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THE WORLD BANK

Washington, D.C.

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Research on Economics and Development - Bela Balassa - Chronological Record -  
December 1972 through April 1973

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Old Chron. Files



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXecutive 3 6360 • Cable Address - INTBAFRAD

April 27, 1973

Dr. Julio Berlinski  
Pueyrredon 336  
8p 25  
Buenos Aires  
Argentina


Dear Julio,

I am in receipt of your recent note concerning the nominal rate of protection in industries about which Dani and I have raised questions. In two of the cases, I would like to ask you to make further changes.

An 8 percent coverage is hardly sufficient to derive nominal rates from price comparisons for commodity category 20801. As there are also some exports, however small, a downward adjustment of the rate of nominal protection of this category would be called for. I would suggest that you calculate an average rate for this category by assuming zero protection for the sub-category from which exports originate.

It does not seem appropriate to assume that soft drinks (21401) have a nominal rate of protection as high as that for sugar. You could calculate instead the nominal rate needed to give the sector zero net effective protection. In this way, you would take account of the nominal rate on sugar inputs.

Sincerely yours,

  
Bela Balassa

c.c. Prof. Schydrowsky





# Record Removal Notice



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<b>Document Date</b> April 27, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: Ms. Pascual				
<b>Subject / Title</b> Recent Payment to Mr. Slade				
<b>Exception(s)</b>  Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			

Mr. Ernest Stern

April 27, 1973

Bela Balassa

"Tariffs and Trade Policy in the Andean Common Market"

I enclose a revised version of the cover sheet for the proposed Working Paper on the above subject. I hope that this version is more readable.

BBalassa:alm



Miss Elizabeth J. Ward

April 27, 1973

Bela Balassa

Vacancy for Research Assistant

I enclose the details on the research assistant position which should be advertised.

April 27, 1973

Mr. Kenneth Arnold  
The Johns Hopkins Press  
Baltimore, Md. 21218

Dear Ken,

I recently received a copy of a letter from Dr. David Lim asking permission to reprint a chapter from my book, The Structure of Protection in Developing Countries. Needless to say, I have no objections to the reprinting of this chapter. Since the letter is addressed to the Press, I presume that you will answer it.

Sincerely yours,

Bela Balassa



April 27, 1973

Professor Herbert Glejser  
Faculty of Economics  
R. de la Vierge 8  
B-5000-Namur  
Belgium

Dear Herbert,

Thank you for your invitation to present a paper at the conference on "Quantitative Studies of International Economic Relations" to be held on January 10-11, 1974. While I would indeed have a paper I could present I will unfortunately not be available at the time indicated. According to present plans, I will be in Africa throughout the month of January. Should you, however, change the date I could come either in the last week of December or on the first weekend in February.

Sincerely yours,

Bela Balassa

Mr. Henk Busz

April 26, 1973

Bela Balassa

Expenses - Larry Westphal

I enclose a bill from Larry Westphal in connection with the Korea study in the Development Strategies project. This is approved for payment and should be charged against his contract (670-01).

BBalassa:alm



April 25, 1973

Dr. Benjamin Cohen  
Associate Professor of Economics  
Yale University  
Department of Economics  
Economic Growth Center  
Box 1987, Yale Station  
New Haven, Conn. 06520

Dear Dr. Cohen,

The arrangement you suggested in your recent letter is fine with Mr. Balassa. He will call Professor Ranis after arrival in New Haven. I am sending to you under separate cover three copies of Mr. Balassa's paper "Estimating the Shadow Price of Foreign Exchange in Project Appraisal".

Sincerely yours,

*Anne Tushnet*

Secretary to  
Bela Balassa

April 24, 1973

Hotel Scandinavia  
27 rue de Tournon  
Paris 6  
France

Chere Madame,

Sauf pour les deux dernieres annees quand nous avons loue un appartement, pendant presque dix ans ma femme et moi nous sommes descendu chez vous lors nos sejours a Paris. Nous viendrons de nouveau pour dix jours le 4 juillet et j'aimerais reserver une chambre des maintenant. Il nous faudrait une chambre a un grand lit, donnant sur la rue et preferemment sur un etage superieur. Un cheque de centcinquante francs est enclos.

En attendant votre reponse, je vous prie de croire, chere Madame, a l'expression de mes meilleurs sentiments.

Bela Balassa

P.S.

Veuillez trouver ci-enclos une copie d'un petit guide culinaire de Paris que j'ai ecrit l'annee derniere. Helas, les prix sont montis depuis.

Adresse Personnelle  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008  
USA



April 24, 1973

Professor Fritz Machlup  
Schönborngasse 18  
A1080 Vienna 8  
Austria

Dear Fritz,

Enclosed are the addresses of various people as promised. I have also talked to Marina von Whitman who will be happy to participate in the session on monetary integration. She has a slight preference for making the opening statement but will be glad to give one of the Comments instead if you so wish. I think that she would be excellent in making the opening statement and this would also lessen her burden of preparation for the Conference in the event that she is still with the government at that time; she thinks that she may not be.

Wishing you a pleasant stay in Vienna, I remain,

Sincerely yours,

Bela Balassa



Nuno Fidelino de Figueiredo  
R. Albuquerque Lii 1304  
Sao Paulo  
Brazil

Miguel S. Wionczek  
C.E.M.L.A.  
Durango Num.54  
Mexico 7, D.F.  
Mexico

Germanico Salgado  
Coordinador a.i.  
Acuerdo de Cartagena  
Junta  
Casilla de Correo 3237  
Lima  
Peru

Ricardo Ffrench-Davies  
Universidad Catolica de Chile  
Santiago  
Chile

Geoffrey R. Denton  
Reader in Economics  
University of Reading  
Whiteknights  
Reading RG6 2AA  
England

Eduardo Lizano  
Universidad de Costa Rica  
Ciudad Universitaria "Rodrigo Facio"  
Escuela de Ciencias Economicas y Sociales  
Instituto de Investigaciones  
Costa Rica  
America Central

H. Edward English  
Professor of Economics  
Carleton University  
Ottawa, Ontario  
Canada

Mr. Andres Bianchi  
PREALC Program  
International Labour Office  
Casilla 2353  
Santiago  
Chile

April 24, 1973

Dr. Carlos Diaz-Alejandro  
Department of Economics  
Economic Growth Center  
Box 1987, Yale Station  
Yale University,  
New Haven, Conn. 06520

Dear Carlos,

Many thanks for your note concerning the Cuban publication which published my paper. Now all I need to know is which of my articles on Latin American integration ~~they~~ reprinted, but we can talk about this and other matters on my visit to Yale in early May.

With best regards,

Sincerely yours,

Bela Balassa

April 24, 1973

Professor Anton Zottmann  
Institut fur Weltwirtschaft  
2300 Kiel 1  
Postfach  
Dusternbrooker Weg 120-122  
West Germany

Dear Professor Zottmann,

Please excuse the delay in sending you my paper on "Regional Policies and the Environment in the European Common Market". Delays with some of my other work have prevented me from preparing the revision earlier.

I enclose two copies of the paper as well as an Abstract for the Journal of Economic Literature. Please use the conclusions as a summary for the translations you publish in the W.A.

I would appreciate your letting me know when you plan to publish the paper.

Sincerely yours,

Bela Balassa



# ABSTRACT

BALASSA, Bela - Regional policies and the environment in the European  
Common Market

The paper examines the reasons for the lack of equalization of incomes among EEC regions. It provides a critical appraisal of regional policies followed in the Common Market and makes recommendations for changes in these policies. The recommendations center on the need to adopt policy guidelines on the EEC level, with account taken of national, regional, and environmental policy objectives. The author suggests using differential wage (or social security) taxes as the main policy instrument, supplemented by temporary assistance to adversely affected industries and by infrastructural investments aimed at establishing growth centers.

Weltwirtschaftliches Archiv

Johns Hopkins University, Baltimore, Maryland, U.S.A.

April 24, 1973

Mrs. M. Troemel,  
Desk-editor  
North-Holland Publishing Co.  
335 Jan Van Galenstraat  
P.O. Box 103  
Amsterdam-W  
The Netherlands

Dear Mrs. Troemel,

Thank you for your letter of April 11. I am afraid however that the letter did not include the enclosure and thus I cannot answer your questions until I receive it.

Sincerely yours,

Bela Balassa



April 23, 1973

Professor Raymond W. Goldsmith  
Department of Economics  
Yale University  
37 Hillhouse Avenue  
Box 1972 Yale Station  
New Haven, Conn.

Dear Ray,

I am indeed sorry that you will be out of town on my visit to Yale. We hope however that we will have the occasion to see you in Washington in June. Please let us know well in advance the day of your visit so that we could invite you for dinner.

Sincerely yours,

Bela Balassa



April 24, 1973

Professor J. Clark Leith  
Chairman  
The University of Western Ontario  
Department of Economics  
London, Ontario  
Canada

Dear Clark,

Please excuse the late answering of your letter of February 27. It has taken a long while to make arrangements concerning our project in Western Africa and I wanted to wait with my letter until this had been done.

It has now transpired that Michael Sharpston will be available to do the study on Ghana. This solves the problem I had as I will not have to look outside the Bank for a collaborator. While this simplifies matters as far as the project is concerned, I am nevertheless sorry that I will not have the occasion to work with you.

I am thankful for your sending me your manuscript which I plan to read in the next few weeks. I will then write to you if I have any comments.

Sincerely yours,

Bela Balassa

Mrs. Helen Hughes

April 24, 1973

Bela Balassa

Small-Scale Industries Paper

I like the part on the policy effects of small-scale industries. In the last part, more could be said about trade policy and on the role of financial intermediaries. The first part would need extensive re-writing; the present version contains a number of conflicting statements.

BBalassa:alm



Mr. Luis Ugueto

April 24, 1973

Bela Balassa

Wine Shipment

After some delay the Beaujolais are arriving at the end of this week; the Pinot Chardonnay is available now. Some notes on this wine follow:

The Chenas is my favourite Beaujolais; you had it at my home last week. It is more expensive than the others but is well worth it. (House of Wines doesn't yet know the prices it will charge so you would have to find this out by 'phone).

They will get the Brouilly M.J. but not the Lamothe I have been drinking. I find the latter to be superior but the former is also a good wine. You might wish to get a case and decide if you want more. When I last bought it the price of a case with discount was \$19.60.

The Pinot Chardonnay shipped by J. Burrier (be careful because there is a second kind also) I usually serve before dinner but it is also good with any fish dishes. I paid a little over \$22 for it, I believe; it is well worth it.

Happy hunting!



