1	1.2	127.9	0.4
Total ²⁾	31 590.1	100	35 965.3	100

Source: Der Aussenhandel der Bundesrepublik, part 1, Dec. 1957.

¹⁾ Western Germany incl. Western Berlin.

²⁾ Discrepancies in totals are due to rounding off.

As already pointed out in the section dealing with the structure of industry, the high proportion of exports from the Federal Republic represented by capital goods involves a certain cyclical danger, inasmuch as employment and income in the domestic economy are particularly dependent on fluctuations occurring in the investment activity of other countries outside the reach of the Federal Republic's policy relating to economic trends at home. This danger grows proportionally as dependence on exports grows among the major industries.

This is one reason why those who shape German economic policy are particularly interested in the international co-ordination of policy relating to economic trends and in co-operation on monetary policy. This is however not the most important reason: those responsible for economic policy in Germany are convinced that, given the existing currency systems, only international co-operation on policy relating to economic trends will make it possible to achieve either freedom of international trade or a fuller degree of integration.

B — THE STRUCTURE OF THE OVERALL BALANCE OF PAYMENTS

1. General

The balance of payments of the Federal Republic of Germany is characterised by high surpluses in the balance on current payments, but debit balances in the balance on unilateral services and even more in the balance on capital account.

Surpluses in the balance on current account spring in the main from the surplus in the balance of commodities trade and also from the services supplied to the allied forces, in which the exchange of dollars into DM by the United States Forces forms the major item. On the other hand there is a regular debit balance for services (transport). Although on a smaller scale, there is also a debit balance arising from transfers of investment income.

For the present, unilateral services consist mainly of payments by the state in the shape of reparations.

The balance on capital account has always closed with a deficit, and in 1957 in particular this deficit rose considerably owing to the large advance payments made by the Federal Republic in connection with imports of defence material. In the private investment sector, investments in the Federal Republic of private capital from abroad have grown considerably in the past year, but the extent of German investments abroad has grown even more.

The trend of the foreign exchange balance clearly reflects the way in which Germany has come to be a creditor country; it also brings out the fundamental

disequilibrium in the balance of payments situation, which is one of the great unsolved problems of Germany's economic policy and of international co-operation in the sphere of monetary policy.

TABLE 23
Balance of payments ¹⁾

('000,000 DM)

	1952	1954	1956	1957 ²⁾
Trade (fob values)				
Exports	16 894	22 512	31 541	37 332
Imports	- 14 732	- 18 588	- 25 533	- 29 757
Trade balance	2 162	3 924	6 008	7 575
Revenue arising from services to the Allied Forces	850	1 022	1 757	2 660
Other services				
Revenue	2 079	3 587	5 359	6 293
Expenditure	- 2 775	- 4 051	- 6 878	- 8 455
Balance	- 696	- 464	- 1 519	- 2 162
Net income from capital	19	500	- 438	- 368
Balance on current account	2 335	3 982	5 499	7 705
Unilateral services (net)	452	- 389	- 1 104	- 1 650
Balance on capital account				
Provision of medium and long-term capital (net)	- 408	- 717	- 540	- 710
incl.				
Private investment	- 16	- 88	12	- 140
Provision of short-term capital (net) ³⁾	- 161	263	182	- 1 833
Balance of total capital account	- 569	- 454	- 358	- 2 545
Overall balance of current account and capital account	2 218	3 139	4 037	3 501
Balance of foreign exchange				
Changes in gold reserves	- 471	- 1 261	- 2 413	- 4 399
Changes in the accounts of the Deutsche Bundesbank and commercial banks	- 1 958	- 1 462	- 2 257	- 792
Overall foreign exchange balance	- 2 429	- 2 723	- 4 670	- 5 191

Source: Statistisches Jahrbuch 1957, p. 563 and Monthly Report of the Deutsche Bundesbank, February 1958.

¹⁾ Incl. Western Berlin.

²⁾ Provisional figures.

³⁾ Incl. pre-payment for defence material by the Federal Republic of Germany.

2. Foreign trade and national product

The scale and trend of trade links between the economy of the Federal Republic and the rest of the world is shown in the figures of Table 24 below, which is taken from the national balance-sheet.

TABLE 24
Ratio of imports and exports to the gross national product
(goods and services)

	('000,000 DM)				
	1950	1952	1954	1956	1957 ¹⁾
Gross national product	97 200	134 200	153 950	193 400	209 600
Imports of goods and services ²⁾	12 999	19 647	26 377	37 984	44 735
Percentage ratio to gross national product	13.4	14.6	17.1	17.6	21.3
Exports of goods and services	11 828	23 084	31 720	44 569	53 036
Percentage ratio to gross national product	12.2	17.2	20.6	23.0	25.3

Source: *Wirtschaft und Statistik*, vol. 7, 1958.

¹⁾ Provisional figures.

²⁾ These figures do not correspond with those of the balance of transactions, because they apply to the Federal Republic only, *i. e.* services and supplies from and to Western Berlin are included. Imports and exports between Western Berlin and foreign countries, which are included in German commercial statistics, are therefore not included.

The figures can be interpreted as follows: to attain a gross national product of 97,200 million DM in 1950 imports of goods and services amounting to some 13,000 million DM were necessary. In 1957 the ratio was 210 to about 45; therefore the dependence of the economy as a whole on imports has increased appreciably.

Developments since 1950 have been so brief and also so much influenced by the transition of import policy from the high level of quantitative restrictions, in the early period, to the present high level of liberalisation that it is not possible on the basis of these figures to produce a coefficient of elasticity of demand for imported goods which could be of value in making forecasts.

The ratio of exports to national product has grown even more rapidly than that of imports. The figures above show a fivefold increase in exports from 1950 to 1957 while the gross national product rose by some 116 per cent. It has already been pointed out on a number of occasions that this means that the trade cycle in Germany is increasingly dependent on events abroad.

The situation is the same, even if the approach is different, when we note that the share of foreign sales in the total industrial production rose between 1950 and 1957 from 8.3 per cent to 15.2 per cent.

TABLE 25
Aggregate industrial turnover

('000,000 DM)

Year	Turnover		
	Total	Foreign	Percentage
1950	80 395	6 658	8.3
1951	109 908	11 715	10.7
1952	119 392	13 846	11.6
1953	126 162	15 268	12.1
1954	140 943	18 519	13.1
1955	166 511	21 795	13.1
1956	185 646	26 076	14.0
1957	199 551	30 385	15.2

Source : Industrieberichterstattung.

3. Effects of the terms of trade

For Western Germany the effects of the changing terms of trade are determined by the selection of goods of which exports and imports consist. For the Federal Republic, as indeed for every industrial country which imports raw materials and foodstuffs and exports finished goods, the rule holds good that the terms of trade, in sign and in volume, alter with the change occurring on world markets in the price relations between raw materials and foodstuffs on the one hand and industrial products on the other.

TABLE 26

Index of average value of imports and exports and the ratio of exchange ¹⁾

(1950 = 100)

Year	Import	Export	Ratio of exchange ¹⁾
1950	100	100	100
1951	127	122	96
1952	121	131	108
1953	106	123	116
1954	102	118	116
1955	106	120	113
1956	108	124	115
1957	110	128	116

Source : Der Aussenhandel der Bundesrepublik, part 1, December 1957.

¹⁾ Average value of exports as percentage of average value of imports.

As can be seen from the table, the terms of trade have become far more favourable for the Federal Republic since 1950. In periods of boom a deterioration is to be expected; when the economy of the world is stagnant and raw material prices are falling or rising but slowly, there is likely to be improvement — as has been shown once more since 1955.

C — GEOGRAPHICAL COMPOSITION OF THE BALANCE ON CURRENT ACCOUNT AND OF THE FOREIGN TRADE BALANCE

Official statistics publish the balance on current account broken down only by groups of countries or currency areas; of these figures the only breakdown which concerns this report is that given, for the year 1957, in Table 27 below. No breakdown showing the balance on current account vis-à-vis the countries of the Common Market has yet been published.

TABLE 27

Balance on current account between OEEC countries, non-OEEC countries and the Federal Republic - 1957

(*'000,000 DM*)

	OEEC - Countries			
	Total	Continental countries of OEEC	Sterling area	
			U. K.	Rest of sterling area
Merchandise trade				
Exports	27 004	21 714	2 229	3 061
Imports	- 18 671	- 14 491	- 3 117	- 1 063
Balance	+ 8 333	+ 7 223	- 888	+ 1 998
Services for the Allied Forces				
Exports	334	99	235	-
Services (incl. investment income)				
Exports	4 392	3 255	903	234
Imports	- 6 298	- 4 638	- 1 305	- 355
Total transactions				
Exports	31 730	25 068	3 367	3 295
Imports	- 24 969	- 19 129	- 4 422	- 1 418
Balance	+ 6 761	+ 5 939	- 1 055	+ 1 877
	Non-OEEC countries			All countries
	Total	USA		
Merchandise trade				
Exports	10 328	2 832		37 332
Imports	- 11 086	- 5 758		- 29 757
Balance	- 758	- 2 926		+ 7 575
Services for the Allied Forces				
Exports	2 326	2 271		2 660
Services (incl. investment income)				
Exports	2 306	1 234		6 698
Imports	- 2 930	- 1 630		- 9 228
Total transactions				
Exports	14 960	6 337		46 690
Imports	- 14 016	- 7 388		- 38 985
Balance	+ 944	- 1 051		+ 7 705

Source: Statistisches Jahrbuch, 1958.

Of the overall credit balance of 7,700 million DM in the Federal Republic's current balance no less than 6,800 million DM come from the OEEC countries.

Commodities trade with OEEC countries closes with a high export surplus (8,300 million DM), though this is partly offset by a surplus of imports of services (1,900 million DM).

The relatively small credit balance vis-à-vis all non-OEEC countries (900 million DM) springs entirely from the payments for services to the Allied Forces

TABLE 28

Breakdown by regions of the foreign trade of the Federal Republic

	Imports by countries of origin							
	1950		1952		1956		1957	
	'000 DM	%	'000 DM	%	'000 DM	%	'000 DM	%
I. EEC countries	3 528	31.0	4 238	26.2	7 173	25.7	7 940	25.0
1. Metropolitan countries	3 031	26.6	3 686	27.8	6 590	23.6	7 404	23.3
2. Overseas territories	497	4.4	552	3.4	583	2.1	536	1.7
II. All other countries of the OEEC	3 258	28.7	4 488	27.7	7 157	25.6	7 690	24.3
1. Sterling area countries	1 033	9.1	1 342	8.3	2 135	7.6	2 232	7.0
a) Metropolitan countries	514	4.5	546	3.4	1 201	4.3	1 213	3.8
b) Overseas territories	519	4.6	796	4.9	933	3.3	1 018	3.2
2. Remaining OEEC countries	2 225	19.6	3 146	19.4	5 022	18.0	5 458	17.3
Total for all OEEC countries	6 786	59.7	8 726	53.9	14 330	51.3	15 630	49.3
III. Non-OEEC countries	4 573	40.2	7 477	46.1	13 595	48.6	16 034	50.6
1. Western Hemisphere	2 631	23.1	4 434	27.4	7 889	28.2	9 801	30.9
a) USA and Canada	1 854	16.3	3 046	18.8	4 668	16.7	6 431	20.3
b) Central and Latin America	777	6.8	1 388	8.6	3 221	11.5	3 370	10.6
2. Sterling area countries not members of OEEC	813	7.2	1 084	6.7	1 937	6.9	2 090	6.6
3. Eastern Europe	478	4.1	814	5.0	1 431	5.1	1 645	5.2
4. Other non-OEEC countries	650	5.7	1 145	7.0	2 338	8.4	2 498	7.9
IV. Others	15	0.1	—	—	39	0.1	33	0.1
Total	11 374	100.0	16 203	100.0	27 964	100.0	31 697	100.0

TABLE 28 (continued)

Breakdown by regions of the foreign trade of the Federal Republic

	Exports by countries of destination							
	1950		1952		1956		1957	
	'000 DM	%	'000 DM	%	'000 DM	%	'000 DM	%
I. <i>EEC countries</i>	3 151	37.7	4 968	29.4	9 335	30.3	10 786	30.0
1. Metropolitan countries	3 094	37.0	4 772	28.2	9 095	29.5	10 502	29.2
2. Overseas territories	57	0.7	196	1.2	240	0.8	284	0.8
II. <i>All other countries of the OEEC</i>	2 780	33.2	6 211	36.7	10 173	32.9	11 338	31.5
1. Sterling area countries	534	6.4	1 351	8.0	1 955	6.3	2 169	6.0
a) Metropolitan countries	386	4.6	1 022	6.1	1 375	4.4	1 513	4.2
b) Overseas territories	148	1.8	328	1.9	580	1.9	656	1.8
2. Remaining OEEC countries	2 246	26.8	4 860	28.7	8 218	26.6	9 169	25.5
Total for all OEEC countries	5 931	70.9	11 179	66.1	19 508	63.2	22 124	61.5
III. <i>Non-OEEC countries</i>	2 406	28.8	5 693	33.7	11 123	36.0	13 603	37.8
1. Western Hemisphere	1 127	13.5	2 860	16.9	4 850	15.7	5 847	16.3
a) USA and Canada	474	5.7	1 124	6.7	2 452	7.9	2 919	8.1
b) Central and Latin America	653	7.8	1 718	10.2	2 398	7.8	2 928	8.2
2. Sterling area countries not members of OEEC	331	4.0	775	4.6	2 001	6.5	2 613	7.3
3. Eastern Europe	541	6.5	928	5.5	1 548	5.0	1 739	4.8
4. Other non-OEEC countries	408	4.8	1 130	6.7	2 723	8.8	3 404	9.4
IV. Others	25	0.3	37	0.2	230	0.8	241	0.7
Total	8 362	100.0	16 909	100.0	30 861	100.0	35 968	100.0

in the Federal Republic. Both the commercial balance with these countries and the exchange of services with them close with debit balances.

Of commercial relations between the Federal Republic and the other countries of the Common Market only commodities trade can at present be shown on the basis of foreign trade statistics (special trade). Table 28 below shows imports by countries of origin and exports by countries of destination.

One quarter of the imports into the Federal Republic come from the other Common Market countries, with the items drawn from the overseas territories playing only a minor role. Remaining OEEC countries also supply about one

TABLE 28 (continued)

Breakdown by regions of the foreign trade of the Federal Republic

	Surplus of Exports (+) or Imports (-) '000 DM			
	1950	1952	1956	1957
I. <i>EEC countries</i>	- 377	+ 730	+ 2 162	+ 2 846
1. Metropolitan countries	+ 63	+ 1 086	+ 2 505	+ 3 098
2. Overseas territories	- 440	- 356	- 343	- 252
II. <i>All other countries of the OEEC</i>	- 918	+ 1 723	+ 3 016	+ 3 648
1. Sterling area countries	- 499	+ 9	- 180	- 63
a) Metropolitan countries	- 128	+ 476	+ 174	+ 300
b) Overseas territories	- 371	- 468	- 353	- 362
2. Remaining OEEC countries	+ 21	+ 1 714	+ 3 196	+ 3 711
Total for all OEEC countries	- 855	+ 2 453	+ 5 178	+ 6 494
III. <i>Non-OEEC countries</i>	- 2 167	- 1 784	- 2 472	- 2 431
1. Western Hemisphere	- 1 504	- 1 574	- 3 039	- 3 954
a) USA and Canada	- 1 380	- 1 904	- 2 216	- 3 512
b) Central and Latin America	- 124	+ 330	- 825	- 442
2. Sterling area countries not members of OEEC	- 482	- 309	+ 64	+ 523
3. Eastern Europe	+ 63	+ 114	+ 117	+ 94
4. Other non-OEEC countries	- 242	- 15	+ 385	+ 906
IV. Others	+ 10	+ 37	+ 191	+ 208
Total	- 3 012	+ 706	+ 2 897	+ 4 271

Source: Amtliche Aussenhandelsstatistik.

quarter, so that the Federal Republic covers about one half of its import requirements among OEEC countries. Of the other half, drawn from non-OEEC countries, by far the larger part (some 30 per cent of the aggregate) comes from countries of the Western hemisphere, mostly from the USA and Canada.

Of the Federal Republic's exports in the last few years more than 60 per cent were taken by OEEC countries, and of these again about one half was accounted for by Common Market countries. Of the remainder, slightly under 40 per cent, less than one half went to the American Continent, the rest, or some 20 per cent of total exports, being divided between all other countries.

The share of Eastern Europe in the external trade of the Federal Republic is at present small. Both for imports and for exports it represents only some 5 per cent.

Germany's favourable balance of trade, as has already been indicated, springs from a high export surplus in trade with the OEEC countries and a much smaller surplus in trade with non-OEEC countries.

The Federal Republic's foreign trade is therefore largely European. Of the large export surplus achieved by the Federal Republic in this area, some 3/5 are required to counterbalance the surplus of imports in trade with the Western hemisphere.

D — COMMERCIAL AND CUSTOMS POLICY

The objective of commercial policy is a maximum of liberalisation in foreign trade, *i.e.* the removal of all restrictions imposed on trade and currency operations in the days of controls and autarky. Once difficulties in the balance of payments had been mastered in 1951, currency controls were in large degree abolished. Apart from some remnants of regulation, currency operations are now entirely unrestricted.

Quantitative restrictions have to-day been almost entirely eliminated except in the agricultural sphere.

The tendency to the liberalisation of imports has of recent years begun to make itself felt in customs policy.

From the technical angle the present customs tariff is based primarily on ad valorem duties. Specific rates (by weight or number) are found to-day only on comparatively few tariff items, particularly on coffee, tea, sugar, must, wine, alcohol, spirits, vinegar, tobacco, mineral oils and distilled products. In addition we find specific duties combined with ad valorem duties as a minimum duty (for example on certain vegetables, fruit and spices and cocoa beans) or a maximum duty (for example on chocolate).

Purely fiscal duties on mineral oils, coffee, tea, tobacco, spirits, raw cocoa and various spices account for more than 50 per cent of the total customs revenue. Apart from these the tariff is based mainly on the principle of protection of domestic production. In seeking this, the import of foodstuffs becomes the first target of customs policy. For industrial imports the level of duties rises with the extent of processing. Raw material imports, for example, are in the main duty free and semi-manufactured products — when they pay duty at all — in most cases pay a lower rate of duty than imports of finished goods.

Since 1955 four so-called "economic trend" reductions in duties have been made. The first of these reductions came into force in December 1955 and applies to industrial goods and some foodstuffs. The second reduction followed in January 1956, affecting only a few industrial items. The third "economic trend" reduction, in July 1956, was a staggered overall reduction on all ad valorem duties — with certain exceptions — of one fifth to one quarter. Apart from a few industrial goods the exceptions were mainly foodstuffs. The fourth reduction came into effect in August 1957. For about 6 000 industrial items import duties were reduced, in most cases by one quarter.

To-day in the Federal Republic some 4/5 of all duties in the industrial sphere stand at between 0 and 10 per cent and only 2 per cent of all industrial duties impose on imports a charge greater than 15 per cent. No duties on industrial goods now exceed 21 per cent.

In July 1957, the Bundestag approved the 1958 German customs tariff. Linked with the new tariff was a conversion of the earlier tariff to the Brussels Nomenclature. For about 25 headings the conversion of the earlier 1310 headings to 1095 led to increases in duties.

In addition to duty, imports into the Federal Republic are subject to a countervailing tax intended to raise the total charges on imported goods to the level prevailing for domestic products. The general rate of this countervailing tax is 4 per cent of the import value, including duty and consumption tax. No countervailing tax is charged on imports of raw materials and accessory materials required for production in Germany and either not available at home or only available in insufficient quantities. On certain goods there are rates which differ from the general rate of 4 per cent, especially on a number of foodstuffs, for which the rate is 1 1/2 per cent or 3 per cent, and on numerous finished goods, for which the rate is 6 per cent.

Decisive for the plan to use customs reductions as a weapon of policy relating to the economic trend was the fact that till very recently the inflationary effect of the large external trade surpluses was still making itself felt, with the result that an economic policy aiming at the stability of the currency was obliged to tackle this trouble. Since those responsible for policy in Germany stick to the system of a fixed rate of exchange, the only alternative left was that of the so-called minor methods, in which customs policy is the most important. Tariff reductions are intended first increase imports and so to reduce the export surplus and also to exert pressure on the internal level of prices through the competition of the goods imported.

This policy has already shown some degree of success. Imports of finished goods, especially the import of end-products, have in the last two years risen more than proportionally, and much more steeply than before.

III — FACTORS OF ECONOMIC POLICY AFFECTING THE STRUCTURE OF PRICES

A — THE PRICE SYSTEM

In keeping with the principles of a market economy, it is the main objective of official price policy to assist the development of unimpeded price formation, *i.e.* to create the conditions in which the free formation of prices is not thwarted by monopolistic groupings in the market. The economic policy of Germany in all its branches (industrial law, patent law, etc. ...) is directed to this end.

A step in this direction is the new law on cartels which came into force on 1 January 1958. This rests on the so-called principle of prohibition, *i.e.* cartels are prohibited on principle and require special approval, which is contingent on specific conditions and is granted by a board especially established for this purpose (the Cartel Office). In the main this law applies only to industry.

TABLE 29

Trend of agricultural and industrial producer prices

(1950 or 1950-51 = 100)

Year	Total	Vegetable produce	Livestock products	Industrial products
1950				100
1950-51	100	100	100	119
1951				119
1951-52	116	134	107	121
1952				121
1952-53	113	137	103	118
1953				118
1953-54	112	126	105	116
1954				116
1954-55	116	139	106	119
1955				119
1955-56	123	144	113	121
1956				121
1956-57	127	147	118	124
1957				124

Agricultural prices are treated as a factor in the protection of agriculture and are consolidated or manipulated by the state itself or by particular bodies under state supervision. Under the influence of this policy, which is described briefly below, the prices of vegetable produce in particular have risen greatly since 1950.

The prices or tariffs of public utility undertakings (electricity, gas and water) and transport tariffs are also subject to supervision.

Housing is still, as already stated, partly subject to state control both for prices and for allocation. Housing built without financial aid from public funds is however already exempt from controls on price and allocation. Economic policy aims at freedom of prices and abolition of controls on all dwellings, including older houses and housing built under the "social building" scheme; it will be possible to attain this aim when in the coming years the housing shortage has been met and a rough balance between supply and demand in all types of housing has been reached.

TABLE 30

Indices of average producer prices of industrial products - 1957

(1950 = 100)

Iron and steel	192
Mining	172
Incl. coalmining	178
Metal construction	171
Foundries	157
Sawmills and timber	156
Petroleum production and processing of mineral oils	145
Electricity	145
Drawing mills and cold-rolling mills, steel moulding, iron, sheet-iron and metal products	145
Mechanical engineering	141
Paper production	139
Food, beverages and tobacco	135
Stones and earths	134
Timber processing	128
Glass and articles of glass	127
Printing	124
Paper processing	123
Precision and optical instruments	118
Musical instruments, toys and jewellery	117
Rubber and asbestos processing	116
Electrotechnical products	116
Ceramics	112
Vehicles	108
Non-ferrous metals	107
Chemicals, incl. by-products of coal	107
Leather (manufacturing) and footwear	102
Clothing	99
Processing of plastics	95
Textiles	93
Leather production	83
Total	124

Of industrial prices, only those for coal and steel were still controlled up to a few years ago. Steel prices were decontrolled in August 1952, coal prices in April 1956.

In the last eight years price relations both at producer level and for the consumer have altered greatly under the influence of various factors such as state manipulation, customs policy, changes in the prices of imported raw materials, changes in costs and in the various forms of market.

A picture of these changes in the producer prices of industrial products is given by Table 30, in which the indices of prices for the products of individual industrial groups in 1957 are listed on the basis of the increase over 1950.

The changes in the prices paid by the consumer are shown in Table 31 below. Here too the individual groups in the cost-of-living index have been arranged according to the increases that have occurred since 1950.

TABLE 31

Cost of living index - 1957
(average consumer group)

	(1950 = 100)
Heating and lighting	136
Food	122
Transport	120
Accommodation	119
Education and recreation	117
Hygiene and physical culture	111
Household goods	110
Clothing	101
Total index	115

B — AGRICULTURAL POLICY

Agricultural policy in Germany, as in all other industrial countries of Western Europe, is based on the idea that for natural and economic reasons agriculture is at a disadvantage compared with other branches of the economy and cannot be expected to face the competition of supplies from agricultural countries overseas; it is even considered that the free play of forces in the internal market might prove harmful. Consequently it is looked on as the duty of the state to take appropriate economic measures to counterbalance this disadvantage and to protect agriculture from the effects of competition.

In the Federal Republic of Germany two lines of approach to these objectives are followed: the main agrarian markets are protected from the com-

petition of imports and from the effects of any price fluctuations arising from domestic production. In addition, financial contributions from public funds and aid in one form or another ensure that the relation between expenditure and income in agriculture is such that persons employed in agriculture and family members who help enjoy an income comparable with that of persons in other callings and that furthermore farmers obtain a reasonable return on the capital required to run their farms.

The protection of markets against competition from abroad is based on duties, "import sluices" and import quotas. The "import sluices" were established in the form of Import and Stock Offices by four agricultural laws in 1951 (covering cattle and meat, sugar, grain, and milk and fats).

The laws relating to agricultural markets lay down that all imports must be offered to the Import and Stock Offices, which by this means can regulate the supply on the home markets. By fixing the prices at which they accept and release goods, these Offices can regulate the prices of imported products and in this way can ensure that import prices do not exert an effect on the development of domestic prices which might prove harmful to agriculture at home. These Import and Stock Offices are also entitled to intervene in the domestic market itself, and in addition there are state-guaranteed prices for the sale of certain domestic products (fixed prices, minimum-maximum price ranges and maximum prices).

The combination of these different measures produces a varying degree of protection for individual products¹⁾. The most thorough protection — by means of the option exercised by the Import and Stock Offices, of quotas, of customs duties, of interventions by the Import and Stock Offices in the home market and by means of guaranteed prices — is given to grain and sugar. A similar protection, but without guaranteed prices, is given to cattle and meat, pig fat, butter and clarified butter. At the lower end of the scale of protection we have those products which are protected by duties only. These include high-grade vegetables, tropical fruit, confectionery, fish and fish products, poultry, eggs, cheese and dried whole milk. Where the commodities concerned are not produced in Germany at all or only in quite small quantities (high-grade vegetables, tropical fruit), the protection benefits the substitutes.

Since 1955 the subsidies and aids granted to agriculture from state funds have been consolidated in the so-called "Green Plan". The Government is required by law to submit an annual report to the Parliament concerning developments in income and expenditure among agricultural undertakings (on the basis of current statistics covering these undertakings). The Government

¹⁾ Ernst Engel: Die Agrarwirtschaft im Gemeinsamen Markt, Hamburg-Berlin 1957.

includes in the budget the funds for those measures which it considers to be necessary on the basis of the report.

The sums thus made available to agriculture have risen from year to year. In the financial year 1957 the following amounts were provided:

<i>(000,000 DM)</i>	
Improvement of agrarian structure and of working and living conditions on the land	400
Rationalisation of production	291
Improvement of quality and marketing of agricultural produce	480
Consolidation and other financial measures	26
Aid for research, training and agricultural advisory service	15
Total	1 212

In addition agriculture enjoys certain advantages in connection with the turnover tax and the tax on Diesel oil.

C — TRANSPORT POLICY

Owing to the high level of motorisation, transport policy in Germany, as in all countries of Western Europe, has been confronted with the following economic problems.

Competition between rail and road will have to be settled in such a way that on the one hand the railways do not suffer too great losses and on the other hand the consumer is not burdened more than absolutely necessary with transport costs. The necessity of retaining a large part of traffic for the railways stems from the fact that the Federal railways in any case show a relatively large deficit on current account. This deficit fluctuates from year to year and is due both to the large sums required for depreciation and other so-called general economic expenditure, and also to reasons which apply to railways in general.

Regulation of competition is maintained in part by means of controlling industrial goods transport tariffs, in part by the possibilities open to the state of influencing costs and therefore the profitability of long-distance goods services on the roads by means of taxation and of technical regulations (dimensions and weight of motor vehicles). As the so-called works long-distance transport services are not affected by tariffs, a special schedule under the transport tax was applied to works transport services in 1955; the rates have been increased on several occasions since that date, with the result that the share of these services in the total volume of traffic has fallen.

TABLE 32

Volume of goods traffic and shares of various forms of transport

	1954	1955	1956	1957
	<i>'000,000,000 metric ton / Km</i>			
Total volume	91.8	103.4	111.6	114.3
	<i>Percentage share</i>			
Federal railways ¹⁾	56.8	56.2	55.2	54.6
Inland water transport	27.3	27.7	28.9	29.5
Long-distance transport services ²⁾ (incl. furniture removals)	11.7	12.4	12.8	13.0
Works transport services	4.2	3.7	3.1	2.9

Source: Statistisches Jahrbuch 1958 and "Gemeinsamer Statistischer Bericht" of the Bundesanstalt für den Güterfernverkehr and the Kraftfahrt-Bundesamt, dated 28 August 1958.

¹⁾ Incl. local traffic, excl. coach services.

²⁾ Incl. railways coach services.

The rapid expansion of private motoring in the form of passenger cars, especially the great increase in the number of small cars, poses in acute form the question of the scale on which investments for new roads and the widening of existing roads will be necessary. When and how far it will be possible to adapt the existing network of roads to the steadily increasing requirements of traffic is mainly a question of finance.

TABLE 33

Number ¹⁾ of motor vehicles
on 1 July of each year

(in '000)

	1950	1952	1954	1956	1957
Passenger cars ²⁾					
Total	516	900	1 360	1 926	2 317
incl. cars of under 1 000 ccm cylinder capacity	—	182	281	464	599
cars of a cylinder capacity of 1 000 ccm and over	—	718	1 079	1 462	1 718
Motorcycles	914	1 582	2 301	2 448	2 388
Lorries ³⁾	358	493	572	576	595
Tractors	132	256	376	553	630

Source: Kraftfahrt-Bundesamt.

¹⁾ Till 1951 excluding, from 1952 onwards including, temporarily non-registered vehicles.

²⁾ From 1954 onwards excluding estate cars and ambulances.

³⁾ Excl. tanker-lorries.

The present system for the taxation of road traffic is based on a motor vehicle tax, calculated on cylinder capacity, taxes on fuel and, in the case of long-distance goods traffic, a transport tax. Lively discussions are in progress on the question whether this system could not be improved in the direction of

a more equitable distribution in view of the demands made on the roads. In particular, consideration is being given to the possibility of using the proceeds of the taxes on road traffic more fully than heretofore to cover the expenditure on this field.

D — THE FINANCING OF INVESTMENTS

1. The volume of investments, the rate of investments and their connection with economic growth have already been reviewed in the section dealing with the use of the national product.

The system of overall national accounting in Germany does not as yet include any statistics on the financing of investments. We have therefore to resort to estimates, and these must be based partly on information covering the level of investment (formation of fixed capital), partly on the information available on the growth of liquid capital in the various spheres. The results of this assessment can only be approximations.

Gross investments in 1957 amounted to 46,100 million DM and depreciation was 20,100 million DM, producing a net capital investment of 26,000 million DM. To this must be added the increase in stocks, 4,200 million DM. The net investment in the economy can therefore be estimated at 30,200 million DM in 1956, of which enterprises account for 24,500 million DM and the public sector for 5,700 million DM.

The net increase in fixed assets of enterprises was therefore 24,500 million DM. Including 7,000 million DM increase in liquid assets, the total assets of enterprises rose by 31,500 million DM. Against this increase in total assets we should place the 10,400 million DM of undistributed profits. Purely on the basis of these calculations, we find therefore that in the total increase of fixed and liquid assets of enterprises about one third is accounted for by self-financing ¹⁾.

This figure is however evidently the lower limit of self-financing. In fact, for private industries in the true sense of the word the figure is probably much higher, at a very rough estimate perhaps by half ²⁾.

Although personal savings have of late years increased very greatly — 1950: 2,100 million DM, 1952: 4,500 million DM, 1956: 6,900 million DM,

¹⁾ Figures based on the Monatsbericht der Deutschen Bundesbank, June 1958.

²⁾ This estimate rests on the following considerations: the formation of fixed assets by establishments includes all construction of dwellings (approx. 10,000 million DM). Here the rate of self-financing is known to be very low. In addition the methods of national accounting are such that even self-financed private dwellings are recorded statistically as the result of a credit operation.

1957: 10,900 million DM — they are, by comparison with the undistributed profits of enterprises and the surpluses on current account in the public budgets, of only secondary importance for the total production of fixed assets.

From the point of view of the economic policy being followed in the Federal Republic the high rate of self-financing and the large part played by public budgets in the financing of investments are not desirable, however necessary they may have been in the years of reconstruction immediately after the currency reform in order to get investment going at all.

A high rate of self-financing always brings the risk of misplaced investment, as it by-passes the guiding influence of interest rates on the market. It also reduces the influence exerted by interest rates and consequently the control exercised by the Bank of Issue. Moreover those enterprises which have special facilities for self-financing develop concentrations of wealth which inhibit the free play of competition and run counter to the social aim of economic policy when it endeavours to attain the best possible distribution of wealth.

2. The financing of investment on the market, small as it still may be, has none the less increased of late years. A pointer to this development is found in the existing figures of the increased activity (loans floated) on the capital market.

TABLE 34

Issue of fixed-interest securities and shares

('000,000 DM)

Year	Fixed-interest securities ¹⁾	Shares
1950	676.5	51.2
1951	747.4	164.7
1952	1 537.7	259.3
1953	2 901.9	268.7
1954	4 691.0	453.0
1955	3 680.7	1 554.8
1956	2 564.2	1 837.5
1957	4 183.5	1 631.7
First 6 months 1958	4 157.8	577.4

Source: Monatsberichte der Deutschen Bundesbank, July 1958.

¹⁾ Initial sale only.

²⁾ Incl. sales to "investment fund" creditors (1953-1955).

3. Despite the increased activity of the capital market, caused in part by the steep rise in savings, the rate of interest in the Federal Republic has continued to be relatively high, especially the rate for long-term credits. For some time past however, a sharp reduction of rates on the capital market has been noticeable.

TABLE 35

Yield of fixed-interest securities and shares - 1954 to 1958

(as percentage)

Year	5 % Tax-free mortgages	8 % Industrial bonds after deduction of 30 % tax on income from capital	Shares quoted on the stock exchange
1954	5.13	5.57	2.65
1955	4.95	5.24	3.10
1956	5.21	5.93	4.15
1957	5.56	6.04	4.64
1958			
1st quarter	5.20	5.43	4.51
2nd quarter	5.00	5.27	4.41

Source: Monatsberichte der Deutschen Bundesbank and "Wirtschaft und Statistik".

By comparison with other countries, the cost of short-term credits in Germany is also high. It should however be noted that the Bank of Issue in the Federal Republic has never pursued a policy of cheap money, because expansive forces of industrial character were until now so strong that it was possible to manage without the financial stimulant of cheap money; in fact the fight against inflationary trends made it necessary to manage without this stimulant.

Since the beginning of 1957, the Bank of Issue has lowered the discount rate four times; this has been due in part to the economic trend, but even more to monetary reasons. Rates on the monetary market and the cost of short-term bank credits have fallen as a result of the lowering of the discount rate. This trend towards low rates of interest has developed further in the last few months.

TABLE 36
Interest on short-term loans since 1950

(as percentage)

		Bank-rate	Cost of credit on current account (loans agreed ¹⁾ ²⁾	Cost of acceptance credits ¹⁾	Cost of com- mercial bill credits (20,000 DM and more) ¹⁾ ²⁾
1950	27 Oct.	6	10 1/2	9 1/2	8
1952	29 May	5	9 1/2	8 1/2	7
	21 Aug.	4 1/2	9	8	6 1/2
1953	8 Jan.	4	8 1/2	7 1/2	6
	11 June	3 1/2	8	7	5 1/2
1954	20 May	3	8	6 1/2	5
	1 July		7 3/4		
1955	4 Aug.	3 1/2	8	7	5 1/2
1956	8 March	4 1/2	9	8	6 1/2
	19 May	5 1/2	10	9	7 1/2
	6 Sept.	5	9 1/2	8 1/2	7
1957	11 Jan.	4 1/2	9	8	6 1/2
	19 Sept.	4	8 1/2	7 1/2	6
1958	17 Jan.	3 1/2	8	7	5 1/2
	21 July ⁴⁾	3	7 1/2	6 1/2	5

Source: Monatsberichte der Deutschen Bundesbank.

¹⁾ Figures for Hesse are based on documents published by the Bank Control Authority for Hesse. They include commission on credit, acceptance or discount, but exclude commission on turnover. — Official rates: lower rates can be used, higher rates are permissible in justifiable cases on authorization by the competent Bank Control Authority.

²⁾ According to § 2 of the Convention on Interest, the interest can be charged only for credits actually used. On the other hand, credit commission may be calculated in advance on the basis of the credit firmly agreed or, in the case of automatic credits, on the basis of the highest figure. The total cost of credits may therefore differ in certain cases from the total costs indicated here.

³⁾ The rates for smaller sums are approximately 1/2 to 1 per cent higher.

⁴⁾ The rate of discount was reduced to 3 per cent on 27 June, 1958.

E — THE FINANCIAL SYSTEM AND THE SYSTEM OF TAXATION

In the financial year 1956 expenditure from the overall public budget, which covers the Federal Administration, the Equalisation of Burdens Fund, the Länder and the local authorities, totalled just under 60,000 million DM and in 1957 some 66,000 million DM. Of this sum the largest amount (1957: 14,700 million DM) went to the social services, among which care of war victims, the subsidy for social insurance and irrecoverable expenditure by the Equalisation of Burdens Fund were the most important items. The second largest item consisted of administrative costs, followed in third place by expenditure on buildings, loans, etc., *i.e.* expenditure for the state's own investments and the financing of all investments made by the state, especially in the field of housing.

Defence expenditure is recorded at some 8,000 million DM. In connection with these figures it should be noted that they are budgeting figures and do not represent money actually spent under this head.

In 1957 one third of all tax revenue came from income and corporation tax. Next in importance as a source of taxation are the taxes on turnover and consumption. Together with taxes on transport these account for 47 per cent of all tax revenue (including customs duties).

TABLE 37

Income and expenditure of the public budgets in the Federal Republic
(Federal, Land, local authorities and Equalisation of Burdens Fund)
Total national budget

('000,000,000 DM)

	Financial Year			
	1952 ¹⁾	1954 ¹⁾	1956 ²⁾	1957 ²⁾
Expenditure				
Social Services	9.33	11.67	13.60	14.7
Reparations	0.29	0.59	1.58	2.2
Debt Service	1.10	2.39	2.98	3.3
Administrative expenditure	8.38	10.34	12.55	14.2
Pensions	1.50	1.82	2.26	2.5
Subsidies	0.74	0.24	1.06	1.4
General budget and special expenditure	3.42	4.10	5.27	6.4
Building, loans and other capital-forming expenditure	8.37	10.77	13.13	13.5
Defence expenditure (incl. occupation costs and transfer to reserve of unspent balances of occupation costs)	7.89	8.05	7.35	8.0
Errors and omissions (net)	- 0.52	- 0.23	-	-
Net budget requirements	40.41	49.75	59.78	66.2
Income				
Taxes	32.24	39.43	47.90	50.6
Licences, etc.	4.12	4.97	6.04	6.4
Receipts from public property and undertakings	0.87	1.12	1.36	1.3
Profits from striking of coins	0.13	0.03	0.07	0.1
Collection of debts and other capital-forming revenue	3.01	4.00	3.79	5.3
Other general sources of revenue	0.27	0.38	0.42	0.5
Financial assignments and levies (net)	- 0.24	- 0.14	-	-
	42.40	49.79	59.58	64.2
Surplus of income (+)	+ 1.99	+ 0.04	- 0.20	- 2.0
Surplus of expenditure (-)				

Source: Deutscher Bundestag, 3rd legislature, appendix to paper No. 300; "Allgemeine Vorbemerkungen zum Entwurf des Bundeshaushaltsplans für das Rechnungsjahr 1958".

¹⁾ Results obtained from financial statistics.

²⁾ Estimate.

TABLE 38

Composition of tax revenue by tax groups

	Financial Year					
	1950	1952	1954	1956	1957 ¹⁾	1958 ²⁾
	Percentage share of total revenue					
Income tax and property tax	49.8	53.5	54.8	53.9	53.3	52.8
Income tax	26.5	34.4	33.7	33.6	33.0	33.1
Property tax	10.3	6.0	7.2	6.3	5.7	5.4
Tax on transfer of property	1.4	1.3	1.5	1.7	1.8	1.8
Tax on land ownership and business	11.6	11.8	12.4	12.3	12.8	12.5
Taxes on use of income	50.2	46.5	45.2	46.1	46.7	47.2
Transport duty	3.1	2.4	2.2	2.4	2.5	3.3
Turnover tax	23.6	24.8	25.3	25.6	25.4	25.3
Consumption tax and expenditure tax	23.5	19.3	17.7	18.1	18.8	18.6

Source: Deutscher Bundestag, 3rd legislature, appendix to paper No. 300; "Allgemeine Vorbemerkungen zum Entwurf des Bundeshaushaltsplans für das Rechnungsjahr 1958".

¹⁾ Provisional figures.

²⁾ Estimates.

F — THE SYSTEM OF SOCIAL REDISTRIBUTION

Social redistribution in the Federal Republic occurs along two lines: in part through social insurance (which embraces the institutions responsible for the statutory pensions insurance, unemployment insurance, sickness insurance, accident insurance and the family compensation funds), and also through the state (regional corporations), which in certain cases of social need not covered by social insurance provides assistance partly in the shape of pensions.

In the Federal Republic the individual institutions concerned with social insurance are independent and are organized on the principle of autonomous administration. A common feature is that they receive contributions on the basis of statutory regulations and are also bound to provide statutorily fixed minimum benefits. Contributions for pensions insurance, unemployment insurance and sickness insurance are paid by employees and employers jointly. Accident insurance is a compulsory association of the employers in each branch of industry.

In the main, the various branches of social insurance work on the basis of assessment. Only the pensions system has in part retained the principle of

benefits based on available money even after the great reform in 1957. In addition pensions insurance is aided by considerable subsidies from public funds.

Transfer of income via the state occurs mainly through the care of those who have suffered injury or damage through the war.

The next table gives a picture of the scale of all public transfers of income and of the trend in recent years. The increase in 1957 over 1956 is based largely on the increases in the pensions scheme, made in the 1957 reform referred to above.

To gain an idea of the scale of transfers of income we should realize that net income from wages and salaries in 1957 was some 76,000 million DM, and the total of all public transfers on income for the same year was 22,000 million DM.

TABLE 39

Public transfers of income

(in '000,000 DM)

	1950	1951	1952	1953	1954	1955	1956	1957
Wage-earners' pensions	2 019	2 517	3 073	3 280	3 387	3 821	4 489	6 650
Employees' pensions	786	1 014	1 264	1 348	1 379	1 711	1 961	3 089
Miners' pensions	546	692	844	907	952	1 151	1 271	1 489
Unemployment insurance	573	582	694	719	871	730	766	801
Sickness insurance	588	700	810	958	981	1 162	1 338	1 535
Accident insurance	431	469	594	613	654	681	720	893
Supplementary insurance	114	119	134	151	180	198	215	227
Family compensation funds	—	—	—	—	—	419	447	500
Total transfers by social insurance institutions	5 057	6 093	7 413	7 976	8 404	9 873	11 207	15 184
Unemployment assistance	820	893	854	788	735	478	314	259
Equalization of burdens	1 175	838	874	1 668	1 762	1 883	1 811	1 938
Care of war victims	1 850	2 208	2 530	2 284	2 387	2 697	3 047	3 243
Reparation payments to POW	—	—	—	—	38	129	543	320
Public assistance	621	556	558	603	634	656	732	762
Reparations ¹⁾	71	56	54	70	52	61	93	140
Subsidies for private non-profit-making organizations	169	235	278	321	368	390	425	450
Other transfers	—	—	12	29	35	61	80	95
Refunds deducted	250	260	270	280	285	298	301	315
Transfers by other public institutions	4 456	4 526	4 890	5 483	5 690	6 057	6 744	6 892
Total public transfers of income	9 513	10 619	12 303	13 549	14 094	15 930	17 951	22 076

Source: Deutsche Bundesbank.

¹⁾ To recipients within the country.

G — TREND OF PRODUCTIVITY

It is the practice to-day to treat "productivity" and "productivity of labour" as one and the same thing, computing it in such a manner that output (for purposes of national accounting approximately the gross domestic product) is related to the number of persons employed¹⁾.

The table below shows that since 1950 the ratio of the gross domestic product in the Federal Republic to the number of persons at work has risen with extraordinary speed. Technical advances, more intensive use of capital, improvements in the internal organizations of undertakings, the change from under-employment to full employment are important factors, but by no means the only ones which have contributed to this development.

TABLE 40
Trend of "Productivity of Labour"

Year	Agriculture, forestry and fishing	Industry and handicrafts ¹⁾	Other sectors	Total	
				Actual	Using the same structure of figures for those at work as in 1950
			<i>DM</i>		
1950	2 045	6 433	7 118	5 547	5 547
1951	2 561	6 902	7 358	6 018	5 953
1952	2 681	7 242	7 548	6 313	6 188
1953	2 855	7 631	7 640	6 628	6 426
1954	2 928	7 924	7 867	6 897	6 641
1955	2 936	8 675	8 267	7 449	7 089
1956	2 970	8 728	8 552	7 639	7 214
1957 ²⁾	—	—	—	7 821	—
			<i>1950 = 100</i>		
1951	125	107	103	108	110
1952	131	113	106	114	115
1953	140	119	107	119	120
1954	143	123	111	124	124
1955	144	135	116	134	131
1956	145	136	120	138	132
1957 ²⁾	—	—	—	141	—

Source: Statistisches Bundesamt, Wirtschaft und Statistik, 10th year, No. 3, March 1958, p. 152.

¹⁾ Incl. mining, energy and construction.

²⁾ Provisional.

As can be seen from the table, the contribution to the gross domestic product per person at work in the industrial sector and in the "other" sectors, *i.e.* in the services sphere, was several times as large as that in agriculture. Consequently every migration from agriculture to industry or to the "other" sectors (see p. 178 above) means an increase in the "productivity of labour"

¹⁾ The term in use is not very good. The expression "productivity of labour" used to indicate the statistical relation between output and the effort of human labour is not correct. It suggests that the increases in the ratio should be attributed to a certain factor of productivity, *i.e.* labour, which, however, is not the case.

for the economy as a whole, even if there were no change within the individual sectors.

The results of these changes in the economic structure have themselves sufficed to account for about 1/6 of the increases which have occurred between 1950 and 1956. Had there been no change in the structure of the economy, the "productivity of labour" during this period would have increased by only 32 per cent instead of the 37 per cent that has actually occurred.

The table therefore gives the actual development and also the development that would have occurred had there been no change in the structure of employment since 1950. The development between 1950 and 1956 corresponds to a yearly rate of increase in "productivity of labour" per person employed of 4.3 per cent or 5.4 per cent, depending on whether the calculation is made on an imaginary development with unchanged composition of the number of persons at work or on the basis of the actual developments.

The figures of output per person at work certainly give no very correct picture of the trend of "productivity of labour", as the length of the working week has been reduced since 1950 and even more since 1955. The reduction in the rate of growth of "productivity of labour" in the past few years is, when calculated per person at work, in part a consequence of the shorter hours.

The reduction in working hours affects first and foremost the wage-earners (and only for them is it possible to assess the reduction statistically with some measure of accuracy). The table below therefore gives figures for "productivity of labour" only with reference to the work done by wage and salary-earners (workers, employees and officials) and with adjustments for the number of hours worked. This method of treatment is important when consideration of "labour" as a factor in production is confined to the employees output, as for example in the consideration of wages policy.

TABLE 41
Volume of work and output per man-hour

(1950 = 100)

Year	Average number of employees	Average number of hours worked by employees each working day	Volume of work of total body of employees ¹⁾	Gross national product at fixed prices per man-hour
1950	100.0	100.0	100.0	100.0
1951	105.3	99.6	104.8	106.7
1952	108.6	99.6	108.1	110.4
1953	112.6	99.8	112.2	114.6
1954	117.6	100.4	118.1	116.7
1955	124.4	100.7	125.2	123.0
1956	130.7	100.0	130.5	125.4
1957 ²⁾	134.8	97.5	130.5	131.8

Source: Calculation made by the Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen.

¹⁾ Allowance made for variations in the number of working days.

²⁾ Provisional figures.

CONCLUSIONS

In the first years of the period of reconstruction and of adaptation to the new political and geographical circumstances of the post-war years, the pace of economic growth in the Federal Republic of Germany was very high, especially as no limits were set on expansion by the problem of manpower supplies. This period came to an end some two years ago. Labour is now in short supply and the stage of full employment has been reached. Apart from fluctuations due to the state of the market, the speed of growth has been reduced as quantitative advances have given way to qualitative.

A further reduction in tempo must probably be expected for the future as well. A significant extension of the supply of labour is on demographic grounds not to be expected for some while, the only significant reserves for the labour market are migration from the East and increases in percentage at work, *i. e.* the debut on the labour market of persons of working age who have not yet been in employment. These factors are not however infinitely elastic, and furthermore the trend towards shorter hours will continue, even if at present we need no longer expect reductions as large as those of 1956 and 1957. In any case, the volume of labour in terms of man-hours worked will in all probability increase but slowly in the next few years.

Such changes in economic growth pose many problems. Until recently, the percentage rate of investment was relatively high. It is very possible, if not certain, that the rate of investment will fall with the reduced rate of growth, *i. e.* with the reduction in rate of growth the investment effort per unit in the national product will sink. A drop in the percentage rate of investment would mean that the composition of overall economic demand would change, and this would lead to a change in the structure of production, which up to now has been geared to a comparatively high rate of investment.

A drop in the rate of investment also appears likely on the further ground that the demands for building investments will fall off when economic growth is qualitative, particularly when in a few years' time supply and demand in housing are balanced. (This will still be true even if we assume that with increases in income greater comfort will be sought for in homes.)

A drop in the rate of investment also appears likely on the further ground that the trend of technical progress is towards greater efficiency of capital.

On the other hand the maintenance of a high percentage rate of investment would appear likely on the grounds that the transition to qualitative growth means an increase in the intensity of capital in production. In addition, the adaptation to new conditions which will follow the establishment of the Common Market may tend to cause an increased demand for investments in the economy.

(The demand for products of the investment goods industries may also be favourably influenced during the next few years by rearmament in the Federal Republic.)

In other words, it is hard to say whether the Federal Republic will in the coming years have to reckon with lasting changes in the structure of demand.

In any case, the psychological problem of a reduction in the rate of economic growth remains. In the last few years employers and wage-earners have founded their expectations and decisions on comparatively high rates of increase in real income. Any reduction in pace is felt to be unsatisfactory, and the reactions elicited contain the seed of inflationary developments, for they increase monetary claims without reference to the real possibilities of growth.

It has not yet proved possible to suppress inflationary trends in the sense of maintaining a stable value of the currency. The policy relating to growth must therefore continue to be based on restraint, although this policy is in the long run not without danger, since it may nip in the bud practical possibilities of growth which would have existed but for the inflationary trend.

The most important cause of the inflationary trend of the last few years has been the fundamental disequilibrium in the balance of foreign trade, which leads to a continuous increase in monetary demands within the domestic economy coupled with a trend to reduced supplies of goods at home; at the same time it means that monetary developments are to an undesirable extent removed from the influence of credit policy.

The inflationary trend is also steadily nourished by the policy on wages and the practice of enterprises in price matters. The German system of autonomy for the two sides of industry in wage matters does not ensure that wages are linked with "productivity of labour" in the economy as a whole. A non-inflationary trend is therefore contingent on the extent to which both sides of industry appreciate the overall economic situation. That the rigidity in price formation which has developed on the basis of existing market forms favours inflationary trends is more than evident.

Within the limits of the market economy the leaders of German economic policy aim at optimum growth, maintenance of the value of the Deutsche Mark and maintenance of the external equilibrium as their main objectives; they are

convinced that all three objectives are of equal importance and that they are not mutually exclusive. The fact that it has not yet proved possible to attain all three objectives is no proof of the contrary.

The inception of the European Economic Community, which has declared its support of the same main objectives in economic policy, will make it easier for the leaders of economic policy in Germany to stick to their three objectives, inasmuch as there will now be better institutional and political conditions for co-operation on currency matters and co-ordination of policy relating to economic trends.

For the Federal Republic of Germany the object of development can only be still further industrialisation — a development which is certainly facilitated by the European Economic Community. True, certain changes in the industrial structure of the Federal Republic will ensue from the Common Market. In what direction these changes will occur must be a matter for special research on conditions of production and marketing within the several branches of industry.

ANNEX 1

TABLE 42

Share of each industry in total net value of industry output

Estimates for 1957

	Percentage
Chemicals incl. by-products of coal	9.8
Machinery	9.3
Textiles	8.9
Electrotechnical products	6.9
Vehicles	5.8
Tobacco processing industry	5.0
Railway construction material	4.7
Iron and steel	4.1
Coalmining	4.0
Electricity	4.0
Clothing	3.0
Breweries	3.0
Stones and earths (for building)	3.0
Printing and duplicating	2.4
Building	2.3
Timber processing incl. furniture	1.9
Metal construction incl. trucks	1.7
Steel processing	1.4
Paper and cellulose production	1.3
Rubber processing	1.2
Iron and steel foundries and malleable cast iron	1.1
Paper processing	1.1
Confectionery	1.0
Precision and optical instruments	1.0
Shipbuilding	0.9
Saw-mills and timber working	0.9
Footwear	0.9
Processing of plastics	0.9
Processing of mineral oils	0.9
Gas	0.8
Drawing-mills and cold-rolling mills	0.8
Ceramics (art)	0.7
Semi-finished products of non-ferrous metals	0.6
Musical instruments, toys and jewellery	0.6
Petroleum and natural gas	0.5
Leather processing	0.5
Leather production	0.5
Glass-ware	0.4
Potash and rock salt	0.4
Milling	0.4
Meat processing	0.4
Watches and clocks	0.4
Non-ferrous heavy metals	0.3
Sheet glass	0.3
Non-ferrous metal foundries	0.2
Iron-ore mining	0.2
Aluminium production	0.2
Metal mining	0.1
Fish processing	0.1
All industries	100.0

ANNEX 2

TABLE 43

Development of industrial production in various industrial sectors - 1950-1957

(1950 = 100)

	Index 1957
Aluminium production	553
Processing of plastics	475
Shipbuilding	392
Petroleum and natural gas	368
Vehicle construction	317
Meat processing	299
Electrotechnical products	291
Processing of mineral oils	289
Breweries	283
Musical instruments, toys and jewellery	270
Watches and clocks	251
Clothing	241
Precision and optical instruments	240
Non-ferrous metal foundries	238
Machinery	237
Steel processing	230
Leather processing	228
Chemicals, incl. by-products of coal	220
Drawing-mills and cold-rolling mills	213
Electricity	210
Iron and steel	202
Rubber processing	202
Semi-finished non-ferrous metals	200
Railway construction material	199
Ceramics (art)	198
Confectionery	193
Sheet glass	191
Glass-ware	191
Metal construction incl. trucks	187
Paper processing	187
Tobacco	182
Printing and duplicating	180
Building	177
Stones and earths (for building)	176
Potash and rocksalt	176
Timber processing, incl. furniture	175
Paper and cellulose production	173
Gas	173
Iron and steel foundries and malleable cast-iron	167
Textiles	167
Iron-ore mining	165
Footwear	162
Metal-ore mining	140
Non-ferrous heavy metals production	138
Leather production	135
Milling	131
Coalmining	127
Saw-mills and timber working	114
Fish processing	100
All industries	203

Part C

Belgium

This report was written by Mr. L. DUQUESNE DE LA VINELLE, of the Ministry of Economic Affairs, Brussels, at the request of the Commission of the EEC.

I — STRUCTURE OF PRODUCTION

A — INTRODUCTION

Belgium was the first country on the continent of Europe to be industrialised. It was in Belgium, as far back as the Middle Ages, that the first industrial townships were to be found, called into being by the manufacture of cloth and by sea-borne trade. On this rich background of old-established textile and, in the South, metallurgical industries, the industrial revolution was to make rapid strides as soon as political conditions allowed. From the start the people were convinced of the industrial vocation of their country; one of the most significant signs of their attitude was the building of the first railways network on the Continent.

Towards the end of the 19th century the discovery of the Thomas process gave the Belgian iron and steel industry a fresh fillip, as it did in Lorraine and in the Grand Duchy of Luxembourg also. The result was such that at the time — the Campine coalfields had not yet been discovered — the expansion of metallurgy caused a certain shortage of coking coal.

Many other activities, such as the non-ferrous metal industry, the building of rolling stock and electrical engineering, experienced a remarkable expansion.

The first world war interrupted this basic prosperity, and from 1920 to 1940 the economic history of Belgium was very disturbed. The consequences of war, especially the inflation, found the government and public opinion ill prepared to solve the problems which arose. It was only in 1927 that the currency could be stabilized, and inflationary rises in prices and wages went on until 1929. During the great depression Belgium clung for long to the policy of the gold standard countries. This extreme monetary austerity, following on a long period of extremely easy conditions, led to a severe industrial depression and shook the banking system to its roots. When the second world war broke out, the Belgian economy had only just regained its balance at production levels scarcely higher than those of 1929.

After the war, governments set out to pursue a policy which would follow a middle course between the extremes of inflation and deflation. The stabilization of prices and salaries which had taken eleven years after 1918 was managed in three years after 1945, thanks to vigorous anti-inflationary action. This action made it possible to restore the balance of payments at the same time.

At this point the government and public opinion for the first time accepted the view that high levels of wages were desirable because they helped to produce advances in productivity, and circumstances abroad made it possible to attain this aim.

During the great depression the Belgian economy had suffered so severely from the breakdown of international trade that after the war governments were determined to encourage with all the means at their disposal the reconstruction of an international economy through liberalisation of trade, convertibility of currencies and the conclusion of economic treaties — Benelux, OEEC, ECSC, Euratom.

The authorities have made determined efforts to maintain full employment by such means as public works, by the promotion of house building and, more recently, by stimulating industrial investments.

These then were the four basic aims of Belgian economic policy. The most original feature of this policy was that it pursued these aims simultaneously and was never prepared to sacrifice any one of them.

B — POPULATION

Belgium has a total population of about 8 925 000. By comparison with the other countries of the Community the proportion of persons over 65 is relatively high, while that of persons under 15 is among the lowest. This is the result of the low mortality rate for many years past, and means that it is useless to reckon with an increase of the population of working age during the next few years. Since certain factors, such as the raising of the school leaving age and the gradual reduction of the age of retirement, will cause a fall in the rate of activity in the adult population, we must expect a probable drop in the available working population of some one to two hundred thousand persons in ten years time.

It is true that the relatively low proportion of women at work gives grounds for thinking that among women there are still certain reserves of labour; this impression is confirmed by the fact that employment of women has shown a little increase in the last few years.

It should however be noted that the relative number of women at work is closely linked with social habits and does not therefore expand automatically with increases in demand. It also depends on the type of work offered and so is

bound up with the economic structure. The decrease in the number of farms will be reflected in a decrease in the number of women employed in this sector. Rises in the standard of living are liable to produce the same effects in industry. It would seem therefore that it is in the services sector that feminine employment might expand.

All things considered, it seems that the tendency of the working population to decline of its own accord can only be compensated by the contribution of a net annual immigration of the order of some 10 000 workers. This would mean a substantial increase on the rate of immigration of the last few years.

Unless immigration occurs on a scale not so far seen in Belgium, the economy will have at best to develop in the framework of a static manpower situation.

C — REVIEW OF ECONOMIC ACTIVITY

The distribution of the working population between the main sectors of the economy seems almost to have reached a state of equilibrium. The relative importance of the farming population is in fact very small; even if we count as farm workers a large proportion of farmers' wives, the total strength of the farming population would be at most 500 000 persons, or barely 14 per cent of the total working population. The manpower potentially available in Belgian agriculture is not therefore as great as in other countries of the Community. None the less there is still a certain trend away from agriculture, and everything suggests that this will continue for quite a while.

TABLE 1

Production from farms fruit growing, market gardening and forestry - 1956

(in '000,000,000 Bfr.)

I. <i>Crop produce</i>	(total 8.8)
Grain (wheat, barley, oats, etc.)	3.9 or 7.9 %
Other vegetable crops (beet, potatoes, etc.)	4.9 or 10 %
II. <i>Livestock production</i>	(total 30.5)
Dairy products	10.9 or 22.2 %
Other animal products (beef, pork, eggs, horses, etc.)	19.6 or 39.9 %
III. <i>Fruit und market gardening</i>	
Market gardening, fruit (flowers, seeds, nurseries, etc.)	9.2 or 18.7 %
IV. <i>Forestry</i>	0.6 or 1.2 %
Total value	49.1

Source: Belgian Ministry of Agriculture.

Characteristic for Belgian farming is the large proportion of livestock production, which accounts for three-fifths of total output — the remaining two fifths being made up of approximately equal parts of crop production and of fruit growing and market gardening. The latter, however, is tending to fall off by comparison with pre-war years owing to the shrinkage of the British market, which was the main traditional outlet. Crop production has developed somewhat and production of dairy goods has experienced a rapid expansion. But this result has been obtained behind a protective tariff wall which it has hardly been possible to lower in the last few years even vis-à-vis the Netherlands.

In Belgium, particularly in the provinces of East and West Flanders and of Antwerp, there are areas in which for the last 10 years unemployment has been almost constantly above the national average; this unemployment, often referred to as structural, is probably bound up with the surpluses of agricultural population as well as with the predominance of the textile industry in these regions.

Belgium has therefore certain problems of adjustment of economic structure, though to a lesser degree than in other Community countries.

The relative importance of the various sectors of industrial activity also gives the Belgian economy a very individual character. One is immediately struck by the position of coal. This industry in fact contributes some 4 per cent to the gross national product; the corresponding percentages are 1.8 in France, 1.6 in the Netherlands and 2.5 in Germany (excluding lignite).

The structure of manufacturing industries in Belgium is equally characteristic; its main feature is the exceptional development of basic metals, which represent 16 per cent of all manufacturing output compared with a mere 10 per cent for the Community as a whole. The relative importance of the textile industry — 12 per cent of manufacturing output compared with an average of 9 per cent for the Community — is an equally characteristic structural element. On the other hand metal products contribute a mere 24 per cent to the total of manufacturing output compared with 33.5 per cent in the Community as a whole.

These proportions show that Belgian industry is highly specialized in the production of base metals and textiles; this specialization is balanced not by a uniformly lower proportion throughout the remaining manufacturing industries, but entirely by the relative weakness of metal products.

These structural features probably produce some resemblance between Belgian industry and that of the northern French areas, which have many sociological and historical links with Belgium. But one important difference should be stressed. While the metallurgical and textile industries in northern France work in the main for the French internal market, the metallurgical and textile industries in Belgium are typical examples of export industries. This is because they supply the bulk of the exports made by the country and because markets

abroad account for the major part of their turnover. On the other hand trade in processed metal products results in a slight debit in the country's trade figures.

The structure of manufacturing output is therefore a mirror of the economic role played by Belgium in Europe and in the world. In its essential features this structure has long been in existence. Belgian Flanders and French Flanders have specialized in textiles since the height of the Middle Ages, and from time immemorial iron has been worked in the valleys of the Meuse, of the Sambre and of their tributaries. The mining of coal in the same areas or in the immediate neighbourhood gave a fresh fillip to industries that had been established long before and stressed the features of the existing structure. It is only political factors which, by giving a vast home market to French industry and a tiny home market to Belgian industry, have forced export activity on the one but not on the other.

The age of the industrial structure of Belgium has not however made it rigid and inflexible. The metal products industry has developed both as adjunct of the iron and steel industry, for whose products it provided the first stages of processing, and as a subsidiary to the expansion of textiles and of iron and steel, which created a demand for all sorts of machinery and apparatus. This is probably why equipment goods occupy a specially large place in Belgium's mechanical engineering. To this extent the processing of metal products ought to gain from the increases engendered by the growing mechanization of industry in general. Here we have the reason why the Belgian metal products industry is basically in a state of expansion, though it lags behind by comparison with the same industries in Germany, Italy and France (except in the northern areas); its relative importance has been growing steadily for half a century. By contrast, the relative importance of the textile industry has been falling steadily, but the process has been slower in Belgium than in most of the other Community countries. The present structure of Belgian industry will be better understood if we add that two world wars and the great depression meant, all in all, 15 years of almost complete paralysis for production investment. This factor has unquestionably dislocated the structural development.

The degree of uncertainty which still exists in estimates of the use made of the gross national product prevents us from giving very detailed commentaries. It can however be seen that public consumption and investment are relatively low.

The economic significance of the division indicated above is particularly difficult to elicit. It is however clear that it is related to the other elements in the structural situation.

First, the stagnation of the working population helps, where other things are equal, to reduce the need for investments in housing and even in industrial tooling. In most of the other Community countries on the other hand the

working population has grown considerably either through immigration or natural increase. Secondly, the movement of manpower from agriculture to industry, which also provides a stimulus to investment, has been smaller in Belgium, even when allowance is made for the size of the country, than in other countries in the Community. Finally it is clear that Belgian industry specializes in the production of textiles and basic metals. Characteristic of these products is the lack of elasticity in demand when compared with income.

The meeting of these factors seems sufficient to explain both the modest level of investment and the comparative slowness of industrial expansion, which since 1949 has stood at between 2/3 and 3/4 of the average for the Community.

The rate of increase in the volume of the GNP from 1950 to 1956 has been 4.7 per cent per annum.

TABLE 2
Breakdown of gross national product

	('000,000,000 Bfr.)							
	1950	1951	1952	1953	1954	1955	1956	1957
1. Private consumption	274.4	297.0	303.8	308.1	325.2	339.8	356.6	377.1
2. Public consumption	35.7	43.5	51.6	54.4	55.3	51.7	55.1	59.1
3. Domestic capital formation:								
Gross fixed assets formation	57.9	56.6	59.2	62.9	67.6	74.0	84.5	86.6
Increase of stocks	0.1	6.9	5.2	2.0	3.7	0.7	4.3	5.0
4. Net exports	— 9.9	11.9	6.2	2.7	— 0.9	10.9	12.8	9.6
Total	358.2	415.9	426.0	430.1	450.9	477.1	513.3	537.4

Source: "Groupe d'études de la comptabilité nationale, Cahiers économiques de Bruxelles, n° 1, octobre 1958, édition de l'Institut de sociologie Solvay".

D — CONCENTRATION AND DISPERSION

Belgian agriculture is characterized by the large number of its individual enterprises; the average area of all farms is 6.83 hectares. For the past 30 years or so there has been a tendency to increase the number of farms of between 5 and 30 hectares at the expense of those under 5 hectares. Farms of between 30 and 50 hectares have not increased and those above 50 hectares have decreased in number during this period. It would therefore be incorrect to speak of a trend towards concentration; there is rather a slow elimination of the less profitable units. Belgium remains a country of small agricultural undertakings, and these only manage to exist thanks to high outputs per hectare both in agriculture and in fruit growing and market gardening.

Little information is available which could give an idea of the relative degree of industrial concentration, and what there is, is not usually very satis-

TABLE 3

Distribution of labour in processing industries as percentage of all persons employed in these industries ¹⁾ - About 1950

Country	Establishments with				
	under 10	10-100	100-500	500-1000	over 1000
	wage-earners				
Belgium	14	33.5	32.5	10	10
Sweden	7	33.5	31.5	13.5	14.5
Switzerland	5	41	33	21	
United Kingdom	5	21.5	32.5	13	28
France ¹⁾	23	23	25	9	12
United States	7 ²⁾	18 ³⁾	29	13	33
Canada	3 ⁴⁾	31.5 ⁵⁾	32		33.5
Japan	23	38	25	9	12

Source: Based on figures in the International Labour Review, June 1956.

- ¹⁾ 1936 — incl. building.
²⁾ Under 20 wage-earners.
³⁾ 20-100 wage-earners.
⁴⁾ Under 5 wage-earners.
⁵⁾ 5-100 wage-earners.

TABLE 4

Distribution of persons employed on 30 June 1956 by size of establishment

Number employed by establishment	1-19	20-49	50-199	200-499	500 +	Total
Quarrying etc.	1,437	2,357	4,513	3,368	1,257	12,932
Foodstuffs	21,906	10,019	16,532	9,474	9,996	67,927
Beverages	4,815	3,995	6,149	6,368	6,071	27,398
Tobacco	597	392	1,291	2,498	4,683	9,461
Oils and fats	218	280	439	1,623	1,592	4,152
Chemicals n. e. s.	3,281	3,951	12,133	11,969	21,216	52,550
Rubber	666	393	1,512	806	5,623	9,000
Timber	17,681	11,955	12,898	3,243	2,104	47,881
Paper	1,803	2,221	5,145	6,280	5,800	21,249
Printing, photography	7,292	5,373	9,109	4,021	4,324	30,119
Leather	3,496	1,697	3,789	2,020	689	11,691
Textiles	13,697	16,690	45,674	39,228	45,635	160,924
Clothing, footwear	27,456	19,809	26,926	9,322	2,480	85,993
Water - gas - electricity	336	823	4,103	8,184	6,665	20 111
By-products of mineral fuels	23	115	1,166	3,484	6,244	11,032
Non-metalliferous minerals	6,574	8,633	14,610	14,388	24,798	69,003
Basic metals	2,381	3,068	8,622	11,782	94,665	120,518
Machinery and vehicles	21,503	17,130	30,847	28,325	102,152	199,957
Other metal products	10,474	7,637	15,001	11,081	8,827	53,020
Art and precision instruments	4,383	4,070	4,579	1,753	—	14,785
Sundry	2,749	2,383	2,012	368	—	7,512
Total manufacturing industries	151,331	120,634	222,537	176,217	353,564	1,024,283
Building and construction	82,570	41,221	51,883	19,321	15,217	210,212
Total	235,338	163,212	278,933	198,906	370,038	1,247,427

factory. There are, however, some indications to be drawn from the distribution of employment by size of enterprise. Compared with those countries with which an overall comparison is possible, it seems that the relative importance of very small enterprises is particularly great, while conversely the importance of enterprises with more than 500 workers is below the average. No conclusion on cost prices can be drawn on such sketchy information; it does however draw attention to an aspect of industrial organization whose development it will be interesting to follow during the transition period.

TABLE 5

Percentage distribution of persons at work on 30 June 1956 by size of establishment

Number employed by establishment	1-19	20-49	50-199	200-499	500 +
Quarrying etc.	11.1	18.2	34.9	26.0	9.7
Foodstuffs	32.2	14.7	24.3	13.9	14.7
Beverages	17.6	14.6	22.4	23.2	22.2
Tobacco	6.3	4.1	13.6	26.4	49.5
Oils and fats	5.2	6.7	10.6	39.1	38.3
Chemicals n. e. s.	6.2	7.5	23.1	22.8	40.4
Rubber	7.4	4.4	16.8	8.9	62.5
Timber	36.9	25.0	26.9	6.8	4.4
Paper	8.5	10.4	24.2	29.6	27.3
Printing, photography	24.2	17.8	30.2	13.3	14.4
Leather	29.9	14.5	32.4	17.3	5.9
Textiles	8.5	10.4	28.4	24.4	28.4
Clothing - footwear	31.9	23.0	31.3	10.8	2.9
Water - gas - electricity	1.7	4.1	20.4	40.1	33.1
By-products of mineral fuels	0.2	1.0	10.6	31.6	56.7
Non-metalliferous minerals	9.5	12.5	21.1	20.8	35.9
Basic metals	1.2	2.5	7.1	9.8	78.6
Machinery and vehicles	10.8	8.6	15.4	14.2	51.1
Metal products	19.8	14.4	28.3	20.9	16.7
Art and precision instruments	29.6	27.5	30.9	11.9	—
Sundry	36.6	31.7	26.8	4.9	—
Manufacturing industries	14.8	11.8	21.7	17.2	34.5
Building and construction	39.3	19.6	24.7	9.2	7.2
Total	18.9	13.2	22.4	15.9	29.7

Belgium has no nationalized industries. The largest Belgian enterprise, the Belgian State Railways (S.N.C.B.) has however a structure parallel to that of nationalized industries. The state in fact holds all ordinary shares and has the right to run the network for 72 years. Preference shares, which represent a minority of the capital, have been taken up by the public.

Although rail traffic is increasing slowly from year to year, the financial situation of the S.N.C.B. is deeply in deficit. Belgium pursues a policy of maintaining tariffs which, for workmen's season tickets in particular, are well below costs. In addition the S.N.C.B. also carries a heavy pensions burden, and has to find the investments required to modernize the railway network and the

infrastructure. Consequently the state has to intervene on a big scale with large and varied subsidies.

Electricity is almost entirely produced and distributed by private enterprises. State-controlled enterprises produce only 3.6 per cent of the total output of electricity. A convention was signed in 1955 between representatives of the private companies, of the Federation of Belgian Industries and the Trade Unions, and this sets up a "Management Committee" bringing the private enterprises together with the intention of centralizing decisions on co-ordination, investments and tariffs. A "Supervisory Committee", consisting of representatives of this Management Committee, of the big trade union organizations and of the Federation of Belgian Industries together with observers from ministerial departments, has been instructed to follow up the application of the convention and to supervise the activity of the Management Committee.

Rules have also been laid down for self-suppliers and state-controlled enterprises.

Notable results have been obtained in investments and in the linking of nets, in standardization of tensions and of equipment and also in co-ordination and lowering of electricity tariffs.

The policy of reducing tariffs has led to a net increase in consumption. This increase has been on average 7.5 per cent since the convention came into force, while it stood at 4.3 per cent for the preceding five years.

II — EXTERNAL ECONOMIC RELATIONS

A — INTRODUCTION

For many years past the economic policy of Belgium has been steadily guided in its external relations by the idea that an industrialized state with a relatively small internal market cannot possibly rely on a protective customs tariff. No doubt the customs protection built up in the past by a certain number of industrial states was such that it could hamper Belgian exports and give rise to the temptation to follow the same protectionist paths; but it has on the whole seemed to be better tactics, in face of protectionism abroad, to maintain a systematically liberal policy towards imports of raw materials and equipment. This policy, backed up by the building of a close transport network, has made it possible to get the best out of the geographical situation of the country and at the same time to give the processing industries a chance to obtain their supplies of raw materials and equipment under the most favourable conditions possible.

Up to a certain point it is probable that expansion in the output of semi-manufactured goods has been particularly stimulated under this policy. This applied especially to basic metals, to the early stages of their processing and to a large part of the textile industry. Those enterprises which specialized in the simpler forms of processing of imported raw materials drew the maximum benefit from the liberal character of the customs tariff, from the good organization and from the cheapness of transport, while in selling they to some extent escaped from the protective duties in foreign countries which had always been more severe on finished goods than on semi-manufactured products.

This policy was in line with the interests of those industries in which Belgium had long specialized and which, in their competition with other countries, no doubt derived some degree of advantage from their long tradition.

In this way the tariff policy which has been steadily pursued in Belgium for the past century provides a partial explanation of the country's structure of exports, which is characterized by the predominance of semi-manufactured metal and textile products. As a corollary of this structure we find that production and employment fluctuate sharply with the state of the market.

The establishment of the European Coal and Steel Community has already helped to reduce somewhat the fluctuations in steel exports, at least in respect of selling prices, by laying down identical rulings on sales competition for the domestic market and the markets of the countries associated with Belgium in the Community.

The great stimulus given to trade in finished goods by the establishment of the Benelux Customs Union has had similar effects. For example exports from B.L.E.U. to the Netherlands in 1956 included 58.3 per cent of finished goods (excluding ECSC products and foodstuffs) while the exports of these commodities to other Common Market countries amounted to only 24.5 per cent. Raw materials and semi-manufactured goods on the other hand accounted for only 15.1 per cent of all B.L.E.U. exports to the Netherlands, compared with 30 per cent to the other Common Market countries. The distribution to be seen in the table below is typical for chemical and textile products as well as for processed metal products.

TABLE 6

Structure of B. L. E. U. exports by degree of completion of products and by destination - 1956

(As percentage of total exports to each area)

	Netherlands	Other EEC countries	Rest of world
Raw materials and semi-manufactured products	15.1	30.0	22.0
Finished goods	58.3	24.5	42.9
Products of the ECSC	19.9	31.5	31.2
Foodstuffs	3.5	8.5	3.9
Not specified	3.2	5.5	—
Total	100.0	100.0	100.0

Source: A. Kervyn, Aspects du Marché Commun, Report submitted to a symposium of the Société Royale d'Economie politique de Belgique, 1958.

TABLE 7

Structure of B. L. E. U. exports of certain products, by destination - 1956

(As percentage of total exports to each area)

	Netherlands	Other EEC countries	Rest of world
Raw materials	1.8	6.8	4.6
Textiles	21.3	7.4	9.5
Non-ferrous metal products	8.3	16.0	7.5
Processed metal products	21.7	8.3	15.5
Chemicals ¹⁾	8.0	3.9	6.4

Source: A. Kervyn — Aspects du Marché Commun, Report submitted to a symposium of the Société Royale d'Economie politique de Belgique, 1958.

¹⁾ Excl. semi-manufactured products and fertilizers.

B — GENERAL STRUCTURE OF THE OVERALL EXTERNAL BALANCE

Dealings in commodities account for 80 per cent of all current transactions in imports and exports. This figure is not greatly influenced by changes in the trade cycle. It serves to underline the completely dominant position of trade in the external relations of B.L.E.U.

Apart from imports and exports, earnings and expenditure of foreign currency for transportation are the only factor of importance in the balance of current transactions. This item usually shows a debit balance, even if it is not of great size.

On the other hand figures relating to the wages of workers in frontier regions and foreign labour generally show a small credit.

Income from capital and interest on foreign investments in Belgium are approximately balanced.

The last two items referred to are only minor, though not negligible, component factors in the balance of current transactions.

Capital transactions in the private sector are much less stable than current transactions. They normally show a net export of capital, but the size of the balance varies greatly with the strength and trend of psychological or market influences.

Capital transactions in the public sector are also very variable in scale and sometimes show a credit balance, sometimes a debit balance.

The ratio of Belgo-Luxembourg exports to the Union's gross national product stood at 33.5 per cent in 1956 and is always in the neighbourhood of this figure. Of the Community countries only the Netherlands are more dependent on demand from abroad.

Even so, this overall ratio does not in fact do justice to the importance of exports as seen from the point of industrial enterprises. When in fact

TABLE 8

Industries exporting more than 20 % of their total production

Industries	Percentage
Paper	20
Skins and furs	30
Construction material	37
Rubber	42
Petroleum	44
Chemicals	
Miscellaneous chemicals	46
Organic chemicals	51
Mineral chemicals	54
Textiles	59
Iron and steel	74
Non-ferrous metals	89
Mechanical and electrical engineering	36

Source: Belgian Ministry of Economic Affairs.

the place of external outlets in the total turnover figure is examined, it is found to be on average of the order of 50 per cent, and for textiles it even rises to 60 per cent, to nearly 75 per cent for iron and steel and almost 90 per cent for non-ferrous metals.

