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**Article — Digitized Version**

## The widening gap in the wealth of nations

Intereconomics

*Suggested Citation:* Michaelis, Alfred (1967) : The widening gap in the wealth of nations, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 5, pp. 125-130, <https://doi.org/10.1007/BF02930363>

This Version is available at:

<https://hdl.handle.net/10419/137741>

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many national competences which would have to be handed over to a supranational solution. This would require a more far-reaching integration. We do not know whether this will ever be realised. But the big success of economic integration, which has been achieved within the EEC, makes it appear possible that a loose currency integration may take place in Europe. The Club of the Ten would then be reduced to cooperation between the three big industrial power fields outside the communist bloc, as we can add,

within the Club, Canada to the US. Currency policy vis-à-vis the countries on the periphery of world trade, mainly the so-called development countries, could be much simplified. And, what is more important, the currency system of the world would then correspond to its economic order. This order, as is well known, cannot be run without an adequate currency system, in the same way as an adequate currency can exist only on the basis of an adequate economic order.

## THE DEVELOPMENT DECADE

# The Widening Gap in the Wealth of Nations

By Professor Dr Alfred Michaelis, New York

**A**n interim report prepared last year by the Secretary-General of the United Nations on the results of the first half of the Development Decade sounded a gloomy note: The age-old scourges of famine and epidemics, instead of receding into the past, have returned to haunt the minds of men; in some cases they have begun to assume critical proportions. Food production in the developing world is lagging behind the increase in population. Control of communicable diseases is not as effective as it could and should be. The rate of economic growth is slowing down instead of accelerating. The lack of foreign exchange is holding back the implementation of development plans and projects. The terms of trade failed to improve for the developing countries which are mainly exporters of raw materials; they rather show further deterioration. External financial assistance, extended by the industrially developed countries, shows signs of levelling off. A growing percentage of export earnings of developing countries is being absorbed by servicing a mounting foreign debt. All in all, the prospects for attaining the goals of the Development Decade have dimmed with passage of time.

### **The Targets of the Development Decade**

The resolution designating the current decade as Development Decade which passed the General Assembly of the United Nations on December 19, 1961, set two specific targets: a minimum annual growth rate of the Gross National Product (GNP) of developing countries of 5 % by the end of the decade, and an annual transfer of development capital from the developed countries amounting to 1 % of their GNP. In view of the annual population increase of the developing countries, estimated at about 2.5 %, only half of the target growth rate would be left for a rise in the per capita income and funds available for the growing investment needs. This goal can hardly be considered as overambitious.

More complicated is the situation regarding the annual transfer of 1 % of the GNP of the industrialized

countries to the multitude of developing countries. This one percent includes government aid as well as private investments in developing areas over which governments do not exercise control. This one-percent target has not been reached; and the "rich" countries are being blamed for not having done their share. Last summer, on the occasion of the Geneva session of the United Nations Economic and Social Council, Secretary-General U Thant pointed at the "stark fact" that, while national income has considerably increased in the developed parts of the world in recent years, financial assistance to developing countries has levelled off with the result that "the transfer of resources from rich to poor countries has decreased in relation to the capacity of high income countries to provide such assistance". With these unmistakable remarks, the Secretary-General undoubtedly reflected the prevailing opinion in circles representing the developing countries.

### **\$ 90,000 million in Development Aid**

Nevertheless, huge amounts of government and private long-term capital and donations have been made available to developing countries during the last 10 years. The total net outflow of resources from developed market economies (i. e. private enterprise countries) to developing countries during the years 1956-1964 is estimated by the UN Department of Economic and Social Affairs at \$ 62,600 million in public and private flows, either bilateral or through multilateral agencies. The 1965 total exceeds \$ 10,000 million, bringing the 10-year (1956-1965) total to approximately \$ 73,000 million. Although figures for 1966 are not yet available, it may be assumed that another \$ 10,000 million were added. According to UN compilations, commitments of bilateral economic assistance from centrally planned (i. e. socialist) economies to developing countries during 1955-1964 amounted to the equivalent of \$ 6,030 million, with the Soviet Union accounting for 62 % of the total. This brings the overall total of public and private

funds either bilaterally or multilaterally transferred from developed market and centrally planned economies to developing countries from the mid-50's to the end of 1966 to approximately \$ 90,000 million.

