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Reply to the Seventh Survey prepared by O.E.E.C. for the Council of Europe

Report¹

Committee on Economic Affairs and Development

Rapporteur: Mr Neil MCBRIDE, United Kingdom, Socialist Group

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Draft Resolution presented by the Committee on Economic Questions

1. The Consultative Assembly of the Council of Europe expresses its thanks to O. E. E. C. for the Seventh Survey which O. E. E. C. has prepared for the Council of Europe.
2. The Assembly also wishes to convey its appreciation to the Austrian Foreign Minister, Herr Figl, for his presentation of the survey to the Assembly and for the co-operation extended by him and the officials of O. E. E. C. to the Assembly. The Assembly regards this growing functional co-operation as beneficial to both organisations and to the concept of European unity.
3. The Assembly welcomes the decision of the Council of O. E. E. C. taken at its July meeting to set up a Ministerial Working Party to examine the current economic situation, and problems arising therefrom, and expresses its confidence that O. E. E. C. will keep the Assembly steadily informed through its Committee on Economic Questions on the progress of the Ministerial Working Party.
4. The Assembly ventures to draw the attention of O. E. E. C. to a report² on the current economic situation in member countries which has been prepared by its Committee on Economic Questions and which was motivated by considerations similar to those which prompted the setting-up of the Ministerial Working Party by O. E. E. C.
5. The Assembly notes with pleasure the decision of the Committee of Ministers (Resolution (56) 15) taken on the basis of the Assembly Recommendations 81 (1955) and 95 (1956) concerning measures for the economic development of Southern Europe. The Assembly hopes that O. E. E. C. will keep the Assembly informed of the progress made in these matters, particularly in regard to a thoroughgoing examination of the proposal for creating a European Development Fund, which was requested by the Committee of Ministers in their above-mentioned Resolution.

2. See [Doc. 571](#).

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INTRODUCTION

1. At its July meeting the Committee decided that on account of certain disquieting trends in the European economy an examination of the current economic situation should be undertaken. The specific matters for examination were :

- a. The imbalance in the trade and payments position of some Member States.
- b. The problems resulting from overemployment in some Member States and from under-employment in other Member States.
- c. Inflationary pressures and price rises.
- d. The disparity which exists in the economies of different Member States.
- e. The steps which have been and which might be taken to deal with these current problems.

2. In normal circumstances the examination of these problems could have been deferred until the receipt and examination of the next Annual Report of O. E. E. C. It was felt, however, that an early appraisal of these current problems should be undertaken now so as to enable the Committee to examine the position at its September meeting in Vienna.

3. Actuated by similar anxieties concerning current economic problems, the Ministerial Council of O. E. E. C. at its July meeting decided to set up a Ministerial Working Party, to which the Governments of the United States and Canada have been invited to send representatives, to examine the current situation in Member States. This Ministerial Working Party is to meet in October.

4. It is against this background that the present Report is being presented to the Committee. In this Report I have sought to examine the current situation under each of the headings enumerated in the decision of the Committee and then at the end to set out some general conclusions. One of the main difficulties which I have encountered in formulating conclusions and recommendations arises from the wide divergence in the nature of the current problems that exist in the economies of the various Member States.

PART I - The imbalance in the trade and payments position of some Member States

1. Overall Balance of Trade. The figures hereunder show the overall adverse balance of trade of the OEEC Member States vis-à-vis the rest of the world since 1948 :

TABLE I

1948	Adverse balance	660	Monthly average expressed in terms of millions U.S.S
1949		503	
1950		372	
1951		540	
1952		422	
1953		324	
1954		340	
1955		452	
1956 (January-June).		500	

Source : OEEC Statistical Bulletin 1956, № 4.

The important point to note from this table is not the chronic deficit but the fact that this deficit, at its lowest in 1953, has shown a marked rise since, a rise which has continued up to and into 1956. Undoubtedly, liberalisation in imports from the dollar area without a compensating increase in exports to the dollar area has been an important factor in this increase in the overall adverse balance.