It is not therefore surprising that production has in the past been closely bound up with the development of foreign trade. Statistical analysis shows that there is very close correlation between the index of Belgian industrial output and the index of the Six. A close correlation can also be seen between the volume of exports and the volume of industrial production from 1949 to 1957. In relation to exports production has varied by around 0.5 *i.e.* for any increase in production there has been twice as large an increase in the volume of exports. A similar ratio exists between production and imports.

It can thus be seen how far the Belgian economy has benefited from the efforts already made toward liberalisation and intensification of world trade. There can be no doubt that the rapid increase in productivity, especially in the manufacturing industries, has been considerably helped by the expansion of international trade.

However, this basic trend toward expansion has been accompanied by market fluctuations which have had more influence on exports than on domestic demand and so have affected mainly those industries which, like iron and steel and textiles, export more than half their output.

The terms of trade of the Belgian economy are affected by the clearly perceptible variations related to the stages of the trade cycle. Although there is no absolute regularity in this respect, it can be said that the terms of trade normally deteriorate during a period of recovery and improve when the market begins to weaken. The scale of these movements has never been such as to cause difficulties for the currency.

C — THE GEOGRAPHICAL STRUCTURE OF THE OVERALL BALANCE

As a consequence of the establishment of the Benelux customs union Belgium's trade with the Netherlands has expanded considerably in the last ten years. In 1956 exports to this country accounted for nearly 22 per cent of all exports compared with 17.9 per cent in 1951, 15.3 per cent in 1952 and only 11.6 per cent in 1936/38.

Imports from the Netherlands have experienced a similar development ; in 1936/38 they accounted for 8.6 per cent of all imports, 13.2 per cent in 1952 and exactly the same percentage in 1956.

Trade between B.L.E.U. and the other countries of the Common Market, although its relative volume is lower when due allowance is made for size, is

none the less considerable ; in 1956 exports to the other Community countries accounted for 46.8 per cent of overall exports. In 1956 imports from the Community accounted for 41.5 per cent of total imports compared with 31.6 per cent in 1951 and 35.8 per cent in 1952. This increase has been mainly due to imports from the Federal Republic of Germany, but imports from France have also played their part.

It can therefore be said that even before the establishment of the European Economic Community the Belgian economy was spontaneously becoming part of the Six, and it would be reasonable to expect that the establishment of the customs union will impart new life and vigour to this trend.

On the other hand commercial relations with the other countries of the OEEC, important because they account for 15 to 20 per cent of the 1956 total, have not grown closer during the last few years. There is even an appreciable fall in the relative importance of exports to the countries of the OEEC group, attributable mainly to the way in which trade relations with the United Kingdom have developed. This country took 13.9 per cent of the exports from B.L.E.U. in 1936/1938, 11.1 per cent in 1952, 7.8 per cent in 1953 but only 6.4 per cent in 1956.

Trade relations with the Belgian Congo show great stability. The percentage of the Belgian Congo in Belgo-Luxemburg imports stays between some 7 and 8 per cent, while exports to the colony vary between 4.5 per cent and 5.9 per cent of all exports. As can be seen this trade, although important, does not constitute a major element in the trade of the mother country.

Trade relations with the sterling area as a whole are developing in much the same way as those with the United Kingdom.

Vis-à-vis the United States the trend of the last few years has been marked by a considerable degree of market instability ; the relative scale of imports has in fact fluctuated between 10.3 per cent and 14.7 per cent, the relative scale of exports between 7.5 per cent and 10.2 per cent. In addition, the amount of imports is regularly higher than the amount of exports. This feature recurs in trade relations with the dollar area as a whole, for which there is always a deficit. None the less the situation in this respect was definitely better in 1956 than it was in 1951 and 1952.

D — CUSTOMS POLICY

It is useful to make a distinction between the average level of the customs tariff and its structure.

Although its average level is fairly low, the present tariff has certainly played a more or less decisive part in the growth or the maintenance of cer-

tain marginal forms of industrial production in face of competition from other member countries or again — in widely varying conditions of economic efficiency — in the assembly or the processing of products originating in other Member States of the Community. There are also very few cases of deliberate use of quantitative restrictions on imports other than on agricultural produce, which is accorded a special status in the Treaty.

In this connection we might mention the assembly of motor-cars, which has expanded with the assistance of differential duties (12 per cent and 24 per cent) on parts and on complete vehicles, plus quota restrictions on the import of complete vehicles. In 1953 the Belgian Government decided that importers should be required on and after 1 January 1954 to assemble in Belgium any vehicles in excess of an annual quota of 250 vehicles per firm. This ruling resulted in the establishment of the Belgian assembly industry, which to-day employs more than 25,000 workers. Output in 1957 was more than 124,000 cars, 36,000 of which, with a total value of 3,500 million Bfr., were re-exported.

Conversion or replacement of this industry raises a problem of peculiar character.

Characteristic of the Benelux customs tariff is the almost entire absence of duties on raw materials; in this point it is very different from the German tariff and even more from the French or the Italian tariffs.

Probably this tariff structure has encouraged the growth of certain types of activity which consist in the processing of materials imported on favourable terms and their re-exportation as semi-manufactured goods. The encouragement given to this type of industry was unquestionably worth while when obstacles to international trade were increasing; it was in fact the only defence which could be put up by a small industrial country attempting to palliate the effects of protectionism abroad.

The entry of the Benelux union into a larger customs union inevitably alters the premises of the problem. Acceptance of the common tariff means gradual reduction of the advantages which the present tariff structure ensures for the type of industry referred to; at the same time the example provided by the establishment of the Benelux union itself has proved how far the suppression of customs duties encourages trade in finished goods.

We are not at present in a position to forecast the extent to which these advantages will make up for the damage incurred by certain established organizations. It would however be well to recall that the structure of the Belgian economy reflects to a large extent the influence of factors which go far deeper than the customs tariff, and that in any case the tariff will only be merged in the common tariff at the end of a long transitional period.

The establishment of the European Community ought not therefore to have a shock effect on the trend of the Belgian economy but ought rather to exercise a gradual pressure whose results and significance will only become apparent at a later date.

TABLE 9

Industrial production and external trade*(1953 = 100)*

Year	Index of production in Belgium	Volume of Exports	Volume of Imports	Index of production in the EEC
1949	90.3	72.2	73.8	—
1950	93.4	78.9	87.6	81
1951	106.0	94.3	94.4	92
1952	101.0	91.9	96.5	94
1953	100.0	100.0	100.0	100
1954	105.5	108.5	109.6	110
1955	115.7	128.5	120.4	122
1956	122.8	134.8	134.7	132
1957	122.6	131.7	136.7	141

Source: Institut de Recherches Economiques et Sociales, at the University of Louvain.

TABLE 10
Balance of payments of B. L. E. U.
(*'000,000,000 Bfr.*)

	1950			1951			1952			1956		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
A. Goods and services	99.6	110.1	- 10.5	155.7	145.6	+ 10.1	143.8	137.0	+ 6.8	193.8	181.5	+ 12.3
1. Merchandise ¹⁾	84.1	88.8	- 4.8	134.0	114.9	+ 19.1	120.3	108.8	+ 11.5	152.0	143.5	+ 8.5
2. Non-monetary gold	0.1	-	+ 0.1	-	-	-	0.1	-	-	-	0.8	+ 0.8
3. Travel abroad	2.2	3.6	- 1.4	2.9	5.0	- 2.1	1.4	3.2	+ 1.8	4.0	2.8	+ 1.2
4. Transport	2.4	7.6	- 5.2	5.5	13.7	- 8.2	6.3	11.2	+ 4.9	12.8	15.5	- 2.7
5. Insurance	0.8	0.9	- 0.1	0.9	1.1	- 0.2	0.8	1.1	- 0.3	1.1	1.2	- 0.1
6. Income from investments	4.4	4.2	+ 0.2	5.4	4.5	+ 0.9	4.9	4.1	+ 0.8	8.4	4.9	+ 3.5
7. Official transactions n. e. s.	0.4	0.6	- 0.2	0.6	0.7	- 0.1	2.2	1.4	+ 0.8	3.0	4.0	- 1.0
8. Miscellaneous	5.2	4.3	+ 0.9	6.4	5.7	+ 0.7	7.8	7.2	+ 0.6	12.5	8.8	+ 3.7
8.1 workers in frontier regions or from abroad	2.5	0.9	+ 1.6	2.5	1.2	+ 1.3	2.4	1.7	+ 0.7	3.2	1.6	+ 1.6
8.2 others	2.7	3.4	- 0.7	3.9	4.5	- 0.6	5.4	5.5	- 0.1	9.3	7.2	+ 2.1
B. Donations	10.2	9.3	+ 0.9	2.1	0.4	+ 1.7	1.1	0.5	+ 0.2	2.1	1.1	+ 1.0
9. Private donations	1.2	0.3	+ 0.9	1.0	0.4	+ 0.6	0.7	0.5	+ 0.2	2.1	1.1	+ 1.0
9.1 Colonial	1.2	0.3	+ 0.9	1.0	0.4	+ 0.6	0.7	0.5	+ 0.2	1.4	0.5	+ 0.9
9.2 ECSC	-	-	-	-	-	-	-	-	-	0.5	0.3	+ 0.2
9.3 Others	-	-	-	-	-	-	-	-	-	0.2	0.3	- 0.1
10. Official donations	9.0	9.0	-	1.1	-	+ 1.1	0.4	-	+ 0.4	-	-	-
Total (A and B)	109.8	119.4	- 9.6	157.8	146.0	+ 11.8	144.9	137.5	+ 7.4	195.9	182.6	+ 13.3
C. Capital	12.3	13.5	- 1.2	8.8	13.1	- 4.3	18.2	14.1	+ 4.1	-	-	- 13.3
11. Private capital	3.8	8.8	- 5.0	5.3	6.7	- 1.4	4.7	6.9	- 2.2	-	-	- 9.8
12. Public capital	8.5	4.7	+ 3.8	3.5	6.4	- 2.9	13.5	7.2	+ 6.3	1.2	4.7	- 3.5
12.1 long-term	0.8	3.3	- 2.5	1.7	2.2	- 0.5	3.2	1.8	+ 1.4	0.9	2.8	- 1.9
12.2 short-term	7.7	1.4	+ 6.3	1.8	4.2	- 2.4	10.3	5.4	+ 4.9	0.3	1.9	- 1.6
D. Errors and omissions	-	-	- 0.2	-	-	-	-	-	+ 0.8	-	-	+ 0.5
Total (A to D)	-	-	- 11.0	-	-	+ 7.5	-	-	+ 12.3	-	-	+ 0.5
Monetary gold	-	-	-	-	-	+ 2.4	-	-	+ 3.4	-	-	- 0.3
Merchandise as % of current transactions (A + B)	76.7	74.4	-	84.9	78.6	+ 83.1	79.1	77.5	+ 79.0	-	-	-

Sources: Banque Nationale de Belgique, Institut National des Statistiques.
1) The figures for merchandise are based on financial settlements.

TABLE 11

Structure of external trade of the B. L. E. U.

('000,000 \$)

S.I.T.C. sections	Imports			Exports		
	1951	1952	1956	1951	1952	1956
A. Food 0 and 1						
I. <i>Community</i>	131.5	154.3	160.7	68.7	39.4	74.7
Netherlands	96.9	119.3	104.4	15.5	8.7	22.8
Germany (FR)	4.3	4.9	11.6	27.5	20.5	23.1
France	20.5	20.5	34.8	24.3	9.1	23.5
Italy	9.7	9.5	9.9	1.5	1.1	5.4
II. <i>Belgian Congo</i>	12.3	10.5	10.7	3.7	4.3	9.2
III. <i>Other OEEC countries</i> (metropolitan)	25.3	30.2	36.2	38.3	24.7	21.7
United Kingdom	4.5	8.6	11.1	29.5	18.2	13.8
IV. <i>Sterling area</i>	14.6	20.3	34.4	33.6	20.9	20.9
V. <i>Dollar area</i> ¹⁾	179.4	180.7	140.2	1.9	1.1	3.0
VI. <i>Rest of world</i> ²⁾	113.4	98.2	132.3	16.2	14.9	21.9
VII. <i>Total trade</i>	461.9	473.8	480.1	128.8	84.5	130.6
B. Crude materials 2 and 4	1951	1952	1956	1951	1952	1956
I. <i>Community</i>	144.1	129.7	210	156.6	113.5	140.2
Netherlands	30.3	31.2	50.1	37.9	21.4	30.8
Germany (FR)	20.4	12.5	26.5	44.2	51.5	49.9
France	88.0	83.6	130.5	63.5	29.1	44.2
Italy	9.7	9.5	9.9	1.5	1.1	5.4
II. <i>Belgian Congo</i>	92.1	70.2	66.8	0.7	1.0	1.9
III. <i>Other OEEC countries</i> (metropolitan)	95.4	83.5	99.1	80.2	56.2	49.0
United Kingdom	27.5	15.3	18.2	44.0	33.6	27.0
IV. <i>Sterling area</i>	217.0	145.8	181.9	48.9	35.7	34.8
V. <i>Dollar area</i> ¹⁾	127.8	119.4	101.0	19.4	14.8	11.3
VI. <i>Rest of world</i> ²⁾	353.2	224.0	289.5	59.5	20.9	37.5
VII. <i>Total trade</i>	812.8	646.9	766.5	316.4	206.5	239.8
C. Fuels 3	1951	1952	1956	1951	1952	1956
I. <i>Community</i>	90.2	94.9	147.0	38.9	80.5	128.4
Netherlands	33.9	37.3	58.3	10.9	28.6	66.0
Germany (FR)	50.2	51.2	76.6	2.6	9.4	20.4
France	5.8	6.3	11.6	14.8	31.6	40.2
Italy	0.2	0.06	0.5	10.7	10.8	1.8
II. <i>Belgian Congo</i>	0.001	0.001	0.008	0.5	0.3	2.3
III. <i>Other OEEC countries</i> (metropolitan)	6.3	8.1	12.6	15.8	35.5	60.3
United Kingdom	6.2	6.9	12.4	0.9	11.0	14.7
IV. <i>Sterling area</i>	27.6	66.5	69.1	1.6	13.1	15.5
V. <i>Dollar area</i> ¹⁾	46.5	33.8	55.5	0.001	0.004	0.006
VI. <i>Rest of world</i> ²⁾	65.7	92.6	150.2	20.1	22.6	3.0
VII. <i>Total trade</i>	208.6	229.5	365.2	75.4	138.9	194.0

Source: Belgian Ministry of Economic Affairs.

TABLE 11 (continued)

Structure of external trade of the B.L.E.U.

('000,000 \$)

S.I.T.C. sections	Imports			Exports		
	1951	1952	1956	1951	1952	1956
D. Manufactured goods 5, 6, 8, 9						
I. <i>Community</i>	295.0	316.4	502.7	589.1	553.6	895.3
Netherlands	86.8	106.0	157.7	363.9	273.8	443.3
Germany (FR)	82.5	97.3	173.0	78.1	145.6	212.0
France	109.7	98.3	150.9	117.9	92.0	202.4
Italy	17.1	14.9	21.1	29.1	42.2	37.5
II. <i>Belgian Congo</i>	94.5	100.6	165.0	65.7	84.7	84.1
III. <i>Other OEEC countries</i>						
(metropolitan)	199.3	186.7	241.9	505.4	489.6	398.3
United Kingdom	115.7	104.4	147.1	182.4	197.7	138.2
IV. <i>Sterling area</i>	136.0	129.5	177.6	388.0	324.3	323.2
V. <i>Dollar area</i> ¹⁾	91.3	68.2	86.6	239.6	220.4	359.8
VI. <i>Rest of world</i> ²⁾	50.0	44.8	98.5	485.6	390.0	502.4
VII. <i>Total trade</i>	731.0	716.8	1 094.7	1 885.4	1 738.3	2 239.9
E. Machinery and transport equipment 7						
I. <i>Community</i>	135.9	175.8	332.6	74.5	67.1	180.0
Netherlands	28.3	29.9	57.4	44.2	41.2	131.3
Germany (FR)	65.5	99.3	199.9	7.3	7.0	16.3
France	36.0	39.8	62.6	20.5	16.3	28.4
Italy	6.1	6.8	12.8	2.5	2.5	4.0
II. <i>Belgian Congo</i>	0.4	0.5	0.5	36.6	53.5	44.0
III. <i>Other OEEC countries</i>						
(metropolitan)	87.5	101.1	120.6	34.3	56.1	38.6
United Kingdom	56.6	65.2	76.0	7.5	10.2	8.4
IV. <i>Sterling area</i>	56.7	65.3	76.3	14.7	24.6	33.9
V. <i>Dollar area</i> ¹⁾	84.5	90.9	112.7	14.7	12.0	13.5
VI. <i>Rest of world</i> ²⁾	4.3	3.6	4.8	67.4	83.0	87.3
VII. <i>Total trade</i>	312.6	371.8	571.2	227.5	271.7	363.3
F. Total of all products 0 to 9						
I. <i>Community</i>	797.6	871.1	1 353.0	927.7	854.1	1 418.6
Netherlands	276.1	323.6	427.9	472.3	374.0	694.3
Germany (FR)	222.8	265.2	487.6	159.6	233.9	321.7
France	260.0	248.5	390.3	241.0	278.2	338.6
Italy	38.6	33.7	47.3	54.7	68.1	64.0
II. <i>Belgian Congo</i>	199.3	181.8	243.0	107.3	143.8	141.6
III. <i>Other OEEC countries</i>						
(metropolitan)	413.8	409.7	510.3	674.0	662.2	567.7
United Kingdom	210.7	200.4	265.0	264.3	270.8	202.1
IV. <i>Sterling area</i>	451.9	427.5	539.3	486.9	418.5	428.3
V. <i>Dollar area</i> ¹⁾	529.5	493.1	496.0	275.6	248.3	387.7
VI. <i>Rest of world</i> ²⁾	586.6	483.3	675.3	648.8	531.4	651.9
VII. <i>Total trade</i>	2 526.9	2 438.9	3 277.7	2 633.5	2 439.9	3 167.5

¹⁾ USA, Canada and Central America only. In 1956 imports from this limited area accounted for 90.4 % of all imports from the \$ area and exports to the same restricted area accounted for 85 % of all exports to the \$ area.

²⁾ This covers commodity trade with countries outside the Belgian Congo, OEEC (metropolitan areas) and the \$ area.

III — ECONOMIC POLICY FACTORS AND THE STRUCTURE OF COSTS

A — PRICES

For long it was accepted in Belgium that a relatively low level of salaries was an essential element in the prosperity of a small country which lacked large natural resources. Even before the war, however, ideas had moved in a direction favourable to an increase in rates of pay, as it was hoped that this would have a beneficial influence on productivity and on the organization of enterprises.

After the war economic and monetary policy was definitely set in this direction and, as circumstances were favourable, Belgian salaries came to be fixed at a relative level well above anything previously seen. It has often and rightly been stressed that Belgium has become a country of high salaries.

These far-reaching changes among the established conditions in which the Belgian economy works occurred without serious difficulties, although in many neighbouring states circumstances produced the opposite trend in the level of wages. All in all it would appear that the changes have provided a powerful stimulus to increased productivity.

One of the corollaries of this trend has been the rise in those prices which are determined by internal factors, such, for example, as the prices of agricultural produce and coal.

This was one reason why it was necessary to strengthen the protection given to agriculture, as this sector of the economy could not be thoroughly re-organized in a few years.

For the same reason coal prices have been a constant source of worry to the authorities. The costs of mining enterprises could not in fact be reduced rapidly by re-organization of the enterprises and advances in the methods of mining, with the result that the Belgian State and the Coal and Steel Community had to intervene in order to prevent the inevitable rise in prices

reaching a level that would be damaging to the processing industries. When there is a buyers' market and prices tend to move downwards of their own accord, the problem of maintaining the productive capacity considered necessary on the long view and the problem of stock-piling unsold coal become the main worries and hamper the withdrawal of support by the public authorities.

This particular situation is probably bound up with the fact that the adaptation of the mining industry to high rates of wages runs into special difficulties, and these are sometimes insurmountable because the progress of mining methods is limited by the nature of the deposits.

Unlike mining, the manufacturing industries have adapted themselves spontaneously to high salary levels, even though some branches have encountered great if passing difficulties, particularly those covered by the special protocols in the Benelux customs union.

As regards agricultural produce, the method of protection consists primarily in keeping up prices on certain lines by means of import quotas or by the levying of a charge which varies with the state of the home market. This policy is applied to wheat, chicory, beef and pork, milk, butter and eggs. In addition imports of fruit and vegetables are free only at certain times of the year, and finally the cultivation of sugar beet is protected by a charge of 3 Bfr. per kilo on imported crude sugar.

Apart from the special cases of coal and agricultural produce, prices in Belgium are not controlled; but to prevent boom conditions leading to an upset of the markets, a regulation has been introduced which requires any rise in the prices of a large number of goods to pass through the formality of prior declaration to the price office at the Ministry of Economic Affairs. This declaration is, as a rule, followed by a debate in the price commission, and the influence of this debate, although mainly psychological, is by no means negligible. Here we have a tool of the policy relating to economic trends, a tool intended to reduce fluctuations and not to suppress them. The flexibility of the price system is not therefore endangered by its use, which never produces effects of structural importance.

We should also mention that transportation prices are greatly influenced by the public authorities for reasons which are at one and the same time economic, social and fiscal. Commutation of workers by rail or by the coaches running in place of railways is made at extremely low rates, subsidised by the public authorities in order to encourage the mobility of manpower in the interests of industry and to curb the concentration of population in the larger centres. Road transport on the other hand is subjected to considerable taxation, especially where the vehicle is run on petrol. Inland water transport is helped by tolls which produce only a very low return on the capital invested.

B — THE NATIONAL BUDGET, SOCIAL REDISTRIBUTION, INVESTMENTS

We all know that any comparison of tax burdens is influenced by the structure of the various fiscal systems. But a formula calculated to reduce misleading factors to a minimum shows that the burden of taxes in Belgium is appreciably lower than the average of the Community.

TABLE 12

Calculation of the burden of taxes - 1956

('000,000,000 Bfr.)

A. Direct taxes	34.4	B. Gross national product at	
Indirect taxes	49.2	market prices	513.3
Local taxes	4.8	Subsidies	6.8
Social security contributions	30.4	Interest on public debt	10.0
Total	118.8	Transfers	45.4
		Total	575.5

$$\frac{A}{B} = \frac{118.8}{575.5} = 20.7 \%$$

Source: Cahiers économiques de Bruxelles, Octobre 1958, édition de l'Institut de Sociologie Solvay.

In the Belgian fiscal system indirect taxes, without being by far the biggest source of income, produce none the less nearly 60 per cent of revenue. The turnover tax is of the cumulative type but is softened by a lump-sum tax levied on a number of items, particularly textiles.

TABLE 13

Composition of tax revenue

	1952	1953	1956
	'000,000,000 Bfr.		
Direct taxes	33.2	30.8	34.4
Indirect taxes	39.8	39.2	49.2
Total	73.0	70.0	83.6
	as percentage		
Direct taxes	45	44	41
Indirect taxes	55	55	59
Total	100	100	100

Source: Cahiers économiques de Bruxelles, October 1958, édition de l'Institut de Sociologie Solvay.

It is interesting to contrast with this simplified summary of taxes imposed, the distribution of Central Administration expenditure in 1956.

TABLE 14
Breakdown of central administration's expenditure - 1956

('000,000,000 Bfr.)	
I. Public consumption	
Functional breakdown :	
Civil departments (salaries, pensions etc.)	10.70
Forces (ditto)	16.71
Expenditure via subordinate offices	6.02
II. Education	11.55
III. Interest, profit and loss	
Interest on public debt (internal and external)	8.76
IV. Transfer of income	
Transfers to individuals (direct or through local authorities) (war pensions, various grants to needy persons)	7.68
Transfers to social security	9.10
Transfers to	
a) public enterprises	2.78
b) private enterprises	2.65
V. Capital transfers	
Transfers to individuals (war damage, etc.)	5.14
Transfers abroad	0.12
VI. Total of current business transactions (I + II + III + IV + V)	81.21
VII. Direct Investments (incl. 4.56 military investments)	9.15
VIII. Financial transactions	
a) Advances and loans	
- to public enterprises	1.43
- to subordinate offices	1.64
- to foreign countries	0.42
b) Reduction of public debt (internal and external)	6.36
IX. Total of capital transactions (VII + VIII)	19.00
Total national expenditure (VI + IX)	100.21

These estimates are based on the reports of the Benelux Commission for Comparison of Budgets.

Reference to the table on tax revenue immediately shows that revenue has covered only 4/5 of all expenditure. The effects which this produces on the capital market will be examined later.

But in connection with the distribution of expenditure we should look first at the item "expenditure via subordinate offices"; this refers to the part played by the central administration in the administrative expenditure of the provinces and the communes. Decentralization of the administrative machine in Belgium explains the size of this sum.

The same holds good for the item "financial transactions - advances and loans to subordinate offices", as these offices are financially responsible for

many tasks such as roads, school building, water supply and other public services of importance.

The item "transfers to social security" ought to be treated in the framework of its overall finance.

The major part of the funds available to social security come from the contributions of employers and employees. In the last few years the percentage ratio between their contributions and gross pay has suffered no appreciable change.

TABLE 15
Total pay declared to the social security administration

Year	Gross pay (^{'000,000,000} Bfr.)	Contributions to social security (^{'000,000,000} Bfr.)	Percentage ratio of contributions to gross salaries
1948	80.7	20.0	24.8
1950	85.7	19.3	22.5
1952	100.6	24.0	23.9
1954	104.3	25.3	24.3
1956	119.0	29.5	24.9

Source: Belgian Ministry of Economic Affairs.

But the state intervenes in the form of a contribution which of late years has been increasing steadily both in absolute and relative terms and which to-day stands at more than 9,000 million Bfr. or about 25 per cent of all funds available to social security. In the distribution of the funds available the main items are old age pensions and survivors' pensions and the item sickness and invalidity.

TABLE 16
Distribution of social security funds

(^{'000,000,000} Bfr.)

Main items	1954	1955	1956
Old age and survivors' pensions	11.1	11.9	12.6
Family allowances	6.6	7.0	7.3
Sickness and disability	6.7	7.1	8.3
Unemployment	6.3	5.6	4.4
Holidays	4.6	4.8	5.2
Total	35.3	36.4	37.8

Source: Belgian Ministry of Economics.

Compared with the total gross domestic formation of capital (incl. stocks), which in 1956 amounted to 96,000 million Bfr., the share of investments by the state is relatively small. But due allowance should be made for the subordinate offices and public undertakings.

An estimate has been made of fixed capital investments which makes it possible to distinguish the part played by the private sector.

TABLE 17

Distribution of investments between public and private sectors

('000,000 Bfr.)

Breakdown	1950	1952	1953	1954	1955	1956
1. Civil investments in the public sector	14.900	13.825	14.050	14.225	17.375	17.325
2. Investments in the private sector	45.050	46.700	52.225	56.375	57.175	62.250
3. National defence investments	1.675	9.175	8.425	6.400	5.025	4.325
Total	61.625	69.700	74.700	77.000	79.575	83.900

The functional distribution of investments varies but little; it differs from that in the other states of the Community in the low percentage of investments in agriculture and the high percentage of investments in transport. Investments in industry and housing are of average relative size.

TABLE 18

Gross investments by sectors - 1956

(as percentage of total investments)

Country	Agriculture	Industry and public services	Transport	Public administration	Housing	Other
Belgium	4	39	22	8	21	6
France	9	32	12	12	28	7
Germany	9	37	15	7	25	7
Italy	12	32	16	8	27	5
Netherlands ¹⁾	6	42	23	12 ²⁾	17	—

Source: ECE: Economic Survey of Europe - 1957. Geneva 1958.

¹⁾ Data do not include government expenditure on construction and works, increases of work in progress on heavy equipment and increases in livestock.

²⁾ Public and "other" administrations.

It is not at present possible to describe accurately the machinery by which investments as a whole are financed.

The table below will however give an idea of the structure of savings by enterprises and by individuals. During the period under review the undistributed profits of enterprises tended to increase and savings deposits to decline while oscillating considerably. The other forms of savings have been more stable except for subscriptions to new loans, which vary with market influences.

Purchases of foreign securities by individuals have not been taken into consideration, as it was not possible to assess them with sufficient accuracy.

TABLE 19
Main forms of private saving in Belgium

(*'000,000,000 Bfr.*)

Description	1952	1953	1954	1955	1956
A. Personal Savings					
1) Savings deposits	11.0	3.9	8.8	7.1	5.9
2) Savings reserves (insurance)	7.9	7.0	7.6	8.7	8.2
3) Loans on mortgage	2.6	3.2	2.9	3.0	1.7
4) Refunds of mortgages	4.4	4.9	5.9	7.1	8.3
5) Savings for building	5.7	6.3	7.3	8.0	7.1
6) Loans subscribed on the Belgian Market ¹⁾	11.0	7.6	14.3	11.8	10.2
B. Savings by enterprises ²⁾					
Undistributed profits	8.9	7.8	7.9	9.9	10.4

Source: General Savings and Pensions Fund.

¹⁾ Loans floated by the state, by para-statal institutions, by the Belgian Congo and on private account, including colonial companies.

²⁾ Enterprises working in Belgium.

On the basis of net calls for capital, then, it seems that the share of the public sector is far greater than that of the private sector. This difference corresponds to the method of financing investments.

True, in the private sector the construction of housing is financed both by the savings of those interested and by long-term credits from specialized institutions and the mortgage market; but the investments of enterprises are built up essentially on the withholding of profits, and the market is only called upon for the balance.

TABLE 20
Calls on net capital in Belgium

(*'000,000 Bfr.*)

Description	1950	1951	1952	1953	1954	1955	1956
Government and Independent War Damage Fund	2 799	2 436	8 554	13 596	19 703	5 157	8 396
Provinces, communes, communal credit, inter-communal companies	54	1 620	3 362	3 408	2 285	1 740	3 325
Belgian Congo	2 242	— 351	— 14	— 15	2 204	2 084	1 771
Public undertakings	3 609	1 735	2 701	2 754	1 994	1 554	1 496
Para-statal lending institutions	2 089	1 437	3 570	1 574	5 186	5 394	4 703
Private Sector { shares	2 717	4 203	5 249	3 625	5 664	7 550	6 550
{ bonds	1 088	1 444	1 789	1 605	2 505	1 050	1 450
Other	604	119	1 244	979	538	771	309
Total	15 202	12 643	26 455	27 526	40 079	25 500	28 000

Source: General Savings and Pensions Fund.

In the public sector, however, it is the capital market which has played the main part. The overall national budget has in fact shown a large deficit every year since 1949. This has varied from 9,300 million to 21,300 million Bfr., except in 1951, when the deficit was only 4,800 million Bfr. From 1950 to 1956 the public debt increased by 69,100 million Bfr., or about 11,500 million Bfr. a year. This increase in size corresponds to nearly 5/6 of the direct and indirect gross investments made by the state.

TABLE 21

Share of the public and private sectors in the capital market

(as percentage)

Year	Public sector	Private sector	Total
1950	75	25	100
1951	55.4	44.6	100
1952	73.4	26.6	100
1953	81.0	19.0	100
1954	69.7	20.3	100
1955	66.3	33.7	100
1956	71.5	28.5	100

It appears that the repeated floating of loans by public authorities is one of the factors which explain the relatively high rate of interest on the market, although on the other hand it has proved possible to keep taxation at a level lower than that ruling in most other Community countries.

The average return on fixed-interest securities quoted on the Brussels Stock Exchange varied from January 1957 to March 1958 between 5.1% and 6.6% (November 1957). In March 1958 the average return was 6.1%.

C — TREND OF PRODUCTIVITY

Taken overall, the increase in productivity is roughly equal to the increase in the volume of the national product, since the strength of the working population varies hardly at all from year to year. From 1950 to 1956 this increase was 3.6% p.a.

In the manufacturing industries it is difficult to determine the precise rate of increase of productivity, as there are no indices of production and of employment which correspond exactly. But roughly speaking this increase has been 7% p.a.

CONCLUSIONS

It is unlikely that the basic objectives of Belgium's economic policy will be altered in the future. But the degree of importance attributed to international co-operation will grow because of the coming into force of the Treaties of Rome. Furthermore, it is within the framework of the European Community that the problems of structural change will have to be solved. In all probability the customs union will have the effect of stimulating sharply trade in finished goods; consequently the comparative specialization of the Belgian economy on exports of semi-manufactured products may well be reduced in the future, especially as this trend will be completed by the gradual establishment of a common tariff. There may therefore be intensification of the trend which began with the establishment of the Benelux Union.

Similarly the problems of more or less chronic unemployment affecting certain areas will have to be reconsidered in the framework of the European Economic Community and in relation to the possibilities which will arise from it.

The Belgian economy will no doubt also benefit from a reduction of its sensitivity to market changes, both because of the influence of an enlarged internal market and thanks to the better co-ordination of economic policies which can be expected from the Community.

Part D

France

This report was prepared by M. GRUSON of the Ministry of Finance, Paris,
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INTRODUCTION

In France the years before the second world war were marked by stagnation in production and an ageing population. The real value of the French national income in 1939 was approximately on the same level as in 1913, whereas from 1900 to 1913 it had increased by more than 35 per cent. The number of births had dropped to about 600,000 per annum, which amounts to a birth-rate of 15 per mille.

Immediately after hostilities had ended, the necessary rehabilitation work was taken in hand. The first two Modernization and Equipment plans set the objectives which the French economy must attain in order to make up for the losses incurred during the period between wars, and to regain its former drive. The result has been a genuine renewal. There has probably been no period in which the wealth of metropolitan France has increased more than during the years from 1945 to 1958. In the past ten years the real value of both production and household consumption has risen by more than half. Most sectors of production, including agriculture, which still contributes a great deal to the French national product, have expanded considerably.

This progress is mainly due to a relatively high level of investment, particularly during the latter part of the period, and to the maintenance of full employment. Gross capital formation, which in 1938 amounted to 13 per cent of the gross national product, was in 1957, equal to 19.7 per cent of the gross national product.

In addition, the policy of assisting families, introduced in 1939 and subsequently intensified, has resulted in an increase of the birth-rate to more than 800 000 per annum. The vital statistics now show an excess of births over deaths.

Thus the structure of the French economy has undergone an appreciable change in recent years.

The changes, however, have not occurred without some dislocation nor have they allowed of any solution for certain problems considered essential since the end of the war.

Inflation has remained a constant danger except during the years from 1952-55. During the post-war period as a whole, economic expansion could be achieved only at the cost of a depreciation of money.

Some of the major social needs have not yet been adequately met. The most important of these is housing. Building activity is insufficient to satisfy housing requirements in the coming years.

Finally, the balance of trade between France and other countries has not yet been assured. The deficit in the balance has had to be, and will still need to be, covered by external loans.

This imbalance is mainly explained by the relatively high level of French prices. A number of excessive burdens weigh heavily upon the mechanism of production and distribution; these burdens have not yet been entirely eliminated by the remarkable advance in productivity or by the endeavours to modernize the economic structure.

The third Modernization and Equipment Plan, due to be completed in 1961, is an expression of the will to make a further effort at expansion which is essential if France is to satisfy the needs of her population and to regain the balance of her external trade. This can be achieved if the drive shown in recent years is maintained.

I — THE STRUCTURE OF PRODUCTION

A — POPULATION

1. Working population - composition and trends.

The 1954 census produced the following results:

<i>Total population</i>	42 900 000
Male	20 664 000
Female	22 236 000
<i>Total working population ¹⁾</i>	19 521 000
Male	12 874 000
Female	6 647 000

¹⁾ Incl. unemployed and national service men.

The working population represents 44.6 per cent of the total population.

Censuses have shown that since the beginning of the century the figure for the working population has been very stable with, however, a slight tendency to drop since 1936. From 20 million in 1906, 1921, 1926, and 1931 it has in fact dropped to 19 million in 1936 and 1954.

This trend will be reversed in the coming years as a result of the increase in the birth-rate since the war.

The Plan assumes the following development of the working population figures for 1961 and 1965 (in thousands):

	1961	1965
Total population	44 980	45 800
Employed	19 250	19 640
Unemployed	250	250
Total working population	19 500	19 890
National service men	300	280

2. Manpower reserves

No large-scale unemployment has occurred in France during recent years. On the contrary, the labour market has several times experienced long spells of strain as a result of the shortage of manpower.

In 1956 the number of unemployed dropped to fewer than 200,000, whereas in the preceding years it had hovered around 300,000. This frictional unemployment probably cannot be much reduced.

Immigration of workers from other countries has continued to increase in the past years. In 1954 the net figure for immigration was over 28,000 working persons; in 1955 the figure rose to 32,000, and to 90,000 in 1956.

The proportion of women in the working population amounts to approximately 35 per cent. For the past thirty years, however, the number of working women has tended to fall.

Nevertheless the Commissariat Général du Plan consider that the objectives of the Third Plan cannot be attained unless some 150,000 more women are employed.

In France, the main source of available manpower reserves probably lies in the rural areas, where part of the working population is uneconomically employed. Unhappily no statistics exist which would provide the figures concerned.

B — TABLE OF ECONOMIC ACTIVITIES

1. Breakdown of the working population by sectors

The Institut National des Statistiques et des Etudes Economiques (I.N.S.E.E.) has worked out an estimate of the breakdown of the working population by sectors as at 1 January 1957; this brings up to date the information provided by the 1954 census¹⁾.

¹⁾ Note of working assumptions :

a) Distribution of employed persons "not accounted for".

b) Estimated changes between May 1954 and January 1957 :

- Wage earners (except those in public service, agriculture and domestic service) according to Ministry of Labour index figures : — 75 000.
- Non-wage earners in agriculture : — 125 000.
- Public administrative services : + 40 000.
- Other sub-sectors of the working population : no change.

c) Proportion of women : no change.

TABLE 1
Working population by sex and branch of activity
 Estimated for 1 January 1957

Branches of activity by groups (groups correspond to the two-digit nomenclature)		Total (^{'000})	Percentage of women in total
	01 to 05 — <i>Agriculture</i>	5 039	35
B	— 06 to 09 Public services, urban areas	137	12
C	— 10 Petroleum and liquid fuels	30	13
D	— 11 Solid mineral fuels	255	2
	06 to 11 — <i>Power</i>	422	6
E	— 12 to 15 Mining and quarrying of various minerals and of building materials	113	4
F	— 16 to 18 Production of metals	212	7
G	— 19 to 29 Mechanical and electrical engineering	1 903	16
H	— 30 Glass	187	24
I	— 31 and 32 Ceramics and building materials		16
J	— 33 and 34 Building and public works	1 446	4
K	— 35 to 38 Chemicals and rubber	336	32
L	— 39 to 46 Agriculture and foodstuffs	587	31
M	— 47 and 48 Textiles	607	56
N	— 49 Clothing and processing of textiles	454	81
O	— 50 to 52 Hides and skins	238	37
P	— 53 Wood and furniture	245	14
Q	— 54 Paper and paperboard	108	38
R	— 55 Printing trades	179	32
S	— 56 to 60 Miscellaneous	122	44
	12 to 60 — <i>Industry</i>	6 737	26
	62 to 68 — <i>Transport</i>	995	17
U	— 69 Trade in agricultural products and foodstuffs	785	40
V	— 70 to 81 Trade other than foodstuffs	1 733	47
	69 to 81 — <i>Commerce</i>	2 518	45
W	— 82 to 85 Banking, insurance, agencies	444	46
X	— 86 to 88 Entertainment	47	46
Y	— 89 Hygiene	198	57
Z	— 90 Domestic service	572	95
	91 to 99 Professions and administrative services	1 973	45
	82 to 99 — <i>Services</i>	3 234	54
	<i>Total activities</i>	18 945 ¹⁾	35

Source: I.N.S.E.E. - Etudes Statistiques, published in September, 1957. Population Census of May, 1954 amended to date
¹⁾ Working population in employment (excluding unemployed).

Since the beginning of this century the occupational distribution of the working in agricultural diminished the following changes:

TABLE 2
Changes in the working population in employment ¹⁾

Sector	('000)					
	March 1906 ²⁾	March 1921	March 1926	March 1931	March 1936	May 1954
<i>Civilian working population</i>						
Agriculture, fishing, forestry ³⁾	8 845	8 051	7 653	7 173	6 785	5 190
Industry	5 936	6 111	6 926	7 004	5 735	6 853
Services	4 748	5 342	5 478	5 855	5 781	6 281
Indeterminate occupations ⁴⁾	359	291	200	196	201	255
<i>Armed Forces</i>	594	425	351	410	508	609
Working population	20 482	20 220	20 608	20 638	19 010	19 188

Source: I.N.S.E.E. - Mouvement économique en France, 1954-57, Paris, 1958.

¹⁾ Including national service men.

²⁾ 87 Départements; the working population in the Départements of Alsace and Lorraine amounts to approximately 4 per cent of the total.

³⁾ Allowance made for the female working population (1921 to 1936).

⁴⁾ Due to imprecise statements.

TABLE 3
Changes in the working population employed in industry

('000)

Sector	March 1906 ¹⁾	March 1921	March 1926	March 1931	March 1936	May 1954
Coalmines	188	231	327	316	242	269
Miscellaneous extractive industries	96	90	111	129	100	114
Petroleum and fuels	4	12	15	21	18	29
Public utilities	42	79	92	107	104	136
Iron and steel industries, metal processing	931	1 376	1 612	1 646	1 370	1 930
Glass, ceramics, building materials	201	194	244	247	165	177
Construction and public works	774	848	944	1 060	808	1 358
Chemicals and rubber	99	170	206	219	192	317
Foodstuffs	440	440	473	498	488	547
Textiles	904	748	931	905	667	632
Clothing	1 274	984	897	823	710	458
Hides and skins	397	336	364	346	291	240
Wood and furniture	236	235	281	257	201	240
Paper and paperboard	68	79	96	101	86	103
Printing trades	116	132	156	169	156	169
Miscellaneous or poorly defined industries	166	157	177	160	137	134
Total	5 936	6 111	6 926	7 004	5 735	6 853

1) 87 Départements.

TABLE 4
Changes in the working population in the "Tertiary" sector

('000)

Sector	March 1906 ¹⁾	March 1921	March 1926	March 1931	March 1936	May 1954
Transport and communications ²⁾	732	1 132	1 114	1 148	1 042	1 005
Commerce	1 316	1 473	1 637	1 764	1 772	1 911
Hotels, bars etc. ³⁾	569	545	528	581	583	533
Banking, insurance etc. ⁴⁾	163	286	322	371	352	329
Hygiene	301	215	195	216	234	185
incl. hairdressing,	64	58	65	96	126	100
laundering, dyeing	228	148	119	105	96	66
Domestic service	843	666	670	663	609	513
incl. cleaners	96	126	126	148	153	166
Health	146	195	207	234	270	408
Administration ⁵⁾	304	401	370	410	423	571
Public and private education	254	283	272	291	315	422
Religion	91	105	105	114	120	104
Total⁶⁾	4 748	5 342	5 478	5 855	5 781	6 281

1) 87 Départements.

2) Incl. postal, telephone and telecommunications staff.

3) Incl. premises licensed to sell tobacco.

4) Incl. stock exchange and real estate business.

5) Excl. persons employed in post offices, telephones, telecommunications or in education, but incl. public servants in the Départements and local government.

6) Incl. miscellaneous activities not shown in the table.

The foregoing tables show that from 1906 to 1954 the number of persons working in agriculture diminished by more than 41 per cent, whereas the number of workers employed in industry rose by more than 15 per cent and by more than 25 per cent in the "tertiary" occupations.

In the industrial sector considerable reductions have occurred in such sectors as textiles, clothing, and hides and skins, whereas the petroleum industry, public utilities, metallurgy, the metal processing industries, and the chemical and rubber industries have gained.

In the "tertiary" sector more people are now employed in commerce and professions related to health and teaching; there has been a reduction in the number of domestic servants and, since 1921, in the number of persons employed in transport and telecommunications.

The Commissariat Général du Plan have, on the basis of the figures of demographic change and of the production prospects in the various sectors, prepared a forecast of the occupational distribution of the working population for 1965¹⁾.

TABLE 5
Changes in the working population by sectors

Sector ¹⁾	Changes as compared with 1954	Percentage growth
Agriculture	- 850	- 16 %
Industry	+ 1 000	+ 15 %
Services	+ 460	+ 9 %
Domestic service	- 40	- 8 %
Administration	+ 200	+ 13 %
Persons seeking employment	- 80	- 24 %
Total	+ 690	+ 3.6 %
National service men	- 40	- 12.5 %
Grand total	+ 650	+ 3.3 %

¹⁾ The nomenclature does not entirely coincide with that used in Tables 2, 3 and 4.

2. Composition of national product by sectors

a) Formation of national product

(Tables 6 and 7, p. 272, are of a provisional nature and undergoing revision.)

The sudden fall of the agricultural share in the gross national product at market prices which occurred in 1956 and 1957 was conditioned by the especially

¹⁾ Perspectives de l'économie française en 1965. Commissariat Général au Plan et S.E.E.F. 1957. (S.E.E.F. = Statistiques économiques et études financières.)

poor harvests of the two years. The percentages for 1954 and 1955 are more typical of the average situation to-day.

TABLE 6
Gross national product
(Provisional figures for the four years under review)
(*'000,000,000 Ffr. at 1954 prices*)

	1954	1955	1956	1957
Agriculture	2 060	2 050	1 950	1 950
Industry (incl. construction)	7 170	7 820	8 350	9 000
Transport, commerce and services	5 090	5 410	5 700	6 090
Public administration and defence	1 540	1 530	1 700	1 750
Net payments at factor cost due from the rest of the world	- 70	- 70	- 90	- 100
Gross national product	15 790	16 740	17 610	18 690

TABLE 7
Gross national product
(Provisional figures for the four years under review)
(*as percentage*)

	1954	1955	1956	1957
Agriculture	13.0	12.3	11.1	10.4
Industry (incl. construction)	45.5	46.6	47.4	48.1
Transport, commerce and services	32.3	32.4	32.4	32.6
Public administration and defence	9.7	9.1	9.6	9.4
Net payments at factor cost due from the rest of the world	- 0.5	- 0.4	- 0.5	- 0.5
Gross national product	100.0	100.0	100.0	100.0

TABLE 8
Use of resources
(*'000,000,000 Ffr. at current value*)

	1952	1954	1955	1956	1957
1. Consumer expenditure on goods and services	9 730	10 694	11 451	12 685	13 918
2. Current public expenditure on goods and services	2 181	2 289	2 284	2 713	2 982
3. Gross fixed capital formation by enterprises	2 152	2 297	2 626	2 970	3 462
4. Public gross fixed capital formation	230	276	317	351	372
5. Changes in stocks	193	97	125	208	174
6. Exports of goods and services	2 099	2 356	2 555	2 470	2 747
7. Total of resources used	16 585	18 009	19 358	21 397	23 655
8. Imports of goods and services	- 2 234	- 2 224	- 2 338	- 2 804	- 3 133
9. Gross national product at market prices	14 351	15 785	17 020	18 593	20 522

b) *Use of national product*

From 1952 to 1957 the use of the national product underwent the following changes:

TABLE 9
Use of national product

(as percentage)

	1952	1954	1955	1956	1957
Consumer expenditure on goods and services	68.0	67.5	65.5	68.5	68.0
Current public expenditure on goods and services	15.0	14.5	13.5	14.5	14.5
Gross fixed capital formation	16.5	16.5	17.0	18.0	18.5
Changes in stocks	1.5	0.5	0.5	1.0	1.0
Net goods delivered and services rendered to the rest of the world	- 1.0	+ 1.0	+ 1.5	- 2.0	- 2.0
Total	100.0	100.0	100.0	100.0	100.0

Thus the share of household consumption in the gross national product has varied little and current public expenditure has been maintained at a high level.

The growth of the volume of investments, which, in 1957, accounted for 18.5 per cent of the gross national product, was accompanied by an increase in net imports from the rest of the world.

c) *Composition of gross national product by groups of end-products*

TABLE 10
Breakdown by products of resources used
(S.E.E.F. Nomenclature)

(in '000,000,000 Ffr. at current value)

	1952	1954	1955	1956	1957
0. Agricultural products	1 165	1 242	1 267	1 393	1 338
1. Foodstuffs	3 215	3 554	3 719	3 962	4 273
2. Power	617	636	658	732	830
3. Metal products	2 573	2 691	3 135	3 591	4 149
4. Chemicals	467	566	616	674	735
5. Textiles and leather products	1 824	1 901	1 955	2 135	2 394
6. Products of miscellaneous industries	994	1 032	1 128	1 256	1 424
7. Building and public works	1 536	1 667	1 894	2 086	2 450
8. - 9. Transfers and services	4 194	4 720	4 986	5 568	6 062
Total	16 585	18 009	19 358	21 397	23 655

TABLE 11

Consumer expenditure on goods and services

('000,000,000 Ffr. at current value)

	1952	1954	1955	1956	1957
Foodstuffs	3 436	3 720	3 928	4 255	4 491
Clothing	1 435	1 465	1 584	1 737	1 944
Rent	240	337	386	439	489
Durable consumer goods	711	819	957	1 113	1 293
Other goods	1 775	1 954	2 044	2 285	2 546
Services	2 133	2 399	2 552	2 856	3 155
Total	9 730	10 694	11 451	12 685	13 918

TABLE 11a

Formation of domestic fixed capital

('000,000,000 Ffr. at current value)

	1952	1954	1955	1956	1957
Construction	1 304	1 420	1 624	1 774	2 088
Transport material and equipment	1 078	373	425	444	498
Other materials		780	894	1 103	1 248
Total domestic formation of fixed capital	2 382	2 573	2 943	3 321	3 834

3. Analysis of the rates of increase

Before the second world war, France went through a prolonged period of stagnation. The post-war period, however, was marked by a rapid soaring of production, which has been maintained to date.

a) *Agriculture*

The increase of agricultural production since 1938 may be assessed at approximately 20 per cent or more.

This considerable progress is the result of efforts at modernization, such as the wider use of fertilisers and the mechanization of agriculture, of Tables 13 and 14.

The increase of productivity resulting from the use of these more modern means coincided with the exodus of a great number of agricultural workers. The recent annual reduction in the agricultural working population can be assessed at approximately 50,000 workers.

TABLE 12

Index figures for agricultural production
excl. production consumed on the farms

(1934-38 = 100)

Consumption year	Food crop production	Animal production ¹⁾	Total production	
			Index	Variation from previous year as percentage
1948-49	92	97	95	+ 22
1949-50	93	103	98	+ 3
1950-51	108	109	108	+ 10
1951-52	95	108	103	- 5
1952-53	104	112	108	+ 5
1953-54	111	122	116	+ 7.5
1954-55	117	132	125	+ 7.5
1955-56	115	132	124	- 4
1956-57			119 ²⁾	

Source: I.N.S.E.E. — Mouvement économique en France de 1944 à 1957 — Paris, 1958.

¹⁾ Mainly meat, dairy products, poultry and eggs.²⁾ Provisional index figure; the final figure is likely to be 117.

TABLE 13

Supply of fertilisers to agriculture

('000 metric tons of plant nutrient material)

Year of production	Nitrogen	Phosphoric acid	Potash
1938-39	220	425	280
1948-49	225	430	300
1949-50	240	420	350
1950-51	260	440	390
1951-52	270	480	395
1952-53	270	470	370
1953-54	300	610	480
1954-55	350	670	520
1955-56	405	770	580
1956-57 (provisional)	380	730	580

Source: I.N.S.E.E. — Mouvement économique en France - 1958.

TABLE 14

Changes in the agricultural machine park

Year	Tractors	Rotary tillers	Motor mowers	Mechanical harvesters and threshers
		<i>In '000 units</i>		
1954	270	54	33	15
1955	330	65	38	18
1956	425	80	45	23.5
1957	535	100	50	35
		<i>Percentage growth</i>		
1957-1954	98	85	52	131
1957-1956	26	25	11	49

Source: S.E.E.F. — Rapport sur les comptes de la nation de l'année 1957.

The Third Plan aims at maintaining the expansion of production (+ 20 per cent from 1956 to 1961) and at expediting the change-over of the working population from agriculture to other sectors (60,000 workers per annum).

b) *Industry*

Progress in industrial production has been continuous since the end of the last world war. The only slowing down in this progress occurred during 1952 and 1953.

Table 15 shows that French industrial production has increased by 41 per cent from 1952 to 1957 (46 per cent if building is excluded); compared with 1949 the increase amounts to 68 per cent.

The index figures of the Institut National des Statistiques are not easily reconcilable with the publications of the Comptabilité Nationale. Table 16

TABLE 15
Industrial production indices

(1952=100)

	Annual index figures							
	1949	1950	1951	1953	1954	1955	1956	1957
<i>Industrial production</i> (incl. building)	84	88	99	101	110	119	130	141
Building and public works	89	89	95	101	104	110	110	121
<i>Industrial production</i> (excl. building)	83	88	99	101	111	121	134	146
Electricity	74	81	94	102	112	122	132	141
Gas (natural and manufactured)	95	95	99	101	106	112	127	147
Petroleum and liquid fuels	53	67	86	105	112	120	132	127
Solid mineral fuels	92	92	96	95	98	100	100	103
Ore mining	77	74	87	103	105	120	125	137
Extraction and processing of various minerals	86	92	97	101	116	125	134	142
Quarrying of building materials	58	63	77	99	96	113	117	125
Production of metals	79	78	90	92	98	117	124	134
Metal processing	78	82	96	98	110	123	142	153
Glass industry	97	104	121	100	112	120	139	157
Ceramics and manufacture of building materials	86	86	97	99	108	121	128	141
Chemicals	82	89	106	107	124	149	163	184
Rubber	80	88	104	101	114	122	134	146
Tobacco and matches	88	93	102	101	107	107	114	121
Fats and oils	110	92	118	113	119	128	133	132
Textiles	95	107	110	106	113	110	119	132
Leather	85	97	96	100	107	103	103	114
Paper and paperboard	93	106	124	115	133	146	159	173
Printing and publishing	88	86	106	101	117	134	155	166
<i>Energy</i>	83	86	94	99	105	110	116	121
Mining and quarrying	85	85	92	97	100	106	107	112

Source: I.N.S.E.E.

shows the only index figures worked out in accordance with the national accounts in recent years.

TABLE 16
Development of industrial activity

(Percentage changes)

	1955/54	1956/55	1957/56
Basic industries	+ 12	+ 6.5	+ 9.5
Mechanical and electrical engineering	+ 15	+ 10.5	+ 12
Consumer goods industries ¹⁾	+ 3	+ 8	+ 8.5

Source: S.E.E.F. — Comptes de la nation, année 1957.

¹⁾ Excl. agriculture and foodstuffs.

c) *Transport*

Progress in the development of transport has kept pace with that reached in the other sectors of production. The number of metric tons/km moved by rail rose from 26,500 million in 1938 to 50,000 million in 1956; the number of passenger-kilometres developed from 18,300 million in 1938 to 26,800 million in 1956. This increase was achieved despite a considerable reduction in staff and a decrease in the volume of rolling stock. Road transport of goods increased from 8,500 million metric tons in 1938 to 13,300 million in 1949 and to 17,400 million in 1956. The gross tonnage of inland waterway transport rose from 8,250 million tons in 1938 to 6,110 million in 1949 and to 9,150 million in 1956. The volume of goods handled in the seaports increased from 48.5 million tons in 1938 to 79.5 million tons in 1956, while passenger traffic nearly doubled. The tonnage of the French merchant navy, expressed in millions of tons gross, rose from 2,734 in 1939 to 3,767 in 1957. From 1938 to 1956 the number of passenger/kms flown increased from 73 million to 3,700 million.

TABLE 17
Trend of gross domestic fixed capital formation

1938 = 100 ¹⁾		1949 = 100 ²⁾	
1938	100	1949	100
1946	100	1950	101
1947	110	1951	106
1948	127	1952	104
1949	132	1953	104
		1954	113
		1955	123
		1956	138
		1957	150

¹⁾ Pierre Gavanier. Le revenu national de la France. Production et disponibilités nationales en 1938 et de 1946 à 1949. Paris, Imprimerie Nationale.

²⁾ Rapport sur les comptes de la nation de l'année 1957. Paris 1958.

d) *Investments*

The increase in production was achieved by means of a sustained high level of investment.

The increase of gross investment is noticeable throughout the entire period with the exception of 1952 and 1953. In 1957 the gross domestic fixed capital formation was more than 50 per cent higher than in 1949.

On the basis of 1954 prices the production of fixed capital by enterprises for the period 1954 to 1957 can be broken down as follows :

TABLE 18

('000,000,000 Fr. at 1954 value)

Year	Housing and maintenance	Transport material and equipment	Agricultural machinery	Other equipment	Total
1954	114	379	96	1 165	1 754
1955	119	432	112	1 308	1 971
1956	139	444	139	1 467	2 189
1957	173	482	168	1 587	2 410

Due to this effort much of the technical leeway which had developed between the two wars has doubtless been made up and competitive production in the international field has multiplied.

The Third Modernization Plan provides for an increase of 30 to 35 per cent in industrial production from 1956 to 1961, which is equal to an annual rate of expansion of 4.9 per cent for the period from 1958 to 1961. This rate of increase would be appreciably lower than that recorded during recent years.

C — CONCENTRATION AND DISPERSAL**1. Concentration of units of production**

In discussing the subject of concentration, a distinction will be made between concentration of establishments, which is of interest because it gives at one and the same time an illustration of the size of the manufacturing units and of the working conditions in them, and the concentration of enterprises, which is of greater importance from the economic point of view (particularly with regard to decisions on investment).

a) *The concentration of establishments.*

The number of establishments throughout industry amounts to almost 900,000, but more than half of these give work to only one person; in fact, no more than 75,000 establishments employ more than ten workers, 1,300 more than

500, and only 30 more than 5,000. Taking into account the total number of employees, we find that one in five works in an establishment employing 5 persons or less, and one in two is employed by an establishment with a strength of no more than 100. Three-quarters of all persons employed in industry work in establishments of fewer than 500, and establishments employing more than 2,000 wage-earners account for less than 10 per cent of the total; in other words, French industry is basically composed of small and medium-size establishments.

TABLE 19
Concentration of establishments

Number of workers by occupation and numerical strength of establishments

(in per cent of total for each industry)

Sector	0-5	6-10	11-50	51-100	101-500	501-1000	above 1000	Total
Industry as a whole	21	6	19	9	22	8	15	100
Commerce as a whole	70	8	13	3	4	1	1	100
<i>Individual industries</i>								
Quarrying of building materials	21	14	37	11	12	5	—	100
Iron and steel industry and general metallurgy	—	—	—	—	5	8	86	100
Production and metallurgy of non-ferrous metals	1	2	7	7	36	29	18	100
Primary metal processing	1	1	8	6	35	27	22	100
Foundries, boiler making, motor construction	6	4	18	10	33	11	18	100
Mechanical engineering	4	3	16	9	31	18	19	100
General mechanical industries	48	5	14	4	8	4	17	100
Various metal goods	13	6	26	10	34	10	1	100
Automobile and cycle construction and repair	27	6	14	4	8	4	37	100
incl. automobile construction	—	—	3	3	2	1	97	100
Aircraft construction	—	—	3	3	21	20	53	100
Electrical engineering	8	3	12	8	25	15	29	100
Precision engineering, watch-making, optics	23	5	17	8	23	12	12	100
Glass	6	4	13	5	38	24	10	100
Ceramics	7	4	22	13	41	8	5	100
Building materials	18	9	25	8	31	7	2	100
Building	37	9	27	10	14	2	1	100
Public works	4	5	25	19	38	7	2	100
Chemicals	5	4	17	10	32	17	15	100
Grain and flour processing	36	10	23	8	19	4	—	100
Sugar production, distillation, beverages	17	5	18	10	35	9	6	100
Textiles	3	2	12	10	44	17	12	100
Ancillaries of textile industry	10	5	26	15	31	8	5	100
Clothing	38	8	24	9	18	3	—	100
Leather	28	7	27	10	19	7	2	100
Footwear	36	4	18	12	21	5	4	100
Wood	34	11	33	10	11	1	—	100
Paper and paperboard	4	4	20	13	46	8	5	100
Printing and publishing	21	9	24	11	21	9	5	100

However, this statement needs qualification. For instance, 60 per cent of the 580,000 persons working in the 140 establishments employing more than 2,000 are engaged in the following three sectors of industry : coalmining, iron and steel, and automobile production ; if the whole of the mechanical engineering industry is added, the result amounts to 85 per cent of the total ; conversely, in the industries such as building, public works and clothing, which together represent 30 per cent of the total of industrial workers, establishments employing more than 500 workers are the exception (they account for 60,000 workers out of 1,900,000).

TABLE 20
Concentration of enterprises

Industry	Total turnover in 1954	Percentage of total turnover figures for enterprises with a turnover of				Absolute number of enterprises with turnover above 1 000 mil. Ffr.
		Under 10 mil. Ffr.	Between 10 mil. and 100 mil. Ffr.	Between 100 mil. and 1 000 mil. Ffr.	Above 1 000 mil. Ffr.	
Energy	1 230	—	—	2	98	37
Mining and quarrying	165	6	23	23	48	19
Metal production	665	8	15	25	52	55
Mechanical engineering	4 000	8	15	25	52	453
Building materials	290	6	22	33	39	42
Building and public works	1 690	18	37	30	15	111
Chemicals and rubber	1 000	1	10	27	62	168
Foodstuffs	1 980	9	19	30	42	252
Textiles	1 380	2	11	39	48	239
Clothing	430	17	38	37	8	22
Leather	810	17	29	39	15	20
Wood	360	19	43	32	6	11
Paper and paperboard	265	1	12	36	51	55
Printing and publishing	330	10	25	33	32	39
Miscellaneous industries	180	13	41	41	5	6
Transport	1 180	6	10	9	75	59
Total	15 455	7	18	25	50	1 588
Approximate number of enterprises		610 000	90 000	15 000	1 600	

Table 19 gives some detail concerning certain types of work and shows to what extent concentration differs from one branch of industry to another. We must, however, never lose sight of the fact that the manifestations of concentration are closely linked to the subdivision of activities (as in the case of automobile production). It is recognized that this makes international comparisons particularly problematic and also renders difficult the study of significant trends. In general, however, a certain tendency towards an increase in the number of large establishments is discernible, the number of industrial establishments employing more than 1,000 workers has increased from 215 in

1906 to 420 in 1931; under the impact of the economic crisis it then fell to 300 in 1936 and now amounts to approximately 500. Nevertheless, such an overall trend hides considerable differences between the various branches of industry. Furthermore, the number of workers employed is, of course, insufficient in itself as a criterion of the degree of concentration; information concerning the productive activities of the establishments is also required. Unfortunately, no such information is available at present. In fact, the rate of increase of productivity varies greatly from branch to branch, and the spread of automation may well widen these differences.

Commercial establishments are, on the whole, much smaller. Of one million such establishments 680,000 do not employ any wage-earners at all, and 190,000 provide employment for only one. There are no more than 600 businesses giving work to 100 wage-earners or more. Therefore, more than four out of five persons engaged in commerce work in a business employing fewer than ten people.

This scarcity of large commercial units is largely due to Government action which, mainly in the field of taxation, does not place all firms on exactly the same footing.

In agriculture there are approximately two million holdings in a total area of 35 million hectares under cultivation; the average holding is 17 hectares in size and provides employment for 2 to 3 persons; yet, some 30 per cent of the total area under cultivation fall to holdings of more than 50 hectares, and 55 per cent are accounted for by holdings of 10 to 50 hectares. From the point of view of utilization 65 per cent of the holdings (or 55 per cent of the total area) are exploited by their owners, one quarter of the holdings (or one third of the total surface) are held on lease and the remainder are operated under the share-farming system. Wage-earners are employed on only 100,000 holdings, of which 85 per cent provide work for no more than two employees; between 3 and 10 wage-earners are employed by 14 per cent of holdings. There are, therefore, only a few thousand agricultural holdings with more than ten workers.

b) *Concentration of enterprises*

Enterprises constitute the financial units on whose level major decisions on production policy are taken, especially in the investment field. A review of concentration in enterprises will also, therefore, be of interest.

In 1954 there existed a total of some 700,000 enterprises; of these however only about 100,000 showed a turnover of more than 10 million francs, 15,000 of more than 100 million, and 1,600 of more than 1,000 million. Another way of showing the level of concentration is by recalling that 50 per cent of the total turnover figure is accounted for by no more than 1,600 enterprises, or 75 per cent by 15,000 enterprises. However, concentration varies considerably from industry to industry, as Table 20 shows: energy, transport, metal

production, and the chemical industry are all heavily concentrated, whereas this applies only very slightly to the clothing, wood and building industries.

c) *Public enterprises*

Public enterprises are industrial or commercial organizations in which the state has a majority holding. They can be divided into two kinds, *viz.* the public industrial and commercial services, the operation of which is very similar to that of public administration, and the public enterprises proper, which enjoy greater independence of action and are run largely along the lines of private enterprise.

Tables 21 and 22 show the net value added by such enterprises and the number of persons employed in them.

TABLE 21
Numbers employed in public enterprises and services

(in '000)

Public services	1956	Public enterprises	1956
National Grain Board	1.5	National Electricity Board	78.3
Atomic Energy Commission	6.5	Compagnie Nationale du Rhône	0.5
Petroleum Research Office	0.1	National Gas Board	31.8
State Potash Mines of Alsace	13.1	National Petroleum Corporation	1.1
Office of Armaments Production and Research	36.1	National Coal Board	243.0
National Council for Aviation Study and Research	3.0	Régie Nationale des Usines Renault	57.5
National Nitrogen Board	3.3	National Aircraft construction Company	38.6
Explosives Directorate	8.8	National Newspaper Board	0.3
National Board for Tobacco and Matches	16.4	Agence Havas	1.8
National Stationery Office	1.9	French National Railways	366.3
Agence France Presse	1.0	Paris Transport Corporation	35.1
National Navigation Office	0.5	Transport Corporation of municipalities and Départements	7.0
Independent Port Authorities	3.1	Compagnie Générale Transatlantique	12.4
Paris Airports	1.5	Messageries Maritimes	6.9
Post, Telegraph and Telephones	211.5	Compagnie Air-France	17.9
National Broadcasting and Television Corporation	5.2	News-Reel Board	0.9
National Spirits Board	0.3	Sudam-Trapil	0.6
National Petrol Board	1.9	Insurance companies	16.0
Public offices for the Provision of Accommodation at moderate rents	1.8	Banks	80.8
Theatres	1.7		
Hospitals	120.0		
Total	439.2	Total (incl. Banking and insurance)	996.8
Numbers employed in productive sectors	16 850	Numbers employed in productive sectors	16 850
Percentage employed in productive sectors	2.6	Percentage employed in productive sectors	5.9

Total for public sector, 1956 = 8,5 %.

The figures shown in these tables of course reflect but imperfectly the importance of public enterprises and services to the national economy as a whole.

The value added is significant only in relation to the price system : if sales prices are artificially raised or lowered, the value added will be raised or lowered accordingly. Nor does the number of persons employed provide a reliable yard-stick : there may be under-employment, over-employment, or uneconomical employment. Workers in an enterprise can be dispensed with by calling on outside enterprises (*e.g.* for maintenance purposes).

TABLE 22

Value added by public enterprises and services

(in '000,000,000 Fr.)

Public services	1955	Public services	1955
National Grain Board	0	National Electricity Board	205.4
Atomic Energy Commission	2	Compagnie Nationale du Rhône	6.4
Petroleum Research Office	4	National Gas Board	58.6
State Potash Mines of Alsace	19	National Petroleum Corporation	8.7
Office of Armaments Production and Research	26	National Coal Board	263.6
National Council for Aviation Study and Research	- 0.3	Régie Nationale des Usines Renault	70.4
National Nitrogen Board	6	National Aircraft construction Company	47.9
Explosives Directorate	12	National Newspaper Board	5.8
National Board for Tobacco and Matches	174	Agence Havas	2.0
National Stationery Office	2.1	French National Railways	403.9
Agence France Presse	0.1	Paris Transport Corporation	31.6
National Navigation Office	0.7	Transport Corporation of municipalities and Départements	6.0
Independent Port Authorities	3.3	Compagnie Générale Transatlantique	12.8
Paris Airports	1.4	Messageries Maritimes	12.3
Post, Telegraph and Telephones	163	Compagnie Air-France	27.2
National Broadcasting and Television Corporation	10	News-Reel Board	0.5
National Spirit Board	2	Sudam-Trapil	1.5
National Petrol Board	2.3	Banks and Insurance Companies	135.4
Public offices for the Provision of Accommodation at moderate rents	6.8		
Theatres	0.4		
Hospitals	82.3		
Total :	513.1	Total :	1 300
Gross domestic product	14 735	Gross domestic product	14 735
Percentage of gross domestic product	3.47	Percentage of gross domestic product	8.82

Percentage of public enterprises and services combined :

1952 : 11.73 per cent — 1955 : 12.3 per cent

2. Dispersion of costs

No comprehensive study exists covering dispersion of costs in the various branches of industry. So far, insurmountable difficulties have hampered any

analysis of the figures concerned. The few monographs which have been prepared on this subject relate mainly to comparison of the financial results of enterprises. These, however, do not depend solely upon differences in cost of production (income from holdings of stocks and shares, speculative gains and losses, etc.).

At the present time, therefore, it is unfortunately impossible to determine by a study of this nature what would be the effects of competition on the various branches of production within the Common Market.

3. National economic integration and regional diversity

France was one of the first European countries to attain national unity. Its economy was progressively integrated as the development of the means of transport facilitated the exchange of goods. This economic integration was not beset by political difficulties but was helped by the country's geographical outline as well as by the complementary character of the various regional economies.

The economy of France does not suffer from a lack of integration but from a surfeit of centralization. The abnormal growth of the Paris region has often been described and condemned. It has prevented the development of an adequate number of provincial centres, which alone could have halted the provincial

TABLE 23
Revenue by Départements
1951

(in thousands for the country as a whole)

Serial No.	Départements	Revenue	Serial No.	Départements	Revenue
1	Seine	193.5	23	Marne	10.1
2	Nord	61.8	24	Puy-de-Dôme	10.1
3	Seine-et-Oise	44.5	25	Oise	9.9
4	Rhône	29.3	26	Hérault	9.3
5	Pas-de-Calais	29.0	27	Calvados	9.2
6	Seine-Maritime	26.5	28	Maine-et-Loire	9.1
7	Bouches-du-Rhône	25.9	29	Vosges	9.1
8	Moselle	19.7	30	Alpes-Maritimes	8.7
9	Rhin (Bas-)	17.3	31	Doubs	8.3
10	Gironde	17.1	32	Gard	7.9
11	Loire	17.1	33	Sarthe	7.9
12	Meurthe-et-Moselle	15.9	34	Allier	7.9
13	Loire-Inférieure	15.9	35	Charente-Maritime	7.7
14	Isère	14.6	36	Loiret	7.7
15	Finistère	12.4	37	Manche	7.7
16	Rhin (Haut-)	12.3	38	Côtes-du-Nord	7.6
17	Seine-et-Marne	11.2	39	Pyrénées (Basses-)	7.6
18	Aisne	11.0	40	Morbihan	7.3
19	Saône-et-Loire	10.5	41	Côte-d'Or	7.2
20	Somme	10.5	42	Eure	6.9
21	Ille-et-Vilaine	10.2	43	Ain	6.9
22	Garonne (Haute-)	10.1	44	Ardennes	6.9

TABLE 23 (continued)

Revenue by Départements
1951

(in thousands for the country as a whole)

Serial No.	Départements	Revenue	Serial No.	Départements	Revenue
45	Var	6.9	68	Meuse	4.6
46	Indre-et-Loire	6.8	69	Marne (Haute)	4.3
47	Savoie (Haute)	6.7	70	Nièvre	4.3
48	Dordogne	6.6	71	Corrèze	4.2
49	Tarn	6.1	72	Indre	4.2
50	Vendée	5.9	73	Saône (Haute)	4.1
51	Vienne (Haute)	5.9	74	Loir-et-Cher	4.1
52	Vaucluse	5.7	75	Landes	3.9
53	Cher	5.6	76	Mayenne	3.8
54	Sèvres (Deux)	5.6	77	Ardèche	3.7
55	Aube	5.5	78	Loire (Haute)	3.6
56	Charente	5.5	79	Pyrénées (Hautes)	3.6
57	Drôme	5.5	80	Gers	3.3
58	Savoie	5.5	81	Cantal	3.2
59	Eure-et-Loir	5.4	82	Creuse	3.0
60	Vienne	5.3	83	Belfort	2.8
61	Pyrénées-Orientales	5.3	84	Tarn-et-Garonne	2.6
62	Aveyron	5.2	85	Lot	2.5
63	Orne	5.0	86	Ariège	2.4
64	Aude	4.8	87	Corse	1.7
65	Yonne	4.7	88	Alpes (Basses)	1.6
66	Jura	4.6	89	Alpes (Hautes)	1.4
67	Lot-et-Garonne	4.6	90	Lozère	1.3
				Grand Total :	1 000

Source: I.N.S.E.E. Espace économique français, p. 75.

exodus to Paris, and it has helped to slow down the progress of the regional economies.

It is only normal that differences in the natural conditions obtaining in the various regions should result in differences in level of production and revenue. However, such differences may lead to under-development or insufficient utilization of the resources of the least favourably endowed regions; this is a phenomenon which can be observed with increasing frequency all through that part of France which lies to the South and West of a line drawn from St. Malo through Nevers and St Etienne to Briançon. This has led to considerable differences in the average standard of living in the various Départements.

In relation to the average figure for the country as a whole the index figures for personal incomes are 162 for the Seine, 130 for the Rhône, 126 for the Nord, 30 for Corsica, 60 for Morbihan, 64, for the Vendée, Mayenne, the Côtes du Nord and Ardèches. Though the national economy is in full expansion, there are some less favoured areas where there is unemployment.

In the course of recent years a great deal has been done in an attempt to reduce congestion in the Paris area and to assist the under-developed regions. Probably more will need to be done during the next ten years because of the foreseeable differences in the rates of increase of the working population in the various areas and the local employment prospects.

It is already possible to assess fairly accurately the volume of employment which will be sought in each area from now until 1965. In order to ensure full employment, a corresponding number of jobs must be offered either in the areas of the demands or elsewhere, in which case some internal migration will be required.

It is certainly not easy to bring together future supply and future demand on the labour markets for the various regions. It has not so far been possible to work out a projection by regions of the overall employment forecasts contained in the Plan. Probable trends can however be assumed on the basis of recent experience and the present production factors in each region. A summary calculation shows that :

a) Whatever the assumption of likely regional trends — *i. e.* whether all regions are considered as liable to progress on similar lines from the base year onwards or whether on the contrary the trends observed in recent years are regarded as likely to continue — serious problems of adjustment between supply and demand will arise on the labour market before 1965 (the raising of the school-leaving age may delay them for some time). At any rate there will be a major surplus of labour in Brittany, Normandy, the Loire Départements, Poitou, the Charente Départements and Languedoc. Traditionally, workers in most of these regions tend to migrate to the Paris area, which entails the risk of an unduly large influx of manpower into that part of the country if migration continues in that direction spontaneously.

b) On the assumption that the trends observed since the end of the war will continue — and it is likely that the facts will bear out this assumption rather than the other — two new problems will arise in addition to those to which reference has already been made : namely, the surplus of manpower in the northern and the shortage of it in the eastern area. Hitherto the population in the north has shown little readiness to move and internal migration to the east has been very limited.

In the coming years, then, the French economy may well encounter serious geographical difficulties in adjusting production and the composition of the working population. These can be solved satisfactorily only by an active regional policy on the lines followed for some time.

II — EXTERNAL ECONOMIC RELATIONS

A — INTRODUCTION

The external economic relations of France reflect an industrialized country inadequately endowed with raw materials and, in addition, still scarred by the crisis of the thirties and its effects upon the franc area.

The fall in French exports, though less marked between 1928 and 1932 than that affecting the rest of the world, eventually proved itself more serious and more prolonged. Despite a remarkable recovery between 1949 and 1955, France is still far from having regained the place she held as one of the great exporting countries in 1928.

The fall in exports abroad was even more marked because, as a consequence of the world depression, external trade increasingly turned in the direction of the franc area, which in recent years absorbed more than 30 per cent of the metropolitan exports.

The existence of a privileged external trade area is one of the characteristics of French external economic relations. Of course the customs arrangements governing the commercial relations between the mother country and the various overseas territories differ widely from one another. For instance, there is a complete customs union with Algeria and the Départements d'Outre-Mer, whereas no tariff preference can be accorded by the territories in the Congo Basin (as defined by treaty). However, the exchange controls applying to settlements between the overseas countries of the French Union (P.O.M.) and the rest of the world, and the complete freedom of exchange within the franc area, definitely favour trade with those overseas countries.

B — GENERAL STRUCTURE OF THE OVERALL EXTERNAL TRADE BALANCE

1. Export receipts and import expenditure within the total of external receipts and expenditure

The following table contains the main types of receipts and expenditure in 1949 and 1956 broken down by foreign and overseas (POM) countries.

TABLE 24

The main types of external receipts and expenditure, 1949 and 1956

(in '000,000,000 Fr. at current value)

		Total		Foreign countries		Overseas countries (POM)	
		Amount	%	Amount	%	Amount	%
<i>I — Receipts</i>							
a) Exports	1949	857	58.6	517	52.3	340	71.9
	1956	1 763	68.4	1 217	68.8	546	67.7
b) Other private activities	1949	330	22.6	197	19.9	133	28.1
	1956	648	25.2	388	21.9	260	32.3
c) Government activities	1949	275	18.8	275	27.8		
	1956	165	6.4	165	9.3		
Total	1949	1 462	100	989	100	473	100
	1956	2 756	100	1 770	100	806	100
<i>II — Expenditure</i>							
a) Imports	1949	976	75.8	737	86.8	239	54.8
	1956	2 105	70.6	1 643	85.2	462	44
b) Other private activities	1949	116	9	82	9.6	34	7.8
	1956	273	9.2	213	11	60	5.7
c) Government activities	1949	195	15.2	32	3.8	163	37.4
	1956	601	20.2	72	3.7	529	50.3
Total	1949	1 287	100	851	100	436	100
	1956	2 979	100	1 928	100	1 051	100
<i>III — Deficit</i>							
	1949	175		138		— 37	
	1956	403		158		245	

Source: Rapport sur les comptes de la nation de l'année 1957.

There is a clear structural difference between settlements with the Overseas Countries and those with foreign countries. Income from exports to foreign countries and expenditure on imports from the Overseas Countries play a relatively small part. This is due to the extraordinary resources which swell the government receipts from abroad and to the volume of government transfers in favour of the Overseas Countries.

This structure has changed a little in recent years. Whilst the extraordinary resources rapidly declined, government expenditure in the Overseas Countries played an increasingly important part. In consequence, the share of income from exports to foreign countries has increased and that of expenditure on imports from the Overseas Countries has diminished.

Be that as it may, the deficit in the foreign trade balance remains large. Because of the falling off of the traditional invisible resources (interest, dividends, etc.) and of the reduction of external aid, this deficit can now be met only by inroads into the foreign exchange reserves.