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), which includes the "Western", "developed", "industrialized" or "rich" countries almost completely, gave the following breakdown of the capital flow from the member countries to developing areas for 1964 and 1965.

**DAC Capital Flow to Developing Countries**  
(in \$ mill.)

Country	Total		Government		Private	
	1964	1965	1964	1965	1964	1965
Belgium	177	241	84	121	93	120
France	1,382	1,319	831	757	550	562
Germany	691	705	422	427	268	278
Italy	242	250	54	66	188	184
Netherlands	128	224	48	60	80	164
EEC total	2,619	2,738	1,440	1,431	1,179	1,308
UK	908	923	493	480	415	443
USA	4,760	5,514	3,463	3,766	1,297	1,748
Other *	796	975	487	604	309	371
DAC total	9,083	10,150	5,883	6,281	3,200	3,870

\* Other DAC members are Australia, Austria, Canada, Denmark, Japan, Norway, Portugal, Sweden and the EEC Commission. Figures do not necessarily add up to totals due to roundings.

The breakdown by government or private sources shows clearly where the flow of funds is lagging behind expectations. In the 1964/65 period the governments supplied 63 % of the capital resources transferred to developing countries, while private capital participated with little more than one-third. Private capital participated with 46 % in the EEC total, but made up for only 34 % of the USA total. Altogether, the USA in 1964 and 1965 supplied 53 % of total DAC flow to developing countries, with the massive US Government foreign aid program accounting for 59 % of total DAC governmental assistance. But the share of US private capital was only 43 % of total DAC private investments. In other words, private capital, particularly American private capital, is not going along with the investment requirements as stipulated in the UN Development Decade resolution.

#### **Unfavorable Investment Climate in the Developing World**

The reasons for the hesitancy of private capital to move into the developing world are obvious: political instability, economic nationalism, socialist tendencies with dubious compensation prospects and transfer problems affecting principal and profits. Few regimes in developing countries can be considered safe and other regimes can change economic policies. Economic nationalism is a deterrent to private foreign investments even in developing countries with a strong Western orientation. Almost without exception, foreign investments are confined to projects beyond local technical and financial capacity, while long-established foreign firms have been ousted from

fields ready to be taken over by nationals. In itself, this may well be justified; but it does not promote foreign investments. The prospect is always looming that investments which are welcome today, may become ripe for nationalization or transfer into the hands of private nationals once they get acquainted with the techniques of running such establishments. This trend was candidly expressed some years ago by the Prime Minister of western-oriented Nigeria, Sir Abubakar Tafawa Balewa, shortly before his ouster and assassination in January 1965. Speaking against radical nationalist tendencies in Parliament, he stressed the continuing necessity of foreign capital "in the productive sphere"; but even in that sphere he did not exclude future seizures and could only give the assurance to foreign investors, that he "would let them know in time".

In view of the economic and political risks involved, a large-scale flow of private foreign investments in developing countries as envisaged by the UN resolution did not take place. US private investments in Western Europe, despite "voluntary restraints", are presently more than twice as high as those in the developing world; they are largely confined to oil and other mining operations. The inherent incompatibility of economic nationalism or socialism and the maintenance of conditions attractive to massive private foreign investments is often disregarded.

#### **Mounting Foreign Indebtedness**

While the rich industrialized countries have been blamed for not supplying funds commensurate with the magnitude of their potential and the tasks confronting the developing countries, attention has been called to the alarming danger of their mounting indebtedness. According to a World Bank estimate, the outstanding public and publicly guaranteed debt of developing countries rose from \$ 9,000 million in 1955 to as much as \$ 33,000 million by 1964. The inclusion of obligations to the International Monetary Fund, private debts and commercial obligations would raise this estimate to about \$ 38,000 million. At the end of 1966, this figure may be estimated to have reached the level of \$ 50,000 million. Total annual debt service payments by developing countries reached about \$ 4,000 million in 1965, and they continue to rise. Debt service payments, which accounted for only 4 % of export earnings of developing countries during the mid-50's, absorbed not less than 12 % of export earnings in 1964. In addition, dividend payments and profits on direct foreign investments in developing countries take about 10 % of export earnings at present. It should be noted that these are average figures. They include the major oil exporting countries, most of which are free of foreign debts. Many developing countries are burdened with a higher than the average percentage of their export earnings in annual debt service obligations. It is estimated that more than half of the gross international flow of financial resources to developing countries is presently offset by debt service payments

and outflows of profits and dividends. This means that more than half of current foreign aid and investments is used for the financing of obligations arising from previous credits and investments.