JULIO BERLINSKI  
PUEYREDON 336  
8p 25  
BUENOS AIRES

April 24, 1973

LT

ARGENTINA

PREPAID REPLY 20 WORDS LT  
TICKET BEING SENT ADVISE EXPECTED DATE OF ARRIVAL

BALASSA

Bela Balassa

DRC

BBalassa:alm

Special Delivery

April 23, 1973

Professor Larry Westphal  
1314 Rosalie  
Evanston, Ill. 60201

Dear Larry,

To simplify our correspondence I have taken the liberty of rewriting the third version of your proposal. Since I am not here on Wednesday and Thursday, please call Ardy if you want to make any changes. We plan to submit the research project at the end of the week.

Sincerely yours,

Bela Balassa



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<b>Correspondents / Participants</b> From: Bela Belassa To: Dr. Etienne Kirschen, Universite Libre de Bruxelles				
<b>Subject / Title</b> Research Assistant Michelle Konigs				
<b>Exception(s)</b>  Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
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DR. AUGUSTINE TAN  
UNIVERSITY OF SINGAPORE  
DEPARTMENT OF ECONOMICS  
BUKIT TIMAH ROAD  
SINGAPORE 110

April 20, 1973

LT

SINGAPORE

ESTIMATES NOT YET RECEIVED PLEASE ADVISE IMMEDIATELY

BALASSA

Bela Balassa

DRC

BBalassa:alm

*pink*

## OFFICE MEMORANDUM

TO: All Contributors

DATE: April 20, 1973

FROM: *B*Bela Balassa

SUBJECT: Development Strategies in Semi-Industrial Countries

I have now received the revised estimates of the effective rates of protection and subsidy from all but one of you. Revised drafts of the studies should reach me by early June. This is necessary, in part because your revised contract expires at the end of June and in part because further delays may cause difficulties in publishing the volume. It will also be necessary that you provide an accounting of the advance for research assistance you received last year. The accounting should be accompanied by signed receipts from those you paid.

May I ask you to send me a short progress report by return mail together with an indication of the research expenses incurred so far and of possible savings in the research budget. The progress report should include a time-table for the completion of the study.

BBalassa:alm

*pink*

## OFFICE MEMORANDUM

TO: Those Listed

DATE: April 19, 1973

FROM: Bela Balassa *M*

SUBJECT: Papers by Maurice Scott

I enclose two papers on the estimation of shadow wages in Kenya by Maurice Scott. The author would appreciate receiving comments at Nuffield College, Oxford OX1 1NF, England.

cc. Messrs. van der Tak

Ahluwalia  
Blitzer  
Please  
Reutlinger  
Turnham  
Parish  
Wolf  
Ettinger  
Bruce  
Baneth  
Lal  
Anand  
Henderson

BBalassa:alm



April 18, 1973

Mr. Maurice Scott  
Nuffield College  
Oxford OX1 1NF  
England

Dear Maurice,

I have now received your two papers on shadow wages in Kenya. I am sending copies to several people in the Bank asking them to let you have directly any comments. I will send you my own comments as soon as I have a chance to read the papers.

I have since received a letter from John Wright together with comments made on the paper by a reader. I enclose a copy of my reply to him. Let me add here that Trent Bertrand submitted the revised version of his paper to Wright; a copy of the revised version is enclosed.

With best regards,

Sincerely yours,

Bela Balassa

April 18, 1973

Professor J. F. Wright  
The General Editor  
Oxford Economic Papers  
Trinity College  
Oxford OX1 3BH  
England

Dear Professor Wright,

Thank you for your letter of March 24 concerning the planned publication of my paper in the Oxford Economic Papers. I will reply to the reviewer's comments and will submit a revised version by the middle of May. I hope that this date is convenient.

Sincerely yours,

Bela Balassa

copy: Mr. M. Scott



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<b>Correspondents / Participants</b> From: Bela Belassa To: Hyperion Fund Inc.				
<b>Subject / Title</b> Capital Gains				
<b>Exception(s)</b> Financial Information (iv)  Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			



April 18, 1973

Professor Jere R. Behrman  
The Wharton School  
Department of Economics  
University of Pennsylvania  
3717 Locust Walk  
Philadelphia 19104

Dear Jere,

I am happy to give permission to quote and to reproduce the Chilean EPR estimates from pages 66-67, 165 and 169 of Bela Balassa and Associates, The Structure of Protection in Developing Countries (The Johns Hopkins Press, 1971).

Sincerely yours,

Bela Balassa

## OFFICE MEMORANDUM

TO: Mr. Tom C. Tsui

DATE: April 18, 1973

FROM: Bela Balassa

SUBJECT: Mr. Jaime A. De Melo

It is a pleasure for me to recommend Mr. Jaime A. De Melo for the Y.P. Program. Mr. De Melo was a student in my graduate course in international trade at Johns Hopkins University. He worked for me as an assistant and I am his dissertation supervisor.

Mr. De Melo gave a consistently good performance during his graduate studies. While he started out with a somewhat weak background in mathematics, he was soon able to overcome this. In fact, I am impressed by the amount of mathematics he has learned during his graduate studies.

Mr. De Melo's dissertation deals with a problem of considerable importance to the Bank -- the effects of changing tariffs on resource allocation and income distribution. De Melo has prepared an excellent proposal and his work promises to be of considerable significance.

De Melo has a pleasant personality and I have no knowledge of any mental or physical infirmity. He speaks several languages and has shown that he gets on well with people.

Let me add finally that I would be happy to have him as a collaborator in work I am doing at the Bank. I am confident that others will reach similar conclusions.

BBalassa:alm

ER/L/5 /9

April 18, 1973

Mr. Manil Silva  
Research Librarian  
Central Bank of Ceylon  
Colombo  
Ceylon

Dear Mr. Silva,

At your request I am sending you under separate cover my book The Structure of Protection in Developing Countries. I will also let you have a detailed description of the methodology of effective protection as soon as this becomes available. You may expect to have it in the course of June.

Sincerely yours,

Bela Balassa



April 18, 1973

Mrs. Ana M. Martirena-Mantel  
Instituto Torcuato Di Tella  
Centro de Investigaciones Economicas  
Virrey del Pino 3210  
Buenos Aires (26)  
Argentina

Dear Mrs. Martirena-Mantel,

I was happy to hear that you have received a fellowship from the Social Science Research Council. I wish you good luck with your proposed project.

I am afraid that I have still not been able to read your paper on the crawling peg. I have been extremely busy in recent months and this is likely to continue for a while.

With best regards to you and Rolf, I remain,

Sincerely yours,

Bela Balassa

April 18, 1973

Mrs. H. D. Hoinkes  
Assistant to the Director  
International Labor Office  
666 Eleventh Street N.W.  
Washington D.C. 20001

Dear Mrs. Hoinkes,

I am happy to recommend to you Mr. Harry Bell for a position as an External Collaborator in the field of Manpower and Employment Planning. I have known Mr. Bell for seven years in his various capacities as Director of Research of UNCTAD, Consultant to U.S. agencies and Consultant to the Andean Common Market.

I have high regard for Mr. Bell's professional qualifications. He has performed extremely well both as Research Director and Consultant. He has a good knowledge of economics and has shown originality in his work. I am sure that you will benefit from having him as an External Collaborator.

Sincerely yours,

Bela Balassa  
Professor of Political Economy



April 18, 1973

Mr. Patricio Leiva Lavalle  
Jefe  
Unidad Politica Economica  
Acuerdo de Cartagena  
Junta  
Casilla de Correo 3237  
Lima, Peru

Dear Mr. Leiva,

Many thanks for your letter of April 3. I enclose an additional copy of my paper on "Tariffs and Trade Policy in the Andean Common Market" as you requested.

I hope that you are progressing well in your work on the common tariff for the Andean Group. I would appreciate it if you could inform me of the progress made.

Sincerely yours,

Bela Balassa



April 17, 1973

Mr. Paul Hamelynck  
North-Holland Publishing Co.  
335 Jan Van Galenstraat  
P.O. Box 103  
Amsterdam-W  
The Netherlands

Dear Mr. Hamelynck,

Thank you for your letter of April 10.  
I will contact my collaborators to find out  
the approximate length of their chapters and  
will get back to you as soon as I have the  
answers. Needless to say, I will do my best  
to keep the number of pages down.

Sincerely yours,

Bela Balassa  
Professor of Political Economy

April 10, 1973

Dr. Erik Thorbecke  
c/o World Employment Program  
International Labor Office  
CH-1211 Geneva  
Switzerland

Dear Erik,

This is an addendum to my letter that went out in the mail today.

In reaching a decision on your participation in our project you may wish to enquire about work done on agricultural integration in Western Africa under the auspices of the FAO. John Couston of the Economic Analysis Division could brief you on what has been done and they could provide you with the relevant documents. I have seen one reporting on a meeting held with the participation of FAO and national governments.

A final point, while in my project description little is said about agriculture, this is due to my ignorance on the subject rather than its lack of importance for our project. Indeed, I think that the study on agriculture would be of great importance for our project and it should make an important contribution for our policy conclusions.

Sincerely yours,

Bela Balassa



April 10, 1973

Aldine Publishing Co.  
529 South Wabash Avenue  
Chicago, Ill. 60605

Dear Sirs,

Please send me a copy of Miltiades Chacholiades,  
The Pure Theory of International Trade. I wish to con-  
sider this book for use in my trade course.

Sincerely yours,

Bela Balassa  
Professor of Political Economy





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<b>Correspondents / Participants</b> To: Dr. Erik Thorbecke, ILO From: Bela Balassa				
<b>Subject / Title</b> Compensation				
<b>Exception(s)</b> Personal Information				
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Mr. Wouter Tims

April 10, 1973

Bela Balassa

Gerhart Fels

Enclosed is my evaluation of the paper by Fels, "The Choice of Industry Mix in the Division of Labor between Developed and Developing Countries". Judging from the paper, he is a competent researcher who is adept at handling trade problems by the use of econometric methods. I believe that he would be an excellent addition to our staff.

cc. Mr. Chenery  
Mrs. Hughes

BBalassa:alm

## OFFICE MEMORANDUM

TO: Mr. Wouter Tims

DATE: April 9, 1973

FROM: Bela Balassa

SUBJECT: Comments on G.Fels, "The Choice of Industry Mix in the Division of Labor  
between Developed and Developing Countries"

1. I have read the paper by G. Fels on the above subject with considerable interest. The author shows ingenuity in his analysis of the problem at hand and has been able to progress beyond earlier contributions. While certain aspects of the paper need reconsideration, it provides a suitable basis for further work on the subject.

2. Using regression analysis, the author seeks to explain trade between Germany and developing countries in terms of the relative capital intensity of German industries. The statistical fit is rather good, but the question remains if the ranking of industries by capital intensity is the same in developing countries as in Germany. Also, the results may be improved if instead of the value of trade one takes domestic value added in traded goods which, apart from being comparable to the capital intensity concept, "filters out" the effects of imported inputs.