2. Relation of imports and exports to national production figures and changes in relation to the increase of production

a) Imports

In 1949 imports equalled 11.3 per cent of the gross national product and fell to 10.2 per cent in 1956 ; within this figure imports from foreign countries fell from 8.5 to 8 per cent, imports from the Overseas Countries from 2.8 to 2.2 per cent. However, the relative cost of imports diminished during the period. At 1949 prices the corresponding figures for 1956 would be 12.8, 10.1 and 2.7 per cent respectively. Therefore, the volume of imports from foreign countries seems to have increased more than of the gross national product for the period from 1949 to 1956.

The volume of imports of energy-producing and raw materials largely explains the link between the gross national product and the total of imports. Nevertheless, very considerable annual variations can occur in connection with stock-holding which is in turn influenced by international prices and internal economic trends.

b) Exports

In 1949 exports equalled 10 per cent of the gross national product and fell to 8,6 per cent in 1956 ; within this figure exports to foreign countries fell from 6 to 5,9 per cent and to the Overseas Countries from 3.9 to 2.7 per cent. At 1949 prices the corresponding figures for 1956 would be 11.6, 8.6 and 3 per cent respectively. Thanks to a perceptible increase in the volume of exports to foreign countries, the volume of exports seems to have increased more from 1949 to 1956 than that of the gross national product.

By virtue of their composition French exports, amongst which semi-manufactured products hold an important place, are sensitive to international economic trends. This influence exerted by external demands is strengthened by the existence of a certain lag between market developments in France and abroad.

3. Sensitivity of the French economy to changes in the terms of trade

The terms of trade (ratio of the index figure of the average price paid for imports and the average price received for exports), calculated on the basis of 1953 = 100, have developed as follows :

TABLE 25

(Basis 1953 = 100)

Year	Terms of Trade	
	Foreign countries	Overseas countries (POM)
1950	96.5	100.7
1951	85.2	97.6
1952	93.8	104.8
1953	100	100
1954	95.1	99.5
1955	92.2	115.0
1956	96.7	112.1

The effects of the « Korean boom » were considerable. The French economy does not, however, appear to be very sensitive to changes in the terms of trade. The span of price movements in 1951 seems to have been caused by internal factors much more than by the rise in prices consequent upon the deterioration of the terms of trade. Moreover it does not seem as if the drop in import prices has recently had any notable halting effect upon the rise in internal prices. The marginal character of French foreign trade explains this lack of sensitivity.

C — GEOGRAPHICAL STRUCTURE OF THE PRESENT BALANCE OF PAYMENTS

It is not yet possible to draw up a true balance of payments broken down according to monetary areas. The only balance of payments accounts available are those worked out by the Office des Changes (Foreign Exchange Office) based on settlements for the whole of the franc area.

TABLE 26

Current balance of payments

Operations	OEEC (other than sterling area)		Sterling area		Dollar area		Other countries	
	1951	1956	1951	1956	1951	1956	1951	1956
Exports	1 130	1 781	815	806	426	632	490	469
Imports	1 351	1 917	991	1 081	863	1 090	518	533
Balance of trade	- 221	- 136	- 176	- 275	- 437	- 458	- 28	- 64
Non-commercial balance	- 180	- 376	+ 55	+ 28	- 86	+ 472	+ 15	- 26
Excess or deficit of current payments	- 401	- 512	- 121	- 247	- 523	+ 14	- 13	- 90

TABLE 27

**Breakdown of imports by areas and products
1951 and 1956**

Product	Percentage of total imports ¹⁾		Percentage of exports from all areas												Total ²⁾
	1951	1956	French overseas countries (POM)		ECSC countries		Other OEEC countries		Total OEEC		Sterling area		Dollar area		
			1951	1956	1951	1956	1951	1956	1951	1956	1951	1956	1951	1956	
Foodstuffs	16.7	19.7	50.3	51.8	10	11.5	7.2	8.7	17.2	20.2	2.8	4.8	10	11.4	100
Beverages, tobacco	4.4	4.9	86.1	85.9	—	—	5.7	7.5	5.7	7.5	1	1	5	34	100
Raw materials	35.5	26.5	16.1	20	5.5	6.4	8.2	10.8	13.7	17.2	33.9	29.3	13.2	12.9	100
Fuels	17.6	18	—	0.2	19.1	21.4	2.3	2.6	21.4	24	33.2	44.1	19.7	15.8	100
Oils and fats	3	1.8	37.8	73	9	1	8.4	10.3	17.4	11.3	15	1	3.7	1	100
Chemicals	3.2	4.1	4.8	9.5	36.3	37.8	23.9	23.1	60.2	60.9	10.4	10.4	24.4	23.9	100
Manufactured goods	9.9	12.4	7.7	9.1	42.6	43.6	19	18.7	61.6	62.3	15.9	11.7	11.8	14.7	100
Machinery and transport material	8.2	10.5	—	0.3	34.4	45.9	29.8	25.8	64.2	71.7	16.3	13.6	34.4	27.5	100
Miscellaneous manufactured articles	1.5	2.1	1.5	1.7	43.9	52.2	39.4	31.2	83.3	83.4	12.1	11.3	10.6	11.3	100
Total	100	100													

¹⁾ As item 9 of the SITC Nomenclature was not included in the above table, the total is slightly below 100.

²⁾ For reasons of simplification the "miscellaneous" percentages in respect of countries neither in the OEEC sterling nor dollar area have not been included.

TABLE 28

Breakdown of exports by areas and products
1951 and 1956

Product	Percentage of total exports ¹⁾		Percentage of exports to all areas												Total ²⁾
	1951	1956	French overseas countries (POM)		ECSC countries		Other OEEC countries		Total OEEC		Sterling area		Dollar area		
			1951	1956	1951	1956	1951	1956	1951	1956	1951	1956	1951	1956	
Foodstuffs	9.6	10.2	36.8	46.1	17.7	22.1	27.1	16.5	44.8	38.9	18.5	10.1	2.2	3.2	100
Beverages, tobaccos	3.5	4.1	23.8	22.8	12.6	25	19.1	23.9	31.7	48.9	23.6	19	15.9	17.3	100
Raw materials	8.5	8.9	8.2	5.4	41.8	59.2	31.2	23.5	73	82.7	19.8	13.3	7.3	4.7	100
Fuels	6.4	7	24.6	31.4	28.1	33.3	22.7	23.9	50.8	57.2	6.5	9.7	—	—	100
Oils and fats	0.5	0.5	55	54.2	—	—	10	33.3	10	33.3	—	—	—	—	100
Chemicals	8.7	8.1	22	29	11.5	16.9	19.7	19.9	31.2	36.8	14.3	13.6	20.2	7.9	100
Manufactured goods	39	34.2	31	27	11.6	24	18.6	17	30.2	41	13.7	11.5	10.4	10.3	100
Machinery and transport material	15.6	17.6	46	36	12	16	11	16	23	32	7	7.5	2.8	7	100
Miscellaneous manufactured articles	5.4	6.5	41	45	22.7	16	5.9	14	28.6	30	10.4	6.7	10	13.2	100
Total	100	100													

¹⁾ As item 9 of the SITC Nomenclature was not included in the above table, the total is slightly below 100.

²⁾ For reasons of simplification the "miscellaneous" percentages in respect of countries neither in the OEEC sterling nor dollar area have not been included.

Customs statistics enable an analysis to be made of the commercial exchanges with the various geographical areas: they show the movements of goods, whereas the figures quoted above represent settlements according to currencies. In 1956 metropolitan exports to the dollar area amounted to 43 per cent of imports from that area. The corresponding figure for the sterling area was 40 per cent, for the OEEC countries not in the sterling area 106 per cent, and for other countries it was 92 per cent.

A comparative study of the commercial exchanges with the various currency areas according to types of products is of particular interest.

a) *Imports*

Approximately half of the total imports to France is accounted for by raw materials and fuel. A large and growing part of the fuels imported comes from the sterling area or from EEC countries. Raw materials also come largely from the sterling area, although the Overseas Countries of the Union also make an appreciable contribution.

Foodstuffs, manufactured goods, and machines and transport material occupy a fairly important place among French imports. Their relative significance within the overall total of imports increased between 1951 and 1956. In the case of foodstuffs this is a chance development connected with the particular agricultural difficulties of 1956. In the case of manufactured goods and machines this is probably a more deeply rooted phenomenon. The growing imports of these products mainly affect the EEC countries.

More generally speaking, the relative part played by the EEC countries in French imports has increased during recent years.

b) *Exports*

Manufactured goods and machines account for approximately half of French exports, though their relative importance is tending to diminish¹⁾. In recent years these exports have shifted from the Overseas Countries towards the OEEC countries and more especially to those of the EEC.

Conversely, the export of foodstuffs, which accounts for 10 per cent of the total of French exports, has shifted from the OEEC countries to the Overseas Countries. Its relative importance has increased, as has that of beverages, of which exports to the EEC countries have doubled. Raw materials exports have gone through the same development.

¹⁾ It looks as if this trend will be reversed in 1958.

More generally speaking, exports to the sterling area have declined in favour of those to the OEEC and especially the EEC countries. The Overseas Countries (POM) continue to absorb a large share of French exports.

D — COMMERCIAL AND CUSTOMS POLICY

Since 1949 the liberalisation of trade has been the principal objective of French commercial policy. Nevertheless, the persistent disequilibrium in the external trade balance has induced the government to encourage exports and to limit imports.

In recent years far-reaching measures were put into practice in order to encourage exports, viz.: repayment of taxation and social contributions, price guarantees, special aid to agricultural exports, etc... Most of these were ended in August 1957, when "Operation 20 %" came into effect, which meant the levying of a charge against all purchasers, and the payment of a bonus to all sellers, of foreign exchange.

At the same time a certain number of special measures were abrogated, which had been introduced in the beginning of 1957 in order to increase the efficiency of the quantitative control of imports, viz.: the need for bank deposits equal to a high percentage of the foreign exchange required or held, reductions of the validity period of licences, increase of the rate and of the basis of the temporary special tax imposed upon liberalised imports.

The following table shows the customs rates and the quotas fixed for the principal commodities during the first half of 1957 :

TABLE 29

Product	French customs rate	Quota as percentag
Agricultural products	15.9	77
Chemicals and allied products	12.9	64.9
Pulp and paperboard	3.8	30
Raw material for textiles	2.2	86
Textiles	21.8	59.3
Synthetic textiles	21.5	59.3
Knitwear, garments, cloth goods	23.3	59.3
Footwear and similar goods	18.2	23
Ceramics	—	38.2
Metal goods	3.3	33
Manufactured goods	17.5	61
Small tools, cutlery, office equipment and miscellaneous articles	—	50
Mechanical and electrical engineering products	16.9	56.1
Transport material	18.7	70.5
Miscellaneous instruments	20.4	75.5

The customs rates shown correspond to the duties effectively charged. In fact, the average customs rates in the tariff mean very little because of the very considerable inequality of rates charged for various types of goods, and the combined play of suspensions and exemptions from customs charges creates a wide divergence between the average rates in the tariff and those actually levied. Except for raw materials and the products of the ECSC these rates are rather high.

The level of quotas is still fairly high. In the course of recent years products not subject to quantitative control accounted for somewhat more than one third of all imports. Nevertheless the liberalisation of trade had gained impetus in 1955 and 1956 after an interruption caused by a serious foreign exchange crisis. Unfortunately it had to be interrupted again in 1957.

However, it appears with increasing clarity that any policy for the rehabilitation of external trade will necessitate far-reaching measures affecting internal causes of the external disequilibrium. The government is therefore endeavouring to influence internal demand and to adapt the composition of output to export requirements.

III — FACTORS OF ECONOMIC POLICY AND THE STRUCTURE OF COSTS

A — THE PRICE SYSTEM

The following is a discussion of, first, the system of price controls, and then of the development through which it has passed in recent years. The special problems arising from distribution and transport cost will be considered afterwards.

1. The price control system

On the whole, the spontaneous price mechanism functioning on more or less competitive markets can no longer operate freely in the French economy. The growth of official intervention before the war, the exigencies of an economy of scarcity during and immediately after it, and finally the requirements of an anti-inflationary policy induced the Government to hedge the spontaneous mechanism about with rules and regulations which, in one form or another, continue to govern the French price system.

In the field of *agricultural prices* the arrangements which were already of long standing for certain markets (*e.g.* grain and milk) were completed in 1957 by the establishment of a system of target prices. At present milk is subject to a minimum legal production price. Grain and sugar-beet enjoy prices fixed by the State for each harvest (with or without limits on the quantity to benefit from the guarantee). Beef, veal and pork are subject to fixed minimum and maximum prices determining the points at which the State will intervene either to hold prices by stock-piling or to increase the supply by means of imports.

Target prices were fixed for all these products (except milk) for the years to be covered by the Third Modernization and Equipment Plan (1958-61). The original purpose, which was to reduce the raising of surplus crops (*e.g.* wheat, sugar-beet) and to encourage the provision of animal products, has in part

been lost sight of, because it was found that farmers could obtain much better prices for their crops than had been expected.

The target prices, which are fixed at an absolute value, are related to a scale which takes into account changes in the price of industrial products needed for agriculture, in agricultural wages, and in the cost of living.

There are three different ways of fixing prices for *industrial products*: direct control (*i.e.* prices imposed by the State); controlled freedom of prices (*i.e.* free price schedules subject to approval in advance by the Directorate of Prices) and complete freedom. General price stops have had to be decreed on several occasions, fixing the prices of industrial products at the level of a particular date, irrespective of the form of price fixing to which they may normally be subject. At present, for example, most prices are frozen at their level of 31 July 1957, subject to specific waivers agreed in November and December 1957.

Since the end of the war, two trends have characterized the development of prices: the movement of many products from total control to controlled or even total freedom, and an alternation between rigid price stops and more or less general rounds of "tidying up", in an effort to face up to the real development of costs. It was only during the period 1952 to 1955, in which prices had spontaneously come to a halt, that the systems of controlled or complete freedom functioned without hindrance.

On the whole, this complex system has enabled the movement of prices to be more or less successfully kept within bounds, but it has not been able to prevent their rise, or even to slow it down for any length of time.

2. Trend of prices

The inflation which went with the war and the immediate post-war period was reflected in a rapid but unequal rise of prices. Until 1946 the official prices of agricultural and industrial products rose fairly well in step with one another, thereby maintaining their 1938 relationship. Subsequently, the progressive freedom accorded to foodstuffs brought in its train a rise of agricultural prices more rapid than that of industrial products. Since the end of 1947 this trend has been reversed, and the gap between the two series of prices rapidly increased. In 1949, the annual average index figure for agricultural prices was 17.2 on the basis of 1938, whereas for industrial prices it was 21.3¹⁾.

The following Tables 30 and 31 show the trend of wholesale prices since 1949.

¹⁾ Taking 1929 as the base year, a similar comparison produces the following figures: agricultural prices: 19.1, industrial prices: 21.

TABLE 30

Index figures for industrial wholesale prices

Annual average

(1949 = 100)

	1950	1951	1952	1953	1954	1955	1956	1957
a) Foodstuffs	103.2	119.7	131.0	125.3	124.6	122.6	129.3	135.2
b) Fuels and energy	105.8	126.7	142.3	138.5	138.8	139.5	144.3	161.0
c) Industrial products	113.7	158.7	158.2	140.8	145.1	145.9	151.6	158.9
Total	108.3	138.3	144.9	138.3	135.9	135.7	141.6	149.7
Imports ¹⁾	132.5	181.5	154.1	141.4	142.6	137.2	138.4	151.9

¹⁾ Imports contained under the various headings of the wholesale price index are regrouped under this heading.

To ensure a certain comparability with the figures of Table I, the index of agricultural producer prices calculated by the I.N.S.E.E. for each *calendar year* on the basis of 1955 = 100 was re-calculated on the basis of 1949 = 100.

TABLE 31

Index of agricultural producer prices

Annual averages

(1949 = 100)

	1950	1951	1952	1953	1954	1955	1956	1957
Vegetable produce	102	109	119	112.5	105	101.5	118	127
Animal produce	99.5	124	133	122.0	121.5	124.5	133	142.5
Total	100.2	119.5	128,8	119.2	116.5	117.6	128.5	137.8

A comparison of the trends of agricultural and industrial prices since 1949 shows a distortion in favour of the latter. On the basis of 1949 = 100 the ratio of gross industrial to "gross" agricultural prices hovers around 116 from 1951 to 1955 and drops to 108.5 in 1957.

This overall development must not lead to an underestimation of the effect which certain chance developments in agricultural trends have had on salaries and, consequently, on industrial prices. The drift was particularly strong in 1957 : guaranteed high prices for certain agricultural products (cereals etc.) and certain shortages of supply (meat, wine, fruit) brought about a notable rise in prices of foodstuffs. In detail, these products moved from the index figure of 100.9 in July 1957 to 112.1 in December and to 117.1 in March 1958 (list of 250 articles, average from July 1956 to June 1957 = 100).

This rise had semi-automatic repercussions because the guaranteed minimum wage is linked to fluctuations in the cost-of-living index (index of the "179

articles "). This had to be raised by about 15 per cent between 1 August 1957 and 1 March 1958.

The state of full employment maintained since 1955 thanks to the general expansion of the economy has encouraged generalisation of the wage increases, though they were prescribed by law for the minimum wage only. Industrial (and commercial) enterprises have consequently had to carry a burden directly affecting their costs, which partly explains the rise of industrial prices in 1956 and 1957.

3. The cost of distribution

The cost of distribution in France has grown heavier mainly because of the wide dispersal of sales points and of faults in the marketing organization.

In 1956 there existed in France one million commercial establishments, of which about 100,000 were wholesalers and 100,000 itinerant traders. From 1945 to 1952 100,000 establishments were set up ; since then there has been a slight reduction. These commercial establishments employ approximately one million wage-earners. It must be pointed out that the wide dispersal of sales points is largely due to the continued existence of a relatively large rural population ; naturally, the existence of numerous shops with a very small turnover increases the overhead costs of the commercial system.

However, some concentration is taking place. In those branches of trade which deal mainly in foodstuffs, the consumers' co-operative societies and the chain stores, with a total of about 35,000 sales points, show a constantly rising turnover which today amounts to nearly 20 per cent of the overall figure for the retail trade in foodstuffs.

In the other branches of commerce the large stores and in particular the popular " Ten-cent " stores are expanding rapidly. In 1956 the volume of retail sales of the large provincial stores reached the index figure of 190 (1950 = 100), whereas the corresponding index figure for the other businesses not dealing in foodstuffs reached no more than 139. None the less the share of these stores in trade as a whole is still very small.

The organizational defects become apparent both in the length of the road taken by certain goods from producer to consumer and in the excessive division of markets.

The length of this road involves wholesalers, and sometimes semi-wholesalers, stepping in between producer and retailer. About 70 per cent of trade as a whole passes through these long channels; this is the rule in the foodstuffs trade. Such a situation tends to encourage an increase in the profit margin.

The excessive division of markets prevents competition from entering into full play and allows certain middlemen to distort the interaction of supply and demand. In the fruit and vegetable trade, for instance, middlemen well informed about the harvest conditions communicate their knowledge to one another and influence prices by manipulating deliveries to the various markets. In the meat market 43 "commissionnaires de la Villette", who account for 70 per cent of the total sales, have a decisive influence on prices. In a more general way the existence of a false "pilot market" in the "Halles" of Paris only serves to distort prices instead of regulating them. In actual fact the provincial suppliers, uncertain whether they would be able to place their produce elsewhere, ship it to the central "Halles" of Paris, which receive supplies far in excess of what the Paris region can consume, and therefore return part of the produce to the provinces. In addition, transport and handling costs as well as the archaic organization of the central "Halles" cause considerable losses. Finally, the isolation of the producers brought about by the middlemen often causes distortion of prices which nevertheless set the standard for the entire French market.

This also entails an increase in the costs of distribution and is responsible for fluctuations in prices, which are quick to rise but very slow to fall.

4. Transport costs

The distribution of traffic between the various types of transport is at present as follows¹⁾: Passenger traffic: 25-30 per cent by rail; approximately 1 per cent by air; the rest by road (including privately owned motor vehicles); goods traffic: 60 per cent by rail, 30 per cent by road, the remainder by water.

Passenger and freight rates are still determined by the systematic application of principles established several decades ago. At the beginning of last century, equalization between the various lines and discrimination between various types of merchandise constituted the two basic principles governing transport rates. The charge per km./t. for a particular type of merchandise was the same on a busy, well equipped line as on a small, less well sited, poorly equipped line with little traffic. On the other hand, discrimination between categories of merchandise meant that the charges per km./t. could vary by as much as 400 per cent. Such a system of charges helped to deflect some traffic from the railways to road transport. Successive tariff reforms carried out by the S.N.C.F. after the war have tended to reduce the extent of discrimination and to move away, as yet very warily, from the principle of equalization.

¹⁾ Estimates in passenger/km. and km./t.

Waterway transport charges are fixed by the Office National de la Navigation in relation to the bargemen's operating costs.

Road transport charges are not controlled.

TABLE 32

Approximate share of transport costs in the sales prices of certain industries

Industry	Transport cost as % of prime costs
Production and distribution of gas	8
Iron and steel	9
Production and primary processing of non-ferrous metals	4
Primary processing of ferrous metals	2
Machine-tools	2
Agricultural machines	2
Automobile industry	2
Electrical industry	1
Glass	6
Ceramics	4
Chemicals	6
Pharmaceutical industry	2
Para-chemical industry	3
Rubber	1
Grain and flour processing	3
Cotton	0.5
Tanning and dressing of skins	3
Leather goods	0.5
Footwear	1
Paper pulp and paper	4
Paper processing	4

It is notoriously difficult to give an exact account of the effects of transport policy on the national economy. Let it be sufficient to recall that ad valorem rates work in favour of the transport of heavy goods and to the disadvantage of finished products. This is an inducement to industries to settle near their markets, *i. e.* either near a densely populated area, or in the vicinity of ports, or near the frontiers with those countries with which they have the closest trade links.

The development of post-war transport charges has much reduced, though not entirely eliminated, this inducement.

Moreover, transport considerations are probably of decisive importance in those few industries only, where they represent an important element in the cost of production. It is not easy to furnish precise information on this point, nevertheless a study of the table above shows that transport considerations must play a secondary part in the choice of sites for the processing industries (however, as the table gives the average figures for the whole of the country, this leaves a fairly wide margin).

In the Paris region, urban transport charges definitely lie below cost price, which means a further encouragement to more factories to settle there and to pass the very high transport costs on to the State and the public authorities.

B — INVESTMENTS

It has been shown above that, especially in recent years, French economic development has been marked by a considerable growth of investment.

A closer analysis is needed of the exact investment volume, its breakdown by class of transactor (persons, enterprises, administrative authorities), and the machinery by which it has been financed.

It will then be possible to see what were the conditions of financing, what was the part played by the Treasury and by the financial institutes with special status, and finally what measures were taken in the field of taxation to encourage investment.

1. The volume and breakdown of investments

In 1951, gross fixed asset formation amounted to 18 per cent of the national product; for 1957 it has been assessed at 19.7 per cent. Comparison of these two percentage figures must not, however, lead to the conclusion that there is a slow structural development which might result in a gradual increase of investment within the use of the national product. In 1952 and 1953 the formation of gross fixed assets, expressed in constant Ffr., fell below that of 1951. The position was restored thanks to the rapid growth which took place from 1954 to 1957.

The following table shows the development of investments made by the three major domestic classes of transactors during the period under review.

This shows that the unevenness of the increase has been due primarily to the enterprises, since their investments were much affected by the unfavourable

TABLE 33

Investments	1951	1952	1953	1954	1955	1956	1957
Gross fixed capital formation by persons A	302	434	452	543	643	673	787
Gross fixed capital formation by administrative authorities B	177	252	268	305	350	386	410
Gross fixed capital formation by enterprises C	1 600	1 748	1 685	1 754	1 983	2 297	2 675
Changes in stocks D	116	193	89	97	125	208	174
Investments by enterprises (C + D)	1 716	1 911	1 774	1 851	2 108	2 505	2 849
Total I (A + B + C + D)	2 195	2 597	2 494	2 699	3 101	3 564	4 046
Appreciation of stocks	580	190	—	—	—	—	—
Total II	2 775	2 787	2 494	2 699	3 101	3 564	4 046

economic trend of 1952 and 1953. Since then they have begun to grow again at a considerable rate, especially in the energy sector.

Investments by persons and by the administration are subject to different influences. In 1951, investments by persons accounted for hardly 14 per cent of the first total shown above, and more than 20 per cent in 1957. This change reflects the housing construction and house purchase policy pursued since 1950.

Investments by administrative authorities have also increased in relative value from 8 per cent to more than 11 per cent. Equipment for local bodies has during the past six years accounted for the greater part of these investments.

2. The demand for capital

A comparison between the total investments and the surplus or deficit in the current operations of each class of transactor will produce a balance showing the amount of capital required in that class (— column) or, conversely, its capacity to assist in furnishing funds for the whole (+ column).

The character of the demand for capital has changed greatly from 1951 to 1957. Whilst during the first year the net demand for capital for the whole of the internal sector was very low and even negative for the period from 1953 to 1955, it reached 403,000 million Ffr. in 1956 and 553,000 million Ffr. in 1957, according to the provisional estimates. The French economy is largely financed by calls on external and especially on overseas sources.

It is not without interest to study, in the light of the factors relating to the capital accounts of enterprises, persons and administrations, how the transition from the first to the second stage came about.

The irregularity in the expansion of investments by enterprises makes itself felt in this context. The gross savings of enterprises seem in fact to be far less sensitive to cyclical fluctuations than their investments. This statement, how-

TABLE 34

Year	(A)		(B)		(C)		(A)+(B) +(C)		(D)+(E)		(D)		(E)	
	Enter- prises		Persons		Public accounts		Internal trans- actors		External trans- actors		Abroad		POM countries and Saar	
	—	+	—	+	—	+	—	+	—	+	—	+	—	+
1951	343			336	13		20			20		75	55	
1952	195			394	319		120			120		129	9	
1953		22		262	276			8	8		87			79
1954		57		375	227			205	205		293			88
1955	22			567	338			207	207		245			88
1956	332			477	548		403			403		187		216
1957 ¹⁾	403			455	585		533			533		300		233

¹⁾ Provisional figures.

ever, needs qualification in order to take into account the divergent trends of savings by financial enterprises on the one hand and by industrial, commercial, and agricultural enterprises on the other. A study of the latter shows that they always require outside capital, albeit to a varying degree.

TABLE 35

Investments, savings and capital required by non-financial enterprises*(in '000,000,000 current Fr.)*

Year	Investments	Gross savings	Balance of requirements (-) as of resources (+)
1951	2 286	1 855	- 431
1952	2 101	1 783	- 318
1953	1 774	1 666	- 108
1954	1 851	1 769	- 82
1955	2 108	1 955	- 153
1956	2 505	1 962	- 553
1957 ¹⁾	2 849	2 185	- 664

¹⁾ Provisional figures.

From 1954 onwards, and especially in 1956, the growth of investments was much more rapid than that of savings, and this increased the demand for capital.

It can also be seen that the personal sector, which in 1954 and 1955 provided a considerable amount of capital, has done so on a smaller scale in 1956. This is the result of the general price increases and the large amounts spent on housing.

Finally, the public authorities — whose investments are constantly increasing — must also face a considerably larger deficit on current account arising mainly from military operations.

For these various reasons it has become necessary to call upon outside assistance. To the extent however that such assistance comes from the Overseas Countries, and especially from North Africa, it does not differ fundamentally from the assistance which enterprises and the Treasury could obtain from sources in metropolitan France; for it is the volume of public expenditure in the Overseas Countries which makes resources available there and gives rise to transfers of income to the mother country.

3. Financial operations

A simple study of the overall balances showing the demands for capital and the availabilities of capital in the various classes of transactors gives at best an inadequate picture of the nature of the financial operations; these constitute a complex of intricate movements requiring separate examination.

The operations of persons and of enterprises

In 1957 net portfolio investments by persons reached a much higher level than in 1951 (633,000 million Ffr. as against 377,000 million) but they were considerably lower than in 1955 (820,000 million Ffr.). Net borrowings by persons increased considerably from 1951 to 1955 and decreased in 1956 and 1957. New building credits have been maintained at the level of the previous year and the first amortization charges are probably covered.

Increased investments, the reduction in savings caused by the rise in prices, and the stabilization of financial resources, all these explain why the contribution made by the personal sector to the financial system has been falling in 1956 and 1957.

However, the loan requirements of enterprises have increased considerably. Their investments are 24 per cent higher than in 1951, while net investments in securities, etc., have risen by 60 per cent and gross savings have increased by 17 per cent.

TABLE 36

Summary capital account of the personal sector

	1951		1952		1953		1954		1955		1956		1957 ¹⁾	
	—	+	—	+	—	+	—	+	—	+	—	+	—	+
1. Investments (plant and equipment)	302		434		452		543		643		673		787	
2. Savings		638		828		714		918		1,210		1,150		1,242
3. Balance of demand for capital		336		394		262		375		567		477		455
4. Investments (securities etc.) ²⁾	397		486		440		633		932		798		743	
5. Repayments	—		12		—		—		—		27		60	
6. Total outgoing capital	397		498		440		633		932		825		803	
7. Borrowings		41		73		121		186		253		249		238
8. Sums recovered		20		31		57		72		112		99		110
9. Total receipts		61		104		178		258		365		348		348
10. Balance of financial operations	336		394		262		375		567		477		455	
11. Net investments (4—8)	377		455		583		561		820		699		633	
12. Net borrowings (7—5)		41		61		121		186		253		222		178

¹⁾ Provisional figures.²⁾ After deduction of investments that can be imputed to capital transfers from overseas.

TABLE 37

Summary capital account of non-financial enterprises

(in '000,000,000 current Fr.)

	1951		1952		1953		1954		1955		1956		1957 ¹⁾	
	-	+	-	+	-	+	-	+	-	+	-	+	-	+
1. Gross investments and stocks	2 286		2 101		1 774		1 851		2 108		2 505		2 849	
2. Gross savings		1 855		1 783		1 666		1 769		1 955		1 962		2 185
3. Net requirements of capital	431		318		108		82		153		543		664	
4. Investments (securities, etc.)	575		544		650		756		795		952		1 059	
5. Repayments	61		42		72		108		127		159		131	
6. Total outgoing capital	636		586		722		864		922		1 091		1 190	
7. Borrowings		1 038		870		797		899		1 026		1 563		1 674
8. Sums recovered		29		34		33		47		49		71		180
9. Total receipts		1 067		904		830		946		1 075		1 634		1 854
10. Balance of financial operations		431		318		108		82		153		543		664
11. Net investments (4 to 8)	546		510		617		709		746		861		879	
12. Net borrowings (7 to 5)		977		828		725		791		899		1 404		1 543

¹⁾ Provisional figures.

In recent years the characteristic ratio between outlay on capital account and the gross savings of enterprises has developed as follows:

TABLE 38
Development of the assets and savings of non-financial enterprises

	<i>(in '000,000,000 current Ffr.)</i>						
	1951	1952	1953	1954	1955	1956	1957 ¹⁾
I — Net investments (plant and equipment + securities)	2 832	2 611	2 391	2 560	2 854	3 366	3 728
II — Gross non-distributed income	1 855	1 783	1 666	1 769	1 955	1 962	2 185
Ratio of $\frac{I}{II}$	1.53	1.46	1.44	1.45	1.46	1.71	1.70

¹⁾ Provisional figures.

There is, therefore, a discrepancy between the capital requirements of enterprises and the capital available from individuals in metropolitan France. As already stated, the demand for finance by the state has also greatly increased.

4. Changes in methods of financing

During the period under review great changes have taken place in the machinery of financing.

The following table shows the different forms of borrowing by enterprises since 1951:

TABLE 39
Changes in the form of borrowing by enterprises

	1951	1952	1953	1954	1955	1956	1957 ¹⁾
	<i>(in '000,000,000 current Ffr.)</i>						
Bank credits incl. short-term medium-term (changes in outstanding credits)	535 (496) (39)	287 (162) (125)	226 (145) (81)	232 (194) (38)	126 (261) (7)	510 (439) (71)	440 (265) (175)
Treasury advances and misc. Capital market	192 83	173 111	167 148	185 225	212 258	296 315	278 474
Long-term loans from the govern- ment and other specialized institutions	209	240	208	217	227	380	387
Foreign loans	19	59	48	40	61	62	95
Borrowings by enterprises (and capital increases)	1 038	870	797	899	1 026	1 563	1 674
	<i>(as percentage)</i>						
Bank credits Treasury advances and misc. Capital market	51.5 18.5 8.1	53.0 19.9 12.7	28.3 21.0 18.6	25.8 20.6 25.1	26.1 20.7 25.1	32.6 18.9 20.2	26.3 16.6 28.3
Long-term loans from the govern- ment and other specialized institutions	20.1	27.6	26.1	24.1	22.1	24.3	23.1
Foreign loans	1.8	6.8	6.0	4.4	6.0	4.0	5.7
Borrowings by enterprises (and capital increases)	100	100	100	100	100	100	100

¹⁾ Provisional figures.

From 1952 onwards bank credits lost the outstanding importance they had acquired in the previous period with the exception of a fairly sudden increase in 1956. They now account for hardly a quarter of the total loans taken up by enterprises. Within that limit, medium-term credits have gained a great deal of importance during the last two years.

The loans granted year by year to enterprises by the Treasury and some other public or semi-public finance institutions have fluctuated between 38 per cent and 47 per cent of the total loans taken up.

This type of financing is very important insofar as it tends to support certain essential sectors of the economy.

The part played by the capital market in financing enterprises has grown markedly in importance since 1951. This is mainly the result of technical arrangements designed to facilitate public access to the capital market and to make the compulsory conditions for borrowing more flexible.

5. The tax system

The following table shows the development of the tax burden.

TABLE 40

Development of the tax burden

(in '000,000,000 current Fr. and as percentage)

	Taxes levied on behalf of						Tax burden as % of GNP	
	The State ¹⁾		Other administrations ²⁾		Total			Gross national product
1954	2 870		596		3 466		15 790	22
as %		82.8		17.2		100		
1955	3 037		605		3 642		17 020	21.4
as %		83.4		16.6		100		
1956	3 418		669		4 087		18 590	22
as %		83.6		16.4		100		
1957	3 947		736		4 683		20 520	22.8
as %		84.3		15.7		100		

¹⁾ General budget, special accounts, Caisse autonome d'amortissement.

²⁾ Départements, local government, public institutions, social insurance revenues, etc.

The growth of the tax burden ¹⁾ in recent years has not greatly changed the relative positions of the various types of taxation: indirect taxation amounts to about 75 per cent of the total. Of indirect taxes raised 43 per cent are in the nature of non-cumulative taxes such as the added value tax or lump-sum taxes which, in principle at least, avoid any accumulation of taxes in the productive cycle.

¹⁾ Since in some countries social contributions and transfers are included in the calculation of the tax burden, the factors required to establish a basis of comparison are shown below (foot-note continued on page 310).

In the sphere of taxation several measures have been taken to encourage enterprises to finance their own investment.

With regard to taxes on industrial and commercial profits arrangements allowing for speedier amortization were introduced for some investments in fixed assets, especially for housing construction (50 per cent from the first year onwards) and for investments in goods the durability of which normally exceeds five years (double rate of amortization for the year of purchase). An exceptional and immediate amortization rate of 10 per cent of the value of certain goods, and arrangements for the increased value of goods to be exempted from tax on condition of re-investment, complete the list of provisions made to assist enterprises.

In the field of turnover tax the problem of double taxation on investments, which had a slowing down effect on the modernization efforts of enterprises, has been overcome by granting a 50 per cent tax relief with effect from 1 October 1953, rising to 100 per cent with effect from 1 April 1954. Certain items such as buildings and premises not used for industrial purposes, vehicles other than those used for internal manipulation purposes, and furniture, are subject to special rulings.

The wish to grant certain tax reliefs to agriculture led to a refund of 15 per cent on the purchase price of agricultural equipment and tractors.

The tax pressure brought to bear on the economy by the state is but one aspect of its activities. The following tables, in which first the expenditure of the state and then that of the administrative authorities is set out for 1955 according to its economic or functional nature, give an overall view of the effects which public expenditure has on the country's economic life.

(Foot-note of page 309, continued)

Development of the principal expenditure on social transfers

Year	Social services		Public assistance
	State, local government, public institutions	Social insurance	
	<i>In '000,000,000 Ffr.</i>		
1954	261	1 475	390
1955	299	1 600	447
1956	317	1 800	502
1957	343	2 086	532
	<i>In annual fluctuations (1954 = 100)</i>		
1955	114.6	108.5	114.6
1956	121.5	122	128.7
1957	131.4	141.4	136.4

Development of social contributions

1954 = 1448
 1955 = 1568
 1956 = 1772
 1957 = 1940

TABLE 41

Administrative expenditure broken down by functions - 1955

1955

(in '000,000,000 Fr. and as percentage)

	Miscellaneous expenditure	Public authorities and general administration	Justice and internal security	International relations	National defence	Education and cultural affairs	Social affairs	Economic affairs	Housing	Non-functional expenditures	Total
	000	100	200	300	400	500	600	700	800	900	
1. Central government	266.2	185	167.8	98.3	1 089.3	454.4	428	1 179.7	298.1	601.3	4 768.1
as %	5.6	3.9	3.5	2.1	22.8	9.5	9	24.8	6.2	12.6	100
2. Départements	0.5	15.8	6.3	—	—	9.9	148.1	76.2	9.5	14.2	280.5
as %	—	5.6	2.3	—	—	3.6	52.8	27.2	3.4	5.1	100
3. Local government	—	—	—	—	—	—	—	—	—	—	—
4. Public institutions	—	1.8	—	—	—	87.1	25.1	17.9	—	—	130.9
as %	—	1.4	—	—	—	66.5	18.4	13.7	—	—	100
5. Social insurance institutions	—	—	—	—	—	—	1 709.6	—	12.5	—	1 722.1
as %	—	—	—	—	—	—	99.3	—	0.7	—	100
Total	266.7	202.6	174.1	98.3	1 089.3	551.4	2 309.8	1 273.8	320.1	615.5	6 901.6
as %	3.9	2.9	2.5	1.4	15.8	8	33.5	18.5	4.6	8.9	100

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TABLE 42

Government expenditure broken down according to its economic or functional nature

(in '000,000,000 current Fr.)

	Miscellaneous expenditure	Public authorities and general administration	Justice and internal security	International relations	National defence	Education and cultural affairs	Social affairs	Economic affairs	Housing	Non-functional expenditures	Total
	000	100	200	300	400	500	600	700	800	900	
Total expenditure under review	—	—	—	—	—	—	—	—	—	—	5 874.5
Internal transactions (to be deducted)	—	—	—	—	—	—	—	—	—	—	1 103.8
Adjustments (to be deducted)	—	—	—	—	—	—	—	—	—	—	2.6
Total functional expenditure	—	—	—	—	—	—	—	—	—	—	4 768.1
Purchase of goods and services	—	24.3	20.2	2.0	486.7	52.4	26.9	46.4	6.2	21.2	666.3
Interest	—	—	—	—	—	—	—	—	—	156.3	156.3
Wages and salaries	2.1	90.5	81.6	1.9	184.0	159.5	12.6	54.9	9.1	0.9	597.1
Social contributions	2.1	3.7	2.0	—	5.5	6.5	3.9	2.3	0.9	—	26.9
Social services	206.1	10.8	15.0	0.2	23.5	9.9	1.0	8.6	1.4	—	276.4
Taxes	—	8.6	3.5	—	—	15.1	0.2	3.9	0.8	87.1	99.2
Public assistance	—	0.2	0.2	0.2	2.6	11.5	207.2	0.1	0.5	—	222.5
War damage	—	7.7	0.1	—	—	5.5	2.0	136.1	148.1	—	299.5
Subsidies to other administrations	—	—	—	—	—	—	—	—	—	—	—
Subsidies to enterprises	—	21.5	21.7	8.6	0.3	140.2	131.2	83.8	1.2	2.5	411.0
International co-operation	—	1.5	—	0.1	23.0	27.6	6.0	418.0	10.9	0.5	487.6
Public expenditure in Overseas Territories	25.5	13.0	20.0	0.6	292.9	13.7	31.1	66.9	4.7	6.1	474.5
Public expenditure in the Saar	—	0.9	—	0.6	—	0.8	—	—	—	15.1	17.4
Public expenditure in foreign countries	—	0.3	1.9	11.7	26.2	0.6	0.3	2.1	—	25.3	68.4
Miscellaneous transfers	—	0.7	0.4	0.1	2.5	0.3	0.2	—	—	—	4.2
Gross fixed asset formation	—	1.3	1.2	—	12.0	10.8	0.3	38.3	25.2	—	89.1
Financial operations	30.5	—	—	32.4	52.4	—	5.1	318.3	89.1	306.3	834.1
Changes in stocks	—	—	—	—	—9.9	—	—	—	—	—	—9.9
Total	266.2	185	167.8	98.3	1 089.3	454.4	428	1 179.7	298.1	601.3	4 768.1
Percentage	5.6	3.9	3.5	2.1	22.8	9.5	9	24.8	6.2	12.6	100
1958											
Total functional expenditure	347	279	210	60	1 282	725	683	1 192	375	628	5 690
Percentage	6.1	4.9	3.7	1.2	22.5	11	12	21	6.6	11	100

C — GROWTH OF PRODUCTIVITY

The modernization of the productive machine, achieved through large scale, capital investments, the rationalization of production methods adopted by many firms, and finally the redistribution of the working population at the expense of agriculture, have combined to make considerable progress in productivity possible.

However, any attempt at assessment is beset with difficulties and the results vary considerably with the definitions used.

As a rough estimate, the increase of value added per worker can be taken as the index figure denoting the productivity of labour. This method, which among other inaccuracies assumes that the entire increase in productivity is exclusively due to the labour factor, nevertheless has the advantage of being based on a simple definition and of permitting at least some degree of comparison on the international level¹⁾.

TABLE 43

Trend of productivity of labour

Year	Agriculture Fishing Forestry	Industry and crafts	Other sectors	Total	
				Actual	Adjusted to cancel effect of changes in structure of the working population ¹⁾
			(<i>'000 Fr.</i>)		
1954	392	1 028	732	747	747
1955	399	1 116	768	797	795
1956	383	1 177	798	829	823
1957	390	1 244	844	877	866
			<i>1954 = 100</i>		
1955	101.6	108.6	105.0	106.7	106.4
1956	97.6	114.5	109.1	111.0	110.2
1957	99.4	121.0	115.3	117.4	116.0

¹⁾ The figures shown in this column were worked out on the assumption that the breakdown of the working population by sectors has not changed since 1954.

¹⁾ The value added per worker is obtained by dividing the gross national production figure by the number of the working population at work, either throughout the national economy or within its main branches.

CONCLUSIONS

As shown in this Report, the main features of the present-day French economy are the consequence of the very rapid development since the end of the war. The impetus given by the Modernization and Equipment Plan on the morrow of the liberation is reflected not only in the fact that the basic industries — whether nationalized or not — have deliberately adopted an expansionist policy and have designed their investment and research programmes accordingly. This same impetus has also made itself felt in large sectors of industry and agriculture. Very remarkable efforts in the fields of investment, technical improvement, and export have been made by a growing number of industrial enterprises. The prospects opened by the establishment of the Common Market tend to generalize this trend in much the same way as in the iron and steel industry when the European Coal and Steel Community was established.

Very appreciable progress has also been made in agriculture. In certain areas and in certain sectors of the industry agricultural enterprises have given proof of real readiness to adapt themselves to the conditions of international competition. Also, the spontaneous reduction of the agricultural working population in certain areas presents agricultural enterprises with a manpower problem they will not be able to overcome except by improved methods and further equipment.

The possibilities of economic change are a further matter very present in the minds of the working population; in certain large enterprises they have been translated into contracts, or at least procedures, for the revision of wage scales, bringing about an almost automatic increase of wages. More generally speaking, they help to explain the forcefulness of the wage claims which, in the tight labour market which has existed for some years past, have led to wage increases certainly greater than would have been compatible with the stability of prices. These wage increases, incidentally, had the effect of speeding up the replacement of manpower by machinery and giving a boost to the process of mechanization.

The Third Modernization and Equipment Plan, drawn up in recent years for the period 1957 to 1961, sustains these expansionist trends. It is based on the assumption that during this period the rate of production increase per worker will on the whole fall a little below that attained from 1952 to 1957,

but will nevertheless be higher than the rate considered normal in the United States and most western countries. Moreover, the OEEC estimates of the expected increase are also appreciably lower. Nevertheless, the ambitious assumption on the part of the French government is not unreasonable. It is supported by the fact that the technical progress noted in much of industry and agriculture is still far from being the general rule throughout the country. Many enterprises — and sometimes even whole branches of an industry — are still technically behind their counterparts in other western countries. A wider spread of the knowledge of new techniques, improved training for technical supervisors, and a finance system sufficiently elastic to ensure that the funds needed for the adaptation of equipment will reach all the sectors of the economy — all the steps directed to this one end must lead to a more rapid rate of growth in France than in the countries which are better accustomed to international competition and which for a longer time and in a more general manner have been undergoing rapid technical development.

This view is to some extent intuitive. Apart from the basic industries, where the conditions of technical development are now accurately known, it is based neither on any exact explanation — *i. e.* an explanation resting on the actual facts of technical progress such as can be recorded in every enterprise or in any representative sector of enterprises — of earlier general observations, nor on any complete knowledge of the state of technical development already reached or to be expected. It is, of course, true that the Modernization Committees which under the Plan are concerned with the processing industries have made, on the basis of the knowledge of current technical progress available to the experts on these Committees, overall assumptions of the technical development expected for each branch. These were assumptions based on the experience of experts, but not on technological investigation or on a study of the reaction shown by enterprises in the face of technical progress. The French authorities are endeavouring to work out a sounder basis for their assumptions; this will, however, require some time and a considerable improvement of the information available.

Meanwhile, the assumption adopted by the Commissariat Général du Plan can be taken as reasonable. Studied in detail it implies that fairly far-reaching structural changes have taken place in the French economy as a whole; there are ample arguments to support their probability, and their consequences must be borne in mind.

The changes have two aspects :

— The relatively slow expansion in the agricultural sector; this is explained by the smaller increase of the demand for foodstuffs in the forecasts on the general rise in standards of living, and by the fact that the demand for foodstuffs increasingly applies to more highly processed agricultural products. It is

also explained by the relatively limited expansion of the demand for food-stuffs expected in the international markets:

— the relatively much higher rate of expansion in the electrical and mechanical engineering industries; the reason for this is to be sought first in the great increase in the demand for such products where there is rising consumption. A further reason lies in the growing investment requirements, the share of gross investments in national expenditure rising slightly from 1957 to 1961. Therefore, in a volume of international trade which will perforce be expanding — proportionally to our growing requirements in the fields of energy and of raw materials — exports of agricultural products and raw materials cannot but hold a relatively declining position. The balance of trade can, therefore, be obtained only by a marked increase in the export of highly processed goods. Sales of textile products can no doubt be counted amongst these. Since, however, there seems to be a general tendency for textile industries to settle near the markets for their products, their position is certainly also subject to some limitation. The combination of increased exports and increased domestic demand for the products of the electrical and mechanical engineering industries appears then to be essential.

Whatever the weaknesses of the analysis, these consequences of the economic trends in France show themselves very clearly, when we attempt a quantitative assessment of the results of the rise in standards of living, in investment requirements, and in external trade. The immediate difficulties with which France is faced in her balance of payments and as a result of the establishment of the Common Market may, however, call all these results in question again. They should at least be discussed.

The difficulties encountered at present could certainly compromise the attainment of the expansion targets set for 1961. Of course these difficulties can be overcome; provided a certain margin of time is made available, they might well be solved while a smooth development is maintained. The progress made in recent years by the French exporting industries does in fact make it possible to expect that France might easily be able to meet her requirements of imported energy and raw materials from the proceeds of the exports which may reasonably be expected in two or three years' time. However, the need for an immediate solution of the problem leaves no time for the incipient trends to come to full fruition; exports must be increased and imports reduced with immediate effect so that an acceptable equilibrium can be established. The difficulty stems from the fact that — especially on a weaker world market — few French exports are likely to show an immediate upward trend (those which show the greatest promise for the future depend on commercial connections which cannot be rapidly established) and few imports can be immediately

reduced which are not essential elements in the pursuit of economic development. If the analysis is pressed further, we are left with the following choice: either internal demand for immediately exportable goods, or for non-essential goods containing a large proportion of imports, could be selectively reduced; or alternatively, an overall reduction of internal demand could be introduced. The question arises whether the means for selective reduction of internal demand exist. It can be argued that they do; but the more slowly they are brought into play, the less likely are they to be effective. There is, therefore, the risk that overall action to reduce internal demand may become necessary soon. That, however, might jeopardize the trend just begun.

It would be going beyond the terms of reference of this Report to discuss this acute problem. It is, however, necessary to stress that, even on the most optimistic assumptions the structural problems dealt with in the Third Plan still remain to be solved, though possibly at a later date. In what way will the prospects opened by the Common Market affect these facts ?

These problems are to some extent linked with the future nature of French foreign trade. Will a great deficit in the energy balance continue to characterize foreign trade even under the auspices of the Common Market ? Will exports of foodstuffs increase beyond the level that France could have been expected to reach had she remained alone ? Will it be necessary to continue planning for a very appreciable expansion in the electrical and mechanical engineering industries and, if so, which of their products will be suitable for export ?

It must be emphasized that on the basis of available information these questions are not easily answered at this stage.

1. First, the problem of the balance of trade in energy products; it is in itself divided in two distinct parts;

a) If the Sahara oilfields are left out of account, the energy problem of metropolitan France is not essentially different from that facing a good many other highly developed countries, where the choice lies between the vast investments required for the exploitation of sources of energy in a limited area not very well endowed in this respect, and more wide-spread investments needed to establish and maintain in competitive condition, processing industries which are based on imported raw materials and supplies of energy and which pay for their imports by re-selling the more or less highly processed derivatives. This is a very difficult choice, because we have no clear picture of the overall costs of a processing industry which would be sure of permanent external markets despite all the ups and downs of technical development. Naturally, the

burden of investment within a clearly defined industry at present in the export market can be determined, such as its investments in plant and equipment and its expenditure on the maintenance of commercial relations abroad. On the other hand little is known about the cost of a complex of industries which would be sufficiently varied, and would deal with a sufficiently wide range of markets, to ensure that its outlets would on the whole be reasonably independent of the difficulties of trade cycles and would provide sufficiently stable revenue from exports. These costs include not only investments in the proper sense of the word and expenditure on technical research sufficiently vigorous to protect the industries against setbacks resulting from technical innovations introduced abroad; surplus capacity must also be provided to make up through fresh exports — and without undue hazard — for any external markets unexpectedly weakened through economic mischance or some technical innovation.

In order to be able to make a reasoned choice the fundamental facts and figures would have to be ascertained. While it is possible that the problem does not arise for Europe as a whole — as it hardly does in the case of the United States or the Soviet Union — it certainly arises for France because of her limited size and because from many points of view her natural resources are mediocre.

b) The problem as set forth above is of course changed to the extent that the Sahara oilfields prove readily exploitable. In that event, the French Union as a whole would probably become an exporter of energy products. Nevertheless it must be understood that such a favourable turn of events would not do away with the need to choose what exports should be made from metropolitan France. In the first stages that need would, indeed, be dispensed with because the great investments needed for putting the Sahara oilfields into operation could initially be made only with the help of metropolitan France. During the first years a decision to use the Sahara resources for the benefit of the entire French Union — to the extent that it is possible such a decision obviously commends itself — would not entail any economic consequences other than those which would follow from the presence of very vast oilfields in the soil of metropolitan France. This would, however, change as soon as the first results of the exploitation of these deposits provided the countries of North Africa with sufficient economic resources to support a policy of economic development. As the first studies for the Algerian economic development programme have shown very clearly, external aid will then still be required. Some centres of industrial development would, however, grow up in North Africa in connection with the exploitation of the Sahara oilfields and the increase of economic requirements in general; the activities of the North African oil industry would make the currencies of the North African countries in practice autonomous and there would arise the problem of the pattern of trade to be established between the

important oil-exporting countries and their customers. There would be the problem of selecting exports from metropolitan France to North Africa and it could not be overcome unless the industrial development of French North Africa followed a plan in harmony with industrial development in metropolitan France and, probably, in Europe as a whole.

2. Agricultural exports present the second problem arising in connection with the pattern of trade. As stated above, the studies carried out in recent years in France are based on the assumption that the volume of international trade is unlikely to increase much, because past experience has shown that the expansion of international trade has occurred principally in the sectors of raw materials and industrial products. Extensive research would of course be needed to explain the small increase attained in the past. However, it does not appear altogether surprising at first sight. There are many explanations of the fact that agriculture is apt to keep in harmony with those markets which are near and permanently open to it: the difficulties it experiences in adapting itself to its markets; the relatively low profit margin to be obtained on the international markets in agricultural products, as these are always to some extent disposing of chance surpluses (there are of course rare instances where the agricultural economy of a country has been adapted by a prolonged effort to the requirements of a particular and permanent foreign market); and protective measures adopted by the various national markets to ensure the permanent profitability of their own national agricultural production. This, however, does not necessarily lead to a rational distribution of agricultural production throughout the world. Obviously, the prospect of expanding the consumption of foodstuffs in Europe does not prevent any of the members of the Community from seeking adequately secure and stable external markets to allow the long-term investments and other expenditure needed if a market in this field is to be won or a new one created. Investigations in this direction are clearly needed and it is not possible to foretell what their results will be.

3. There remains, then, the problem of exports of mechanical and electrical engineering products. Whatever improvements can be expected in the balance of the French energy production sector as a result of the existence of the Sahara oilfields, and whatever the chances of an expansion of agricultural exports may be, the fact remains that an increase in the output of industrial products for exports is plainly essential. The same necessity arises with the same degree of urgency in the other countries of the Community. This will guide the economies of all these countries along very similar paths; sometimes they will be competing with one another, sometimes they will be complementary. It remains to be seen how such an evolution can be accomplished by all simultaneously and in harmony.

Naturally it is possible to imagine a division of labour being brought about solely and simply by the mechanism of competition. However, it is not easy to see who would profit by such competition. It is difficult to compare international prime costs, and there is no yardstick to show which countries, which regions or which enterprises are at present most fitted for an intensification of international competition. Moreover, a certain number of risks appear at the very outset because of the lack of information from which all enterprises suffer throughout the Community.

a) The first danger is that competition may work in favour of certain relatively limited regions. Very little is known in any of the countries of the Community, and especially in France, of the cost of setting up a new type of economic activity in any particular area; nowhere are transport charges fixed to correspond with the costs which any particular geographical distribution of the national economy places upon transport as a whole. In the same way the burdens of urban agglomerations do not automatically fall on those who have caused them. It can never be said with certainty that in this vast labyrinth of tariffs connected with the geographical distribution of economic activities there will be any spontaneous change to ensure the most economic charges. It is even less certain that all the political and human considerations on which economic geography has a bearing will be allowed for by the various mechanisms determining the geographical evolution. The major fact remains that new activities are inclined to establish themselves in areas where their promoters hope to be able speedily to meet their essential needs, that is to say near large consumer markets and near concentrations of skilled labour, near important intellectual centres, in areas where there is ample accommodation, including established industrial facilities, and finally in the vicinity of large communication networks and of water and power supplies. All this is true of national economies growing without undue upsets and would be far more true of European economy developing under the direct pressure of untrammelled competition. Therefore a division of economic activities in Europe carried through under conditions of uncontrolled competition might well work in favour of the existing large industrial regions and to the detriment of those areas which, for historical reasons, have fallen behind in economic development.

b) It is by no means certain that the division of industrial activities resulting from the first impact of competition would leave the victorious enterprises in a fit state to face competition from outside Europe.

This conclusion follows from the analysis, as far as one is possible at this stage, of the problems of price formation and control methods in most of the important industrial countries. It has been shown in the main section of this Report that there exists in France a sort of price police, whose duty it is to prevent enterprises from bringing about abnormal price rises if by chance

they should find themselves in a dominant position in the market. The inflationist disequilibria through which France has passed in recent years made the institution of such a price police necessary; the means at their disposal are, however, imperfect, so that the results produced are open to question. They lack the sources of information which would allow them to act while leaving to the various sectors of industry the self-financing facilities they really need for well-advised investment programmes. Price fixing measures will always contain a certain element of chance so long as the various authorities, public or private, on whose decision the movement of prices depends are not fully informed on the conditions of development in each sector, on the corresponding outlook for markets and for technical development, and the associated costs of investment and research; so long as these authorities do not know the outlook for overall availabilities of capital or the manner in which they will in future be divided, within each sector, between self-financing and borrowing. Under a régime of intensified competition the competing enterprises will not know how far they can go in lowering their prices without jeopardizing their future. Inadequate information on the conditions in which economic prices must be established becomes even more serious when it is impossible to foretell, during a period of major disturbance of the competitive machinery, how competition will be affected by technical innovations and what effects these in turn may have on the continued efficiency of machinery and the rhythm of replacement. In these circumstances uncontrolled competition might very well lead to prices being fixed at a level incompatible with the survival of even those enterprises who could have held their own in the market, or at least incompatible with their ability to face competition from outside Europe.

These then are the main headings of the analysis which will have to be made in order to see how the French economy, like those of the other countries of the Community, can be adapted to the establishment of the Common Market.

Briefly, it can be said that as yet there is only imperfect information available — except with regard to the basic industries where there is accurate information — on the prospect of technical development in France, assuming the maintenance of present conditions. A great deal of statistical, technical and economic information would have to be collected in support of a well-founded assumption concerning possible trends in the years to come.

However, even before this work has been completed the studies carried out in connection with the Third Plan make it possible to raise certain structural problems, concerning in particular basic investments and the main features of production policy. It is essential that, in the development of the Common Market, work of a similar nature be carried out by the various Member States in the same form, with the same thoroughness and in a co-ordinated manner.

Information of a novel type would, however, be needed.

Can any conclusions concerning the type of European competition likely to develop in each sector be drawn from the studies undertaken, or about to be undertaken, in the various sectors of production either by international organizations or on the level of experts? What will be the effect on the share-out of markets in Europe between the various branches of each country's output? How will the European and extra-European trade of the various countries of the Community be affected? Do the assumptions concerning the probable type of competition in each European market mean that there is a risk of more frequent technical innovations, and so of an increase in the cost of replacement of equipment? Is it likely that competition will be intensified through prices, thereby reducing the possibilities for self-financing and making enterprises to a greater extent dependent on outside loans? How will the possible changes in technical development affect the rates of increase of productivity per worker? What are the consequences to be expected from all this on the distribution of demand in each country between investment, public consumption and the balance available for private consumption?

A beginning of an answer must be found for all these questions, each of which is of great complexity, if the various branches of production in all the countries are to fit their investment and production programmes into precise, coherent and reasonably reliable forecasts. Such marked progress in the field of economic information cannot, of course, be made unless it is given the unreserved support of business. We must hope that the economic uncertainty following upon the implementation of the Treaty of Rome will make all those concerned understand the need for such co-operation and will gradually lead to business methods by which it will be possible step by step to master the vicissitudes of economic evolution.

Moreover, these new business methods must not be limited to the field of information. Even if the essential improvements described above are realized in the coming years, it will still take a long time before we can make development forecasts detailed and concrete enough to command the unreserved respect of all sectors of economic activity, and so bring all individual decisions together in one common concept capable of ensuring the co-ordination of the whole. So long as economic prognostications remain uncertain, decisions on investments and production are likely to be taken haphazardly, though possibly to a lesser degree than is the case at present.

In these circumstances the danger remains that the siting of new economic activities will continue to be governed by the same considerations which govern it at present, that is to say that there will be a preference for areas already well provided with transport, energy supplies, and all kinds of industrial facilities. This danger must clearly be countered if intensification of competition is not to lead to even denser industrial concentrations and to an even more marked under-development of already backward areas.

Without wishing to broach problems of economic policy outside the scope of this paper we must nevertheless draw the conclusion — since it results from the analysis of the present situation and the conditions now governing developments — that there is a need for the creation of means of intervention which would ensure a reasonable and well-balanced distribution of the working population over the various countries and regions within the Community. What sort of means should these be? Should they be of an essentially financial character? Would they of necessity entail interference and controls of a more rigorous nature? No reply can be made to these questions for the time being. Only practical experience of the difficulties arising from the establishment of the Common Market will provide the answers. We must expect that from the outset a very wide range of means of intervention will be brought into play.

Algeria

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I — STRUCTURE OF PRODUCTION

Unlike many underdeveloped regions, Algeria is not a new country. The greater part of the resources of its soil and sub-soil were known in antiquity. Economic advance since the last war has been manifested much more by changes in degree than in nature; new activities have played a much less important role than the progress of traditional activities.

It was only recently that the discovery of petroleum and natural gas in the Sahara zone of Algeria revealed the existence of a new element which may change the face of Algerian economy in years to come.

As in allover-populated and underdeveloped countries, the key problem is employment. The increase in the national income is an insufficient indication of the economic and social development of Algeria, for the major part of production comes from regions of rather limited area. Certain parts show great similarities with the activities of countries of average industrialization — but with residual unemployment resulting from the influx of extraneous population — while other regions have remained essentially agricultural and suffer from widespread unemployment. It is therefore impossible to make use of averages when reasoning about this country whose development is very unevenly spread in space. This unequal development results both from human factors (the European population, which is the leaven of progress, is mostly concentrated near the coast and particularly the large ports) and natural factors (differences in rainfall from region to region and great variations in the fertility of the soil).

A — TOTAL POPULATION AND WORKING POPULATION

1. Total population

This is around ten million inhabitants, roughly 90 % being Moslem and 10 % European. It is rapidly increasing:

TABLE 1

('000 inhabitants)

	1921 census	1931 census	1948 census	1958 estimate
Moslems	4 923	5 588	7 679	9 200
Europeans	791	882	922	1 030
Total	5 714	6 470	8 601	10 230
% of Europeans	14 %	13,5 %	10,7 %	10,1 %

About 300,000 Moslems who have emigrated to metropolitan France must be added to the 1958 figures.

The present annual increase of the population of Algeria is estimated at about 250,000. The consequence of this rate of increase is that the population of Algeria is a very "young" one. Among the Moslems there are 125 children or adolescents up to 20 for 100 adults between 20 and 60, whereas in metropolitan France the proportion at the last census was 55 children or adolescents for 100 adults.

2. Geographical distribution

From the point of view of population increase and density, three zones may be distinguished:

— the Sahara zone, covering more than two million square kilometres, with only one inhabitant per three sq.km (in reality the population is grouped in a small number of widely-spread oases);

— the high plateaux zone, with about two million inhabitants in an area of 140,000 sq.km, *i. e.* a density of about 14 per sq.km;

— the coastal zone, the depth of which varies from 50 to 120 km with an area of about 90,000 sq.km and almost 7.5 million inhabitants — a density of more than per 80 sq.km. This average density, which is already very high, is growing rapidly as a result of natural population increase and also because of migration from the plateaux towards the large urban centres on the coast.

3. Working population

It is not possible to give the same meaning to figures of working population as in Europe; in agriculture, which occupies 1.6 million men and about one million women, actual employment is only assured during a part of the year, both in the case of independent agriculturalists and of wage-earners. This under-employment results both from the excess of manpower and the time-table of work imposed by the climate.

Figures of working population for 1954 based on estimate or census returns were as follows (in 000's).

TABLE 2

	Male		Female		Total
	Moslem	non-Moslem	Moslem	non-Moslem	
Agriculture	1 600	30	980	3	2 613
Other	510	245	40	77	872
Total	2 110	275	1 020	80	3 485
Persons between 15 and 65	2 210	300	2 230	310	5 050
% working	95 %	90 %	46 %	26 %	69 %

This table calls for three remarks:

1° the figures concerning Moslems in agriculture are estimates, the concept of working population being more difficult to define with precision here than for other groups of activity;

2° To add working-days in agriculture, which are very irregular (120 days effective work per year on the average for men, and a less certain figure for female auxiliary workers), to employment in other sectors, which generally represents permanent work, is a rather arbitrary procedure;

3° Leaving aside family help in agriculture, work by women is extremely limited in the Moslem milieu. This is a sociological factor which will be rather slow to change.

B — TABLE OF ECONOMIC ACTIVITY

i. Breakdown of the working population by sectors - 1954

a) *social and occupational categories*
(000 persons):

— employers and self-employed				
in agriculture :	2 026	incl.	2 002	Moslems
other activities :	190	„	69	„
Total :	2 216	incl.	2 072	Moslems
— wage-earners				
supervisory personnel and intellectual workers	67	„	10	„
miscellaneous employees	178	„	56	„
workers and labourers	354	„	262	„
farm workers	579	„	571	„
army and police	23	„	6	„
Total :	1 151	incl.	905	Moslems

b) *groups of activity*

— agriculture and forestry	2 606	incl. 2 573	Moslems
— industry	284	„	176 „
— transport	63	„	32 „
— trade, hotels and catering, banks	182	„	104 „
— liberal professions	36	„	14 „
— administration, army, police	84	„	31 „
— domestic service	37	„	28 „
— day labourers	111	„	106 „
Total :	3 403	incl. 3 064	Moslems

2. Breakdown of the national product

Between 1950 and 1956, domestic production increased by nearly 50 % at the following rate:

TABLE 3

Gross domestic production

('000,000,000 1954 francs)

	1950	1952	1954 [†]	1956
Domestic production index	475 100	532 112	591 124.4	685 144.2
Gross national product index	552 100	645 116.8	732 132.6	864 156.5
Family incomes index	399 100	477 119.6	544 136.4	643 161.2

This increase, which is fairly regular despite varying harvests, is particularly high in the non-agricultural sectors (54 %). Distributed income increased by 8 % on the average per annum, as against a population increase of 2.5 %. The increase in distributed income has mainly benefited wage-earners, since the volume of salaries rose by 95 %, whereas family resources as a whole show an overall increase of 56 %.

For 1954, the detailed structure of gross domestic production was as follows:

TABLE 4

Gross domestic production for 1954	Value added (‘000,000,000)	% of the total
Agriculture, forestry, fishing	197.6	33.4
Energy, petroleum, mining	31	5.1
Building, public works	44.6	7.5
Processing industries	87.9	14.8
Transport	34	5.7
Commerce	113.2	19.1
Services	82.8	14.4
Total	591.1	100

This *gross domestic production* may also be expressed as follows:

— finished products	507,750	million
— marketing of finished products	102,395	»
— export of semi-finished products	57,660	»
— variations in stocks of semi-finished products	11,055	»
from which the following should be deducted:		
— imports of semi-finished products	85,560	»
— purchases of semi-finished products from administrations	2,220	»
	<u>i. e.</u>	<u>591,000</u> million

The breakdown of finished products is as follows:

— food products	232,960	million
— industrial consumer goods	56,805	»
— final services	100,980	»
— capital goods	117,005	»
	<u>Total</u>	<u>507,750</u> million

Agricultural production is still dominated by a few important products (cereals, wines, citrus fruits). The following tables give an overall view of recent trends on the basis of the average prices paid to producers.

TABLE 5
Value of Algerian agricultural production

(in '000,000 francs of current value)

	1950	1952	1954	1956	1957
Cereals and dried vegetables	34 900	53 100	56 600	67 400	(provisional estimate)
Fruit and vegetables	23 200	34 400	36 500	43 300	
Industrial crops	2 500	3 600	3 200	3 000	
Wine	45 300	45 000	52 100	67 000	
Total plant production	105 900	136 100	148 400	180 800	200
Meat	15 700	19 400	22 100	22 200	
Poultry, milk, miscellaneous	19 300	25 000	30 600	28 900	
Total animal production	35 000	44 400	52 700	51 100	56
Grand total	140 900	180 500	201 100	231 900	256

Allowing for price variations since 1950, it may be said that the overall value of agricultural production increased by about one-third from 1950 to 1956. The most important item in this increase was represented by citrus fruit, exports of which rose from 165,000 metric tons for the 1952/53 season to 278,000 tons for the 1955/56 season. The increase noted in 1957 results essentially from the rise in the price of wine, which more than compensates the deficit on cereals.

TABLE 6
Chief agricultural products

	1950	1952	1954	1956	1957 ¹⁾ provisional estimate
Hard wheat	7 428	8 667	9 630	10 891	9 000
Soft wheat	3 186	3 250	4 288	4 466	3 580
Barley	8 042	10 432	9 352	10 227	6 500
Other cereals	1 615	1 641	1 291	1 241	
Total cereals	20 271	23 990	24 561	26 822	
Potatoes	2 224	2 471	2 529	2 500	
Dried vegetables	557	642	677	572	
Citrus fruits	2 210	2 716	3 402	3 609	3 984
Dates	1 090	966	1 050	811	779
Tobacco	194	213	201	82	
Olive oil (hectolitres)	164	249	258	227	
Wine ('000 hl.)	14 219	11 318	19 247	18 619	15 300

¹⁾ 1957 was a mediocre year for agriculture. In addition, a certain amount of statistical information which is computed for each harvest is not yet available.

Industrial production has increased in even greater proportion than agricultural production. Overall development covering energy, mining and industry was as follows:

TABLE 7
General index of industrial production

1950	1952	1954	1957
100	120	133	152

In greater detail, progress of Algerian industry was as follows:

Production	Units	1947	1953	1956	1957
Electricity	'000.000 kWh	414	771	956	1 016
incl. hydro-electric	"	93	227	420	329
Iron ore	1 000 t.	1 558	3 385	2 582	2 790
Lead ore	"	1.9	12	15	15
Zinc ore	"	14	34	54	49
Phosphates	"	707	619	606	605
Cement	"	127	494	670	712
Rolled steel	"	2.3	22	30	37
Electric and telephone cables	"	5.3	4.3	4.7	4.3
Tinplate packaging materials	"	3	5.7	5.9	8
Superphosphates	"	99	94	86	104
Hollow glass	"	2.0	10	11	14
Paper and paperboard	"	3.6	20	31	33
Refined edible oil	"	7.7	26	43	48
Soap	"	8.8	11	16	16

The range of industrial activity is relatively wide today, extending to the building of railway carriages and to a continuously developing chemical industry (sulphuric acid, chlorine, soda, fertilizers insecticides etc...). Petroleum will provide a further field of activity. In the electrical sector, Algeria produces wires and cables, telephones and radio sets and accumulators. On the other hand, local manufacture of products for domestic consumption only covers a small part of requirements. One of the objectives of the future ten-year plan will be to develop these branches.

II — EXTERNAL ECONOMIC RELATIONS

The salient features of the external trade of Algeria derive from its membership of the franc area and the customs union with metropolitan France; 80 % of imported products are from the franc zone and about 75 % of exports go to France.

A — GENERAL STRUCTURE OF THE OVERALL EXTERNAL BALANCE

The structure of commercial relationships throws into the limelight the character of an underdeveloped country, such as Algeria still is. The essential features of this structure are the import of capital goods and manufactured products and the export of raw materials and food products, either crude or partly processed (semolina, tinned foods).

TABLE 8

Product	Import				Export			
	1950	1952	1954	1956	1950	1952	1954	1956
Energy	5.8	6.3	5.9	6.1	0.2	0.5	0.6	0.3
Raw materials and semi-finished products	19.9	21.4	19.9	19.0	17.2	24.5	26.4	28.4
Equipment	17.5	15.4	15.8	16.4	0.7	1.3	1.0	1.0
Consumer products (incl. foodstuffs)	56.8 (21.8)	56.9 (22.5)	58.4 (23.5)	58.5 (25.9)	81.6 (77.2)	73.7 (68)	72.0 (66)	70.3 (67.1)
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The trade balance is in a grave state of disequilibrium and the deficit has increased greatly during recent years.

TABLE 9

Trend of the trade deficit

(*'000,000,000 francs of current value*)

	1950	1952	1954	1956	1957
Import	152.0	223.4	217.6	272.7	382.9
Export	116.6	143.7	140.4	150.1	171.7
Deficit	35.4	78.4	77.4	122.6	211.2
Percentage of cover	76 %	65 %	65 %	55 %	45 %

The chief explanation of this deficit is the large volume of equipment credit granted by metropolitan France, which results in an influx of capital goods and, as a consequence of the greater volume of income distributed, an increase in imports of consumer goods.

The sudden worsening of the deficit since 1956 is due to increased requirements as a result of the presence of 400,000 soldiers on Algerian soil.

Expenditure by metropolitan France in Algeria counterbalances the trade deficit.

1. Export receipts and import expenditure in overall external receipts and expenditure

In 1954, a "normal" year free from the temporary disequilibrium occasioned by military expenditure, the overall balance for Algeria was as follows:

TABLE 10

('000,000,000 francs)

Current operations	1954	
	Surplus	Deficit
Commerce		68.5
Tourism		6.7
Transfers of wages and family allowances (workers in metropolitan France)	34.1	
Interest and dividends		1.7
Surpluses of current expenditure of metropolitan administrations in Algeria	57	
Balance	91.1	76.9
	14.2	
Movements of capital	Receipts	Expenditure
Expenses for equipment of metropolitan administrations in Algeria	13.3	
Loans to the Algerian Treasury from the Treasury	29.4	
Repayments and deposits of the Algerian Treasury with the Treasury		13.6
Subscription to Treasury bonds and metropolitan public loans		5.2
Semi-public investments	12.4	6.8
Movements of private capital	18.9	55.6
Balance	67.0	81.2
		14.2

In 1954, the surplus of metropolitan public transfers was therefore about 100,000 million, thus more than counterbalancing the deficit on private settlements (80,000 million approx.).

In 1956, despite a very appreciable increase in the deficit on private settlements, which rose to 239,000 million, the general balance of settlements with France still showed a credit thanks to the very high amount of public metropolitan transfers to Algeria (276,000 million).

2. Ratio of imports and exports to national production and variations with the increase of production

For the year 1956, when the gross domestic product was 695,000 million francs, imports amounted to 272,000 million and exports to 150,100 million. The volume of external trade, 422,800 million, was equal to 60 % of gross domestic production. In 1950, 1952, and 1954, the proportions were 65, 67 and 60 % respectively.

3. Sensitivity of Algerian economy to the terms of trade

As a result of its very extensive integration into the French economic system, Algeria does not directly feel variations of international prices; the effects it experiences are greatly attenuated by the policy of guaranteed prices and organization of markets in the franc area. The sensitivity of the Algerian economy to the variations of the terms of trade is therefore much less pronounced than that of underdeveloped countries which are independent.

B — GEOGRAPHICAL STRUCTURE OF THE TRADE BALANCE

TABLE 11

External trade by currency areas

(*'000,000,000 francs*)

	Imports		Exports		Balance	
	1956	1957	1956	1957	1956	1957
France	215.6	303.0	114.3	137.2	- 101.3	- 165.8
Other franc area countries	18.4	23.1	10.5	9.6	- 7.9	- 13.5
Common Market ¹⁾	6.9	9.0	9.6	9.1	+ 2.1	+ 0.6
Other OEEC countries ²⁾	11.3	14.0	11.2	10.7	- 0.1	- 3.3
Sterling area	3.2	4.5	9.3	8.8	+ 6.1	+ 4.3
Dollar area	14.4	25.8	0.8	0.7	- 13.6	- 25.1
Others	6.1	7.9	3.7	4.3	- 2.4	- 3.6
Total foreign countries	38.7	56.8	25.3	24.9	- 13.4	- 31.9
Overall balance	272.7	383.9	150.1	171.7	- 122.6	- 212.2

¹⁾ Excl. France.

²⁾ Incl. Dependent Territories.

Algerian exports to foreign countries in 1956 and 1957 were only 16.8 and 14.4 % of total exports. They were broken down into the following principal categories :

TABLE 12

	Tonnage		Value ('000,000,000)	
	1956	1957	1956	1957
Iron ore	2 431 200	2 609 000	9.0	10.6
Scrap	72 260	77 405	1.3	1.7
Phosphates	433 162	399 748	1.5	1.5
Waste products of the foodstuff industries, prepared food for animals	38 868	67 810	0.9	1.3
Cork (unworked)	32 444	14 707	2.2	1.2
Barley	20 127	61 358	0.4	1.1
Undressed skins	2 988	3 650	0.7	1.0
Olive oil	7 188	4 287	2.1	0.9
Wine in barrels or bulk (hl.)	15 259	12 292	0.6	0.7
Alfa	15 535	38 135	1.9	0.6
			20.6	20.6

These ten products, which are raw materials or foodstuffs, account for more than 80 % of all Algerian exports to foreign countries.

As far as the Common Market countries in particular are concerned, details of the 9,600 million francs of exports are given in a table annexed to this report.

Imports from foreign countries in 1956 amounted to 38,700 million francs, as against 234,000 million from the franc area. But in certain sectors purchases from these countries represent an important proportion of the total, *e. g.* 55 % of agricultural equipment and 24 % of all other equipment, 53 % of raw materials of animal and plant origin other than energy, and 35 % of dairy produce. Details of imports from Common Market countries are given in an annexed table.

A detailed analysis of the external trade of Algeria shows that under the existing customs regime, foreign markets constitute no more than a make-weight.

Algerian *exports* find their natural outlet on the French market because of the very close links between the French and Algerian economies and the attraction exercised by French internal prices.

Imports also reflect how deep-seated are the economic links with France, thanks, in particular, to the customs union. Nevertheless, the important share of manufactured products in overall imports of non-French origin should be noted, as well as that of certain basic food products which are supplied at more advantageous prices by foreign countries. As a result of these imports, France is bearing an increasing foreign currency deficit on behalf of Algeria.

C — TRADE AND CUSTOMS POLICY

As already pointed out, Algeria has a customs union with metropolitan France. The external Algerian tariff is therefore the French tariff, but with some exceptions (petroleum products, unroasted coffee, tobacco, imports for the Southern Territories, equipment for the Sahara zones). This system is rounded off by the navigational monopoly (2 April 1889) which reserves maritime traffic between metropolitan France and Algeria exclusively to ships flying the national flag.

TABLE 13

Trade of Algeria with the countries of the Common Market

(in '000,000 francs)

Year	Total	Franc area		Other Common Market countries					Non-Member Countries
		France	Others	F. R. Germany	Netherlands	BLEU	Belgian Congo	Italy	
<i>Imports</i> ¹⁾									
1950	151 994	123 342	10 390	608	1 287	657	723	1 264	13 723
1951	203 637	161 686	14 631	843	1 933	708	236	1 654	21 946
1952	223 603	177 625	15 741	1 377	1 577	1 214	1 215	1 743	23 111
1953	202 604	178 412	14 467	1 227	2 121	664	639	1 423	3 651
1954	217 714	172 041	20 501	1 801	1 965	583	721	1 163	18 939
1955	243 981	199 738	16 347	1 610	1 905	720	1 005	1 604	21 052
1956	272 694	215 624	18 415	2 132	2 190	712	1 171	1 858	30 592
1957	382 896	303 020	23 104	2 762	2 132	1 176	1 429	2 901	46 372
<i>Exports</i>									
1950	116 596	85 146	8 960	4 569	2 054	895	2	824	14 146
1951	134 102	91 581	12 218	2 373	2 393	1 232	3	2 004	22 298
1952	145 234	98 519	14 071	4 429	1 354	1 372	4	2 695	22 790
1953	138 810	97 209	12 959	4 103	1 338	879	6	3 540	18 776
1954	140 298	102 077	12 164	2 683	1 563	695	13	1 926	19 177
1955	162 058	119 486	11 423	5 262	1 315	774	47	2 743	21 008
1956	150 114	114 283	10 522	3 996	1 028	690	48	3 883	15 664
1957	171 745	137 191	9 626	3 828	834	711	41	3 785	15 729

¹⁾ The figures of imports by France include certain products admitted on a temporary basis, processed, and re-shipped to Algeria. This is particularly the case for petroleum products.