These disturbing figures show that the capacity of developing countries for incurring debts, particularly external debts, has limitations. It can be figured out that within the next 10 years external debts will be increased by the continuing flow of funds to the point where the total current influx will be absorbed by the debt service so that nothing is left for development purposes. Thereafter, the current-level influx of foreign finance will not even suffice to finance the debt service. A substantial increase in financial aid would momentarily alleviate the situation, but only aggravate the problems of mounting indebtedness. Although, for obvious reasons, it is never mentioned today, one day the unreality of the development loans and credits accumulated in the books will have to be faced (at least as far as bilateral government loans and credits are concerned). In the long-term perspective, increasing foreign aid would be required indefinitely just to keep the developing countries from defaulting on their previous debts.

#### **Deficient Export Capacity and Unfavorable Terms of Trade**

At the root of the difficulties is the unfavorable foreign trade development of developing countries due to their limited export capacity and deteriorating terms of trade. According to compilations by the UN Statistical Office<sup>1</sup>, exports of the industrial countries increased 140 % from \$ 50,700 million in 1954 to \$ 121,500 million in 1965. During the same period, exports of developing countries rose only 57 % from \$ 21,400 to 33,600 million. Exports of industrial countries thus rose 2½ times as fast as those of developing countries. These figures reflect the widening gap between developed and developing countries in terms of their export capacity. The share of developing countries in total exports dropped from 29.7 % in 1954 to 21.7 % in 1965.

Quantitatively, the picture is different. While, during the 1954-1965 period, exports of developed countries increased 2½ times as fast as those of developing countries in value, they rose quantitatively less than twice as fast. This striking discrepancy between the export picture in current values and in quantities is explained by the diverging price trends for the export products of both areas, or in other words by the deterioration in the "terms of trade".

The statistical foreign trade analysis by the UN divulges the unfavorable price trends which cut into the export earnings of developing countries, whereas the export values of the developed areas were boosted by rising prices. The price index (unit value) of exports of industrial countries (1958=100) increased from 97 in 1954 to 105 in 1965, while the same index

for the exports of developing areas shows the exactly reversed trend: it dropped from 105 in 1954 to 97 in 1965. The most important export commodities are machinery from the industrial countries and oil from the developing areas. Both more than doubled during 1954-1965 and both reached an export value of \$ 10,000-11,000 million in 1965. But the unit value of machinery exports rose from 88 in 1954 to 108 in 1965, while the unit value of oil exports dropped from 94 to 85. The basically weak export position of the developing countries was severely aggravated by the weakness in the prices of their main export products.

#### **The Agricultural Handicap**

The most disappointing feature in the economic performance of the developing countries is the slow uptrend in their agricultural production. With 70-80 % of their population engaged in agriculture, populous developing countries have become increasingly dependent on food supplies from industrial countries, particularly from the USA. Food production is hardly keeping pace with the rapid population increase of about 2.5 % per annum. According to calculations by the UN Food and Agriculture Organization, the expected world population increase from the present 3,300 to about 6,000 million people at the end of the century would require food supplies to be almost doubled. The poorly nourished developing countries will be crowded with 80 % of world population by the year 2000. The population explosion and the required improvement in diets requires a multiplication of food production in the developing countries.

The modernization of agricultural production proves to be one of the most intractable problems facing the developing countries. The methods and techniques are known and long-established in the western world. But it is exceedingly difficult to overcome the conservatism, apathy, ignorance and superstition of an illiterate peasantry accustomed to subsistence farming on a primitive level. Aside from this human inflexibility, modernization of agriculture requires huge investments to which the peasants have nothing to contribute. The improvement of sub-tropical and tropical agriculture is more complicated than in temperate zones with ample precipitation and healthier growing conditions. Irrigation and drainage schemes are extremely costly and can only be implemented over long periods. In hot climates, plant diseases and parasites are more prevalent and virulent requiring expensive chemical countermeasures.