2. Total Imports and Exports. The value, in current terms, of the total combined imports (intra-f-extra OEEC area), increased by 61 % from 1948 to the end of the first quarter of 1956; since 1952 the increase has been 24 %. The corresponding figures, in terms of volume, are 71 % and 34 % respectively. The value, in

current terms, of the total combined exports (intra+extra OEEC area) increased by 105 % from 1948 to the end of the first quarter of 1956 and by 26 % since 1952. The corresponding increases, in terms of volume, were 127 % and 32 % respectively. Thus, over the past eight years, total exports from the OEEC zone, whether computed by value or volume, have increased considerably more than imports. However, for an evaluation of the present economic situation it is essential to note that the particular surge of exports took place in the earlier part of the period, whereas in the last four years imports and exports have increased at about the same rate. And if the view is narrowed down to developments since 1954 to early 1956, it is found that actually during this more recent period imports have increased slightly more than exports (18 % to 16 % by value; 13 % to 9 % by volume).

3. Overall Terms of Trade. The terms of trade of member countries as a whole have deteriorated by 4 % since 1948; but most of this deterioration was due to a marked dip following the Korean crisis and if 1952 is taken for a starting-point there has, in fact, been an improvement of 4 %. However, since 1953 the terms of trade, have hardly changed at all, a slight deterioration in early 1955 having been redeemed by early 1956.

4. Balance of Trade position of individual Member States. In order to get a full appreciation of the divergences which exist in the trading position of Member States, it is necessary to examine the trading balances of the various OEEC countries :

TABLE II - Trade Balances - Monthly Averages in Millions U. S. dollars

Country	1948	1952	1956 - (1st Qr.)	C o u n t r y (F r a n c e)
Austria	— 16.0	— 12.1	— 11.1	
B. L. E. U.	— 25.4	— 0.8	+ 1.0	
Denmark	— 12.4	— 9.6	— 9.5	
France	— 120.5	— 41.8	— 61.9	
Greece	— 22.6	— 18.9	— 18.9	
Iceland	— 0.8	— 1.3	— 0.9	
Ireland	— 29.2	— 16.6	— 26.6	
Italy	— 38.6	— 79.2	— 78.4	
Netherlands	— 70.7	— 8.9	— 61.1	
Norway	— 27.4	— 25.6	— 30.5	
Portugal	— 20.2	— 9.2	— 8.0	
Sweden	— 22.3	— 13.1	— 39.1	
Switzerland	— 30.3	— 8.7	— 18.7	
Turkey	— 6.5	— 16.1	— 4.1	
U. K.	— 144.9	— 175.8	— 156.6	
Member Countries combined	— 660.4	— 422.3	— 491.3	

Source : OEEC Statistical Bulletin 1956.

5. The most notable features of an examination of the trade balances of individual Member States are :
- that up to 1952 every, country had consistent substantial adverse balances, with three exceptions that are not significant (France in 1950 had +1.1 Balance; in 1951 B. L. E. U. had a +8.9, and Sweden a — 0.7 balance).
 - Every country with the exception of Germany and B. L. E. U. had a substantial adverse balance during the first quarter of this year.

- c. Germany which had had a substantial adverse balance up to 1951 has shown a substantial and consistent favourable balance from 1952 onwards.
- d. The adverse balances of most countries with the exception of Germany, France, and B. L. E. U. have shown a tendency to increase. The increase has been most marked in the case of Greece, Ireland, Netherlands, Sweden, Switzerland and the U. K.; of the latter countries the position of the U. K. appears to have improved substantially in the first part of this year.
6. An indication of the marked deterioration in the balance of trade of some of the countries mentioned may be had by the following comparisons of their average monthly adverse balances (expressed in terms of millions of U. S. dollars) in 1953 and in the first quarter of this year.