TABLE 14

Algerian exports - 1956

(in '000,000 francs)

	Total exports	Franc area		Other EEC Countries				Other Countries
		France	Others	F. R. Germany	Netherlands	Belgium Luxembourg	Italy	
Total	150 114	114 232	10 523	3 996	1 028	690	3 883	15 712
incl.								
Phosphates	1 936	452	33	244	15	—	—	1 192
Iron ore	9 239	225	—	2 009	768	148	455	5 634
Lead ore	608	516	2	53	—	37	—	—
Zinc ore	1 304	1 304	—	—	—	—	—	—
Scrap	1 335	28	—	7	—	3	636	661
Cereals and related products	7 768	¹⁾ 7 266	119	—	25	—	319	39
Citrus fruits	9 092	8 848	8	216	—	—	—	20
Other fruits	4 050	5 765	217	2	—	11	—	55
Fresh vegetables	10 147	9 474	164	—	—	—	2	507
Dried vegetables	1 861	1 260	282	59	3	7	61	189
Wines and related products	61 477	59 239	1 592	86	9	115	—	436
Olive oil	2 930	827	19	16	7	10	1 697	354
Raw and manufactured tobaccos	4 548	2 131	2 396	—	1	—	6	14
Vegetable hair	436	112	15	242	2	2	42	21
Cork, unworked, or articles of cork	4 667	2 429	41	238	1	—	2	1 956
Unworked skins and hides	2 244	1 539	43	202	2	26	243	189
Paper	1 666	1 308	22	100	41	42	—	153
Total of above items	125 308	100 723	4 853	3 474	874	401	3 463	11 420
In percent of total at head of table	84 %	89 %	47 %	87 %	85 %	58 %	89 %	68 %

¹⁾ Of which 5,458 million in the form of wheat flour and semolina, and 611 million in form of pastes.

TABLE 15

Imports of Algeria - 1956

(in '000,000 francs)

	Imports	Franc area		Other EEC Countries				Other Countries
		France	Others	F. R. Germany	Netherlands	Belgium Luxembourg	Italy	
Total	267 254	215 625	8 405	2 132	2 190	712	1 858	26 332
incl.								
Fruit and vegetables	5 837	3 331	1 350	2	165	41	376	572
Rice	351	106	65	—	—	—	153	27
Fats	10 811	3 959	2 717	335	268	53	—	3 479
Dairy produce	9 237	5 972	7	27	1 319	—	37	1 875
Petroleum products	17 472	15 780	5	—	2	8	170	1 507
Raw and manufactured tobaccos	1 411	119	96	5	13	15	72	1 091 ¹⁾
Chemicals and pharmaceuticals, fertilizers	18 039	16 910	550	124	29	169	23	234
Plastics, rubber	4 895	4 389	63	25	5	20	64	329
Woods and woodwork	7 481	4 253	342	29	—	1	111	2 745
Fibres and fabrics	19 801	18 838	302	2	2	36	165	456
Clothing and fancy work	14 576	12 594	663	56	11	43	20	1 189
Miscellaneous machines	16 345	11 915	35	645	14	40	207	3 489
Electrical constructions	10 550	10 026	—	85	43	17	20	359
Passenger automobiles	8 909	8 482	—	112	49	102	—	164
Bicycles and motorcycles	841	752	—	20	—	—	12	57
Trucks and special vehicles	5 868	5 579	—	64	9	—	—	216
Tractors	2 006	933	—	156	—	—	86	831
Precision instruments and optics	3 097	2 532	2	103	69	2	26	363
Total of above items	157 527	126 470	6 197	7 790	1 998	547	1 542	18 983
In percent of total at head of table	58 %	58 %	34 %	84 %	91 %	77 %	83 %	72 %

¹⁾ Incl. 313 from Netherlands territories in America.

III — FACTORS OF ECONOMIC POLICY WITH AN INFLUENCE ON THE STRUCTURE OF COSTS

A — PRICE SYSTEM

1. Agricultural prices

The prices of the agricultural mainstays of the Algerian economy, the products of the vine and cereals, are determined by their "total integration" with corresponding metropolitan production. These prices therefore have no direct reference to prime costs in the proper sense of the word.

As for the other export products, some are almost entirely absorbed by the metropolitan market (in particular, citrus fruits, vegetables and early vegetables). It is essentially the purchase price on this market which determines the producer's remuneration. The remaining products go chiefly to foreign countries (mineral ores, raw materials, plant products) and conform to world prices.

The lack of a sufficiently important internal market obviously places Algeria in close dependence on general economic conditions in the purchasing countries, which means primarily in the French market. It should be emphasized, nevertheless, that the absorption by the metropolitan market of Algerian farm surpluses at prices above those ruling in export markets has made it possible to ensure stable remuneration for the Algerian producer at higher levels than would have been the case if Algeria had been free to fix her own prices. These arrangements, however, have not always contributed to that reduction of costs which would have been desirable, and which will become increasingly necessary in the setting of the Common Market.

2. Industrial prices

Since 1946, the primary objective of the public authorities has been to place new Algerian enterprises in conditions comparable with those of outside enterprises, which in most cases have largely paid off their equipment. The aim has been to overcome both permanent handicaps resulting from local economic

conditions less favourable than those in Europe and temporary handicaps attending the first stages of any new enterprise.

This explains and justifies the adoption of a certain number of measures of tax relief and direct encouragement to investment in Algeria. The modest results achieved between 1947 and 1956 prove that the advantages thus accorded have not always been sufficient. For this reason, a decree dated 31 January 1958 increases aid to new enterprises or to old ones undergoing extension.

It should further be made clear that one of the important factors in industrial costs, *i. e.* wages, is subject to regulations based on the sliding scale and the national minimum guaranteed wage, similar to those in metropolitan France. However, this system, known as SMIG, is computed on standard-of-living data proper to Algeria.

Finally, the price of energy has up to now been a contributing factor in increasing prime costs in Algerian industries. The discovery of petroleum in the Sahara, and even more of natural gas, should help to restore the balance with European industry and even to place Algerian industry in a favourable position. Studies at present going on suggest that natural gas will be in effective use from 1962 onwards.

3. Distribution costs

Two forms of distribution costs need to be distinguished clearly:

a) Internal distribution, in which a circuit of the European commercial type and an urban or, more particularly, a rural commercial circuit of the traditional type exist side by side. The latter, which covers the whole territory of Algeria, is made up of a multitude of sales points at which there is very little specialization, and statistics concerning it are too vague to be worth mentioning, but it is certain that the number of personnel employed (almost all family workers) is very large. The implementation of new rules for the Trade Register will, doubtless, make possible a closer assessment of the organization and costs of this form of trade, which holds a very important place in Algerian economic life.

b) Marketing for export is burdened with high costs for handling in the ports, for transport of perishables by sea, packing and conditioning. Competition with the countries of Southern Europe is obviously made difficult by these extra costs, to which Italian or Spanish production, for instance, is not subject; an endeavour to rationalize will, without any doubt, be necessary, in order to reduce the costs of bringing the products to the European market. The increase of Algerian production should have a favourable effect in this respect.

4. Transport policy

The major part of the economic activity of Algeria is concentrated in a coastal fringe between the sea and the Atlas mountains. What has sometimes been called "useful Algeria" is thus a 1,000-kilometre long strip rarely more than 50 kilometres in depth, and with the mountains coming right down to the sea in some places. The average density of population is over 80 inhabitants per square kilometre.

North-South communications are by means of roads and railways which start from the ports and cross the Atlas to serve the high plateaux. These rise in some places to more than 1,000 metres. Connecting links from East to West are obliged to follow the rugged topography of the country, and are therefore long, in many places difficult and, consequently, costly.

The communications system is therefore based on the three chief ports (Algiers, Oran and Bône) and on a string of secondary ports (Philippeville, Bougie, Mostaganem, Arzew, Nemours): It consists of a railway network 4,400 km in length (2,000 of one-metre gauge and 2,400 of normal gauge) and a main-road network with 8,000 kilometres of national, and 14,000 of departmental, roads.

Freight traffic by rail is between 1,300 and 1,500 million km/t, and the annual receipts of the railways are around 13,000 million francs, of which 10,000 million come from freight traffic. Since operating expenses are over 20,000 millions, the deficit is equal to about 50 % of receipts.

Road transport is carried on by more than 50,000 commercial vehicles. A distinction must be drawn here between the "public transport" park, whose capacity is approaching 30,000 tons and which is subject to rail and road co-ordination regulations, on the lines of those applied in metropolitan France, and the "private transport" park (capacity about 120,000 tons) which serves the needs of industrial, commercial, or agricultural enterprises, or those of public bodies or administrations owning the vehicles. The so-called "private transport" vehicles are not subject to co-ordination regulations. To obtain an idea of the cost of road transport, it should be remembered that in 1957 wholesale prices were in the region of 5,000 francs per hectolitre for petrol and 3,400 to 3,900 per hectolitre, according to the period of the year, for Diesel oil.

B — INVESTMENTS

The year 1954 was adopted as a basis for the studies undertaken on the economic and social development of Algeria. The country's economic records yield the following figures concerning the principle "aggregates":

— gross domestic production	591,000 million francs
— gross national product	732,000 million francs
— net national product	686,000 million francs
— national income	628,000 million francs

As against these figures gross investment was 172,000 million francs, broken down as follows:

— investments by enterprises	113,000 million francs
— investments by administrations	46,000 million francs
— increase of stocks	13,000 million francs

If the amount of gross investment is related to gross domestic production, the rate of investment works out at $\frac{113 \times 100}{591} = 19\%$. However, since a

large portion of the investments (private as well as public) is financed by metropolitan capital, it is more correct to relate the amount of investments to the gross national product, which includes outside contributions of income and capital. In this case the rate of investment would be $\frac{113 \times 100}{732} = 15.4\%$

The *price of money* is closely dependent on the metropolitan money and capital markets, but varies according to financing procedures and the nature of the transactions:

Public and semi-public investments rely largely on metropolitan aid;

1° Some investments are carried out direct by metropolitan authorities, and the finance is made available in the form of subsidies (this is the case for investments in respect of the chief aerodromes, military installations, and the naval base at Mers el Kébir).

2° Metropolitan France annually grants Algeria equipment credits, which, in 1957, amounted to about 68,000 million. One-third of this money was in the form of subsidies, and the remaining two-thirds represented loans repayable in 25 years at 1.5% interest.

3° A certain number of large specialized metropolitan financial establishments engage in the financing in Algeria of public works carried out by local authorities, and building, notably by agricultural credit bodies. The conditions for loans are generally similar to those obtaining in metropolitan France (interest between 3 and 5.5% — repayment over a period varying from 10 to 25 years, according to the particular transactions).

Private investments are effected either by self-financing or by recourse to the market or banks. Conditions are closely influenced by rates ruling on the Paris market.

As an indication, the rediscount rate of the Bank of Algeria is 4.25 %.

Finally, there are special financing procedures operated by the agricultural provident societies for Moslem agriculture. These societies participate, through the intermediary of their co-operative organizations for plantations, irrigation, and improvement works, in agricultural investment in the traditional milieux, where for lack of acceptable security, recourse to the normal procedures of the Agricultural Credit Fund is difficult. In fact, the methods used by the agricultural provident societies are to some extent tantamount to financing by grants.

The decree of 31 January 1958, whose purpose is to encourage the establishment or the extension of industrial enterprises in Algeria, has increased the facilities hitherto granted to industrial investment. Undertakings recognized by the industrialization plan may benefit by some or all of the following advantages:

An equipment bonus which may be up to 40 % of the amount invested; half this bonus is payable on submission of proof that the investments have actually been made, and the remainder in eight annual amounts beginning with the entry into operation of the new installations;

— Interest rebates, which may have the effect of reducing the rate on the loans to 3 %;

— Refund of the production tax on equipment goods purchased by recognized enterprises;

— Certain tax reliefs during the first stages of operation of the enterprises.

The purpose of these advantages is to offset:

— First, the handicap for undertakings setting up in Algeria of the cost of investments, which is distinctly higher than in metropolitan France;

— Second, the extra charge on prime costs arising from a complex fiscal system, which in its present state is unfavourable to industrial development. A reform is at present being studied with the aim of generally lessening this fiscal handicap.

C — TREND OF PRODUCTIVITY

Efforts to improve the productivity of enterprises, or more generally, of the economic system as a whole, do not take on the same form in Algeria as in the industrial countries. The chief problem is to increase employment and thus enable the insufficiently occupied population of the rural areas or the

suburbs of the large cities to earn a living. In many cases, therefore, the anxiety to step up productivity conflicts with the imperative necessity of providing employment, with the result that, more often than not, compromise solutions between these two exigencies are adopted.

This remark is particularly true of traditional agriculture, where improvement is to a large extent paralyzed by the presence of a great amount of excess manpower. It also explains the emphasis on forms of agriculture which provide both a high income per hectare and a large number of working days; the vine, market-gardening or industrial crops, arboriculture. As for cereals, yields are good where modern methods are used (although sometimes at the expense of soil conservation) but are increasing only slowly in the traditional sector. Generally speaking, the search for higher productivity in agriculture must be reflected much more in the development of intensive cropping and the full exploitation of water resources than in the mechanization of existing systems. Until such time as secondary and tertiary activities are in a position to absorb the excess manpower, increase of agricultural productivity will need to be combined with the maintenance in employment of the manpower at present working on the land.

In the industrial sector, on the contrary, it would be difficult to imagine expansion under conditions similar to those which are necessary for agriculture: to maintain surplus manpower in employment would have repercussions on prime costs and would act as a brake on activity. Nevertheless, the situation of Algeria is not the same as that of the industrial countries: its expansion is not limited by lack of manpower; in addition, the country must procure abroad the machines it needs. For these reasons, the concepts of physical productivity or financial yield do not apply in the same fashion in Algeria as in an industrial country, and the calculation of economic factors is appreciably different.

Several research institutions have been established during the last three years for the purpose of studying the problems of agricultural expansion in the particular economic climate of Algeria. These are:

— The Centre Algérien d'expansion économique et sociale (CAEES) set up in 1955 with the support of the Commissariat Général à la Productivité;

— The Laboratory for applied economic and sociological research in Algerian agriculture, established about the same time with the help of the same Commissariat;

— The Institut d'étude pour le développement industriel de l'Algérie (SEDIA) established at the end of 1957 for the purpose of contributing to the studies essential to the realization of the "ten-year development prospect" in the processing industries sector.

CONCLUSIONS

Algeria is faced with difficult decisions pregnant with consequences of not only a political but also an economic nature. To meet the explosive demographic development which is the salient feature of its situation, it has only relatively limited resources which do not offer any prospect of autonomous progress. In ten years' time, petroleum and natural gas may improve Algeria's prospects, but they can only make a slight contribution to the solution of the grave employment problems which condition both the average living standard of the Algerian population and the pattern of distribution of the national income.

The "Ten-year prospect for the economic development of Algeria", published in April 1958, described in detail the scale of the effort which will be required in order to raise gross domestic production in a decade from 685,000 million to over 1,600,000 million, or from around 70,000 to 120,000 or 125,000 francs per head of the population.

The implementation of this plan would call for total gross investments (including renewals) estimated at 4,700,000 million francs for the ten-year period. In this total, which groups private and public investment and includes self-financing, petroleum will account for nearly 1,000,000 million. At the end of this ten-year plan, 875,000 new jobs would have been created, petroleum, mining, and industrial production multiplied 4.8 times, and, lastly, 735,000 dwellings built.

As a consequence of this action, an important fraction of the Moslem population (notably of the extra population foreseen in ten years' time) will have passed from the agricultural and traditional sector to the urban sector of industry and services and will be developing a way of life corresponding to that of mediterranean Europe. Changes in the living conditions of the rural masses will be less far-reaching; nevertheless the increase in income per head, although still low in absolute terms, would be of the order of 50 % according to the forecasts and might allow of purchases of manufactured consumer goods which at present are non-existent in average years and inconsiderable even in years when harvests are good.

There is no concealing the fact that this process of development demands fairly elaborate planning of the movement of industrialization and presupposes

a vigorous stimulus from outside: the estimates reckon with metropolitan public aid to the tune of 150,000 million francs per annum on the average. In five or six years, petroleum production should be making an appreciable contribution to the financing of public investments and helping to finance industrial development. It is still too early to advance precise figures above the 15 million annual tons forecast for 1961, but it can be accepted that the promising deposits at present being prospected will make it possible greatly to exceed this tonnage within the ten-year period. As to natural gas, of which the known reserves are considerable, it would seem, in the light of present studies, that it will be possible to begin exploiting these in 1962.

Part E

Italy

This Report was drawn up Signor Pasquale SARACENO at the request of the
Commission of the European Economic Community.

INTRODUCTION

1. The years between 1948 and 1950 marked the end of the period of post-war reconstruction in Italy.

In 1948, both agricultural and industrial production reached the maximum pre-war levels, the process of inflation, which had lasted almost a decade, came to an end, and there began a period of price stability which has lasted to the present day. In 1950, the national product per capita again attained its highest pre-war levels, and this year may be considered as marking the transition between the phase of reconstruction and a period that was to be dominated by the development problems of the new Italian society which emerged from the war.

In this new period, the country still has to face serious balance of payments difficulties, to the solution of which ERP aid has, however, made a valuable contribution.

2. In a study devoted to the structural problems of the present-day Italian economy, the five years of reconstruction 1946-50 are of particular interest, since they witnessed the gradual emergence of certain alternatives, the decisions on which have greatly contributed to the present pattern of Italian economy.

The choice in each case derived from one basic choice of principle, *i. e.*, the decision to develop a market economy to the greatest extent possible.

If we look at the situation during the years in question, it is easy to see that there was nothing inevitable about the adoption of this principle; the restoration of a free market economy was not the only possibility open at the time to those responsible for political decisions, and for three reasons:

a) The war had very seriously disorganized the economic life of the country, not so much by reason of the widespread destruction of productive capacity, but, above all, as a result of the disruption which it occasioned in relationships between classes, sectors and regions and, generally speaking, the grave damage done to the very texture of economic life. In addition, the nature of the political and military struggles of which the country was the scene during the final stages of the war resulted in even the organizational structure of Italian

economy being called into question. In other words, the gravity of the events which had taken place on the national territory was such as to conjure up the possibility of organizing the life of the country — including its economic life — on radically different lines.

b) During the pre-war period, very real limits had been set to the market economy in the sphere of international economic relations. The tendency to isolate the national economy in accordance with the autarkic principles then dominant in Italy had prevented our system of production from benefiting fully from the stimuli to progress which a productive system normally derives from the very fact of being geared to the competitive world market. Consequently, when hostilities ceased, the country was confronted with two problems of conversion : the particular problem of war industries and the far more general and serious one of a structure of production inherited from an autarkic system. The expense and difficulties involved in solving this second problem might therefore have made it seem advisable to continue along protectionist lines, or, at least, greatly to slow down the transition to a system in which market forces would be free to exercise their full influence.

c) The sharp disparities in the levels of development of the various parts of Italian economy, some of which have very great leeway to make up, and the increased demand in the post-war years for measures to correct these disparities, might well have suggested a policy of Government intervention involving direction of the economy on a scale so vast as to handicap the development of the characteristic aspects of a market economy even if limited to trade within the national boundaries.

3. Although all the above factors would have rendered alternative solutions possible and, to a considerable extent, justifiable, the political forces then dominant made a clear choice in favour of restoring a market economy. The most striking and significant manifestation of this policy is unquestionably the emphasis placed on measures to keep the currency stable.

The overriding importance attributed to this factor of currency stability has contributed powerfully to shaping the policy followed in the various constituent elements of the economy : national budget, foreign trade, banking policy, development of public enterprises, etc. It is fair to say that the firm attitude adopted in the matter of currency policy and the resulting success have constituted one of the decisive choices of the post-war period. The dominating concept was that a policy of firmness, in conjunction with other possibilities of action open to the authorities in the circumstances obtaining at the time, would in no way hinder but, on the contrary, favour a constantly high rate of development. Today, ten years after its inception, the fruits which this policy has borne confirm beyond all doubt the fundamental correctness of this judgement.

4. It is evident that this basic policy, once fixed, could not have been fully efficacious had it not been completed and consolidated by certain acts of economic policy whose purpose was to resolve the problems of reconstruction, restoration of internal balance, and future development inherent in the situation at that time.

The basic economic choice mentioned above thus carried with it a whole series of specific choices whose nature and degree of urgency became increasingly clear as the gradual completion of the task of reconstruction threw into relief shortcomings and the structural disequilibria in the Italian economic system.

The economic policy resulting from the choices made turns essentially on two fundamental points.

In the first place, as soon as a normal level of production had been reached, a policy of maximum possible liberalization of foreign trade was applied. This has had an important influence on the structure of Italian production ; it has greatly facilitated the re-equipment of the apparatus of production with the aid of foreign machines, at the same time channelling industrial activity in the direction of export trade. The most typical evidence of this line of action, as is well known, is the speed, scale and continuity of the programme of economic liberalization carried out by Italy and her ready adhesion to all international initiatives aimed at facilitating her integration into international markets.

In the second place, specific action has been taken to remedy situations of economic backwardness in certain cases where a cure could not be expected from the completely uncontrolled operation of the laws of a market economy. It may be said in this respect that Italy is one of the countries which have most profited from the lessons of the theory of under-development, particularly from the idea that it is necessary to adjust, by means of a systematic policy of intervention, the mechanisms of development inherent in the market.

5. This policy of Government intervention has chiefly affected two sectors of the Italian economy: agriculture and the Mezzogiorno. Because of the predominantly agricultural character of the economy of Southern Italy, these problems are really to a great extent twin aspects of one and the same problem. In the industrial field, on the other hand, if the petroleum industry is excepted, a more traditional policy has been followed.

Among the applications of this policy, two have been particularly fruitful: the granting of credit facilities for the import of machinery, and the investments made in the iron and steel sector. This branch had for some time been under state control, and the result of this policy has been to endow the country with a modern iron and steel industry.

When discussing the measures taken in the two essential sectors mentioned above (agriculture and Mezzogiorno), it must first be pointed out that the dif-

difficulties encountered by Italian agriculture arise essentially from the fact that the volume of agricultural manpower greatly exceeds the possibilities of employment offered by the land. In addition, the persistence of out-of-date farming methods and great scarcity of capital make it impossible even to exploit the available resources as fully and as profitably as could be.

This difficult situation, which is typical of over-populated areas and which is encountered particularly in the central and southern regions of the country, is tending to spread to other areas where agricultural conditions are more advanced. This is due to the well-known phenomenon of the more rapid increase of productivity in non-agricultural sectors, and the fact that this increase is not reflected in a fall in the prices of the products of these sectors, the result being that the tendency for the marginal cost of the factors used in the various sectors to level out is far from making itself felt¹).

Action in favour of agriculture has therefore necessarily taken on multiple forms: the stepping-up of pre-war programmes of land improvement and the creation of fixed capital in general, the maintenance of price-support measures, the adoption in certain areas of land reform with the twin aims of satisfying urgent social requirements and making possible higher levels of productivity.

In the Mezzogiorno, the most important role has been played by the "Cassa per il Mezzogiorno" the resources of which have been mainly used to finance agricultural development and to provide the infrastructure necessary to encourage private capital investment in the South, particularly in industry.

It is important to note that all these actions have been carried out in substantial harmony with the basic choice mentioned earlier. The development policy for the Mezzogiorno has taken the form of the provision of infrastructures and of encouragement for new industries and not of engaging directly in any industrial activities.

Similar observations may be made concerning agrarian policy. The type of reform adopted, which aims at building up an agricultural society of smallholders even in cases where bigger enterprises would have ensured higher levels of productivity, is conditioned by the imperative necessity of carrying through the reform in an agricultural milieu burdened with excess manpower for which there is no possibility of finding employment in other activities.

In the same way, the intense development of public works in the agricultural field — one welcome consequence of which has been the initiation of a systematic programme of irrigation — is tantamount to a definite choice in favour of the traditional forms of intervention which are represented by public works.

¹) See chap. I, section E, p. 369.

6. The basic choice made at the start and given concrete expression by the various policies outlined above, has resulted in a really vigorous overall development of Italian industry, but this development has, nevertheless, left largely unsolved the essential problems of agricultural stagnation and the Mezzogiorno, and therefore of unemployment. The permanence of these problems in Italy has led to the working out of an organic economic programme of which the Vanoni Plan is the detailed basis. This plan defines the mutual relationships between the basic economic factors. Its implementation would go a long way towards solving, between now and 1964, the problems described above.

This study will conclude with an appreciation of the prospects in the field of economic policy implicit in the Vanoni Plan, with particular emphasis on the new tasks which will face the Italian economy as the Common Market is implemented, together with an estimate of the results of the economic policies followed from 1950 to the present day.

I — STRUCTURE OF PRODUCTION

A — POPULATION AND MANPOWER

During the period 1950-57, the average natural increase of the present-in-area population of Italy was 0.81 % per annum. Since net emigration was equal to about 45 % of this increase ¹⁾, the actual rate of population increase during the period was 0.46 % per annum.

During the same period, the process of ageing which has for some time been affecting the Italian population, continued. As may be seen from the data in Table 1, the natural change in the population has resulted in a fall in the number of persons below working age (0 — 14 years) and a marked increase in that of the remaining age groups. This phenomenon has been further accentuated by migration. As a result of the above-mentioned trend, the population of working age (14-65) has increased, on the average, by 0.99 % par annum, a rate which falls to 0.60 % if account is taken of emigration.

TABLE 1

Estimate of the natural and actual changes in the Italian present-in-area population by principal age groups - 1950 to 1957

Age	Population end 1950		Population end 1957		Balance of natural change 1951-57		Balance of actual change 1951-57	
	000's ¹⁾	%	000's ¹⁾	%	000's ¹⁾	average annual rate	000's ¹⁾	average annual rate
0 - 14	11,700	25	11,350	23	- 80	- ..	- 350	- 0.43
14 - 65	31,510	67	32,870	68	+ 2,250	+ 0.99	+ 1,360	+ 0.60
65 and over	3,840	8	4,380	9	+ 580	+ 2.03	+ 540	+ 1.90
Total	47,050	100	48,600	100	+ 2,750	+ 0.81	+ 1,550	+ 0.46

¹⁾ round figures.

¹⁾ Approximately 25-30 % of net emigration during this period was to Common Market countries.

The labour force, *i. e.* that part of the population which is either working or seeking work, is estimated to have risen during the period under review from slightly under 19.2 million to about 20.1 million¹), an average annual increase of 0.67 %. However, since the net emigration figure for the period was around 650,000 (incl. more than 200,000 to Common Market countries) the rate of natural increase of the Italian labour force may be set at 1.12 % per annum.

At the end of the period under review the labour force represented about 61 % of the population between 14 and 65 and was made up of 75 % men and 25 % women.

During the same period 1950-1957, numbers in employment rose from 17.1 to 18.4 million, an average annual rate of increase of 1.07 %. We will leave till the next section the study of the situation in the various sectors of production, but it should be pointed out here that the above mentioned increase is the net result produced by two contrary movements: a fall of about 570,000 units (or 1.10 % per annum on the average) in the number of agricultural workers, and a net increase of around 1.9 million (2.65 % per annum on the average) in employment in non-agricultural sectors.

Between 1950-1957, therefore the number of workers absorbed by the internal labour market (net increase in non-agricultural employment : 1.9 millions) and foreign countries (net emigration of manpower : 650,000) was about 65 % higher than the natural increase of population (1,550,000). This has made it possible to reduce the number of unemployed which existed at the beginning of the period despite the constant flow of under-employed from the agricultural sector.

Manpower reserves available to the Italian economy may be divided into two main categories:

a) registered unemployed, about 1.7 million in number in 1957²)

b) under-employment in agriculture and handicrafts (concealed unemployment). This is in continuous process of becoming open unemployment under the influence of a number of economic and social factors the future trend of which it is difficult to foresee. Should this process continue at the same rhythm, the result would be to bring a further 100,000-110,000 workers onto the labour market annually, in addition to those provided by natural population increase.

Since natural increase can be estimated at about 150,000—160,000 units per annum on the average, the total number of persons seeking employment during

¹) These estimates include persons in work, unemployed, and those over 14 in search of their first job, but exclude persons belonging to institutional communities (conscripts and volunteers in the armed forces, those serving prison sentences, etc.).

²) This figure is made up of 70 % of unemployed who have already worked and 30 % of young people in search of their first jobs.

the next few years will probably be in the region of 250,000 to 270,000, present unemployment and the effect of possible net emigration being left out of account.

B — ORIGIN OF THE NATIONAL PRODUCT

The chief contribution to the formation of the gross national product¹⁾ in Italy is made by industrial activities, followed by services and agriculture. Agriculture is declining in importance rather rapidly, as may be seen from the table below, which shows that in 1950 the product of agriculture accounted for 28.6 % of the national income, but for hardly 20 % in 1957.

TABLE 2

Gross national product by sectors - 1950 to 1957

(in lire at current value)

Sector of origin	1950		1957		1950-1957		
	'000,000,000 lire	%	'000,000,000 lire	%	absolute variation	%	annual % rate of increase
Agriculture ¹⁾	2 234	28.6	2 777	20.2	+ 543	9.1	3.2
Industry	2 946	37.8	5 891	42.8	+ 2 945	49.3	10.4
Tertiary activities	2 620	33.6	5 103	37.0	+ 2 483	41.6	10.0
Gross national product at factor cost	7 800	100	13 771	100	+ 5 971	100	8.5

¹⁾ The average annual rate of increase in the agricultural sector remains practically unchanged if we eliminate the possible effects of seasonal factors on agricultural incomes by comparing the average values for three-year periods (1948-50 ; 1955-57) instead of the years 1950 and 1957.

From the data in Table 2 it is clear that the Italian gross national product, in lire at current value, increased at an average annual rate of 8.5 % between 1950 and 1957. Two factors contributed to this rate: an increase in the volume of production, and a decline in the purchasing power of the national currency. If we assume that the ratio between the value of the national product in 1957 in lire of constant value, and its value in 1950 lire, represents the decline in purchasing power between 1950 and 1957, the percentage decline during the period works out at 23 %. We may therefore conclude that the annual 8.5 % rate of increase of the national product meant in real terms an annual average rate of 5.3 %. If the same procedure is applied to the data in the last column of Table 2 — see Table 3 — the following rates of real increase for the different sectors are obtained:

¹⁾ Calculated at factor cost, and including some duplication, in accordance with the table adopted for Italy in the OEEC volume "Statistics of National Product and Expenditure" No. 2 - 1938 and 1947 to 1955.

TABLE 3

**Annual rate of increase of GNP in terms of money with constant purchasing power
1950 to 1957**

Sector	Rate
Agriculture	2.4 %
Industry	6.5 %
Tertiary activities	6.2 %
	5.3 %

The principal contributions to the increase in agricultural income were made by typical products of Italian agriculture. The value of gross marketable production (which increased during the period under review at an average rate of 2.4 %) shows a rate of increase of 6 % for citrus and other fruit, 5 % for the products of the wine and olive growing industries, and 4 % for market gardening products. Cereals and other herbaceous crops, on the other hand, showed an increase of only about 2 % and stock farming of 1 %. As a result of the different rates of development in the various branches, the structure of the gross agricultural product has undergone notable change, as appears from the following figures, which again refer to gross marketable production:

TABLE 4

Gross marketable production
Percentage composition at factor cost

	1950	1957
Cereals	24.1	22.2
Products of the wine and olive-growing industries	11.3	14.6
Citrus and other fruits	7.5	10.9
Other products, sylviculture	2.3	1.6
	21.1	27.1
Market-gardening	8.3	10.2
Other herbaceous products	5.9	5.7
	14.2	15.9
Livestock	40.6	34.8
	100	100

The above data show that the importance of cereals is tending to diminish, while that of citrus fruits and the products of the wine-growing and market-gardening industries is appreciably increasing. These are normal trends in Italian agriculture. There was also a considerable decline in the importance of the products of stock-farming for which three reasons may be noted: changes in price structure, reduction in the sheep population, and the still insufficient rate of progress in the whole branch. There is therefore every prospect that this trend will be reversed in view of the fact that stock farming is to benefit particularly under the agricultural policy now in force in Italy.

The gross product of industry is broken down as follows between the basic sectors:

TABLE 5

Gross product of industry at factor cost

(lire at current value)

Industries	1950		1957		Average annual rate of increase	
	'000,000,000 lire	%	'000,000,000 lire	%	in lire at current value %	in lire at constant value %
Mining and quarrying	84	2.9	202	3.4	13.3	8.4
Manufacture	2 428	82.4	4 368	74.2	8.7	5.4
Construction	240	8.1	943	16.0	21.6	13.5
Electricity, gas, water	194	6.6	378	6.4	10.0	6.2
Total	2 946	100.0	5 891	100.0	10.4	6.5

The figures in Table 5 reveal the important part played in development during the period under review by construction and, in particular, housing, since construction of public works remained practically stationary between 1950 and 1957. Progress in the mining and quarrying industries was remarkable, thanks principally to the output of petroleum (+ 39 %) and of liquid petroleum products (1,257,000 metric tons in 1957) and, to a lesser extent, to that of iron ore (+ 20 %), which made up for the almost stationary condition in certain branches (bauxite and manganese) and the actual decline in others (coal, sulphur). The last-named are operating at submarginal costs and their prospects in the present-day technical and economic setting are not favourable.

The output of manufacturing industries is broken down as follows:

TABLE 6

Gross output of manufacturing industries at factor cost - 1950 to 1957

(lire at current value)

Manufacturing industries	1950		1957		Average annual rate of increase	
	'000,000,000 lire	%	'000,000,000 lire	%	in lire at current value %	in lire at constant value %
Foodstuffs	544	22.4	732	16.8	4.3	2.7
Textiles	371	15.3	427	9.8	2.0	1.2
Metallurgical	158	6.5	460	10.5	16.5	10.3
Mechanical engineering	602	24.8	1 146	26.2	9.6	6.0
Chemicals	256	10.5	667	15.3	14.7	9.2
Miscellaneous	497	20.5	936	21.4	9.5	5.9
Total	2 428	100.0	4 368	100.0	8.7	5.4

The manufacturing sectors which have contributed most to Italian industrial progress are, as the table shows, metallurgy, mechanical engineering and chemicals. In 1957, these accounted for 52 % of the total product of manufacturing industry, as against 42 % in 1950. It should be pointed out that the metallurgical industry which, in 1950, was less than half as important as the textile industry has now left it behind. Similarly, the chemicals industry, the share of which in 1950 was less than half that of foodstuffs, has today almost overtaken the latter.

Contrary to that of agriculture and industry, the output of tertiary activities has grown uniformly throughout the various branches, as may be seen from the following table:

TABLE 7

Gross output of the tertiary sector at factor cost - 1950 to 1957

(lire at current value)

Services	1950		1957		Annual average rate of increase	
	'000,000,000 lire	%	'000,000,000 lire	%	in lire at current value %	in lire at constant value %
Transport and communications	479	18.3	966	18.9	10.5	6.5
Commerce	727	27.7	1 286	25.2	8.5	5.3
Banking and insurance	251	9.6	487	9.6	9.9	6.2
Public administration	747	28.5	1 486	29.1	10.3	6.4
Miscellaneous services	416	15.9	878	17.2	11.3	7.0
Total	2 620	100.0	5 103	100.0	10.0	6.2

C — USE OF RESOURCES

The table below shows the use to which the national income was put and the variations which occurred between 1950 and 1957. Average rates of increase are indicated in the two last columns with reference to current lire and to lire with constant purchasing power:

TABLE 8
Utilization of the national income - 1950 to 1957

(in lire at current value)

	1950		1957		1950-1957	
	'000,000,000 lire	%	'000,000,000 lire	%	Percentage growth	
					in lire at current value	in lire at constant value
Consumer goods	7 090	81.1	12 352	78.1	8.3	5.3
Investment for housing	230	2.6	927	5.9	22.0	14.0
Total consumer expenditure	7 320	83.7	13 279	84.0	8.9	5.7
Productive investments and public works	1 420	16.3	2 529	16.0	8.6	5.5
Total national expenditure	8 740	100.0	15 808	100.0	8.8	5.6
Net balance of imports ¹⁾	70	0.8	181	1.1	14.5	1.2
Gross national product at market prices	8 670	99.2	15 627	98.9	8.8	5.6

¹⁾ The amount for net imports corresponds to the balance of current payments minus unilateral transfers (emigrants' remittances, reparations and other donations) and government aid (military orders, services, grants).

The above data show that consumer expenditure, including that on housing, accounted for 84 % of all expenditure. This percentage remained practically unaltered between 1950 and 1957; consequently, there was no variation in the share of resources available for productive investments and public works, which remained in the neighbourhood of 16 %.

However, the composition of consumer expenditure underwent notable changes: the share made available for new housing increased at an average annual rate of 14 % and, in 1957, represented 7 % of expenditure on consumer goods, as against 3.1 % in 1950. Thus, 38.6 % of the increased investment in relation to 1950 went into the construction of housing, and 61.4 % was used for other investments, particularly calculated to increase employment and productivity.

These last-mentioned investments remained stationary at around 16.2 % and, as amortization represents about 8 or 9 %, of total expenditure, the share in savings available for new productive investment and public works may be estimated at 7 to 8 % of income.

It should be observed, however, that the ratio between the prices of capital goods and those of consumer goods has been reduced. Consequently, a greater volume of real capital has been created for the same amount of investment. In addition, within the item of productive and public works investments, a larger share has been allocated to industrial investments.

These two phenomena are shown together in the next table, in which the conversion into 1954 lire has been made, not on the basis of the general index of purchasing power, but on specific indices for the different categories of investment.

TABLE 9

**Gross productive investment by sector
(excl. housing)**

(in '000,000,000 lire at 1954 prices)

	1950	%	1957	%	Average annual increase %
Agriculture	205	14.2	371	16.1	8.9
Industry	615	42.7	996	43.4	7.1
Transport and communications	310	21.5	488	21.3	6.7
Public works	196	13.6	256	11.1	3.9
Miscellaneous	115	8.0	185	8.1	7.0
Total fixed investments	1 441	100.0	2 296	100.0	6.9
Variations in stocks	+ 133		+ 73		
Total	1 574		2 369		6.1

The above figures show that, whereas the expenditure on productive investments has increased, as we have seen, at an average rate of 5.5 %, investments themselves rose, as a result of the price variations referred to, at an average rate of 6.1 % in real terms. If fixed investments alone are considered, the rate of increase is 6.9 %. Finally mention should be made of the fact that fixed agricultural and industrial investments increased by 547,000 million lire, equivalent to about 70 % of the increase in gross productive investment.

In the matter of industrial investments, it should further be noted that the accumulation of capital occurred mainly in those sectors where the intensity of capital was already high; this was a consequence of the vigorous efforts made

to increase productivity and achieve a competitive position in international trade. This explains why the increase in employment has been less than might have been expected.

The variations in consumption were caused particularly by public consumption, which rose from 12.1 % to 15.4 % of total consumption, and by the growth of certain types of private spending, such as that on durables and rents, expenditure on the last-named, being influenced by the gradual easing of war-time controls. It should also be noted that the share of durables is still relatively low (5.3 % of the total), despite the fact that the share of foodstuffs has fallen from 43.4 % to 38.7 %.

D — STRUCTURE OF EMPLOYMENT

Whereas in the field of production, the leading place is taken by industry, followed by the services and agriculture in that order, employment figures given in the table below show agriculture in the first place, followed by services, with industry last.

TABLE 10

Employment in the main sectors of economic activity - 1950 to 1957

Sectors	1950		1957		1950-1957		
	'000	%	'000	%	absolute variation	index 1957 (1950 = 100)	annual rate of variation
Agriculture	7 670	45	7 100	39	- 570	93	- 1.1
Industry	4 525	26	5 415	29	+ 890	120	+ 2.6
Tertiary activities	4 935	29	5 945	32	- 1 010	121	+ 2.7
Total	17 130	100	18 460	100	+ 1 330	108	+ 1.1

The importance of agriculture in employment is still great, although for some time a considerable exodus from the sector has been going on ; as already pointed out 1) this exodus is destined to continue.

¹⁾ See section A of this chapter, p. 359.

Employment in non-agricultural sectors, however, has risen from 55 % of the total in 1950 to 61.4 % in 1957. The shares of the various branches of industry and tertiary activities in the overall increase in non-agricultural employment, which was at an average rate of 2.7 % per annum, are shown in the table below.

TABLE 11

Employment in industry and in tertiary activities - 1950 to 1957

Sectors	1950		1957		1950-1957			
	Employed in 000' s	%	Employed in 000' s	%	Absolute variation	Index 1957 (1950 = 100)	Average annual rate of increase in %	
Industries								
Mining and quarrying	110	2.4	130	2.4	+	20	118.2	2.4
Manufacturing	33 580	79.1	4 115	76.0	+	535	114.9	2.0
Foodstuffs	485	10.7	570	10.5	+	85	117.5	2.3
Textiles	680	15.0	575	10.6	-	105	84.6	-
Metallurgy	145	3.2	140	2.6	-	5	96.6	-
Mechanical engineering	865	19.1	1 135	21.0	+	270	131.2	4.0
Chemicals	230	5.1	285	5.3	+	55	123.9	3.1
Miscellaneous	1 175	26.0	1 410	26.0	+	235	120.0	2.6
Construction	740	26.4	1 065	19.7	+	325	143.9	5.3
Electricity, gas, water	95	2.1	105	1.9	+	10	110.5	1.4
Total	4 525	100.0	5 415	100.0	+	890	119.7	2.6
Services								
Transport and communications	630	12.8	925	15.5	+	295	146.8	5.6
Commerce	1 725	34.9	2 200	37.0	+	475	127.5	3.5
Banking and insurance	195	4.0	215	3.6	+	20	110.3	1.4
Public administration	1 595	32.3	1 710	28.8	+	115	107.2	1.0
Miscellaneous	790	16.0	895	15.1	+	105	113.3	1.8
Total	4 935	100.0	5 945	100.0	+	1 010	120.5	2.7

The above table shows that the greatest contribution to the increase in employment came from the following branches : commerce 25 %, construction 17 %, transport and communications 15 %, mechanical engineering 14 %. Manufacturing industries as a whole gave employment to 535,000 more workers, equal to 28 % of the rise in employment during the period.

In textiles there was a considerable reduction in employment — equal to 15 % of the 1950 figure — but there was practically no change in employment within the metallurgical sector, although it absorbed a high proportion of the investments made during the period and showed the highest rate of increase in terms of output.

E — SUMMARY DATA ON PRODUCTIVITY

It has already been shown in Table 3 that the national income, expressed in currency of constant purchasing power, increased between 1950 and 1957 at an average annual rate of 5.3 %. Since it is estimated that during the same period employment increased at an average rate of 1.1 %, the rate of increase in the gross output per worker comes to 4.5 % ; for the three basic sectors the rates of increase are indicated in column 1 of table 12.

TABLE 12

Gross output per worker by sectors - 1950 to 1957

Sectors	Average annual increase 1950-1957 %	Variations in the per capita product per sector	
		1950	1957
Agriculture	2.7	64	57
Industry	4.7	143	145
Tertiary activities	4.4	116	116
All sectors	4.5	100	100

As a result of these differences in the rates of progress, the divergences in output per head in the different sectors, which were already great, became even wider, as may be seen from the last two columns of Table 12. If we take the average output per head of Italian workers as a whole in 1950 as 100, output per head in the agricultural sector works out at 64 % of this average, or 45 % of output in industry. By 1957 the corresponding figures in agriculture had fallen to 57 % and 39 %.

The rate of increase in output per head indicated in Table 12 is determined by the variations in productivity and in price relations to the exclusion of changes in the purchasing power of money (see section B) of this chapter, p. 361. In order to eliminate the effects of price variations and thus determine the rate of increase in real terms of productivity, it is necessary to correct the rates indicated in Table 12 on the basis of the index figure for price variations in each sector.

To compile such an index is a very complicated task, and the results obtained, which are shown in Table 13, must therefore be regarded as no more than rough approximations : they are useful to indicate not so much the progress of the different sectors as the order of magnitude of the changes in the relative positions of the sectors themselves.

TABLE 13
Variation in productivity - 1950 to 1957

Sectors	Average annual increase 1950-1957 %
Agriculture	3.8
Industry	6.7
Tertiary activities	1.3
All sectors	4.7

It would seem, therefore, that in agriculture both the productivity and gross output per worker have increased at a rate equivalent to 50 - 60 % of the corresponding rates in industry, and this despite the fact that the labour force has decreased in agriculture and increased in industry. The fact that this margin between the two sectors is identical for gross output and for productivity would indicate that agriculture has benefited solely from its own increased productivity and the reduction in its manpower, but not from any improvement in its prices, unlike the industrial sector, where progress is more rapid.

The figures in Tables 12 and 13 also bring out the fact that in the tertiary sector the rate of increase of productivity was notably less than that of gross output. This seems to indicate that the increase in employment in this sector was made possible, contrary to what happened in industry, by a certain stagnation in productivity.

It should be recalled in this connection that the variations in average productivity are influenced, not only by increases in productivity per worker, but also by changes in the structure of the labour force resulting principally from the movement of workers from agriculture, where productivity is low, to industry and tertiary activities, where the average level is higher.

If, in order to eliminate the effects of this transfer of workers, we suppose that the structure of Italian employment had remained unchanged, the rate of increase of productivity would be not 4.7 %, as indicated in Table 13, but 4 %.

The increase in overall average productivity indicated in Table 13 would therefore be due in the proportion of 15 % to the transfer of workers from low productivity sectors to those with higher productivity, and for the remaining 85 % to a genuine increase in the productivity of enterprises, attributable in its turn either to an increase in intensity of capital or to a rise in the productivity of the labour factor. The same remark could be made concerning the rates of average productivity for the individual sectors. However, it is interesting to note that the variations in the structure of employment in industry do not seem to have influenced the average rate of increase of productivity in the industrial sector. This is a consequence of the fact that the increase in em-

ployment occurred either in those branches with high productivity, such as mechanical engineering, or in construction, which is a part of the industrial sector where productivity is relatively low.

In any case, the existence of very widely differing levels of productivity, even between enterprises of the same branch, should be noted. The favourable economic trend of recent years has made it possible to operate at a profit plant whose output would have been eliminated from the market in a situation of more intense competition. Another factor which helps to prolong this situation is the existence of industrial groups which control a multiplicity of plants of greatly differing efficiency and can make use of profits from more efficient production units to meet the deficits of those which cannot pay their way.

The situation described above is steadily being remedied through the normal process of renovation and development going on in the various sectors. It may happen, however, that the position of some of these enterprises will become untenable, either as a result of a deterioration in the economic trend, or following the integration of the Italian market into the Common Market. Hence the necessity for these less efficient firms to speed up the process of modernization of their methods of production.

F — DEGREE OF CONCENTRATION OF PRODUCTIVE ACTIVITY

The data of the Industrial Census of 1951 (the last available systematic review of the structure of Italian industry) reveal that productive capacity is to a large extent broken up into relatively small units; this is due to the important part which handicraft production and small-scale industry play in the economic life of the country.

In 1951, 79 % of productive units in Italy were of a handicraft character ; they employed less than 21 % of all industrial workers and had at their disposal less than 6 % of the power installed in industry.

At the same date, 75 % of the productive units in the country employed 2 workers or fewer, and 19 % between 3 and 10. On the other hand, less than 6 % had from 11 to 100. These accounted for about 27 % of all workers in industry. Finally, 0.7 % of productive units (a little over 5,000 enterprises) were employing 43 % of all workers in industry. This last figure is evidence of the existence of noteworthy concentrations of production.

Similar characteristics appear frequently even within the various branches and groups of industry. Only in the metallurgical and chemical sectors is this diversity less marked. 1)

¹⁾ In these two sectors, the proportion of enterprises with less than 10 workers is markedly smaller (41.1 % and 79.4 % respectively, the total number in such enterprises being 1.1 % of all labour in the metallurgical sector and 8.3 % in chemicals). The proportion of enterprises with over 100 workers is higher — 20.4 % and 4.0 % respectively — and they employ 91 % of the total labour force in the first sector and 72.5 % in the second.

In the technically more advanced sectors, concentration is often intense. In many cases, however, this situation is not so much the result of a policy directed to controlling the market as of the fact that, because of dimensions called for by modern techniques, a very limited number of productive units is often sufficient to supply a market like the Italian which remains relatively restricted despite the important expansion of post-war years. The situation in the shipbuilding industry is significant in this respect : the continued existence of a relatively high number of yards for big ships keeps the sector in a state of grave crisis even when the situation on the world market is extremely favourable. Similar conditions prevail in other branches of mechanical production (for instance, tractors, railway material) and perhaps, in some categories of iron and steel. In general, it may be said that the high degree of concentration in certain industrial sectors, far from being an unhealthy aspect of the Italian industrial system, is destined to become even more marked as a result of the process of rationalization which is unavoidable in certain branches of industry. The average degree of concentration in the productive system tends moreover to increase as a consequence of the inevitable decline in handcraft activities, whose low productivity cannot be brought up to a satisfactory level.

G — PRIVATE AND PUBLIC INITIATIVE IN INDUSTRY

Productive enterprises under public control may be divided into three categories with different origins and characteristics :

1. Those which came under public control as result of specific nationalization measures. In these cases action was taken, largely before 1914, in order to ensure the orderly development of the public services and to set up the fiscal monopolies. Examples are the State salt and tobacco monopolies, the State Telephone Services, the post and telegraph services and the State railways.

The salient feature of this type of enterprise is that they are an organic part of the administration of the State (whose rules and regulations they must obey) and are normally financed directly from the public treasury. The regional telephone services and airlines were added to this group in 1957. However, these two activities remained in the IRI group (Istituto Ricostruzione Italiana) with the system of financing indicated in para (2) below.

2. Enterprises which became the property of the State in the course of operating during the inter-war period for the reorganization of banking, or — in the case of mechanical industries — were taken over by the State after the second world war. The characteristic of these enterprises, which constitute

the major part of the IRI group, is that they are organised as joint-stock companies and financed either by offering minority holdings on the market or by recourse to borrowing¹).

3. Enterprises founded by the State during the period after the second world war to further specific economic policy aims. The most important example of this type of intervention is the ENI, established in 1953 to develop, as a monopoly, the petroleum resources of the Po Valley and to participate in competition with private enterprises, in prospecting and exploiting those situated in other parts of the national territory and abroad. This third type of intervention is also characterized by the fact that the enterprises are financed not by the market alone but also, to a large extent, from their own resources.

The influence of these two last groups — the most significant in a setting orientated towards a market economy — may be seen in the fact that they control 25 % of the national output of electricity 2), 15 % of the total tonnage of the Italian merchant navy (60 % in the case of mixed cargo and passenger vessels), 55 % of steel production, 20 % of refining capacity, a little over 10 % of the production of mechanical engineering industry, almost 100 % of that of natural gas, and 10 - 15 % of that of petroleum (1957). The overall importance of groups 2 and 3 in the national economy is illustrated by the data in Table 14, which shows the numbers employed in the enterprises in question.

TABLE 14

Employment in publicly-owned enterprises*(in '000)*

Sectors	1951	1957
Public services	46	60
Mining and quarrying	24	19
Manufacturing industries	155	167
Miscellaneous	43	41
	268	287

When compared with those concerning global employment the above figures seem to indicate that the importance of the public sector has not changed appreciably in the period considered.

¹) For the IRI group as a whole the proportion of share capital subscribed by third parties is about 40 % of the total share capital of the enterprises.

²) This percentage does not include the production of enterprises controlled by municipalities, which represent another 6 %.

H — REGIONAL DIFFERENCES IN THE DEVELOPMENT OF THE ITALIAN ECONOMY

One consequence of the wide margin which exists between the levels of production of Italian agriculture and industry is that there are important differences between the income of the regions in which industrial development has not begun or is on a very limited scale and those which are fully industrialized.

Areas with agricultural over-population resulting from inadequate industrial development insufficiently relieved by the safety-valve of emigration exist in all parts of the national territory. In the Centre and North, however, these areas are restricted in extent and the neighbouring industrialized zones are in a position gradually to absorb the excess agricultural manpower¹⁾. In the southern part of the country, on the contrary, over-population affects all areas without exception, the whole territory constituting a typical zone of under-development, or, more precisely, a zone in which the mechanism of development is clearly inadequate to furnish employment to the available labour force and to keep pace with the natural growth of population.

The characteristics of this area, which represents 41 % of the national territory, are summarized in the table below :

TABLE 15

Data on the disequilibrium between Italian regions

(percentage breakdown)

Regions	Population end 1957	Income 1957	Gross fixed capital investment 1957	Natural increase of population 1957
Centre-North	62	79	74	35
Mezzogiorno	38	21	26	65
Italy	100	100	100	100

The above figures give a good idea of the grave disequilibrium between regions under which Italian industry labours today. They show that the 38 % of the Italian population resident in the South produced only 21 % of the national income in 1957. This disequilibrium tends, moreover, to become worse as a result of the fact that, while the South contributes 65 % of the natural increase of Italian population and thus, roughly speaking, of the labour force, it only received 26 % of productive investment and investment in public works

¹⁾ Only in the Apennines and the north-eastern part of the country do these areas of local agricultural depression present more serious features.

in Italy in 1957. The disproportion between increase in population and provision of new jobs is, moreover, greater than is revealed by the figures just quoted, since the structure of investments is vastly different in the two regions, as the following table shows :

TABLE 16

**Structure of gross fixed capital investment in the Centre-North
and the Mezzogiorno in 1957**

(percentage shares)

Sectors	Centre-North	Mezzogiorno
Agriculture	13	26
Industry	50	27
Transport and communications	19	23
Public works	9	19
Miscellaneous	9	5
	100	100

The above figures show that investments in industry represent only 27 % of productive investments in the South, as against 50 % in the North. This means that the volume of investments in the South, inadequate as it is, was primarily due to public investments in agriculture and public works largely for the purpose of providing infrastructures which have not yet been followed by an adequate flow of directly productive investment.

Another aspect of this problem is seen in the fact that only 15—16 % of 1957 industrial investment took place in the South, whereas investments in agriculture and public works in the same region were respectively 41 % and 43 % of the national total.

One important consequence of this situation is the difference in the ratio of public to private investment in the Centre-North and the South. Because of the low level of investment in the manufacturing industries which, in Italy, comes mainly from private sources, total private investments, reckoned to represent about 75 % of overall investment in the Centre-North, may be estimated at about 40 % in the South.

The above brief facts taken together throw into relief the terms of the gravest politico-economic problem in contemporary Italy, which may be formulated as follows: how is it possible in the setting of a market economy, to further the economic development of a region which supplies, on the average,

two-thirds of the increase in the Italian labour force and receives less than 20 % of the country's private investments 1).

In an effort to resolve this problem an exceptional programme of action in favour of the South has been under way since 1950 through the medium of the "Cassa per il Mezzogiorno" (Fund for the South).

This programme has had the effect of preventing the gap between the North and the South, which had been growing wider for years, from becoming any greater. Between 1950 and 1957, income in the South increased at a rate which is no longer inferior to that of the North. In terms of investment, the progress appears even more striking; the rate of increase is estimated at 11 % per annum as against 8 % in the central and northern regions.

All this indicates that the programme undertaken to raise the economic level of the South is a long term business demanding for its successful execution constant adaption of the means employed to the different characteristics of the successive phases of the operation. One of these phases seems to have been initiated by a law approved in July 1957, which lends new impetus to the process of industrialization with the aim of putting to fuller use the fixed social capital created during the previous phase of the programme.

One object of this law is to use the public enterprises as a means of development. It should be remembered, in this respect, that action taken so far in this field has had two principal objectives: the management of enterprises of which the State had assumed control in the course of operations for the

¹⁾ Another aspect of the disequilibrium between the Italian regions, which is no more than a reflection of what is said in the main text, is shown by the proportions in which the income of the various sectors was broken down in 1957.

	Agriculture	Industry	Services	
	<i>% territorial distribution</i>			
Centre-North	67	81	84	
Mezzogiorno	33	19	16	
Italy	100	100	100	
	<i>% composition of income</i>			
Centre-North	18	45	37	100
Mezzogiorno	34	39	27	100
Italy	22	43	35	100

It should be added that per capita in income in the South is 55 % of the national average and 44 % of that in the Centre-North. Finally, the different nature of the industrial income in the Centre-North compared with that of the South should be pointed out. The following fact is indicative: whereas in the Centre-North only 17 % of industrial workers are employed in handicrafts enterprises, the proportion is 39 % in the South; in the Centre-North, 82 % of labour is employed in enterprises equipped with motor power; in the South, the proportion is only 52 %; in the Centre-North 25 % of workers are employed in enterprises with 10 or less personnel; in the South this proportion rises to 53 %.

reorganization of banking, and the adoption of a definite position vis-à-vis certain private industrial groups (telephones, petroleum, fertilizers). The aim of correcting the basic tendency of Italian industrial investment to concentrate in the Centre-North has not been a determining factor up to the present. Thus, only in the Centre-North have the industrial investments of public enterprises resulted in the establishment of new productive units or substantial extensions to those already in existence. With the new law, it is the turn of public enterprises to be called upon to make a contribution to the general policy of industrialization of the South which, up to now, has been pushed forward by private industry unaided. However, this new orientation does not alter the fundamental premise on which policy for the South is based, *i.e.* that the process of industrialization cannot take place with the necessary degree of intensity and efficiency unless there is a substantial increase in private industrial investment.

II — ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

A — STRUCTURE OF THE BALANCE OF CURRENT PAYMENTS

In 1957 on the eve of the entry into force of the Treaty of Rome, the Italian economy, for the first time since the war, achieved a position of substantial equilibrium in the balance of current payments. As shown by Table 17, this balance was obtained thanks to the contribution of invisible exports, whose credit balance (396,300 million current lire) almost sufficed to cover the 425,500 million lire deficit on the trading account.

As to the structure of the trade balance, it should first be pointed out that 56.3 % of expenditure represents imports of foodstuffs (in particular oil seeds, hard grains, meat and coffee) and of raw materials, coal and petroleum.

By contrast, exports are made up essentially of manufactured goods (40.4 %), foodstuffs (15.2 %) — mainly fruit and vegetables (7.9 %) — and products of the refining industry (4.6 %), while the export of raw materials, consisting principally of artificial and synthetic textile fibres, metalliferous ores, etc., accounts for no more than 3 % of receipts. The volume of imports of manufactured goods should also be stressed (23.3 %). About half of these are engineering products, which is evidence of the policy of liberalization being followed in this field with the aim of furthering the process of modernization of economy.

Among invisible transactions, it should be noted that “transport and insurance” show a substantial balance between expenditure and receipts, while interest and other charges on foreign capital invested in Italy are of relatively modest volume and are balanced to a large extent by income from Italian investments abroad. To sum up, the deficit in the trade balance is recovered principally by tourism and by money sent home by temporary and permanent emigrants (income from work) which together amounted, in 1957, to 339,500 million lire net; whereas the deficit in the trade balance was, as already pointed out, 425,500 million lire.

TABLE 17

Balance of current payments 1957

('000,000,000 lire at current value) ¹⁾

Items	Receipts		Expenditure	
	'000,000,000 lire	%	'000,000,000 lire	%
A - Merchandise job				
Foodstuffs	381.3	15.2	334.6	13.1
Raw materials	75.5	3.0	661.7	26.0
Coal and oil	115.8	4.6	427.3	16.8
Manufactured goods	1 017.5	40.4	592.0	23.3
Total	1 590.1	63.2	2 015.6	79.2
B - Services and transfers				
Tourism	238.1	9.5	36.4	1.4
Transport and insurance	305.1	12.1	336.6	13.2
Income from emigrants' work and remittances	144.6	5.7	6.8	0.3
Interest on capital	37.5	1.5	53.4	2.1
Miscellaneous ²⁾	200.5	8.0	96.3	3.8
Total	925.8	36.8	529.5	20.8
C - Total of current transactions (A + B)	2 515.9	100.0	2 545.1	100.0

¹⁾ For value in dollars see supplement to Table 17, p. 415.²⁾ Government services, pensions and subsidies, bankers' commissions, patents and authors' royalties, balance of post and telephone accounts, etc.**B — STRUCTURE OF THE BALANCE OF CAPITAL**

Table 18 below shows the balance of the movement of capital for the years 1956 and 1957. In view of the considerable variations which occur from year to year in the structure of this balance-sheet, it seemed fitting to consider the last two years and not 1957 alone, as was done in the preceding section on the balance of current payments.

This Table shows that a total of about 260,000 million lire of foreign capital entered Italy during the two years 1956-1957; this was about 5 % of the total of visible and invisible imports for the period: Roughly one half was in the form of investments and the remainder in the form of loans.

It should also be noted that these loans include those granted by the International Bank, which amounted to about 34,000 million lire after deduction of repayments in respects of earlier borrowing. Operations in connection with

American agricultural surpluses involving a net amount of 49,000 million lire are also included.

TABLE 18

Balance of the movement of capital in 1956 and 1957

(in '000,000,000 lire at current value)

Receipts	1956	1957	Expenditure	1956	1957	Balance	
						1956	1957
<i>A - Investments</i>							
Foreign capital invested in Italy	77.0	70.1	Italian investments abroad	1.6	3.9	75.4	66.2
Less withdrawals	-11.9	-20.4	Less withdrawals	- 9.6	-11.4	- 2.3	- 9.6
Net investments	65.1	49.7	Net withdrawals	- 8.0	- 7.5	73.1	57.2
<i>B - Loans</i>							
To the State or guaranteed by the State	23.7	99.7	To public organizations	3.3	3.1	20.4	96.6
To private persons	16.8	9.1	To private persons	—	—	16.8	9.1
Bankers' loans	17.3	57.0	Bankers' loans	1.4	6.5	15.9	50.5
	57.8	165.8		4.7	9.6	53.1	156.2
Less repayments	-29.4	-53.4	Less repayments	—	—	-29.4	-53.4
Net product	28.4	112.4	Net product	4.7	9.6	23.7	102.8
Total (A + B)	93.5	162.1	Total (A + B)	- 3.3	2.1	96.8	160.0

The balance of movements of capital does not include unilateral transfers during the two years; these amount to 63,300 million lire, being the balance of gifts received (72,900 million lire) and payments on reparations account (9,600 million lire). 1)

As a result of the changes which occurred in the balance of current transactions, in that of movements of capital, and in unilateral transfers, the period 1957—1958 witnessed an increase of 241,000 million lire in foreign currency reserves, this noteworthy increase is also connected with the rise in the volume of imports²⁾.

¹⁾ Remittances of permanent emigrants (63,300 million lire in 1956 and 72,000 million in 1957), which are normally considered as unilateral transfers, have been included in the balance of current transactions.

²⁾ See Chapter III, section B, p. 396.

C — TREND OF THE BALANCE OF CURRENT PAYMENTS

During the period 1953-57, 1) expenditure in the balance increased, as may be seen from Table 19, at the average rate of 11 %, which corresponds to an elasticity of about 1.5. The dependence of the Italian economy on foreign imports was accentuated to a corresponding degree: imports (fob) have in fact risen from 11.8 % to 12.9 % of the gross national product at market prices.

TABLE 19

Variations in the balance of current payments by sector of production
1953 to 1957

(*'000,000,000 lire at current value*) ¹⁾

Items	Receipts			Expenditure		
	'000,000,000 lire		Average annual increase 1953-1957	'000,000,000 lire		Average annual increase 1953-1957
	1953	1957		1953	1957	
A. Merchandise <i>job</i>						
Foodstuffs	228.4	381.3	13.7	268.4	334.6	5.7
Textiles	221.3	271.7	5.3	249.9	300.3	4.7
Metallurgical products	42.3	108.0	26.4	147.6	302.3	19.6
Mechanical engineering	191.7	416.8	21.4	202.9	253.9	5.8
Coal and oil	91.6	115.8	6.0	265.0	427.3	12.7
Chemicals	52.1	95.7	16.4	57.0	98.8	14.7
Miscellaneous ²⁾	134.7	200.8	10.5	192.6	298.4	11.6
Total	962.1	1 590.1	13.4	1 383.4	2 015.6	9.9
B. Services and transfers						
Tourism	92.1	238.1	26.8	10.4	36.4	36.9
Transport and insurance	161.9	305.1	17.2	191.2	336.6	15.2
Income from emigrants' work and remittances	78.5	144.6	16.5	—	6.8	—
Income from capital	16.0	37.5	23.7	20.1	53.4	27.6
Miscellaneous	142.3	200.5	8.9	73.0	96.3	7.1
Total	490.8	925.8	17.2	294.7	529.5	15.8
C. Total of current transactions (A + B)	1 452.9	2 515.9	14.7	1 678.1	2 545.1	11.0

¹⁾ For value in dollars see supplement to Table 19, p. 416.

²⁾ Includes all products of the following industries: processing of non-ferrous minerals, wood, paper and paperboard, printing and publishing, etc. Off-shore orders are also included.

¹⁾ 1953 has been adopted as the starting-point for the examination of international economic relations instead of 1950, as in the case of the phenomena dealt with in Chapter I, since it was only from 1953 onwards that the effect of such factors as the "Korean boom" and the rapid liberalization of imports, which had gravely disturbed Italian trade with foreign countries, could be regarded as overcome.

This study has been based on values expressed in current lire, in view of the fact that the index of wholesale prices — which expresses better than any other the variations of the purchasing power of money in the field of international trade — remained practically unchanged (+ 1 %) during the period under review.

The degree of elasticity mentioned above is very high both because of the policy of liberalization followed by Italy and by reason of the fact that in a large number of sectors the increase in the demand for raw materials must be entirely covered by imports.

If imports (cif) are broken down into the four categories of Table 17 the following coefficients of elasticity are obtained :

Foodstuffs	0.7
Raw materials	1.9
Fuel	2.0
Manufactured products	1.4

Elasticity is thus very high for fuels and raw materials but much less so in the case of foodstuffs; the coefficient for manufactured goods is between these two extremes but below the average for the four categories. It is difficult to judge to what extent the above coefficients will remain stable in view of the brevity of the period on which they are based. Nevertheless, it is possible to examine some of the principal factors which seem likely to have the greatest influence on the development of Italian imports during the next few years.

Among these factors, the first that should be mentioned is metallurgy — in particular, the iron and steel industry. The development of metallurgy will continue to go hand in hand with a more than proportional increase of imports for this sector ¹⁾.

Italy's marginal dependence on imports of energy does not seem likely to become greater ²⁾ and may well diminish to the extent that it proves possible to offset the progressive exhaustion of hydroelectric resources by an increase in the national output of petroleum gases and oils.

Imports of rubber and cellulose are strongly on the increase, but the entry into operation of a synthetic rubber factory may slow down this trend in the near future.

In the mechanical engineering sector, the increase in imports shown by the figures in Table 19 is comparatively modest when related to the fact that foreign currency specially made available in 1953 for the purchase of machinery and equipment produced an isolated "peak" in imports. It is interesting to observe how imports have since risen above this peak despite the fact that the special currency facilities have been discontinued. If possible periods of recession are left out of account, it may be supposed therefore that the rate of

¹⁾ During the period 1953-1957, the Italian iron and steel industry imported not only iron ore (733,500 metric tons in 1953 and 1,754,900 in 1957) and scrap (1,031,100 metric tons in 1953 and 2,818,900 in 1957) but also semi-products.

²⁾ Between 1953 and 1957, imports of crude petrol rose from 12,850,200 to 19,100,000 metric tons and of coal from 9,281,000 to 11,400,000 metric tons.

increase for this category of products will be maintained in the future, and even perhaps improve, in view of the requirements for the modernization and development of the national equipment, and of the fact that Italian industry will in future enjoy a lesser degree of protection.

In the foodstuffs and textile industries, imports seem on the contrary to be tending to stagnate. In the case of the former, rising demand consequent on improvement in the national diet can be largely covered by the increase in home production. This is particularly true of the products of stock farming, and of fruit, vegetables, and sugar.

The low rate of increase in textile imports is due to the limited elasticity of the consumption of textile products and to the reduced capacity of external markets to absorb these goods.

The trend of "miscellaneous" imports, on the other hand, is to a great extent related to the rhythm of national development and to the country's trade policy. Consequently, there is reason to expect an increase in their volume at a later date.

On the whole it may be predicted that the imports-income coefficient of elasticity will be maintained in the near future at the high levels reached during recent years. It is therefore essential that current receipts continue to develop at a corresponding rhythm if it is desired that Italy persevere in the policy she has followed up to now. And since the growth of these receipts has to be sought largely through the medium of exports containing a high proportion of imported materials, the marginal imports-income ratio will in future be higher.

Present trends — if fluctuations in general economic conditions are left out of account — seem to offer grounds for a certain degree of optimism: during the four years under review, receipts increased at an average rate of 14.7 %, their ratio to income being about two to one; they thus increased from 12.4 % to 16.1 % of the national product itself, or from 8.2 % to 10.2 % if merchandise alone is considered.

The increase in invisible transactions was very important, the average annual rate being 17.2 %. Since the rate of increase for exports was 13.4 %, invisibles rose from 33.8 % of receipts in 1953 to 36.8 % in 1957.

There was significant progress in the mechanical engineering sector, where exports increased at an average rate of 21.4 %. For the first time in the history of Italian industry, we have to note an important flow of exports of iron and steel products. Metallurgical exports, which consist almost exclusively of these products, have in fact increased at an average annual rate of 26.4 %. There has also been a noteworthy increase in the export of chemicals (particularly pharmaceuticals and fertilizers), the average annual rate being 16.4 %.

There can be no doubt that the favourable general economic conditions of recent years have contributed to these developments and that the consolidation

of the positions gained could well pose grave problems in the event of any prolonged change in these conditions. On the other hand, foreign markets for the products in question are certainly likely to grow and it may be reckoned that the above-mentioned sectors will be able to continue to play the same role as in the recent past in the Italian balance of payments.

A sector in which the relative advantage enjoyed by Italy is reflected in an important increase in exports is that of agricultural food products, which has developed at the average rate of 13.7 %. Prospects for these exports are good in view of the high elasticity of demand in relation to income in one of the chief branches : fruit and vegetables. The gradual establishment of the Common Market should make these prospects even brighter.

The sectors which seem fated to remain stationary on the whole are textiles and oil refining, whereas prospects for miscellaneous manufactured goods are considered to be favourable. In recent years exports of these have been increasing at a fairly high rate (10.5 %).

In the field of invisible transactions, mention should be made of the high rates of increase of receipts from tourism which have risen at an average rate of 26.8 %. Although further increase may be expected in this sector, it is doubtful whether such a high rate can be maintained over the coming years. Another important contribution is made by remittances from Italian workers abroad, which have risen at the average rate of 16.5 %, a rhythm which may perhaps continue in view of the important manpower reserves which the country still has available.

In the category "transport and insurance", progress was at the average rate of 17.2 %. As already pointed out, this was roughly sufficient to offset the charges for these items in the balance of payments account. It should be possible to maintain and even, perhaps, to improve on this position of substantial equilibrium.

It remains finally to consider the influence exercised on the Italian balance of payments by variations in the terms of trade. The trend of the latter in Italian foreign trade is dominated by the fact that, whereas imports, as we have seen, consist chiefly of primary products, exports are made up principally of manufactured goods and processed foodstuffs. This implies more vigorous movements of import prices — which reflect the wider fluctuations in prices of primary products — compared with export prices, which are more stable, particularly because of the greater diversity of the products involved. The effects of this state of affairs are aggravated by the circumstance that there is a large deficit in the trade balance.

As in the case of other industrial countries, although to a lesser extent, the trend of the terms of trade is therefore unfavourable in periods of boom, with their high prices for primary products, and favourable in periods when world markets are depressed.

A corrective element in the characteristic development of Italian terms of trade is the fact that the balance of transport and insurance is in substantial equilibrium. Fluctuations of freight rates, which are generally related to the prices of primary products, do not therefore have a corresponding impact on the Italian balance of payments.

On the whole, the results achieved by the Italian economy in its relations with foreign countries should be considered as one of the most satisfactory aspects of the behaviour of that economy during recent years. However, it must be pointed out that the substantial equilibrium in current transactions achieved in 1957 does not in itself constitute a sufficient basis to make a judgement on structure, in view of the importance of general economic factors and of exceptional receipts (off-shore orders and sales of old stocks of wheat and sugar) which, during that year brought in 135,000 million lire.

Italy's intention to pursue diligently a policy of increased employment while persevering with trade liberalization renders rather vulnerable the equilibrium thus achieved. Whereas import requirements, as already explained, are destined to increase at relatively high rates, there is a risk that considerable fluctuations may occur in exports; this vulnerability is, however, essentially a matter of general economic conditions, whereas the basic trend reflected in the structural changes which have occurred must be considered favourable.

D — GEOGRAPHICAL STRUCTURE OF ITALIAN FOREIGN TRADE

Tables 20, 21 and 22 show the main divisions of Italian foreign trade between the different geographical and currency areas, and the changes which have taken place during the last four years.

Beginning with import trade, it may be noted that 60 % of 1957 imports came from non-OEEC countries. This is the result of a large increase in purchases in these parts; they rose from 828,400 million lire in 1953 to 1,362,100 million in 1957, an increase of 64 %, or 13 % per annum. This increase is due to the rise in imports of fuels (average rate of increase: 20 % per annum), manufactured goods (17 % per annum) and raw materials (13 % per annum).

The Common Market countries contribute 22 % of Italy's supplies from abroad, while the other member countries of OEEC account for 18 %. During the four years 1953—1957, purchases from the Common Market countries increased by an annual average of 10 %, principally as a result of greater imports of raw materials (17 %) and miscellaneous manufactured goods (10 %). By contrast, purchases of fuels declined by 21 %. If these are left

TABLE 20

Geographical breakdown of Italian foreign trade in 1957

Countries	Food, beverages and tobacco	Crude materials	Fuels	Machinery and transport equipment	Miscellaneous manufactures	Total
<i>Imports</i>						
Common Market	13	12	10	50	40	22
Other OEEC countries	26	17	1	25	30	18
Rest of world	61	71	89	25	30	60
Total	100	100	100	100	100	100
<i>Exports</i>						
Common market	38	14	22	20	22	25
Other OEEC countries	33	45	42	20	22	27
Rest of world	29	41	36	60	56	48
Total	100	100	100	100	100	100

TABLE 21

Imports and exports by areas of origin and destination
1953 and 1957('000,000,000 lire at current value)¹⁾

Areas	Imports cif			Exports fob			Balance	
	1953	1957	Variation %	1953	1957	Variation %	1953	1957
Common Market	330.4	489.5	+ 48.2	185.5	396.6	+ 113.8	- 144.9	- 92.9
Other members of the Free Trade Area	338.0	414.2	+ 22.5	271.3	427.6	+ 57.6	- 66.7	+ 13.4
Total OEEC countries	668.4	903.7	+ 35.2	456.8	824.2	+ 80.4	- 211.6	- 79.5
Rest of world	828.4	1 362.1	+ 64.4	473.4	763.3	+ 61.2	- 355.0	- 598.8
General total	1 496.8	2 265.8	+ 51.4	930.2	1 587.5	+ 70.7	- 566.6	- 678.3
EPU	1 005.2	1 329.8	+ 32.3	604.9	1 018.1	+ 68.3	- 400.3	- 311.7
Sterling area	407.2	465.4	+ 14.3	188.3	244.1	+ 29.6	- 218.9	- 221.3
Dollar area	243.3	515.4	+ 111.8	127.5	247.0	+ 93.7	- 115.8	- 268.4

¹⁾ For value in dollars see supplement to Table 21, p. 417.

N. B. The differences compared with the corresponding data in Tables 17 and 19 are explained chiefly:

for imports: by the cif basis adopted in this table;

for exports: by the inclusion of shipboard provisions, bonded stores, etc., which do not figure under the heading "Merchandise" in Tables 17 and 19. As already indicated, these latter include off-shore orders, the value of which is not included in the above table.

TABLE 22

Imports and exports by countries and groups of products
1953 and 1957

('000,000,000 lire at current value)

Countries	Food, beverages and tobacco (Sects. 0 + 1)		Raw materials (excl. fuels, animal and vegetable fats) (Sects. 2 + 4)		Fuels, lubricants and related materials (Sect. 3)		Machinery and transport equipment (Sect. 7)		Other manufactures (excl. machinery and transport equipment) (Sects. 5, 6, 8, 9)	
	1953	1957	1953	1957	1953	1957	1953	1957	1953	1957
	<i>Imports (cif)</i>									
Common Market	22.9	40.6	51.6	95.5	59.5	47.3	74.0	125.8	122.4	180.3
Other members of the Free Trade Area	64.8	82.7	90.9	128.2	21.0	4.1	61.9	63.2	99.4	136.0
Total OEEC countries	87.7	123.3	142.5	223.7	80.5	51.4	135.9	189.0	221.8	316.3
Rest of world	170.8	195.1	330.8	546.6	204.3	420.2	48.9	64.5	73.6	135.7
General total	258.5	318.4	473.3	770.3	284.8	471.6	184.8	253.5	295.4	452.0
	<i>Exports (fob)</i>									
Common Market	78.5	142.3	20.1	10.7	1.7	25.2	27.6	73.9	57.6	144.5
Other members of the Free Trade Area	81.4	125.1	18.4	35.1	31.7	48.6	47.4	71.5	92.4	147.3
Total OEEC countries	159.9	267.4	38.5	45.8	33.4	73.8	75.8	145.4	150.0	291.8
Rest of world	61.1	110.0	27.1	31.7	57.8	41.7	100.6	214.7	226.8	365.2
General total	221.0	377.4	65.6	77.5	91.2	115.5	175.6	360.1	376.8	657.0

1) For value in dollars see supplement to Table 22, p. 418.

N. B. The numbers of the sections correspond to the United Nations SITC nomenclature.

out of account, Italian purchases in the Common Market increased at an annual average rate of 13 %.

Imports from OEEC countries outside the Common Market have advanced by 5 % per annum. Factors in this progress have been raw materials (9 %), manufactured goods (8 %) and foodstuffs (6 %). On the other hand, purchases of fuel (coal) have practically ceased, while imports of machines have shown only a slight increase.

Countries outside the OEEC absorb 48 % of Italian exports. Sales to this group of countries also increased considerably during the period 1953—1957 (13 %, on the average, per annum). This progress is due particularly to an increase in sales of machinery (21 %), of other manufactured products (13 %) and of foodstuffs (16 %). Exports of raw materials and fuels to the countries in question are on a restricted scale and vary little from year to year.

A further 25 % of exports go to Common Market countries, while the other 27 % is shared among OEEC countries not members of the Common Market.