3. Further work on the comparative advantage of developing countries should include industry studies as the high degree of aggregation of the data used by Fels limits their usefulness for practical purposes. This would entail the examination of factors, such as economies of scale, the need for ancillary activities, and the possibility of factor substitution in selected industries. Transportation costs for the output and its inputs should also be considered.

4. In the last part of the paper, Fels purports to examine the "dynamic" characteristics of industries. This is somewhat of a misnomer since the author considers under this heading changes in relative value added which are explained by the shift from agriculture to industry and again to services. Also, the statement that "specialization in labor intensive industries opens up opportunities for by productivity and wage increases" in developing countries is misleading since these involve increases in the capital-labor ratio as observed in the industrial countries.

5. Let me add finally that I agree with Fels' policy recommendations for Germany which would entail reducing, and finally eliminating, trade barriers on the imports of commodities in which Germany has a comparative disadvantage. It may indeed be preferable to relieve labor shortages in Germany through the importation of labor intensive goods rather than through importation of labor as has been done in recent years. In combining it with adjustment assistance, such a policy promises greater success in Germany than in the United States where the existence of "non-competing" labor groups pose considerable problems.

cc. Mr. Chenery  
Mrs. Hughes

BBalassa:alm



April 10, 1973

Professor Harry Johnson  
Department of Economics  
Yale University  
New Haven, Conn.

Dear Harry,

I enclose a draft copy of my comments for the Princeton volume. Needless to say, any comments would be appreciated.

Enclosed are also copies of my papers on the shadow rate of foreign exchange and tariff policy in the Andean Group as well as Appendix B of Jeffrey Nugent's Empirical Investigations in Economic Integration: The Central American Case.

Please convey my best regards to Liz and thank her for the note she wrote to me concerning my culinary guide in Paris. I hope that you will have a chance to use it soon.

I am sorry that we again didn't have the chance to talk much but perhaps you might come to Washington again during your stay at Yale. We would be happy to put you up if you come.

Sincerely yours,

Bela Balassa

April 9, 1973

Professor Max Corden  
Department of Economics  
Princeton University  
Princeton, N.J.

Dear Max,

I enclose a draft copy of my comments for the Princeton volume. We could talk about them on your visit to Hopkins on April 12. Your train arrives in Baltimore at 11.54 a.m; please take a taxi to Johns Hopkins University (not Medical School) Faculty Club. I will be waiting for you in the Dining Room.

Looking forward to seeing you, I remain,

Sincerely yours,

Bela Balassa

P.S.

I also enclose a copy of my "Tariffs and Trade Policy in the Andean Common Market" and Appendix B from Nugent's manuscript which discusses the cost of protection in a 3-commodity framework.



April 9, 1973

Dr. Carlos Diaz Alejandro  
Department of Economics  
Yale University  
New Haven, Conn.

Dear Carlos,

I enclose a draft copy of my comments for the Princeton volume. Please let me know if you have any objections to what I have written.

I also enclose a copy of my papers on the shadow exchange rate and on the Andean Group as promised.

Sincerely yours,

Bela Balassa



April 9, 1933

Dr. Jagdish Bhagwati  
Department of Economics  
Massachusetts Institute of Technology  
Cambridge, Mass. 02199

Dear Jagdish,

I enclose copies of my papers on the shadow exchange rate and on the Andean Group as promised. In turn, I would very much like to have a copy of the papers on effective protection you plan to publish in the Journal of International Economics later this year. Also, I wonder if I could have a copy of Anne Krueger's manuscript or should I write to her directly?

Sincerely yours,

Bela Balassa

P.S.

Enclosed is also Appendix B from Nugent's manuscript which discusses the cost of protection in a 3-commodity framework.

Mrs. Flor de Liza R. Spriggs

April 9, 1973

Bela Balassa

Insurance

I enclose \$2.00 in exchange for the cheque I earlier sent you; I understand that the cheque is returned because of the refund due to me for Miss Martine Morel. Please indicate on the copy of this memo for which period Miss Dominique Fremont is presently covered. May I also ask you to transfer her insurance to the Home Insurance Company.

EBalassa:alm

## EUROPEAN ECONOMIC INTEGRATION

Bela Balassa (ed.), M.E. Kreinin, S.E. Resnick,  
Erik Thorbecke, and E.M. Truman

1. The Experience of European Integration, 1958-1972: A Brief Review (Bela Balassa)

### I Integration and Trade

2. Effects of European Integration on the Production and Trade of Manufactured Products (E.M. Truman)
3. An Empirical Examination of Bilateral Trade Flows in Western Europe and EFTA (S.E. Resnick and E.M. Truman)
4. Effects of EEC on Imports of Manufactures (M.E. Kreinin)
5. European Integration and the Developing Countries (M.E. Kreinin)
6. Trade Creation and Trade Diversion in the European Common Market: A Summary Appraisal (Bela Balassa)

### II Macroeconomic Implications of Integration

7. An Econometric Model of Ten Countries in Western Europe (S.E. Resnick)
8. Dynamic Properties of the European Macromodel (S.E. Resnick)
9. Consistency of Macroeconomic Objectives in the European Common Market (Bela Balassa and S.E. Resnick)

### III Policy Aspects of Integration

10. Monetary Integration in the European Common Market (Bela Balassa)
11. Structural Policies in the European Common Market (Bela Balassa)
12. Agriculture and the EEC (Erik Thorbecke)



Miss M.T.R. Pascual

April 6, 1973

Bela Balassa

Accounts of Thomas Hutcheson

This is in response to your note of March 20 concerning the travel receipts submitted by Thomas Hutcheson. I approve the expenses and request that they be charged against his travel advance of December 1971, as per Mr. Levy's memo of February 8, 1973. That memo mentions certain other expenses (research assistance, correction of mistakes in previous vouchers). These should be charged against the December 1971 advance also. Thank you for your assistance.

BBalassa:alm

Mr. Hollis B. Chenery

April 6, 1973

Bela Balassa

Trade, Protection, and Domestic Production: A Comment

Enclosed is a draft version of my comments for the Princeton Conference volume. You may wish to look especially at pp.3 to 5 since we apparently differ on the cost of protection question.

At next Monday's lunch could we also talk about the medium-term research program for industry? Another copy is enclosed.

c.c. Mrs. Hughes



April 5, 1973

Professor Peter Kenen  
Dept. of Economics  
Princeton University  
Princeton, N.J.

Dear Peter,

I enclose my accounting for last week's Princeton trip. I enjoyed the meeting and only wish that we had more time for discussions.

We will expect you at the Faculty Club around 12.15. Please take a taxi from the station. Incidentally, it is not possible to xerox your computer print-out because the quality of printing is too poor. Perhaps you could bring a set or two with you.

With sincere regards,

Bela Balassa





# Record Removal Notice



<b>File Title</b> Research on Economics and Development - Bela Balassa - Chronological Record - December 1972 through April 1973		<b>Barcode No.</b>  30280406		
<b>Document Date</b> March 30, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: Files				
<b>Subject / Title</b> Travel Expenses Princeton Conference				
<b>Exception(s)</b>  Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			

March 29, 1973

Mr. Gerardo Bueno  
Nacional Financiera S.A.  
Apartado Postal 353  
Isabel la Catolica No.51  
Mexico 1, D.F.  
Mexico

Dear Gerardo,

I met with two Hungarian officials who plan to go to Mexico to have discussions on joint investments as well as on the importation of raw materials from Mexico. I would appreciate it if you could see them and give them any help you can. They are Messrs. Miklos Nagy and Tibor Wild and they will be in Mexico City on April 9 and 10 and will call your office upon arrival.

It has been a long time since we last met and I very much hope that you might have the opportunity to come to Washington soon. Apart from a short trip to Paris in July, I will be here throughout the year.

Carol joins me in sending best regards to Maria Marta and yourself.

Sincerely yours,

Bela Balassa

SPECIAL DELIVERY

March 29, 1973

Professor Larry Westphal  
1314 Rosalie  
Evanston  
Illinois 60201

Dear Larry,

Enclosed is a draft of my comments on the Adelman/Robinson manuscript. I would like to get your reactions to it. I will call you about this as well as about your research proposal and your comments on our Medium-Term Research Program on Monday.

Sincerely yours,

Bela Balassa



March 28, 1973

Mr. Maurice Scott  
Nuffield College  
Oxford  
England

Dear Maurice,

This is in answer to your letters of March 9 and 14 (it is not easy to keep up with somebody who promptly answers one's letters!)

The arrangement you suggest concerning the inclusion of my paper on the shadow price of foreign exchange in a Symposium to be published in the Oxford Economic Papers is fine with me; I have not yet heard from the Editor of the OEP though. I will speak to Max Corden this weekend about his contribution. In turn I hope that Steve Guisinger will revise his paper to a substantial extent because in its present form he bypasses the problem of estimating the shadow exchange rate as "conversion ratio". A much better approach is followed in a paper by Trent Bertrand which I am enclosing. I do not know what Trent plans to do with the paper but I could enquire about this if you (and the OEP) are interested. Finally, I would like to urge you to consider the paper Parish is preparing for inclusion in the Symposium. The paper will deal with the estimation of the shadow prices of primary factors under second-best conditions; it will be ready some time in April and, judging from the notes he earlier prepared, it promises to be a major contribution to the problem.

I have not yet received the two papers referred to in your letter of March 14. As soon as I get them I will have them xeroxed and copies sent to the people you mention as well as to several others. There is considerable interest in the topics of the two papers in the Bank and on anything you have written.

Sincerely yours,

Bela Balassa

P.S.

You may also like to consider for inclusion in the Symposium one of the two papers written by Daniel Schydrowsky. I am asking him to send you copies.

Mr. Herman van der Tak

March 27, 1973

Bela Balassa

Research on Project Evaluation and Shadow Prices

Enclosed is a draft version of a note on the above subject. Would you please make any changes you consider necessary and send a copy to Mr. Ray in accordance with Mr. Stern's memo of March 7.

You will note that I have not quite conformed to the requirements listed in the last paragraph of Stern's memo. I wonder, however, if we can do much about it at this stage.

BBalassa:alm



March 27, 1973

OECD Publications Center  
1750 Pennsylvania Ave. N.W.  
Washington D.C. 20006

Dear Sirs,

Please send me one copy of Policy Perspectives for International Trade and Economic Relations, Report of the High Level Group on Trade and Related Problems to the Secretary-General of OECD, August 1972.

I am returning your invoice 66999 for a previous order, with the request that you send me a new bill for both orders, addressed to me at Johns Hopkins rather than the International Bank for Reconstruction and Development.

Sincerely yours,

Bela Balassa



March 27, 1973

His Excellency  
Mr. Julio A. Lacarte  
Representacion del Uruguay ante la ALALC  
Hotel Victoria Plaza  
piso 11  
Montevideo  
Uruguay

Dear Mr. Lacarte,

I enclose a copy of a letter from Mr. Rodrigo Botero who would like to reprint my paper "The Second Development Decade and Regional Economic Integration" in a series published by FEDESARROLLO.