TABLE III - Average monthly adverse balance of trade in some countries - Millions of U. S. dollars

Country	1953 - Monthly Average	1956 - (1st Qtr.) - Monthly Average
Austria	— 0.7	— 11.1
Greece	— 13.5	— 18.9
Ireland	— 16.3	— 26.6
Netherlands	— 17.5	— 61.1
Sweden	— 8.1	— 39.1
Switzerland	+ 1.8	— 18.7

7. Balance of Payments. While the balance of trade of Member States with the outside world has been characterised by a substantial deficit (in 1954 \$1.2 thousand million and probably somewhat more in 1955 and 1956), the overall current balance on current transactions of the combined OEEC countries has remained characterised by sizeable surpluses; this is due to the substantial military and other aid receipts from the U. S. A. However, in 1955 a steep decline in this surplus set in; from \$50 millions in 1952, the surplus climbed to \$ 1.200 millions in 1953 and to \$ 1.550 millions in 1954. But in the first half of 1955 it amounted only to \$400 millions and on the basis of estimates for the whole year it is not likely to have reached half the figure reached in the preceding year. The Seventh Report of O. E. E. C. itself points to the fact that these overall figures cover important divergences in the recent trends of individual member countries. " Austria, Germany, the Netherlands, the Scandinavian countries, Switzerland, Turkey and the U. K. have all experienced... a continuing decline in their surplus, or increase in their current deficit, from the first half of 1953 to the first half of 1955 ". The Report goes on to state that in the case of the U. K. and certain of the Scandinavian countries this downward trend appears to reflect excessive domestic demand; the case of Germany clearly falls into a different category (and, it might be added, the German surplus has since shown a new increase). It is to be noted that such countries as Greece and Turkey continue to run substantial deficits on their current overall balance. A more up-to-date though more restricted criterion which reflects recent tendencies, but only in their European context, may be found in the net cumulative position of member countries vis-à-vis E. P. U.

TABLE IV - Net Cumulative Position vis-à-vis E. P. U. - (Million units of account)

Country	Jan. 1952	Jan. 1955	June 1956
Austria	—133	— 33	— 101
B. L. E. U	+ 653	+ 710	+ 1,000
Denmark	— 20	— 172	— 232
France	— 300	— 967	—1,066
Germany	+ 42	+ 1,275	+ 2,006
Greece	— 191	— 324	— 279
Iceland	— 8	— 23	— 28
Italy	+ 209	— 367	— 624
Netherlands	+ 46	+ 384	+ 343
Norway	— 70	— 241	— 286
Portugal	+ 104	+ 18	— 43
Sweden	+ 230	+ 78	+ 55
Switzerland	+ 164	+ 394	+ 287
Turkey	— 105	— 328	— 376
U. K.	— 620	— 402	— 642

Source : O.E.E.C. Statistical Bulletin 1956.

NOTE : Ireland is not included in the foregoing table as she does not participate separately in E. P. U.; Ireland's annual adverse balance of payments was \$8.9 millions in 1952; \$5.5 millions in 1954; \$35.5 millions in 1955.

8. From the above table it will be seen that very radical changes took place between 1952 and June 1956. The outstanding development, of course, has been the enormous growth of the German surplus position — from practically nothing to well above 2,000 million units of account; B. L. E. U. has also registered a very substantial rise in its surplus. By contrast, the numerous member countries have suffered from declining surpluses (Italy and Sweden) or from rising deficits (Denmark, France, Greece, Iceland, Norway and Turkey). In the last 18 months a number of countries whose balances had been showing an improvement in the period 1952 — January 1955 have sustained a definite setback; this applies, in particular, to Austria, the U. K. and Ireland.

PART II - The problems resulting from overemployment in some Member States and from under-employment in other Member States

1. In most Member States there has been a continued increase in the employed labour force. In the words of the Seventh Annual Report of O. E. E. C. (p. 33) : " The expansion of production has absorbed virtually all the labour reserves in most member countries. "

2. However, unemployment and underemployment still represent a formidable economic and social problem in some Member States, in particular Italy, Ireland and Greece. Large scale unemployment, such as exists in these countries, apart from its social effects, tends to create additional economic problems and to distort the normal economic pattern. The control of inflationary tendencies without the rate of investment and development being affected and without the creation of additional unemployment is a major problem for these countries, and one which requires urgent attention. In these three countries the endemic unemployment and under-employment can only be remedied on a lasting basis by a considerable expansion in investment and development. In the case of Italy provision for such expansion has been made in the Italian Ten Year Economic Development Programme which is now in course of implementation; in the case of Greece an equivalent long-term plan has been formulated and is now in process of examination³. In the case of Ireland, while successive Governments have taken steps to promote employment and development, no long-term economic development programme has yet been formulated.

