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US Economy in Its Sixth Year of Expansion

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gained from the development of EEC does not contradict this conclusion.

Not least because of lack of co-ordination connected with the business cycle, governments of member states have repeatedly been forced over the last few years to resort to those devices of external economic policy still open to them during the development period. For example, in the Federal German Republic tariffs levied upon member states have several times been reduced before their scheduled date; by encouraging imports, a brake was placed upon inflated domestic prices. Clearly, this opportunity will not be valid at the end of the transitional period.

For the same reason, the German Mark and the Dutch Guilder were revalued in 1961 in terms of the US Dollar. The French Government has twice been forced to improve its balance of payments situation by devaluing the Franc. According to Art. 107 of the Treaty of Rome, this possibility remains open—formally, at least—even after the end of the transitional period. However, both responsible politicians and most academics agree that changes in exchange rates or even full convertibility cannot be reconciled with the full-scale functioning of the Common Market.

Only four years ago Jürgensen analysed the consequences to the world economy of Britain's entry

into the Common Market.³ This entry would have led to a considerable diminution of the undesirable effects of the Treaty; these are described above as being the second main problem raised by modern policies of integration. Over and above this, Britain's entry would essentially have given fresh stimuli to the liberal, but realistic, reorganisation of the world economy—stimuli which have already made their mark in the original concept of the "Kennedy Round". We know today that the European Economic Community will not, in the near future, be able to assume such a world-wide function. In EEC's first basic crisis—which, like the present one, arose from political causes—it reverted to its purely regional functions. As Jürgensen put it at the time, it remained "a Continental European association for improving the mutual division of labour".

Today EEC faces another basic political crisis. Opinions differ on the question of the infra-structure of the Community—this was described above as the first main problem concerning integration policy. This time, it is not a matter of the external development and policies of the Community, but of its ability to function internally; on this occasion, indeed, its very existence is in question.

³ Harald Jürgensen, *Der Beitritt Großbritanniens zur EWG*, in *Jahrbuch für Sozialwissenschaften*, Vol. 13, 1962, p. 239 ff.

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World Business Trends

US Economy in Its Sixth Year of Expansion

In the United States the sixth year of an uninterrupted economic expansion is beginning now. The underlying forces of expansion have still increased during the last months and thus economic growth has accelerated again. The strongest incentives are originating from public expenditure and investment activities of enterprises. Also consumer expenditure of private households continues expanding strongly while, the same as before, expenditure for housing does not show any stimulation worth mentioning. Foreign net demand, too, hardly supports the upswing. The growth of inventories, however, should again increase after the excessive stocks of steel have been reduced to a large extent. In the first half of 1966 on the whole an increase of the gross national product even somewhat higher than in the second half of 1965 has to be anticipated.

To avoid a vigorous rise in the Federal expenditure for military purposes should not be possible any longer as there are hardly any prospects for an early end to the war in Vietnam. Already in the current financial year military expenditure will surpass by \$ 4,000 million the originally planned amount of \$ 49,000 million. Another increase of expenditure on defence by \$ 7,000 million to a total of \$ 60,000 million in the new budget covering the period between mid-1966 and mid-1967 is already provided for. Besides also expenditure for the Great-Society-Programme and other civil tasks will rise.

Investment activities of the economy will probably even accelerate during the next months. According to the most recent official survey in the first half of 1966 private enterprise is planning an increase of its investment in plant and equipment almost as high as in

the second half of 1965. However, various factors should cause the entrepreneurs even to considerably extend their investment plans, for the majority of industrial enterprises has reached optimum utilisation of capacities. Nevertheless the backlog of unfilled orders has risen continuously. Another incentive to an increasing propensity to invest is originating also from a continuing favourable trend of entrepreneurial profits.

As a consequence of the accelerating growth in "primary demand" incomes of private households will rise even more than before in the near future. The increase of social contributions by approximately \$ 2,000 million should therefore hardly slow down the rise in consumer expenditure. Different surveys confirm that private households are prepared to increase above all purchases of durable consumer goods.

Discussion of a possible "inflationary" price development has even been intensified most recently. It was occasioned by the

raising of the bank rate from 4% to 4.5% by the Federal Reserve System. In government circles this measure has met with most pronounced disapproval. Indeed the price increase has hardly accelerated and—as compared with European standards—continues to be a small one. In November 1965 the cost-of-living index was 1.7% above the previous year's corresponding level, and wholesale prices of industrial manufactures rose by 1.5%. In future, however, the tendency for rising prices should increase somewhat in view of the growing pull of demand.

