Official Papers

Whither Europe?

Economic Survey of Europe Since the War: A Reappraisal of Problems and Prospects. Economic Commission for Europe, Geneva, 1953; approx. 400 pages, including 135 tables and 20 charts. Price $3.50. Available from Oxford Book & Stationery Co., New Delhi.

THE economic reconstruction of Europe in the post-war period has sharply reflected the conflicting ideologies of the East and the West. The Secretariat of the United Nations Economic Commission for Europe has attempted the very ambitious task of assessing the progress made by Europe since the end of the war. Expedience and analytical convenience demanded that political factors be eschewed as far as possible. The emphasis is on economic developments broadly in Eastern and Western Europe with frequent references to individual countries. The ECE have in the past been reviewing Europe's progress from year to year. The canvas is now wider and the objective somewhat different. It is to answer the question--whither Europe?

In the immediate post-war period, Europe's problem was not merely reconstruction, but adaptation to a very new kind of world -unlike the pre-1914 era or even the inter-war period. On the whole Europe's industrial capacity at the end of the war was larger than before it, and in many respects, more suited to Europe's needs. On the other hand the damage done to, and the neglect of transport and housing were more serious and they could be made good only more slowly. Agricultural capital had suffered heavily, particularly in Eastern Europe. The external burdens on Europe, however, were really the major determinants in the situation. The overseas territories of the metropolitan powers had lost the ability to earn dollars, at least temporarily. The same powers had also lost a substantial portion of their invisible income from shipping and overseas investment. Occupation armies at various points in Europe and the Far East were a drag on their budgetary posiotion. The export of gold, particularly from the sterling area to the United States, had lost in relative purchasing power, gold being still valued at the pre-war price although other prices had doubled or trented in the interval. The terms of trade had swung to the opposite extreme from where they were in the 1930's. Every unit of Europe's exports commanded less of her imports of food and feeding stuff and raw-materials of the farm and the mine.

This combination of unfavourable factors had to be reckoned with. But it so happened that the adjustment had to come primarily on the commodity side, and on exports. With the restrictions of the pre-war years, one half of Europe's imports then consisted of food and feeding stuff and a large part of the rest was raw materials. The belt had already been tightened; it admitted very little of further tightening.

The tale of gloom does not end here. The total export adjustment needed for these factors was not large. What made it almost intractable was that in the changed structure of world trade the adjustments were concentrated on the dollar area, a particularly difficult area to deal with. Almost every country wanted to import dollar goods, but few had the wherewithal to pay for them. Western Europe had to find ways to restore and expand imports from the non-dollar countries and *to* enlarge the volume and change the composition of her exports so as to displace American goods in these markets and earn dollars which otherwise would flow directly back to the United States. To attain these objectives, required purposive effort and time. It required also large new investments by Western Europe both at home and in other areas, thus adding to the size of the needed expansion in exports to achieve external equilibrium.

The post-mortem conducted by the Survey into the policies and achievements of the last five years unfortunately discloses that Europe, and Western Europe in particular, has failed in her objectives. Time has been lost and much resources have been used up without making a lasting contribution to the solution of European problems. In this post-mortem it is significant to observe that Eastern European countries and Soviet Russia have the more solid achievement to report than the others. The experience of the post-war period has demonstrated that Eastern European governments have on the whole planned successfully, granted their order of priorities, in which, at any rate in the initial stages of development, great stress is laid on the expansion of heavy industry even though this involves the neglect of agriculture and, in the case of Czechoslovakia and Eastern Germany, a reversal of the previous trend of development. The existence of foreign trade monopoly, combined with the small importance of foreign trade in most Eastern European countries, has insulated their economies from external influences. The centralisation of investment decisions has prevented shortfalls in demand for particular products from exerting a cumulative effect on activity, so that in 1952 when activity was flagging in Western Europe, expansion still continued in the East. Controls have impinged on the economy at so many points that hindrances to balanced expansion which inflationary pressure brings in less centralised countries have been reduced to relatively small proportions.

A major weakness, however, of these economies has been the inability, so far, of their governments to control the balance of payments between agriculture and industry. The analogy with the balance of payments between a national economy and the outside world is close: the peasants represent a sector in some ways almost as much outside control as foreigners are outside national controls. In the long run, therefore, governments are bound to try to increase their control on agriculture, both to close this open end and in order to create conditions in which surplus man-power can be directed away from the countryside to industry.