3. In other Member States where some unemployment exists, it is not of proportions to cause anxiety; it may be regarded as transient or marginal.

4. It is a paradox of the present situation that in some countries a state of over-employment has created fresh problems. Among these problems are : a fall in productivity, increased demand for consumption goods and balance of trade difficulties. Increase in productivity coupled with restraint in domestic demand are, of course, clearly the remedy in these particular cases. The extent to which restraint on investment may be advisable depends upon the degree of development of the particular economy. These problems have been of concern to the U. K. and may now begin to arise in the case of Germany. In Germany the influx of some 11 million refugees was the main factor in raising the population of the Federal Republic from 40 millions before the war to some 50 millions now. In consequence, industry was able, until 1955, to draw upon new labour and expand production without any of the strains associated with full-employment. Switzerland, which has virtually no unemployment (1,000 nominally), has been able to avoid over-full-employment problems by availing of foreign workers. Nearly one person in ten gainfully employed in Switzerland now belongs to some neighbouring country. To a lesser degree the influx of Irish manpower in the U. K. has mitigated the labour shortage which would otherwise exist there.

5. A sufficiently reliable comprehensive statistical table of the percentage of the unemployed labour force in each Member State is not available; such statistical information as is available is unsatisfactory on account of the different criteria used in different countries as to the constitution of the " working population " and as to the registration of unemployed persons. Other factors, such as immigration and emigration should also be taken into account in order to obtain a true picture. Hence no comparative table of unemployment is included in this Report.

3. See Report on Economic Situation in Italy ([Document 428](#), 1955) and Report on Economic Situation in Greece ([Document 426](#), 1955).

PART III - Production

1. Gross National Product. During the period 1948-1955 the gross national product of the combined OEEC countries increased by 48 %; since 1952 the increase has been 17 %.

2. For individual countries Table V hereunder shows the position :

TABLE V - Volume Indices of Gross National Product at Market Prices - Base : 1952 = 100 - (Countries listed in order of increase since 1952)

Country	1938	1948	1953	1955
Austria	-	-	103	130
Greece	-	76	118	128
Germany	71	-	108	127
Italy	86	80	107	119
Netherlands	-	85	108	116
Sweden	66	86	104	115
France	-	-	102	114
U.K.	81	92	104	112
Portugal	-	-	106	112
Norway	70	87	102	111
Belgium	-	-	104	111
Denmark	92	93	105	109
Ireland	84	88	102	106
OEEC countries combined	80	79	105	117

Source : O. E. E. C. Sevent th Report, p. 84.

3. Industrial production expanded from 1948 to 1956, (1st Qr.) by 78 %; from 1952 to 1956 the increase was 30 %. However, there are sharp divergences in the rate of increase recorded by member countries, as is shown in the following table.

TABLE VI - Percentage rise in industrial production - (Countries listed in order of highest increase since 1948)

	1948 (average) - 1956 (1st Qr.)	1952 (average) - 1956 (1st Qr.)
All OEEG countries	78	30
Germany	204	47
Greece	165	55
Austria	157	42
Italy	98	35
Netherlands	75	35
Turquie	66 1	27 1
Norway	62	21
France	60	25
Ireland	49	15
U.K.	40	21
Belgium	37	19
Luxembourg	34	10
Denmark	32	13
Sweden	27	14
U.S. A.	36	14

1 Estimates for 1955.

Source : Based on O. E. E. C. Statistical Bulletin, 1956 No. 4.

