

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

United States: Continuing economic growth

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1966) : United States: Continuing economic growth, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 01, Iss. 7, pp. 21-22, <https://doi.org/10.1007/BF02923302>

This Version is available at:

<https://hdl.handle.net/10419/137626>

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works. But it may be of interest to look at the way how co-operation between India and its foreign partners has shaped. Such a comparison would undoubtedly be of very great use indeed. But here it cannot be attempted, if for no other reason than lack of documentation. It seems—and this can only be indicated with caution—that in Bhilai and Durgapur the foreign partners were from the very beginning given a greater say in the setting up and running of the projects than it was the case at Rourkela—a trend which found concrete expression for instance in the appointment of an Englishman as director-general at Durgapur. It must be left open, however, how far this apparently wider sphere of influence of the foreign partners has in fact led to better co-operation and better economic long-term results.

A Round-About Way to Success

The Rourkela test case, therefore, presents the picture of a project the realisation of which was endan-

gered but not frustrated by numerous obstacles. Evidently every difficulty acted as a lever on all participants to work out and accept new solutions in an enterprise in which they had all become involved. Given different circumstances, some of these costly and time-consuming detours could, it is true, have been avoided. The case of Rourkela thus makes it clear how essential it is to find a form of efficient co-operation between a helping industrialised country and an emergent developing country. It must be a type of co-operation that meets the objective needs of such a project and, at the same time, while making maximum use of the resources of the developing country, takes into account its political and national conditions. Furthermore, Rourkela shows what a decisive role the Government of the industrialised country can play towards the success of an undertaking which was originally launched singlehanded by its private enterprises. It demonstrates, too, how cautiously a Government must proceed.

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World Business Trends

United States: Continuing Economic Growth

During the last months the speed of economic growth in the United States should have slowed down but slightly. Although in the automotive industry output has been reduced the other important industrial branches experienced a vigorous boom. The unbroken force of demand factors points at a continuation of the economic expansion at the present speed. Above all public expenditure on goods and services as well as capital expenditure of the economy will continue growing as much as hitherto during the next months. Also for the future it should be possible to cover the vigorously increasing all-out demand without too many tensions. The recently somewhat more pronounced upward trend in prices will hardly accelerate. Taking one thing with another in 1966 there can be anticipated an increase of the gross national product which, by 5 to 5.5% is similarly high as the one in 1965.

The private households' propensity to purchase more is continuing. The buyers' reserve as regards motorcar purchases is no contradictory evidence since it is a re-

sult of special developments (more expensive instalment credits, discussion of additional safety devices). It is true, though, that at present consumption expenditures are rising somewhat less than incomes, for in the beginning of the year private households responded to the increase of social contributions and taxes with a low rate of saving. During the last months, however, the saving ratio should have grown again leading to a slower increase in consumption. The adjustment having come to an end the expenditure of private households will again rise continuously.

The necessity of expanding production capacities, together with rising profits and a positive judgement as to the business trend, has caused the enterprises to extend their investment programmes once more. While at first they had intended to increase their expenditure on new plant and equipment by 8% from 1965 to 1966, now according to the most recent inquiry they are planning to expand their capital expenditure by 17%. This new expansion of their investment programmes would prob-

ably have been even greater if some corporations had not postponed, owing to government intervention, part of their planned investments. Above all the mechanical engineering and transport industries (excluding motor vehicles) are planning a considerable increase of their fixed investments. In the steel, non-ferrous metal, and automotive industries, on the other hand, the propensity to invest has declined during the last months.

By public authorities, vigorous influences of expansion will be created also in the further course of the current year. Defence expenditure, for instance, should not—as originally planned—remain limited to its present volume. After an increase by \$ 3,000 million in the first quarter of 1966—the annual growth rate adjusted for seasonal variation—increases of \$ 2,000 million for each of the following quarters are being anticipated. However, a balancing by cutting down expenditure on civil purposes is impossible because otherwise objectives aimed at by the "Great Society" programme would have to be given up. In an election year the Government also refuses tax increases that might lead to a drastic reduction of private demand.