The increase in exports to Common Market countries has been very important (114 %, or 21 % per annum). This has been due particularly to improved exports of machines (28 %), of other manufactured goods (26 %) and of foodstuffs (16 %). The volume of exports of primary products is small and varies little.

Exports to the other OEEC countries increased by 58 %, or 12 % per annum, progress being roughly at an equal rate in all sectors.

From Table 20, showing the geographical breakdown of Italian foreign trade, it may be seen that the Common Market countries furnish Italy with 50 % of her machinery imports and 40 % of those of other manufactured products. As might be expected, the non-OEEC countries predominate as suppliers of foodstuffs (61 %), raw materials (71 %) and fuels (89 %).

Export markets on the other hand are very widely dispersed for all products; we need only note that 60 % of machinery exports and 56 % of those of other manufactured goods go to countries outside OEEC, but that the OEEC countries are Italy's principal customers for food products (Common Market countries: 38 %; other OEEC countries: 33 %).

E — TRADE AND CUSTOMS POLICY

As already pointed out, Italian economic policy in the matter of trade with foreign countries since the period immediately following the war, has never ceased to be based on fundamentally liberal principles. The rapid implementation of the OEEC agreements for the gradual abolition of quantitative restrictions, and the fact that the liberalization rates reached have been maintained and amplified beyond the limits laid down by OEEC, even vis-à-vis the dollar area, are significant evidence of this.

In 1957 imports subject to licence amounted to 16.5 % of total imports. This proportion falls to 1.8 % in the case of imports from the OEEC area, while it is 28.1 % for the dollar area and 65.5 % for imports from all other parts of the world.

On the whole, the quantitative restrictions at present in force are not considered to be such that their abolition would give rise to serious problems of adaptation.

In tariff matters Italian legislation is, generally speaking, based on non-protectionist criteria; the 1950 general tariff is applied with restraint thanks to unilateral reductions of a general character, to conventional reduc-

tions, to special arrangements resulting from engagements entered into under ECSC aegis, and to specific situations in various sectors. Among these, mention should be made of the customs exceptions granted in favour of machinery imports into the Mezzogiorno, the result of which is practically to exclude 40 % of the national territory from tariff protection for capital goods.

The structure of the effective customs tariff (*i.e.* with the above-mentioned reductions taken into account) shows the following salient features:

In the raw and basic materials sector the median rate is 3 %, whereas the normal practice is total exemption¹⁾. For semi-products and manufactured articles, the normal and median rates are not appreciably different from each other, being around 13 % for the first and 18 % for the second. 85 % of the duties on manufactured articles are between 15 and 25 %²⁾.

For certain machinery, the duty does not exceed 15 %³⁾, the purpose being to encourage the equipment of the national industry at economic costs. It seems that this policy may later be extended in favour of the sectors which are most dependent on imported machinery.

Minor changes in the original tariff have in some cases altered the relationship which should really exist between the duties applied to products used in successive phases of the same productive cycle; it would therefore seem appropriate to adjust the tariff in consequence.

The duties applied to stock farming products average about 13 % and for the majority of items they are around 18 %.

The general level of duties in this field may be called moderate by comparison with those of other European countries, with the system applied to manufacturing industries or, finally, with the level obtaining before the last war. In the case of certain products, grain and sugar particularly, customs and trade policy are an instrument of price support in the setting of the national farming policy. Thus noticeable "peaks" appear in the tariff for these products, which form a contrast to the low level adopted for the majority of other imports. It is in the setting of this price support policy that we must place the system of quantitative import restrictions which still play an important role where agricultural products are concerned.

¹⁾ There are, however, certain basic products such as aluminium, lead, sulphur, cement, for which a protectionist regime is still in force.

²⁾ Among the chief products which enjoy greater protection the following should be noted: sugar (105 %), china utensils and equipment (30 %), and worked glass (30 %), borax (35 %), penicillin (35 %), radio sets and electrical household equipment (35-45 %), motor vehicles (40 %), motor cycles (about 40 %), sparking plugs (43 %).

³⁾ Turbines, some internal combustion motors, mechanical pumps, air and gas compressors, certain agricultural machines, machines for the paper industry, calculating machines, generators and electric motors, electrical apparatus in general, but especially electrical machine-tools.

III — ECONOMIC POLICY FACTORS WITH A BEARING ON THE COSTS STRUCTURE

A — PRICE STRUCTURE

The factors of Italian economic policy which have the greatest influence on price structure may be classified as follows:

1. Customs policy

The Italian customs tariff, as already pointed out, aims at a moderate degree of protection. Raw materials are practically exempted from payment of duties, for semi-products there is around 15 % protection, and for manufactured goods between 20 and 25 %. Among foodstuffs, wheat is highly protected (30 %) but the rates are more modest for stock-farming products; here, however, quantitative restrictions play a part.

2. Control of prices of goods supplied by enterprises with a dominating position on the market

An inter-ministerial committee, working in the Ministry of Industry and Commerce, exercises a control over prices which may be briefly defined in the following terms:

a) Public services

This category includes: electric power; gas and water; telephone services; listeners' fees for radio and television. In the case of electric power, there is also a compensation system between the different producing enterprises for the purpose of reducing disparities in rates arising from higher production and distribution costs in the southern regions. A similar equalization system is operated between prices of energy of thermal origin and hydro-electric power, and also between energy produced by post-war and pre-war plants.

b) *Basic materials for industry*

This category includes the following products: solid fuels (except those which come under the jurisdiction of ECSC); petroleum products; pyrites; aluminium; products derived from sodium and iodine; glass for construction; cement; tyres for industrial vehicles; natural gas¹).

c) *Raw materials for agriculture*

These include fertilizers and copper sulphate.

d) *Widely used products*

Such as sugar, pharmaceutical specialities and newspapers.

Generally speaking, the price-control measures just mentioned originated in action taken to combat war-time inflation. Their present justification is of the same nature, in the sense that once new prices are fixed, it is only gradually that amortization and capital remuneration can be permitted to align themselves on the revised values. Meanwhile, however, this control activity has come to assume the functions of a regulator of prices which are influenced by monopolistic elements, and, as such continues to play an important role, although its original justification as an anti-inflationary weapon has partly disappeared.

3. **Transport subsidies**

Italian railway rates are laid down on the same basis for the whole national territory, independently of operation costs and income from each line. Preferential freight rates have been established for certain categories of products. Most favoured are market-gardening and orchard products for export and industrial equipment for the South.

The State railways closed the last two financial years with a deficit equal to about 20 % of receipts. Since only a small part of this deficit can be attributed to the application of preferential rates, it is clear that the general level of rates is definitely below that of costs; despite this the railways are not able to compete with certain types of highway transport.

The shipping lines which link the islands to the continent also receive important subsidies. In 1957, these amounted to about 120 % of the freight charges received for these services.

The purpose of this last subsidy and of the measures in favour of vegetable and fruit production and of mechanical equipment imported into the Mezzo-

¹) The price of natural gas is fixed on a par with the price of other fuels in order to avoid the consumer groups which have access to this source of energy being placed in a privileged position.

giorno is to align the outlying regions with the more developed parts of the country and, in general, with Europe, thus correcting the unfavourable economic effects of the particular physical conformation of the national territory.

Certain urban transport services are also run at a loss. In these cases the deficit is covered by contributions from the local authorities.

4. Housing policy

Conditions of letting laid down by pre-war contracts are today still subject to control. The standards at present applied allow of a gradual increase in rents at the average rate of 20 % per annum. 30 to 35 % of all dwellings are subject to this system, the remaining housing being excluded either because the dwelling is occupied by the owner himself or was built after the war, or is no longer used by the pre-war tenants.

Further factors influencing rents and housing costs are public building of popular dwellings rented at rates lower than those obtaining on the free market, and the grant of subsidies and low-interest loans to private persons to build their own houses. It is estimated that between 1950 and 1956 about 30 % of the new housing was financed by the State completely or in part.

The fact that the average cost of housing at the end of 1957 was only about 33 times the 1938 figure, whereas the cost of living was 65 times as high, is attributed to these measures of control.

5. Support for farm prices

Wheat is the product chiefly affected by the measures taken to maintain prices. These measures take the form of State buying of a certain proportion of production and of a State monopoly of imports. State subsidies are granted to the voluntary purchasing organizations for olive oil and cheese. In the case of beetroot, the high customs protection (105 % ad valorem) granted to sugar is reflected in price support for the agricultural product; in fact this price is established by the Government (Inter-ministerial Price Committee) on the basis of a proportion of the price of the finished product.

The price for tobacco is fixed by the State monopoly, which is the only purchaser; for hemp and rice there are two bodies which are responsible for the placing of production at home and abroad and the stocking of any surplus. In the case of wine, special tax reliefs in favour of distillation tend to keep the market normal in years when the harvest has been over-abundant or of poor quality.

In order to obtain an idea of the significance of these measures, it is necessary to remember the difference in the rates of progress over recent years

of per capita incomes in agriculture and in industry, a difference which has further accentuated the already important gap between the two sectors. This is a consequence of the fact that the considerable increases in industrial productivity have not brought about a corresponding fall in the prices of products sold to the agricultural sector but have largely remained within the industrial sector in the form of higher profits and wages. This process particularly handicaps the Mezzogiorno, *i.e.* the region of insufficient industrial development where it is not possible to offset unsatisfactory progress in the agricultural sector by the favourable development of industry.

Support for farm prices, the control of prices of goods necessary to agriculture, and other measures in favour of this sector, obviously result in burdens for the other sectors, above all for industry. As a result, price relations tend to approach those which the economic system would produce if the rates of profits and wages in the different sectors were less uneven¹⁾ and, above all, if the benefits flowing from increases in industrial productivity could be extended to the agricultural sector.

The most important task of Italian price policy therefore seems to be to level up the rates of remuneration of the factors employed in the different sectors and gradually reduce price-support measures for agriculture. This would help to give the Italian economy the ability to compete, necessary for its integration into the Common Market.

In addition to the measures of economic policy just mentioned the price structure is influenced:

- a) *by the degree of concentration in certain industrial sectors*²⁾;
- b) *by distribution costs.*

The necessary information is not available to evaluate the influence exercised on the price system by the degree of concentration existing in Italian industry. However, it may be recalled that there are two checks on possible distortions: first, the customs system, which is moderately protectionist, and the influence of which has been reduced by the policy of liberalization, and secondly, the price control measures mentioned above. To this should be added that the adhesion of Italy to the Common Market and the policy which she has followed up to the present in OEEC were conceived as further factors in reducing the distortions in question.

As regards distribution costs, it should first be observed that the progress of wholesale and retail prices has diverged considerably in Italy in recent years. The following table shows the extent of this divergence.

¹⁾ In particular, the fact that the marginal productivity of agricultural labour is practically nil has only very scanty influence on the rates of remuneration of the manpower employed in non-agricultural sectors.

²⁾ See Chapter I, section F, p. 371.

TABLE 23

Indices of wholesale and retail prices

	1953	1954	1955	1956	1957
Index of wholesale prices of consumer goods	100	100	99	100	101
Index of retail prices	100	103	105	109	110

The difference in the rates of progress shown in the above Table is first of all explained by the fact that productivity in the distribution services can only increase at a rate lower than that of industrial productivity, *i.e.* of the sector whose production plays a considerable part in furnishing the goods to be distributed. This situation is similar to the one already described in the case of agriculture.

The margin between wholesale and retail prices, which is justified in part by the cost of additional services rendered to the consumers, has increased appreciably as a consequence of the sometimes excessive expansion of the distribution system¹). As is known, an increase in the number of those engaged in the retail sales business is not always a guarantee of increased competition, but often results in an increased and unjustified burden of distribution costs.

It must further be observed that the level of wholesale prices is influenced in certain cases by the profits extracted at certain crucial points of the distribution system, more precisely in the sector of wholesale buying and large-scale distribution of foodstuffs, a sector handled by either public or private organizations.

Furthermore, certain parts of the distribution sector show considerable symptoms of under-employment. These result in lower wage levels for certain persons employed and in higher distribution costs.

The distribution system is thus seen to be in a similar position to agriculture from certain angles: possibilities of stepping-up production are limited and symptoms of under-employment exist.

However, this sector is in a position to pass on to consumers costs which could have been avoided; to this extent, it is in a more favourable position than agriculture.

Summing up, the lower productivity of the distribution sector is one manifestation of the incomplete use of Italian manpower, and as such it should not be considered in itself but in the setting of the problems involved in a balanced increase in employment and productivity. It may be observed from

¹) One of the signs of this state of affairs is the fact that the number of commercial licenses increased at the rate of 15 % between 1954 and 1956, as against a rate of increase in consumption of 8 %.

this point of view that, whereas in industry and agriculture the problem of increasing productivity has remained urgent because of the necessity of sustaining competition from other countries, in the distribution sector this problem is not posed in any direct and immediate way.

B — FINANCING OF INVESTMENTS

As may be seen from Table 24, gross investments in the productive sectors and public works in Italy in the last six or seven years have absorbed a constant proportion of the gross national income in the neighbourhood of 18 %. Investments in housing have increased from 3 % of the gross income in 1950 to 6.7 % in 1957. Since it is considered that amortization during this period was 9—10 % of the income, total net investment (in other words savings) increased from 13 % to about 15 % of the said income.

This increase in savings was entirely absorbed by the construction of housing, whereas *savings used for productive investments and public works remained unchanged or even slightly declined to a figure around 8—8.5 % of the gross national income.*

TABLE 24

Formation of capital - 1950 and 1957

Investments	1950	1957	Availabilities	1950	1957
<i>in '000,000,000 lire at current value</i>					
Productive investments and public works	1 420	2 529	Savings	1 015	2 066
Housing	230	927	Depreciation	748	1 427
Total	1 650	3 456			
Net capital transactions with foreign countries	113	37			
Total of gross investment	1 763	3 493	Total capital made available	1 763	3 493
<i>in percentage of the gross national income</i>					
Productive investment and public works	18.2	18.4	Savings	13.0	15.0
Housing	3.0	6.7	Depreciation	9.6	10.4
Total	21.2	25.1			
Net capital transactions with foreign countries	1.4	0.3			
Total of gross investment	22.6	25.4	Total capital made available	22.6	25.4

The flow of foreign capital presents notable variations from year to year. In this study on structural problems the reasons for these variations are less pertinent than the total volume of foreign capital entering Italy over a fairly long period. During the years 1953 to 1957, *i. e.* the same period as was considered in Chapter II on relations with foreign countries, loans received (after deduction of repayments), and foreign investments placed in Italy, amounted to a total of about 280,000 million 1954 lire.

Thanks to the improvement in the balance of current payments in the period under review¹⁾, this flow of capital has helped to increase reserves of gold and transferable foreign currency to keep pace with the growing volume of imports²⁾ and to allow for modest export of capital, principally in connection with sales of investment goods or deferred payments.

The importance of foreign investments for the economic development of the country should not be assessed purely in financial terms. Such investments are often accompanied by the provision of technical and entrepreneur capacity whose contribution to economic progress is of major importance. The fact that there was no appreciable net influx of foreign capital during the years under review should be considered to some extent as an effect of general economic conditions. As the 1955-64 ten-year scheme itself envisages, the utilization of the labour force available in Italy will require an acceleration of the process of capital accumulation, and to this an influx of foreign savings could make an important contribution. The establishment of the Common Market cannot but lend further emphasis to this necessity.

In this respect, it should be pointed out that the system of legal restrictions to which investments of foreign capital in Italy were subject was relaxed considerably in 1956. As a result, particularly those investments considered "productive" are no longer subject to any restriction as to their duration or to the amount of capital and interest which may be transferred abroad.

Examination of the use made of foreign money available for investment shows that the oil sector accounted for 20 to 25 % in the post-war period, the rest was distributed over a multiplicity of branches: mines and metallurgy, commerce, textiles, electricity, electro-technics, chemicals and mechanical engineering.

Of total investments provided by the home market, it is estimated that about 70 % come from private and 30 % from public funds. If housing is excluded, these percentages become 75 % and 25 % respectively.

¹⁾ The items indicated in Chapter II being included.

²⁾ The amount of gold and transferable foreign currency reserves corresponds roughly to the value of five months' imports. Reserves increased between 1950 and 1957 at an average annual rate of about 7.5 %, and therefore represented a substantially constant percentage of the flow of imports, which increased during the period at a roughly equal rate.

The various sources are estimated to have contributed in the proportions shown in the table below ¹⁾ :

TABLE 25

Contribution of the different sources to the financing of investments

(as percentages)

Sources	Private investments	Public investments ¹⁾	Total
Money market	9/10	10/11	9/11
Capital market			
Credit and insurance establishments	10	32/34	17/18
Fixed-interest securities	10	26/30	15/16
Funds set aside for depreciation	47/49	—	33
Self-financing and savings directly invested by private persons	21/24	26/30	23/25
	100	100	100

¹⁾ Where sources of financing of public investments are concerned, it is pointed out that the "money market" substantially reflects the relations of the Treasury with the Bank of Issue, while the heading "self-financing" covers the surplus of current income over current expenditure in the State budget.

These data reveal the slight importance of the money market (a little more than 10 %). The contribution of the capital market amounts on the average to more than a third, but is much more important in the public investments sector, to which it contributes 60 % of the total, as against only 20 % on average to private investments. For the latter, by far the most important source of capital is self-financing in the broad sense of the word ; this includes profits ploughed back and funds set aside for depreciation which, as is known, are in an expanding economic system normally higher than the requirements for renewal of equipment. All in all, these sources cover more than two-thirds of total requirements in the private sector. It should be noted that this field includes savings directly invested by private persons in fixed property, the amount of which may be reckoned at a quarter of this item.

In the sector of public investments, State saving (surplus of current receipts over current expenditure) was equivalent to 20-30 % of the resources necessary.

The cost of money on the capital market is today around 8.5-9 %. When financing is carried out with special funds of public origin, it varies between

¹⁾ The data of Table 25 indicate average values with reference to the four years 1954-57. It is considered that average data which eliminate peaks due to specific operations better express the broad lines of the phenomenon examined.

5.5 and 6.5 % for industrial credit operations (the first rate applies, for instance, to the industrialization loans for the Mezzogiorno, and the second to small and medium industries). For agricultural credit operations the rate falls to 3 % (special funds for crop rotation and agricultural improvement).

Finance by means of bond issues is effected at a rate of 6.5-7 %, to which must be added fiscal charges and expenses involved in offering the loans bringing the real cost to between 9 and 9.5 %. As for stocks and shares, their average real yield is today 5.5 %, but there are important fluctuations and appreciable variations between the different securities. Finally, it is worth noting that the cost of the recent issues of state bonds has been calculated at 6.4 %

The structure of investment financing shown in Table 25 is above all a reflection of the characteristics of the Italian capital and credit market. As a result of a comprehensive banking reform which took place in the years 1933/1936, "mixed banks" disappeared in Italy, and deposit banks do not participate in medium and long-term operations, which are the affair of specialist institutions largely of a public character. The various industrial development policies for the Mezzogiorno, and action in support of small and medium industries and for the development of agriculture, have led to the establishment of numerous institutions of this type since the end of the war.

The State has made an important financial contribution to the activity of these institutions, both directly by making available budget funds and a part of the equivalent value of international aid, and indirectly by providing guarantees and administrative facilities and granting fiscal reliefs.

Along with institutions of this type (they are 21 in number today, both private and public, of which 12 are of a regional character), mention should be made of insurance institutions whose importance as channels for the collection of savings has grown rapidly in Italy as in other countries, but whose direct participation in the financing of productive investments is still on a modest scale; they employ their funds mainly in real estate and public securities.

The stocks and shares market is expanding rapidly although its contribution to the financing of investments is still small. As may be seen from the table below, the amount of savings absorbed by the State has been declining in recent years even in absolute value (the percentage of public securities among new issues fell from 60 in 1950 to 26 in 1957).

The issues of securities and of stocks and shares have shown a considerable increase, especially the stocks and shares, whose overall importance on the securities market doubled between 1950 and 1957, rising from 14.6 % to 30.8 %.

TABLE 26

Total issue of securities ¹⁾

(in '000,000,000 lire at current value)

Issues	1950		1954		1957	
	'000.000.000 lire	%	'000.000.000 lire	%	'000.000.000 lire	%
State ²⁾ , communes and provinces	212.6	60.0	207.6	40.4	141.0	25.6
Credit institutions	27.4	7.7	85.3	16.6	73.1	13.3
Real estate credit institutions	24.6	6.9	46.3	9.0	65.2	11.8
Industrial bonds ³⁾	37.9	10.8	36.4	7.1	102.1	18.5
Total	89.9	25.4	168.0	32.7	240.4	43.6
Shares	51.5	14.6	138.4	26.9	169.8	30.8
Grand total	354.0	100.0	514.0	100.0	551.2	100.0

¹⁾ Effective product of the issues after deduction of repayments.²⁾ Consolidated, redeemable and long-term Treasury bonds.³⁾ IRI and ENI accounted for the following amounts: 1950: 6.2; 1954: 28.0; 1957: 70.7.**C — INVESTMENTS AND FISCAL AND PARAFISCAL BURDENS**

The estimates concerning the fiscal system have been made with direct reference to values expressed in money with constant purchasing power, on the basis of the data contained in a recent enquiry on fiscal policy produced by the Committee for the Development Plan, data which are expressed in lire with 1954 purchasing power ¹⁾.

Table 27 below shows fiscal receipts for the financial years 1951-52 and 1956-1957, and the variations which have occurred during this period.

The table shows that receipts of the State and local authorities increased during the period under review at an average annual rate of 9 %. Since the

¹⁾ The conversion index adopted in working out these figures is the ratio existing between the value of the national product expressed in current lire and its value in lire with constant purchasing power. Taking 1954 as the basic year, the following conversion indices are arrived at:

$$1951-52 = 1.062$$

$$1956-57 = 0.947$$

A second series of tables on fiscal phenomena with the values expressed in current lire may be found in the annex to this report.

national income (at market prices) rose during the same period at an annual rate of 5.3 %, elasticity of fiscal receipts in relation to national income is 1.7.

The ratio of the tax receipts of the State plus those of local authorities (total burden of taxes) to the national income which was equivalent to 19.5 % in 1951-52, rose to 23.2 % in 1956-57. The ratio between the increase of receipts, between 1951-52 and 1956-57, and the increase in the national income (marginal burden of taxes) was 35.7 %.

TABLE 27

Receipts of the State and local authorities*(in '000,000,000 1954 lire)*

Receipts	1951-52		1956-57		Average annual increase 1951-52/1956-57
	'000,000,000 lire	%	'000,000,000 lire	%	
<i>Receipts of the State</i>					
income tax and property tax	387	20.7	589	20.5	8.8 %
business tax	136	7.3	209	7.3	9.0 %
tax on movement and exchange of merchandise	594	31.9	046	36.4	12.0 %
consumer tax on non-essential goods	298	16.0	391	13.6	5.6 %
consumer tax on necessary goods	151	8.1	201	7.0	5.9 %
lotteries	32	1.7	39	1.4	4.0 %
<i>Total fiscal receipts of the State</i>	1 598	85.7	2 475	86.2	9.1 %
<i>Fiscal receipts of local authorities</i>	266	14.3	396	13.8	8.3 %
<i>Grand total of fiscal receipts</i>	1 864	100.0	2 871	100.0	9.0 %

*) For figures in lire at current value see supplement to Table 27, p. 419.

The burden of taxes, measured according to the method suggested by the Committee supervising this study (ratio between fiscal receipts of the State and local authorities as numerator, and gross products at market prices plus transfers of income carried out by public administration as denominator) rose from 15.2 % in 1951-52 to 18.4 % in 1956-57. Marginal burden of taxes between these two dates was 25.7 %.

Granted the present mechanism of the Italian fiscal system, it is foreseen that for the next few years fiscal receipts will continue to increase at a rate greater than that of the national income. It has been calculated that for the fiscal years 1957-58 to 1961-62, during which the national income will continue to increase at the average rate of 5 %, these receipts should rise at a rate of 6.7 %. Should this be the case, elasticity would be 1.3, lower therefore than that of the last six years. The burden of taxes would increase in 1961-62 to 25.4 % and the ratio between the increase in receipts and that of the national income (marginal burden of taxes) would be 32.8 %.

The burden of taxes measured according to the method suggested by the Committee would rise to 20.1 % in 1961-62 and the marginal burden of taxes between 1957-58 and 1961-62 would be 24.5 %.

Among fiscal receipts of the State, the most appreciable increases are expected in income tax and property tax and in the taxes on movement and exchange of goods and services. Taxes on consumer goods on the other hand will show more modest increases.

From the point of view of its effects on investments, this trend is reflected in an increasing pressure on just those incomes which were most likely to produce savings (*e. g.* the taxes on income and property) and on business activities (tax on the movement and exchange of goods and services). It must, however, be borne in mind that this is the result of a fiscal policy designed to reduce the wide divergences in personal incomes which still exist in Italy.

Still with reference to relations between fiscal regulations and productive activity, it should be remembered that the tax on the exchange of goods (IGE) is of the "cascade" type in Italy, and as it applies to every transfer, it introduces a stimulus, although a limited one, into the process of vertical concentration and correspondingly weakens the trend towards specialization.

Another factor influencing the structure of investments which should be mentioned is the granting of fiscal exemptions in favour of housing. This will probably have to be re-examined in the light of a policy aimed at increasing productive investments.

In the matter of relations between fiscal policy and investments, Law N° 1 of 5 January 1956 should also be recorded. Among other things, this law introduces forms of control over stock exchange transactions with the aim of rendering more effective the operation of the principle of registered shares in order to facilitate taxing of their yield. This law has been a subject of not a little polemics, since it reaffirms a principle (that of registration) which certain trends of opinion consider as a brake on greater investment. It should also be observed that the standards at present applied in fact result in a disparity of treatment between shares and bonds which favours the latter, thus distorting the process of allocation of monetary savings to the various forms of investment offered by the market.

To complete the picture of existing relations between the fiscal system and investments, it should also be pointed out that :

a) contrary to the practice between the two wars, investments in Italy are no longer subject to any ties as far as concerns their location or the sector of production chosen ;

b) Special tax reliefs are granted for investments in the Mezzogiorno and in favour of productive sectors considered worthy of supports such as viticulture.

If we go on to consider the sums collected by social security organizations (parafiscal pressure), we may consider as component parts of this pressure insurance contributions in respect of invalidity and old age, tuberculosis, unemployment and sickness, and also contributions paid to the industrial wages compensation fund, and to the administration for aid to workers' orphans. A further 25 %¹⁾ must be added for family allowance contributions.

The overall total of these charges, expressed in lire with 1954 purchasing power and after deduction of State contributions, rose from 370,000 million lire in 1951-52 to 740,000 millions in 1956-57, the annual average rate of increase being 15 % and elasticity in relation to income 2.9. The ratio between contribution for social security and the national income (parafiscal pressure) thus rose from 3.9 % in 1951-52 to 6 % in 1956-57.

This important increase in parafiscal incidence was due to increases in benefits during recent years and to the methods by which benefits have been extended to new categories of the population. During the next few years — if we suppose that the present regulations remain unchanged — the rate of contribution should remain more or less stable for the various insurances as a whole, with the exception of that for invalidity and old age. This being so, the total sum in respect of this group of contributions should increase at a rate equal to that of employment in industry and services (2.5 % per annum) and therefore reach 500,000 million in 1961-62 as against 450,000 million in 1957-58, both figures being in 1954 lire.

In the case of "invalidity and old age insurance" it may be expected, as a rough approximation, that the increase resulting from the improved benefits recently granted will bring expenditure up to 490,000 million lire in 1958-59. This increase will continue, if the regulations remain unchanged, at the rate of 6 % per annum, thus reaching the sum of 585,000 million lire in 1961-62.

Total parafiscal charges should rise from 820,000 million lire in 1957-58 to 1,000,000 million lire in 1961-62, at an annual rate of increase of almost 5 %. Since it is expected that income will increase at the same rate, parafiscal pressure will remain unchanged until 1961-62 at 6.3 % of the national income.

Parafiscal charges should be considered, not only in their general incidence, but also from the point of view of the disparity of incidence of the various sectors and regions which results from the present system. The principal effect of this system is to bring about a transfer of income from industry as a whole

¹⁾ The inclusion in the group of parafiscal charges of a part of family allowance contributions is justified by the fact that, whereas the amount retained is roughly proportional to the number of workers in a given enterprise, total benefits are greater in regions where the birth rate is higher and relatively smaller in industries which employ a larger proportion of women workers. It may be supposed that the total amount of this transfer is equal to 25 % of all contributions.

to agriculture. It is estimated that the ratio between contributions and gross product in industry is about 6 to 7 times higher than in agriculture.

Even within industry differences of incidence with consequent redistribution of income are met with, although the disparities are less pronounced.

Another important redistribution of income resulting from the present system is that which operates between the Centre-North and the Mezzogiorno ; in the Centre-North, parafiscal pressure is estimated to be almost double that in the South, whereas payments for several categories of benefit are comparatively higher in the southern provinces as a result of a higher birth rate and the different composition of the working population.

To sum up, if we consider the incidence of taxation as a whole it may be concluded that fiscal and parafiscal pressure, which was 23.4 % in 1951-52, rose to 28.2 % in 1956-57 and should reach 31.7 % in 1961-62 ¹⁾. The overall sum taken by the public authorities may be estimated, for 1957, at about 3,760,000 million lire, with an estimated percentage breakdown as follows :

- 17 % in respect of income (income and property tax),
- 35 % in respect of the volume of business (taxes on business transactions and exchange),
- 16 % in respect of consumption,
- 21 % in respect of manpower costs,
- 11 % representing the sum paid to local financial authorities.

D — PUBLIC EXPENDITURE AND INVESTMENT

Table 28 shows the main lines of State expenditure. According to the data here given, overall public expenditure, still expressed in 1954 lire ²⁾ increased between 1951/52 and 1956/57 from 2,425,000 million lire to 2,865,000 million, at a rate of increase in real terms of 3.4 %, lower than that of the national income. This expansion of overall expenditure simply reflects an increase in current spending, which grew during the period under review at an average

¹⁾ Total fiscal and parafiscal pressure measured according to the method suggested by the Committee (relation between the fiscal and parafiscal charges as numerator, and as denominator, gross product plus transfers of income by the public authorities and the social security institutions, plus family allowances) was 21 % in 1951-52 and rose, in 1956-57, to 25.3 %. Marginal fiscal and parafiscal pressure between the same dates was 36.7 %. For 1961-62, it is expected that fiscal and parafiscal pressure will reach 27.5 % and marginal fiscal and parafiscal pressure between 1957-58 and 1960-61 would be 32.9 %.

²⁾ Overall State expenditure includes current expenditure and capital expenditure ; debt repayment and items which offset certain receipts are excluded.

annual rate of 6.1 %, whereas public expenditure for investments is declining, if the exceptional post-war phase reconstruction is left out of account.

Investments in public works and infrastructure play an important part in the above-mentioned expenditure, but measures of financing and other incentives to private investment either in agriculture or industry are not negligible, particularly, as we have seen above, those for the benefit of the southern regions and small and medium enterprises.

The fact remains that four-fifths of the increased receipts were used during this period to meet increases in current expenditure and one-fifth to reduce the deficit. In the event, the latter has fallen from around 500,000 million to 159,000 million lire between 1951-52 and 1956-57¹⁾.

TABLE 28

State expenditure

(in '000,000,000 1954 lire)¹⁾

	1951-52		1956-57		Average annual increase 1951-52/1956-57
	'000,000,000 lire	%	'000,000,000 lire	%	
<i>Current expenditure</i>					
interest on debts	127	5.3	208	7.3	10.4 %
subsidies to autonomous enterprises	69	2.8	105	3.7	8.8 %
subsidies to consumers (political prices)	—	—	1	..	—
education	219	9.0	354	12.4	10.1 %
health, public assistance, social security	236	9.7	362	12.6	8.9 %
subsidies to communes, provinces and regions	139	5.7	191	6.7	6.6 %
defence	424	17.5	470	16.4	2.1 %
miscellaneous	552	22.8	686	23.9	4.4 %
Total of current expenditure	1 766	72.8	2 377	83.0	6.1 %
<i>Investments</i>					
public works (incl. the programme of the Cassa del Mezzogiorno e Calabria)	292	12.1	277	9.7	—
other investments	306	12.6	180	6.2	—
Total of investment expenditure	598	24.7	457	15.9	—
<i>Other capital expenditure</i>	61	2.5	31	1.1	—
Grand total	2 425	100.0	2 865	100.0	3.4 %

¹⁾ For figures in lire et current value see supplement to Table 28, p. 420.

¹⁾ The deficit is understood here as the difference between overall expenditure (see the above note) and overall receipts (fiscal receipts, plus economic aid, plus non-fiscal receipts, excluding those arising from new indebtedness and items offsetting certain expenditure).

It may be inferred from the above data that the influence of public spending on investments in the period under review was primarily indirect, through the medium of a reduction of the budget deficit which has lessened Treasury pressure on the capital market. It will not be forgotten, in this respect, that the trend of general economic conditions during the years under review was such as to provoke a certain tightness on the capital market. As the State was not in a position to keep in check public spending of a non-investment character, it was precluded, by the overriding necessity of maintaining currency stability, from increasing its expenditure on investments.

It should be further emphasized that, thanks to the enterprises which it controls directly or indirectly (enterprises of the IRI and ENI and other smaller groups, municipal enterprises, and the autonomous administrations of the railways, fiscal monopolies, telephones, etc), the Italian State has at its disposal a further instrument enabling it to channel investments in the direction most suited to a policy of development.

In the last few years, the total of these investments attributable to State initiative but financed by funds raised largely on the capital market, reached an amount around 350 to 450,000 million lire, or 10 to 15 % of total gross investments. It should be added that these investments are concentrated in certain sectors of special importance for the economic development of the country : railways, telephone services, energy and other public utilities, iron and steel, petroleum products, and certain branches of the heavy machinery industry.

CONCLUSIONS

1. It may be said that the different aspects of the Italian productive system which have been examined in the course of this study all combine to bring out the fact that its most typical feature is the co-existence of two profoundly different structures of production : on the one hand, the more " modern " enterprises, with a high technical level and high productivity, in which the accumulation of capital is the highest in the national economy; on the other, all those enterprises — most numerous in agriculture and certain tertiary activities, but also found in some industrial sectors — which, either because of technical backwardness or the necessity of giving employment to a labour force in excess of their needs, have low levels of productivity and often do not succeed in rising above a mere subsistence economy which rarely plays a role in the general market.

Above these two groups of economic units there is a third, represented by the State and public bodies. The aim of this group should be to promote the progress of the less advanced sector of the economy, while being careful not to hinder, but rather to further, the development of the more advanced sector, so that it might be in a better position to withstand competition from the productive systems of more advanced countries.

2. It is the simultaneous existence of the three groups defined above which gives rise to the strongest tensions to which the Italian economic system is subjected. Let us therefore begin by describing in broad outline the position of each of the groups and their mutual relationships.

Because of the low productivity of a vast part of the Italian economy, the most advanced sector is working for a national market which is a great deal more restricted than it would be if the whole national labour force were used adequately. As already noted, this restricted market makes it impossible in many cases for more than a few, and often a very few, big units to operate economically, and even for these renders future progress difficult and uncertain. Furthermore, this structure aggravates the effects of the trend, common today to many industrial countries, to share the additional income resulting

from increased productivity exclusively among the enterprises contributing to this increase instead of spreading it over the rest of the economy in the form of lower prices. Because of the structure here described, a very important part of the country remains excluded from the benefits of advances in productivity. This exclusion operates either directly, when the additional income mentioned above is transformed into consumer goods and thus contributes to widening the gap between the standard of living of the various parts of the population, or in a more indirect but much more effective manner, when it gives rise, through the medium of self-financing, to intensified investment in the sectors and regions where the income has been produced.

All this makes it difficult to reduce the differences existing between the rates of progress of the advanced portions and the backward sectors of the economy and may well result in their further aggravation.

The least advanced part of the Italian economy is characterized not only by the exiguity of its product but also by rates of development which are low and, in some cases, non-existent.

In the most highly developed regions, these examples of low productivity are destined to disappear by being gradually absorbed into the general movement of development, assisted by appropriate measures of economic policy. In the less progressive areas, on the other hand, contacts with the more dynamic parts of the country give rise to varying kinds of reactions.

First and foremost, direct and immediate contact with the sections of the population which enjoy a higher standard of living sets up social pressures which, even if strictly speaking they are not in themselves part of the economic structure, nevertheless do not fail to have very important economic effects on the whole economy of the country. We should further consider the consequences of the actions of enterprises in the more highly developed regions and of the numerous interventions of public authorities which make themselves felt in many directions.

Faced with these actions and interventions, the outdated economy usually reacts in one of two ways : when the stimulus proves efficacious, the backward sector is organically integrated with the market and thus acquires from the market itself new impulses towards further progress ; if on the other hand this integration does not take place, the position of the sector in question becomes very uncertain and, generally speaking, seriously unbalanced. This happens when, as a result of scarcity of capital and other elements necessary for development, the backward economy finds neither the strength to enter the competitive struggle with enterprises of the more developed sectors nor the capacity to exploit to the full the facilities and the new accumulation of capital made available through State intervention.

When we turn to public action, it may be said, on the basis of what has been observed up to now, that the general task of economic policy can only be to

render fruitful the co-existence of the two types of economy within the Italian system ; this means that each of them should find in the other a stimulus and not an obstacle to progress. That this is possible is clear from two almost obvious facts ; on the one hand, it is from the more advanced sectors that the greater part is the savings necessary for the balanced development of the national economy can come ; on the other, it is on the progress and consequent increase in income of the part which is today under-developed that a national market sufficient to make possible further development of the already existing industrial structure can be built.

This objective of economic policy, which is easy to formulate is difficult enough to put into effect, since it demands a substantial alteration of the mechanism of development at present operating in the Italian economy ; as the objective of development has to be achieved in the framework of a market economy, it is the system of private interests which will have to be modified.

If it is to achieve its ends, the first care of Italian economic policy must therefore be to promote the large-scale co-ordination of interest groups, insufficiently linked up to now, and to harness them to the more intense and better balanced process of development which the country requires. In the first place, there is the problem of the financial and industrial circles still favourable to an economic set-up which has the effect of channelling the formation of industrial capital — above all as regards its intensity and location — in directions incompatible with the necessities of balanced progress. An economic policy which does not succeed in altering the terms of profitable operation of the market will inevitably find these circles aloof or perhaps unwilling to help and, under the circumstances, justifiably unwilling. But this situation may be modified by the adoption of suitable policies, as is proved by the first flowering of industrial activity in the South during recent years, which has been due entirely to private initiative and not to public enterprises. Similar remarks could be made concerning the Trade Unions, whose demands are hardly compatible with a policy of more intense capital formation and higher employment. Something must be done to rouse the interest of the Italian Trade Unions in increased investment resources as an essential pre-condition for a rise in the level of employment.

There are also the organizations for the defence of certain categories of agricultural producers ; in a market economy the action of these organizations is almost by definition an obstacle to economic progress. But such forms of defence appear inevitable as long as development policy has not brought about a real solution the peasant problem by creating more productive agricultural structures and lessening population pressure in the rural areas.

3. To sum up, the gravest problems facing Italian economic policy today appear as particular manifestations of the great structural problems which

have been described above. This is especially evident in agriculture, which presents in aggravated form the typical disequilibrium consequent upon overpopulation. Substantial modification of this situation can be expected only from the absorption by non-agricultural activities of agricultural manpower. It is also necessary, particularly now that Italy has joined the Common Market, that the organization of agricultural production be improved.

The difficulties to be resolved are multiple ; in the first place, there are many areas in which, as a consequence of the splitting up of agrarian enterprises, and even of the ownership of the land, farms are so small that they leave no margin for technical improvement. These enterprises are generally of the family type. But technical backwardness is also found in cases where the chief difficulties result not so much from the small dimensions of the farms as from the present-day relations between two economic parties — the farmer and the landowner — who draw a living from the same land.

In the case of more advanced agricultural enterprises, there are difficulties which arise largely from the low margin of profit offered by agricultural investments by contrast with other forms of capital employment to be found on the market. If this situation is prolonged it may slow down or even annul progress in the more productive parts of Italian agriculture thus placing the latter in difficulties when faced with greater integration with international markets.

The future development of agriculture must therefore be sought in a whole series of changes involving, on the one hand, price relations between agriculture and other sectors, and on the other, the productive structure of the Italian agricultural economy itself. These structural changes will affect both the less productive methods of operation and those enterprises whose insufficient dimensions preclude the profitable introduction of intensive farming.

Membership of the Common Market, by inciting the Italian agricultural system to become more competitive, cannot fail to accelerate the process of change which is already in operation ; it will above all hasten the introduction of changes in the organization of agriculture. It may be expected that such changes will be in the direction of greater specialization. This will primarily involve abandoning cereals in a vast submarginal area situated principally in the Apennines and the hilly country of the Mezzogiorno. Once the present population has been transferred elsewhere, these areas could be largely utilized for forestry and stock farming.

Further more, the expansion of irrigation will increase the productivity of fodder growing and the stock raising connected with it; in the Mezzogiorno, in addition to making possible greater diffusion of these last-mentioned activities, it will facilitate further development of fruit and vegetable growing. It should be added that, whereas greater fruit and vegetable production is justified by the prospects of Italian foreign trade, increase in the number of livestock will find an outlet in the foreseeable development of internal demand.

As to the chief measures of agricultural policy in post-war years, it should be emphasized that the agricultural reform only affected a very small part of the arable area (3 %). As was pointed out in the Introduction, its purpose was to establish a small-holder agriculture which was certainly an advance on the less rational conditions obtaining before the reform. However, the type of farm resulting from this reform is in many cases not such as to permit substantial progress in productivity.

In the matter of soil improvement, it can be said that the new land made available has often represented no more than potential development, in that it has not been possible to create the ambient conditions in which private investment could use it with profit. The final result is low productivity of the public works carried out.

The Mezzogiorno is naturally the region which suffers most from this backwardness because, in the absence of industrial development, agricultural production has greater importance and because obsolescent methods of operation are more frequently met with in southern agriculture than elsewhere.

As for the development of southern industry, action up to the present, although it has resulted in the creation of important infrastructure, has not changed the fundament of characteristics of the Italian industrial system. In fact, the establishment of new productive units in the South has so far been only on a modest scale in relation to the industrialization targets for the region. It must be pointed out, however, that the process of industrialization is still in its first stages and, consequently handicapped not only by inadequate infrastructures but also by shortage of entrepreneur capacity and spirit of enterprise. In any case, a further noteworthy increase in infrastructure does not, generally speaking, seem necessary, since industrial investment has so far not kept pace with the infrastructure already provided. A new line of approach, of which the law of 1957 is one of the first manifestations, seems to be called for.

This need to industrialize the southern provinces leads us to consider a third great Italian problem, after those of agriculture and of the South, *i. e.* the *development of the present industrial system.*

As mentioned above, the remedy for the backward economic situation of the Mezzogiorno must be sought primarily by extending to the southern regions the industrial equipment of the country, thus correcting the effects of the present tendency of industrial investment to be concentrated in the areas already industrialized, with consequent increase in the productivity of manpower already employed rather than greater employment in the regions where the supply of labour most exceeds demand.

It is essential to correct this trend, but this should be done in such a way as not to impede investments aimed at increasing the productivity of the existing system. In view of the introduction of the Common Market, and of the general necessity for Italian economy to increase its industrial export in order

to meet rapidly increasing raw material requirements, the flow of investments intended to increase productivity is likely to be intensified and in any case will not diminish. The balanced development of the Italian industrial system therefore demands that the additional capital formation for the industrial development of the backward areas be not an alternative to, but an integral part of, the flow of investment necessary to increase the productivity of the existing industrial system.

In this respect, it must be pointed out that the solution of the twin problems of increasing the productivity of the existing productive apparatus and promoting its extension to the areas at present without it is not bound to result in the formation of two types of system each with its own level of productivity. As is clearly indicated by the sort of establishments already set up in the Mezzogiorno, the techniques adopted are not different from those towards which the present industrial apparatus in the Centre-North is tending. This is one of the reasons which explain the volume of the capital required.

As far as industry is concerned, Italy's interest in participating in the process of integration initiated by the Treaty of Rome resides precisely in the fact that the new capital will be formed in the context of a prospective market in which the adoption of modern techniques is profitable, and higher labour productivity than could have been attained within the limits of the national market alone consequently becomes possible.

This line of development is certainly no less important than those which will open up in other sectors under the stimulus of integration; the most important of these are: a more rational utilization of agricultural resources, the formation of a much vaster labour and capital market, the possibility for producers and consumers of procuring supplies in other Community markets on conditions often more economic than those obtaining in their own internal market.

4. The acceleration of the process of development consequent upon the establishment of the Common Market will throw into sharper relief a fourth group of problems which, speaking very generally, can be combined under the single title of the better use of the human factor.

These problems are essentially the following:

a) occupational training, which will have to be developed on a scale adequate, from the point of view both of quality and quantity, to the foreseeable demand for labour at home and abroad;

b) the formation of entrepreneur capacity on the scale required for the full utilization of the capital which will be formed;

c) research and scientific experiment in the forms required by the new and more varied productive structures which the country is preparing to introduce.

The above considerations show clearly the importance for Italy of a further intensification of the process of capital accumulation at present going on. This is in fact the prior condition to the solution of the twin problems of rapidly remedying the more backward situations existing in agriculture and of conciliating the necessary increase in the competitive capacity of the existing industrial system with its more rapid extension to the southern regions, where the labour reserves of the country are almost entirely concentrated.

It should be pointed out immediately that this presentation of the Italian problem is not new; in fact it forms the basis of the ten-year development plan (Vanoni Plan) which guides present Italian economic policy. The new factor introduced by Italy's membership of the Common Market may be defined as follows; whereas, under the ten-year scheme, the acceleration of the process of capital formation was to have taken place in a setting which, while certainly *not* autarkic, was nevertheless protected by the existing customs system, today even these limitations are gradually to be abolished. This may not require any change in directives, but it certainly demands that the process of capital formation provided for in the plan be greatly stepped up. A more equitable distribution of consumer goods between employed, under-employed, and workless is called for, not only in order to increase investments, but also to make possible price policies calculated to improve the competitive position of the export industries. We emphasized in their place the vulnerability of the substantial equilibrium achieved in 1957 in the Italian balance of payments and the high import/income elasticity which characterizes the present phase of development of the Italian economy. In this situation the use of increased productivity as a means of reducing prices and thus making possible an important and lasting expansion of Italian foreign trade can help to bring about an increase of income and employment and greater investment.

It is widely hoped today in Italy — and not without justification — that foreign capital will find profitable investment in the country. However, such investment can but slightly diminish the total amount of internal saving required and the precariousness of the present equilibrium in the balance of payments.

Among direct measures for the increase of investments, a change of policy in the matter of public spending is indispensable. It has been pointed out in this respect that the share of the national income consumed by public authorities is of the order of 30 % and that of the amount thus consumed only 10—15 % is used for investments.

However, any really important development measures in the agricultural field and in that of the industrialization of the South will require larger public investments in addition to special incentives. Justified calls for an increase of public spending will also be made by those responsible for professional training and scientific research. Moreover, the Italian fiscal system, whose re-

venues are increasing at a higher rate than those of the national income, and which is already absorbing about 30 % of that income, will have to be altered, particularly in respect of taxes on exchange of goods and social contributions, *i. e.* charges which directly hit economic activities, such as trade and employment, which it is most desired to develop. A policy aimed at keeping expenditure on a great number of budget items strictly within bounds will therefore be inevitable if the structure of public finance is to be adapted to the framework of the economic policy rendered necessary by membership of the Common Market. This is true even if we admit that the increase in public investments could justify a certain deficit policy.

To conclude, the entry into force of the Treaty of Rome does not substantially alter the objectives of Italian economic policy nor the fundamental trend described in Chapters I and II. The problems posed, particularly in the fields of capital accumulation and of the process of adaptation and transformation at present going on, will become more acute, but structural development and economic and social progress, which have already been so great in recent years, will be correspondingly speeded up.

As to the prospect of the formation of a so-called Free Trade Area covering the 17 OEEC countries, two main lines of thought suggest themselves in the light of what has so far become known about the negotiations in progress.

First of all, if adequate measures were not taken, the lack of a single external tariff would provoke disequilibria in international trade and, in the long run, in the very location of industrial activities, which would have harmful repercussions for countries like Italy with high customs tariffs. Even if the problem of the harmonization of customs rates *vis-à-vis* non-member countries were solved satisfactorily, there would remain the obvious disadvantages of integration limited to the one sector of the exchange of merchandise. In fact the exclusion of capital, services, and manpower from the process of integration, and the absence of incentives to the harmonization of economic policy between member countries, seriously compromise the possibility of balanced development of the area. This is because the member countries are far from being equally in a position to base the solution of their long-term development problems on the liberalization of trade alone.

ADDENDUM

Supplement to TABLE 17, p. 380

Balance of current payments in 1957

(in '000,000 current \$ and in %)

Items	Receipts		Expenditure	
	'000,000 \$	%	'000,000 \$	%
A - Merchandise <i>job</i>				
Foodstuffs	610.1	15.2	535.4	13.1
Raw materials	120.8	3.0	1 058.7	26.0
Coal and oil	185.2	4.6	683.7	16.8
Manufactured goods	1 628.0	40.4	947.2	23.3
Total	2 544.1	63.2	3 225.0	79.2
B - Services and transfers				
Tourism	381.0	9.5	58.3	1.4
Transport and insurance	488.1	12.1	538.6	13.2
Income from emigrants' work and remittances	231.3	5.7	10.8	0.3
Interest on capital	60.0	1.5	85.4	2.1
Miscellaneous ¹⁾	320.8	8.0	154.0	3.8
Total	1 481.2	36.8	847.1	20.8
C - Total current transactions (A + B)	4 025.3	100.0	4 072.1	100.0

¹⁾ Cf. note 1, Table 17, p. 380

Supplement to TABLE 19, p. 382

Changes in the balance of current payments by sector of production - 1953 to 1957
(in '000,000 current \$ and in %)

Items	Receipts			Expenditure		
	'000,000 \$		Average annual increase 1953-1957	'000,000 \$		Average annual increase 1953-1957
	1953	1957		1953	1957	
A - Merchandise for						
Foodstuffs	365.4	610.1	13.7	429.4	535.4	5.7
Textiles	354.1	434.7	5.3	399.9	480.5	4.7
Metallurgical products	67.7	172.9	26.4	236.2	483.7	19.6
Mechanical engineering	306.7	666.9	21.4	324.7	406.3	5.8
Coal and oil	146.6	185.2	6.0	424.0	683.7	12.7
Chemicals	83.4	153.1	16.4	91.2	158.0	15.7
Miscellaneous ¹⁾	215.5	321.2	10.5	308.2	477.4	11.6
Total	1 539.4	2 544.1	13.4	2 213.6	3 225.0	9.9
B - Services and transfers						
Tourism	147.3	381.0	26.8	16.6	58.3	36.9
Transport and insurance	259.1	488.1	17.2	305.8	538.6	15.2
Income from emigrants' work and remittances	125.6	231.3	16.5	—	10.8	—
Income from capital	25.6	60.0	23.7	32.2	85.4	27.6
Miscellaneous ²⁾	227.7	320.8	8.9	116.8	154.0	7.1
Total	785.3	1 481.2	17.2	471.4	847.1	15.8
C - Total of current transactions (A + B)	2 324.7	4 025.3	14.7	2 685.0	4 072.1	11.0

¹⁾ Cf. note 2, Table 19, p. 382.²⁾ Cf. note 2, Table 17, p. 380.

Supplement to TABLE 21, p. 387

Imports and exports by areas of origin and destination - 1953 and 1957

(in '000,000 current \$ and in %)

Areas	Imports cif			Exports fob			Balance	
	1953	1957	Variation %	1953	1957	Variation %	1953	1957
Common Market	528.8	783.4	+ 48.2	296.7	634.8	+ 113.8	- 232.1	- 148.6
Other members of the Free Trade Area	540.8	662.9	+ 22.5	433.9	684.3	+ 57.6	- 106.9	+ 21.4
Total OEEC countries	1 069.6	1 446.3	+ 35.2	730.6	1 319.1	+ 80.4	- 339.0	- 127.2
Rest of world	1 325.6	2 179.7	+ 64.4	757.7	1 221.5	+ 61.2	- 567.9	- 958.2
General total	2 395.2	3 626.0	+ 51.4	1 488.3	2 540.6	+ 70.7	- 906.9	- 1 085.4
EPU	1 608.5	2 128.1	+ 32.3	968.0	1 629.2	+ 68.3	- 640.5	- 498.9
Sterling area	651.6	744.9	+ 14.3	301.3	390.7	+ 29.6	- 350.3	- 354.2
Dollar area	389.4	824.7	+ 111.8	204.1	395.2	+ 93.7	- 185.3	- 429.5

N. B. - The differences compared with the corresponding data in Tables 17 and 19 are explained chiefly:
for imports: by the cif basis adopted in this table;
for exports: by the inclusion of shipboard provisions, bonded stores, etc., which do not figure under the heading "Merchandise" in Tables 17 and 19. As already indicated, these latter include off-shore orders, the value of which is not included in the above table.

Supplement to TABLE 22, p. 388

Imports and exports by areas and groups of products - 1953 and 1957

('000,000 current \$)

Areas	Food, beverages and tobacco (Sects. 0+1)		Raw materials (excl. fuels, animal and vegetable fats) (Sects. 2+4)		Fuels, lubricants and related materials (Sect. 3)		Machinery and transport equipment (Sect. 7)		Other manufactures (excl. machinery and transport equipment) (Sects. 5, 6, 8, 9)	
	1953	1957	1953	1957	1953	1957	1953	1957	1953	1957
	<i>Imports (cif)</i>									
Common Market	36.7	64.9	82.5	152.7	95.3	75.7	118.4	201.4	195.9	288.7
Other members of the Free Trade Area	103.7	132.5	145.5	205.2	33.6	6.6	99.0	101.1	159.0	217.5
Total OEEC countries	140.4	197.4	228.0	357.9	128.9	82.3	217.4	302.5	354.9	506.2
Rest of world	273.2	312.3	529.4	874.8	326.9	672.5	78.4	103.1	117.7	217.0
General total	413.6	509.7	757.4	1 232.7	455.8	754.8	295.8	405.6	472.6	723.2
	<i>Exports (fob)</i>									
Common Market	125.6	227.7	32.1	17.0	2.7	40.4	44.2	118.3	92.1	231.4
Other members of the Free Trade Area	130.2	200.2	29.5	56.2	50.6	77.9	75.7	114.5	147.9	235.5
Total OEEC	255.8	427.9	61.6	73.2	53.3	118.3	119.9	232.8	240.0	466.9
Rest of world	97.8	176.1	43.3	50.8	92.5	66.7	161.0	343.6	363.1	584.3
General total	353.6	604.0	104.9	124.0	145.8	185.0	280.9	576.4	603.1	1 051.2

N. B. - The numbers of the sections correspond to the United Nations SITC nomenclature.

Supplement to TABLE 27, p. 401

Receipts of the State and local authorities

('000,000,000 current lire and in %)

Receipts	1951-52		1956-57		Average annual increase 1951-52/1956-57
	'000,000,000 lire	%	'000,000,000 lire	%	
<i>Receipts of the State</i>					
Income tax and property tax	364	20.7	622	20.5	11.3 %
Business tax	128	7.3	221	7.3	11.6 %
Tax on movement and exchange of merchandise	599	31.9	1 104	36.4	14.6 %
Consumer tax on non-essential goods	281	16.0	413	13.6	8.0 %
Consumer tax on necessary goods	142	8.1	212	7.0	8.3 %
Lotteries	30	1.7	41	1.4	6.5 %
Total fiscal receipts of the State	1 504	85.7	2 613	86.2	11.7 %
<i>Fiscal receipts of local authorities</i>	251	14.3	419	13.8	10.8 %
Grand total of fiscal receipts	1 755	100.0	3 032	100.0	11.6 %

Supplement to TABLE 28 p. 405

State expenditure

('000,000,000 current lire and in %)

	1951-52		1956-57		Average annual increase 1951-52/1956-57
	'000,000,000 lire	%	'000,000,000 lire	%	
<i>Current expenditure</i>					
Interest on debts	120	5.3	220	7.3	12.9 %
Subsidies to autonomous enterprises	65	2.8	111	3.7	11.3 %
Subsidies to consumers (political prices)	—	—	1	. .	—
Education	206	9.0	374	12.4	12.7 %
Health, public assistance, social security	222	9.7	382	12.6	11.5 %
Subsidies to communes, provinces and regions	131	5.7	202	6.7	9.1 %
Defence	399	17.5	496	16.4	4.4 %
Miscellaneous	520	22.8	724	23.9	6.8 %
Total of current expenditure	1 663	72.8	2 510	83.0	8.6 %
<i>Investments</i>					
Public works (incl. the programme of the Cassa del Mezzogiorno e Calabria)	275	12.1	293	9.7	—
Other investments	288	12.6	190	6.2	—
Total of investment expenditure	563	24.7	483	15.9	—
<i>Other capital expenditure</i>	57	2.5	32	1.1	—
Grand total	2 283	100.0	3 025	100.0	5.8 %

Part F

Grand Duchy of Luxembourg

This report was drawn up by M. A. SCHWINNEN, of the Luxembourg Ministry of Economic Affairs, at the request of the Commission of the EEC.

INTRODUCTION

The purpose of this Report is to give an overall picture of the economic structure of the Grand Duchy of Luxembourg on the entry into force of the Common Market.

In preparing this paper, the suggestions of the Working Party instructed to produce the report on the economic situation of the Community have been followed as closely as possible. Unfortunately, the statistical material that is available does not make it possible to answer all the questions raised.

We believe none the less that we have supplied a firm basis for an analysis of the structure of the Luxembourg economy as a whole and for recognizing the basic problems which exist in the economic field.

In preparing this Report full use has been made of the Bulletins and the series of Economic Papers issued by the Research Office of the Ministry of Economic Affairs; the Report is less an attempt to give the results of original research than a synoptic review of problems already studied.

I — STRUCTURE OF PRODUCTION

A — POPULATION AND EMPLOYMENT

1. The general demographic situation

At the end of 1957 the permanent population of Luxembourg was calculated by the Statistical Office at 315,000 persons.

The population of Luxembourg is an ageing population with concentrations of temporary importance among the age groups belonging to the population of working age. This is due to two social phenomena: the increase in the average expectation of life and the reduction in the number of births.

At the beginning of the century the crude birth rate (live births per mille) was 31. To-day the rate in Luxembourg is one of the lowest in Europe: in 1957 it was only 15.4.

In Luxembourg, foreigners represent a considerable proportion of the population. The last census, in 1947, recorded 29,142 foreigners. At that time they formed 1/10 of the total population. Since that date the proportion has grown further and a count on 31 December 1957 showed 36,914 foreigners over 15 years of age, or 11.7 per cent of the total population.

2. The working population on the basis of the last census, 31 December 1947

The working population enumerated includes workers in receipt of wages and salaries, persons working on their own account, unpaid persons assisting in a family business, and wage and salary earners out of employment.

Not included are women doing household work, students, retired persons, etc... Normally the wives of farmers and working members of the family were included as working persons.

The 1947 census showed the following distribution of working persons between the main economic branches:

TABLE 1

Branches of activity	Absolute figures	Percentage
Agriculture, horticulture, livestock, sylviculture	35 050	26.1
Mines, industries and handicrafts	53 253	39.6
Commerce, transport, hotels and catering	25 882	19.3
Public and private services	13 819	10.3
Domestic service	6 284	4.7
Total :	134 288	100.0

Source : Bulletin Statistique, Luxembourg 1950, vol. 1, page 26.

3. The working population in 1954, 1955 and 1956

The National Labour Office has drawn up the following figures relating to the working population in employment during 1954, 1955 and 1956:

TABLE 2

('000)

Branches of activity	1954	1955	1956
Agriculture	33.3	33.0	32.7
Mining and quarrying	4.4	4.6	4.6
Manufacturing industries	44.0	44.8	46.7
Building	10.5	10.5	10.6
Public utilities	1.0	1.1	1.1
Commerce, banking and insurance	12.6	12.7	12.9
Transport and communications	9.6	9.7	9.8
Services	26.1	26.2	26.2
Total working population in employment	141.5	142.6	144.6
Armed Forces	1.7	1.7	1.7

It should be noted that these figures are only estimates; they are not entirely comparable with those obtained in the census of 1947.

4. The employment situation

It can be said that full employment has been attained in Luxembourg in the sense that the total of posts available is greater than the number of persons seeking work.

However, the fact that the available manpower is fully employed does not mean that workers, or indeed the other production factors, are being used in the most efficient manner. Probably it is in this comparatively inefficient use of some workers to-day that Luxembourg will be able to find possibilities for a substantial increase in production and in the standard of living.

In this connection, economic policy has two quite distinct tasks to perform: to ensure full employment and to arrange that workers are used in a highly productive manner.

For a long time Luxembourg farmers have been complaining of the shortage of agricultural manpower. Particularly in the last few years this shortage of hands has grown more serious, largely because heavy industry has been gradually absorbing part of the agricultural population.

It would seem that there must be considerable reserves available in the female labour force. Unfortunately, in the present state of our statistics it is not possible to support these observations with facts and figures.

In 1957 the monthly average of workers employed in industry generally was 43,944, of whom 11,915 or 27 per cent were foreign nationals.

Of a total strength in 1957 of 23,412 persons engaged in the iron and steel industry and in mining, 19,879 were natives and 3,533 or 15 per cent were foreign nationals.

Agriculture employed 1,877 persons of foreign origin.

Of the other branches which occupy a large number of foreign workers, the building industry is particularly notable.

B — ANALYSIS OF PRODUCTION AT CURRENT PRICES

Table 3 shows for 1952, 1956 and 1957 the contribution made to the gross national product at current prices by each branch of activity. The relative importance of the various branches comes out most clearly in those columns of the table which give the figures as percentages.

Luxembourg statistics do not make it possible to work out a breakdown of indirect taxes less subsidies among the several branches. This is why the Research Office has worked out the contribution made to the gross national product at factor cost by each branch.

A remarkable point is the small contribution made to the gross national product by agriculture (8.99 per cent in 1956) and by the primary activities in general (12.07 per cent). The explanation lies both in the lack of natural resources in Luxembourg and in the fact that its economic development goes hand in hand with a drop in the relative importance of primary activities to the advantage of secondary activities and services.

The secondary activities correspond to headings 3, 4 and 5 (manufacturing industries, public utilities and construction), and in 1956 they accounted for 51.89 per cent of the gross national product. Luxembourg is, then, a highly industrialized country.

The remaining headings (6 to 12) count as "tertiary" activities and they account for 36.04 per cent.

Examination of Table 3 shows that the iron and steel industry alone accounts for more than 30 per cent of the national product and that its share in the total value created by the aggregate of the manufacturing industries is about 70 per cent.

TABLE 3

Origin of gross national product at factor cost by branches of industry

Branches of activity	1952	1956	1957 ¹⁾	1952	1956	1957 ¹⁾
	<i>in '000,000 Bfr.</i>			<i>as percentage</i>		
1. Agriculture and sylviculture :						
a) Agriculture	1 476	1 596	1 600	8.68	8.27	7.87
b) Sylviculture	98	139	150	0.58	0.72	0.74
2. Mining and quarrying	720	594	630	4.23	3.08	3.10
3. Manufacturing industries :						
a) Foodstuffs, beverages and tobacco	490	620	700	2.88	3.22	3.44
b) Textiles, clothing and footwear	182	216	230	1.07	1.12	1.13
c) Wood and furniture	244	308	300	1.44	1.60	1.48
d) Paper, printing, publishing	109	124	130	0.64	0.64	0.64
e) Chemicals and allied industries	144	255	270	0.85	1.32	1.33
f) Stones and clay	192	257	280	1.13	1.33	1.38
g) Iron and steel	5 745	5 915	6 400	33.78	30.67	31.48
h) Metal processing, electrical and engineering construction	621	790	820	3.65	4.10	4.03
i) Sundry manufacturing industries (leather)	106	22	30	0.62	0.11	0.15
4. Public utilities	116	185	190	0.68	0.96	0.93
5. Building	906	1 316	1 360	5.33	6.82	6.69
6. Transportation :						
a) Railway	886	1 095	1 100	5.21	5.68	5.41
b) Other	232	324	340	1.36	1.68	1.67
7. Wholesale and retail trade, hotels and catering	1 704	2 158	2 300	10.02	11.18	11.31
8. Banking, insurance and real estate business	200	268	280	1.17	1.39	1.38
9. Real estate	600	700	720	3.53	3.63	3.54
10. Public administration, defence and certain public undertakings not elsewhere specified	1 786	1 992	2 100	10.50	10.33	10.33
11. Domestic service	210	250	} 400	2.65	2.15	1.97
12. Other forms of services and statistical errors	240	164				
<i>Gross domestic product at factor cost</i>	17 007	19 288	20 330	100.00	100.00	100.00
13. Net income on production factors due to rest of world	- 435	- 545	- 530			
<i>Gross national product at factor cost</i>	16 572	18 743	19 800			

C — GROWTH OF NATIONAL PRODUCT AT CONSTANT PRICES

The purpose of this chapter is to review briefly the changes in the gross national product at factor cost at 1954 prices in 1937-1938 and during the last six years. For each year the national product has been worked out at 1954 prices in an attempt to even out the price fluctuations and so to obtain a series of figures which would broadly reflect quantitative changes in the national product. These figures are given in Table 4.

Output in Luxembourg did not recover its 1937 level (1937 saw a very high level of business) till after 1949. From that date onward the country began to gain ground. The steepest rise in output occurred in 1951 under the influence of the economic tension caused by the war in Corea. Compared with the average for 1937 and 1938, the volume of production recorded in 1957 has only risen by 42 per cent, or about 2 per cent per annum. Clearly it must not be deduced from this that all branches of activity shared equally in the expansion, or that none of them suffered a decline during the years under review.

During this period the share of agriculture and the share of mining and quarrying have been falling (9.05 per cent in 1957 compared with 11.29 per cent in 1937/38, and 3.94 per cent in 1957 compared with 4.85 per cent in 1937/38).

The share of manufacturing industries has remained roughly level (39.97 per cent in 1957 compared with 40.68 per cent in 1937/38). As a rule their share in the national product as a whole increases as the pace of business rises and decreases as the pace falls.

Among activities of industrial character iron and steel, chemicals, electricity and the non-metallic mineral products have moved forward, while the relative importance of all other industrial sectors has declined.

The share of the "tertiary" sector (transportation, public administration and other services) has risen from 35.07 per cent in 1937/38 to 39.14 per cent in 1957.

TABLE 4

Origin of gross national product at factor cost at 1954 prices

Branches of activity	1937	1938	1952	1953	1954	1955	1956	1957 ¹⁾	1937-38	1957	changes between 1937-38 and 1957
	'000,000 Bfr.										as percentage
1. Agriculture and sylviculture:	1 959	1 374	1 400	1 431	1 472	1 523	1 500	1 484	10.56	8.38	- 2.18
a) Agriculture	90	91	89	79	77	118	126	119	0.73	0.67	- 0.06
b) Sylviculture	707	502	657	650	540	643	670	697	4.85	3.94	- 0.91
2. Mining and quarrying	662	641	561	540	537	574	596	661	5.23	3.73	- 1.50
3. Manufacturing industries:	378	351	188	189	183	178	182	187	2.92	1.06	- 1.86
a) Foodstuffs, beverages and tobacco	448	386	298	293	297	318	311	299	3.35	1.69	- 1.66
b) Textiles, clothing and footwear	101	101	105	104	119	124	131	130	0.81	0.73	- 0.08
c) Wood and furniture	144	97	154	149	162	194	215	212	0.97	1.20	+ 0.23
d) Paper, printing and publishing	125	123	161	182	198	224	236	244	0.99	1.38	+ 0.39
e) Chemicals and allied industries	3 388	1 978	4 096	3 578	3 790	4 283	4 586	4 624	21.54	26.11	+ 4.57
f) Stones and clay	496	502	679	672	644	644	663	670	4.01	3.78	- 0.23
g) Iron and steel	102	113	47	52	52	52	44	51	0.86	0.29	- 0.57
h) Metal processing	100	85	142	149	166	183	193	199	0.74	1.12	+ 0.38
i) Sundry industries	964	871	1 022	1 238	1 161	1 219	1 196	1 200	7.37	6.78	- 0.59
4. Public utilities	1 026	782	1 192	1 065	977	1 182	1 251	1 231	7.26	6.95	- 0.31
5. Building	231	231	305	305	321	331	340	350	1.85	1.98	+ 0.13
6. Transportation:	1 218	1 250	1 799	1 948	1 764	1 926	1 987	2 000	9.91	11.29	+ 1.38
a) Railway	2 000	2 000	2 409	2 808	3 690	3 282	3 205	3 350	16.05	18.92	+ 2.87
b) Other	13 439	11 478	15 304	15 432	16 150	16 998	17 432	17 708	100.00	100.00	—
7. Public administration, defence and public undertakings	- 335	- 227	- 382	- 349	- 360	- 403	- 428	- 439	—	—	—
8. Other forms of services and statistical errors	13 104	11 251	14 922	15 083	15 790	16 595	17 004	17 269	—	—	—
<i>Gross domestic product at factor cost</i>											
Net income on production factors due to rest of world											

¹⁾ Provisional figures.

D — ORIGIN AND USE OF RESOURCES

The breakdown of the national product by uses made of it is shown below:

TABLE 5

Origin and use of resources at current prices*(in '000,000 Bfr.)*

Use	1952	1956	1957 ¹⁾
1. Private consumption of goods and services	9 475	11 644	12 500
2. Current public expenditure on goods and services	2 227	2 297	2 450
3. Gross fixed capital formation by enterprises	2 425	3 065	3 400
4. Gross domestic formation of fixed capital by the state	716	965	1 050
5. Changes in stocks and statistical errors	— 180	350	300
6. Exports of goods and services incl. income from rest of world	17 548	18 655	19 300
7. Total of resources used	32 211	36 976	39 000
8. Less imports of goods and services incl. income to rest of world	14 266	16 680	17 700
9. Equals gross national product at market prices	17 945	20 296	21 300
10. Less amortization by enterprises	1 945	2 686	
11. Less amortization by the state	373	424	
12. Equals net national product at market prices	15 627	17 186	
13. Less indirect taxes	1 647	1 910	
14. Plus subsidies	274	357	
15. Equals net national product at factor cost	14 254	15 633	
16. Plus amortization	2 318	3 110	
17. Equals gross national product at factor cost	16 572	18 743	19 800

¹⁾ Provisional figures.

From the above table we can draw the following facts on the composition of resources available and used:

TABLE 6
Supply and use of resources

	1952		1956	
	in '000,000 Bfr.	as percentage	in '000,000 Bfr.	as percentage
Resources available :				
National output	17 945	55.7	20 296	54.9
Imports	14 266	44.3	16 680	45.1
Total	32 211	100.0	36 976	100.0
Resources used :				
Domestic expenditure	14 663	45.5	18 321	49.6
Exports	17 548	54.5	18 655	50.4
Total	32 211	100.0	36 976	100.0

The figures below show the division of national expenditure between consumption and investment and they provide a breakdown of the gross domestic formation of capital.

TABLE 7
Consumption and formation of capital

	1952		1956	
	in '000,000 Bfr.	as percentage	in '000,000 Bfr.	as percentage
Private consumption	9 475		11 644	
Public consumption	2 227		2 297	
Total consumption	11 702	65	13 941	69
Gross domestic capital formation	2 961		4 380	
Capital formation abroad	3 282		1 975	
National capital formation	6 243	35	6 355	31
National expenditure	17 945	100	20 296	100

TABLE 8
Breakdown of gross domestic capital formation¹⁾

(in '000,000 Bfr.)

	1954	1956
Dwellings	660	850
Other buildings (for enterprises and public authorities)	775	780
Other construction (mainly infrastructure for transport and communication)	679	750
Movable investments (rolling stock, industrial plant and machinery, etc.)	1 838	1 650
Total :	3 952	4 030
<i>Changes in stocks</i>	246	350
<i>Gross domestic formation of capital</i>	4 198	4 380

¹⁾ It has not been possible to include 1952 in this breakdown.

E — NATIONAL INCOME PER HEAD

The table below gives some idea of the trend from 1952 to 1957 of national income (net national product at factor cost) per head of the population, at current prices and at 1954 prices.

TABLE 9

Years	National income in '000,000 Bfr.	Population in the middle of the year	Income per head of population
	<i>at current prices</i>		<i>at current prices</i>
1952	14 254	301 347	47 301
1953	12 821	303 701	42 216
1954	13 362	306 332	43 619
1955	14 665	309 367	47 403
1956	15 633	312 310	50 056
1957	16 600 ¹⁾	314 294	52 817 ¹⁾
	<i>at 1954 prices</i>		<i>at 1954 prices</i>
1952	12 994	301 347	43 120
1953	12 641	303 701	41 623
1954	13 362	306 332	43 619
1955	14 140	309 367	45 706
1956	14 555	312 310	46 604
1957	14 769 ¹⁾	314 294	46 991 ¹⁾

¹⁾ Provisional figures.

F — THE MAIN INDUSTRIAL PRODUCTS OF LUXEMBOURG

Besides the great iron and steel mills which produce the whole range of rolled products except tin-plate Luxembourg has a metal products industry which is represented by some 30 enterprises. Their production programme mainly includes equipment goods for the iron and steel industry and for mining, crude or finished foundry products of pig-iron or of cast steel, forged articles, small or large metal structures, handling and lifting apparatus, the making of large and small boilers, railway and tramway track construction material, general engineering, machine parts, crushing and grinding machines, nails and wire, cocks and valves, metal furniture, etc... This group of industries provides employment for more than 3,000 persons and about 1/3 of its output is exported.

The leather industry is one of the traditional industries of Luxembourg and is concentrated in the North of the country. The industry works mainly for export. Its skin-dressing capacity is over one million square feet per month.

Other industries to which reference must be made include faience and ceramics, especially household items in earthenware, artistic and fancy goods and stoneware; exports abroad account for 2/3 of the total output.

Although of more recent date, the chemical industry has none the less experienced a considerable and rapid expansion.

An ultra-modern factory for tyres and inner tubes to-day employs more than 700 hands. The production of phenol is another industry which has showed noteworthy expansion.

In the field of artificial fertilisers, the production of basic slag, a by-product of the iron and steel industry, is of particular importance. Most of the output, which in 1956 amounted to 675,000 metric tons, is exported.

The explosives industry is represented by two companies, one of which makes blasting powder and the other high explosives.

In Luxembourg the foodstuffs industry plays an important role in the country's economy. Some sections are industrial in character, others are definitely on a smaller scale. The leading item in this field is brewing.

In concluding this brief review reference should be made to the cigarette industry, which has captured a very wide market abroad.

G — A GLANCE AT AGRICULTURE AND VITICULTURE

The area under cultivation accounts for about 55 per cent of the 258,600 hectares which make up the State. This means that in Luxembourg, as in Switzerland and in Italy, there is about half a hectare of cultivated land per head, compared with a little over 0.2 hectare in Belgium and the Netherlands and more than 0.85 hectare in France and Denmark. Nearly 30 per cent of the country is wooded. There is practically no unused land.

Some 33,000 persons are engaged in agriculture in Luxembourg, including farmers' wives and working members of farmers' families.

The natural conditions of production are on the whole unfavourable because of the nature of the soil and the poor climate.

Besides the phosphatic fertilisers which are available in ample quantities in the form of basic slag from the iron and steel industry at home, the farming community in Luxembourg imports an appreciable tonnage of nitrogenous and potash fertilisers. It also buys from abroad some 25,000 tons per annum of coarse grains and oil-cakes as fodder as well as high-class seed and breeding cattle.

For bread grain and beef the results currently obtained in a year of average output correspond roughly to domestic requirements, except for veal and for the hard grain required by the semolina mills. The output of milk and butter, pork and potatoes is in excess of demand.

The country imports some 30 per cent of its supply of eggs and some 75 per cent of its mutton and lamb. There are also more or less considerable imports of fruit, vegetables and fresh or tinned fish, cheese, poultry, game, honey, cereal products, dried vegetables, processed or tinned meat, etc... The country produces no vegetable fats, no raw materials for production of margarine and no sugar.

The contribution made to the food supply of the country by Luxembourg farmers can be more clearly appreciated if we state that since pre-war days consumption per person per annum has risen from 8 kg of butter to 12 kg and from 52 kg of meat to more than 63 kg, while there has been some reduction in the consumption of bread and potatoes.

The Luxembourg vineyards, which lie in the East of the country, cover some 1,090 hectares. The various vines grown produce high grade wines such as Riesling, Sylvaner, Traminer, Ruländer, Auxerrois and Pinot. The "Elbling" is a more ordinary wine. These wines are dry and light.

The country consumes 50 to 60 per cent of its own output. The rest is exported mainly to Belgium, the Netherlands and Germany. In 1956 total exports amounted to 58,200 hectolitres and in 1957 to 37,500 hectolitres.

In Luxembourg agriculture provides what is perhaps the most difficult problem of the country's economic policy. Unlike industry, agriculture lives in a state of protectionist isolation. This protectionism can be seen in a legislative control which removes agriculture from normal market influences; it is guaranteed internationally by a series of provisions. In order to guarantee farmers' incomes and to keep the retail prices of agricultural products stable there are subsidies granted by the State.

H — ECONOMIC EXPANSION OF LUXEMBOURG

The main indices in Luxembourg which are indicative of economic expansion and available over a sufficient number of years are the index of industrial output, the output of pig-iron and steel and the national product.

1. The index of industrial output

The table below reveals the basic trend of industrial development in Luxembourg and its relation to the trend of other countries in the Community since the beginning of the century. Percentage growth has been calculated by comparison with 1913 and with 1937/38; an average of the latter two years was taken to give a better basis for comparison. This produces a definitely less favourable result for Luxembourg than the use of 1938 = 100, a basis which has been widely used in international surveys for comparisons with the pre-war period.

The table shows that despite the considerable expansion of industrial production in Luxembourg, its rate of growth has evidently been much lower than that of most of the other states under review.

TABLE 10
Indices of industrial output
1937-1938 = 100)

Countries	1913	1937-38	1955	Percentage growth	
				1955/1913	1955/1937-38
Germany (F. R.)	68	100	174	156	74
Belgium	79	100	145	84	45
France	86	100	153	78	53
Italy	57	100	194	240	94
Luxembourg	79	100	147	86	47
Netherlands	—	100	202	—	102
United Kingdom	66	100	173	162	73
USA	61	100	250	310	150
Combined OEEC countries	68	100	172	153	72

Source: OEEC Industrial Statistics 1900-1955.

2. Output of pig-iron and steel

Thanks to the iron and steel industry, Luxembourg occupies as an industrial power a position far in excess of its geographical and demographic importance. To-day the output of steel in Luxembourg represents some 1.2 per cent of the tonnage produced throughout the world and 6 per cent of the tonnage of the ECSC countries.

In 1956 Luxembourg produced more than 11 metric tons of steel per head of population, while the corresponding figures were only 716 kg for Belgium, 458 for Germany, 331 for France and 617 for the United States.