4. The divergences in the rise of industrial production are particularly striking in the whole period from 1948 to 1956 (1st Qr.); this is mainly due to the fact that in a number of countries a post war reconstruction went ahead at a higher pace in the years immediately following 1948. But the order in which the increase in industrial production was maintained from 1952 to 1956 (1st Qr.) is not very essentially changed. An underlying factor in the divergences in the rate of industrial expansion is the rapid industrialisation of certain less developed countries in Southern Europe. Roughly the countries may be divided into three groups : The first comprises Germany, Greece, and Austria which by far lead the way with increases of more than 150 % since 1948 and more than 40 % since 1952; a second includes Italy, the Netherlands, Turkey, Norway and France with increases of from 100-50 % since 1952 and 35-21 % since 1948; and, finally, a third group covers Ireland, U. K., Belgium, Denmark, Luxembourg and Sweden with increases graded from 49 to 27 % since 1948 and from 21 to 10 % since 1952. Of these, Ireland's progress, in view of its lack of industrial development, is the most disappointing.

5. Agricultural Production. Naturally, the degree of importance to be attached to the rate of increase in agricultural production in any given country depends on varying factors. In Table vn, hereunder, the countries are listed in order of maximum increases over pre-war production. Apart from Italy, Greece and Turkey which, as in the case of industrialisation, show an impressive increase in production owing to the underdeveloped condition of their economies, while notable increases over pre-war levels of agricultural production occurred in the Netherlands, Benelux, France and Denmark. Viewed, however, in the light of increased production since 1948 the progress made by Austria (which nearly doubled her output in the period) and by Germany (whose output rose from 63 to 119 in the period) was most impressive.

TABLE VII - OEEC Indices of Agricultural Production - TTotal Agricultural Output - Base : Pre-war = 100 - (Countries listed in order of maximum increase over pre-war production)

Country	1947-1948	1952-1953	1955-1956
Turkey	104	166	163
Netherlands	80	124	139
B. L. E. U	79	123	135
Greece	88	103	132
Italy	88	117	131
U. K.	94	125	131
France	80	110	127
Portugal	117	118	126
Denmark	83	121	125
Germany (F. R.)	63	113	119
Norway	89	109	115
Ireland	90	103	114
Switzerland	91	113	113
Austria	52	99	110
Sweden	98	114	108
Member countries combined.	83	117	128

Source : O. E. E. C. Statistical Bulletin, 1956 No. 4.

PART IV - Inflationary pressures and prices

1. Consumer Prices A feature of the situation whether viewed since 1948 or 1952 has been a general rise in the cost of living; in the 1948-1956 (May) period all countries registered an increase; in the 1952-1956 (May) period all countries with the exception of Austria and Luxembourg registered an increase. Table VIII, hereunder, illustrates the divergences in the increase in the cost of living.

TABLE VIII - Rise in consumer prices, per cent - (Countries in order of maximum increases since 1948)

	From 1948 (aver.) to May 1956 % increase	From 1952 (aver.) to May 1956 % increase
Austria	113	2
1. Devaluation by 50 % in April 1956 and inauguration of disinflationary programme.		

	From 1948 (aver.) to May 1956 % increase	From 1952 (aver.) to May 1956 % increase
Greece	1001	37
Iceland	98	14
Turkey	55	42
France	62	2
U.K.	45	14
Norway	45	12
Sweden	42	11
Ireland	38	12
Denmark	36	10
Netherlands	39	7
Italy	31	14
Luxembourg	21	0
Belgium	8	3
Portugal	7	6)
Switzerland	7	2)
Germany	5	3
U.S.A.	11	2

1. Devaluation by 50 % in April 1956
and inauguration of disinflationary
programme.

Source : Based on OEEC Statistical Bulletin 1956.