I wonder if you could give him permission for publication and provide him with a copy of the revised Spanish version. I presume that duplication in the publication of the paper would not create problems; in fact, publication by FEDESARROLLO would provide publicity to the volume of the proceedings of the Montevideo Conference. May I ask you to let me know when this volume is scheduled to be published and under what title.

Hoping that I will have the occasion to see you on your next visit to Washington, I remain,

Sincerely yours,

Bela Balassa

March 26, 1973

Mr. Paul Hamelynck  
North-Holland Publishing Co.  
335 Jan Van Galenstraat  
P.O.Box 103  
Amsterdam-W  
The Netherlands

Dear Mr. Hamelynck,

Thank you for your letter of March 9.

As I indicated in my previous letter, it will not be possible for us to meet the original deadline of the book. It now means that I can send you the final manuscript towards the end of the year. We could perhaps schedule this to take place on November 30.

I am sorry for the delay but, this being a cooperative exercise, it ~~is~~ not easy to get the pieces together. An outline of the volume is enclosed.

Sincerely yours,

Bela Balassa



March 26, 1973

Mr. Rodrigo Botero  
Director Ejecutivo  
Fundacion Para la Educacion Superior  
y el Desarrollo  
Apartado Aereo 20513  
Bogota  
Colombia

Dear Mr. Botero,

Many thanks for your letter of February 2 which reached me with some delay. I would indeed be happy to have my paper "The Second Development Decade and Regional Economic Integration" published in your series. You would have to contact, however, Mr. Julio A. Lacarte, the Ambassador of Uruguay to LAFTA. Mr. Lacarte has the revised Spanish version of the paper which he plans to include in a volume of Proceedings of the Conference. I am writing to him today on this matter.

With best regards,

Sincerely yours,

Bela Balassa



Jean Waelbroeck  
C.O.R.E.  
DE CROYLAAN 54  
3030 HEVERLEE

March 26, 1973

LT

BELGIUM

ARRANGEMENTS FOR YOUR VISIT CONFIRMED STOP  
PLEASE BRING TAPE OF COMPUTER PROGRAM

BALASSA

Bela Balassa

DRC

BBalassa:alm

March 26, 1973

Professor E. S. Kirschen  
Universite Libre de Bruxelles  
Departement d'Economie Appliquee  
Av. F.D.Roosevelt 50  
1050 Bruxelles  
Belgium

Dear Etienne,

I am happy to report that we have admitted Mr. Sapir to graduate study at Hopkins. He should be notified of the decision in the next few days. I have also asked that admission forms be sent to Michelle Konings (I am not sure that I have the name right; I gave the papers to our Departmental office).

It was a pleasure having you, and Carol and I hope that next time your wife will also join you. With sincere regards,

Bela Balassa

March 26, 1973

Mr. Rameshwar Tandon  
Bhagvati Nivas  
F 3/18, Model town, civil lines  
Delhi-9  
India

Dear Mr. Tandon,

Please excuse the late reply to your letter of October 29.

I am glad that you have made progress in your work on regional integration. I will read and comment on your paper if you send it to me. I am afraid, however, that I see no possibility for an assignment at the World Bank or at Johns Hopkins University.

I enclose copies of a few of my recent papers as you requested.

Sincerely yours,

Bela Balassa



Mr. Hollis B. Chenery

March 26, 1973

Bela Balassa

Westphal Letter

Larry Westphal asked me to send you a copy of his letter to H.T. Oshima. In the letter, Larry suggests that research on technology take the form of cross-country industry studies and studies on particular issues, with a possible pairing of the two (See the long paragraph on p.3).

BBalassa:alm

March 26, 1973

Professor Fritz Machlup  
Princeton University  
Department of Economics  
P.O. Box 644  
Princeton, N.J. 08540

Dear Fritz,

Thank you for your Third Programme. I do not have any further comment, except to urge you that in making choices among discussants, economists from developing countries should be given proper representation. In this connection, I would like to add to the list of possible candidates Daniel Schydrowsky, a Peruvian, who is presently a Professor at Boston University. He could do well on almost any topic.

With best regards,

Sincerely yours,

Bela Balassa



Travel Office

March 23, 1973

Bela Balassa

Messrs. Waelbroeck and Ginsburgh

Please will you reserve two single rooms at the Dupont Plaza Hotel for Messrs. J. Waelbroeck and V. Ginsburgh from Sunday, April 1 to Saturday, April 7.

BBalassa:alm



## OFFICE MEMORANDUM

TO: Those Listed

DATE: March 20, 1973

FROM: Bela Balassa *M*SUBJECT: DPS Work Program on Trade

1. The following brief statement has been prepared as background material for the March 22nd meeting on the DPS Work Program on Trade. It states the present situation as regards particular subject areas and indicates possible alternatives for future work.

Commodity Work

2. In response to increasing demands on the part of the Board and the Regional Offices, there has been a continuing expansion of staff work on commodities and today the Commodities and Export Projections Division (CEPD) has 13 professionals. For the immediate future, an important task is to ensure consistency in commodity forecasts for the individual exporting countries as well as in macro projections for countries importing particular commodities.

Framework for Projections

3. More generally, for the so-called global framework of Bank operations there is need for consistent projection of trade flows, of which commodity projections should be an integral part. The Economic and Social Data Division (ESDD) is presently exploring the possibility to incorporate in its data bank information on trade flows while the International Economy Division (IED) is examining the applicability of trade projection methodology developed by other organizations and plans for the time being to make trade forecasts in an eight commodity group breakdown. These tasks are however carried out by a small staff (two professionals part-time in IED) and the development of a consistent forecasting model would necessitate a major effort. This may be done by adding two staff members or involving consultants in the framework of a research project.

Manufactured Exports

4. In its commodity work, CEPD concentrates on primary commodities and monitors only a few manufactured exports. In turn, the Economics of Industry Division (EID) has done work on the expansion of manufactured exports from developing countries as well as on export incentives in India. It would seem desirable to increase the number of manufactured exports that are systematically monitored in the Bank. Also, as suggested in the medium-term research program on industry, work could be usefully undertaken on the changing pattern of comparative advantage in manufactured goods and on the effects of incentives to the exports of manufactures in the developing countries. Finally, the question needs to be raised whether the Bank should carry out work on the implications of the policies followed by developed nations for the exports of manufactured goods from the less developed countries.

Trade Policies in Developing Countries

5. Export promotion is part of trade policies that, in turn, should be considered in the framework of general development policies. The policies followed by six semi-industrial economies have been evaluated in a research project

undertaken at DRC while the relationship between protection and economies of scale has been examined in a study originated in EID. In line with suggestions that further work be concentrated in relatively poor, small, primary producing countries, the Western Africa Office, Industrial Projects Department, DRC, and EID plan joint work on policy choices for several countries in West Africa.

#### Economic Integration

6. In addition to export promotion and import substitution in the national framework, economic integration presents a possible policy alternative for developing countries. The study on Western Africa will consider the potential benefits and costs of this alternative. Studies on regional integration are also planned by the Latin America and Caribbean Regional Office in connection with economic missions to Central America and the Caribbean region.

#### Scope of the Work Program

7. The main questions to be answered in connection with the Work Program on Trade include the determination of priorities, the availability of resources to carry out the program, and the timing of the work to be undertaken. As regards priorities, the desirability of work in the following areas would need to be evaluated: (a) the incorporation of trade data in the Bank's data bank; (b) the development of a model for forecasting trade flows; (c) the extension of commodity work to a greater number of manufactured goods; (d) the changing pattern of comparative advantage in manufactured goods; (e) the effects of incentive schemes on the exports of manufactured goods from developing countries; (f) trade restrictions in the developed nations; (g) trade policies in developing countries; and (h) economic integration. Given its interdependence with international trade, the issue needs further be raised if the Bank should undertake work on foreign investment.

#### Distribution:

Messrs. Stern, Senior Adviser, VPD  
Chenery, Vice President, VPD  
Haq, Director, EPR  
Hayes, Director, EPD  
Tims, Deputy Director, EPD  
Mrs. Hughes, ECDND  
I. Frank, Consultant

BBalassa:alm



Mr. Barend A. de Vries, WACE

March 20, 1973

Bela Balassa, DRCDR

Regional Integration Mission

Further to my memorandum of March 14 I enclose the initialled copy of the mission form and preliminary terms of reference for the Regional Integration Mission.

cc. Messrs. Jansen  
McGibbon  
Gillette

Stoutjesdijk  
Pursell

BBalassa:alm



QUARTERLY REPORT ON ECONOMIC, SECTOR AND SPECIAL MISSIONS

Type of Report:	Timing <sup>a/</sup>		No Change <input type="checkbox"/>	Page <input type="checkbox"/> of <input type="checkbox"/>		Mission Number: <div style="border: 1px solid black; width: 100px; height: 1.2em; display: flex; justify-content: space-between; margin: 0;"></div>	
	Original Forecast	Current Forecast or Actual					
1. Mission Departure	1. 1.74		Title of Mission: Regional Integration Mission				
2. Mission Return	1.30.74						
3. Draft Report (Yellow Cover)	3.31.74		Area Department: Western Africa		Country: Ivory Coast, Senegal Mali, Ghana		
4. Draft Report (Green Cover)	4.30.74		Area Chief Economist: Barend de Vries		Phone:	Initialed: <i>Bvd.</i>	Date: March 73
5. Draft Country Program Paper/Note <sup>b/</sup>			Has Participation of UNDP Resident Representative been Arranged? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
6. Country Program Review			(For Full Economic Reports Only)				
7. Final Report (Grey Cover)			DATE OF LAST REPORT <sup>c/</sup> IN SERIES	DATE OF NEXT REPORT <sup>c/</sup> IN SERIES	DATE OF CLOSEST IMF MISSION	DATE OF NEXT AID COORDINATION MTG.	
8. Discussion of Report with Government							

Type of Manpower <sup>d/</sup>	Responsible Department			Manweeks Required			Name (if known)
	Dept. <sup>e/</sup>	Source <sup>f/</sup>	Initialed	Field	HQ	Total	
Mission Chief	DRC	-	<i>/</i>	4	6	10	B. Balassa
Economist	DRC	-	<i>/</i>	4	6	10	G. Pursell
Agricultural Economist	-	FAØ		4	6	10	
Infrastructure Specialist	-	CONS		4	6	10	
(Please use continuation sheet if necessary)				TOTAL	16	24	40
Remarks							



## OFFICE MEMORANDUM

TO: Mr. Bela Balassa

DATE: March 20, 1973

FROM: Jorge Cauas /

SUBJECT: Regional Integration Mission

1. In January, 1974, you will lead a mission to West Africa with the objective to combine and extend work done by preceding missions on incentives and on the prospects for industrial growth in Ghana, Ivory Coast, Mali, and Senegal. You will appraise the incentive policies followed by these countries and their growth prospects under alternative policies, including regional integration. You will be accompanied by a general economist (Garry Pursell) as well as by an agricultural and an infrastructure specialist.
2. The mission will evaluate the incentive systems of these countries in their effects on individual industries, exports and import substitution, domestic and foreign investment, as well as the size of industrial firms. Information on incentives together with data on major firms and industries will further be utilized to evaluate the comparative cost position of individual industries in the four countries and the benefits of foreign investment. Finally, you will appraise the prospects for economic growth in the four countries under alternative policies.
3. In the industry field, the alternative policies to be considered by the mission are import substitution in the national framework, increased intraregional trade, and extra-area exports. These alternatives will be evaluated in terms of their effects on national income, employment, and income distribution. The mission should also examine alternative ways to expand intraregional trade, including survey, preferential arrangements, and multinational projects.
4. The agricultural specialist attached to the mission will evaluate the possibilities for increasing agricultural production and, in particular, exports. In this connection, the supply and demand conditions for major agricultural exports will be studied, with attention paid to both extraregional and intraregional markets. Consideration will also be given to the possibilities for joint action in agriculture by the countries concerned.
5. The infrastructure specialist will examine the infrastructural requirements of increased intraregional trade. This will entail taking stock of available transportation and communication facilities, including their capacity as well as costs. In examining the need for the expansion of infrastructural facilities, the possibilities for joint action on the part of the countries concerned will also be explored.