Although progress has been achieved in some fields and areas, the overall agricultural picture in the developing world is gloomy. The food situation in India with its 500 million people is a matter of grave international concern. The Indian food deficit increases from year to year. The crop failures of the last two years brought it to an annual level of 10-12 million tons of wheat. In 1965/66, the USA filled the deficit from its surplus stocks which are being exhausted by massive deliveries to India and other developing countries under the "Food for Peace"

<sup>1</sup> UN Monthly Bulletin of Statistics, November 1966, Special Table: C, pp. XXI-XXIV.

program. Last year's food shipments to India alone absorbed almost one-third of a whole US wheat crop. American experts have figured out that at the present rate of increase in India's population and agricultural production, the Indian food shortage will reach such proportions within the next 10 years that the whole American wheat crop would be required to cover the deficit. In view of the exhaustion of the American surplus stocks, the US Government is now more reticent about food aid to India, pressing for international action and urging upon the Indian Government the necessity of greater self-help to avert the looming catastrophe.

The 1964/65 Annual Report of the UN Economic Commission for Africa contrasted the unsatisfactory performance in the agricultural sector with the acceleration in other spheres of African economic development. Excluding the Republic of South Africa, the rise in agricultural output remains small, "almost imperceptible". In a good dozen countries, per capita production is declining. This situation, the report says, is not peculiar to the African continent. In another paper of the same Commission, the main features of the African agricultural situation are described as "persistently unfavorable". The increase in agricultural production has fallen behind the growth of population and per capita food production may in fact have gone below the pre-war level. Prof. René Dumont of the Institut National Agronomique, Paris, commissioned by the UN Economic Commission for Africa to make a special study of African Economic Development, comes to alarming conclusions regarding the stagnating or declining trend of per capita food production which, he stresses, is not specifically limited to Africa, as similar conditions exist in southern Asia and South America. Capital investments in agriculture are "totally inadequate". The gap between developed and developing countries "widens each year at an unprecedented rate... If the gap continues to widen, the result will be a tragic economic and food situation and, thus, an explosive political situation".

The unsatisfactory state of agriculture in developing countries is not only a food supply problem, but a drag on the whole process of economic development. All developing countries are still overwhelmingly rural. Agricultural backwardness and unproductivity affect the masses of the population, which remain outside the market economies, without buying, investing and consuming power. The per capita Gross National Product of the developing countries came to not more than \$ 160 annually in 1965, less than one-tenth of the per capita GNP of the developed countries which amounted to \$ 1,950<sup>2</sup>. The \$ 160 average includes the oil-rich countries and the higher incomes of the more prosperous urban sectors of the various countries with their administrative, com-

mercial and foreign elements. The annual per capita income of the rural masses is probably not much more than one-third of the overall average of \$ 160 annually. Such a low level of rural per capita income demonstrates the state of agriculture in developing countries.

### Complicating Factors

Other adverse factors complicate the situation. In addition to the limited export capacity, unfavorable terms of trade and debt service obligations, the balance of payments problems of developing countries are aggravated by heavy deficits in services and private transfer payments. An International Monetary Fund compilation of the balances of payments of 49 primary-producing countries of Latin America, Asia, the Middle East and Africa shows a deficit in these items of not less than \$ 4,700 million in 1965. This drain stems from shipping, insurance, banking and services, private spending of nationals of these countries abroad and transfers of private funds to safe havens abroad in fear of inflation, currency restrictions, expropriation or other misfortunes. In an effort to improve the position of poor countries, the UN General Assembly in its last session, designated 1967 as International Tourist Year to encourage tourism particularly to developing countries as an increasingly important means of earning foreign exchange. In 1965 world receipts from international tourism reached a level of \$ 11,600 million, surpassing in value the whole world export trade in machinery. However, Europe and North America received 80 % of these revenues; the remaining 20 % were left to the rest of the world. For many European countries, tourism has become an important source of foreign exchange, whereas for most developing countries the travel expenditures of their nationals abroad exceed their receipts by a wide margin. Travelers from all over the developing world stream to Europe and America for business, conferences, studies, recreation and other purposes, whereas few of the millions of western tourists venture beyond the Mediterranean and Caribbean shores and islands for recreation. In this respect, too, the developing countries are in an inherently unfavorable position.