TABLE 11
Output of pig-iron

Countries	Output of pig-iron and ferro-alloys '000,000 metric tons			Percentage growth	
	1913	1937-38	1957	1957/1913	1957/37-38
Germany (F. R.)	—	14.2	18.4	—	30
Belgium	2.5	3.1	5.6	124	81
France	8.9	7.1	11.9	34	68
Italy	0.4	0.9	2.1	425	133
Luxembourg	2.5	2.1	3.3	32	57
Netherlands	—	0.3	0.7	—	133
United Kingdom	10.4	7.8	14.5	39	86
Saar	1.4	2.3	3.1	121	35
USA	31.9	28.6	71.9	125	151
USSR	4.2	14.6	35.8	752	145
World	79.0	92.9	208.5	164	124

Source: OEEC Industrial Statistics 1900-1955. ECSC Informations statistiques, no. 1, 1958.

TABLE 12

Steel output

Countries	Output of crude steel '000,000 metric tons			Percentage growth	
	1913	1937-38	1957	1957/1913	1957/37-38
Germany (F. R.)	—	16.6	24.5	—	48
Belgium	2.5	3.1	6.3	152	103
France	7.0	7.1	14.1	101	100
Italy	0.9	2.2	6.8	656	209
Luxembourg	1.4	2.0	3.5	150	75
Netherlands	—	0.1	1.2	—	1 100
United Kingdom	7.8	11.9	22.0	182	85
Saar	2.1	2.5	3.5	67	40
USA	31.8	40.1	102.2	221	155
USSR	4.2	17.9	51.0	1 114	185
World	76.3	123.4	292.0	283	137

In 1957 the output of pig-iron in Luxembourg was only 32 per cent above the figure for 1913. In the other countries under review the rate of expansion was higher. In the same period the output of steel more than doubled, largely thanks to the tendency for heavy industry in the country to integrate. But even with this rate of progress the expansion of steel output is moderate when compared with expansion in other countries.

A comparison of the trend of rates of growth in the steel output of the ECSC countries between the establishment of the Community and the present day shows that here too Luxembourg plays the part of the poor cousin. Between 1952 and 1957 Germany, Italy, the Netherlands, France and Belgium raised their level of steel output by 55 per cent, 91 per cent, 71 per cent, 30 per cent and 21 per cent respectively, while over the same period Luxembourg increased output by only 16 per cent. Our share in the total production of steel within the Community was still 7.2 per cent in 1952, but has dropped steadily since that date and in 1957 was no more than 5.8 per cent.

3. The national product

In the table below the national products of various countries are given at constant prices. As price fluctuations have been eliminated, these computations give a picture of the quantitative changes in output in relation to 1954.

As can be seen from this table, the percentage growth of the national product in Luxembourg, computed at constant prices, is the lowest among the countries under review.

The figures given show that since 1913 the rate of economic expansion in Luxembourg has been lower than that in most other countries examined.

TABLE 13
Gross national product at 1954 prices

Countries	1938	1956	Percentage growth
Germany F. R. ('000,000 RM/DM)	88 100 ¹⁾	182 150	107
Belgium ('000,000,000 Bfr.)	310	470.6	52
France ('000,000,000 Ffr.)	(10 940)	17 120	56
Italy ('000,000,000 Lit.)	9 515	13 768	45
Luxemburg ('000,000 Bfr.)	(14 000)	18 438	32
Netherlands ('000,000 Fl.)	(17 600)	29 550	68
United Kingdom ('000,000 £)	(14 200)	18 962	33
USA ('000,000 \$)	179.5	404.4	125

¹⁾ 1936.

Source: OEEC Statistical Bulletin, January 1958.

Possibly the relative slowing down of the economic expansion of Luxembourg may be in part due to special circumstances which before the war worked in favour of Luxembourg. In point of fact the annual statistics show that in those days Luxembourg enjoyed a relatively favourable position in its economic development. Furthermore, an analysis of output by volume is not in itself enough. The terms of trade must also be taken into account. This point will be further examined in Part II.

I — STRUCTURAL CHANGES AND THE TREND OF INDUSTRIAL OUTPUT INDICES

In addition to providing a record of changes in industrial output the indices of output supply a picture of any difference in the rates of growth in the several branches. A knowledge of any such differences is essential for the study of structural changes and also for the shaping of economic policy.

The indices shown in diagram 1 on page 435 were worked out on a 1937-1938 basis and cover the period 1949-1957.

The diagram is striking for the manner in which the indices for different branches fan out. Some of these show a very definite tendency to rise above the starting point (100 in 1937-38). Others fall below it. The index showing the greatest drop and the index showing the greatest rise are those for leather (48 in 1957) and for beverages and tobacco (253 in 1957). The other indices lie scattered between these extremes.

In 1957 output in six of the 16 branches examined proved to be lower than in the reference period 1937-1938. These depressed branches are textiles, slate, foodstuffs, footwear and clothing, furniture and leather.

The fall in output in these branches appears to have been caused by the relatively high prices of Luxembourg products, by the intensification of foreign

competition on the home and external markets, by the restrictive measures of the importing countries, and even more by special causes known as structural.

A structure that was appropriate 50 or even 20 years ago is often no longer suited to present-day requirements. The diagram showing the changes in the indices of industrial output is most instructive on this point.

J — CONCENTRATION

The iron and steel industry in Luxembourg is concentrated, and integration has been pushed to great length. The industry is represented by three big corporations which own 32 blast furnaces, 5 basic Bessemer steelworks with an annual capacity of about 3.5 million tons of steel, 2 electric steelworks and a group of rolling-mills which make it possible to produce the whole range of rolled products except tin-plate.

In the other branches of industry we find only enterprises on a small or medium scale.

The table below provides a picture of the level of concentration in the industrial sector.

TABLE 14

Number of industrial establishments, number employed, net value added - 1956

Industries	Number of industrial establishments	Number employed	Net value added ('000,000 Bfr.)
Iron ore	11	2 751	417.1
Other mining and quarrying	22	1 328	105.2
Dairy products	6	479	43.0
Breweries	11	570	116.1
Wine production	13	228	31.8
Distillation and rectification of spirits	3	11	1.9
Grain mills	22	189	21.4
Miscellaneous foodstuffs and tobacco	27	558	68.2
Non-metallic mineral products	20	2 041	227.3
Iron and steel	3	22 067	4 461.1
Non-ferrous metals	5	122	18.7
Metal manufactures	43	3 163	447.8
Wood	35	508	51.1
Furniture	13	114	11.6
Printing and publishing	11	444	64.0
Chemicals	23	1 111	214.8
Textiles and clothing	17	642	36.4
Leather	5	501	24.5
Public utilities	33	998	169.6
Building	103	6 921	656.1
	426	44 746	7 187.7



II — EXTERNAL ECONOMIC RELATIONS

A — INTRODUCTION

Despite the lack of indigenous coal supplies a powerful iron and steel industry has been built up on the iron ore of Luxembourg. The home market is negligible, and exports of steel are as high as 97 per cent of the total output.

For these reasons the economy of the Grand Duchy is more fully geared to foreign trade than that of other countries, and its external trade is extremely large in relation to the size and the production figures of the country.

In the years 1952 and 1956 the Grand Duchy exported 84 per cent and 78 per cent of its industrial output.

Of all the products and the exports of Luxembourg, iron and steel products and sub-products hold easily the first place (85 to 90 per cent of the aggregate exports). While the exports of these products reach nearly every country in the world, the output of the medium and small industries is in the main disposed of on the markets of neighbouring countries, except for leather and faience, which reach the markets of distant countries.

Apart from rolled products, the main industrial items exported by Luxembourg are basic slag, hides, faience, pottery tiles, rubber goods, slate, iron ore, metal and engineering constructions, foundry products, cigarettes and beer. On the average about 1/3 of these products is consumed by Belgium.

An indication of the extent to which an economy depends on its external trade can be obtained by comparing exports and imports with the national product. Some of the relevant figures are given below:

TABLE 15

	1952	1956
Gross national product at market prices ('000,000 Bfr.)	17 945	20 296
Imports of commodities (value at frontier including customs duties and excise charges) ('000,000 Bfr.)	13 581	15 905
Imports as % of gross national product at market prices	75.7 %	78.4 %
Gross national product at factor cost ('000,000 Bfr.)	16 572	18 743
Exports of commodities (value at frontier) ('000,000 Bfr.)	16 880	17 795
Exports as % of gross national product at factor cost	101.9 %	94.9 %

These figures show how foreign trade plays a relatively much larger role in Luxembourg than in the other countries.

B — COMPOSITION OF THE BALANCE OF FOREIGN TRANSACTIONS

The table below gives the balance of transactions between Luxembourg and the rest of the world for 1952, 1954 and 1956. It shows that Luxembourg's balance of transactions with foreign countries closed with a surplus of 3,300 million Bfr. in 1952, 398 million in 1954 and 2,000 million in 1956. The abnormally high surplus of 1952 is mainly due to the generally very favourable prices for exported steel. The drop in the credit balance between 1952 and 1954 reflects first the fall in the volume of commodities traded, but it is also due primarily to the lower unit prices fetched by steel.

The economic structure of the Grand Duchy places it in the category of countries which normally have an export surplus, that is to say among the creditor countries.

TABLE 16

	('000,000 Bfr.)		
Transactions	1952	1954	1956
1. Exports of goods and services :			
<i>a)</i> Exports of commodities (value at frontier)	16 880	12 153	17 795
<i>b)</i> Transport (receipts from transit traffic and transport work abroad)	168	156	200
<i>c)</i> Receipts from foreign tourists	300	320	360
<i>d)</i> Income on production factors from rest of world	200	220	300
Total exports of goods and services	17 548	12 849	18 655
2. Imports of goods and services :			
<i>a)</i> Imports of commodities (value at frontier)	13 381	11 651	15 505
<i>b)</i> Expenditure on foreign travel	200	215	275
<i>c)</i> Miscellaneous purchases (expenditure on insurance, etc.)	50	50	55
<i>d)</i> Income on production factors due to rest of world	635	580	845
Total imports of goods and services	14 266	12 496	16 680
Surplus of exports over imports of goods and services	3 282	353	1 975
3. Current official transfers to rest of world	33	8	7
4. Net official transfers of capital from rest of world	68	53	27
Due from rest of world	3 317	398	1 995

We give below the table showing the composition of the countries' imports and exports in 1952, 1954 and 1956 by class of industry and scale of business done.

TABLE 17
Foreign trade in 1952, 1954 and 1956

(*'000,000 Bfr.*)

Branches of activity	1952	1954	1956
	<i>Imports</i>		
1. Industry	8 646	6 525	9 323
2. Handicrafts	338	335	400
3. Commerce	4 448	4 814	5 969
4. Professions	29	33	42
5. Railways, public utilities and other services such as clinics, hospitals, etc.	120	144	171
Total (including customs duties and excise charges)	13 581	11 851	15 905
	<i>Exports</i>		
1. Industry	16 191	11 531	16 871
2. Handicrafts	14	5	15
3. Commerce	375	290	569
4. Professions	—	—	—
5. Railways, public utilities and other services	300	327	340
	16 880	12 153	17 795

Source: Figures on exports and imports submitted to the Administration de l'Enregistrement.

C — THE PARTICULAR DIFFICULTIES OF DRAWING UP A BALANCE OF PAYMENTS FOR THE GRAND DUCHY ALONE

A rapid glance at certain facts will make the complexity of this problem evident.

To begin with, Luxembourg has two currencies. This is partly due to the smallness of its territory. In addition to the coin and notes issued in Luxembourg (Luxembourg francs), which are comparatively few and only used within the boundaries of the Grand Duchy, Belgian francs are widely used in the country. Under Luxembourg law both currencies are legal and are linked at a fixed rate (1 Luxembourg franc to 1 Belgian franc), so that a debt may be settled in either currency.

There is a further structural peculiarity: Luxembourg has no central bank. The actual issue of currency is done by the State, which issues notes and coins for circulation to the Revenue Board. The State Savings Bank has been entrusted with the work of a Revenue Board. As the result of the lack of a central bank,

all international payments between Luxembourg and foreign countries other than Belgium pass through the National Bank of Belgium.

The international payments of Luxembourg outside B. L. E. U. are automatically and inevitably included in the balance of payments of B. L. E. U. It is evidently unnecessary to incorporate in this balance transfers of money between Belgium and Luxembourg. For such transfers B.L.E.U. forms a single territory in which capital circulates freely, and consequently Luxembourg has no separate balance of payments of its own ¹).

Although the balance of trade between Belgium and Luxembourg is known approximately, payments do not pass through the Exchange Office or even through the National Bank of Belgium. A large part of these payments is made through the post and is difficult to record, as it represents a considerable mass of operations. Many transfers too are made through banks, which work on balances and only call for transfer of the surplus or deficit.

Clearly, therefore, the balance of payments between Belgium and Luxembourg will for a long time to come be the most difficult item to determine in the external balance of payments of the Grand Duchy.

D — SENSITIVITY OF THE LUXEMBOURG ECONOMY VIS-A-VIS THE TERMS OF TRADE

Although the trend of production determines to a large extent the forms of expansion, the health of economies based on foreign trade depends at least as much on the circumstances in which products are traded. It is not therefore surprising that owing to the fact that prices of steel have since the second World War been very favourable to export the material well-being of Luxembourg has advanced considerably, despite the slowness of expansion from the strictly economic angle. As we have seen, the steel industry is the basis of the country's industrial life, and so the export price of steel is in effect a barometer for its prosperity.

It is the extent of variations in the world price of steel, *i. e.* of the product which is the foundation of exports and of the national product, which explains the major fluctuations in the terms of trade.

The diagram which follows shows in broad outline the variations in the monthly and annual average export price for the main iron and steel products of Belgium and Luxembourg between 1948 and 1957. These average prices have been computed with the help of statistics published in the "Bulletin du commerce de l'Union économique belgo-luxembourgeoise avec les pays étrangers".

¹) In this connection it should be noted that the IMF does not require an individual balance of payments to be drawn up for each of the Member States in a customs and currency unit.

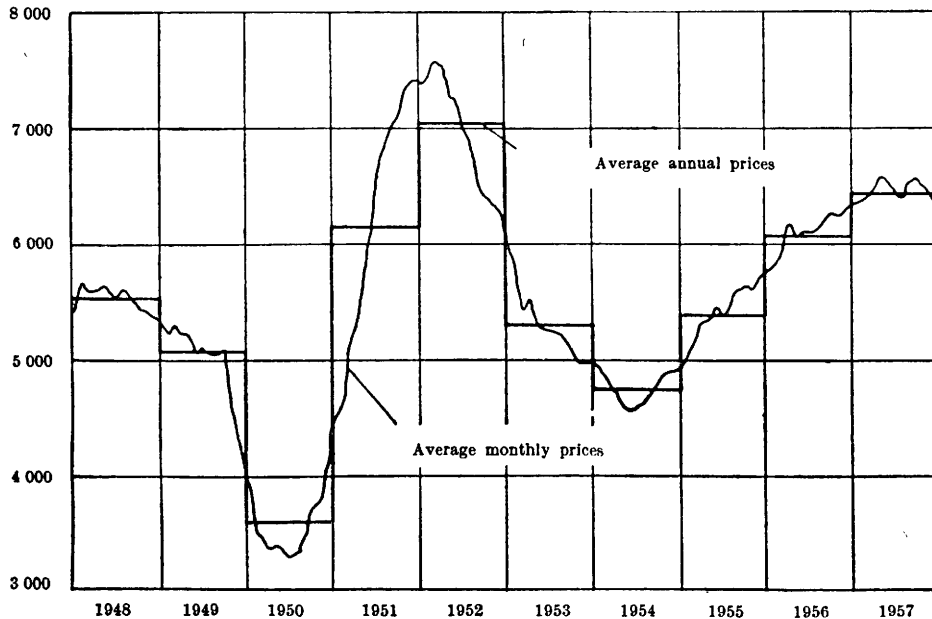
A glance at the diagram shows that the export prices of iron and steel products vary widely and with extraordinary speed.

GRAPH 2

Average export prices of the main products of the Belgo-Luxembourg iron and steel industry

Francs per metric ton

1948-1957



It will be seen that in 1950 the average export price was only about Bfr. 3,600 per metric ton. In June 1950 the situation changed entirely. Prices for 1951 and 1952 rose to Bfr. 6,100 and 7,000. Subsequently a drop occurred which brought prices back to Bfr. 5,300 in 1953 and Bfr. 4,700 in 1954. In July 1954, the trend was again reversed and the averages for the years 1955 to 1957 were about Bfr. 5,400, 6,000 and 6,400 per ton.

There is no good reason for supposing that in future Luxembourg will continue to reap ample benefits from favorable prices for steel. Stabilization of these prices would mean that the future prosperity of the country would depend in fact exclusively on changes in its national product at constant prices and so on its economic growth.

Luxembourg will have therefore to count mainly on expanding the volume of its output if the level of its prosperity is not in the long run to be overtaken by that of countries now looked upon as comparatively poor relations.

III — FACTORS OF ECONOMIC POLICY WHICH INFLUENCE COSTS

A — PRICE POLICY

For many years past Luxembourg has advocated a price policy which consists of expanding the purchasing power of the currency by stabilization and if possible by the gradual reduction of prices.

With this in mind we can look at the principles governing prices in Luxembourg. In order to understand them we must recall that most raw materials and a large proportion of finished items reach the country from abroad. Furthermore, considerable protection is given to agriculture, to which the State attaches vital importance and in which prime costs are relatively high because of natural factors, while the industrial sector works in a régime of international competition. Finally, pay in the public sector (State, local government, public undertakings and railways) is linked by law to the cost-of-living index, which is also used in the private sector through the reference made to it in a great number of collective contracts and whenever changes are made in the minimum wage.

It will be evident that in these circumstances the Government has to follow an active price policy, even though it is restricted in its means of action.

This Government action consists essentially in:

- avoiding the consolidation of certain temporary or chance rises;
- holding to the general line followed by international trends;
- lopping off the peaks when some development takes an inevitable turn too rapidly.

The very important price policy instrument provided by the system of subsidies granted by the State has, as subsidiary effect, great influence on fiscal policy and the structure of public expenditure, but its main purposes are two:

- to guarantee for farm producers prices based on the prime cost of bread grain, of milk, of pigs and cattle;

— to keep the retail prices of bread, milk, butter and meat at as low a level as possible, in order to curb rises in salaries and wages where these are linked to the cost-of-living index.

At present the figures for these subsidies have reached (per annum and in millions of Bfr.):

Bread grain	107
Milk	142
Meat	69
	—
Total	318

The indications given below provide some idea of the scope of these subsidies.

The price of bread, fixed at 7 Bfr. per kg in October 1949, has not changed since. A rise of 25 centimes would at present mean an increase of about 1/4 per cent in the cost-of-living index, or about 0.32 of a point.

If the price of bread were based on the world price of wheat, subsidies in this sector would fall by 30 per cent, but the cost-of-living index would be 1.6 points or 1.2 per cent higher.

If bread were sold at prime cost based on official Luxembourg grain prices plus the margins allowed to traders, millers and bakers, the cost-of-living index would rise about 4 points; if this also were the case for milk and butter the index would rise by about 3.7 points more; it would rise a further 2 or 3 points if the price of meat also rested on the prices paid to producers. The total rise in the index, which at present stands at about 130 compared with 100 on 1. 1. 1948, would be of the order of 10 points and would mean a rise of 3.9 per cent in salaries and wages when the index rose to 135, and 3.7 per cent when it reached 140.

Looking at the matter from another angle, it may be noted that the increase of the total figure of subsidies in the past years has not been due to the regular rise in the cost factors. For example, the rise of 33 per cent in subsidies on bread grains since 1952 can be put down to an increase of 4.5 per cent in prices paid to producers in addition to over 10 per cent increase in the milling margin and over 21 per cent in the bakers' margin.

B — DISTRIBUTION COSTS

Under distribution costs we understand in general the difference between producers' prices and retail selling prices. The cost of distribution is considerable. In order to fix orders of magnitude on this point, we give below a table which brings out the figures for turnover in the various groups, gross trading margins and the distribution costs of retail trading for 1956.

TABLE 19

Type of trade	Turnover 1956 '000,000 Bfr.	Margin of profit as % of turnover	Distribution costs '000,000 Bfr.
I. Agricultural and viticultural products	794	20	159
II. Foodstuffs	3 228	15	484
III. Beverages	1 423	52	740
IV. Tobacco	278	15	42
V. Non-metallic mineral products and allied products	1 161	15	174
VI. Hides, skins and allied products	261	26	68
VII. Textiles, clothing and accessories	1 163	30	349
VIII. Wood and furniture	394	33	130
IX. Books, paper, etc.	331	30	99
X. Chemical and paracheimical products	1 194	25	299
XI. Crude and manufactured products of the metal industry	2 319	35	812
XII. Transport	383	25	96
XIII. Clocks and watches, jewellery, optics	93	55	51
XIV. Sanitary and dental items	19	40	8
XV. General trade	893	25	223
XVI. Musical instruments, etc.	25	25	6
XVII. Entertainments (cinema, etc.)	473	29	137
	14 432	27	3 877

As can be seen, retail traders receive a margin of profits varying between 15 and 55 per cent. The average margin is 27 per cent. If to this is added the wholesalers' margin, taken at 10 per cent, the cost of distribution would be of the order of 37 per cent. On the basis of the figures quoted we would therefore reach a total distribution cost, for wholesale plus retail trading, of over 5,000 million Bfr.

C — RAILWAY TRANSPORT POLICY

In order to have control over the running of railways in Luxembourg, the Luxembourg National Railway Company (SNCF) was founded in 1946 by agreement between the Government of the Grand Duchy of Luxembourg, the Government of the French Republic and the Government of the Kingdom of Belgium. To the capital of this company Belgium subscribed 24.5 per cent, France 24.5 per cent and Luxembourg 51 per cent.

Under Article 28 of the Company's statutes, the balance between expenditure and income must be maintained either through economies or by increase or modification in the tariff.

Any increases in tariffs proposed by the Board of Governors of the SNCF must be approved by the Luxembourg Minister of Transport unless the Government obtains from the Chamber of Deputies the credit needed to cover the full shortfall in receipts caused by the failure to approve the proposed increase in tariffs.

Reductions in the tariffs or amendments thereto asked for by the Luxembourg Government will only come into operation after the Chamber of Deputies has voted a credit to cover the total reduction in receipts which would ensue.

If, furthermore, the Luxembourg Government, with an eye to Luxembourg interests, were to take steps incompatible with a sound industrial and economic management of the railways, the cost of the action would fall entirely on the Luxembourg budget.

The SNCFL report for the financial year 1957 shows that the composition of current receipts was as follows:

Passengers	125.0 million Bfr.
Luggage	0.6 million Bfr.
Goods	1 184.4 million Bfr.
Other receipts (including subsidies from the State amounting to 24.5 million Bfr.)	59.2 million Bfr.
Total :	1 369.2 million Bfr.

This breakdown of receipts brings out the fact that goods traffic provides the major part of the business done by the railways. In 1957 it accounted for nearly 87 per cent of the total receipts.

The tonnage of the most important classes of goods transported and the relevant receipts, excluding goods in transit, was as follows:

TABLE 20

Goods	Receipts '000,000 Bfr.	Tons transported
Mineral fuels	496.0	4 385 000
Iron ore	166.6	6 368 000
Metallurgical products	217.4	2 815 000
Phosphoric slag	73.0	833 000
	953.0	14 401 000

For the Luxembourg iron and steel industry the question of transport costs is important both from the angle of supplies of coke and Lorraine ore and from that of the disposal of products. In the disposal of its products, Luxembourg is in the most disadvantageous situation of all the great steel-producing countries. It has no interior market and finds itself forced to export more or less the whole of its output.

What is more, the railway tariffs in force in Luxembourg for internal traffic are by far the highest among the ECSC countries. For the heavy industry of Luxembourg this means charges which in transport matters put it clearly in an unfavourable situation compared with its competitors.

D — INVESTMENTS**1. Ratio of investments to gross national product at market price**

The table below shows the percentage composition of the gross expenditure of this six countries of the Community and also of the United Kingdom and the United States in 1952 and 1956.

TABLE 21

Countries	Years	Private consumption	Public consumption	Gross domestic capital formation	External assets formation
Germany (F. R.)	1952	58.9	15.7	22.8	2.6
	1956	59.0	13.3	24.2	3.5
Belgium	1952	69.3	12.3	16.1	2.3
	1956	67.7	11.4	17.9	3.0
France	1952	67.4	15.5	18.4	— 1.3
	1956	68.3	14.9	18.6	— 1.8
Italy	1952	71.9	11.9	19.8	— 3.6
	1956	68.0	11.7	21.5	— 1.2
Luxembourg	1952	52.8	12.4	16.5	18.3
	1956	57.0	13.0	19.5	10.5
Netherlands	1952	59.6	14.0	18.2	8.2
	1956	59.1	14.9	28.1	— 2.1
United Kingdom	1952	66.4	18.5	13.3	1.8
	1956	64.5	17.3	16.1	2.1
United States	1952	62.3	20.1	17.0	0.6
	1956	63.6	17.3	18.3	0.8

Source: OEEC: Statistical Bulletin, January 1958.

From the figures in this table it can be seen that private consumption in Luxembourg is comparatively modest. The expenditure of the State on goods and services also seems modest when compared with that of other countries. Gross domestic capital formation is about equal to the corresponding items in Belgium and in France, but lower than the figures found in Germany, Italy, Netherlands and the United States. On the other hand the percentage for external assets formation (exports minus imports) is appreciably higher than that of the other countries under review. Clearly this is the consequence and the token of the relative importance of foreign trade in the economy of Luxembourg.

2. The results of investments

In Luxembourg the influence exerted on the national income by industrial investments is much less than in other countries. A glance at the table below is enough to show the very great importance of movable capital assets (machi-

nery, equipment, etc.) in the structure of industrial investments. Here the position in Luxembourg is like that in an undeveloped country, in that it has to import almost all these goods, and thus leaves to others the lion's share in the train of business stimulated by the investments made in the country.

TABLE 22

Breakdown of industrial investments by category of investment goods - 1956

	<i>'000,000 Bfr.</i>
Building and construction	274
Means of transport	104
Machinery, plant, etc.	1 264
Dwelling-houses ¹⁾	44
Total	1 686

¹⁾ This refers to dwelling-houses built by industrial firms for the benefit of their personnel.

In regard to the effect of industrial investments on future production, Luxembourg is in a somewhat unusual position. It has no natural resources which could be exploited much more intensively. The fact that the problem of establishing new industries exists here too is due first and foremost to the wish to alter the structure of industry within the economy and to make good if need be the failure of certain established industries. The very limited size of Luxembourg's domestic market, together with certain factors which militate against the country's competitive capacity on outside markets, call most decisively for investments which would increase primarily the level of productivity rather than output capacity.

3. The iron and steel industry's large share in industrial investments

The outstanding feature of the next table is the very exceptional share in all investments which falls to the iron and steel industry. Between 1952 and 1956 this share was in fact as high as 81 per cent of gross investments. There are hardly any other industrial countries in which a single branch invested on a scale which is so large in relation to the total sum of industrial investments. This fact is the more significant because from the point of view of overall added value in industry only 69 per cent gross originated in the iron and steel industry during the five years under review.

The percentage of investment by all other industries combined was 19, and this was out of line with the present-day importance of these same industries as their share in overall added value by industry is 31 per cent gross.

There is then an evident lack of balance between added value and the industrial investments of the iron and steel industry on the one side and of the combined medium and small industries of Luxembourg on the other. The possible long-term effects of this on the diversification of the country's industrial structure are obvious: the mono-industrial character of the economy will be increasingly stressed by the strengthening of the already dominant position of the iron and steel industry, and at the same time there will be a reduction in the importance of the country's small and medium industrial enterprises.

It would however be wrong to lump together all industrial branches other than iron and steel and to ignore the remarkable effort at recovery made of late years by certain of these branches.

TABLE 23

Investments by branches of industrial activity
(excluding crafts)

'000,000 Bfr.

Industries	Gross investments					
	1952	1953	1954	1955	1956	1952-1956
1. Mines and quarrying						
a) Iron mines	32	69	32	15	31	179
b) Slate and quarries	6	6	11	11	9	43
	38	75	43	26	40	222
2. Manufacturing industries						
a) Foodstuffs	11	5	10	10	14	50
b) Wines and spirits, tobacco, dairy produce	36	54	56	114	88	348
c) Textiles	0	3	2	3	3	11
d) Leather, footwear and clothing	6	6	6	1	—	19
e) Wood	2	5	4	4	4	19
f) Furniture	0	0	1	1	1	3
g) Printing	4	4	12	16	13	49
h) Chemicals (excl. basic slag)	36	15	16	25	142	234
i) Non-metallic mineral products	59	81	27	27	33	227
j) Iron and steel industry (incl. basic slag)	1 066	1 048	1 431	1 373	1 230	6 508
k) Metal processing	39	47	23	20	25	154
	1 259	1 623	1 588	1 594	1 553	7 622
3. Public utilities						
a) Electricity	19	20	18	29	35	121
b) Gas and water	6	17	19	9	14	65
	25	37	37	38	49	186
Total	1 322	1 740	1 668	1 658	1 642	8 030

4. Capital for investment

Self-financing is at present by far the most important source of capital, as can be seen from the table below.

TABLE 24

Sources of capital for industrial investment - 1956

Industries	Self-financing		Other sources		Total '000,000 Bfr.
	'000,000 Bfr.	%	'000,000 Bfr.	%	
1. Mines and quarrying	23	58	17	42	40
2. Manufacturing industries					
a) Foodstuffs, dairies, wines and spirits, tobacco	37	36	65	64	102
b) Textiles, clothing, leather and footwear	2	67	1	33	3
c) Wood and furniture	3	60	2	40	5
d) Printing	8	62	5	38	13
e) Chemicals (excl. basic slag)	141	99	1	1	142
f) Non-metallic mineral products	18	55	15	45	33
g) Iron and steel industry (incl. basic slag)	1 204	98	26	2	1 230
h) Metal processing	15	60	10	40	25
3. Public utilities	37	76	12	24	49
Total or average	1 488	91	154	9	1 642

E — Public expenditure and the ratio of fiscal burden to national income

From the angle of its value in explaining the structure of investments, the budget policy pursued during the last few years may be summarized as follows:

Most budget years since 1952 have produced considerable surpluses over the estimates for taxation. These have been used by the Government to finance capital as well as current expenditure.

For 1952 to 1956 the Government financed 2/3 of its capital expenditure out of profits on current account, so that it had to make very limited use of new borrowing and in addition the public debt, with repayments in advance as well as normal repayments, has since 1952 fallen considerably.

This treatment of the public debt has had the effect of maintaining a capital market with ample funds available in particular for the building of

dwelling-houses. In addition, this type of investment has been further stimulated by the fact that the public authorities have helped with construction grants and the State Savings Bank issued a considerable amount of credit at a reduced rate of interest.

Besides all this the State and local authorities have made and are still making large-scale fixed investments mainly in the form of administrative buildings, dams and infrastructure for transport and communications.

Operations on current account in the state sector (central administration, local authorities and social security) are shown in the table below, covering the years 1952 to 1956, broken down under the national account headings proposed by OEEC.

TABLE 25

Current revenue and expenditure of the State

('000,000 Bfr.)

Revenue and expenditure	1952	1953	1954	1955	1956
1. Direct taxes on individuals and contributions to social security:					
a) Social security contributions	1 268	1 331	1 380	1 526	1 644
b) Direct taxes	1 178	1 249	1 148	1 281	1 444
2. Direct taxes on companies	1 611	1 170	750	1 008	993
3. Indirect taxes	1 647	1 672	1 609	1 719	1 910
4. Income from property and business activities	126	130	140	172	153
5. Current transfers from rest of world	—	—	—	—	—
Current revenue of the State	5 830	5 552	5 027	5 706	6 144
6. Public consumption					
a) Civil	1 877	1 935	1 837	1 957	1 856
b) Military	350	407	515	466	441
7. Subsidies	274	306	418	506	357
8. Interest on the public debt	192	182	187	199	218
9. Current transfers to individuals	1 406	1 526	1 761	1 976	2 076
10. Current transfers to rest of world	33	34	8	7	7
Current expenditure by the State	4 132	4 390	4 726	5 111	4 955
11. Savings made by the State	1 698	1 162	301	595	1 189

For the narrower field of the burden of taxes certain summary information is provided by the table below.

TABLE 26

The burden of taxation and the national income

	1952	1954	1956
	<i>(in '000,000 Bfr.)</i>		
Direct taxes	2 789	1 898	2 437
Indirect taxes	1 647	1 609	1 910
Social security contributions	1 268	1 380	1 644
Total	5 704	4 887	5 991
Gross national product at market prices	17 945	16 981	20 296
Current transfers (social security)	1 158	1 462	1 632
	19 103	18 443	21 928
	<i>(as percentage)</i>		
Ratio of fiscal burden plus social security contributions to gross national product at market prices plus current transfers	29.9	26.5	27.3
Ratio of direct taxation to national income	19.6	14.2	15.6

It should also be noted that for the country as a whole both the absolute and relative burden of taxes today is much higher than before the war. In fact the nominal value of state and local government taxes has risen from 275 million Francs in 1938 to 4,347 million in 1956.

F — THE FINANCIAL SYSTEM

Luxembourg possesses no bank of issue. In practice the National Bank of Belgium fills the role of the central bank of the country.

In 1945 the Commissariat for the Control of Banks was established in order to protect savings and to supervise the credit market. This governmental organization has however no direct influence on the management of our banks, which are entirely free to re-use the funds entrusted to them. There is for instance no legislation fixing the liquidity ratio or a treasury ratio. Consequently the volume of credit issued in the Grand Duchy depends partly on availabilities, partly on the judgement of the different banks established in the country. At the same time it should be noted that the Government can to some extent influence the granting of credit through the intermediary of the State Savings Bank which since the liberation has been given authority to handle certain banking operations.

It should also be noted that the State grants installation credits at reduced rates of interest for industrial activities on the small or medium scale, for handicrafts, and for the hotel and catering trade.

G — FISCAL POLICY AND THE MODERNIZATION OF ENTERPRISES OR FOUNDING OF NEW INDUSTRIES

In Luxembourg the purchase price or prime cost shown on the balance-sheet forms the basis of calculation for depreciation.

In addition to the regular depreciation allowances, Article 2 of the Budget Act for 1957 and 1958 provides for an extraordinary allowance, which however can only apply to items acquired or produced by a business during the fiscal years 1957 and 1958.

The extraordinary allowance must not exceed either 1/3 of the purchase price or of the prime cost of each item concerned nor, in either of the tax years 1957 and 1958, 1/5 of the profit which, before deduction of the extraordinary amortization, is to be counted for income tax purposes, and provided also that this profit does not exceed 200,000 Bfr. Where this profit exceeds 200,000 Bfr., the limit is fixed at 1/10 of the profit, as laid down in Article 8 of the Act of 11 April 1950 establishing an extraordinary depreciation allowance for the tax years 1949 to 1952. In no case may the total depreciation allowance be greater than the purchase price or the prime cost.

There is no legislation or special regulation to cover the treatment of new industrial enterprises for taxation purposes.

The only direct measures which can be used by the Government to encourage the founding of such enterprises are based on the income tax law. Article 31 (para. 1) of this Act gives the Minister of Finance full freedom to fix the burden of direct taxation on foreign capital invested in Luxembourg establishments during the first 10 years.

This ruling stems from the desire to attract foreign capital into the country.

Up till now facilities have been granted either in the form of a system of accelerated depreciation, or in the form of a reduction in the rate of tax on corporate incomes.

It should be added that the normal tax on corporate incomes is 20 per cent for the first 400,000 Bfr., 30 per cent up to 1 million Bfr. and 40 per cent beyond this amount.

H — THE SYSTEM OF SOCIAL REDISTRIBUTION

The table below shows that two types of funds are used to finance the social security system in Luxembourg: the major source lies in the contribution of the employers and of the persons insured, while the State and local authorities also help. The help given by the State and the local authorities is made available from their budgets.

TABLE 27
Operations of the social security institutions in Luxembourg
 1949, 1952 and 1956

Operations	1949	1952	1956
<i>(in '000,000 Bfr.)</i>			
<i>Receipts</i>			
1. Contributions by persons insured	311.0	468.0	606.8
2. Contributions by employers	607.4	836.1	1,123.4
3. Share of the State :			
a) In benefits paid	115.0	246.0	250.4
b) In cost of management	19.7	30.1	39.8
4. Share of local authorities in benefits paid	32.7	56.6	88.3
5. Interest on capital	57.3	109.1	198.6
6. Miscellaneous receipts	17.8	23.5	41.1
7. Excess of payments over receipts, drawn from special reserves	5.2	31.6	13.9
	1 166.1	1 801.0	2 362.3
<i>Expenditure</i>			
8. Benefits	732.4	1 236.1	1 752.4
9. Administrative costs :			
a) Staff	31.7	44.6	54.6
b) Management	8.4	13.8	18.8
10. Miscellaneous expenditure	3.8	4.4	35.6
11. Surplus receipts, capitalisation, reserves, etc.	389.8	502.1	500.9
	1 166.1	1 801.0	2 362.3

Source: Luxembourg Ministry of Finance.

Although contributions have been increased considerably since 1949, an increasingly large sum has to be drawn from State and local subsidies. This use of taxation as one source of income will increase in the coming years.

The cost of social security and welfare, especially when the burden of these costs in Luxembourg is compared with that in other countries, cannot of course be measured as a percentage of wages. What matters in country-by-country comparisons is the total remuneration for work performed, and of this social security is but an integral part.

With regard to the management of receipts, the system of capitalisation was adopted from the start by old-age and invalidity insurance and by the pension fund for private employees. Accident insurance is a hybrid, in that it is based partly on the capitalisation system and partly on the distribution system. Problems of this type do not arise in connection with sickness insurance and family allowances, which use the distribution system.

Capitalisation inevitably means that "mathematical reserves" must be set up. There is then no direct relation between contributions and benefits in any given year, as is obvious from the previous table.

I — THE TREND OF PRODUCTIVITY

1. The problem of productivity in Luxembourg

In Luxembourg there are a number of factors which help to give particular importance to the problems of productivity, and also to the policy adopted on the structure of industry.

The first of these factors is the position of Luxembourg in the world. The country is only a very small economic unit with very limited natural resources at its disposal. More than with other countries, the structure of its industry is based on foreign trade. As a result it must ensure that its prime costs are always as low as possible, *i. e.* its productivity must be the highest possible. From the structural point of view it is impossible that a small State such as Luxembourg should be able to produce everything more cheaply than other states. More than in any other country, then, it is necessary to apply the principle of division of labour.

A second essential factor is the structure and economic situation of its medium and small industries. Given the relatively high prime costs, they have difficulties in keeping above water. Increase in productivity is now and always the major problem of these industries. Sometimes it is even a question of "to be or not to be".

2. The trend of productivity at constant prices in the country as a whole

On the assumption that it is possible to produce a figure for average productivity per person employed throughout the economy if we divide the national product by the working population, the table below provides some idea of the trend of productivity throughout the country between 1937/38 and 1956 and between 1952 and 1956.

TABLE 28

Trend of productivity in Luxembourg

	1937/38	1952	1956
Gross domestic product at factor cost ('000,000 Bfr., 1954 prices)	12 177	15 304	17 432
Estimated working population	135 000	140 000	145 000
Productivity per working person (in 1954 Bfr.)	90 200	109 300	120 200

On the basis of the above, the average annual rate of increase of productivity in the country was only 1.6 per cent in the period 1937/38 to 1956 and about 3 per cent for the period 1952 to 1956.

3. Changes in the net value added or productivity by value per working ; person in the industry of Luxembourg

Net value added can be assessed by deducting from the gross value of production the cost of raw materials and ancillary materials used, depreciation, services obtained from third parties, indirect taxation and other general expenses. The sum left covers wages, salaries, social services, profits and direct taxes. If this sum is divided by the number of persons at work in the economy concerned, we have the net value per working person.

In Luxembourg the net value added per person is an extremely informative index. Of all the general economic indices available, it is perhaps the one which shows most clearly the relationship between the economic activity of an industry and its contribution to the material well-being of the country.

The diagram on the next page brings out the changes in the net value added per working person in the main branches of industry in Luxembourg during the years 1948 to 1956.

Examination of the diagram will show that this added value varies greatly from branch to branch. Although all the figures in this connection are necessarily very approximate, it is not unreasonable to conclude that productivity by value in certain of our industries, as for instance the iron and steel industry, the iron mines and the chemical industry, is high and that their contribution to the well-being of the State is of considerable importance.

The diagram also shows that from one year to another the fluctuations in the value added are particularly striking in the steel industry. This is largely due to the relative instability of steel prices on world markets. The scale and rapidity of the fluctuations show how vulnerable the heavy industry of Luxembourg can be. This is the reverse of the medal.

FINAL CONSIDERATIONS

To conclude this review it may be useful to bring out, if not conclusions, at least some general ideas.

1. Basis for a policy of expansion

The fundamental principles on which, in our opinion, a real policy of expansion must rest can be summed up broadly as follows:

- To encourage productive investments by all possible means and to reduce to a minimum unproductive public and private expenditure;
- to facilitate the setting up and acclimatization of activities showing a high level of productivity and to concentrate efforts on those lines of production for which the Grand Duchy is particularly adapted;
- to ensure the best use of available resources;
- to rationalize rail transport;
- to undertake agricultural reconversion wherever necessary;
- to improve the means of wholesale and retail distribution;
- to assist occupational training;
- to supervise the trend of prices and the cost of production;
- to raise productivity by all possible means.

The problem of productivity will become Problem N° 1 in debates throughout the country, in industry as in agriculture, among craftsmen and among traders, and even in the Administration; in short, it will in one word be *the* problem of the whole national economy.

2. The outlook for medium-term economic developments

The index most characteristic of the general economic trend is the index of real income, which may be considered to be the product of two factors: productivity and the working population at work.

In Luxembourg all demographic forecasts stress that the working population in employment will increase only slightly between now and 1965.

As to the level of employment, it can be assumed that full employment will be maintained.

As for productivity, we have seen that the annual rate of increase has been on average of the order of 1.6 per cent in the period 1937/38 to 1956 and about 3 per cent between 1952 and 1956. It seems probable and possible that the rate of growth up to 1965 will be above the basic trend for the last few decades. An annual rate of the order of 2.5 per cent does not therefore appear excessive.

On this basis the index of overall production would be of the order of 128 for the decade 1955 to 1965. Taking the index of working population in employment as 102.8, the annual increase in the national product would on average be 2.8 per cent from now till 1965.

3. The impact of economic integration

In Luxembourg economic integration in the Europe of the Six does not in fact raise really new problems. By and large, the changes necessary since ratification of the Treaty are the same as before. But as the Common Market becomes a reality the pace of these changes will certainly increase.

In agriculture there will unquestionably be difficulties during the transition period. No one can today say how and at what pace these difficulties will be overcome. As we know, Article 39 of the Treaty sets out the increase of agricultural productivity as one of the objectives of agricultural policy and Article 43 lays down that within a period of two years the Commission shall submit proposals concerning the working out and putting into effect of the common agricultural policy.

In all probability the great majority of industrial enterprises and small firms will be able to carry on, but not without bringing themselves up to date. In certain extreme cases, however, we may find that there are enterprises which are unable to stand up to the fiercer international competition which will ensue, and that they are forced to adjust themselves or to disappear.

Although the impact on different lines of production must of necessity be very different, the prospects opened up by the Treaty of Rome by and large offer wide opportunities. It is the enterprises which can show the highest level of productivity which will have the best chances of benefiting from the expansion of markets.

The experience gained in B.L.E.U., in Benelux and in the ECSC shows the benefits obtained when the market is broadened.

Summing up, it seems reasonable to suppose that the abolition of customs tariffs and of quantitative restrictions between the Member States — in other words the creation of a market of 160 million persons — may:

- be reflected in an increase in intra-European trade;
- bring down prime costs through further specialization;

- lead to greater mobility of the factors of production;
- stimulate occupational training and general economic training;
- force enterprises to make market studies and to adapt their production technique and sales system to the new situation;
- lay the stress on investments intended to reduce prime costs.

It is immediately evident that in the last resort these are just the principles which form the basis of a general expansion policy. It is therefore not unreasonable to suppose that the Common Market will have a salutary effect on the development of the economy of Luxembourg and will provide further possibilities of raising the standard of living.

Part G

The Netherlands

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FOREWORD

It is the purpose of this Report to give a general survey of the present economic structure of the Netherlands. It also endeavours to explain which factors have affected the course of developments in recent years and in the more distant past.

Special attention has been paid to the problems which the Netherlands economy had to face in the post-war years; some of these problems have not yet been overcome.

The recommendations of the Working Party appointed by the Commission were followed except in the case of the dispersion of costs. Though the study of this problem is admittedly of considerable importance for the relations between the countries of the Community, the shortness of time available for the preparation of the Report, as well as the statistical difficulties, have made it impossible to make a contribution to the solution of this problem.

Facts and figures concerning the Netherlands were taken from the statistical records of the Central Statistical Office, the Netherlands Bank, the Central Planning Office and OEEC.

Data concerning other countries, included for the sake of comparison, were obtained from OEEC or else from the official statistics of the country concerned.

I — THE STRUCTURE OF PRODUCTION

A — INTRODUCTION

1. Basic factors

The structure of production in the Netherlands is mainly determined by the four following factors:

- a)* physical and geographical conditions
- b)* characteristics of the population
- c)* density of population
- d)* economic relations with Indonesia and their gradual destruction.

a) Since the end of the last century, agriculture on the whole developed in the direction of stock farming and market gardening. The Netherlands being an important exporting country of the products of these industries, they greatly depend on the agricultural policies followed by their neighbours.

The Netherlands are relatively poorly endowed with raw materials and sources of primary energy. Only part of the chemical industry is based on indigenous mineral supplies (hard coal, oil, and — in future — soda). Industry in the Netherlands is predominantly of the processing type, working on imported raw materials. Even stock farming depends largely on imported fodder. As a result, the volume of goods imported by the Netherlands is very great. Table 18, p. 494, shows that in 1956 it amounted to 45.5 % of the gross national product. As production in some sectors, such as agriculture and mining, cannot be easily expanded, the marginal volume of imports is still greater; in the period from 1950 to 1957 it even amounted to some 80 %.

The geographical position of the Netherlands by the sea and at the mouths of several rivers has predestined them to commerce, shipping and shipbuilding. It has also of old been an important factor in the location of industries. Many industries have chosen their location in accordance with transport considera-

tions. Thus the Netherlands blast furnaces are not situated near the coal mines, but near the coast. The same applies to enterprises engaged in the processing of overseas products (rice-husking, cocoa mills, oil mills). Since these geographical considerations apply mainly to the western parts of the country, it is there that a very great concentration of economic activities has occurred.

b) The rather pronounced commercial attitude adopted by the average Dutch entrepreneur — especially in the past — corresponds to the geographical factors described above. In a number of sectors the commercial handling of products is of primary, and the actual production of goods of only secondary, importance; the Dutch do not sell what they can make, but make what they can sell. At times this mentality works to the disadvantage of specialization and standardization in production, because it is the ambition of each manufacturer to offer a complete range of goods for sale, so that he must calculate all the divergent wishes of his customers.

The standard of business integrity is high, which has a favourable effect on the international activities of Dutch entrepreneurs in banking and insurance, which are largely based on trust. The international outlook of the population has meant that Dutch investors have always taken a great interest in foreign countries (especially Indonesia and the United States). This has somewhat hampered domestic industrial investments.

c) In the Netherlands the density of population per surface-unit is greater than in any other country of the Community (Table 1). This means that production is mainly directed towards highly labour-intensive goods and methods.

TABLE 1

Density of population*(Inhabitants per sq. km)*

Countries	Average in 1956
West Germany (incl. Saar)	206
Belgium	293
France	79
Italy	160
Luxembourg	121
E.E.C. countries excl. Netherlands	134
Netherlands	336
3 Western provinces ¹⁾	733

¹⁾ North Holland, South Holland, Utrecht as at 31 December 1956 (21 % of the total area of the Netherlands).

In the case of agriculture this applies in particular to the improvement of live stock and to market gardening.

d) The former economic link with Indonesia greatly stimulated economic activities; dealings in tropical produce constituted an important part of the Dutch transit trade, and industry was to a certain extent attuned to the finishing of Indonesian products or to selling in the Indonesian market. The former applies in particular to industries for the finishing of tropical products, the latter to the cotton and engineering industries. On the other hand the efflux of savings to Indonesia has, as mentioned above, limited the amount of capital available for investment in Dutch industries.

To sum up, it can be said that few of the factors determining the structure of production in the Netherlands up to the last war were of a nature to encourage the growth of pronouncedly industrial characteristics. On the contrary, the industrial structure showed some gaps. Existing industry was on the whole modern and well able to hold its own against foreign competitors. As a whole, however, the industrial structure was less well balanced. On the other hand agriculture and the provision of services have always been Dutch specialities. These characteristics of the Dutch economy are clearly reflected in international economic relations. The following table will serve as an indication:

TABLE 2

Dutch exports of goods and services in 1938*(in % of total)*

Agricultural products, foodstuffs and coffee, tea, tobacco etc.	17
Raw materials	11
Other industrial products	23
Services (incl. income from capital)	49
	100

2. Post-war problems

A number of far-reaching structural changes have taken place during and since the war. All of these have meant greater concentration on industrial development. The changes can be grouped under the following headings (though war damage was exceptionally heavy in the Netherlands, it was of a temporary nature and is therefore not included in the permanent structural changes):

- a) great increase of population and working population;
- b) exodus from agriculture;

- c) great reduction of net income from foreign investments;
- d) gradual destruction of economic links with Indonesia.

a) Even before the war the population of the Netherlands increased more than of the other EEC countries because of the lower death rate and higher birth rate. This development has become even more accentuated since the war. The birth rate was especially high in the Netherlands after the war, as is shown in graph No. 1, p. 480. In a few years' time this peak in the birth rate will make itself felt in the labour market.

b) This has become an international phenomenon since the war. Table 3 shows that from 1947 to 1957 the agricultural working population fell by 6 per cent. This drop is connected with the relatively low agricultural wages paid until recently and with the better social conditions obtained in other economic sectors. Moreover, the flow from agriculture is facilitated by the progress of industrialization in rural areas.

c) In order to finance reconstruction a very considerable volume of capital had to be procured from abroad and inroads had to be made into foreign investments.

d) Investments in Indonesia have been virtually all lost. Income from work in Indonesia has also disappeared as a result of the repatriation of Netherlands nationals and the cessation of pension payments by the Indonesian government. The net repatriation of Netherlands nationals from Indonesia during 1948 to 1956, and to an increasing degree since the end of 1957, involved a total of approximately 200,000 persons and increased both the supply of labour in the Netherlands and the demand for housing. The loss of exports to Indonesia made far-reaching geographical re-orientation necessary for the exports of several industries (especially cotton fabrics).

All these factors had a considerable bearing on employment, the structure of production, the balance of payments, and the level of investments.

So far as employment is concerned, emigration provided an outlet for a fairly considerable number of workers; government assistance was given to encourage this trend. During the period 1945—57 net emigration (excl. net immigration from Indonesia) totalled some 330,000 persons. Industry absorbed the greater part of the remainder of the increase.

TABLE 3

Changes in the Netherlands working population - 1947 to 1957

Changes	'000 man-years	As percentage of 1947 total
Natural increase	390	
Migration surplus	- 103	
Natural increase, corrected for migration	287	
Additional increase ¹⁾	455	
	742	
Change in unemployment	- 7..	
Absorbed in the Netherlands	735	21
Absorbed by public authorities	5	1
Absorbed by trade and industry	730	24
incl. industry	457	35
agriculture	- 29	- 6
services	302	25

¹⁾ This additional increase was mainly caused by a greater number of women taking up employment.

The changes in the structure of production are, therefore, marked by further industrialization. Graph No. 2, p. 480, shows the increase of the post-war population and working population as spread over the main branches of the economy, drawn against the background of the development since 1889.

Industrialization contributed to narrowing the gap in the balance of payments caused by the lowering of invisible exports. This was done partly through substituting domestic production for imports (especially in the case of petroleum production and steel works) but to a much greater extent through increased exports. The composition of exports, for which the 1938 figures are given in Table 2, had consequently changed as follows by 1956:

TABLE 4

Exports of goods and services - 1956

(in percentage of total)

Goods and services	Netherlands	Remaining EEC countries
Agricultural products, foodstuffs and coffee, tea, tobacco, etc.	20	6
Raw materials	14	9
Other industrial products	32	52
Services (incl. income from capital)	34	33
	100	100

This trend towards increased exports of industrial products is offset by a greater need for imported raw materials. Dependence on foreign countries has,

in consequence, become greater. Table 18, p. 494, will show the relative importance of import and export figures.

The level of investments, and therefore also that of the necessary savings, has risen considerably. The flight from agriculture has made increased mechanization in that sector necessary; the steep rise in the population figure has called for the provision of more houses and schools, more transport facilities and more public utilities; and finally the increase of the industrial working population has meant that investment in the industrial production apparatus had to be stepped up.

With regard to this last point, experience has shown that to absorb a 1 per cent increase of the industrial working population an increase of about 2 per cent in industrial production is needed, because the productivity of labour tends to rise about half as rapidly as industrial production. A certain level of investment is necessary to obtain this rise in production.

It is due to all this that the gross rate of investment is higher in the Netherlands than in the other EEC countries. Table 25, p. 505, shows that in 1956 it amounted to 25 per cent as against 17—23 per cent in the other EEC countries.

Government economic policy helped the structural switch-over of the Netherlands economy which became necessary as a result of these fundamental changes. With an eye to the steep increase in the population figure industrialization received the most support. Since the government will only in exceptional cases act as an entrepreneur and since it has rejected protectionism, its industrialization policy is on the whole a policy for the general improvement of industrial conditions.

The main contributions to industrialization made by the government are the following:

1. Direct measures: The energy and transport infrastructure is broadened by increasing the productive capacity of State-owned electricity and gas works and coal mines and by providing improved road and rail transport facilities.

2. In the financial field there has occurred one case of government participation in an exceptionally large project (Blast Furnaces Extension Programme) and guarantees were furnished in two cases of very hazardous investment (whaling and soda production). Moreover, a number of institutions have been set up to provide credits to medium-sized enterprises which do not find easy access to the capital market (*inter alia* "Herstelbank", or Bank of Reconstruction, and "Nederlandse Participatie Maatschappij N.V.").

3. Tax concessions for investments are granted by means of depreciation facilities and through setting profits off against part of the investment costs.

4. Scientific and technical research is encouraged by mainly government financed institutes set up for the benefit of enterprises which have no research staff of their own (T.N.O. — a scientific research organization — Rubber Foundation, etc.).

5. In schooling, a great deal of attention is paid to technical instruction whilst training within enterprises through schemes of apprenticeship receives government subsidies.

6. Public authorities and business organizations together watch over the competitive position of the Dutch industry by endeavouring, to prevent wages getting out of hand so as not to let the favourable situation in the labour market lead to an inflation of wages.

Certain more far-reaching measures were taken in some so-called development areas, in order to encourage the settlement of particular industries in these regions.

Requirements of a monetary nature, mainly concerned with the problems of the balance of payments, the equilibrium of the capital market, and with price stability, were taken into account in the structural employment policy adopted.

Some more detailed intervention occurred in certain sectors of the economy; in agriculture in order to safeguard Dutch farmers against the harmful effects of protective tariffs in other countries; in transport in order to counteract the faulty working of the price mechanism; in housing construction and rent policy in order to meet the shortage of accommodation.

B — POPULATION

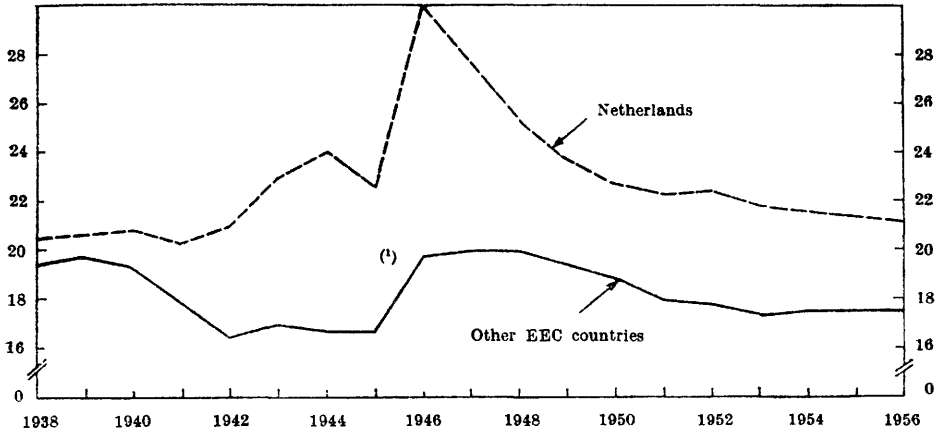
The working population; composition and trends

The total population, which amounted to 11.1 million at the end of 1957, has of recent years been increasing by upwards of 1.2 per cent per annum; for the working population the increase has even amounted to nearly 1.5 per cent. This latter figure is likely to increase in the next few years as a result of the post-war peak in the birth-rate (cf. graph. No. 1, p. 480).

Table 34, p. 517, gives a survey of the population by categories (wage-earners and self-employed) and by branches of the economy; Table 5, p. 481, shows the distribution of the population by sex, age and the main branches of the economy.

¹⁾ The tables indicated by letters are to be found in the Annex.

GRAPH No. 1
Live births per 1000 inhabitants
1938 to 1956



Incl. Germany the figures for the period before 1946 refer to the 1937 frontiers.

GRAPH No. 2
Population and manpower
1889 to 1956

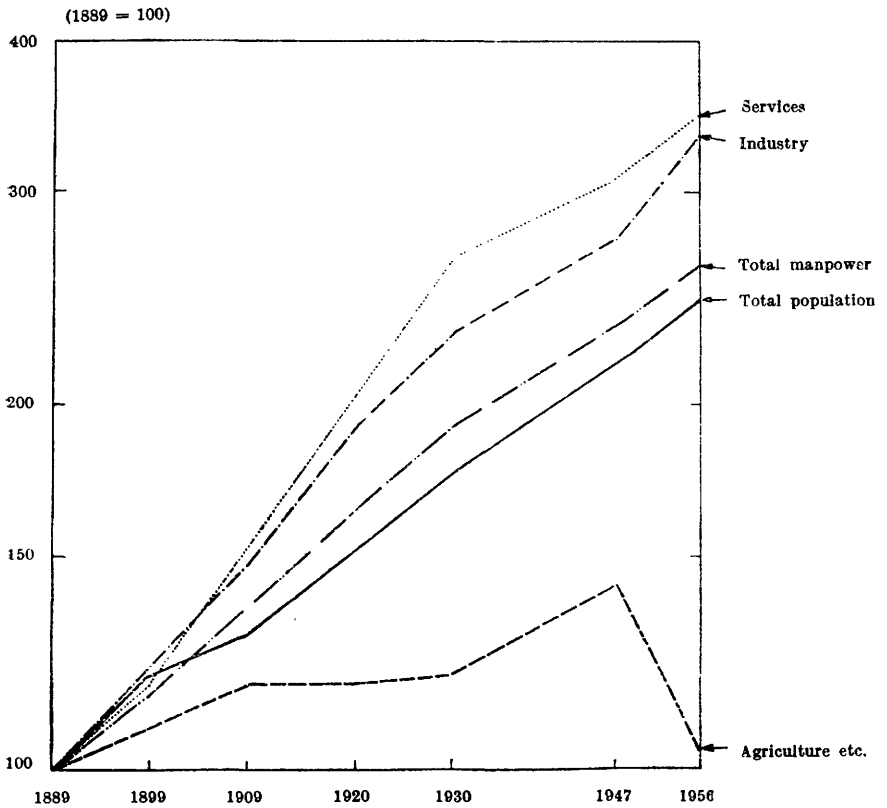


TABLE 5

Working population by sex and age (occupational census of 31 May 1947)

(in '000)

Sectors	age 21		age 21-24		age 25-39		age 40-49		age 50-64		age 65		Total	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	167.9	82.6	110.1	36.9	421.3	40.3	223.3	13.8	203.1	9.5	30.8	1.4	1 156.4	184.5
Industry and mining	92.1	36.5	45.7	18.3	163.3	45.6	103.4	29.2	121.0	30.2	51.0	9.3	576.5	169.0
Agriculture, fishing and gamekeeping	13.7	30.0	8.3	15.9	41.8	37.7	26.5	23.7	24.4	19.1	6.2	3.5	120.8	129.9
Shopkeeping	70.4	20.4	37.9	13.3	170.7	20.9	105.9	12.4	104.8	12.4	16.2	2.7	476.0	82.1
Remainder of commerce, transport	17.0	30.0	27.4	28.0	127.4	46.6	65.1	18.1	60.8	12.8	20.8	1.9	306.0	137.4
Public utilities	0.7	3.5	2.3	5.2	19.3	17.0	11.2	9.6	10.6	7.7	0.9	0.7	45.0	43.8
Education	0.3	71.9	0.2	35.2	1.5	38.0	1.2	15.4	1.5	14.6	0.5	3.1	5.2	178.1
Domestic service	401.6	281.8	297.0	156.5	1 010.9	251.3	555.7	124.0	542.0	107.5	115.7	22.6	2 922.8	943.6
Total working population ¹⁾														

¹⁾ Incl. those of unknown occupation and those temporarily not working.

In 1947, 1.8 per cent of married women worked outside their home; in 1956 this figure had risen to 2.17 per cent. These percentage figures do not include married women helping in their husband's business and it is also not certain whether they include all women doing paid domestic work.

2. Labour reserve (female labour force, degree of employment or unemployment)

Table 6 shows the working population by sex in per cent of the total population and gives the corresponding figures for the other EEC countries.

TABLE 6

Working population by sex

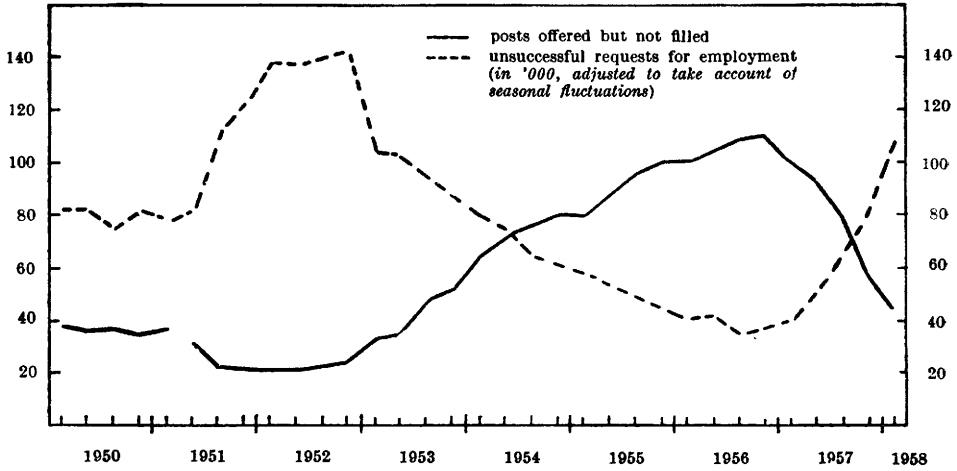
Countries	Male		Female		Total (in per cent.)
	'000	%	'000	%	
Germany (F. R.) 1946 (incl. W. Berlin and Saar)	13 207	62.8	7 854	30.2	44.7
France (1946)	12 667	73.2	7 853	39.1	54.9
Italy ¹⁾	14 283	64.2	5 041	21.5	42.3
Belgium (1947)	2 660	63.3	821	19.0	40.9
Luxembourg	96	66.4	39	26.5	46.4
Total	42 913	66.2	21 618	29.2	46.5
Netherlands (1947)	2 923	61.0	944	19.5	40.2

¹⁾ Average of 1936 and 1956 occupational censuses.

Table 7, p. 484, shows the number of helping family members by sex and position in the family for some of the important branches of the economy.

GRAPH No. 3

Employment available and unemployment (at end of quarter)



GRAPH No. 4

Trend of the relative importance of investment goods and consumer goods industries in the Netherlands from 1889 to 1956

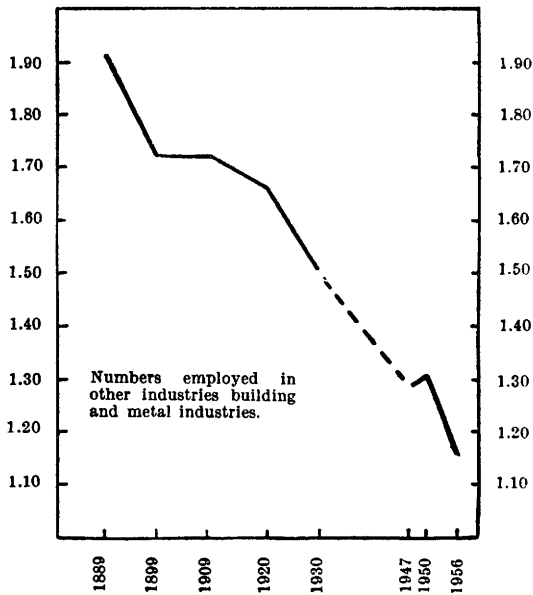


TABLE 7
Helping family members (1947 occupational census)

Sectors	Helping		
	Wives	Children	
		M	F
Industry and mining	5 351	27.272	2 701
Agriculture	81 452	110 408	60 522
Fishing and gamekeeping	11	844	15
Shopkeeping	50 704	9 688	16 271
Remainder of commerce	3 109	9 099	1 411
Transport	10 150	7 936	4 347
Other branches	1 184	648	345
Total	151 961	165 891	85 612

Table 8 provides information on the demand for and supply of labour (cf. also graph. No. 3, p. 483.

TABLE 8
Offers of employment and registered labour reserve

(in '000)

	1950	1951	1952	1956	1957
1. Offers of employment	36	30	22	106	88
incl. female workers	17	13	11	38	34
2. Registered labour reserve	81	93	138	40	52
incl. female workers	5	7	8	3	4
3. Registered labour reserve as percentage of wage and salary earning persons in employment	2.8	3.2	4.8	1.2	1.6

Table 9 contains some data on working hours.

TABLE 9
Average number of hours worked weekly by industrial workers (male and female)
1950 to 1956

Period	Men	Women
Sept./Oct. 1950	49 1/2	46 1/2
— 1951	49	47
— 1952	49	47 1/2
Oct. 1953	49	47 1/2
— 1954	49	47 1/2
— 1955	49	47 1/2
— 1956	49 1/2	47 1/2

C — SURVEY OF ECONOMIC ACTIVITIES

1. Distribution of the working population in the various branches of the economy

Table 35, p. 520 gives the distribution of the working population according to the various branches of the economy; it makes a distinction between self-employed persons and wage and salary earners. It shows that the metal and chemical industries are the main spheres of industrialization. The steep increase of employment in the building industry is in line with the upward trend of investment activities.

Graph. No. 4, p. 483, indicates the long term growth of the investment goods industry in its relation to the consumer goods industry.

2. Distribution of the national product over the various branches of the economy

Table 10 contains a breakdown of national production by economic branches. No more detailed subdivision is available at this stage. Since, however, the distribution of workers more or less agrees with that of the national income, the structural details can be seen from Table 34, p. 517.

TABLE 10

National income at factor cost by sectors and branches of the economy in which it is gained

(in '000 000 Hfl.)

Sectors	1950	1951	1952	1956
Industry	6 320	7 080	7 480	11 210
Agriculture and fishing	2 180	2 140	2 520	2 890
Commerce	2 220	3 750	3 670	5 370
Transport ¹⁾	1 240			
Real estate	640	2 270	2 300	3 350
Other enterprises	1 420			
Adjustment for interest payments to banks	- 60	- 80	- 60	- 140
Total enterprises	13 960	15 160	15 910	22 680
Public authorities (incl. education)	1 400	1 460	1 590	2 500
Abroad	340	320	420	280
National income (net, at factor cost)	15 700	16 940	17 920	25 460

¹⁾ Incl. hotels, restaurants and cafés.

3. Distribution of national product by categories of income

Table 11 shows the distribution of the national income among the various categories of income.

TABLE 11

Net national income (at factor cost); primary functional distribution ¹⁾

(in '000 000 Hfl.)

	1950	1951	1952	1956
<i>I. Wages and salaries</i>				
1. Wages and salaries earned in enterprises (incl. payments for social security, welfare, etc.)	6 860	7 680	7 930	11 540
2. Wages and salaries earned in public employment (incl. payments for social security, welfare, etc.)	1 400	1 460	1 590	2 500
3. Wages from abroad	50	10	40	80
	8 310	9 150	9 560	14 120
<i>II. Pensions from abroad</i>	160	130	80	80
<i>III. Remaining income</i>				
1. Reserves and incomes of households derived from enterprises, not included in I, 1)	6 560	6 870	7 370	9 970
2. Income from abroad not incl. in (I, 3)	390	470	540	670
3. Income from insurance funds	150	170	180	270
4. Interest and profits (public authorities)	220	230	250	390
5. Interest received by public authorities from abroad	—	20	30	10
6. Interest paid by public authorities to abroad	(-) 90	100	90	50
	7 230	7 660	8 280	11 260
Net national income (at factor cost)	15 700	16 940	17 920	25 460

¹⁾ This does not correspond entirely to the OEEC definitions; income from insurance funds is listed separately.

4. Distribution of national product by categories of consumption

Tables 35 and 36, pp. 520 and 523, show national expenditure at both current and constant prices.

D — CONCENTRATION AND DISPERSION

1. Extent to which enterprises are concentrated

The following table shows the breakdown of non-agricultural enterprises by size groups (in per cent).

Since the second world war there has been a slight decline in the number of enterprises employing fewer than 5 workers. The considerable increase which has occurred in the number of large enterprises is not clearly expressed by this.

TABLE 12
Breakdown of enterprises by size groups (as percentage)

Size group	1903	1910	1922	1930	1939	1950	1955
Fewer than 5 workers	72.4	74.8	79.8	79.0	82.4	77.7	74.6
5— 9 —	13.6	11.2	10.5	11.0	8.7	10.6	11.5
10— 49 —	11.6	9.0	7.9	8.0	7.0	9.2	10.9
50—199 —	2.0	1.7	1.5	1.5	1.4	1.9	2.4
200—499 —	0.3	0.2	0.2	0.3	0.3	0.4	0.4
500—999 —	0.1	0.1	0.1	0.1	0.1	0.1	0.1
More than 1000 —	0.0	0.0	0.0	0.1	0.1	0.1	0.1

The importance of these large enterprises for the labour market can be better judged from the survey of the distribution of workers in the various size groups which is given in Table 13.

TABLE 13
Distribution of the number of workers (as percentage)

Size group	1903	1910	1922	1930	1939	1950	1955
Fewer than 5 workers	15.1	14.7	15.2	14.9	14.0	11.3	10.9
5— 9 —	10.2	8.8	8.6	8.7	7.6	7.2	4.7
10— 49 —	25.5	22.3	20.5	19.9	19.3	19.4	19.0
50—199 —	20.3	20.5	18.6	17.7	18.2	18.4	18.9
200—499 —	10.7	10.3	10.8	11.1	12.2	12.1	12.0
500—999 —	5.1	8.0	6.7	7.4	9.0	8.2	8.3
More than 1000 —	13.1	15.4	19.6	20.3	19.7	23.4	26.2
	100	100	100	100	100	100	100

These tables show that even as far back as in 1903 the relatively large number of very small enterprises (employing fewer than 5 workers) provided employment for no more than 15.1 % of the working population. By 1955 that percentage had declined still further. Table 14 gives a clear illustration of the unequal rate of increase of the number of workers employed in enterprises of the various size groups.

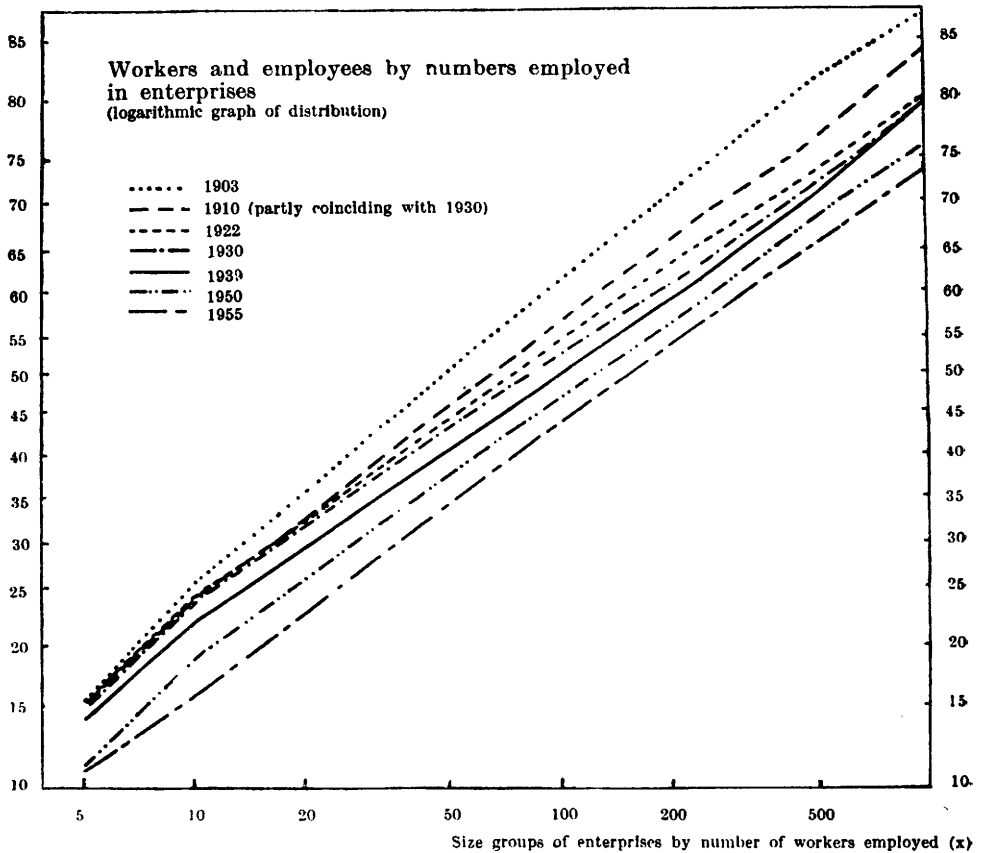
TABLE 14
Increase of the number of workers by size group of enterprises (1922-1955)

Size group	Number of workers employed		Change in per cent
	1922	1955	
Fewer than 5 workers	165 710	214 300	29
5— 9 —	93 171	150 781	62
10— 49 —	223 499	441 995	98
50—199 —	201 786	440 192	118
200—499 —	117 934	279 763	137
500—999 —	73 287	191 043	160
1000 workers or more	212 828	612 482	188

The figures in this table show clearly that the large enterprises are growing at a faster rate than the small ones. Graph No. 5 leads to the same conclusion by means of a logarithmic probability graph drawn from the distribution figures shown in Table 12. The movement of the lines from left to right indicates a higher degree of concentration.

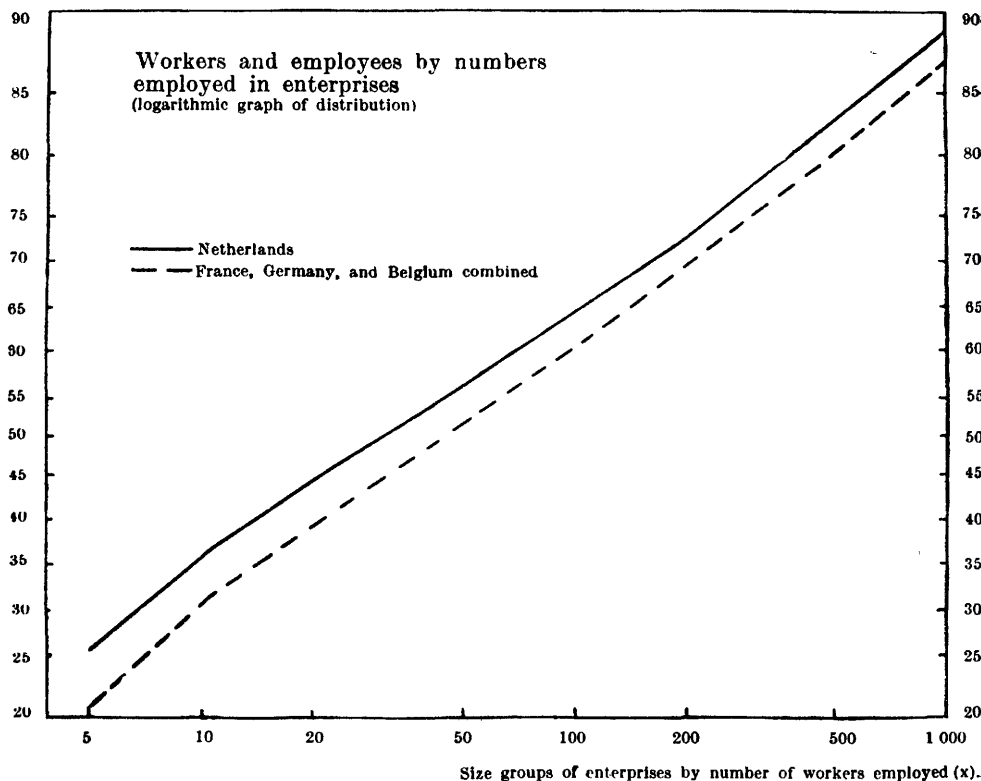
GRAPH No. 5¹⁾

Percentage of number of workers and employees in enterprises in order of size



¹⁾ The figures shown in Table 12 are shown in this graph by a logarithmic probability curve. The movement of the lines from right to left indicates a higher degree of concentration.

The best comparison of concentration trends on an international basis could probably be obtained with the aid of similar graphs. Graph 6 gives a first impression of the present situation. The distribution of workers in enterprises of the various size groups in France, Belgium, and West Germany together indicates a higher degree of concentration than in the Netherlands.

GRAPH No. 6¹⁾**Percentage of number of workers and employees in enterprises in order of size**

¹⁾ The figures shown in Table 12 are shown in this graph by a logarithmic probability curve. The movement of the lines from right to left indicates a higher degree of concentration.

2. Extent of national economic integration; regional differences

The advantageous geographical position of the western part of the Netherlands at the mouth of the Rhine, which is the natural transport link with the Ruhr, has led to a concentration of population, trade and industry in the west of the country. Some important industries are by their nature bound to settle near deep waterways and others are so closely linked with sea transport that they tend to group themselves near estuaries. Factors such as these have led to a high degree of industrialization near the deep waterways in the seaport regions of Rotterdam and Amsterdam.

Apart from some important industrial areas, the rest of the Netherlands contains regions where chances of development are less favourable and where the central functions exercised by the large built-up areas in the West are

lacking. It is there in particular that the attraction of the west exerts its influence on the economy. For that reason the population tends to move away from these areas. Regional industrialization policy is endeavouring to ensure a better distribution of population and employment by improving transport facilities and providing better vocational training.

The figures for the distribution of incomes and assets (see Table 15) give an indication of the different stages of development obtaining in the west of the Netherlands and in the rest of the country.