Mr. John Holsen

March 20, 1973

Bela Balassa

A Medium-Term Research Program for Industry, FY73-FY76

Inadvertently you were omitted from the list of Senior Economists to whom the enclosed memo was sent. May I ask you to give your comments on it by rating the research projects suggested for 1974 (last-but-one page) and those proposed for FY75 and 76. Rating by the use of the letter A, B, and C would be fine. We would also appreciate suggestions for adding and deleting projects.

BBalassa:alm



Home Address  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008

March 20, 1973

Arena Stage  
6th & M Streets S.W.  
Washington D.C.

Dear Sirs,

Further to our telephone conversation this morning, I am returning my two tickets for March 29 in exchange for three similar reservations for March 27. My check for \$5.80 is enclosed together with a stamped, addressed envelope.

Sincerely yours,

Bela Balassa



# Record Removal Notice



<b>File Title</b> Research on Economics and Development - Bela Balassa - Chronological Record - December 1972 through April 1973		<b>Barcode No.</b>  30280406		
<b>Document Date</b> March 16, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: Flor de Liza Spriggs				
<b>Subject / Title</b> Insurance				
<b>Exception(s)</b>  Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			

Mr. Ernest Stern, VPD

March 16, 1973

Bela Balassa, DRCDR

Bank Lending to Central American Industry

Thank you for sending me a copy of your memorandum of March 13 on the above subject. I would be interested in participating in the meeting mentioned in the last paragraph. I would also like to have a copy of Mr. Adler's memorandum of March 9.

BBalassa:alm



## OFFICE MEMORANDUM

TO: Mr. R. Parish

DATE: March 16, 1973

FROM: Bela Balassa *M*SUBJECT: More on the Shadow Wage Rate and its Implications

1. The example you have provided indicates the need to avoid estimating shadow prices by the use of mechanical formulas based on simplifying assumptions. Another important result you have obtained is the apparent sensitivity of shadow prices to the policy assumptions.
2. For completeness' sake, however, it should be noted that, by introducing legal wage differences between two parts of the country, you have modified the assumptions underlying Baneth's model. At the same time, postulating a legal minimum wage for identical labor in one province but not the other will give rise to questions as regards the realism of your assumptions.
3. Thus, one wonders if project evaluation should be based on welfare optimization for the country as a whole whose two provinces apparently have different welfare functions. There is also the question if wage differences of 250 percent could be maintained between agricultural districts in the presence of labor mobility. And while wage differences do exist in the urban-rural context, the results may well change as one drops the assumption that both provinces use an immobile factor (land). It would seem useful to revise your example for such a case.

cc. Messrs. Reutlinger  
Turnham  
Anand  
Squire  
Ettinger  
Wolf  
Blitzer

E. Stern  
van der Tak  
Stevenson  
Weiner  
McDiarmid  
Bruce  
Henderson  
Hansen  
Chief Economists

BBalassa:alm

Messrs. Hollis B. Chenery and Jorge Cauas

March 16, 1973

Bela Balassa

The Shadow Wage Rate and its Implications

I enclose an exchange of memos on the above subject that may be of interest to you.

BBalassa:alm

JEAN WAELEBROECK  
C.O.R.E.  
DE GROUYLAAN 54  
3030 HEVERLEE

March 15, 1973

LT

BELGIUM

SUGGEST YOU ARRIVE APRIL FIRST STOP RESERVATIONS MADE  
DUPONT PLAZA HOTEL STOP CONFIRM DATE

BALASSA

Bela Balassa

DRC

BBalassa:alm



Mr. John Duloy

March 15, 1973

Bela Balassa

Expenses - Daniel Schydlowsky - Development Strategies Project

Enclosed please find two expense statements for Daniel Schydlowsky in connection with his trips to Colombia in August 1972, and to Washington in February 1973. These should be charged to the Development Strategies in Semi-Industrial Countries project.

BBalassa:alm

cc. Miss Edayoshi

## OFFICE MEMORANDUM

TO: Mr. Jean Baneth

DATE: March 14, 1973

FROM: Bela Balassa *M*SUBJECT: The Shadow Wage Rate and its Implications

1. I am afraid that due to other obligations I will not be able to participate in the meeting that will discuss your note on the above subject. Given the importance of the issues involved, however, I provide some written comments below. The comments consider the implications of the suggested procedure for project evaluation as well as the consequences of removing some of the underlying assumptions.
2. In your note you take the case when the shadow wage rate is zero, and suggest that the cut-off rate of return (accounting rate of interest) be adjusted accordingly. In effect, this amounts to using the incremental output-capital ratio as a criterion in project evaluation. Explicitly or implicitly, the suggested procedure is based on the following assumptions: there are only two factors of production, unskilled labor and capital; there are no distortions in product and capital markets; the alternative use of capital is in the private sector; and project evaluation is not employed to pursue savings and income distributional objectives.
3. Under the stated assumptions, your result is unassailable; we are in the Harrod-Domar world where capital is the only scarce factor, hence projects should be ranked according to their output-capital ratio. More generally, assuming that technical coefficients for any particular project are constant, the use in project evaluation of shadow wages lower than market wages together with an adjusted accounting rate of interest will favor projects with higher than average labor share, and disfavor those with lower than average labor share, expressed in market prices. If, however, we permit factor substitution and make shadow prices relevant to the executing agency through tax-subsidy arrangements, the result will further depend on the possibilities for capital-labor substitution in particular projects.
4. Let us now remove the assumption that unskilled labor and capital are the only factors of production. The results will then depend on substitution and complementary relationships among the various factors of production. If, for example, labor is fully complementary with land and substitutes for capital, the price of land but not that of capital will need to be adjusted upwards. But even if complementary-substitution relationships do not differ among pairs of factors, the necessary adjustment in the cut-off rate of return will be much smaller than in your example.
5. Take the case when the share of capital in national income is 30 percent, of technical and skilled labor 15 percent, of urban unskilled labor 15 percent, and of land 15 percent. This leaves 30 percent -- a rather high figure in my view -- to rural unskilled labor whose shadow price might conceivably be zero. The adjustment factor will thus be 1.43, so that a 10 percent market interest rate would have to be raised to 14.3 percent as against the 33.3 percent you have obtained. Making such an adjustment would not involve problems of "credibility" as you suggest in the footnote on p.5 of your memo. At the same time,



there will be few cases when the rural shadow wage can be taken as zero, so that in practice the necessary adjustment will be even smaller.

6. Additional considerations are introduced if we consider distortions due to protection that is of considerable importance in major Asian countries. While using shadow wages in project evaluation raises the economic rate of return in the project, valuation at world market prices will have the opposite effect, unless the protection-induced increase in input prices exceeds that in the price of output in absolute terms. Correspondingly, the accounting rate of interest or the exchange rate will need to be adjusted downwards.

7. Further adjustments need to be made if private projects do not provide alternative uses for the project in question so that its rejection would result in a decrease of Bank lending to the country concerned. In turn, the introduction of income distributional considerations would tend to raise the economic rate of return in the project whereas putting a higher value on future than on present consumption would have the opposite effect. One should particularly emphasize the implications of introducing savings objectives that has received much attention in discussions on project evaluation.

8. These comments are not intended to belittle your contribution to the discussion. Indeed, your suggestions parallel recommendations made a number of years ago that using world market prices in project evaluation will necessitate adjusting the rate of exchange. But adjusting the accounting rate of interest in the case a shadow wage is used in project evaluation necessitates a careful consideration of the relevant assumptions lest the adjustment be overly large and good projects be rejected.

cc. Chief Economists  
Messrs. Stern  
van der Tak  
Stevenson  
Weiner  
McDiarmid  
Bruce  
Henderson  
Hansen  
Blitzer  
Parish

BBalassa:alm



pink

## OFFICE MEMORANDUM

TO: Mr. Barend de Vries

DATE: March 14, 1973

FROM: Bela Balassa

SUBJECT: RIM

1. In response to your memorandum of March 8 and our subsequent telephone conversation, I enclose a note on the proposed study "Industrial Policies and Economic Integration in Western Africa". The terms of reference of the January 1974 mission will be based on this note. They will be sent to you together with the initialled copy of the Quarterly Report on Mission form following the return of Mr. Cauas next Monday.

2. I also enclose a copy of the memorandum concerning the recent visit to the Bank of Mr. Fuentes Mohr, a paper on integration in less developed countries I presented last September at the Cambridge Conference on Trade and Development, and a book of readings on "International Economic Integration". Please return the book when you are through with it.

cc. Messrs. Jansen  
McGibbon  
Gillette  
Stoutjesdijk  
Pursell  
Wyss

BBalassa:alm

## Industrial Policy and Economic Integration in West Africa

Bela Balassa

1. This study responds to the preoccupations of the Bank with the problems faced by small, primary producing countries that have been highlighted in the Primary Exporters Study. It will evaluate the incentive schemes applied and the prospects for economic growth and industrial development under alternative policies, including economic integration, in selected countries of the West Africa region. The countries in question have been chosen so as to represent a considerable variety of economic structure. They are Ghana, the Ivory Coast, Senegal, and a "least developed" country, Mali.
2. The study will analyze the incentive systems of these countries as they affect individual industries, exports and import substitution, domestic and foreign investment, as well as the size of industrial firms. The incentive measures, including tariffs, quantitative restrictions, export taxes and subsidies, tax holidays, credit preferences, and government expenditures, will be quantified and their joint effects on particular activities estimated. The data will further be used to appraise the economic cost of the incentive schemes applied and to derive benefit-cost ratios for foreign investment in particular activities.
3. Information on incentives will be supplemented by data to be collected on major firms and industries, with a view to indicate the comparative cost position of individual industries among the four countries and vis-à-vis foreign nations. Relative costs and benefit-cost ratios for foreign investment will also be evaluated for investment projects that have been proposed for the future.
4. Next, the growth prospects of the individual countries will be appraised under alternative policies. Apart from industry, this requires evaluating the possibilities for increasing agricultural production and, in particular, exports. In this connection, supply and demand conditions for the major agricultural exports will be studied, with attention given to extraregional and intraregional markets

and the possibilities for joint action on the part of the countries concerned. The infrastructural requirements of increased intraregional trade and the scope for joint action in regard to infrastructure and services will also be explored.