Most disturbing is the paradoxical fact of the "brain drain" of developing countries despite their desperate need for academically trained professionals. From all developing countries students come to European and American institutions of higher learning. After completing their studies at considerable expense to their home countries, many of the graduates prefer to stay in the advanced world which offers more attractive living conditions and professional opportunities than the backward home states. The host countries certainly do not encourage this influx which deprives developing countries of badly needed skills and talents.

Still another factor has a paralyzing influence on the pace of economic development. United Nations and other international reports and studies usually refrain

<sup>2</sup> Proposed Economic Assistance Programs Fiscal Year 1967, Summary Presentation to Congress, Agency for International Development, US Government Printing Office, Washington, D.C., March 1966, p. 232.

from blaming developing countries too strongly for their deficiencies and calamities. The fact, however, is that local capital resources are largely invested in trade and real estate, shunning the risks and intricacies of industrial enterprise. The spirit of individual entrepreneurship is not widely spread in developing countries. While the investment attitude of the older generation of wealthy families adheres to traditional investment patterns, the younger and more educated generation shows a strong preference for government jobs instead of promoting progress on their own initiative. Even with a maximum of foreign assistance, countries cannot be successfully developed without the active participation of internal dynamic forces of sufficient strength.

### **Is there a Solution?**

There can be no doubt about the bleak prospects for the developing countries to prevent a further widening—not to speak of a narrowing—of the gap that separates them from the industrialized countries. The 1965 report on the World Social Situation, recently published by the United Nations, flatly admits that "compared with hopes and aspirations, the effort at development has been a failure, though not a complete failure". This, the report goes on to say, is perhaps due in part to exaggerated and unrealistic aspirations; but primarily it raises the question whether the development efforts, both national and international, have been sufficient—and in the right direction. The answer to these questions seems to be that the intractability of basic problems facing the developing countries has been grossly underestimated, particularly with regard to timing which must be measured in generations rather than in decades; that national efforts, largely confined to government activity, remained sluggish; and that international efforts, impressive as they are, did not reach the maximal level.

World Bank President George D. Woods, addressing the Development Assistance Committee of OECD last summer, underlined the judgment of the World Bank staff that for the balance of the 1960's, the developing countries could effectively use some \$ 3,000 to 4,000 million more of development finance annually than they are now receiving. This estimate cannot be disputed; but it seems doubtful whether the difference would decisively change the outlook. In any case, the notion should be abandoned that development aid can largely consist of repayable credits carrying comparatively high rates of interest. As far as governmental aid is concerned, it should be considered a budgetary expenditure carrying at the most a nominal rate of interest of—say—1 % without expecting repayment of the principal. Otherwise, the donor governments, instead of financing development, are more and more financing the illusion of granting aid on credit terms.

More far-reaching than an increase in development finance are the aspirations of the UN Conference on Trade and Development (UNCTAD) under the leader-

ship of its active Secretary-General, Mr. Raul Prebisch. Under the slogan "trade not aid" they aim at the adjustment of the whole world trade and economic policies to the needs of the developing countries; in particular to their industrialization as manufacturing centers for the markets of the old established industrial countries, at least for a wide range of consumer goods. Duty-free entry is to open the European and North American markets for new industries in the low-wage developing countries. This industrialization, of course, is not possible without the cooperation of European and American capital, technical know-how and experience. In the last consequence of this idea, western industries are called to establish themselves in developing countries to supply their home markets from there. If this should prove workable and be realized on a massive scale, such an industrial shift could indeed significantly contribute to the industrialization of the developing countries whose own markets and buying power are far too small for massive industrialization. It seems, however, extremely doubtful that the governments, parliaments and public opinion of the industrial countries will go along with such schemes which endanger their own prosperity. On UNCTAD's pressure the western governments are inclined to make concessions in this direction. But with only limited concessions, desirable as they may be, not too much will be achieved.

The best that can be expected for the developing countries is slow progress which would have to keep pace with the population increase and leave a margin for a modest rise in the standard of living and for the internal formation of capital needed to sustain this slow rate of progress. All national and international efforts will be required to reach these modest goals; foreign aid will be needed for an indefinite period. A development race with the industrial countries aiming at a gradual narrowing of the gap is an unrealistic conception. The industrialized countries with their annual average per capita income of \$ 1,950 in 1964 have an investment potential incomparably superior to all that the developing countries with their annual average per capita income of \$ 160 can mobilize. At an annual investment rate of 15 % of national income, the per capita investment capacity of the developed countries is about twice as high as the whole per capita income of the developing countries. With their infinitesimal per capita investment potential, the developing countries have to start in almost all respects from scratch.