In the case of the Soviet Union the new Five-Year Plan for 1951-55 proposes to increase real incomes by about 35 per cent, but the increase planned in *per capita* consumption of animal products and in urban housing standards appear *to* be only around 15 per cent. With the allocation of resources contemplated in the present Plan, the rise in consumption levels still remains modest in relation to the means of the Soviet economy. In future years a shift in the production pattern conferring greater benefits to the consumer should undoubtedly be possible, given the continuing expansion of the Soviet industrial base. Since the end of the war, the progress of Soviet production has been very substantial; by 1950 the national income was well above its pre-war level. As a result of the speedy reconstruction of the devastated areas, and the continued rapid expansion of industrial production in those regions which were not damaged in the war, heavy industry substantially exceeded the target set for it under the Fourth Five-Year Plan, 1946-50, and was the major factor in bringing about the rise in national income. War losses in agriculture had been particularly heavy and the pre-war level of output was only slightly exceeded in 1950. Although some slowing down in the rise in output of Soviet-industry was inevitable with the close of the period of rapid reconstruction, at the end of the Fourth Five-Year Plan the further industrialisation of the Soviet Union continued at a rate surpassing that in any Western European country.

In its analysis of the position of Western Europe, the Survey felt constrained to state that: " It is now clear that positive Government policies contributed less to the expansion in these years than was sometimes believed at the time. In retrospect this prolonged boom is seen to have been carried on waves of successive external stimuli which enabled the expansion to continue each time it was threatened either from the side of supply or from that of demand ". If it is judged by the ambitious expectations at the end of the war, the general progress in Western Europe has not been entirely encouraging. The economic progress achieved in the more industrialised countries has rested on the achievement and maintenance of high levels of employment and investment. But the poor countries in southern and south-eastern Europe have not attained the same position in employment and investments and have made little headway in solving their long-term problems of development. Broadly speaking, the richer and industrially more developed countries have been pushing fairly rapidly to still higher levels of economic welfare and industrial development, while the poorer and less developed countries have been left in relative stagnation. Efforts towards economic co-operation in Western Europe, which contains countries of both kinds, have not so far included any significant attempts to equalise opportunities for growth and progress in the common interest. Even with the very substantial financial aid from the US, these difficulties were only alleviated, not radically cured. Faced with the problems of internal inflation and external deficits, different governments reacted to the advantages and dangers inherent in this situation rather differently. Some those financial caution; even so, they were able in tins expansionary environment to achieve levels of employment and production which, though below the potentials of man-power and capacity, were nevertheless high by pre-war standards. Others decided in favour of expansion but found it impossible to take such measures as would have prevented the accompanying risk of inflation from becoming a reality. Both these approaches were in a sense traditional and as such call for very little comment. The new feature of post-war policy was the attempt of the north-western European countries to achieve a high rate of expansion without (excessive) inflation and foreign deficits, through the deliberate application of an integrated public policy. The operation of such a policy presents the only really new experience in economic policy in the post-war period.

In the period upto 1950 the attempt to run predominantly private enterprise economics in this fashion could hardly be called entirely unsuccessful. Employment and investment were kept high; output expanded at a satisfactory rate: prices were relatively stable; and the foreign deficit was gradually reduced. It involved, however, a fairly comprehensive[1] set of direct controls and a sharp fiscal policy, neither ot which gained the governments much popularity. The whole structure of this policy of direct controls was, therefore, very much weakened when there was an onslaught on it from the demand side in 1950 and 1951, from the cumulative effects of the devaluation in the autumn of 1949 and the speculative boom after the out-break of the Korean war. It is hardly surprising therefore that, from a rather early date, but particularly after the experiences during 1950-51, it gradually became an aim of policy in north western European countries also ta reach a state of affairs where the economy could be run with less public interference in the form of detailed controls. But when examined in retrospect it may probably be said that many conditions of the post-war period have been of such exceptional nature that no such inference can be drawn as to the possibilities of carrying out more successful economic planning in a private enterprise economy. To these exceptional circumstances belongs the long boom in the US which tended to sustain inflationary pressure in Western Europe; another exceptional factor was US aid. But even under the conditions actually ruling during the post-war period, it is conceivable that planning would have been more successful if governments, had used general methods to a greater extent than they actually did to reduce the excess of demand and thus diminish the strain on direct controls for this purpose. To a considerable extent, the north-western European countries have now accepted the more general methods of controlling inflation. Partly as the effect of this new policy and partly for other reasons, the economy of Western Europe has for about one and a half years lapsed into stagnation. Demand has shrunk and profit margins have become lower. It remains an open question whether, without some new inflationary pressure, the amount of investment required to sustain a high level of output, will be forthcoming. Whether it will be possible in a private enterprise economy to reach and maintain a full employment level of private capital formation without lapsing again into inflationary pressure is a question that remains to be answered.