5. In the industrial field, the possible avenues of further expansion include continuing import substitution in the national framework, increased intraregional trade, and extra-area exports. The study will evaluate these possibilities in terms of their potential contribution to economic growth and employment. The income distributional effects of alternative policies will also be considered.

6. Apart from the comparative cost position of particular industries, in appraising the prospects for extra-area exports consideration will be given to the availability of foreign markets, especially in the EEC. In turn, the possibilities for import substitution and for the expansion of intraregional trade are limited by the domestic markets of the individual countries. This necessitates evaluating the actual and potential size of markets in the four countries as well as in other West African countries which are not studied in detail.

7. Furthermore, alternative possibilities for expanding intraregional trade will be examined, including a customs union, preferential agreements, and multinational projects. As regards the latter, use will be made of the results of the industry studies under way at the DRC. Finally, consideration should be given to questions relating to migration and the right of establishment in the West Africa region.

8. The findings of the study should permit formulating policy recommendations for the countries concerned. The recommendations would pertain to the reform of the incentive schemes applied in individual countries, the coordination of these schemes and especially the Investment Code, as well as policies for economic growth in the countries concerned. Information on the comparative cost position of individual industries will also provide assistance to the Bank's project selection



activities. Finally, the findings of the study will add to our knowledge on the possibilities for economic growth in small, primary producing countries and will help answering questions raised in the Bank as regards economic integration and trade among developing countries and industrialization policies for the least developed countries

9. The study represents a collaborative effort on the part of the Western Africa Department, the Industrial Projects Department, and the DPS. It is planned in conjunction with economic and sector missions in the four countries that will be followed by a special mission scheduled for January 1974.

## OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: March 13, 1973

FROM: Bela Balassa *N*SUBJECT: Research Proposal: Japanese Economic Influence on East and Southeast Asia

1. A Subcommittee of the Research Committee met today with the participation of Messrs. Balassa (Chairman), Agarwala and Kuczynski, to discuss the research proposal on "A Study of Japanese Economic Influence on the Economies of East and Southeast Asian Countries" prepared by the International Development Center of Japan (IDCJ) and submitted by the Asian Regional Office (ARO). On the part of the ARO, Messrs. Baneth, Hablutzel, Asanuma, and Dunn participated in the meeting. Subject to certain provisos, the Subcommittee endorsed the research proposal; a recommendation to this effect has also been made by Mrs. Hughes who could not participate in the meeting.

2. The Subcommittee welcomed the intention expressed by ARO for continuing Bank involvement in the project. It is of especial importance to review the methodology of the study, the underlying growth assumptions, and the choice of industries for the detailed studies. While the methodology has been improved compared to the earlier submission by the IDCJ, there is a certain lack of clarity on projection methods and on the interrelationships of Parts I and II of the project; also, questions relating to foreign investment, the changing economic role of China, and uncertainties as regards exchange rates have not received adequate consideration. Furthermore, the assumptions for economic growth in Japan should be reviewed in the light of the projections made by the Japanese Economic Planning Agency. Finally, in selecting industries for detailed study, account should be taken of the expected export capabilities of the countries of Southeast Asia.

3. The research team working on the study has been strengthened as Mr. Kanamori has replaced Mr. Onishi as project leader. Still, given the new functions of Mr. Okita and the lack of experience of the IDCJ in carrying out such studies, it would appear desirable to formalize the relationship with the project of Professor Kojima who has been mentioned as a possible consultant by IDCJ. Mr. Kojima could also be invited to participate in meetings Bank staff will have with IDCJ.

cc. Messrs. Agarwala  
Kuczynski  
Ray  
Hughes

Baneth  
Gilmartin  
Hablutzel  
Asanuma  
Dunn

BBalassa:alm

Mr. Khurshid Ahmed

March 12, 1973

Bela Balassa

KDFC Special Study

I enclose a copy of my comments on the KDFC study as promised. In turn, I would be interested in seeing your note on the study or on any other subject relating to Korea.

BBalassa:alm



Home Address

2134 Wyoming Avenue N.W.  
Washington D.C. 20008

March 12, 1973

Mr. Philip Seldon  
Vintage Magazine  
P.O. Box 866  
New York, N.Y. 10010

Dear Mr. Seldon,

I have no need for the books you offer as replacement for the Encyclopedia of Wine by Frank Schoonmaker. I wish to ask you therefore to cancel my order and refund the payment made.

Sincerely yours,

Bela Balassa

Adresse personnelle  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008  
USA

le 12 mars, 1973

Les Editions Nagel  
5 rue de l'orangerie  
Geneva  
Switzerland

Monsieur,

Veillez trouver ci-enclos un cheque de \$14.75 comme paiement de votre facture 5070/73. Je me permets d'ajouter que malgre l'indication donnee sur votre facture le livre sur Peru en echange de mon livre defectueux n'est pas arrive. Je vous serais reconnaissant si vous pourriez me faire parvenir ce livre.

Je vous prie de croire, Monsieur, a ma parfaite consideration.

Bela Balassa



March 12, 1973

Prof. Larry Westphal  
Northwestern University  
Dept. of Economics  
Evanston, Ill.

Dear Larry,

I enclose a copy of the draft research program for industry. I would appreciate receiving your comments on this together with your detailed suggestions on future work in industry in which you have a personal interest. As regards the implications of economies of scale and non-competitive market structures for shadow prices it would be desirable if you could send me a short research proposal. Charles Blitzer is in the process of collecting research proposals on project evaluation and shadow prices for submission to the Steering Committee on Project Evaluation.

I talked to Helen about your lecture on the Korean incentive study. She has already asked Paul Streeten to speak in early April. Should Paul wish to stick to this date we can schedule your talk only for early May. I will try to induce Paul to change the date, however, if you can promise me a paper that can be distributed before the end of March.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

P.S.

I haven't heard from the Portuguese. I presume however that as your plans for Korea are being finalized you do not have an interest in going to Portugal at this time.

cc Ardy  
Blitzer



Home Address

2134 Wyoming Ave.N.W.  
Washington D.C. 20008

March 12, 1973

MPS International Corporation  
1100 17th St. N.W.  
Washington D.C.

Dear Sirs,

In a recent issue of the Wall Street Journal I read about tours organized by you. I am interested in a round trip flight from Washington D.C. to Paris. Could you please let me know how I could join a group to take a flight around July 1.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008  
USA

March 12, 1973

Office for Official Publications  
of the European Communities  
P.O.B. 1003  
Luxembourg 1

Dear Sirs,

I enclose a cheque for payment of a subscription to the Bulletin of the European Communities for the year 1973. The amount of the cheque should cover the subscription for the Bulletin as well as the Supplement and Index.

I am afraid that due to the lack of budgetary funds I am not able to continue my subscription to the Official Journal of the European Communities.

Sincerely yours,

Bela Balassa  
Professor of Political Economy

P.S.

Check in the amount of \$10.50 enclosed



T	Statistique agricole, 6/yr (Agricultural Statistics) Agrarstatistik, 6/Jahr	550.-
B	Statistiques sociales, 6/yr (Social Statistics) Sozialstatistik (6/Jahr.)	750.-
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\*8784  
L

Prof. Bela B A L A S S A

E 1

2134 Wyoming Avenue N.W.  
WASHINGTON, D.C. 20008  
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U. S. A.

Re.: Publications of the European Communities -  
Renewal of subscriptions for 1973

The current subscriptions expire on 31 December 1972  
Each letter (code: see enclosed list) indicated on  
your address just under your client number represents  
one of your subscriptions.

To prevent any interruption in the supply of these  
publications we should be glad if you would renew your  
subscription(s), if desired, as from 1st January 1973,  
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In the absence of a reply we shall assume you do not  
wish to renew your subscription(s).

This does not, of course, apply to subscribers whose  
subscriptions are renewed automatically by STANDING  
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newal orders.

R E P L Y

JJ. GASPAR

Enclosure



March 12, 1973

Academic Press Inc.  
111 Fifth Ave.  
New York, N.Y. 3

Dear Sirs,

I enclose Form 3435 as you requested.  
I have no record however of a payment made  
by you. Please let me know when this will  
take place and in what amount.

Sincerely yours,

Bela Balassa  
Professor of Political Economy



# Record Removal Notice



<b>File Title</b> Research on Economics and Development - Bela Balassa - Chronological Record - December 1972 through April 1973		<b>Barcode No.</b>  30280406		
<b>Document Date</b> March 8, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: John Duloy				
<b>Subject / Title</b> Insurance				
<b>Exception(s)</b>  Personal Information				
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<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			



March 9, 1973

Washingtonian Magazine  
1218 Connecticut Ave. N.W.  
Washington D.C.

Dear Sirs,

For several years now I have been a subscriber to your magazine. The last issue I received from you was the one with gift ideas for Christmas. I wonder if you could check your list as I believe my subscription has not expired. Should this be the case, please send me the missing issues and bill me.

Sincerely yours,

Bela Galassa

Home Address  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008

March 7, 1973

Dr. Alexander K. Swoboda  
Graduate Institute of International Studies  
132 rue de Lausanne  
Case Postale 53  
CH 1211 Geneva 21  
Switzerland

Dear Alex,

Our letters must have crossed in the post as the proofs of my "Monetary Integration in the European Common Market" came the day after I wrote to you. I enclose ~~them~~ with my corrections.

Sincerely yours,

Bela Balassa

P.S.

While I plan to be in Paris around July 1, I don't think that I will get to Geneva. Any chance of your coming to Washington in the near future?