The stubborn widening of the gap between rich and poor countries is loaded with social and political dangers affecting the whole world. Even more explosive than the overall population increase in the developing world is the concentration of the excess population in the cities as a result of natural increase and mass migration of peasants from the countryside in search of work and a better life. This migration is bound to increase with the modernization of agriculture, the essence of which is more production with

fewer people. In South America, the urban population is already increasing by over 5 % annually, while rural population growth is not more than 1.5 %. Overpopulated countries are threatened with acute food shortages and mass unemployment on a steadily increasing scale. The aggravation of the situation may strengthen socialist tendencies in efforts to master

the problems by centralized control, although experiences in certain countries show that the inept handling of state control can make economic conditions even worse. In any case, there is no escape from the prospect that the North-South gap in all its ramifications will supersede the East-West conflict as dominant factor of world politics in coming decades.

## TRAINEE PROGRAMMES

# Results of a Traineeship in Japan

By Dr Georg H. Küster, Hamburg

**In order to give more effect to the theoretical university education a stay in foreign countries for the achievement of practical experiences is increasingly promoted. The German Committee of the International Association of Students of Economics (AIESEC) as a leading organisation is making efforts to realise a programme for the exchange of students to improve their professional training. These attempts are supported by the State and private institutions. In the following contribution the author reports on his experiences in Japan and discusses the various functions which can be fulfilled by a student traineeship on an international basis.**

Japan and Geisha, Japan and tea-ceremonies, Japan and Chrysanthemums—these are wellknown associations which are evoked when one speaks of that country in the Far East. Japan as the greatest toy-exporter of the world, Japan as the leading nation (by far) in the world's shipbuilding industry, Japan as the country with the highest rate of growth among Western industrialised nations—these are facts which have only just begun to slowly force their way into the consciousness of Europe. Japan, which is in the words of one of its most famous economists "a rather singular example of a marriage between a traditional and an industrial society", is also an unusual example for the way in which a student traineeship should be interpreted and carried out.

The success of a practical training abroad is at first dependent on certain organisational and financial preconditions, which in the case of the Japan-traineeship the AIESEC fulfilled in a most praiseworthy manner. These preconditions included not only the procurement of suitable trainee places and the bargaining for an acceptable fare for the flight, but also the arrangement of introductory seminars and other programmes for the foreign students, viz. regular meetings, receptions, weekend tours, etc.

### **The Traineeship Programme**

These preliminaries are the indeed necessary, but not sufficient preconditions for the success of such a project. The decisive factor here is above all the actual practical realisation on the part of student and company. The basic difficulty in this connection is attributable to the various interpretations and success-criteria of a student traineeship. While the university as an indirect participant would like to see the theoretical knowledge applied and illustrated, the students also consider the satisfaction of their sight-

seeing inclinations as the aim, and the traineeship as the means wherewith to achieve this. On the other hand it is hardly the concern of the enterprise to supply cultural and scenic impressions, but to increase its productivity. Put into a nutshell: Every student traineeship abroad hangs in the balance between information and productivity, between education and tourism, on the one hand, and student labour, on the other.

The principal experiences here covered are based on a traineeship with the Mitsubishi Heavy Industries Ltd., which in 1965 had the second place in the Japanese sales hierarchy. The two German students who received a practical training from this concern were first instructed for three weeks in its head office, which is situated in Tokyo-Marunouchi, the Manhattan of Japan. There they learned about the firm's organisational structure, the assignments of the respective departments and the administrative background of the company's production. But this was not done in the way characteristic of traineeship in German enterprises where the students go through particular departments learning in each to fill out a typical kind of form, but with the help of introductory speeches by the heads of department and through short reports specially prepared for this purpose. In the discussions following each of these introductory courses the trainees had the chance to answer the frequent questions about the relevant circumstances in the German economy. This theoretical introductory programme in the head office was given a lighter touch and supported by visits to the company's board-inghouses and exhibition center, to the concern-owned economic research institute, and by showings of advertising films, etc.

The students received the practical information in the concern's factories. The visits to the shipyards