In the course of the accelerating economic boom a change in the labour market is in making. Although labour is generally available in sufficient numbers still, in some lines of production it is becoming increasingly difficult to overcome the lack of skilled labour. In December, 1965, at 4.1% the rate of unemployment, adjusted for seasonal variation, has reached its lowest level since 1957. This year it should fall below 4%. Only 2% of married men able to work are still unemployed although the employment situation of juvenile labour, particularly of coloured people, is much more unfavourable. In future their better integration into the labour force will be made easier by an intensification of training programmes.

In the 3rd quarter of 1965 the balance of payments at \$ 2,500 million—adjusted for seasonal variation—has become adverse again. The new deficit has been caused mainly by increasing bank credits granted abroad and direct investments of American enterprises. In the beginning of 1966 the Government has therefore extended its programme for a limitation of ex-

ternal credits and investments. But even in spite of this a complete elimination of deficits should hardly be possible in view of the unfavourable development of the trade balance. In 1965, the export surplus was lower by \$ 1,600 million than in the previous year. Also in

the near future a basic change in the foreign trade situation is not to be expected. Exports will expand somewhat more than hitherto, but at the same time imports will continue growing strongly due to the favourable development of the domestic business trend.

Raw Material Markets

Upward Adjustment of Prices in the Caoutchouc Market

Since November last, caoutchouc prices have slightly increased again after they had reached their 1965 bottom in October. At present it appears as though this trend will continue for some time to come, for the Eastern bloc's higher purchases—the main reason for the price increase—should not come to an end yet. Thus e.g. for January shipment East-bloc countries have bought 35,000 tons in the Singapore market.

The weak state of the caoutchouc market in October was caused by the general restraint of buyers who before had providently stocked up in expectation of large Soviet purchases. However, these purchases began no earlier than in November. Besides China appeared as a buyer in the Singapore market after in the last years it had covered its demands in Indonesia mainly. Presently caoutchouc is being not exported by Indonesia due to the political events there.

Negligible price-raising effects only have hitherto been caused by the extension of the war in Vietnam, because the American Government did not reduce its stockpile sales but even increased them to such an extent that the permanent supply gap in the caoutchouc market has been more than filled up.

Prospects for a continuing rehabilitation of caoutchouc prices are very low. American stockpiles, it is true, after sales of some estimated 120,000 tons in 1965 have decreased to about 620,000 tons. However, they nevertheless will last for another five years if the present speed of reduction is being maintained. In the meantime, however, the caoutchouc supply stemming from new production will also rise. Thus Malaysia attempts to expand its production through regeneration of its caoutchouc cultures. In the first nine months of 1965 with 672,000 tons there have been produced already 4% more than in the previous year's corresponding period.

Another price cutting influence will be exercised also in future by the rapid production increase of synthetic caoutchouc. In 1965 for the first time since 10 years in the United States the share of synthetic caoutchouc in total consumption has declined somewhat, but in the rest of the world its production and consumption are still increasing above average. In the first eight months of 1965 alone world production of synthetic caoutchouc rose by 8% as compared with the previous year's corresponding period, while the growth rate for natural caoutchouc was 3.5% only.

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

Index and commodity group	1964	1965					1966
	December	March	June	September	December	Dec. 17.	Jan. 17.
HWWA-Index 1 (1952—1956 = 100)	96.9	96.5	95.2	94.8	96.4	95.4	97.8
Foodstuffs	89.4	88.8	84.7	84.6	86.9	86.9	88.7
Raw materials other than foodstuffs ...	100.4	100.2	100.3	99.7	101.0	101.0	102.2
Fuels	96.2	96.4	95.4	95.4	95.6	95.6	95.6
Raw materials for consumer goods ..	89.8	89.0	90.1	91.3	90.9	90.9	91.4
Raw materials for capital goods	111.9	111.5	112.1	109.6	113.3	113.3	116.2
Reuter's Index (18. 9. 1931 = 100)	467.7	458.2	451.4	448.5	457.5	457.2	471.2
Moody's Index (31. 12. 1931 = 100)	368.7	369.5	387.3	383.8	407.2	408.6	412.2

¹ Index compiled by the Hamburg Institute for International Economics.