# Record Removal Notice



<b>File Title</b> Research on Economics and Development - Bela Balassa - Chronological Record - December 1972 through April 1973		<b>Barcode No.</b>  30280406		
<b>Document Date</b> March, 1973	<b>Document Type</b> Letter			
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<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			

Mrs. Helen Hughes

March 6, 1973

Bela Balassa

Medium-Term Research Program for Industry

1. Enclosed are some notes on the above. I have classified research areas in two groups according to whether they are policy or project oriented (I find it difficult to separate out "sector support"; in turn, taking "employment and income distribution" as a separate group appears somewhat arbitrary in view of the kind of research projects we propose under this heading). The program should be accompanied by a list of research projects underway or proposed to which numbered references would be made in the text; suggestions for further research would remain unnumbered as research projects have not yet been generated. For each project we should provide the following information: the title; the Department; starting date; scheduled completion date; professional time; research funds; and countries involved.

BBalassa:alm

Home Address

2134 Wyoming Avenue N.W.  
Washington D.C. 20008  
USA

March 6, 1973

Hungarian National Bank  
IBUSz B.C. Account  
Budapest  
V Szabadsag ter 8/11  
Hungary

Dear Sirs,

I enclose a cheque for \$50 (fifty dollars) for Mr.  
George Balassa, Budapest II, Martirok utja 67. This amount  
is to be used by the recipient for purposes of foreign travel.

Sincerely yours,

Bela Balassa



## OFFICE MEMORANDUM

TO: Mr. Colin Bruce (APDR)

DATE: March 6, 1973

FROM: Bela Balassa *B* (DRCDR)SUBJECT: Estimation of Shadow Price by Country Economists

1. Thank you for your note of February 22 and for sending me your interesting "Guide to Project Planning in Ethiopia". In the following, I will briefly deal with some of the points raised in your memo.

2. The sensitivity of the shadow price of foreign exchange to the assumptions made is discussed in the Appendix to my Structure of Protection in Developing Countries; it is easy to generate examples to show how sensitive project evaluation is to the choice of the shadow exchange rate. On the estimation of the latter, see the Annex to my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal" (Economic Staff Working Paper No. 142), which is enclosed.

3. Re your Para 7, I did not argue that the Bank should not use world prices in project evaluation. Rather, I pointed to the problems of the second best in cases when private and public decision-makers respond to different sets of prices and indicated the need for taking account of external economies in industry. Nor can the latter be disregarded on grounds of our ignorance as to actual magnitudes as you suggest in Para 6 of your memo. Finally, there is no inconsistency between Paras 8 and 13 of our February 1 memo to van der Tak; rather, the former qualifies the latter. For a detailed discussion see my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal" and "Project Appraisal in Developing Countries" (Economic Staff Working Paper No. 119).

BBalassa:alm

cc. Messrs. Chenery, Stern, Weiner, van der Tak, Regional Chief Economists, Henderson, Cauas, Blitzler, Hansen J., and Ettinger

## OFFICE MEMORANDUM

TO: Mr. Jean Baneth

DATE: March 6, 1973

FROM: Bela Balassa *B*SUBJECT: The Shadow Exchange Rate and its Indications (Implications?)

1. I share your concern as regards the practice of changing a single factor price in project appraisal, which is apparently done at the Bank in valuing agricultural labor in some countries. At the extreme, if certain assumptions are fulfilled, a zero shadow price of labor should lead us to use the incremental output-capital ratio as the benchmark in appraising projects. This will be the case if there are only two factors of production, unskilled labor and capital, public investment is a substitute for private investment, project evaluation is not used in pursuing savings and income distributional objectives, and there are no other distortions in the markets of capital and foreign exchange (As regards the latter, note that while using the shadow wage rate raises the economic rate of return, employing world market prices instead of the higher domestic prices under protection will have the opposite effect).

2. Given these restrictive assumptions, your formulation is more an illustration of a problem than a guide to action. The Annex to the O.M. is supposed to consider the implications of the interrelationships of shadow prices. Your memo should provide food for thought for the writing of the Annex and you will also have the opportunity to make your views felt at the time when the Annex is available in draft form. In the hope that the final version of the Annex will satisfactorily handle the problem, I wonder if it would not be appropriate to refrain from widely distributing the memo at this time.

cc. Mr. van der Tak

BBalassa:alm



March 6, 1973

Dr. Uwe Kitzinger  
Nuffield College  
Oxford OX1 1NF  
England

Dear Uwe,

I enclose a copy of my paper "Tariffs and Trade Policy in the Andean Common Market" for your consideration for publication in the Journal of Common Market Studies. Another copy is being sent to Miguel Wionczek.

This paper can be considered as a sequel to my earlier "Regional Integration and Trade Liberalization in Latin America" which you published in 1971. In its original form it was prepared as an advisory report to the Junta of the Andean Common Market.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

cc.Mr. Wionczek

P.S.

I don't think that I'll be in Paris before July. I also plan to go to Brussels for two days. Do you have any plans to be in either one of the two places in early July?



March 6, 1973

Hungarian Packing House  
1530 Second Avenue  
Bet. 79 and 80 Streets  
New York, N.Y. 10021

Dear Sirs,

The szarazkolbasz you sent me last time was again excellent; it was low in fat and had the right amount of paprika. In fact, several of my friends asked me to get some for them; hence, I would like to give you a bigger order this time.

I enclose a check for \$30 with the request that you send me szarazkolbasz for it, together with three pairs of sutnivalo kolbasz. The latter should be in the middle of the package so that it doesn't go bad. May I also ask you to send the package by special delivery to my home address.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Ave. N.W.  
Washington D,C. 20008

March 6, 1973

Mr. Patricio Leiva Lavallo  
Jefe  
Unidad Politica Economica  
Acuerdo de Cartagena  
Junta  
Casilla de Correo 3237  
Lima  
Peru

Dear Mr. Leiva,

Thank you for your recent letter. I too found the meetings of considerable interest and hope that you will be successful in your efforts to establish a rational tariff structure for the Andean Common Market.

I enclose a revised version of my advisory report, "Tariffs and Trade Policy in the Andean Common Market". In the revision I have taken account of the discussions we had at the meetings of the Working Group. Additional copies of the report have been sent to Messrs. Salgado and Lluch.

It was a pleasure seeing you and I hope that we will meet again soon.

Sincerely yours,

Bela Balassa

cc. Messrs. Chenery  
Stern  
Hayes/Tims  
Haq/Kuczynski  
Stevenson/Gulhati  
Cauas

Kalmanoff  
Qureshi  
Avramovic  
Hughes  
Moore  
Felipe Pazos (IDB)



March 6, 1973

Mr. Germanico Salgado  
Coordinador a.i.  
Acuerdo de Cartagena  
Junta  
Casilla de Correo: 3237  
Lima  
Peru

Dear Mr. Salgado,

I enclose a revised version of my advisory report "Tariffs and Trade Policy in the Andean Common Market". In the revision I have taken account of the discussions we had at the meetings of the Working Group which I have found very useful. The revision has been delayed due to other obligations.

I very much enjoyed meeting you in Lima and hope to have another occasion to see you again.

Sincerely yours,

Bela Balassa



March 6, 1973

Mr. Salvador Lluch Soler  
Coordinador  
Acuerdo de Cartagena  
Junta  
Casilla de Correo: 3237  
Lima  
Peru

Dear Mr. Lluch,

I enclose a revised version of my advisory report "Tariffs and Trade Policy in the Andean Common Market". In the revision I have taken account of the discussions we had at the meetings of the Working Group which I have found very useful. The revision has been delayed due to other obligations.

I very much enjoyed meeting you in Lima and hope to have another occasion to see you again.

Sincerely yours,

Bela Balassa

March 6, 1973

Dr. Jeno Redei  
Conseiller Commercial  
Embassy of Hungary  
140 Av. Victor-Hugo  
Paris 16  
France

Dear Jeno,

Many thanks for sending me the text of the recent decision of the Central Committee on the new economic mechanism. In turn, I enclose a revised version of my "Tariffs and Trade Policy in the Andean Common Market". The revision has been delayed due to other obligations.

It was good to see you and I look forward to meeting you again in Paris this summer.

Sincerely yours,

Bela Balassa



March 6, 1973

Mr. Sixto Diaz Miranda  
Depto. de Política Comercial  
Instituto de Comercio Exterior  
Avenida Libertador  
Centro Los Cedros  
Apartado 51852  
Caracas 105  
Venezuela

Dear Mr. Diaz,

I delayed writing this letter until the revised version of my "Tariffs and Trade Policy in the Andean Common Market" was available. A copy is enclosed. I am also sending you under separate cover a copy of the Spanish version of my book, The Structure of Protection in Developing Countries.

Let me add here that as I earlier indicated in a letter to Mr. Alegrett, I would be glad to help you in your work on trade policy.

Sincerely yours,

Bela Balassa



March 5, 1973

Dr. Carlos Ml. Castillo  
Asesor de la Oficina de Planificacion  
de la Presidencia de la Republica  
San Jose  
Costa Rica

Dear Dr. Castillo,

I enclose a copy of my "Tariffs and Trade Policy in the Andean Common Market". I think that the parts of the paper dealing with policy coordination will be of interest to you.

A copy of my Structure of Protection in Developing Countries is being sent to you under separate cover.

I very much enjoyed our discussions in Costa Rica and hope that you will be successful in your plans.

Sincerely yours,

Bela Balassa

March 5, 1973

Mr. Fernando Naranjo  
Director  
Departamento de Estudios Economicos  
Universidad de Costa Rica  
Ciudad Universitaria Rodrigo Facio  
San Jose  
Costa Rica

Dear Mr. Naranjo,

Please excuse the delay with this letter, but I wanted to wait until I had the chance to revise my "Tariffs and Trade Policy in the Andean Common Market". I think that the parts of the paper dealing with policy coordination will be of interest to you.

I am sending under separate cover a copy of my book on The Structure of Protection in Developing Countries as well as reprints of some of my recent papers.

I greatly enjoyed meeting you and hope to see you again before long.

Sincerely yours,

Bela Balassa



March 2, 1973

Mr. Oscar Arias  
Minister of Planning  
San Jose  
Costa Rica

Dear Mr. Arias,

Please excuse the delay with this letter, but I wanted to wait until I had the chance to revise my paper "Tariffs and Trade Policy in the Andean Common Market". I think that the parts of the paper dealing with policy coordination will be of interest to you.

I am sending under separate cover a copy of my book The Structure of Protection in Developing Countries as well as my paper on "Planning and Programming in the European Common Market" as promised.

I greatly enjoyed meeting you and look forward to seeing you in Washington next week.