In April, 1966, the level of wholesale prices of all goods surpassed the previous year's level by 3.7% after the growth rates had been 3.9% in the first quarter of 1966 and 2.9% in the fourth quarter of 1965. The recent slowing down of the price increase is a result of cheaper farming products and industrially processed foods. In contrast to that the price increase of industrial goods, that are more dependent on the business trend, has accelerated. Here the increase in price amounted to 2.2% in April as compared with 1.9% and 1.5%, respectively, in the first quarter of 1966 and the last one of 1965 (always vis-à-vis the previous year's corresponding level). The price increase was most pronounced in the case of industrial raw materials and semi-finished manufactures, while as regards finished capital goods and consumer goods it was comparatively limited.

The balance of payments deficit has increased again in the first quarter of 1966. It amounted to \$ 2,300 million—annual rate adjusted for seasonal variation—as compared with \$ 1,500 million in the last quarter of 1965. In the main, this new deterioration of the balance of payments situation is a result of the growing expenditure on military and economic aid measures in Vietnam. Besides, the contribution of commodity trade to the covering of the deficit stemming from the balance of capital transactions is continuously decreasing. Due to the favourable domestic business trend imports are growing strongly while on the other hand exports are rising but slightly as industry can sell its products easily at rising prices in the domestic market. Under these conditions the balance of payments deficit this year should be larger than in the preceding year.

1966 will be 3,402 million lb, i.e. 47 million lb less than in the season 1964/65. Wool consumption has developed more favourably than expected. In 1965 in the Western world alone it increased by 2% as compared with the previous year and there has been a rising trend during the last three quarters. In 1965, above all the United States and Japan registered a considerable rise in consumption, while in Britain and some other West European countries wool processing was declining.

During the next months wool prices should rather tend to increase somewhat due to the supply-demand situation. The Australian breeders in spite of modern methods will require about two to three years for the replenishing of their decimated flocks. Although in other producer countries larger output is thought possible, a reliable forecast cannot be made as to whether the Australian production losses will be fully balanced in the coming season already. Moreover, the firm price trend is being favoured by the fact that wool stocks of processing industries above all in Europe have declined to a comparatively low level. A further reduction of these stocks would have to be anticipated only if the processing industries refused part of the Australian wool as unsuitable due to its lower quality. The consumption of wool should rise again somewhat during the current year. According to data available in the eight most important consumer countries, in the first quarter of 1966—adjusted for seasonal variation—about 1% more wool has been processed than in the last quarter of 1965.

Raw Material Markets

Stable Wool Prices

Also in the second half of the current season 1965/66 wool prices continued to increase. Only at the end of January a temporary slight price decline could be registered. For two months wool prices have remained unchanged at 121 d/lb for 64' wooldtops. However, this does not justify the conclusion that there is a general stagnation in the wool markets, for the price-raising factors might prevail at any time again. This applies above all to types of higher quality whose supply has become short due to the drought in Australia. For low qual-

ity wool, however, higher prices are not to be anticipated as these varieties are easily available.

According to latest estimates this season's total wool production at 3,245 million lb (cleaned) will be smaller by 1.8% than in the previous season (3,304 million lb). The reduction of the Australian wool output by 9.3% will thus to a large part be balanced by higher production in New Zealand, South Africa, and the Soviet Union. Including the stocks of 157 million lb available in the producer countries the wool supply of the season 1965/

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1965			1966			
	June	September	December	March	June	17. 6.	1. 7.
HWWA-Index 1 (1952—1956 = 100) ...	95.2	94.8	96.4	99.0	96.2	96.4	96.0
Foodstuffs	84.7	84.6	86.9	86.2	84.3	85.0	85.6
Raw materials other than foodstuffs ...	100.3	99.7	101.0	105.1	102.0	101.9	101.1
Fuels	95.4	95.4	95.6	95.6	95.7	95.7	95.7
Raw materials for consumer goods ..	90.1	91.3	90.9	94.5	96.2	96.1	96.3
Raw materials for capital goods	112.1	109.6	113.3	121.9	112.7	112.5	110.1
Reuter's Index (Sep. 18, 1931 = 100) ...	451.4	448.5	457.5	469.6	463.1	459.3	465.3
Moody's Index (Dec. 31, 1931 = 100) ...	387.3	383.8	407.2	402.3	402.8	401.1	402.2

† Index compiled by the Hamburg Institute for International Economics.