2. Whether developments are viewed over the whole period since 1948 or only over the shorter period since 1952, the divergences between different countries are as striking as in the case of rates of expansion in industrial and agricultural production. As a comparison with Table vi shows, there is no general obvious correlation between the increases in industrial production and the increases in consumer prices. True, Austria, Greece and Turkey figure near the top and Belgium, Luxembourg-near the bottom in both cases; but, on the other hand, Germany takes first place as regards industrial and agricultural expansion and ranks lowest in respect of price increases, while the case of Italy is very similar although less extreme. Both these countries were characterised by a less favourable level of industrial production in 1948, as compared with prewar- days, than other countries of Western Europe and therefore had a larger unused potential, particularly of labour. It is significant to note that for the whole period since 1948 only two member countries of the Council of Europe — Belgium and Germany — can boast price increases that are smaller than the 10 % registered in the U. S. A.; and the situation is hardly changed if account is taken only of developments since 1952.

3. Imported Foodstuffs Against the background of the data presented in relation to consumer prices, it is worth mentioning that prices of imported foodstuffs, on which many member countries are heavily dependent, were in June 1956 back at their 1948 level and that, with the exception of the Korea-influenced year of 1951, they have remained remarkably stable throughout the whole period.

4. Wholesale Prices Wholesale prices in general, on the other hand, have generally shared the rising trend of consumer prices, although to a lesser extent, as regards the years 1948-1952. By contrast they have, in most countries, moved up by only a few per cent during the subsequent period, a slight reduction in 1953 being followed by a slowly accelerating rise in 1954 and, especially, in 1955-1956. The outstanding exceptions to this stability have been Greece and Turkey where increases of 30 % or more were registered during these years.

5. Wages To assess the extent to which wages have contributed to increased prices, or, inversely the extent to which increased prices have compensated for increased wages, it is necessary to examine the relationship between wages and prices. A full comparison of the development of consumer prices with that of wages is rendered difficult by the absence of wage statistics for a number of countries. Nevertheless, the following table is still of interest in this respect:

TABLE IX - Rise of hourly earnings in manufacturing, per cent - (Countries in order of maximum increase since 1948)

Countries	1948-1956 (1st Qr.) % increase	1952-1956 (1st Qr.) % increase
Austria	117	15
France	103	26
Sweden	83	17
Germany	80	20
Norway	60	17
U.K.	58	26
Ireland	491	191
Denmark	481	141
Netherlands	44	19
Italy	42	141
Belgium	371	71
Switzerland	11	4
U.S.A.	43	16

1 1955, 4th Qr.

Source : Based on O. E. E. C. Statistical Bulletin 1956.

6. As will be seen, the order of the countries in Table ix is in general very similar to that already found in Table VIII, particularly if the absence of Greece, Iceland and Turkey from Table IX is taken into account. Again, however, Germany presents an outstanding exception. Germany is among the leading nations in regard to high wage increases since both 1948 and 1952, but can boast of a smaller increase in consumer prices since 1948 than any other Member State; even if the view is limited to the period since 1952 she is among the three nations showing the smallest increase in consumer prices.

7. Interest Rates In so far as higher interest-rates may have a bearing on prices or be an indication of deflationary measures, Table X, hereunder, illustrates the course of official discount rates since the beginning of 1948.

TABLEAU X - Taux d'escompte officiels

Countries	1er trim. 1948	1er trim. 1952	1er trim. 1955	2° trim. 1956
Austria	3.5	5.0	3.5	5.0
Belgium	3.5	3.25	2.75	3.0
Denmark	3.5	5.0	5.50	5.5
France	2.5	4.0	3.0	3.0
Germany	3.5	6.0	3.0	5.5
Greece	10.0	12.0	9.0	9.0
Iceland	6.0	6.0	7.0	7.0
Ireland	2.5	3.5	3.0	5.0
Italy	5.5	4.0	4.0	4.0
Netherlands	2.5	3.5	2.5	3.0
Norway	2.5	2.5	3.5	3.5
Portugal	2.5	2.5	2.5	2.5
Sweden	2.5	3.0	2.75	3.75
Switzerland	1.5	1.5	1.5	1.5
Turkey	4.0	3.0	3.0	6.0
United Kingdom	2.0	4.0	4.5	5.5
U.S.A.	1.25	1.75	1.5	2.75

Source : O.E.E.C. Statistical Bulletin. 1956' No. i p. 99.