The breakdown of activities among the various economic branches in Table 16, p. 492, shows that the three western provinces are characterized even more by the great concentration in the services sector (in the broad sense of the phrase) than by the concentration of industry.

In the post-war years the number of unemployed registered in some areas was many times higher than that of the average for the country as a whole. These development areas are shown in the map on page 491.

Special attention was given to these areas under the Development Areas Act, the particular purpose of which it was to attract industries. There is a bonus scheme by which an entrepreneur setting up business in one of the industrialization centres can ensure certain advantages. Table 17, p. 492, contains a comparison between the number of persons employed in industry in 1950 and in

TABLE 15

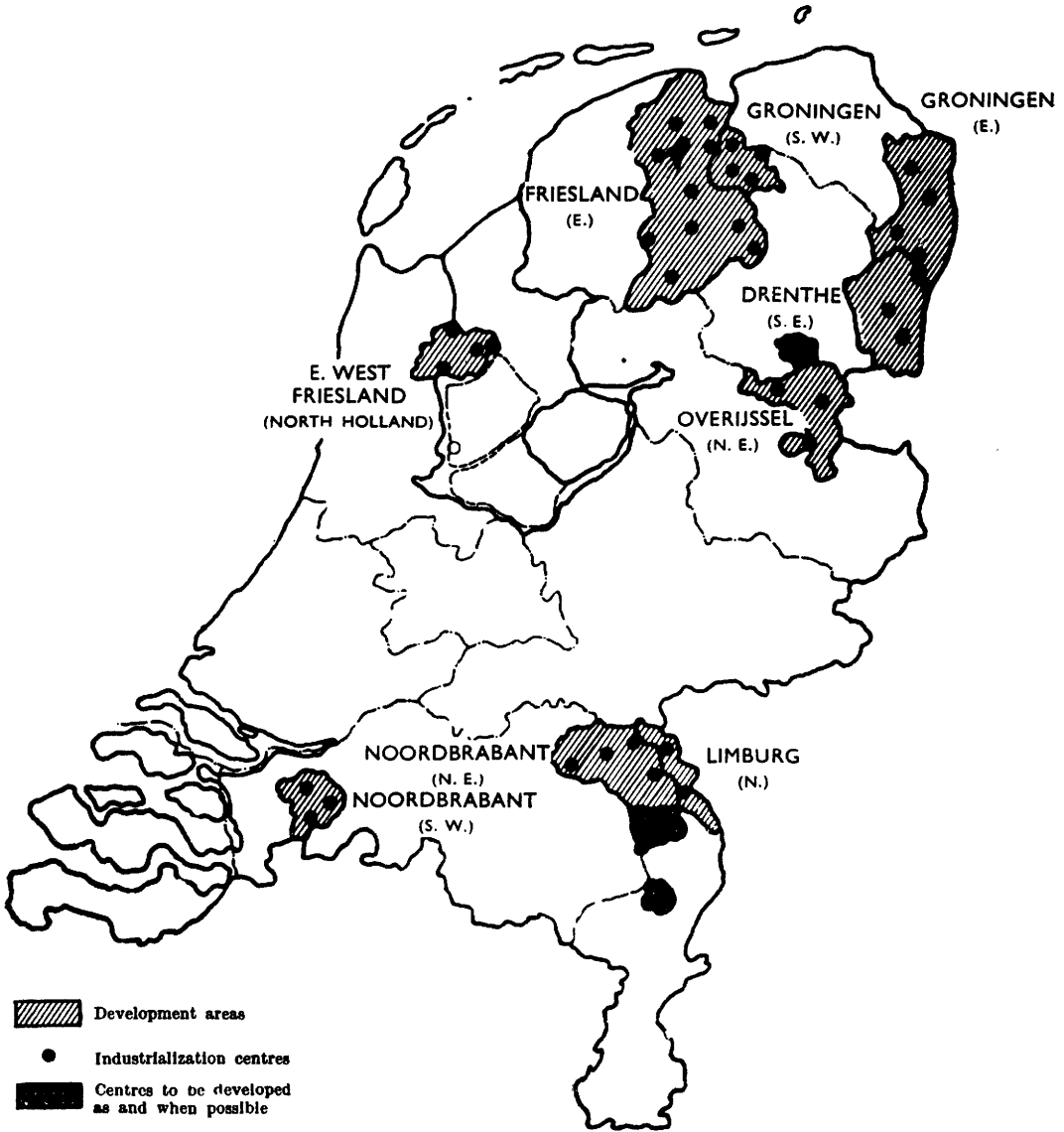
Breakdown of population, income and assets by provinces - 1950¹⁾
(Serial Nos. 9 to 11 = western Netherlands)

Province	Population as at 31. 12. 1950 (⁰⁰⁰)	Total income (^{000 000} Hfl.)	Income per head (Hfl.)	Total assets (^{000 000} Hfl.)	Assets per head (Hfl.)
1. Groningen	461.8	537.6	1 167	1 326.2	2 872
2. Friesland	467.7	503.1	1 078	1 300.8	2 146
3. Drenthe	285.1	268.8	950	498.9	1 750
4. Overijssel	689.9	768.5	1,114	1 248.6	1 810
5. Gelderland	1 097.6	1 147.5	1 053	2 243.9	2 038
6. Noord-Brabant	1 267.2	1 249.2	995	1 955 0	1 543
7. Zeeland	271.7	326.7	1 209	699.6	2 575
8. Limburg	739.3	777.0	1 055	801.6	1 076
Total 1-8	5 280.3	5 578.5	1 055	10 074.6	1 905
9. N.-Holland	1 874.6	2 584.8	1 391	4 360.3	2 326
10. Z.-Holland	2 424.5	3 174.7	1 321	5 469.3	2 256
11. Utrecht	584.2	708.4	1 224	1 528.2	2 616
Total 9-11	4 883.3	6 467.9	1 325	11 357.8	2 326

¹⁾ Calculation based on wages and income tax records. These figures refer to natural persons exclusively; they include income and assets known to the revenue authorities but not assessed for various reasons.

GRAPH 7

Development areas



1956, both in the whole of the Netherlands and in all the development areas together. Good progress in industrialization has clearly been made in most of the development areas.

TABLE 16

Breakdown of working population by types of activity and provinces ¹⁾
(1947 occupational census)

Sectors	Groningen	Friesland	Drenthe	Overijssel	Gelderland	N. Brabant	Zeeland	Limburg	N. Holland	Z. Holland	Utrecht	Nether-lands
Industry and mining	31.9	25.7	25.9	40.8	35.1	42.2	26.8	44.7	38.2	36.8	37.1	36.9
Agriculture, fishing, gamekeeping	26.5	36.0	46.3	28.5	28.8	24.2	36.6	21.1	9.4	11.1	12.8	19.9
Services	40.3	37.0	26.5	29.9	34.8	32.4	35.7	33.2	52.7	50.5	47.9	41.7
Occupation unknown	1.3	1.3	1.3	0.8	1.3	1.2	0.9	1.2	1.7	1.6	2.2	1.5

¹⁾ Percentage figures per province.

TABLE 17

Population and number of persons employed in industry - 1950 and 1956 ¹⁾

Region	Population		Number of persons in industry		Increase 1950-1956 in % of 1950 figure	
			end of Sept. ²⁾	15 Oct. ³⁾		
	31. 12. 50	31. 12. 56	1950	1956	Population	Persons employed
			('000)			
Netherlands	10 200.3	10 957.0	925	1 037	7.4	12.1
Development areas	688.4	716.0	31	45	6.0	44.1

¹⁾ Excl. building industry; enterprises with 10 or more employees.

²⁾ Netherlands.

³⁾ Development areas.

II — ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

A — INTRODUCTION

Table 18 shows the significance to the Netherlands of international trade in commodities. The steep increase of imports in 1951 and from 1952 to 1956 is largely due to cyclical trends. Beside this, there is also a gradual structural increase in the volume of imports as a result of industry having grown, therefore needing more imports of raw materials.

B — STRUCTURE OF THE BALANCE OF PAYMENTS

1. Significance of income from exports and expenditure on imports in the overall balance of external payments

Table 37, p. 526, shows the balance of payments. It establishes clearly that in spite of the structural changes mentioned in the introduction, services are still of great importance. The balance of commodities shows a considerable deficit throughout, which is either wholly or in part made up by surpluses from services. Fluctuations in the import of commodities during the years under review were largely due to cyclical trends. Fluctuations in the extent of stock-piling play an important part in this.

2. Relationship between foreign trade and domestic production

a) Imports

Imports are very sensitive to changes in domestic expenditure. Experience shows that a 1 % rise in domestic expenditure (excl. stockpiling) entails a more than 1 1/2 % increase in imports (both measured in value). Sensitivity is even greater in the case of changes in stockpiling.

In comparison, the influence of relative price changes is much less marked, at least over short periods.

b) Exports

The volume of exports is determined in the main by income trends in foreign countries and by the trade policies these countries adopt. The relatively low level of costs has of course had a favourable influence on the growth of exports since the war. In 1956 and 1957 Netherlands exports fell behind the development in world trade. This is partly ascribable to domestic demand having greatly increased. In recent months this trend has however disappeared.

c) Sensitivity of the national economy to fluctuations in the terms of trade

In view of the high rate of imports and exports, fluctuations in the terms of trade are of great significance to the Netherlands economy. Since imports are in the main composed of raw materials and exports consist largely of finished products, the Netherlands terms of trade are highly sensitive to cyclical fluctuations, especially over short periods. In the rising phase of the economic cycle the terms of trade tend to work to the disadvantage of the Netherlands economy, whereas during the declining phase they tend to favour it. Cyclical changes in the terms of trade appear to be of less consequence for the Netherlands than for the other countries of the EEC. In this context attention should be drawn to the relatively important position held by agricultural products in Netherlands exports.

TABLE 18

Relative significance of foreign trade

Years	Imports (cif)				Exports (fob)	
	in '000,000 Hfl.	in per cent of gross national product (at market prices)	in Hfl. per head of population	in '000,000 Hfl.	in per cent of gross national product (at market prices)	in Hfl. per head of population
1950	7 754	39.6	760.20	5 296	30.5	519.20
1951	9 636	44.3	933.00	7 337	38.7	710.40
1952	8 388	36.6	803.75	7 948	39.3	761.60
1956	14 217	45.5	1 297.50	10 962	39.2	1 000.45
1957	15 679	46.0	1 413.00	11 831	38.1	1 066.25

C — THE GEOGRAPHICAL COMPOSITION OF THE BALANCE OF TRADE

Table 38, p. 528, contains a breakdown of imports and exports by areas and categories of products. In this connection the following remarks may also be of interest:

1. Exports

Generally speaking the Netherlands have specialized in producing high quality finished goods. These can be sold in countries with a high purchasing power only. It is for that reason that approximately 70 % of the products exported by the Netherlands are sold to OEEC countries and the United States. More than half of this amount goes to the EEC countries. Germany is the biggest customer and is followed by the Belgo-Luxembourg Customs Union.

Compared with the other EEC countries, foodstuffs account for a very large part of the total exports. As a rule products of this kind cannot be transported over very great distances, so that it is no more than natural that by far the greatest part of these high-grade goods find their way to the countries of western Europe and in particular to West Germany and the United Kingdom. In addition, exports of preserved foodstuffs to the United States and other overseas countries are of some importance.

Beside the countries with a high degree of purchasing power, the less developed areas are also of significance for the export of chemicals, finished articles, machinery, and transport equipment. The reason for this is to be sought in the fact that especially because of the former close economic ties with Indonesia, industry in the Netherlands has to some extent specialized in the production of goods suitable for the tropics.

The table shows that the significance of the western European countries for Netherlands exports increased further during the period from 1952—1957, partly due to the upward trend which those countries experienced during that time. Only the Belgian share in the total exports from the Netherlands remained stationary, but the reason for that was the drop in the exports of food, beverages, tobacco, etc. to that country.

The importance of the exports of food, beverages, tobacco, etc. has declined throughout whereas exports of fuels, machinery and transport equipment have gained in significance. The share of the other categories of goods has remained more or less unchanged.

It is because marketing conditions developed less favourably for food, beverages, tobacco, etc., that the export of these items has lagged behind.

Domestic agriculture and stock breeding are fairly heavily protected in virtually all the potential markets.

The increased volume of exports of mineral fuels is mainly due to the great expansion of the petroleum refining industry in the Netherlands which has followed the increased need for fuels in western Europe. The rising share of machinery and transport equipment in the volume of exports is in line with the steep upward trend of investments in western Europe and is in part due to foreign industries having settled in the Netherlands.

2. Imports

In contrast to exports, Netherlands imports consist mainly of raw materials and auxiliaries for processing in the Netherlands either for domestic consumption or for export.

In view of the composition of imports as a whole it is not surprising to see that the countries supplying raw materials are of greater importance for imports than they are for exports. Nevertheless the share which the highly developed countries have in imports is still considerable, for they supply not only finished articles but also numerous half finished and basic products. For instance the imports of food, beverages, tobacco, etc. consist, in addition to tropical agricultural produce, mainly of grain, much of it from the United States. Imports of chemicals and manufactured goods from the OEEC countries contain a relatively high percentage of semi-finished products. These countries, and especially the EEC Member States, export a considerable volume of goods to the Netherlands. Here again West Germany is in the lead. More than in the case of exports, trade with the sterling and dollar areas is concerned with countries producing raw materials.

During the period from 1952—1957, the share of the OEEC countries in Netherlands imports has increased considerably. This is largely due to the greater importance of finished products in Netherlands imports, which in turn results from domestic expenditure in the Netherlands having risen at a considerably faster pace than production during that period.

3. Foreign exchange aspects

Generally speaking, the Netherlands suffer from a structural dollar deficit. Dollar raw materials are imported, processed in the Netherlands and exported in their processed state to the surrounding countries. It is for that reason that the Netherlands are anxious for restoration of general convertibility which means surpluses outside the dollar area can be used to meet the dollar deficit.

D — COMMERCIAL AND CUSTOMS POLICY**1. Present situation**

Table 19 gives an idea of the present structure of import duties by products and degree of processing.

TABLE 19

Present average import duties by tariff items ¹⁾

Items	Food, beverages, tobacco, etc.	Raw materials and fats	Mineral fuels	Chemicals and manuf. goods	Machinery, instruments, and transport material	Total
Raw materials	1	1/2	0	—	—	1/2
Semi-finished goods	6 1/2	4 1/2	1/2	3 1/2	—	4
Finished goods	15	—	—	13	8 1/2	13
Total	11	1 1/2	1/2	10	8 1/2	8 1/2

¹⁾ Unweighted average.

In connection with their own rapid industrialization, the Netherlands are meeting strong competition from well-established industrial countries; yet import duties are on the whole low. Quantitative import restrictions are of only minor significance, even in the case of dollar imports.

The public authorities refrain from any artificial encouragement of exports. The only facility which they grant concerns guarantees for export credit insurance; they also intervene in long-term export financing.

Generally speaking, the Netherlands Government do not intervene except to ensure that Dutch exporters shall not be left worse off than others.

2. Effects of the EEC

The structure of foreign tariffs after the completion of the interim period is given in Table 20, which shows that the Netherlands will be compelled to increase considerably their import tariffs on raw materials and semi-finished goods, a large quantity of which are at present imported from countries outside the EEC.

Naturally, the influence exerted in the flow of trade by changes in the tariff structures of the participating countries is a point of importance.

TABLE 20

Probable average foreign tariffs by tariff items ¹⁾

Items	Food, beverages, tobacco, etc.	Raw materials and fats	Mineral fuels	Chemicals and manuf. goods	Machinery, instruments, and transport material	Total
Raw materials	15	2	1 1/2	—	—	4
Semi-finished goods	15	10	4	11	—	11 1/2
Finished goods	21	—	—	18	15	18
Total	18 1/2	4	3	15 1/2	15	14

¹⁾ Unweighted averages. It has of course not been possible to include List „G” items, which account for approximately 9 % of the total Netherlands imports.

In 1952 the Central Planning Office undertook a first study of this problem ¹⁾. Although this calculation was no more than a very broad survey and, moreover, dealt exclusively with the immediate consequences of changes in the tariff structure, its conclusions nevertheless indicate the changes in the pattern of trade for the most important branches of the economy. It appears, for instance, that so far as the Netherlands are concerned increased export chances will in the first place apply to agricultural produce and such items as beverages, tobacco, etc. and only in the second place to industrial end products in the narrower sense of the word.

An increase of just below 20 % is calculated for the intra-block trade as a whole.

Further methodological study of the problems of economic integration, and an “ex post” calculation of the effects of Benelux on Netherlands-Belgian trade, have since then however led to the conclusion that this earlier paper probably, and for the following reasons ²⁾, somewhat underestimated even the initial effect of the Common Market.

a) The study in question was based on the assumption of a substitution-elasticity of -2 , whereas a degree of elasticity of about -4 to -5 can be expected. On the other hand the elasticity of supply was assumed to be infinite, which does not appear likely when large geographical areas are integrated, unless there is a considerable surplus capacity. It is therefore very probable that these two trends will counterbalance one another. In the case of Benelux

¹⁾ Prof. Dr. P. J. Verdoorn: “A customs Union for Western Europe: Advantages and feasibility”, in “World Politics”, July, 1954. (The customs union envisaged in this paper includes the United Kingdom and Scandinavia as well as the EEC countries. A calculation covering the EEC countries only was worked out in 1952 in a report for the Nederlandse Vereniging voor de Staatshuishoudkunde).

²⁾ Cf. “The Intra-block trade of Benelux” in the “Papers and Proceedings” of the Round Table Conference of the IEA on the “Economic consequences of the size of nations” held in Lisbon in 1957.

it appeared that a 10 % tariff reduction eventually produced a 2.5 % increase in the volume of trade.

b) It is of more importance however to note that the Benelux union has proved that over and above this increase of volume a very considerable rise in the added value per "unit value" must be taken into account; in the case under review this can be assessed at 20 to 30 %.

c) When the 20 % increase of intra-block trade was calculated in the first paper, no allowance could be made for any expansion of the trade volume in those cases where at the outset there was complete or almost complete protection through tariffs.

d) Apart from the influence which the removal of customs barriers had on intra-block trade, the effect of the gradual removal of the remaining quantitative restrictions must also be taken into account.

A reconsideration of the problem, using new data concerning the expected changes in the tariff structure and based upon the pattern of trade in 1957 instead of that in 1950, could therefore provide a somewhat clearer indication of the changes to be expected in the flow of trade, provided the following factors are borne in mind:

i) the surplus capacities existing in the various industrial branches in the Member States;

ii) the probable repercussions of still effective protective tariffs and existing quantitative restrictions;

iii) the interdependence between changes in the domestic price structure consequent upon the establishment of the Common Market and changes in the pattern of trade. The effects of the harmonization of social conditions will also have to be remembered.

A more detailed report of this type would appear to be of particular interest from the point of view of the re-alignment of the expected changes in the balance of payments situation and foreign exchange position, as well as for a precise understanding of the investment requirements in the various branches of industry.

III — ECONOMIC POLICY AND ITS REPERCUSSIONS ON THE STRUCTURE OF COSTS

A — INTRODUCTION

As pointed out in the introduction and in the discussion of export policy, it is the general aim of economic policy in the Netherlands to keep costs and prices in check in view of the country's vulnerable position in the field of international competition.

Employers' associations and trade unions were consulted in bringing wage trends into line with the requirements of the balance of payments.

A bill is in preparation at the moment which will enable the Government to counter restrictive practices by employers. In anticipation thereof all cartel arrangements have had to be registered for several years. The Government is authorised to take steps against any provisions it considers harmful.

Because of the danger of inflation, the policy of cheap money is no longer applied as a means for keeping investment costs low.

In agricultural policy, price formation is also used to some extent to ensure a minimum income for farmers.

Outside agriculture, the only direct Government intervention in price formation occurs with regard to rents and transport charges.

B — PRICES

1. Agricultural prices

Since the corn crisis of 1880 the production pattern of Dutch agriculture has steadily moved towards the production of goods for processing, some of which were intended for export. Conditions were extraordinarily favourable for this because fodder was cheaply available from the new agricultural areas opened up overseas and the growing industrial areas in the neighbouring countries stood in great need of animal products.

Since the 'thirties the sale of these products has become gradually more difficult, with the exception of a break as a result of the second world war. There are three main causes for this:

a) The arrival on the scene of new producer areas overseas as a result of improvements in transport facilities.

b) Many countries whose agricultural methods were backward compared with the Netherlands have made up their leeway.

c) Many countries have adopted protective measures for the benefit of their own livestock farming.

This development has led to a gradual fall-off in the import requirements of several traditional sales markets, some of which even produced export surpluses, while supplies in general have increased.

So far however, largely thanks to the restoration of prosperity in Germany (Cf. Table 21) there has not been any question of declining import requirements in the EEC area.

TABLE 21
Import surpluses of animal products

(in '000 metric tons)

Product	year					9 months	
	1952	1953	1954	1955	1956	1956	1957
<i>Butter</i>							
Netherlands	- 49.9	- 52.7	- 52.0	- 44.4	- 31.6	- 21.3	- 25.0
Other EEC countries	56.8	49.1	26.0	43.2	62.6	41.5	43.9
<i>Cheese</i>							
Netherlands	- 77.9	- 85.7	- 91.8	- 88.8	- 91.0	- 67.3	- 62.3
Other EEC countries	62.3	79.5	85.2	87.6	101.6	78.9	78.8
<i>Eggs</i>							
						6 months	
Netherlands	- 80.3	- 95.8	- 121.4	- 124.8	- 135.2	- 52.8	- 65.4
Other EEC countries	116.6	141.3	176.4	219.3	258.7	118.3	146.6

It is true that of recent months domestic butter production has been extraordinarily high in some countries, but this is on the whole incidental and due to a glut of milk. So far, therefore, the phenomena described above have appeared mainly outside the EEC area.

The reason for the present difficulties experienced by agriculture and especially by livestock breeding in the Netherlands are (as yet) not to be sought so much in the decline of marketing possibilities as in export prices. The pressure of supply has prevented market prices from keeping in step with the gradual price increases for industrial products and the rise of primary costs. Labour costs have been mainly responsible for the rise in the latter (cf. Tables 22 and 23).

The establishment of the EEC, provided it is fully applied to agriculture, may bring about an improvement in this field. On the one hand Dutch products may benefit from the preferential rates vis-à-vis non-member countries, while an agricultural common market will mean the more rapid disappearance of sub-marginal production. Likewise, the protective duties at present levied by the most important purchasing countries within the EEC will be reduced vis-à-vis non-member countries, and this will influence their domestic production. It is therefore likely that an effort will be made to deal with the situation by instituting quotas for imports from non-member countries.

TABLE 22

Agricultural and industrial prices

Year ¹⁾	Finished products (1948 = 100)	Agricultural products (1947-48 = 100)
1950	116	106
1951	143	110
1952	135	129
1956	137	128
1957	141	129

¹⁾ Agricultural products: harvest years ending in the year listed.

TABLE 23

Export prices and prime costs of animal products

(1950 = 100)

Product	1951	1952	1953	1954	1955	1956	1957
<i>Butter</i>							
Export price	110	129	111	105	113	110	91
<i>Cheese</i>							
Export price	104	109	99	98	102	101	104
Prime cost of milk	98	112	112	114	122	126	151
<i>Eggs</i>							
Export price	102	111	104	97	101	98	93
Prime cost	125	141	118	126	139	131	136
<i>Pork</i>							
Export price	114	123	99	105	110	100	94
Prime cost	122	135	120	121	122	128	122

2. Distribution

Table 24 gives a survey of the distribution costs of consumer goods; the figures refer to distribution costs proper, that is to say after deduction of im-

port duties and indirect taxes. There is little difference between the various products.

TABLE 24

Distribution costs of consumer goods in 1954¹⁾

Industry of origin	Margin in per cent of retail value ²⁾
Agriculture	30
Food, beverages, tobacco, etc.	25
Textiles	27
Clothing and footwear	26
Wood	23
Paper	26
Printing and publishing	30
Leather and rubber	33
Chemicals	25
Earthenware	37
Metal	38
Liquid fuels	26
Solid fuels	29
Tropical produce	37
Total	27

¹⁾ Excl. services and handicrafts.

²⁾ These margins include profit, transport costs and insurance.

3. Transport policy

Transport policy in the Netherlands is aimed at providing lasting and efficient transport facilities. Transport is regarded as a branch of the economy equal to the others, and equally requiring to be operated on commercial principles. There is no question of subordinating transport to agricultural or industrial interests.

The wish to establish a lasting and efficient transport system has led to the introduction of licenses regulating the founding and capacity of firms in order to prevent an excessive supply of transport facilities without, however, excluding the possibility of new competitive firms being set up.

The public authorities do nothing to intervene in the proportional use made of the various types of transport service. It is one of the fundamental principles of Dutch transport policy that the consignor must be free to choose the kind of transport he prefers. Subject to the system of licences, the co-ordination of transport is in principle left to the working of the market mechanism. To ensure that this will bring about the most efficient distribution of transport business, transport costs to the individual must not vary greatly from the cost to the economy, as a result of taxes, subsidies, or price control measures or the like.

Transport prices are somewhat complicated and subject to but few uniform rules. Generally speaking it can be said that what measures have been taken fit into the framework of the general policy of price controls, which is to keep inflationary tendencies in check, since maximum prices have been fixed for nearly all types of transport. Maritime shipping, international shipping on inland waterways, tankers and coach tours are exceptions and are not subject to price control.

There is no transport tax of any sort in the Netherlands, but goods transport is subject to turnover tax in the same way as all other business activities. International transport carried out by Netherlands subjects or foreigners is exempt from this. There also exist a motor vehicle tax on private cars, based on the weight of the vehicle, and an excise duty on petrol. Other motor vehicle fuels are exempt from this excise duty, but cars in which they are used are liable to a surcharge on the motor vehicle tax.

C — INVESTMENTS

1. The proportion of investments in the national product

Table 25 shows that the rate of investment has been fairly high in recent years.

TABLE 25

Gross investments in fixed assets ¹⁾

(as % of gross national product at market prices)

Countries	1950	1951	1952	1956
Netherlands	20	20	22	25
Germany (F. R.)	19	19	19	23
Belgium	17	15	15	17
France	16	18	17	18
Italy	18	18	20	20

¹⁾ Incl. investment by public authorities.

The high rate of population increase referred to in previous paragraphs, and the consequent need for industrialization, explain this high level of investments.

2. Rates of interest

The rates of interest for long-term credits are on the whole fairly low in the Netherlands. Nevertheless, no cheap money policy has been followed since 1950. The Government has, however, laid down the terms on which public corporations on a lower level may take up loans. Amongst other things maximum rates of interest are prescribed in accordance with the life of such loans. For instance, a maximum rate of interest of 4 1/4 % has been in force since 21 January 1957 for loans with a 20-year life. The following figures illustrate the trend of rates of interest for long-term loans.

TABLE 26

Yield of long-term public loans

	1950	3.28
	1951	3.88
	1952	3.95
	1956	3.84
1957	1st half-year	4.34
	2nd half-year	4.82
1958	1st quarter	4.51

3. Method of financing

Table 27 contains a survey of investments and the sources from which they were financed.

TABLE 27

Financing of investments

(*000,000,000 Hfl.)

	1950	1951	1952	1956		1950	1951	1952	1956
Gross investments in fixed assets	3.87	4.29	4.93	7.88	Depreciation	1.78	2.14	2.34	2.57
Changes in stocks	1.68	1.08	-0.75	0.59	Net savings by publ. auth. and social funds	1.84	1.98	2.01	2.21
					Net savings by enterprises and households	0.86	1.16	1.70	(1.27 ¹⁾ (1.77 ¹⁾)
					Contributions from abroad (deficit in balance of current payments)	1.07	0.09	-1.87	0.65
	5.55	5.37	4.18	8.47		5.55	5.37	4.18	8.47

¹⁾ Approximate division.

4. Financial system

Though as to their origin savings can be broken down into a few major groups only, it is safe to assume that by far the greatest part comes from institutions and enterprises. The former provide the capital for safe investment (public investments, investments by public enterprises, investment in housing) and the latter furnish the capital made available at risk (for private industry).

There exists an efficient capital market to which large enterprises have easy access. On the other hand, medium-sized or young enterprises often find difficulty in obtaining the capital they need. To meet this situation the "Maatschappij tot Financiering van het Nationaal Herstel" (Reconstruction Bank) was set up after the war jointly by the public authorities, the institutions, and the banks; a subsidiary, the "Nederlandse Participatie Maatschappij," can participate in the capital of enterprises.

The ordinary banks are not concerned with the provision of long-term credit. They do, however, on occasion help to tide over investment costs temporarily until they can be covered by an issue on the capital market.

5. Taxation system

In the Netherlands, income is taxed either in accordance with the progressive rates of income tax applicable to natural persons and to limited or unlimited companies, or in accordance with company taxation which is applied at broadly similar rates (44-47 %) to limited companies, co-operative associations, mutual assurance companies, foundations engaged in trade, and some public corporations.

Annual taxable income is assessed in accordance with established commercial practice. The entrepreneur may choose the depreciation system he prefers, but the combined amounts of depreciation must not exceed the purchase price of the asset concerned. Apparent book profits arising from stocks are also taxed; exemption from this is possible in certain circumstances to which reference will be made later.

There are several ways in which investments are encouraged by tax reliefs.

a) Depreciation by book value has been possible since before 1950. Given the same useful life of an asset as under the system of depreciation by a fixed percentage of the purchase price, depreciation is greater during the initial years.

b) At the beginning of 1950 advance depreciation became possible. This meant that 33 1/3 % of the purchase price could be written off either at once or in the course of three years, according to the entrepreneur's preference. In November 1955 a time-schedule was introduced for all assets. Since then the 33 1/3 % must be spread over four years. In the case of advance depreciation

the entrepreneur is in a better position, because he can reduce his profits and thereby his tax liability, but later on he must pay more tax since he is not allowed to write off more than the purchase price minus the residual value.

TABLE 28

Direct and indirect taxation and social contributions as percentage of the gross national product, increased by the amount of transfers

('000,000 Hfl.)

	1950	1951	1952	1956	1957
A. Direct taxation					
a) On income and property incl.	1 760	1 730	1 830	2 570	2 900
1. income tax	1 045	1 020	1 090	1 480	1 545
2. wages tax	658	645	657	949	1 116
b) On companies	900	840	930	1 180	1 300
Total direct taxation (a + b)	2 660	2 570	2 760	3 750	4 200
B. Indirect taxation					
a) Levied by the State :					
1. turnover tax	952	1 213	1 101	1 299	1 424
2. import duties	388	410	362	721	869
3. other indir. taxation	1 041	1 195	1 252	1 451	1 248
Total levied by the State	2 381	2 818	2 715	3 471	3 541
b) Levied by local government authorities	117	99	104	130	132
Total indirect taxation (a + b)	2 498	2 917	2 819	3 601	3 673
C. Social insurance contributions					
a) Employers' contributions ¹⁾	470	542	547	718	800 ²⁾
b) Employee's contributions ¹⁾	120	143	155	232	257 ²⁾
c) Contributions to social funds :					
1. by enterprises	320	370	440	670	720
2. by public authorities	60	80	100	140	190
3. by households	160	199	264	460	430
Total social insurance contrib.	1 130	1 334	1 506	2 220	2 397 ²⁾
D. Total (A + B + C)	6 288	6 821	7 085	9 571	10 270
Gross national product (at market prices)	19 560	21 740	22 930	31 240	34 110
Subsidies	280	150	90	330	600
Interest on public debt	510	500	470	580	640
Net transfers to individuals	1 430	1 630	1 740	2 370	2 250
E. Total	21 780	24 020	24 040	34 520	37 600
(D) in per cent of (E)	28.9	28.4	29.5	27.7	27.3

¹⁾ Social contributions as per apportionment.

²⁾ Provisional figures.

c) Investment relief was introduced in 1953. Any entrepreneur investing more than Hfl. 3,000. — in any one year is granted a 4 % deduction of his taxable profits for a period of 5 years. The depreciation arrangements are not affected thereby. This measure is in the nature of a subsidy; on the basis of a company tax rate of 45 % it can be said that over a period of five years an entrepreneur receives back 9 % of the value of his investments.

Investment relief was suspended in November 1956 as part of the recent measures to limit expenditure. In May 1958 it was re-introduced, but for a period of four years only.

d) Re-valuation of stocks was allowed from 1950 onwards in accordance with the last-in-first-out method. This was done in order to remove from the heading of taxable profits those apparent book profits which follow from rising prices and which had hitherto been taxed. However, the conditions under which such re-valuation is allowed are strict so that it is reasonable to suppose that only a limited number of entrepreneurs will avail themselves of this facility.

The above shows that the measures which are in the first place intended to create a favourable atmosphere for investments from the structural point of view (especially those listed under a) to c) incl.) are also applied with an eye to cyclical fluctuations.

The total yield from taxation and social contribution and its pressure on national income is shown in table 28.

6. Survey of public expenditure

Financially, investments depend on the public authorities to a large extent. This applies to public investments proper, to investments financed with public credits or by transfers of assets through public authorities, and to investments made possible through subsidies granted by public authorities. Table 29 gives a

TABLE 29

The influence of public authorities on gross investment in fixed assets

(as percentage)

Investments	1950	1951	1952	1956
Direct investments by public authorities	11.6	10.5	10.2	12.2
Investments financed with public credits or transfers of assets ¹⁾ by public authorities	24.6	24.7	21.8	19.0
Subsidised housing construction	16.5	15.1	16.3	14.8
Other investments	47.3	49.7	51.7	54.0
	100	100	100	100

¹⁾ The transfers of assets in this survey do not agree entirely with the OEEC definition.

quantitative illustration of the influence exerted by the public authorities on investment activity.

There are also some cases in which public authorities have made certain investments possible by means of a guarantee. Moreover, there exist a number of mixed enterprises in which the public authorities provide some of the capital (*e.g.* "Hoogovens" and K.L.M.). One of these mixed enterprises (the Bank of Reconstruction referred to above) plays a certain part in making credits available to trade and industry.

Total public expenditure expressed in per cent of the national income and broken down by major categories, is presented in Table 30. For purposes of comparison the figures relating to the last normal pre-war year are also stated.

The relative rise in expenditure on education, roads and waterways is to a great extent the result of planning to meet the requirements of the growing population.

TABLE 30

Net public expenditure in per cent of national income at factor cost

Years	Social expenditure	Military expenditure	Education	Roads and waterways	Other expenditure	Total
1938	5.9	3.4	3.2	3.1	9.1	24.6
1950	8.7	5.6	3.0	2.2	10.0	29.5
1951	8.4	6.3	3.0	2.1	10.1	30.0
1952	8.7	7.1	3.3	2.1	9.3	30.5
1956	8.0	6.9	4.1	2.8	8.2	30.0

D — SOCIAL POLICY

1. Social benefits

The greater part of social benefits is financed by levies from employers and employees. The legal provisions concerning these are often quite complicated. It would be difficult to furnish a survey of the statutory rates of contributions, because some of these depend on income.

Table 31 shows the burden of social contributions. The figures were arrived at by expressing contributions in per cent of gross wages paid. The general old age insurance scheme which came into effect on 1 January 1957 has not been included in the social burdens in the narrower sense of the word. It is a national insurance which has nothing to do with employment.

Where social benefits cannot be met from contributions, the public authorities make a grant (unemployment benefit). In addition, there are some benefits which are wholly financed from public funds (public assistance).

TABLE 31

Social contributions in per cent of gross wages - 1957

Description	Employers' share	Employees' share	Total
Invalidity	0.9		0.9
Accident	1.4		1.4
Sickness	1.7	0.7	2.4
Sickness fund	2.0	2.0	4.0
Childrens' allowances	4.1		4.1
Unemployment	1.0	1.0	2.0
Pension funds	2.7	1.6	4.3
Total social contributions	13.8	5.3	19.1
Paid holidays + holiday bonuses, short lay-offs, official holidays, etc.	10.0	—	10.0
	23.8	5.3	29.1
General old age insurance		4.6	4.6

2. Wages policy

It is the main aim of wages policy to eliminate horizontal differences of wages and to make vertical differences fair. To this end increasing use is made of the system of job classification. Where possible, wage rate systems are introduced which are calculated to increase performance. All these steps are taken in close consultation with the employers' and employees' organizations.

Attention is also given to the level of wages, as distinct from their structure. The possibility of a general wage increase is always examined in the light of the employment situation, of the balance of payments, and of the stability of prices.

As a rule the Social and Economic Council is consulted in connection with wage increases. This Council is the highest level of the statutory trade organization and its function is to advise the Government on matters of economic or social policy. Based on the advice of the Social and Economic Council the Labour Foundation then works out more detailed recommendations for the Government, and these are nearly always accepted. The Labour Foundation is a private organization established immediately after the war; it grew out of the co-operation of employers and employees during the years of occupation. When it was established, one of its declared aims was to make a constructive contribution towards the solution of post-war problems. The Labour Foundation remained in existence after the Social and Economic Council had been set up. The conditions under which these two organizations work together are laid down officially.

Because in working out its social policy the Government has kept close touch with both employers and employees, there has, on the whole, been little labour unrest. There have been few strikes in recent times (see Table 32).

3. Employment policy

Structural considerations are of overriding importance in employment policy. As explained in the introduction, this policy aims at creating employment for the rapidly increasing working population through the encouragement of industrialization.

Apart from this, employment policy is also conducted with cyclical fluctuations in mind. With this end in view, a register of public works has been compiled on a regional basis and can be used whenever additional employment must be provided. Naturally, a small country such as the Netherlands, which moreover has but limited monetary reserves, cannot withstand a protracted depression by its own means. International co-ordination is required if an adequate policy relating to economic trends is to be pursued.

TABLE 32

Working days lost to industry due to strikes

('000 days)

Years	Netherlands	Belgium	France	Italy	Germany (F. R.) ¹⁾	Total (excl. Netherlands)	Ratio of Netherlands to rest of EEC ²⁾
1950	162	2 769	11 729	7 761	380	22 639	10.2
1951	67	593	3 496	4 515	1 593	10 197	10.8
1952	31	863	1 733	3 531	443	6 570	15.1
1953	30	412	9 722	5 828	1 488	17 450	41.5
1954	59	444	1 440	5 377	1 587	8 848	10.7
1955	133	1 002	3 078	5 622	847	10 549	5.7
1956	213	948	1 423	4 137	264	6 772	2.3

Source: Yearbook of Labour Statistics 1957.

¹⁾ Excl. Saar.

²⁾ Ratio of days per head lost by strikes: $\frac{\text{EEC countries excl. Netherlands.}}{\text{Netherlands}}$

TABLE 33

Production per head of working population - 1950 to 1956

(1953 = 100)

Years	Agriculture	Industry
1950	85	91
1951	92	92
1952	94	94
1953	100	100
1954	103	106
1955	109	110
1956	107	114

E — PRODUCTIVITY TRENDS

During the period 1952-1956, productivity of labour in enterprises increased by an average of 3.5 % per annum; during the later years the rate of increase slowed down.

Table 33 shows the productivity trends in agriculture and industry for the period 1950-1956.

As pointed out in the introduction, experience has taught that labour productivity during a particular period increases as production expands during that period. This is explained by the fact that expansion of production makes further specialization and mechanization possible. According to industrial statistics, a 1 % increase in production entails an increase of productivity of approximately 0.5 %. For national production as a whole the ratio is reckoned to be 1 : 0.6.

This process will, however, not happen without the necessary investments. Increase of efficiency must be constantly encouraged. After the war, a central organization was established to act as a co-ordinating and stimulating agency in spreading the idea of efficiency (Contactgroep Opvoering Productiviteit).

CONCLUSIONS

The economic endeavours of the Netherlands are in the first place directed towards increased industrialization. Though many other countries, and in particular those within the EEC, are striving towards the same goal, the Netherlands have a greater need to do so because of the high density of population and the relatively fast pace at which it continues to grow. Industrialization requires a high level of investment which in turn means a steep rise in imports; with an eye to the balance of payments, this is possible only if exports can also develop vigorously. Thus industrialization can only succeed under conditions of lively international exchange and free international trade. The Netherlands themselves cannot establish such conditions but they do naturally participate vigorously in international activities for the liberalization of trade and in joint action against depression. For the Netherlands, accession to the EEC means that tariffs vis-à-vis third countries will have to be increased in many cases (cf. Tables 19 and 20). It is nevertheless hoped that liberalization within the Community, and in particular the prospects of a wider European free trade area, will more than compensate for this disadvantage.

The influence of the Common Market on the Netherlands economy is expected to make itself felt in an increase of exports to the Member States and in a weakening of the Netherlands competitive position outside the EEC as a result of higher import duties on raw materials, most of which come from countries outside the Community (unless a drawback is allowed when the finished products are exported to countries outside the Community). As has been pointed out, it is likely that the increase in demand will largely affect agricultural products. This explains on the one hand the Netherlands anxiety for the removal of national protection in the difficult agricultural sector and on the other it illustrates that a removal of trade barriers restricted to EEC countries is not likely to produce optimal conditions for the Netherlands. This, however, is no more than a very provisional impression needing further examination.

ANNEX

TABLE 34

Employment by branch of activity¹⁾

Branch of Activity	Total of working manpower: wage and salary earners, employers and the self-employed			
	1950	1951	1952	1956
<i>Industry :</i>				
Pottery, glass, lime, stone	47.8	49.1	47.0	50.8
Diamonds, etc.	1.6	1.6	1.5	0.8
Printing trades, photography	51.5	52.3	52.1	60.7
Construction	264.8	271.0	256.1	318.4
Chemical industry	48.3	51.9	52.0	65.2
Processing of wood, cork and straw	61.6	62.1	57.4	60.1
Clothing and cleaning	173.9	165.7	152.7	165.9
Arts and crafts	1.8	1.8	1.8	1.9
Leather, oil-cloth, rubber	58.0	58.3	58.0	63.9
Mining (coal, peat, etc.)	53.5	57.1	60.5	62.9
Metallurgical industries	406.0	428.0	430.0	501.0
Paper	22.9	22.8	21.4	24.5
Textiles	129.5	129.7	123.4	132.5
Public utilities	33.8	34.2	34.5	36.3
Foodstuffs, beverages, tobacco	217.0	216.0	216.0	214.0
<i>Total Industries</i>	1 572	1 602	1 565	1 759
<i>Agriculture and Services :</i>				
Agriculture, forestry, hunting, fishing	525	523	519	509
Shops, commerce, publishing	507	522	528	578
Communications (incl. hotels and catering)	346	345	342	372
Credit, banking, insurance	64	66	67	76
Other liberal professions	219	230	245	285
Religion	13	13	13	13
Domestic service	183	183	183	183
<i>Total agriculture and services</i>	3 429	3 484	3 462	3 775
<i>Civil service, etc. :</i>				
Central administration	100	98	101	114
Local government	83	83	84	89
Other public bodies	13	13	14	18
Education	83	86	90	105
Armed forces	108	8	104	134
<i>Total civil service, etc.</i>	387	368	393	460
<i>Total working manpower</i>	3 816	3 852	3 855	4 235

¹⁾ In the figures for the employers and self-employed, female family helpers are included at 2/3 of their total strength; male family helpers are included at full strength.

TABLE 34 a

Employment by branch of activity ¹⁾

Branch of Activity	Wage and salary earners			
	1950	1951	1952	1956
<i>Industry :</i>				
Pottery, glass, lime, stone	45.6	46.9	44.8	48.5
Diamonds, etc.	1.5	1.5	1.4	0.7
Printing trades, photography	45.4	46.1	45.9	54.3
Construction	207.9	214.0	199.1	261.0
Chemical industry	46.8	50.4	50.5	63.7
Processing of wood, cork and straw	50.4	50.9	46.2	48.9
Clothing and cleaning	134.9	126.7	113.7	126.8
Arts and crafts	1.1	1.1	1.1	1.2
Leather, oil-cloth, rubber	42.8	43.1	42.8	48.6
Mining (coal, peat, etc.)	52.2	55.8	59.2	61.6
Metallurgical industries	355.0	376.0	378.0	447.0
Paper	22.5	22.4	21.0	24.1
Textiles	126.6	126.8	120.5	129.5
Public utilities	33.8	34.2	34.5	36.3
Foodstuffs, beverages, tobacco	178.0	177.0	177.0	174.0
<i>Total Industries</i>	1 344	1 373	1 336	1 526
<i>Agriculture and Services :</i>				
Agriculture, forestry, hunting, fishing	145	142	138	128
Shops, commerce, publishing	274	287	292	340
Communications (incl. hotels and catering)	260	260	257	287
Credit, banking, insurance	61	63	64	73
Other liberal professions	167	177	191	227
Religion	13	13	13	13
Domestic service	183	183	183	183
<i>Total agriculture and services</i>	2 447	2 498	2 474	2777
<i>Civil service, etc. :</i>				
Central administration	100	98	101	114
Local government	83	83	84	89
Other public bodies	13	13	14	18
Education	83	86	90	105
Armed forces	108	88	104	134
<i>Total civil service, etc.</i>	387	368	393	460
<i>Total working manpower</i>	2 834	2 866	2 867	3 237

¹⁾ In the figures for the employers and self-employed, female family helpers are included at 2/3 of their total strength; male family helpers are included at full strength.

TABLE 34 b

Employment by branch of activity¹⁾

Branch of Activity	Employers and self-employed			
	1950	1951	1952	1956
<i>Industry :</i>				
Pottery, glass, lime, stone	2.2	2.2	2.2	2.3
Diamonds, etc.	0.1	0.1	0.1	0.1
Printing trades, photography	6.1	6.2	6.2	6.4
Construction	56.9	57.0	57.0	57.4
Chemical industry	1.5	1.5	1.5	1.5
Processing of wood, cork and straw	11.2	11.2	11.2	11.2
Clothing and cleaning	39.0	39.0	39.0	39.1
Arts and crafts	0.7	0.7	0.7	0.7
Leather, oil-cloth, rubber	15.2	15.2	15.2	15.3
Mining (coal, peat, etc.)	1.3	1.3	1.3	1.3
Metallurgical industries	51.0	52.0	52.0	54.0
Paper	0.4	0.4	0.4	0.4
Textiles	2.9	2.9	2.9	3.0
Public utilities	—	—	—	—
Foodstuffs, beverages, tobacco	39.0	39.0	39.0	40.0
<i>Total Industries</i>	228	229	229	233
<i>Agriculture and Services :</i>				
Agriculture, forestry, hunting, fishing	380	381	381	381
Shops, commerce, publishing	233	235	236	238
Communications (incl. hotels and catering)	86	85	85	85
Credit, banking, insurance	3	3	3	3
Other liberal professions	52	53	54	58
Religion	—	—	—	—
Domestic service	—	—	—	—
<i>Total agriculture and services</i>	982	986	988	998
<i>Civil service, etc. :</i>				
Central administration	—	—	—	—
Local government	—	—	—	—
Other public bodies	—	—	—	—
Education	—	—	—	—
Armed forces	—	—	—	—
<i>Total civil service, etc.</i>	—	—	—	—
<i>Total working manpower</i>	982	986	988	998

¹⁾ In the figures for the employers and self-employed, female family helpers are included at 2/3 of their total strength; male family helpers are included at full strength.

TABLE 35

National product and expenditure at current prices ¹⁾

000,000 Hfl.

Classification	1950	1951
Gross national product at market prices	19 560	21 740
Subsidies	280	150
Less : Indirect taxes	2 500	2 920
Gross national product at factor cost	17 340	18 970
Net income to abroad	- 180	- 190
Gross domestic product at factor cost	17 160	18 780
1. Agriculture, forestry and fishing	2 260	2 250
2. Manufacturing, mining, public utilities and construction	6 930	7 880
3. Other	7 970	8 650
Private consumption	12 440	13 490
1. Food	4 520	4 920
2. Clothing	2 440	2 480
3. Rent	740	860
4. Durables	1 100	1 180
5. Other	3 640	4 050
Public consumption	2 640	2 970
1. Defence ²⁾	900	1 060
2. Civil	1 740	1 910
Gross domestic fixed capital formation	3 870	4 290
1. Residential construction	670	710
2. Other construction	980	1 050
3. Machinery and equipment	2 220	2 530
Changes in stocks	1 680	1 080
Exports of goods and services	8 300	11 450
Less : Imports of goods and services	9 370	11 540
Gross national product at market prices	19 560	21 740

¹⁾ Using OEEC definitions.²⁾ National defence expenditure on a cash basis.

TABLE 35 a

National product and expenditure at current prices ¹⁾

000,000 Hfl.

Classification	1952	1956
Gross national product at market prices	22 930	31 240
Subsidies	90	330
Less : Indirect taxes	2 820	3 600
Gross national product at factor cost	20 860	27 970
Net income to abroad	- 340	- 200
Gross domestic product at factor cost	19 860	27 770
1. Agriculture, forestry and fishing	2 660	3 020
2. Manufacturing, mining, public utilities and construction	8 360	12 120
3. Other	8 840	12 630
Private consumption	13 660	18 760
1. Food	5 220	6 860
2. Clothing	2 170	3 190
3. Rent	900	1 190
4. Durables	1 030	1 810
5. Other	4 340	5 710
Public consumption	3 220	4 660
1. Defence ⁽²⁾	1 250	1 850
2. Civil	1 970	2 810
Gross domestic fixed capital formation	4 930	7 880
1. Residential construction	840	1 250
2. Other construction	1 210	1 980
3. Machinery and equipment	2 880	4 650
Changes in stocks	- 750	590
Exports of goods and services	12 130	16 530
Less : Imports of goods and services	10 260	17 180
Gross national product at market prices	22 930	31 240

¹⁾ Using OEEC definitions.²⁾ National defence expenditure on a cash basis.

TABLE 35 b

National product and expenditure at current prices ¹⁾

000,000 Hfl.

Classification	Increase 1950-1956	
	(in % of 1950)	(annual average)
Gross national product at market prices	57.7	8.1
Subsidies		
Less: Indirect taxes		
Gross national product at factor cost	61.3	8.3
Net income to abroad		
Gross domestic product at factor cost	61.8	8.4
1. Agriculture, forestry and fishing	33.6	4.9
2. Manufacturing, mining, public utilities and construction	74.9	9.8
3. Other	58.5	8.0
Private consumption	50.8	7.1
1. Food	51.8	7.2
2. Clothing	30.7	4.6
3. Rent	60.8	8.2
4. Durables	64.5	8.7
5. Other	56.9	7.8
Public consumption	76.5	9.9
1. Defence ²⁾	105.6	12.8
2. Civil	61.5	8.3
Gross domestic fixed capital formation	103.6	12.6
1. Residential construction	86.6	11.0
2. Other construction	102.0	12.4
3. Machinery and equipment	109.5	13.1
Changes in stocks	99.2	12.2
Exports of goods and services		
Less: Imports of goods and services	83.4	10.6
Gross national product at market prices	59.7	8.1

¹⁾ Using OEEC definitions.²⁾ National defence expenditure on a cash basis.

TABLE 36

National product and expenditure at current prices ¹⁾

000,000 Hfl.

Classification	1950	1951
Gross national product at market prices	22 900	22 750
Subsidies
Less: Indirect taxes
Gross national product at factor cost	(20 250)	(20 100)
Net income to abroad	- 200	- 150
Gross domestic product at factor cost	(20 050)	(19 950)
Private consumption	14 300	13 850
1. Food	5 250	5 200
2. Clothing	2 450	2 100
3. Rent	1 000	1 050
4. Durables	1 250	1 150
5. Other	4 350	4 350
Public consumption	3 000	3 200
1. Defence ²⁾	1 050	1 100
2. Civil	2 050	2 100
Gross domestic fixed capital formation	4 650	4 400
1. Residential construction	850	800
2. Other construction	1 250	1 200
3. Machinery and equipment	2 550	2 400
Changes in stocks	1 800	950
Exports of goods and services	8 600	9 900
Less: Imports of goods and services	9 550	9 550
Gross national product at market prices	22 900	22 750

¹⁾ Using OEEC definitions; rounded off to the nearest 50 million Hfl.²⁾ National defence expenditure on a cash basis.

TABLE 36 a

National product and expenditure at 1954 prices¹⁾

000,000 Hfl.

Classification	1952	1956
Gross national product at market prices	23 350	29 550
Subsidies	::	::
Less : Indirect taxes	::	::
Gross national product at factor cost	(20 650)	(26 100)
Net income to abroad	- 300	- 200
Gross domestic product at factor cost	(20 350)	(25 900)
Private consumption	14 000	18 300
1. Food	5 350	6 500
2. Clothing	2 100	3 400
3. Rent	1 100	1 150
4. Durables	1 000	1 800
5. Other	4 450	5 450
Public consumption	3 350	4 050
1. Defence (²⁾)	1 300	1 650
2. Civil	2 050	2 400
Gross domestic fixed capital formation	4 650	7 150
1. Residential construction	850	1 100
2. Other construction	1 200	1 700
3. Machinery and equipment	2 600	4 350
Changes in stocks	- 650	550
Exports of goods and services	10 650	15 800
Less : Imports of goods and services	8 650	16 300
Gross national product at market prices	23 350	29 550

¹⁾ Using OEEC definitions ; rounded off to the nearest 50 million Hfl.²⁾ National defence expenditure on a cash basis.

TABLE 36 b

National product and expenditure at 1954 prices ¹⁾

000,000 Hfl

Classification	Increase 1950-1956	
	(in % of 1950)	(annual average)
Gross national product at market prices	29.0	4.3
Subsidies		
Less : Indirect taxes		
Gross national product at factor cost	(28.9)	(4.3)
Net income to abroad		
Gross domestic product at factor cost	(29.2)	(4.4)
Private consumption	28.0	4.2
1. Food	23.8	3.6
2. Clothing	38.8	5.4
3. Rent	15.0	2.4
4. Durables	44.0	5.3
5. Other	25.3	3.8
Public consumption	30.6	4.5
1. Defence ⁽²⁾	57.1	7.8
2. Civil	17.1	2.7
Gross domestic fixed capital formation	53.8	7.6
1. Residential construction	29.4	4.4
2. Other construction	36.0	5.3
3. Machinery and equipment	70.6	9.3
Changes in stocks		
Exports of goods and services	83.7	10.8
Less : Imports of goods and services	70.7	9.3
Gross national product at market prices	29.0	4.3

¹⁾ Using OEEC definitions ; rounded off to the nearest 50 million Hfl.²⁾ National defence expenditure on a cash basis.

TABLE 37

**Netherlands balance of payments on the basis of transactions,
using IMF rules and definitions**

in 000,000 Hfl.

	1950		1951	
<i>Current Transactions</i>				
Exports (fob)	5 051	—	6 879	—
Imports (fob)	—	6 937	—	8 069
Other merchandise (balance)	153	—	144	—
Non-monetary gold movement	—	—	—	—
Transportation				
<i>a. Domestic shipping lines and other enterprises</i>	545	—	714	—
<i>b. Foreign shipping lines</i>	—	286	—	478
Foreign travel	104	89	157	123
Insurance	98	98	108	115
Investment income	383	250	483	295
Government (not included elsewhere)	50	201	55	96
Miscellaneous services and income	670	259	856	320
Total	7 054	8 120	9 406	9 496
Balance	—	1 066	—	90
<i>Unilateral external transactions</i>				
Private transactions	26	19	13	26
Official transactions				
<i>a. ECA/MSA aid</i>	882	68	533	30
<i>b. OEEC drawing rights</i>	280	66	—	—
<i>c. EPU initial credit balance</i>	114	—	—	—
<i>d. Other</i>	9	10	1	1
Total	1 311	163	547	72
Balance	1 148	—	475	—
<i>Movement of capital and monetary gold (net)</i>				
Private (excl. banking institutions)				
Long-term liabilities	8	—	45	—
Short-term liabilities	—	27	6	—
Long-term assets	93	—	118	—
Short-term assets	21	—	32	—
Government and banks				
Long-term liabilities	174	273	64	282
Short-term liabilities	305	267	82	226
Long-term assets	140	—	63	146
Short-term assets	319	255	129	111
Monetary gold	—	305	—	10
Total	1 060	1 127	540	775
Balance	—	67	—	235
<i>Errors and omissions (in particular due to changes in commercial credits)</i>	—	15	—	150
<i>Summary</i>				
Net current transactions	—	1 066	—	90
Net unilateral transactions	1 148	—	475	—
Net movement of capital and monetary gold	—	67	—	235
Net errors and omissions	—	15	—	150

TABLE 37 a

Netherlands balance of payments on the basis of transactions,
using IMF rules and definitions

in 000,000 Hfl.

	1952		1956	
<i>Current Transactions</i>				
Exports (fob)	7 448	—	10 059	—
Imports (fob)	—	7 068	—	12 302
Other merchandise (balance)	236	—	356	—
Non-monetary gold movement	—	—	—	—
Transportation				
a. Domestic shipping lines and other enterprises	885	—	1 691	—
b. Foreign shipping lines	—	489	—	1 064
Foreign travel	144	137	234	—
Insurance	—	23	36	—
Investment income	527	300	701	455
Government (not included elsewhere)	76	116	107	167
Miscellaneous services and income	1 060	373	1 030	545
Total	10 376	8 506	14 214	14 818
Balance	1 870	—	—	604
<i>Unilateral external transactions</i>				
Private transactions	40	7	86	72
Official transactions				
a. ECA/MSA aid	244	15	5	—
b. OEEC drawing rights	—	—	—	—
c. EPU initial credit balance	—	—	—	—
d. Other	1	33	53	125
Total	285	55	144	197
Balance	230	—	—	53
<i>Movement of capital and monetary gold (net)</i>				
Private (excl. banking institutions)				
Long-term liabilities	101	—	146	—
Short-term liabilities	8	—	—	102
Long-term assets	—	25	—	226
Short-term assets	74	—	—	150
Government and banks				
Long-term liabilities	81	302	—	83
Short-term liabilities	—	597	275	25
Long-term assets	75	27	51	5
Short-term assets	194	800	722	57
Monetary gold	—	875	79	—
Total	553	2 626	1 273	648
Balance	—	2 093	546	—
<i>Errors and omissions (in particular due to changes in commercial credits)</i>	—	7	32	—
<i>Summary</i>				
Net current transactions	1 870	—	—	604
Net unilateral transactions	230	—	—	53
Net movement of capital and monetary gold	—	2 093	652	—
Net errors and omissions	—	7	45	—

TABLE 38

Imports and Exports ¹⁾

Imports

in 000,000 Hfl.

Area and year	Total	Food, beverages and tobacco	Oils and fats; crude materials (inedible) except fuels	Mineral fuels, lubricants and related materials	Machinery and transport equipment	Other products
	0 to 9	0 + 1	2 + 4	3	7	5, 6, 8 + 9
1950						
Total	7 754	1 360	1 850	771	1 072	2 701
OEEC	4 218	194	581	247	841	2 355
EEC	2 837	106	264	211	460	1 796
Benelux	1 431	44	135	30	140	1 082
Sterling Area	1 441	238	262	265	266	410
Dollar Area	1 160	432	268	102	190	168
Overseas territories	53	2	4	44	—	3
Rest of world	1 684	529	823	149	40	143
1951						
Total	9 636	1 617	2 426	1 116	1 181	3 296
OEEC	5 133	213	752	221	1 034	2 913
EEC	3 486	127	295	200	633	2 241
Benelux	1 771	52	144	36	185	1 354
Sterling Area	1 583	211	279	356	279	458
Dollar Area	1 482	624	307	264	119	168
Overseas territories	74	1	7	64	—	2
Rest of world	2 193	602	1 177	232	27	155
1952						
Total	8 388	1 392	1 845	1 327	1 213	2 631
OEEC	4 405	184	571	305	1 043	2 302
EEC	2 991	87	242	267	650	1 745
Benelux	1 447	38	115	97	174	1 023
Sterling Area	1 573	185	185	518	264	421
Dollar Area	1 505	629	287	274	149	166
Overseas territories	93	2	5	82	3	1
Rest of world	1 567	433	864	168	16	86
1956						
Total	14 217	2 094	2 470	2 142	2 663	4 848
OEEC	8 136	415	764	527	2 310	4 120
EEC	5 878	239	362	414	1 658	3 205
Benelux	2 686	99	146	220	507	1 714
Sterling Area	2 137	269	304	568	434	562
Dollar Area	2 894	861	546	765	324	398
Overseas territories	82	3	5	70	—	4
Rest of world	2 149	616	909	324	26	274
1957						
Total	15 679	2 214	2 584	2 643	3 019	5 219
OEEC	8 775	522	656	528	2 599	4 470
EEC	6 436	323	356	423	1 831	3 503
Benelux	2 831	115	154	236	581	1 745
Sterling Area	2 379	361	308	646	483	581
Dollar Area	3 182	756	611	1 030	392	393
Overseas territories	87	3	6	76	—	2
Rest of world	2 529	657	1 065	468	26	313

¹⁾ SITC classification.

TABLE 38 a

Imports and Exports ¹⁾

Exports

in 000,000 Hfl.

Area and year	Total	Food, beverages and tobacco	Oils and fats; crude materials (inedible) except fuels	Mineral fuels, lubricants and related materials	Machinery and transport equipment	Other products
	0 to 9	0 + 1	2 + 4	3	7	5, 6, 8 + 9
1950						
Total	5 296	2 051	526	371	633	1 715
OEEC	3 590	1 607	396	298	326	963
EEC	2 145	1 046	271	110	165	553
Benelux	724	300	72	72	71	209
Sterling Area	1 134	590	76	115	64	289
Dollar Area	316	63	66	5	41	141
Overseas territories	65	26	2	—	12	25
Rest of world	1 007	210	54	58	225	460
1951						
Total	7 337	2 489	756	579	912	2 601
OEEC	4 649	1 827	561	466	458	1 337
EEC	2 551	1 024	372	209	260	686
Benelux	1 085	366	128	133	107	351
Sterling Area	1 788	889	126	81	112	580
Dollar Area	569	161	80	2	38	288
Overseas territories	100	37	3	—	16	44
Rest of world	1 456	271	102	99	337	647
1952						
Total	7 948	2 727	690	776	1 001	2 754
OEEC	4 913	1 925	516	599	484	1 389
EEC	2 833	1 217	340	252	252	772
Benelux	1 245	449	118	152	121	405
Sterling Area	1 706	776	110	124	119	568
Dollar Area	699	211	82	2	52	352
Overseas territories	119	35	3	5	25	51
Rest of world	1 567	346	75	125	372	649
1956						
Total	10 962	3 312	995	1 339	1 610	3 706
OEEC	7 177	2 414	750	1 067	805	2 141
EEC	4 430	1 578	543	442	490	1 377
Benelux	1 555	377	166	187	223	602
Sterling Area	2 201	903	109	264	263	662
Dollar Area	1 090	270	92	3	251	474
Overseas territories	194	43	3	41	43	64
Rest of world	1 648	330	132	189	362	635
1957						
Total	11 831	3 320	989	1 693	1 754	4 075
OEEC	7 937	2 384	740	1 376	981	2 456
EEC	4 900	1 627	529	588	576	1 580
Benelux	1 835	392	155	290	282	716
Sterling Area	2 223	840	101	309	279	694
Dollar Area	1 028	284	97	5	209	433
Overseas territories	208	45	4	53	39	67
Rest of world	1 771	340	138	209	363	721

1) SITC classification.

Part H

Belgian-Congo — Ruanda-Urundi

This report was drawn up by M. J. LEFÈVRE of the European Economic Community, Brussels, at the request of the Commission of the EEC.

I — STRUCTURE OF PRODUCTION

The economic structure of the Belgian overseas territories presents the following basic characteristics:

1. Economic activities are still chiefly those of the primary stage, being concerned above all with the production of raw materials. The economy is therefore an open one and very susceptible to variations in general conditions dictated by world markets. Production is divided more or less equally between the agricultural and mining sectors. In contrast to the monoculture of many African territories, the range of plant production is relatively extensive (oil-yielding plants, coffee, cocoa, tea, rubber, cotton, wood, bananas, copal); it would be idle to recall the variety of minerals found in the country (copper, cobalt, zinc, cadmium, tin, gold, manganese, uranium, diamonds). Furthermore, industrialization is more advanced in the Belgian Congo than anywhere else in Africa with the exception of South Africa, but it is practically non-existent in Ruanda-Urundi.

2. The economy of the Congo is highly concentrated. The major part of the system of production for a market economy is in the hands of European enterprises. The immigrant European population is small in number and generally does not go to the Congo with the intention of remaining permanently; the majority of the Europeans are engaged in supervisory and managerial functions.

There are historical and economic explanations for the organization of most sectors of the economy on monopolistic lines, such as the granting of charters or monopolies to ensure the initial penetration of the newly discovered continent, the considerable volume of capital necessary to open up natural resources, particularly in the mining, transport and energy sectors, the absence of a local capital market for the financing of small and medium size enterprises, the lack of organization and the elasticity of the labour market.

3. As in the other under-developed countries, there exists alongside a monetary sector of European type (market economy) a traditional non-monetary

sector (subsistence economy), the importance of which, although difficult to define precisely, is still relatively great. The consequences of this duality are numerous, notably because the existence of the subsistence sector sets limits to the possibilities of the internal market and conceals a large amount of disguised unemployment. Favourable general conditions on international and internal markets, the expansion of areas under cultivation, and of the volume and range of production, the growth of industrial activity, the movement of rural population to the cities characteristic of recent years, have had the effect of constantly narrowing this non-monetary sector.

4. Belgian views in the matter of economic policy are liberal. Traditionally, the public authorities confine themselves to providing an institutional and legal framework in which economic activity can develop favourably, without intervening directly in it. Productive activities as such are reserved for private initiative. Nevertheless, since the Congo was first opened up, the State has collaborated with the principal financial groups by securing for itself an interest in the capital of certain enterprises in return for mining and agricultural concessions, etc. The fact that the public powers thus participate in a great number of leading enterprises has, however, scarcely had any practical repercussions on the operation of these nor has it resulted in any link with a general policy. Since the war, the ten-year plan for the economic and social development of the Belgian Congo and Ruanda-Urundi has constituted a new stage in general economic policy. Contrary to what is happening in other territories, however, public investments have remained strictly limited to infrastructure and the native economy.

A — POPULATION

The *native* population of the Belgian Congo is 13,175,000 inhabitants, with a density of 5.6/sq. km, which is close to the average of Central Africa in general. The situation is therefore one of under rather than over-population. The native population of Ruanda-Urundi is 4,630,000 inhabitants, or more than 71/sq. km. Here, by contrast, the problems are those of over-population.

In the Belgian Congo, about 23 per cent of the population (3,048,000 persons) live outside the tribal milieu. In Ruanda-Urundi, the non-tribal population is practically negligible (70,000 or 1.5 per cent). This distinction between the tribal and non-tribal way of life is obviously not coterminous with that between subsistence and market economy and even less with that between agricultural and wage-earning populations.

Other demographic characteristics are the uneven geographical distribution (density per square km varies greatly), the importance of the lower age groups

(44 per cent of the population consists of children) and a certain disequilibrium between the sexes, which is moreover in process of being corrected; women are a majority in the tribal milieu and men in the non-tribal.

TABLE 1

	Men	Women	Children
Tribal milieu	25.0 %	30.8 %	44.2 %
Non-tribal milieu	32.5 %	24.4 %	43.1 %

Birth rates are high and generally increasing, while death rates are falling rapidly thanks to the action of the health services. The rate of natural increase is slightly above 2 per cent. In Ruanda-Urundi the population is particularly prolific and, as density is already high and the country poor in natural resources, the situation threatens to become explosive.

The immigrant *European population* is relatively small in number; on 31. 12. 1956 (the last date for which figures are available) there were 107,500 Europeans in the Belgian Congo.

Breakdown by nationality and occupation was as follows:

TABLE 2

Belgians	79 %	Missionaries	7 %
Portuguese	5 %	Civil servants	8.6 %
Greeks	3 %	Agents of companies	20.2 %
Italians	3 %	Settlers and independent	9 %
Americans	2 %	No occupation	55.2 %
British	2 %		
French	2 %		

This population is highly concentrated: 30 per cent in each of the provinces of Léopoldville and Katanga, the majority of them in the various towns or other centres of population. Because of the low age groups from which it is recruited, the European population shows high birth rates (38.25‰) and very low death rates (4.39‰).

In Ruanda-Urundi there were 7,300 European immigrants and 2,900 Asians on 31. 12. 1957. The breakdown was as follows:

TABLE 3

Belgians	75 %	Missionaries	12 %
Greeks	7 %	Civil servants	10 %
Italians	3 %	Agents of companies	10 %
French	3 %	Independent	13 %
Americans	2 %	No occupation	55 %
Dutch	2 %		
British	2 %		

Manpower :

The Belgian Congo has the most numerous and proportionately the most important wage-earning class in the whole of black Africa: out of the total of 13 million, which includes about 3,089,000 male adults able to work (37 per cent of the whole), the working population is 3,426,000 individuals (workers and families) of whom 1,148,000 are wage-earners.

The existence of a wide subsistence economy sector results in a considerable amount of concealed unemployment. Moreover, the number of available men capable of work, the almost complete absence of women wage-earners (with the exception of certain special agricultural work and the very recent introduction of female labour in the textile and ready-made clothing branches) and the vast possibilities of mechanization and rationalization of work, both in the traditional agricultural sector and the various branches of the European economy, justify the conclusion that considerable manpower reserves exist and will become available step by step with the economic expansion of the country and the sociological development of the milieu.

It must also be pointed out that a certain amount of under-employment of a technological character, which is aggravated by general economic conditions, has begun to make itself felt in Léopoldville, Elisabethville, and other large centres.

Total manpower is low in Ruanda-Urundi, where European enterprises are few in number and of small dimensions and where industrialization has been very little developed. The total number of workers was 114,000 in 1957.

B — ECONOMIC ACTIVITY**1. Distribution of the working population by sectors**

The distribution by sectors is available only for wage-earners. There are no data making it possible to give a breakdown of the non-wage-earning population between the different agricultural, handieraft, and commercial activities.

TABLE 4

Activities	Belgian Congo		Ruanda-Urundi	
	1950	1957	1953	1957
Miscellaneous	246 000	314 000	27 000	26 000
Agriculture	139 000	295 000	23 000	23 000
Manufacture	135 000	121 000	8 000	8 000
Building	85 000	118 000	14 000	12 000
Mines	114 000	101 000	24 000	17 000
Transport	62 000	86 000	18 000	14 000
Commerce	62 000	71 000	10 000	14 000
Office workers	19 000	42 000	—	—
	962 000	1 148 000	124 000	114 000

2. Breakdown of the national product¹⁾*a) Breakdown of the gross national product*

A first breakdown of the gross national product between the different sectors of activity in 1950 and 1956 gives an idea of the relative importance of the chief sectors of production. Agriculture (incl. the processing of agricultural produce (comes first closely followed by mining. Industrial activity (to which may be added industries producing building materials and the construction industry itself) is, however, more important than in other African territories. The continental scale and the relatively high level of development of the communications network in the Congo explain the importance of the transport sector.

TABLE 5

('000,000 Bfr.)

Branches of activity	1950	1956
Agriculture, sylviculture, fishing		
native	8 100	12 450
European	2 170	3 350
Processing of agricultural products	2 000	2 890
Mining and basic metallurgy	6 730	14 370
Manufacturing industries	1 850	4 560
Construction materials	1 680	1 540
Construction		2 340
Transport and communications	2 460	6 240
Deduction for imports	- 1 100	- 5 250
Native trade	210	940
European trade	3 000	3 930
Miscellaneous services	600	2 440
Domestic service	440	820
Administrative services	3 050	6 250
Dwellings	1 670	3 000
Indirect taxes	2 330	5 890
Gross domestic product	35 190	67 760
Income from rest of world	- 1 490	- 4 610
Gross national product	33 700	61 150

b) Composition of the national income

Particularly noticeable are the rapid increase of native wages and the importance of pay in native incomes as a whole. Despite this increase, total earnings of more than one million Congolese workers are only slightly higher than those of the approximately 25,000 European wage and salary earners, and the share of income falling to the natives is little more than half the total national income.

¹⁾ For the Belgian Congo only. Estimates of the Central Bank.

TABLE 6

('000,000 Bfr.)

Category of income	1950	1956
Wages paid to natives	5 180	13 150
Wages and salaries of Europeans	5 650	11 550
Wages paid to the rest of the world	240	300
Income on property	2 280	6 340
incl. : private persons	720	1 300
State	310	730
rest of the world	1 250	4 310
Native income from enterprises	8 310	13 390
incl. : market	3 600	6 080
non-market	4 710	7 310
European income from enterprises	1 900	2 700
Companies' savings	6 010	4 470
Direct taxes paid by companies	1 230	2 240
Income paid to the rest of the world	- 1 490	- 4 610
<i>National income</i>	29 310	49 530
Indirect taxes (less subsidies)	2 330	5 820
Depreciation	2 060	5 800
<i>Gross national product</i>	33 700	61 150

c) Use of resources

On the whole, consumption has tended to grow during the last few years. Gross investment has not increased at the same rate, and the share of depreciation on the ever-growing equipment park represents an increasingly heavy burden.

TABLE 7

('000,000 Bfr.)

Use	1950	1956
Native consumption	12 370	25 360
incl. : non-market	4 710	7 280
market	7 660	18 080
European consumption	6 460	11 790
Public consumption	3 210	8 370
Gross fixed investments	7 510	16 320
incl. : State	1 250	4 940
para-State	1 000	1 870
private	5 260	9 510
Variations in stocks	200	2 100
Loans to the rest of the world	3 050	- 3 360
Donations to the rest of the world	900	570
<i>G. N. P.</i>	33 700	61 150

d) *Rate of growth*

The national income has grown at a very rapid rate. Even if the trend of prices is taken into account, the results are still very satisfactory: +51 per cent in six years.

TABLE 8

Years	G. N. P.	N. I.	Real N. I.
1950	100	100	100
1951	182	169	151

C — CONCENTRATION AND DISPERSION

The economy of the Congo is very highly concentrated. All the mining and industrial activities as well as the infrastructure (energy, transport and communications) are in the hands of European enterprises. The same applies to the greater part of agricultural activity for export. Where this is not the case (cotton, oil palm fruit, native plantations of cocoa, coffee, and the expanding rubber plantation) the products are marketed by European enterprises (cotton-factories, oil-works, textile plants, agricultural or trading companies).

There is a very high degree of concentration among European enterprises, 4 per cent of which hold 3/4 of the total invested capital; 3 per cent of the enterprises employ 51 per cent of all personnel. If financial relationships between companies are taken into account, it is seen that 3/4 of the economic activity of the Congo are controlled by three financial groups (Société Générale, Banque de Bruxelles, Groupe Empain).

On the other hand, production costs of enterprises differ very widely, ranging from those of the great mining or agricultural undertakings, which are well within the margin of profitability in their sector on world markets, to the small mining enterprises or the settlers and even the native agriculturalists, whose position is more vulnerable. Thus the added value per native worker in mining enterprises varies from 1 to 40. It varies from 1 to 11 between the various sectors of production (agriculture, industry, mines).

It would seem that the poor productivity of submarginal enterprises is connected with the low level of wages and the consequent absence of mechanization and, of course, with operating conditions and transport costs.

The Belgian Congo and Ruanda-Urundi form an administrative and economic union and constitute a single market. However, extreme diversity of regional or local conditions and the difficulties or high cost of transport have the effect of fencing off markets from each other; as a consequence, appreciable disparities make themselves felt in prices and wages.

II — EXTERNAL ECONOMIC RELATIONS

The geographical distribution of the foreign trade of the Congo is very diversified. Belgium is the chief supplier and the principal customer of the territory but does not hold a predominant position. This is explained both by the traditional policy of the "open door", organized by the international régime of the treaty basin of the Congo and by the relatively small size of Belgium, which does not produce all the equipment necessary and whose somewhat limited market would be unable to absorb all or nearly all of certain Congo products (oil-yielding plants, copper, cobalt, diamonds). This being so, Congo export prices are formed on the world markets in which they are competitive. Imports are obtained from those countries offering the best conditions and most favourable prices.

A — GENERAL STRUCTURE OF TOTAL FOREIGN TRADE

TABLE 9

(*'000,000 Bfr.*)

Balance of payments	1950	1957
1. Current operations		
a) Merchandise	+ 6 972	+ 7 750
b) Non-monetary gold	+ 633	+ 631
c) Tourism	- 1 123	- 1 526
d) Transport and insurance		- 6 873
e) Income from investment	- 1 295	- 3 569
f) Miscellaneous	- 2 100	- 4 239
	+ 3 087	- 7 826
2. Movements of long-term capital	+ 2 935	+ 441
3. Change in short-term foreign assets	+ 5 864	+ 7 482

The current operations side of the balance of payments of the Belgian Congo and Ruandi-Urundi is characterized by the permanent credit shown by operations on merchandise (and on non-monetary gold) but also by the precariousness of the amount of these profits, which are very sensitive to variations in the terms of trade (for instance 1956-57). By contrast, the other current operations (invisible expenditure) are always in deficit and are fairly obviously related to general economic conditions. Movements of private capital are small, and those of public capital irregular (for instance 1956-1957). Public investment can constitute a steadying force when slump conditions reduce the influx of private capital and generally weaken the whole balance of payments position.

The economy of the Congo is still largely dependent on external trade; imports and exports make up about one-third of its resources. Being thus dependent on world markets, this economy is therefore very sensitive to variations in the terms of trade. The latter have been favourable up to the present and their trend largely explains the progress achieved. The recent fall in world market prices, at a time when certain residual increases in the prices of finished products were still making themselves felt, caused a worsening of the terms of trade in 1956-57, which explains the further deterioration of the trade balance, the deficit in the overall balance, the exhaustion of currency reserves and the financial difficulties of that period.

B — GEOGRAPHICAL STRUCTURE OF THE CURRENT BALANCE

1. Current balance - 1957

TABLE 10

(*'000,000 Brf.*)

	B.L.E.U.	U.S.A.	United Kingdom	Other sterling area countries	Other OEEC countries	Miscellaneous
Receipts	- 8 781	- 7 075	3 163	1 130	- 10 758	1 039
Expenditure	- 23 767	4 310	2 335	2 002	6 530	906
Balance	- 15 014	+ 2 765	+ 818	- 1 128	+ 4 228	+ 133

2. External trade

The figures used for imports are those of the customs authorities while the foreign exchange figures are used for exports (for the purpose of determining the final destination of products passing in transit through Belgium).

TABLE 11

('000,000 Bfr.)