INADEQUACIES OF STRUCTURAL READJUSTMENT

One of the most important chapters of the Survey is called " Inadequacies of structural readjustment ". Among the various factors considered in it are -readjustment in imports and the failure to develop non-dollar supplies (including petroleum); formidable barriers to exports to the dollar area; development of exports to third markets; trade with affiliated overseas currency areas; trade and payments within Western European countries—EPU; and the failure of affiliated areas to provide goods or dollars. On the last point it was stated that various factors combined to explain this failure. In the French dependencies, two-thirds of the expenditure 'made so far under the development programme have been devoted to basic structural improvements, especially in transport and communications, and only about one-fifths of the total has been invested in specific commodity projects. By 1951 these projects had yielded only modest returns in the form of increased export supplies. This planned direction of investment is the natural consequences of its public origin and differs in this respect from the far greater outflow of capital, chiefly on private account, from the UK to the overseas sterling area. In certain fields progress has been achieved here also: Western European countries' imports of petroleum from the sterling area have greatly increased and there have also been small increases in imports of fats and oils, coffee and sugar. But this is offset partially by the failure to obtain larger quantities of meat and grains. The development of exports by the overseas sterling countries to the dollar area has been more favourable. These gains, however, have been more than offset by the increase in imports from the dollar area and by the fall in the purchasing power of gold.

With regard to the EPU it is felt that unless the general dollar problem facing Western Europe is much nearer to solution than would appear at present, the ability of the EPU to function effectively as an instrument for promoting trade on a regional basis would seem to depend on a more unequivocal answer to the problems discussed above. The first need is to decide whether or not the principle should be more exclusively recognised and more consistently observed that individual members are expected to remain in balance within the Union. If they are, a further question is, whether or not, discrimination between members is consistent with the maintenance of such balance without damage to the other objective of maximising trade among the members. If the principle is not to be adhered to, rules will be needed for settling deficits and surpluses.

Part IV of the Report discusses in detail' such specific items as manpower, agriculture, textiles, heavy industries and the problems of economic integration in Eastern and Western Europe. Of these a few points mentioned with regard to agriculture are of especial interest. Inspite of good harvests in most countries, the annual rate of increase in agricultural production in the last two years has been only about 2 per cent in Western and Southern Europe taken together, against 2½ to 3 per cent annual increase adopted as an objective for the OEEG countries during 1950-57. Generally the method used to foster agricultural production has been to support agricultural prices. This policy has two purposes. It is based partly on exaggerated notions about the favourable effects of high prices on the level and efficiency of farm output, but it is partly also a concession to farmers' claim for " income parity ". In the long run, the solution to the problems of European agriculture is to reduce the surplus population and thereby open the way to large-scale production using available technical means to increase efficiency. But there are rather narrow limits to the rate at which industrial employment can be increased and the scope for emigration overseas is even more limited.

The fact that at least the major part of European agriculture is non-competitive in relation to overseas imports, is therefore no sufficient argument against attempts to increase agricultural production further, so long as the man-power employed in agriculture cannot be transferred elsewhere. The protection of agriculture in European countries from foreign competition entails of course the danger of impairing efficiency. The very large and striking disparities between the prices paid to farmers in exporting and importing European countries suggests that this danger is a very real one. The physical possibilities of higher agricultural output in most European countries, and particularly in the poorer ones are very great. These differences in production and consumption levels and prospects point to two major conclusions:

(a) The full utilisation of the existing possibilities depends largely on development of intra-European trade in food. The large differences in the density of agricultural population in European countries are evidences of the need for a high degree of international specialisation on more or less labour intensive projects.

(b) The long-term solution to the problem of European agriculture lies outside agriculture in an expansion of industry. Only a large-scale transfer, not only of wage earners but of millions of small holders, to industry can pave the way to the radical transformation and rationalisation of European agriculture, which is necessary to reduce labour costs in industry and raise the living standards of the European population.

Such a transformation is badly needed on the whole of European continent.