8. Examined in the light of developments since the beginning of 1948 the countries listed in Table x may be grouped into the following categories :

- a. Reduced Discount Rates Only, Belgium, Greece and Italy have now a lower Official Discount Rate than in 1948.
- b. No change. Switzerland and Portugal whose Discount Rates were 1.5 % and 2.5 % respectively have made no change at all since 1948.
- c. Increase of not more than 1 %/0 France, Iceland, Netherlands and Norway have increased their rates since 1948 but by not more than 1 %.
- d. Increase of more than 1 % and not more than 2 % Austria, Denmark, Germany, Sweden and Turkey.
- e. Increase of more than 2 % Ireland and the United Kingdom.

While the foregoing grouping is of interest as showing the different tendencies, one must beware of drawing conclusions from it. Existing Rates in 1948, inflationary tendencies and the availability of capital are factors which should also be taken into account when drawing conclusions.

9. Freight Rates. As a component of prices for certain commodities of varying degrees of importance for different countries, the very steep increases in freight rates is well worthy of notice.

TABLE XI - Freight Rates - Base : 1953 = 100

	Dry Cargo Trip Charter Global Index	Dry Cargo Time Charter Norwegian Index	Tankers Sterling (M. O. T.)
1949	96	115	92
1952	129	169	253
1953	100	100	100
1955	165	205	132
1956 (mai)	209	294	222

PART V - Conclusions

1. The survey carried out in the earlier parts of this Report in itself makes clear the problems of Western Europe and of individual Member States; an objective realisation of the problems is in itself the first requisite for remedial action. Hence the importance of ensuring a full understanding, in each of the States comprising the Council of Europe and O. E. E. C, of the exact nature and full import of the problems underlined in this survey. In this way, a norm or standard will be achieved which it is hoped will become the aim of each Member State.

2. The most striking aspect of the present situation is the very wide divergences which exist in the nature of the problems to be dealt with; they range from high export surpluses to large deficits, and from massive unemployment to over-full employment. Most of the existing problems are " special cases " requiring particular remedies. It is true, however, in theory at least, that the very extent of the divergences should facilitate their solution by co-operative effort. But theory does not always correspond to practical politics. Nevertheless, before this approach to the " special cases " of the European economy can be contemplated it is essential to ensure the healthy progress of the OEEC. area as a whole; hence this aspect of the present situation will be dealt with first in the next succeeding paragraphs.

3. Overall Balance of Trade and Payments The position to which attention is drawn in paragraphs 5 and 11 of this Report is a serious one, particularly in view of the trends which it reveals :

- a. A steady and substantial increase in the adverse balance of trade of the combined OEEC area vis-a-vis the rest of the world since 1953;
- b. A steep decline in the overall favourable current balance on current transactions in 1955 and probably in 1956;
- c. That without substantial U. S. military expenditure and U. S. aid receipts, the OEEC area would be in substantial payments deficit with the dollar area and the rest of the world.

The remedy for this situation lies in increasing exports to, and earnings from, the rest of the world and the dollar area in particular. This depends on the individual and combined efforts of Member States, on the one hand, and on the willingness of the U. S. to open its markets more fully to Western Europe exports, on the

other hand. If the increased, and increasing, rate of imports from the dollar area is to be maintained, Western European goods will have increasingly to pay for them —and have to be allowed to pay for them. The only alternatives would be either continuing and possibly increasing U. S. aid and expenditure in Western Europe or a curtailment of imports from the dollar area. Neither of these alternatives would be satisfactory.

4. **Production and Productivity** The importance of maintaining a satisfactory rate of increase in production and productivity, both industrial and agricultural, cannot be over emphasised. This has an important bearing, both on the question of increasing exports and of stemming price increases. It is also necessary in order to meet increasing consumer demand resulting from improved living standards. While an examination of the survey contained in Part in of this Report shows a good overall rate of progress, it is clear that much remains to be achieved in a number of countries.