Countries	Imports		Exports	
	1956	1957	1956	1957
B.L.E.U.	7 166.3	7 465.5	6 947.1	5 660.6
Germany (F.R.)	1 634.1	1 908.0	2 005.5	2 018.7
Italy	546.0	674.8	1 402.1	1 275.7
Netherlands	694.7	800.9	1 382.7	1 189.8
France+Overseas territories	789.0	785.1	4 582.3	3 620.1
<i>Total EEC</i>	<i>3 663.8</i>	<i>4 168.8</i>	<i>9 372.6</i>	<i>8 104.3</i>
United Kingdom	1 482.2	1 599.8	1 972.9	2 033.9
South Africa	747.8	693.2	301.5	257.6
Other sterling area countries	878.5	1 054.4	341.3	477.1
<i>Total sterling area countries</i>	<i>3 108.5</i>	<i>3 347.4</i>	<i>2 615.7</i>	<i>2 768.6</i>
Other OEEC countries	1 165.7	1 299.3	1 750.9	1 302.2
United States	4 166.0	3 820.9	5 870.6	5 391.6
Canada	125.7	76.2	197.4	178.7
Japan	226.8	309.1	135.0	182.5
Latin America	108.9	270.0	84.8	241.9
Eastern Europe	109.4	163.7	129.8	141.4
Miscellaneous	279.3	377.5	187.0	201.9
Gold	—	—	88.9	77.9
Postal packages	537.8	508.8	—	—
<i>Total</i>	<i>20 658.2</i>	<i>21 807.2</i>	<i>27 379.8</i>	<i>24 251.6</i>

The destination of the chief products exported is summarized in the following table.

TABLE 12

Main exports
1957

('000,000 Bfr.)

Agricultural produce	Coffee	Cocoa	Bananas	Cotton	Rubber	Wood	Palm-oil	Palm-kernel oil	Palm-kernels
Belgium	452.8	61.8	68.5	578.7	393.0	141.9	521.8	37.4	107.6
Germany (F.R.)	142.8	27.3	27.2	171.1	56.0	163.2	463.4	176.7	54.4
France	46.8	—	—	263.6	221.4	4.4	158.5	36.4	13.8
French overseas territories	56.2	—	—	—	—	—	48.4	16.5	—
Italy	354.6	0.3	—	—	10.9	0.2	101.5	44.1	—
Netherlands	30.1	65.8	63.1	293.2	140.8	60.6	252.8	27.0	55.5
United Kingdom	70.0	0.3	—	5.4	10.9	30.3	16.0	43.9	0.4
United States	1 787.0	—	—	—	262.5	50.7	99.9	247.7	—
<i>Total</i>	<i>3 162.4</i>	<i>159.3</i>	<i>232.5</i>	<i>1398.5</i>	<i>1152.3</i>	<i>555.2</i>	<i>2019.2</i>	<i>723.4</i>	<i>258.8</i>

TABLE 12 (Continued)

Mining products	Copper (and silver)	Tin	Cobalt	Manganese ore	Zinc and zinc ore
Belgium	2 126.0	239.0	28.0	65.4	179.7
Germany (F.R.)	368.0	114.0	60.3	92.4	—
France	2 268.0	179.0	9.8	20.6	25.2
Italy	708.5	37.6	28.0	9.1	—
Netherlands	266.0	9.2	29.3	0.9	—
United Kingdom	90.0	129.6	0.4	—	88.0
United States	576.0	548.0	1 084.3	256.6	326.8
Total	7 477.6	1 533.6	1 463.1	448.1	754.1

C — COMMERCIAL AND CUSTOMS POLICY

Because of the international system of the "open door", the foreign trade régime is very liberal and absolutely free of discrimination. The customs union formed by the Belgian Congo and Ruanda-Urundi has a tariff independent of that of Belgium proper. Traditionally, the customs duties are of a fiscal nature and rarely protective, but a certain number of exceptions have been introduced the purpose of which is to further newly-established local industries.

III — FACTORS OF ECONOMIC POLICY INFLUENCING COSTS STRUCTURES

A — THE PRICE SYSTEM

Export prices are those of world markets, since the Congo must export its products to the world at large.

Within the country these prices take account of the services of the processing industries (oil-works), transport enterprises (system of sliding scales), of the relatively heavy incidence of export duties (indirect taxation), and, where applicable, of the operation of a stabilization fund (for cotton only). Import prices are also formed in accordance with world standards, with the addition of import duties, which are generally fairly moderate. The principal factors forcing them above world level are transport charges and high distribution costs.

Import prices and those of local manufactured products are influenced by the monopoly conditions prevailing in certain sectors, *e. g.* cement.

B — INVESTMENTS

1. Financing of investments

Rates of investment in the economy of the Congo are high. The trend in recent years has been towards greater consumer expenditure and a heavier bill for depreciation of new equipment. The result is a fall in the rate of investment.

TABLE 13
Percentage in relation to the G.N.P.

Years	Gross investments	Net investments
1950	31.8	27.0
1951	35.0	35.0
1952	30.7	29.0
1953	27.4	23.0
1954	27.0	22.0
1955	26.0	21.0
1956	24.6	19.0

A great part of these investments take the form of self-financing by companies or of public programmes. The influx of fresh capital into the private sector is less, but it is indispensable if progress is to be speeded up. The trend of national income and the state of the balance of payments in recent years have thrown into relief the importance and the steadying role of this outside contribution.

In the public sector, financing of investments is effected out of the local budgets and by loans (internal or external). No contribution is made by the public budgets of metropolitan Belgium, except in favour of Ruanda — Urundi (400 million Bfr. per annum).

2. Financial system

The public finances of the Congo and Ruanda-Urundi are entirely separate from those of Belgium, in virtue of the principle of the separation of national assets. The ordinary budget is supplied by means of loans placed on the local market or abroad. These budgets are completely independent of Belgian budgets, and the greater part of the expenditure necessary in Belgium (Ministry of the Colonies) is covered by a special Belgian budget which is, moreover, of very limited size. The Belgian Congo has its separate public debt and controls its own assets (including its portfolio).

Finally, the treasuries are carefully separated. It should be pointed out nevertheless that the Belgian budget grants Ruanda-Urundi subsidies which are recoverable in principle but which do not bear interest.

The Belgian Congo and Ruanda-Urundi are part of the Belgian franc area. This area is highly decentralized: the currencies are distinct in fact and in law but at parity with each other; each has its own gold cover and exchange reserve; general monetary and financial policy is adapted to each of the territories concerned.

The financial organization is already fairly complete: Central Bank, Savings Bank, Credit Company for Settlers and Industry (*Société de Crédit au Colonat et à l'Industrie*). The private banking system consists mainly of African establishments in contact with the important Belgian banks. With the exception of the Government Bonds market at Léopoldville, there is as yet no capital market in the real sense of the word in the Congo. The interest rates on bank deposits are lower than in Belgium, but they have improved during the last few years.

3. Fiscal system

Fiscal receipts are still largely dependent on foreign trade.

TABLE 14

Percentage of receipts

Years	Income tax	Native tax	Customs duty	Receipts from State property	Other receipts (holdings of securities and fees for services rendered)
1950	29	5	46	1	19
1955	32	3	42	1.6	21.4

4. The trend of public expenditure

It will be noted that expenditure in respect of personnel (above all European) is a heavy item in the ordinary budget and that subsidies are important (to para-State bodies on the one hand and medical, social and educational activities on the other). The burden of the public debt has become heavier since the ten-year plan was put into operation and in particular during the last two years.

TABLE 15

Ordinary budget 1957		Ten-year Plan 1950-59	
Personnel	41 %	Transport	43 %
Material	12 %	Energy	7 %
Other administrative expenditure	5 %	Social equipment	26 %
Subsidies	22 %	Agricultural development	6 %
Public debt	15 %	Public services	18 %
Miscellaneous	5 %		

5. Trend of productivity

The public authorities finance technical progress either in the form of work carried out by their own departments (agriculture, geological service, etc...) or by setting up and subsidizing specialized research agencies (INEAC, IRSAC...). The work of INEAC in the agronomic sphere is sufficiently well known (yield from cotton, oil palm and various food plants).

Labour productivity increased by about 25 per cent between 1950 and 1957 for the Congo as a whole. The large-scale European enterprises (agricultural, but particularly mining) show much more favourable results still.

CONCLUSIONS

A general economic policy which is non-discriminatory and widely based on private initiative is part and parcel of the established order in the Belgian Congo. The variety of products, their improving quality, and the establishment of a whole series of local industries have been favoured rather than otherwise by this policy.

The favourable trend of recent years does not alter the fact that the economy of the Congo remains extremely vulnerable, since it is still fundamentally dependent on world market conditions. Recent developments have emphasized the vulnerability of the balance of payments, which depends on the trend of the terms of trade but also on movements of capital. Finally, the structure of the national income reveals the growing burden of depreciation and the irregularity of public and private movements of long-term capital.

The association of the Belgian Congo and Ruanda-Urundi with the European Economic Community hardly alters the fundamental position of their economy, which is essentially open to world trade and whose export and import activities are already carried on to a large extent with the six Member Countries of the Common Market. The contribution resulting from the establishment of the Development Fund will be proportionately rather small in relation to Belgian and foreign investments in the two territories and to the aid which Belgium grants Ruanda-Urundi.

Part I

Somalia

This report was drawn up by Signor G. GRAZIOSI, Centro Studi Associazione per lo Sviluppo del Mezzogiorno, at the request of the Commission of the EEC.

INTRODUCTION

The relationship between Somalia and Italy is established and governed by a Trusteeship Agreement approved by the General Assembly of the United Nations on 2 December 1950 and ratified in Italy by Law No. 1301 of 4 November 1951. This agreement lays down that the Territory shall be entrusted to Italian administration for a period of ten years.

Somalia, then, will attain full independence and sovereignty at the end of 1960, when this ten-year period expires.

With this target date in view, the Italian Administration must submit to the Trusteeship Council of the United Nations, by 1 June 1959, a programme setting out in general terms the transfer of all powers to a duly constituted and independent Government of Somalia.

To reach this objective and in order to adhere to the clear provisions of the Trusteeship Agreement and to the recommendations of the competent agencies of the United Nations, the Italian administration has taken care to encourage the process of "Somalianisation", not only of the administrative build-up but also of all the productive activities found in the territory.

This process of "Somalianisation", which has already reached a very advanced stage within the administration and which is going on uninterruptedly in all the other sectors of activity throughout the territory, has developed naturally within the general framework of rules and institutions built up and supported in recent years by the Italian Trusteeship Administration with the consent of the new Somali Government, which has already been constituted and has taken up its functions.

Any study of the prospects of the development of Somalia must, therefore, be undertaken with the target date of December 1960 in mind.

It will depend on the policy adopted by the Somali Government whether the conditions are maintained on which depends the present large influx of foreign capital so necessary for the development of the country.

I — STRUCTURE OF PRODUCTION

A — GENERAL REMARKS

As far as known at present, the natural resources of Somalia seem to be extremely limited. Of an area of about 500,000 km², only 70,000 km² are considered by technicians, on a purely theoretical estimate, to be suitable for cultivation.

Statistics concerning the area actually under cultivation are very vague and inadequate; it would not be far from the truth in any case to adopt an average estimate for recent years of about 1/70 of the theoretically arable surface, which would give an area in the neighbourhood of 100,000 hectares.

The only two regions in which agriculture is practised with the aid of irrigation are those situated along the course of the two rivers, the Uebi Scebeli and the Giuba.

In the zone between the rivers agriculture is carried on without irrigation. Only a small minority of the population engages in agrarian pursuits in any permanent sense; none the less, agriculture is extremely important for the composition of the national income, particularly if account is taken of the activity of the Italian concessions grouped in the most fertile areas.

Stock-raising represents another considerable source of income, almost certainly the principal one, both with regard to its present importance and its potential future development. The majority of the native inhabitants are engaged in this activity, chiefly in the form of nomadic or semi-nomadic grazing. No appreciable mineral resources have been found as yet, but certain geological studies and the presence in the country of prospecting teams from leading petrol companies justify some optimism in this field.

Other activities which have an interesting incidence on overall production in Somalia are those concerned with fishing and the gathering of incense.

No census of the population has ever been taken. According to an estimate which is considered plausible, there are about 1,250,000 inhabitants. Italians numbered 4,383 on 31 December 1957.

B — SUBSISTENCE ECONOMY AND EXCHANGE ECONOMY

As in almost all underdeveloped countries, a clear distinction may be made in Somalia, in the matter of economic organization, between what it has become usual to call subsistence economy and a money or exchange economy.

The subsistence economy is based on extremely rudimentary forms of production aimed simply at covering subsistence requirements. The majority of the native population of Somalia live under this type of economic organization, which is common both to the nomads engaged in cattle-raising — the more numerous element — and to those who pursue archaic forms of agriculture or mixed agriculture and stock farming.

By contrast, all productive activities in connection with the Italian agricultural concessions participate in the money economy. To these may be added all the commercial activities in the country, which are exercised by Europeans, Arabs or Indians and, to some limited extent, by Somalis.

C — DISTRIBUTION OF THE NATIVE POPULATION

As there is no exact count of the population, a breakdown by regions and productive activities is not possible. But on this point too, there exist certain estimates which may be considered worthy of credence. According to these, only 17 per cent of the population — concentrated on the strips of land bordering the two principal rivers, the Uebi Scebeli and the Giuba — are engaged continuously in agricultural activity.

The population of these areas also provides the manpower required by the Italian agricultural concessions.

Another important group of the population, about 30 per cent, lives in the region between the two rivers and is engaged in mixed agricultural and pastoral activities.

The rest of the population, which represents the considerable proportion of 53 per cent, does not carry on any agricultural activity. In point of fact, it is estimated that 43 per cent of the total population are nomadic pastoralists, 2 per cent live by fishing and other activities connected with the sea, 4 per cent by trade and handicrafts, and the remaining 4 per cent by miscellaneous activities.

D — NATIONAL INCOME

The inadequacy of the statistical services and the difficulties inherent in an economic structure widely based on a subsistence economy do not at present allow of exact calculations of the volume of the national income of Somalia

nor its breakdown by productive sectors. Purely as an indication, an estimate made in 1953 may be quoted. Although this estimate does not give any appreciable amount of detailed information, it may be reckoned that the overall final values indicated were not too far from the reality at the time. The national income was then calculated to be between 170 and 230 million somalis¹⁾.

According to these same calculations, the share of this income which could be attributed to the money economy was estimated at a little less than half the total (45 - 48 per cent); the rest was produced by the subsistence economy.

Still on the basis of this estimate, the average income per head calculated for a population of 1,245,000 would have been about 160 somalis per year (14,000 Italian lire). The number of persons participating in a permanent fashion in the money economy was estimated at 100,000, and it was considered that the remaining 1,145,000 were living within the subsistence economy. The income per head on the basis of these figures amounts to 960 somalis (89,000 lire) per annum in the money economy and slightly less than 91 somalis (7,950 lire) per annum in the subsistence economy.

The estimate in monetary terms of the income drawn from the subsistence economy, that is to say from the predominant part of the Somali economic system, shows how impossible it is, both from the point of view of capital and organization, to develop without external aid advanced types of investment and economic activity in Somalia. This characteristic structural dependence on foreign countries will be brought out particularly in the analysis of the Somali balance of trade and payments.

The estimate of the national income and its breakdown is also the only factor from which it is possible to obtain an idea of the type and degree of concentration of economic activity. This estimate shows the high degree of concentration in the activities of the money economy, in which a preponderating factor is the structure of production of the Italian concessions.

No other complete estimate has been made since the one we have just mentioned²⁾, but an examination of the quantitative development of the most important items of production in the Somali economy gives a sufficient idea of the considerable increase in the national income during recent years.

¹⁾ The chief parities of somali money are the following: 1 somali = 1 English shilling; 1 somali = 87.5 Italian lire; 1 somali = 0.14 USA dollar.

²⁾ An estimate limited to income from agriculture, forests, and pastoral activity was made for the calendar year 1955. It may be summed up in the following figures:

(¹) *Subsistence economy*

- a) Agriculture 46 million somalis;
- b) Forests 5 million somalis;
- c) Cattle-raising 80 million somalis.

(²) *Money economy*

Agriculture 40 million somalis.

This examination also furnishes reasons for thinking that native productive activity has made a considerable contribution to the development noted and that a breakdown of the national income between money and subsistence economy at the present time might well reveal important changes as a result of the gradual process of integration of the second with the first (see Table 1).

TABLE 1

Product	1953 production in quintals	1954 production in quintals	1957 production in quintals
Doura		1 000 000	1 179 000
Maize	80 000	200 000	486 064
Ground-nuts	9 500	5 000	28 430
Sesame	13 000	17 000	74 350
Cotton	1 800	2 500	10 000
Cane sugar	40 150	53 000	100 032
Tinned tunny-fish	1 067	77	5 000
Tinned meat	—	100	5 149

E — AGRICULTURE AND STOCK-RAISING

We have already pointed out that practically all the resources of Somalia derive from the product of agricultural activity and stock-raising. It is therefore indispensable, in order to obtain an idea of the structure of production in the country, to emphasize this point, remembering that in this field of economic activity also the co-existence of the two economic structures — the native structure and that connected with the Italian agricultural concessions — is very clearly marked.

1. Native agriculture and stock-raising

Mention has already been made of the concentration of the chief forms of native agriculture. This activity, whether carried on in the form of dry farming in the zones between the two principal rivers or of irrigation farming along their courses, suffices in normal seasons to enable Somalia to cover its cereals requirements and to export a certain amount of sesame, beans and cotton. Increase in productivity and a change-over to crops easier to dispose of on the international market are the essential objectives of the plans for the economic development of agriculture at present under way. The irrigation of vast areas for native farmers, soil improvement and transformation in the zones of dry agriculture, the building of a series of silos to enable crops — notably cereals — to be used rationally or stored, the establishment of centres of mechanized agriculture (which are already functioning) have all contributed to lay the

foundations for the harmonious development of native agriculture and guide it from wholly primitive types to more modern and rational methods of operation.

This process of agricultural advancement is based on utilization of the above mentioned irrigation works, which cannot take place until certain sections of the native population have completed the gradual transition from nomadic to sedentary forms of society. This development in its turn is conditional on the existence of an adequate water supply both for humans and cattle. Here is the explanation of the great emphasis in recent years on works aimed at covering the territory with a far-flung network of wells.

It has already been pointed out that stock-raising represents one of the major resources of Somalia — beyond all doubt the one offering the greatest potential capacity for future development, not only with a view to increasing native consumption, but also for bigger exports. The expansion of this activity is also directly linked with the development of prospecting for water, the purpose of which is to establish a chain of wells to ensure not only the mere existence but also the constant increase of the cattle population.

The importance of stock-raising becomes particularly evident when it is observed that, according to the above-mentioned estimate of the income produced in 1955 by agriculture, forests and cattle raising in Somalia, this last item represented nearly 47 per cent of the total, and over 61 per cent if the subsistence economy alone is considered.

2. Agriculture in Italian concessions

The structure of the Somali economy, the problems facing the country, the progress which it is desired to achieve and even the continued presence in the territory of the Italian farmers, are directly related to the production and export of bananas. In order to grasp the basic importance of this product in the present setting of Somali economy, it is sufficient to compare the value of the exports of bananas with the total value of the country's exports (about 60 per cent), and to remember that at present the economic structure of the Italian concessions rests almost entirely on banana growing.

The importance of banana growing in Somalia is due without any doubt to the purchases made by the Italian company "Azienda Monopolio Banane" (A.M.B.) at prices which are still definitely above international rates. These prices have considerably raised the marginal level of producer enterprises and thus made banana growing possible even in regions where natural resources are insufficient to permit competitive production for international markets. The sale of bananas to the A.M.B. has been carried out up to the present on the basis of long-term contracts which lay down both the quantity that the company undertakes to buy and the fob price which it must pay.

The current contract will expire in 1960. Its aim was gradually to increase the quantity of bananas shipped, while at the same time reducing their price. No solution to the problem has been worked out for the years after 1960.

If the A.M.B. renews its purchase contract on principles similar to the present, the necessity of reaching a final settlement of the problem of banana growing will be postponed. In point of fact it is difficult to believe that the economy of Somalia can be based indefinitely, and to such a substantial extent, on an activity which — in its present structure — is conditioned by prices which benefit by heavy protection and limit the market to a single country.

On the other hand, it would seem that in new regions and under different conditions from those at present prevailing, Somalia could achieve a degree of productivity in banana growing comparable with that of the other exporting countries.

II — ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

A — INTRODUCTION

Somalia is structurally dependent on foreign countries both for the satisfaction of the essential needs of its population and for the development of its economic resources. This structural dependency is reflected in its external payments account, which it is still only possible to keep in balance thanks to the very considerable assistance granted by Italy under the existing trusteeship administration. As things stand to-day, and in the light of present knowledge concerning the country's potential resources, there is no hope that this unhealthy situation of dependence on outside aid will improve substantially in the short run. In point of fact, the Italian economic missions and those from international organizations which have visited Somalia and studied the problems facing the country have been unanimous in predicting that even after 1960, *i. e.* after the achievement of independence, the territory will still need considerable foreign financial aid for a very long time.

B — GENERAL STRUCTURE OF FOREIGN TRADE

1. It has already been shown how the balance of payments reflects clearly the grave situation of dependence on foreign countries in which the economy of the territory is placed. Credits in the balance - sheet rest on the item "export of goods" (which in 1957 made up 44.3 % of total "current receipts"), and on other items, such as "workers' remittances" and "miscellaneous" (14.5 %), the scale of which depends largely on the presence in the territory of research teams from petrol companies. Alongside these items, which are closely linked with the structure and the economic capacity of the territory, the item "government transactions" represents an important amount (40.9 %). This heading in fact covers the financial aid from Italy mentioned above. The amount of this aid and its importance in the total of credit items in the balance of payments are in themselves a revealing index of the structure of the external trade of Somalia.

On the expenditure side of the balance of payments, the considerable figure for imports of foreign merchandise (61.6 % of all transfers for current transactions in 1957) should be noted. Furthermore, the volume (30.8 %) of financial transfers resulting from the presence on the territory of Italian entrepreneurs and workers comes out clearly under the headings "income from investments" and "workers' remittances". To these two important classes of items under expenditure must be added others, in particular "transport", the share of which (4.9 %) is directly related to the influx of imported goods.

TABLE 2

Balance of current payments - 1957

Current transactions	Receipts	Expenditure	Balance
Merchandise ¹⁾	64 687 800	85 507 900	- 20 820 100
Transport	134 200	6 837 200	- 6 703 000
Travel abroad	347 600	1 083 100	- 735 500
Income from investments	—	7 490 600	- 7 490 600
Workers' remittances	17 418 700	35 291 000	- 17 872 300
Aid from Italy and other government transactions	59 806 800	—	+ 59 806 800
Miscellaneous	3 777 800	2 535 400	+ 1 242 400
Totals	146 172 900	138 745 200	+ 7 427 700

¹⁾ It should be kept in mind that the figures for the item "merchandise" in the balance of payments are not comparable with customs data on export and import of merchandise. In the case of *exports* the differences are due chiefly to the fact that the value of these is reduced in the balance of payments by an amount corresponding to payments made in Italy for packing and other material used in the growing and export of bananas; in the case of *imports* they are explained by the fact that the value of merchandise for which the territory has no payment to make ("foreign currency free" imports) does not appear in the balance.

The figures for the trade balance given later in this study are computed on the basis of customs data.

2. The trade balance of Somalia presents the same essential characteristics as those of all underdeveloped countries. Exports are based almost entirely on food products and raw materials. In 1957, the first reached a figure of more than 58 million somalis, or over 76 per cent of total exports. The value of exports of food products and raw materials exceeded 73.4 million somalis out of an overall export total of 76.7 million, the proportion thus being over 95 per cent. These characteristic features of Somali exports are aggravated by the fact already mentioned that bananas, which are exclusively sold in Italy to the company "Azienda Monopolio Banane", occupy a predominant place in the food products exported and even in the overall total of exports.

In 1957, out of a total export of food products of 58.4 million somalis, the value of banana exports was over 45.8 million somalis, or more than 78 per cent. In the general total of exports, bananas represent about 60 per cent.

Overall imports are characterized by structural economic dependency on foreign countries. By far the greater part is represented by imports of manu-

factured products and machines; these totalled about 76.6 million somalis in 1957, or about 64 per cent of all imports, which amounted to more than 116.8 million somalis. Another appreciable item is food products, which Somalia needs for the native population and the resident Europeans. This item accounted for more than 16.3 million somalis and represents almost 14 per cent of total imports. Fuels and lubricants, which amount to more than 7.3 million somalis, represent about 6.3 per cent, and chemical products, with 9.4 million somalis, more than 8 per cent of total expenditure on imports.

The structural trend of Somali economy, one of whose principal manifestations has been ever-closer integration of elements of the traditional subsistence economy with the trade economy, has directly influenced the volume, origin and composition of imports. The economic development programmes on which the policy of the Italian administration has been based since 1954 have also had an appreciable influence on the rhythm of imports. It should be noted, however, that the very nature of these schemes, which were almost exclusively for basic infrastructure work, has rarely necessitated the import of producer goods. On the other hand, the execution of this work has contributed directly and indirectly to raising general living standards in the territory. Its immediate consequence has been to swell imports of consumer goods, particularly manufactured articles in the clothing sector and foodstuffs in general.

C — GEOGRAPHICAL STRUCTURE OF FOREIGN TRADE

The principal directions of Somali exports and imports may be seen from the tables given in Tables 3, 4 and 5 annexed (pp. 569 sqq).

Exports may be divided roughly according to destination into two main groups: those to Italy and those to the Arab and African countries, the area with which Somalia is in most natural and closest contact.

Exports to Italy constitute by far the greater part of all the export trade of the territory. In 1957, they accounted for about 58 million somalis out of an overall total of 76.7 million, a proportion of 75.6 per cent. The volume of this flow of exports results essentially from sales to the Azienda Monopolio Banane of bananas picked in the territory and the export to Italy of the product of certain Italian industries established in Somalia (tinned meat and tunny-fish).

Among the countries in the second group, Aden and Arabia hold chief place, with respectively 7.8 and 8.1 per cent of total exports.

In the case of imports, also, the same division into two chief groups may be noted. In 1957, of an overall total of 116.8 million somalis, imports from Italy amounted to more than 50.2 million or 43 per cent. Among the principal elements making up this figure were manufactured products, machines and transport equipment, and foodstuffs.

Among countries in most direct contact with Somalia by reason of their geographical situation, mention must be made of the place occupied by Aden, Arabia and Kenya in overall import trade.

It should be pointed out that the greater part of imports from British Somaliland and an important share of those from other countries are made up of merchandise imported "free of foreign currency". Machines, equipment and sundry material used by the petrol companies constitute the majority of these imports, which are exceptional and of little importance in the general setting of the structure of trade relations between Somalia and outside countries.

Trade relations with EEC countries and with their Associated Overseas Territories account for about 44.2 per cent of the total value of imports and about 75.7 per cent of that of exports. It should be noted, however, that about 97.4 per cent of the value of Somali imports from EEC countries is accounted for by Italy, which also takes roughly 99.8 per cent in value of exports to Community countries.

Exports of merchandise from other EEC countries to Somalia make up about 2.5 per cent of the country's imports.

Exports by Somalia to these countries are almost nil.

D — TRADE AND CUSTOMS POLICY

The general principles governing Somalia's foreign trade policy may be summed up as follows: to permit the widest possible freedom of trade compatible with foreign currency availabilities; to favour trade with markets which are traditional buyers of Somali products; to channel exports towards the hard currency areas, particularly where, like Kenya and Aden, these supply essential products.

Existing customs tariffs both on imported and exported goods are generally of a fiscal and non-protectionist character (textile materials and footwear are exceptions to this rule). As a matter of fact a notable part of receipts in the Somali State budget is provided by customs duties. Import duties are normally applied according to rates based on the value of the article imported. These vary on the average from 10-15 to 25-30 per cent, with a peak of 35 per cent for textile materials and footwear.

III — FACTORS OF ECONOMIC POLICY WITH AN INCIDENCE ON THE STRUCTURE OF COSTS

A — PRICE STRUCTURE

The price structure is influenced by customs policy and by the regulations issued by the Price Committee which is responsible to the Ministry for Economic Affairs.

We have already touched on the question of the direction given to customs policy.

The control carried out by the Price Control Committee is normally limited to regulating trade in articles of prime necessity by fixing selling prices or maximum selling prices. In particular, this Committee exercised its regulating action to correct the grave disequilibria which the closing of the Suez Canal caused in Somali import trade. In 1957, the goods for which selling prices were subject to regulations laid down by the Committee were, roughly speaking, all essential foodstuffs, locally manufactured textile materials and fuels.

B — INVESTMENTS

There exist no complete data on the total amount of investments in Somalia. It should be noted, however, that the subsistence economy which predominates over a great part of the productive cycle cannot but impose serious limits on the rate of investment. In order to remedy this structural weakness to some extent, the Italian administration has put in hand a series of economic development programmes which provide for total investments of 124 million somalis for the period 1954/60, 96 million to be public and 28.2 million private investments.

On 31 December 1957, 64 per cent of the public and 67 per cent of the private investments had already been completed.

In 1957, public investments were more than 18.3 million somalis for agriculture, 5.4 million for stock-raising and 13.2 million for communications. Private investments in industry exceeded 3.7 million somalis.

Public investments were financed by aid granted by the Italian State or by international organizations set up to this end. Investments in the industrial sector, on the other hand, were almost entirely undertaken by private Italian capital.

CONCLUSIONS

Somalia is at present going through a difficult phase in the process of economic and social development. The investments carried out have already gone far towards providing the pre-requisites for greater participation of the native population in more progressive and efficient methods of production. The principal problems likely to influence the unfolding of this process of development may be summed up as follows:

1. The gradual integration of the structures of subsistence economy with the forms of money economy. This integration is conditional on a necessary process of development within the traditional native world, and on the future capacity of the advanced economic structures already in existence to provide the instruments required to that end (for example, the development of purchase and sales markets).

2. The intensification of productive investments. This may be facilitated by an increase in the investment capacity of the economic structures in the country, but it will depend chiefly on the continuation of external financial contributions both in the form of Government aid and of private investments.

3. The regulation of the system of ownership and of landed property and reorganization of the activity of the Italian concessions on a basis more profitable for the country as a whole.

4. The pursuance by the Somalia public authorities of a policy calculated to establish and maintain the pre-conditions and necessary incentives for the economic development of the country.

TABLE 3

Trade balance of Somalia
1957

Countries of origin or destination	Imports in somalis	Exports in somalis	Balance in somalis
Italy	50 268 024	57 970 014	+ 7 701 990
Other EEC and Overseas Territories	1 345 658	139 010	- 1 206 648
Total EEC plus O.T.	51 613 682	58 109 024	+ 6 495 342
Other OEEC countries	2 925 796	18 091	- 2 907 705
Aden	8 965 697	6 022 642	- 2 943 055
Arabia	3 364 263	6 181 853	+ 2 817 590
Ethiopia and Eritrea	1 631 674	698 729	- 932 945
Kenya	8 648 087	1 170 403	- 7 477 684
British Somaliland	17 289 420	1 316 005	- 15 973 415
Zanzibar	771 215	1 334 695	+ 563 480
Other countries	21 615 993	1 871 475	- 19 744 518
	116 825 827	76 722 917	- 40 102 910

TABLE 4

Imports into Somalia by category of merchandise and country of origin

1957

SITC N°	Merchandise	Total		Italy		Aden	
		Quintals	'000 So.	Quintals	'000 So.	Quintals	'000 So.
0	Foodstuffs	125 923	16 334.7	43 597	6 558.9	21 705	2 041.6
1	Beverages and tobacco	11 050	3 876.7	8 954	3 100.8	78	134.1
2	Crude materials, inedible, except fuels	30 454	2 357.7	8 169	705.10	80	34.7
3	Mineral fuels, lubricants and related materials	165 952	7 374.0	70 927	2 277.6	181	12.9
4	Animal and vegetable oils and fats	4 437	1 568.0	1 370	862.5	39	9.4
5	Chemicals	28 533	9 416.9	18 935	4 189.3	331	301.1
6	Manufactured goods	133 412	33 674.9	91 826	18 256.3	7 630	5 358.3
7	Machinery	33 768	35 108.2	11 376	10 457.0	258	261.1
8	Miscellaneous manufac- tured articles	5 611	6 812.7	3 245	3 779.2	520	807.7
9	Miscellaneous, n. c. s.	495	302.0	250	81.3	6	4.8
	Totals	539 635	116 825.8	258 640	50 268.0	30 828	8 965.7
	% of the quantity and total value of imports	100	100	47.9	43.0	5.7	7.7

SITC N°	Merchandise	Arabia		Ethiopia and Eritrea		Kenya	
		Quintals	'000 So.	Quintals	'000 So.	Quintals	'000 So.
0	Foodstuffs	1 643	808.7	8 549	973.4	15 000	2 492.9
1	Beverages and tobacco	—	—	1 025	169.4	397	87.0
2	Crude materials, inedible except fuels	34	4.1	372	146.5	11 980	563.3
3	Mineral fuels, lubricants and related materials	64 893	2 507.7	—	—	20 294	1 368.8
4	Animal and vegetable oils and fats	6	2.8	—	—	802	180.5
5	Chemicals	2	0.7	—	—	554	163.9
6	Manufactured goods	13	22.8	326	11.5	2 503	1 125.3
7	Machinery	—	0.1	301	75.4	2 896	2 143.9
8	Miscellaneous manufac- tured articles	18	17.3	217	252.7	576	531.3
9	Miscellaneous, n. c. s.	—	0.1	11	2.8	66	18.2
	Totals	81 402	3 364.3	10 801	1 631.7	55 068	8 648.1
	% of the quantity and total value of imports	15.1	2.9	2.0	1.4	10.2	7.4

TABLE 4 (cont.)

Imports into Somalia by category of merchandise and country of origin

1957

SITC N°	Merchandise	United Kingdom		British Somaliland		Zanzibar	
		Quintals	'000 So.	Quintals	'000 So.	Quintals	'000 So.
0	Foodstuffs	302	89.1	850	83.0	2 028	165.3
1	Beverages and tobacco	188	275.3	—	—	31	8.3
2	Crude materials, inedible, except fuels	856	71.8	10	1.9	227	17.5
3	Mineral fuels, lubricants and related materials	1 056	197.6	5	0.6	12	1.2
4	Animal and vegetable oils and fats	95	36.1	—	—	2 113	472.4
5	Chemicals	598	335.0	355	101.8	96	9.7
6	Manufactured goods	710	532.6	1 665	688.5	672	75.0
7	Machinery	195	214.9	12 868	16 330.1	3	2.7
8	Miscellaneous manufac- tured articles	356	250.6	59	83.3	131	19.1
9	Miscellaneous, n. c. s.	—	—	1	0.2	—	—
	Totals	4 356	2 003.0	15 813	17 289.4	5 313	771.2
	% of the quantity and total value of imports	0.8	1.7	2.9	14.8	1.0	0.7

SITC N°	Merchandise	Other countries	
		Quintals	'000 So.
0	Foodstuffs	17 458	3 101.8
1	Beverages and tobacco	378	101.8
2	Crude materials, inedible, except fuels	8 726	839.8
3	Mineral fuels, lubricants and related materials	8 583	1 007.5
4	Animal and vegetable oils and fats	12	4.2
5	Chemicals	7 662	4 315.4
6	Manufactured goods	28 066	7 604.6
7	Machinery	5 880	5 623.0
8	Miscellaneous manufactured articles	488	1 071.5
9	Miscellaneous, n. c. s.	161	194.8
		77 414 ¹⁾	23 884.4 ²⁾
	% of the quantity and total value of imports	14.4	20.4

¹⁾ 2 275 quintals from EEC and Overseas Territories; 7 427 quintals from other OEEC countries.
1 345 000 So. from EEC and Overseas Territories; 922 700 So. from other OEEC countries.

TABLE 5

Exports from Somalia by category of merchandise and country of destination
1957

SITC N°	Merchandise	Total		Italy		Aden	
		Quintals	'000 So.	Quintals	'000 So.	Quintals	'000 So.
0	Foodstuffs	583 137	58 391.4	505 840	50 106.2	21 420	2 204.8
1	Beverages and tobacco	106	25.6	—	—	36	5.6
2	Crude materials, in- edible, except fuels	230 098	15 066.5	25 079	6 183.9	52 026	3 347.9
3	Mineral fuels, lubricants and related materials	89	9.8	—	—	—	—
4	Animal and vegetable oils and fats	422	259.0	327	229.2	29	9.1
5	Chemicals	686	174.3	35	68.0	438	35.9
6	Manufactured goods	3 789	1 443.5	1 559	709.1	771	266.2
7	Machinery	460	261.5	42	58.5	18	12.5
8	Miscellaneous manu- factured articles	218	736.9	98	361.3	24	132.7
9	Miscellaneous, n. c. s.	561	354.4	393	253.8	13	7.9
	Totals	819 506	76 722.9	533.373	57 970.0	74 775	6 022.6
	% of the quantity and total value of exports	100	100	65.0	75.6	9.1	7.8

SITC N°	Merchandise	Arabia		Ethiopia		Kenya	
		Quintals	'000 So.	Quintals	'000 So.	Quintals	'000 So.
0	Foodstuffs	21 382	2 726.0	5 755	459.6	5 293	312.0
1	Beverages and tobacco	—	—	—	—	68	19.5
2	Crude materials, in- edible, except fuels	142 399	3 278.9	2 378	167.8	2 238	355.5
3	Mineral fuels, lubricants and related materials	—	—	13	1.5	—	—
4	Animal and vegetable oils and fats	9	2.8	21	2.3	19	13.0
5	Chemicals	—	—	96	30.3	17	2.6
6	Manufactured goods	123	174.2	392	18.1	227	119.1
7	Machinery	—	—	15	4.1	138	73.1
8	Miscellaneous manu- factured articles	—	—	6	13.4	75	196.6
9	Miscellaneous, n. c. s.	—	—	9	1.6	80	79.0
	Totals	163 913	6 181.9	8 685	698.7	8 155	1 170.4
	% of the quantity and total value of exports	20.0	8.2	1.1	0.9	1.0	1.5

TABLE 5 (cont.)

Exports from Somalia by category of merchandise and country of destination

1957

SITC No	Merchandise	French Somaliland		British Somaliland		Zanzibar	
		Quintals	'000 So.	Quintals	'000 So.	Quintals	'000 So.
0	Foodstuffs	1 059	36.7	3 689	704.2	9 806	1 121.0
1	Beverages and tobacco	—	—	—	—	—	—
2	Crude materials, in- edible, except fuels	—	—	901	388.2	1 407	195.4
3	Mineral fuels, lubricants and related materials	—	—	—	—	—	—
4	Animal and vegetable oils and fats	—	—	1	0.3	16	2.1
5	Chemicals	—	—	100	37.2	—	—
6	Manufactured goods	—	—	600	107.5	4	8.2
7	Machinery	—	—	216	78.1	—	—
8	Miscellaneous manufac- tured articles	—	0.8	—	0.5	3	8.0
9	Miscellaneous, n. c. s.	—	—	—	—	—	—
	Totals	1 059	37.5	5 507	1 316.0	11 236	1 334.7
	% of the quantity and total value of exports	0.1	—	0.7	1.7	1.4	1.7

SITC No	Merchandise	Other countries	
		Quintals	'000 So.
0	Foodstuffs	8 893	720.9
1	Beverages and tobacco	3	0.5
2	Crude materials, inedible, except fuels	3 669	1 148.9
3	Mineral fuels, lubricants and related materials	76	8.3
4	Animal and vegetable oils and fats	—	0.1
5	Chemicals	—	0.3
6	Manufactured goods	114	41.1
7	Machinery	31	35.3
8	Miscellaneous manufactured articles	12	23.6
9	Miscellaneous, n. c. s.	5	12.1
	Totals	12 803 ¹⁾	1 991.1 ²⁾
	% of the quantity and total value of exports	1.5	2.6

¹⁾ 367 quintals to EEC and Overseas Territories.
95 quintals to other OEEC countries.

²⁾ 101 500 so. to EEC and Overseas Territories
18 000 so. to other OEEC countries.

Part J

Netherlands New Guinea

A — INTRODUCTION

New Guinea is among the least developed countries in the world. It is particularly along the coast that centres are found in which the population has partially adopted the western way of life. In the interior there are wide regions which have never made contact with the economy of the world.

The western part of the island is under Netherlands sovereignty. The number of inhabitants has been estimated at about 700,000, but only half of these come under Netherlands administration, as the interior of the country is completely inaccessible. The population of the interior is self-sufficient and lives, under the most primitive conditions, by fishing, hunting and some agricultural activity (particularly the growing of fruit and vegetables).

In the regions under Netherlands administration, the situation is largely the same. However, the influence of Western civilization is penetrating little by little.

There are several causes which explain the limited degree of integration of Netherlands New Guinea with world economy. These are:

1. The inaccessible nature of the country;
2. The aridity of the soil;
3. The individualistic character of the population;
4. The greater attention given to the richer regions of the former Netherlands East Indies;
5. The unhealthy climate (particularly trying for Europeans).

B — ECONOMIC STRUCTURE

The table below gives a summary of the economic structure of the region in so far as it participates in the money economy. Some of the estimates are very approximate.

It may be seen that the participation of the native population in the money economy is almost negligible. The number of wage-earners may be reckoned at

16,000, and small-scale petroleum production accounts for a large part of their earnings. The number of natives contributing to the supply of local markets is greater, being estimated at 54,000, and the income resulting from these activities is of the order of 4 million florins. Copra is the main item of export of native production. Mining is still of little importance, as is evident from the incomes of the concessions.

TABLE 1
Supply and use of resources - 1956

(*'000,000 Florins*)

Resources		Use	
<i>Native population :</i>		Private consumption	40
Wages	10	Public expenditure	109
Profit from		Net private investments	12
Export trade	4		
Sales on the local market	4		
Total	18		
<i>Non-indigenous population :</i>			
Wages and salaries :			
Government	32		
Private sector	10		
Concessions	2		
Profits :			
Sea and air services	6		
Petroleum enterprises	11		
Miscellaneous	7		
Total	68		
Net national product at factor cost	86		
Indirect taxation	8		
Net national product at market price	94		
Deficit	67		
Total	161	Total	161

The development of the country occupies a leading place in Government activities. This is why public expenditure accounts for the most important share of the total product distributed. In particular public health, teaching, geological surveys, the production and distribution of energy, communications and housing for the population swallow up a large part of the resources. Consequently, a considerable proportion of the foreign population consists of Government officials, as is evident from a comparison of the amount of salaries and wages paid in the private sector with that paid by the Government.

The balance of income and distribution amounts to 67 million florins, equal in principle to the external deficit, which is borne by the central budget of the Netherland Government.

C — FOREIGN TRADE

The trade balance is shown in Table 2:

TABLE 2

Balance of trade - 1956

('000,000 Florins)

Imports		Exports	
Foodstuffs	31	Crude petroleum	20
Machines and transport equip- ment	18	Native products	7
Petroleum products	12	Deficit ¹⁾	69
Metals	9		
Textiles and footwear	9		
Chemical products	4		
Other products	13		
Total	96	Total	96

¹⁾ The difference between this figure and the deficit shown in Table 1 is due to invisibles.

The limited amount of native exports and the high imports of food products are evidence of the still under-developed state of the country's agriculture. Almost 50 per cent of imports come from the Netherlands and about 5 per cent from other EEC countries. In addition, a considerable proportion is purchased in Asian countries.

D — POSSIBILITY OF DEVELOPMENT

It is only in the long term that the region can be developed. As pointed out in the Introduction, several almost insurmountable obstacles militate against economic progress. Large sums will be needed for infrastructure; immigration of cheap labour presents great difficulties, and private investment is wary of venturing into the area because of the political tensions between Indonesia and the Netherlands concerning New Guinea.

In the matter of economic development, the Government is concerned above all with improving farming methods and communications and with the geological survey. It must be pointed out that great areas of the territory have not yet been explored. Nevertheless petroleum, coal, gold, nickel, chromium, cobalt and iron have been found; their economic exploitation is hindered by transport difficulties.

Part K

Overseas Countries
having special links with France

This report was drawn up by M. MOUSSA, Ministère de la France d'Outre-Mer,
Paris, at the request of the Commission of the EEC.

INTRODUCTION

The countries and territories which are the subject of this Report are the following:

1. The eight territories constituting French West Africa: Ivory Coast, Dahomey, Guinea, Upper Volta, Mauretania, Niger, Senegal, Sudan;

2. The four territories constituting French Equatorial Africa: Gaboon, Central Congo, Ubangi-Shari, Chad;

3. Madagascar;

4. The Comoro Archipelago;

5. French Somaliland;

6. New Caledonia;

7. French Polynesia;

8. St. Pierre and Miquelon;

(the above-mentioned overseas countries constitute the Overseas Territories proper);

9. The Republic of Togoland;

10. The French Trusteeship Territory in the Cameroons;

All the overseas countries so far listed come under the Ministry "de la France d'outre-mer"; in the present Report they are referred to as "Overseas countries of category A";

11. Réunion;

12. Guadeloupe;

13. Martinique;

14. Guiana.

These four overseas countries are departments; in the present Report they are referred to as "overseas departments" or as "overseas countries of category B".

Categories A and B together are referred to as "overseas countries" in the present Report.

I — STRUCTURE OF PRODUCTION

A — INTRODUCTION

The structure of production of the Overseas Countries is that of under-developed countries; its salient features are therefore:

- The overwhelming importance of agricultural production;
- The relatively limited variety of products;
- The relatively great importance of the non-monetary sector.

However, there is a perceptible trend for the relative importance of the monetary sector to increase.

This is due above all

— To the development, during the years up to the second world war, of crops for export;

— To the price stabilization policy applied particularly since the end of the second world war;

— And —also since the end of the second world war — to a systematic policy of investment (notably from metropolitan public sources) which has made it possible to diversify production and also to carry out a certain amount of industrialization, with increasing urbanization from which new trade relationships have sprung.

B — POPULATION

The total population of the overseas countries is 34 million; about 60 % of this figure, or 20.5 million are 14 years of age or over. If account is taken of old or invalid persons, who number about 2.5 million, it may be considered that the at least potential working population is 18 million, the numbers of men and women being roughly equal.

The social breakdown of this population, between wage-earners and independent workers, and between the modern and traditional sectors, is very different in the Overseas Countries of category A and in those of category B.

In the latter category, out of a potential working population of the order of 430,000 inhabitants (male and female), 210,000 are wage-earners.

In category A, the 17.5 million men and women of working age belong essentially to the traditional sector — a fact which, moreover, deprives the very concept of a working population of any precise meaning; 1.15 million only out of these 17 million belong to the modern sector of the economy. Of these, 45,000 are employers and the rest wage or salary earners; among this category there are:

570,000 labourers
240,000 workers
250,000 employees
40,000 supervisory and directing personnel.

For the Overseas Countries as a whole, wage-earners therefore represent about 1.3 million out of a total working population of around 18 million.

C — ECONOMIC ACTIVITY

Because of the difficulties of giving a synoptic description of appreciably differing economies, only the category A countries — by far the more important group — will be examined in this section.

i. Breakdown of the working population by sectors:

This breakdown is only known exactly for wage-earners who, as we have just seen, are a small fraction of the population of working age in the category A countries. It is as follows:

a. *Private sector*

Construction and public works	105,000
Agriculture, sylviculture, fishery	310,000
Mining and quarrying	35,000
Manufacturing industries	95,000
Trade, banking, liberal professions	135,000
Transport	85,000
Domestic service	105,000

b. *Public sector*

230,000

The remainder of the working population of the category A countries belongs to the traditional sector, the activity of which is essentially based on agriculture. It should be pointed out, however, that in this traditional, rural world the tertiary sector (trade, services, spiritual functions) is relatively important, more important — as studies have shown — than had been thought; the same applies, although to a lesser degree, to the secondary sector (rural handicrafts). In the villages of the Guinea coast, for example, non-agricultural activities as a whole make up about 10%.

It must be added that even the agriculturalist in the strict sense of the word devotes a much greater part of his activity to non-agricultural tasks than his counterpart in more advanced countries (initial processing of his products, transport, building).

It should be pointed out here that by far the greater part of the agricultural output is produced by independent farmers; the share of medium and large scale enterprises employing wage-earners is very small.

The structure described above is obviously being affected by the development of the Overseas Countries. The relative importance of the modern sector is increasing, but this remark, although true in general, does not hold within the agricultural sector itself. Relatively few medium or large-scale European or native enterprises are being established, although the recent creation of several important European rubber plantations, notably on the Ivory Coast, should be emphasized. On the whole, the relative importance of native agriculture organized in small holdings is growing in relation to European agriculture and to medium size and large enterprises. Thus, out of a total coffee-growing area on the Ivory Coast, which increased between 1948 and 1955 from 114,000 to 205,000 hectares, the European share declined from 5,100 to 3,400 hectares. The situation is similar for banana plantations in Guinea. Their total area increased from 3,400 to 6,000 hectares between 1948 and 1955, but European plantations, which covered 2,400 hectares in 1948, accounted for no more than 3,600 in 1955.

2. Breakdown of the national product by sectors, end products and use.

The data given below are gross figures at market prices.

a) By sectors

Thorough studies are being undertaken on this point, but they have not yet reached the stage at which it is possible to give more than estimates once we leave the field of the overall gross product. These estimates contain a marginal error equal to one-tenth, or slightly more, of the percentages given.

TABLE 1

OEEC N°			%	
1	Agriculture, forestry, fishing, stock-raising : traditional	45 %	50 %	
				5 %
2	modern	}	18 %	
3	Mining and quarrying			10 %
4	Manufacturing industries			
4	Public utilities			
5	Construction, public works	8 %		
6	Transport and communications	7 %		
7	Commerce	20 % ²⁾		
8	Banks, insurance	}	32 %	
9	Real estate			
11	Health services and private teaching			
12	Miscellaneous services			

¹⁾ Internal consumption or exports.

²⁾ Of this amount 30 to 40 % represent indirect taxes levied at the commercial stage.

The administrative sector is not included in the above breakdown; it represents approximately 10 % in addition to the total of the sectors previously mentioned.

b) *By end products and use:*

The following figures which are percentages of the gross national product may be advanced, but it would seem that they are even more approximate:

TABLE 2

	Domestic and administrative consumption	Equipment	Export
Agricultural and food products	51	—	12
Energy and raw materials	7	—	4
Industrial products	18	6	—
Buildings and public works	— ¹⁾	14	—
Services	8	—	—
Total	84 ²⁾	20	16

¹⁾ Housing is included under equipment.

²⁾ 4 % of which represents consumption of goods and services by the Administration.

N. B. - *Balance of supply and use of resources* : Gross national product (100) + imports (20) ; consumption (84) + equipment (20) + exports (16).

3. Analysis of rates of growth:

An evaluation of the gross national product of French West Africa, the Cameroon and French Equatorial Africa during successive years has been carried out by using numerous moving averages ¹⁾, in order to attenuate the effects of stock-piling or of peculiarities in the weather. It should be noted that this system has the further result of partially concealing the consequences of prevailing market conditions.

The following results should therefore be presented with the above reservation on the significance of the estimates for the prevailing market conditions:

TABLE 3

	1947	1948	1949	1950	1951	1952	1953	1954	1955
Gross national product in '000 000 000 francs of constant value 1955	462 (roughly equal to the prewar national product)	522	603	677	757	807	860	901	953
Rate of progress in relation to the previous year		13 %	15 %	12 %	6.5 %	6.4 %	4.6 %	6.4 %	5.6 %

It is clear that, precisely by reason of the adoption of the system of the moving average, the variations in percentage noted from one year to the next are not significant.

In the longer run, it must be pointed out that the exceptionally high rates of growth for the years 1947 to 1951 are largely the result of

a) The sudden influx of a much greater volume of metropolitan public investments than in earlier years (the effect of a rush of investments before their profit yield begins to make itself felt);

b) The re-establishment of a system of external prices much more favourable than the depressed rates of the period immediately following the war. It goes without saying that in both cases we are dealing with quotations in currency of constant value.

From 1952 to 1953, on the contrary, it was the profit yield of the investments which was the essential determinant factor in expansion.

¹⁾ In other words, the characteristic values of a particular item for a given year n have been taken as equal to the average of the statistical values for the years $n-1$, n , and $n+1$.

D — CONCENTRATION AND DISPERSION

In a discussion of problems of concentration and dispersion in the Overseas Countries as a whole, it is impossible to say any more than the following:

a) In the matter of concentration in the various branches of activity, we have already mentioned the preponderant and growing importance of the small native enterprise.

Nevertheless, the exceptions provided by the West Indies and Réunion should be mentioned. In Guadeloupe, 80% of the tonnage of sugar cane is grown on factory-owned and other large plantations and only 20% by independent planters, nine-tenths of whom harvest less than 100 tons. Of 22,000 independent planters in Réunion, 80% deliver less than 50 tons of cane to the factories and only 1% more than 500 tons. This is the economic aspect of the social development of the wage-earning class in the overseas Départments, as shown by the figures on working population quoted above.

b) In the matter of the dispersion of costs, the very concept of costs has little meaning for the major part of the overseas economy. The only exception which might be mentioned is the existence of a very wide range of prices paid to agricultural producers. The essential factor here is the distance from the ports where the products are loaded. The effect of these divergent prices is further aggravated in real value by the fact that distance from the sea also weighs on the prices of consumer goods imported.

II — EXTERNAL ECONOMIC RELATIONS

A — INTRODUCTION

Since they are under-developed countries, having close and long-established contacts with industrialized nations, it is normal that the P.O.M. should be characterized in this field by:

— The importance of their foreign trade in relation to their national products;

— A structure of commerce very definitely based on the export of raw products for use as foodstuffs or in industry, and on the import of manufactured products for consumption or as equipment.

The deliberate decision to speed up development by systematic investment, particularly from metropolitan public sources, is modifying these characteristics in the following ways:

— In the short run, by increasing the relative importance of imports of capital goods;

— In the long run, and to the extent that this investment results in industrialization, by decreasing the influence — even in absolute value — of imports of certain consumer goods (thus in Black Africa the volume of cloth imports is tending to decrease and that of flour imports is rapidly diminishing). This industrialization is also reflected in exports of semi-finished or finished products (*e. g.* export of ground-nuts increasingly in the shelled state or even as ground-nut oil, and the development of aluminium production in Black Africa).

B — GENERAL STRUCTURE OF THE OVERALL EXTERNAL BALANCE

1. Position of export receipts and import expenditure in the total of external receipts and expenditure

The following figures for the year 1956 concern the whole of French West Africa, the Cameroon and French Equatorial Africa, which may be considered

as typical of the P.O.M. as a whole, since they make up about 2/3 of these territories.

Out of total external receipts of 311,000 million metropolitan francs, export receipts (in FOB values) represent 170,000 million ¹). The other gross external receipts are approximately as follows:

— Metropolitan public investment	66
— Military expenditure	43
— Civil administration expenditure	11
— Increases in capital, establishment of companies, private metropolitan bank credits, private financing of petroleum prospecting	21

In the matter of external expenditure, the only portion sufficiently known is constituted by imports which, in metropolitan francs value, is 213,000 million CIF. It is probable that the other public and private transfers amount to a gross sum of the order of 90,000 million.

2. Ratio of imports and exports to national production and relative variations with the increase in production.

For the same countries of West Africa, the 213,000 million for imports and the 170,000 million for exports should be compared with a gross national product which may be set at 990,000 million, with the two following reservations:

- The estimate is provisional;
- The figures are arrived at by using a moving average.

It may therefore be considered that imports and exports represent 17.2 and 21.5% respectively of the total gross national product.

This ratio between external trade and overall production remains on the whole stable when production increases. In more exact terms, it is not the ratio of exports to the gross national product which remains remarkably stable but that of total external receipts to the gross national product. This ratio has been constantly in the neighbourhood of 3.2 for each of the last eight years.

More detailed studies have furthermore shown that among external receipts the flow of investments and payments for exports exercise appreciably the same stimulating effect on the national product. The ratio of exports to the national product therefore only remains stable if the other external receipts follow more or less the same course.

¹) These figures are calculated by means of a moving average, the purpose of which is:

- To eliminate sources of errors resulting from variations in stocks and gaps between harvesting or collecting around 31 December.
- To conceal market variations concerning either the quantity of the harvest or world prices.

3. Susceptibility of the economy to variations in the terms of trade

Any improvement in the prices of the foremost products in terms of domestic currency at constant value has three cumulative results:

- An increase in the unit value of each ton exported;
- An increase in the tonnage exported (it is striking to see how the index curve for the volume of exports moves parallel to that of prices of products exported in money of constant value);
- A chain effect of stimulation on the whole economy.

C — GEOGRAPHICAL STRUCTURE OF THE CURRENT BALANCE

This is shown for Overseas Countries of category A and of category B in the tables on the following pages.

The Overseas Countries and Territories principally export agricultural products, raw materials and mining products. The greater part (70%) is absorbed by the franc area.

Cotton, sugar, oil-yielding plants and crude ground-nut and palm oils are almost exclusively exported to the franc area.

On the other hand, coffee, cocoa, vanilla and bananas find increasingly important markets in the dollar area and in OEEC countries.

In 1956, the following were exported to foreign countries:

- 79,000 out of 130,000 tons of cocoa (Netherlands, USA, Germany);
- 39,000 out of 216,000 tons of coffee (USA, Italy);
- 480 out of 680 tons of vanilla (practically all to the USA);
- 6,843 out of 7,689 tons of cloves (Indonesia, USA, Malaya);
- 19,000 out of 181,000 tons of bananas (Italy, Sweden, Germany, Norway).

The mining products are exported to various monetary areas, but rarely to the franc area:

- Chromite 90 % to the USA;
- Graphite 80 % to the USA, Italy, Great Britain;
- Nickel ore 85 % to Japan.

On the other hand, cast nickel and nickel mattes are exported to France:

- Phosphates from French Polynesia: exclusively to Japan;
- Iron ore exclusively to Great Britain, Poland, Germany;
- Bauxite exclusively to Canada, Germany, USA.

Tropical woods in crude, squared, and sawn state have large markets in Germany, USA and the different OEEC countries in addition to the franc area.

Seventy per cent of imports come from the franc area.

Supplies from the dollar area consist essentially of petroleum products and heavy equipment for public works.

The sterling area supplies textiles, petroleum products, machines and equipment.

OEEC exports to these territories cover a very large range : food products, capital goods, metal products, paper and textiles.

The nature of the trade mentioned above is explained by the following facts:

— When it is a question of plant products, the tendency of the P.O.M. is rather to sell in metropolitan France both for historical reasons and because, in many cases, France grants more favourable prices than those prevailing on world markets.

If various products listed above have a fairly wide market in foreign countries, it is above all because production exceeds the possibilities of the French market to absorb them; this has been the case either for a long time (wood, cocoa) or more recently (bananas, coffee).

— In the case of several mineral products, the enterprises responsible for the above-mentioned production belong, wholly or in part, to foreign consumers who have invested capital in the P.O.M. to ensure their supplies (British holdings in iron mines in Guinea and Canadian in bauxite in the same country).

— Both for purchases and sales by the P.O.M., geographical proximity plays a not insignificant role; this explains the trade relations between the Pacific territories and the other nations of this region, and, in the case of Africa, certain relationships between franc area countries and others belonging to the sterling area. Petroleum supplies to the territories come either from Venezuela (Black Africa, West Indies) or the Middle East (Madagascar, Réunion) and rarely from metropolitan France.

— Finally, in the field of imports, purchases from the dollar area or OEEC countries are explained either by reasons of price or of quality, or by the necessity of buying certain specialized equipment and spare parts in the countries which manufacture them.

D — TRADE AND CUSTOMS POLICY

a) The customs régime applied in the Overseas Territories is that of metropolitan France.

b) Certain Overseas Territories have no customs tariff.

— The French Somali Coast is a free territory.

— The Cameroon and Togoland cannot grant tariff preferences because of the agreements which put them under French trusteeship (Trusteeship Act of 29 January 1948).

— The greater part of French Equatorial Africa is included in the Congo basin as fixed by treaty (Berlin Instrument of 26 February 1885 — Lisbon Convention of 8 April 1892 — Saint Germain Convention of 10 September 1919); the non-preference area has been extended to the whole of French Equatorial Africa.

— Finally, Madagascar and the Comoro Archipelago have no customs duties at present, although there is no treaty which prevents their introduction.

c) On the other hand a customs tariff exists:

— In certain small territories (New Caledonia, French Settlements in Oceania, St. Pierre and Miquelon),

— And, in particular around the unit constituted by the eight territories of French West Africa.

These tariffs are independent of the metropolitan tariff and are generally lower than it, particularly for products of the mechanical engineering and electrical industries (with the exception of motor vehicles, on which duties vary between 5 and 10 %).

TABLE 4

Imports into category A Overseas Countries in 1957

('000,000 metropolitan francs)

Areas	F. W. A.	Togoland	Cameroon	F. E. A.	Madagascar	Total Afr.- Madagascar	Other Over- seas Territories	Grand total
Metropolitan France	95 828	2 744	22 926	31 402	37 545	190 475	10 625	201 100
Other franc area countries	16 291	589	2 357	3 317	3 024	25 578	1 274	26 852
<i>Total franc area</i>	(112 119)	(3 363)	(25 283)	(34 719)	(40 569)	(216 053)	(11 899)	(227 952)
European member countries of the EEC ¹⁾	15 172	444	3 054	5 414	2 651	26 735	612	27 347
Other member countries of the OEEC ¹⁾	13 579	1 697	4 485	5 299	2 939	27 999	1 060	29 059
incl. Great Britain	(3 817)	(345)	(949)	(1 231)	(839)	(7 181)	(481)	(7 662)
Other sterling area countries	1 233	43	158	366	1 125	2 925	4 313	7 238
<i>Total sterling area</i>	(9 262)	(1 239)	(1 655)	(2 098)	(2 732)	(16 986)	(5 036)	(22 022)
USA	8 410	123	1 968	4 980	1 782	17 263	3 301	20 564
Other dollar area countries	1 302	—	194	311	34	1 481	883	2 724
<i>Total dollar area</i>	(9 712)	(123)	(2 162)	(5 291)	(1 816)	(19 104)	(4 184)	(23 288)
Other countries	2 354	105	1 156	1 145	3 215	8 875	1 806	10 681
	155 069	5 775	36 298	52 234	52 315	301 691	23 874	325 565

¹⁾ Including their dependent territories.

TABLE 5

Exports from category A Overseas Countries in 1957

('000,000 metropolitan francs)

Areas	F. W. A.	Togoland	Cameroun	F. E. A.	Madagascar	Total Afr.- Madagascar	Other Overseas Territories	Grand total
Metropolitan France	83 920	3 675	17 279	18 729	19 095	142 698	13 673	156 371
Other franc area countries	11 638	180	2 302	1 673	3 925	19 718	359	20 077
<i>Total franc area</i>		(3 855)	(19 581)	(20 402)	(23 020)	(162 416)	(14 032)	(176 448)
European member countries of the EEC ¹⁾	7 639	65	6 450	5 457	1 325	20 936	320	21 256
Other member countries of the OEEC ¹⁾	7 149	228	1 087	2 463	1 432	12 359	20	12 379
incl. Great Britain	(2 608)	(50)	(328)	(981)	(936)	(4 903)	(11)	(4 914)
Other sterling area countries	8	—	29	368	49	454	726	1 180
<i>Total sterling area</i>	(5 709)	(220)	(553)	(2 288)	(1 366)	(10 136)	(739)	(10 875)
USA	7 747	180	1 935	1 197	6 094	17 153	1 318	18 471
Other dollar area countries	655	—	18	156	23	852	27	879
<i>Total dollar area</i>	(8 402)	(180)	(1 953)	(1 353)	(6 117)	(18 005)	(1 345)	(19 350)
Other countries	2 176	—	908	763	527	4 374	6 912	11 286
.	120 932	4 328	30 008	30 008	32 470	218 544	23 355	241 899

¹⁾ Including their dependent territories.

TABLE 6

Trade balance of Overseas Countries of category A in 1957

('000,000 metropolitan francs)

Areas	Imports	Exports	Balance
Metropolitan France	201 100	156 371	- 44 729
Other franc area countries	26 852	20 077	- 6 775
<i>Total franc area</i>	(227 952)	(176 448)	(- 51 504)
Member countries of the EEC ¹⁾	27 347	21 256	- 6 091
Other member countries of the OEEC ¹⁾	29 059	12 379	- 16 680
incl. Great Britain	(7 662)	(4 914)	(- 2 748)
Other sterling area countries	7 238	1 180	- 6 058
<i>Total sterling area</i>	(22 022)	(10 875)	(- 11 147)
USA	20 564	18 471	- 2 093
Other dollar area countries	2 724	879	- 1 845
<i>Total dollar area</i>	(23 288)	(19 350)	(- 3 938)
Other countries	10 681	11 286	+ 605
	325 565	241 899	- 83 666

¹⁾ Including their dependent territories.

TABLE 7

Imports into category B countries - 1957

('000,000 metropolitan francs)

Areas	Réunion	Martinique	Guadeloupe	Guiana	Total
Metropolitan France	12 125	13 152	12 688	2 102	40 067
Other franc area countries	3 628	674	1 051	171	5 524
<i>Total franc area</i>	15 753	13 826	13 739	2 273	45 591
Member countries of the EEC ¹⁾	558	929	790	138	2 415
Other member countries of the OEEC ¹⁾	829	741	699	102	2 371
incl. Great Britain	215	207	210	39	671
<i>Total sterling area</i>	656	1 347	987	238	3 228
USA	126	446	465	176	1 213
Other dollar area countries	72	20	22	9	123
<i>Total dollar area</i>	198	466	487	185	1 336
Other countries	231	353	350	152	1 086
	18 010	17 455	16 842	3 049	55 356

¹⁾ Including their dependent territories.

TABLE 8

Exports from category B countries - 1957

('000,000 metropolitan francs)

Areas	Réunion	Martinique	Guadeloupe	Guiana	Total
Metropolitan France	11 851	12 450	11 352	144	39 797
Other franc area countries	1 184	288	888	47	2 407
<i>Total franc area</i>	13 035	12 738	12 240	191	38 204
Member countries of the EEC ¹⁾	129	47			176
Other member countries of the OEEC ¹⁾	244	11	—	52	307
incl. Great Britain	244	6			250
<i>Total sterling area</i>	258	14		2	274
USA	282	95	136	40	553
Other dollar area countries	—	15	—	—	15
<i>Total dollar area</i>	282	110	136	40	568
Other countries	3	1	4	49	57
Total	13 707	12 915	12 380	334	39 336

¹⁾ Including their dependent territories.

TABLE 9

Trade balance of the category B countries - 1957

('000,000 metropolitan francs)

Areas	Imports	Exports	Balance
Metropolitan France	40 067	35 797	— 4 270
Other franc area countries	5 524	2 407	— 3 117
<i>Total franc area</i>	45 591	38 204	— 7 387
Member countries of the EEC ¹⁾	2 415	176	— 2 239
Other member countries of the OEEC ¹⁾	2 371	307	— 2 064
incl. Great Britain	671	250	— 421
<i>Total sterling area</i>	3 228	274	— 2 954
USA	1 213	553	— 660
Other dollar area countries	123	15	— 108
<i>Total dollar area</i>	1 332	568	— 768
Other countries	1 086	57	— 1 029
	55 356	39 336	— 16 020

¹⁾ Including their dependent territories.



III — FACTORS OF ECONOMIC POLICY WITH AN INFLUENCE ON THE STRUCTURE OF COSTS

A — THE PRICE SYSTEM

1. There is at present no general rule applying to the system of export prices for products of the Overseas Countries and Territories. The level of these prices depends, according to sectors, on:

— The direct influence of world prices: cocoa, cotton, jute fibres, wood, iron ore, bauxite;

— World prices, to which are added the effects of customs protection or quotas, or both together (coffee, copra, palm kernels, bananas);

— World prices increased by special advantages granted by metropolitan users (agreements on sisal and palm oil, coupling of different varieties of gum arabic);

— Harvest prices guaranteed at the CIF stage within a market organization covering metropolitan France and the Overseas Countries (edible liquid oleagineous products and sugar);

— A decision of a stabilization agency which fixes the minimum export price, *e. g.* coffee from the Ivory Coast to the USA.

When no price is fixed at the production stage, the producer receives a remuneration related to the export price and based on the schedule of rates which each trading company establishes for its purchases up country. These rates show the fixed or variable costs which make it possible to work back from the variable FOB stage to the producer.

Where a stabilization fund exists (cocoa, cotton) or where there is a guaranteed price in metropolitan France (ground-nuts, sugar, palm oil) prices can be fixed at the producer stage; when schedules of rates are necessary they are drawn up in discussions between the local authorities and the exporters. The action of the stabilization funds may be classified under two main headings, which obviously have many variants: either the payment of bonuses to exporters to cover the difference between export prices and prime costs taking into account

the purchase price imposed on the producers (cocoa), or payment to the producer, when the products are marketed, of the difference between the imposed price and the price resulting from ruling export rates (cotton).

Agricultural production for export in the Overseas Countries of category A is mainly in the hands of native agriculturalists. It is therefore practically impossible to speak of prime costs when determining the optimum level of the guaranteed prices at this stage. The criteria on which the choice of these prices is based take into account the standard of living which it is indispensable to ensure to the producers. These depend in part on the prices of imported food-stuffs when local food crops are insufficient (rice, millet for Senegal) and on those of essential imported products (cotton goods, petrol, hardware, etc...).

It may therefore be said in a general way that the purchase prices to the producer, whenever the products in question are covered by a market organization, are fixed by taking into account, on the one hand, the necessity of maintaining purchasing power and on the other, the general prospects of French and foreign markets, thus avoiding risks of overproduction at high prime costs.

2. Distribution costs in the "P.O.M." in general, and particularly in Black Africa, are heavy for the following reasons:

a) Generally speaking, transport is extremely costly as a result of the great area of the territories and the costliness of infrastructure for transport and, indeed, for every other activity. This remark is true for the Overseas Countries as a whole, but specially so for the territories of the Sudan regions, which are situated more than 1,000, and sometimes several thousand km, from the sea. This circumstance explains the often very considerable difference between regions of forests near the sea and regions in the Sudan, both in respect of prices of imported goods and of those paid to producers of exports. In both cases, of course, the difference is to the detriment of the Sudan regions.

The incidence of dear transport on distribution costs is tending, however, to be attenuated.

This is due essentially to the very heavy outlay, borne chiefly by the metropolitan budget, on development of basic infrastructures. roads, bridges and harbours;

A second factor is the policy adopted in certain regions with a view to permitting some equalization of transport prices between regions close to the sea and those far inland.

b) Gross trading margins, operation costs included, are often relatively wide because of:

— The relatively limited market, which consists in many cases of scanty populations spread over large areas;

— Difficulties which are particular to the tropical regions; these include both increased risks of deterioration of stocks and the necessity of holding relatively large reserves of these because of the distance from centres of production.

c) Finally, the difficulty of finding a basis for the assessment of direct taxation in countries where the income of a great majority of the population is largely non-monetary lends relatively great importance to indirect taxation, which weighs both on the price of products imported and on the price to the producer of those exported.

B — INVESTMENTS

I. Rates of investment, price of money, method of financing

a) The rate of investment seems to be 20 %, or a little less, of the gross national product. For French West Africa, the Cameroon and French Equatorial Africa as a whole, a careful study has yielded the figures shown in the following table:

TABLE 10

	1954	1955
Gross national product '000,000,000 metro. francs at constant 1955 value	901	953
Total investment at constant 1955 prices	177	189
Rate of investment	19.6 %	19.8 %

b) The methods of financing investment are the following:

i) Investments financed locally:

— The greater part is assured by self-financing: on the one hand, self-financing of capitalist type enterprises and on the other, direct use of the savings of the native population and also direct allocation of labour to particular equipment schemes (land clearance, plantation of perennial crops, construction of cabins);

— A not inconsiderable fraction is financed from local budgets; the locations and the time chosen for these investments vary greatly, and largely depend on the prices ruling for the principle raw materials of a given country or territory;

— The possibility exists of anticipating the effects of private capital investment by short-term and, particularly, medium-term credits granted by the local banking houses, which have recourse to rediscount by issue banks.

ii) An important part of investment is financed by metropolitan France, either through budget subsidies or by French State participation in companies.

In both cases the funds are generally made available through the intermediary of the Fonds d'Investissements pour le Développement Economique et Social des T.O.M., known in abbreviated form as "FIDES" (the part of this agency concerned with financing in the Overseas Countries of Category B is known as "FIDOM")

— Either in the form of loans by a public agency known as the Caisse Centrale de la France d'Outre-Mer (Central Fund for Overseas France) granted to Overseas Countries or to various secondary public bodies or, finally, to private persons natural or juristic;

— Or by direct private investments;

— Or, finally, by loans from private metropolitan sources.

When financing is done through loans, rates vary greatly:

— The Central Fund makes loans to the public sector at rates varying from 1.5 to 3 %, and to the private sector at rates varying from 3 to 5.5 %;

— All things being equal, banking loans are granted at rates in the neighbourhood of those prevailing in metropolitan France. On the whole, however, these rates are a shade lower.

It should be added, with respect to the native sector, that loans to individuals are often made at very high interest, frequently above 20 % — chiefly, it is true, to cover short-term requirements rather than the provision of capital goods.

2. Explanatory factors

Why is this important investment effort — approximately 20 % of the gross national product — financed in this way?

a) In the case of private investment, because there is really no organized financial market overseas;

— Hence the importance of self-financing in the modern sector and above all in the traditional subsistence sector, which is directly increasing its productive capital from year to year by its work;

— Hence also the importance of Paris, the financial centre of the franc area, as the point from which capital is redistributed to Overseas Countries.

These private investments, which are more important than is generally thought, since they represent rather more than half the total investments, are systematically encouraged either by fiscal measures (exemptions and the spreading of the burden of taxation over long periods for the modern sector) or by public contributions to the traditional agricultural investments.

b) Public investments are naturally great in all parts of the overseas economy where the infrastructure is of a rudimentary nature; about 40 % of public expenditure in Overseas Countries and Territories is investment expenditure, and this percentage would be even higher if we included the efforts being made for education and public health. These investments can only be borne in part by the local budgets, and metropolitan aid therefore contributes a large share to financing the development programme of these economies.

C — TREND OF PRODUCTIVITY

In the Overseas Countries and Territories, the productivity problem is essentially an agricultural one. In order to further productivity in the agricultural sector, the following means have been used:

a) A whole series of agencies for scientific and technical research has been established. Twelve principal centres with extensive laboratories have been set up overseas by the Office de la Recherche Scientifique et Technique Outre-Mer (ORSTOM), the body entrusted with determining the general data of the natural milieu; 32 principal research stations have also been set up overseas by research organizations specializing in various productions (oil-yielding plants, textiles, stimulating plants, cattle-raising, etc.).

The aim of this research is to improve agricultural productivity by placing selected seeds at the disposal of agriculturalists and by devising better farming methods.

b) In addition, there have been continuous campaigns — particularly intensified during the last few years — to organize the popularization of improved methods among native farmers. These efforts are directed both to methods of culture and to the various tasks which follow after the crop is gathered (drying, stocking, etc.). The task of popularization is carried out by a network of European and African monitors who are each responsible for a group of villages. No effort is spared to increase the numbers of these instructors. Some of the FIDES credits have been used to equip them and in certain cases, as a temporary measure, to pay their salaries.

Among the most important results of this policy, the following may be mentioned:

— The improvement in the yield of cotton-ginning as the result of the work carried out by the Institut de Recherche du Coton et des Textiles exotiques (IRCT). The rate of yield has increased four to eight times according to the varieties, and length of fibre has improved concurrently. In addition, thanks to the work of the Cie Française de Développement des Fibres Textiles (French

Company for the development of textile fibres) carried out in liaison with IRCT, great improvements have been obtained in yield per hectare, particularly in Madagascar;

— The improvement in the tonnage of palm oil produced per hectare. Yields of 3,600 kg per hectare have been obtained by the Institut de Recherches pour les Huiles et Oléagineux (IRHO) from five-year-old trees in experimental fields. These yields are up to several times greater than those achieved in the past.

— Increase in sugar production in the West Indies and in Réunion; output has almost doubled in seven years, from 208,000 metric tons in 1950 (214,000 in 1939) to 395,000 tons in 1957;

— An average increase of about 25 % in the productivity of paddy per hectare in Madagascar; this applies to the whole of the large tonnage produced by the territory.

— Care of the crops and high density of sowing with small amounts of mineral fertilizers have resulted in average yields for ground nuts of 1,930 kg per hectare in the region of Kaolack in Senegal; this represents an increase of 80 to 90 %.

CONCLUSIONS

Summing up, any purely spontaneous trend making itself felt in the local productive apparatus is fairly rare in the economy of these territories. In all sectors the directing role of export crops and the positive effect of price stabilization, the impetus given by public investment, and the influence on the territories of their membership of a wider monetary area, are manifest. In brief, economic policy in its most conscious and deliberate manifestations is, in these countries more than elsewhere, an essential factor of development.

Certainly, no rigid doctrine has ever been formulated concerning details of this policy. The vital point that raising the standard of living constitutes the essential and highest-priority aim of all efforts has alone been emphasized. As to the precise choice of the sectors to be developed, this has apparently been determined by a process of trial and error over past years. Nevertheless, we can discern the constant application of certain principles, all of which aim at taking advantage of the influence exercised on the development of the territories by their sensitivity to external conditions:

1. The maintenance of the real value of export prices in the context of general economic conditions has almost equivalent importance to investment policy on the plane of economic structure: as an indication, it can be recalled that in the course of the last 12 years two-fifths of the increase of local incomes has been due to the restoration of *real* prices disorganized by the years of war, and three-fifths to investments.

2. For the last 12 years, the predominant element in economic policy in the Overseas Countries and Territories has been systematic investment from metropolitan public funds. It should be added that study has shown how important is the favourable effect of the influx of metropolitan investments, even while the works thus financed are in process of execution — a further proof of the extreme sensitivity of the local economies.

3. The necessary response of the domestic economy to the creation of new purchasing power has been facilitated by a régime of almost complete freedom

for internal prices, which has resulted in a progressive and regular increase of the production of food plants in particular, thanks to better remuneration for the peasant.

Another essential motive force in this expansion of the domestic sector is the continuous action of local services in favour of subsistence agriculture; thus, very numerous regional and cantonal initiatives, which are hardly known because they are so scattered and unspectacular, have had the result, in conjunction with the policy of domestic prices, of bringing about an increase of some 40 % in the production of food plants during the last eight years.

4. It should also be noted that a good number of the actions under the Plan for the provision of an organizational framework and supervisory personnel for agriculture concern both subsistence agriculture and production for export. The same may be said of the effort accomplished in the matter of communications.

Speaking more generally, the present rhythm of investments indicates that the probable future rate of growth of the national product of the territories will be between 4 and 5 % per annum.

5. Finally, it is essential to mention, as one of the salient features of present economic policy in the territories, the efforts at present being expended on large-scale industrial and mining schemes and on mining surveys (Bureau minier de la France d'Outre-Mer, Bureau minier guyanais).

Although extensive forms of investment are being maintained as the most suited to generalizing an expansion of income over the whole geographical area in question, the intensive influence of specific centres of high development has not been under-estimated.

The implementation of those parts of the Treaty of Rome which concern Overseas Countries and Territories cannot but exercise a profound influence on the development of the countries under consideration.

— Public investment envisaged by the special Convention concerning the Association of the Overseas Countries will re-inforce the effects of metropolitan investment policy as they have been described above;

— The opening of the Common Market as a whole to the production of the Overseas Countries and Territories constitutes a further factor of expansion, above all if it is remembered that the output of the principal tropical goods has already exceeded metropolitan capacity to absorb them;

— Finally, the diversification of sources of supply indisputably exercises a favourable effect in the shape of a reduction of costs and constitutes a third element propitious to expansion.