5. **Prices and Inflation** While all countries have suffered from some price increase since 1948, in the case of Germany, Belgium, Switzerland and Portugal the increase was well below 10 %, whereas in the other cases it ranged from 20 % to 100 %. The increases since 1952 have been at a slower rate but, nevertheless, substantial. (See Part iv). In considering the causes for this situation, it is in the first place necessary to eliminate some popularly held misconceptions. Adverse movements in the terms of trade do not provide an explanation for price rises; there has been no deterioration in the terms of trade —in fact they have slightly improved since 1952. Likewise, imported foodstuffs were not a contributing factor; generally, these prices are now the same as in 1948 and slightly lower than in 1952. Freight rates (see Table xi), metals, coals and timber in the case of some importing countries have been significant factors in increased prices. Leaving aside the political and social questions which may be involved, there is no doubt that increased wages and rapidly increasing domestic demand have been very important factors in causing price increases. Moderation in internal demand coupled with increased productivity are, for most countries, the best means of stemming the tide of rising prices. This restraint, involving as it does consumers, workers and employers, naturally involves political and social issues; because of this a better public understanding of the problems involved is desirable.

6. The methods and extent of measures taken to restrain domestic demand naturally have to vary from country to country, but some rules have a general application and should be borne in mind :

- a. Save in the case of an economy which is very fully developed, measures that would reduce the investment rate should be avoided.
- b. Restraint on consumption should be effected so as not to restrain initiative or destroy production incentive.
- c. Credit restrictions, save in the case of hire purchase controls, will tend to curtail investment rather than consumption.

7. **Savings** As an adjunct to a policy of moderation of domestic demand the question of incentives to encourage savings on a larger scale should receive more attention than has been given to it. Likewise, the availability of fiscal and budgetary measures as an alternative to monetary control should not be lost sight of. Sales or purchase taxes may often achieve better results than income tax in promoting savings and curbing consumption.

8. **Disparities** The wide divergence in the nature of present day European economic problems makes it necessary to consider the " special cases " already mentioned. Essentially the solution of these particular problems must depend on the policy and/or effort of the individual country concerned. The co-operative effort of the member countries directly with each other or on a combined basis could be, in addition, of very considerable assistance.

9. **Germany** The position of the German economy is singled out for special mention not because any serious difficulties are besetting it, but because of its very buoyancy and of its importance to the European economy as a whole. Despite the accumulation of vast export surpluses there is not an abundant supply of capital. The gold and currency reserves, measured in proportion to the current foreign trade, stood in 1955 at less than half of those of Switzerland. In the light of these circumstances and in the interest of international economic stability, the revaluation of the German currency should only be a last resort. Fears are also expressed that behind the German problem lurks the inflation of other countries. Germany has already facilitated imports of industrial products; this was a wise step which should be of benefit to the German economy and to the OEEC area; the possibility of facilitating imports of agricultural produce might also be desirable in present circumstances. The outstanding fact emerges that despite tremendous difficulties the German economy has achieved unparalleled success in every field.

10. Unemployment and over-employment The paradox of massive unemployment and under employment in such countries as Greece, Ireland and Italy and of labour shortages in such countries as the United Kingdom and possibly Germany, require constant attention. While migration of workers may be a temporary expedient, it is not a satisfactory solution. The setting up of branch industries in the countries affected by large-scale unemployment would be more beneficial and create fewer problems.

11. Production and Exports This is a situation in which special attention should be given to the possibility of increasing both production and exports in those countries where the rate of progress has either declined or been insufficient. This is an aspect of the problem in which O. E. E. C. could give valuable individual guidance.

12. Member Governments should make greater use of the advisory and technical services of O. E. E. C. The Secretariat of O. E. E. C, which includes economists and technicians of considerable experience, would in many cases be able to give valuable guidance and advice to Member Governments in regard to productivity and special economic problems. Particularly in the formulation of long-term, or even short-term, economic programmes the experience and technical services of O. E. E. C. should be utilized. Correlated with this question is the necessity of ensuring that the excellent documentation and advices which are thus made available percolate through to the quarters which could benefit most by them. This, of course, only applies to some Member States, not to all.