Sincerely yours,

Bela Balassa



## OFFICE MEMORANDUM

TO: Mr. Larry Westphal

DATE: March 2, 1973

FROM: Bela Balassa

SUBJECT: Data Development for MEII

1. You should be congratulated for having provided a detailed account of the reasoning underlying the Korean Mechanical Engineering Study (Phase II) and the way the data have been developed. This is indeed the kind of thing most of us fail to do, yet it is of great importance for those who wish to apply the methods of investigation we have designed.
2. I am also impressed by the terseness of the writing which -- while not always easy to read -- "sinks in" upon adequate reflection. I have no comments to make on the body of the paper, although it would be useful to discuss how you plan to incorporate the material of the paper in the volume. The following comments concern the writing of a summary statement. This would involve reorganizing the present introduction and "telescoping" the contents of the paper into a few pages. Such a summary is of particular importance for Bank staff to whom we want to give an idea of what the project is about.
3. I would suggest that you start out with a brief statement on the purpose of the study and on the importance of the problem. In the statement, the need for combining the study of K-L substitution and economies of scale should also be stated. This could be followed by a short description of the reasons for the choice of the ME sector and of Korea for the case study. In this connection, consideration should be given to the inclusion in the study of information on techniques employed in other countries and the extent of variability of the input coefficients in the ME sector. Furthermore, the possible relevance of the study for other manufacturing sectors should be noted.
4. Next, the organization of the study should be briefly described, indicating the division of labor among the participants. You could then explain the meaning of the process analysis model used in the study, indicating the reasons for focusing on products rather than on tasks or resource elements. Finally, the choice of the products should be briefly discussed, followed by a brief description of the data used.

cc. Messrs. Chenery  
Cauas  
Duloy  
Stoutjesdijk  
Rhee

BBalassa:alm

March 2, 1973

Prof. Alexander K. Swoboda  
Graduate Institute of Inter-  
national Studies  
132 rue de Lausanne  
Geneva  
Switzerland

Dear Alex,

From time to time I receive requests for my comments on Mundell and Laffer given at the Madrid conference three years ago, as well as for my monetary integration paper I gave in Geneva last January. May I ask you to let me know the expected date of publication and the title and name of the publisher of the volumes in which these papers will appear.

With best regards to you and Manije from myself and Carol,

Sincerely yours,

Bela Balassa



March 2, 1973

Prof. Hendrik S. Houthakker  
Editor  
Review of Economics and Statistics  
211 Littauer Center  
Cambridge, Mass. 02138

Dear Henk,

Herewith my evaluation of Bo Carlsson and Lennart Ohlsson, "Structural Determinants of Swedish Foreign Trade". I consider the paper to be rather marginal for the Review of Economics and Statistics. If you do not accept it, he could try the Journal of International Economics.

Sincerely yours,

Bela Balassa

Carlsson & Ohlsson, Structural Determinants of Swedish Foreign Trade

The paper is of considerable interest to the trade economist. But it has certain shortcomings, some of which can be easily corrected, others not.

There is first the measurement of capital as the sum of nonwage incomes. The question of causality raises its ugly head since in the absence of perfect competition, successful export industries will have high profits and thus considered to be capital-intensive. Also, I see no evidence that land rent would have been separated from profits although this is presumably important in forest industries and may account for the alleged complementarity between capital and natural resources in calculations combining direct and indirect inputs.

As to labor, I do not find the production workers category to be very meaningful. Also, I am puzzled by the fact that the regression coefficients are positive both for technical labor and for production workers as this seems to imply a negative coefficient for administrative labor. Or do we perhaps have some problems with the normalization of the variables?

Finally, in Table 1 several coefficients with a value of 0.000 are shown to be statistically significant. I presume that there are more digits than those shown in the table but it would seem desirable to change the unit of measurement to show the impact on the dependent variable.



March 2, 1973

Dr. Julio Berlinski  
Pueyrredon 336  
8p 25  
Buenos Aires  
Argentina

Dear Julio,

Many thanks for your letters of February 12 and 15 and congratulations on the completion of the calculations. I know that it has taken very much effort on your part and I appreciate the dedication you have shown to the study.

Having looked at the 3-digit calculations I find that there is no conflict between the Balassa and Corden results. In fact, this is also true for the 5-digit calculations, and my earlier statement on the existence of a conflict was in error.

Coming back to the 3-digit results, I understand your concern about the results for the industries listed in your letter of February 12. In fact, I would add a few more where the calculations of effective protection appear to be on the high side. They include paper articles (272, 279), other rubber products (309), construction materials (331, 332), car repair (384), airplanes (386), musical instruments (395), and other (399).

It appears from the data that in the industries in question high effective protection is due mainly to high nominal protection. Now since all these industries are in the non-import-competing category, nominal rates have been measured by making price comparisons.

Casual empiricism would indicate that some of the price differences shown for the above industries are excessive. Having partaken of wine and beer in Buenos Aires, I find it difficult to accept the conclusion that these beverages would cost two-and-a-half times as much as beverages of identical quality on the world market. In this connection, I may add that wine is exported by Argentina, albeit in relatively small quantities.

Questions arise also concerning some of the non-food products. I find, for example, the relative prices of musical instruments, of rubber products, and construction materials overly high but the most puzzling case is that of car repair where a nominal protection of 147 percent is shown.

I discussed these cases with Dani and we both feel that it would be desirable to get further information on how price comparisons were made for the industries in question. We would like to ask you therefore to send us short notes on these industries; they can be written in Spanish as I have no difficulty reading it.



The notes should provide information on the share of imports in domestic production, the number of price comparisons made, and the way in which domestic and foreign prices have been compared for the individual commodities. Soon after receipt of these notes, Dani and I will make suggestions of possible revisions, if any.

Turning to a different matter, I would appreciate it if you could provide me with data on the value of manufacturing output in Argentina in the years 1950, 1960 and 1970, or if data for these years are not available, for the nearest years. I need these data for making international comparisons on the share of imports and manufacturing consumption and the share of exports in manufacturing production. Data should be provided for all manufacturing (ISIC 22 to 39) as well as for manufacturing less food, beverages and tobacco (ISIC 23 to 39).

A further request concerns the availability of information on the capital stock on a 2-digit industry basis. I would need this for making international comparisons on relative capital-labor intensities of 2-digit industries. At this point, all I would like to know is if such data exist and for what year.

Thanking you again for your efforts, with best regards, I remain,

Sincerely yours,

Bela Balassa

cc. Prof. Schydrowsky



February 28, 1973

Professor Mordechai E. Kreinin  
Department of Economics  
Michigan State University  
East Lansing, Mich.

Dear Max,

As I mentioned to you on the phone, I would like to include your Economic Journal article in the volume. We would then have a separate part containing chapters that deal with the trade creation-trade diversion issue. Your paper on relationships with developing countries would also fit in there.

The inclusion of your Economic Journal article would permit eliminating or shortening some sections in your LDC paper. I have in mind here the theoretical considerations of pp.15-21 as well as the discussion of changes in market shares. From the former section, you may wish to retain references pertaining to EEC-LDC relationships, with separate consideration given to associated and nonassociated countries. In the present version, you concentrate on the latter group.

I find the tables and the discussion of changes in import shares of limited interest. Not only are most of the data overly aggregated but, whenever there is domestic production, changes in shares reflect trade creation as well as trade diversion. It would be more useful to indicate changes in the share of the associated countries in imports from the developing countries. Furthermore, it would be desirable to provide data on the share of imports from associated and from nonassociated countries in the consumption of particular commodities. This could be easily done for products such as bananas, coffee, cocoa, groundnut oil, and tropical wood.

The separation of the associated and the nonassociated countries would also be necessary in the discussion of the diversionary impact of the EEC. The results shown in Table C-6 are averages of the two; yet, the data of Table C-2 indicates that there have been contrary trends in the two groups of countries. And while Table C-2 is largely limited to primary products, the effects of preferences on the imports of manufactured goods from the associated countries would also need to be considered. Returning to Table C-6, it would be desirable to show "non-normalized" estimates à la Truman, in part for comparability and in part because the U.S. normalized estimates tend to overestimate trade diversion due to the effects of the overvaluation of the dollar on imports.

I find the discussion of the effects of reverse preferences to be of considerable interest. Tables C-7 and 8 are quite convincing but Table C-9 is less clear, in part because the price ranges are often wide. Perhaps averages could be calculated instead. In turn, greater emphasis should be given to the data of



Table C-10 which indicates the decline in the combined EEC share between 1960-69. This has largely been due to the replacement of formal and informal quotas benefiting French exports by tariff discrimination in favor of products from all the Common Market countries. The EEC's establishment has thus reduced rather than increased the burden of reserve preferences.

Changes in the system of trade with France should also be noted on the export side. Thus, whereas prior to the creation of the EEC the access of the associated countries to the French market was regulated by long-term quota agreements, these were replaced by tariff preferences afterwards. One cannot therefore conclude that "the effects of these preferences was practically nil" (p.49) since losses on the French market were accompanied by gains in the other EEC countries. This is shown from Table C-11 which has, however, the disadvantages of grouping commodities subject to tariffs with those that enter tariff free and expressing the data as a share of total imports rather than of imports from the developing countries. At any rate, the U.K. does not provide a good reference point not only because of Nigeria but also because its total imports were less affected by trade creation in EFTA.

Finally, while data on unit values are difficult to interpret, there seems to be some evidence that the associated countries receive higher prices in the EEC than elsewhere. Perhaps it would be useful to calculate price ratios in the place of the price observations themselves. Also, I presume that other importing countries could be added, especially the U.S., and you may be able to include bananas in the group.

Further comments and suggestions are made on the enclosed sheet. Some of these relate to institutional arrangements. In the latter section, it would be desirable to add a table on the margin of preferences the Common Market grants to the associated countries. Also, more should be said of agreements with Mediterranean countries and the case of Portugal should be discussed at this point. Finally, the possible effects of the enlargement of the EEC and the General System of Preferences would belong at the end of the study.

With best regards,

Sincerely yours,

Bela Balassa



Specific Comments on "The EEC and the Developing Countries"

p.2, line 1	date? exact relationship with Treaty?
p.2, line 6	"Even more" instead of "Equally"
p.2, para 2, line 4	add "of" after "markets"
p.2, end para 2	what is the rate of preference?
p.5, line 1	add "several" after "with"
p.5, para 2	"Mediterranean Area" instead of "Mediterranean Policy"
p.5, para 2, line 1	note their relationship with France
p.5, para 2, line 2	define Association
p.5, para 2, line 4	add "of" after "array"
p.5, para 3, line 5	how much?
p.6, whole para 2	expand
p.6, para 2, line 8	are there no preferences?
p.6, para 3, line 6	preferential?
p.7, (c)	too long as compared to (b)
p.8, line 2	prior to British entry?
p.8, line 7	what is "association status"?
p.8	relevance of last sentence?
p.8, last line but one	not likely! Also, Portugal and Ireland should be discussed separately
p.9, line 3	African countries will give free or preferential access to practically all of Europe
p.10, end para 1	there will some changes
p.10, para 2, line 5	what kind of products?
p.10, end para 2	= 8 percent(?)
p.10, footnote 3	explain for the uninitiated
p.11, line 12	within the 8 percent?

p.12, para 3, line 2	ch. page 10, para 1
p.13, end	but the LDCs would benefit from multi-lateral tariff reductions
p.14, line 8	change the first "changes" to "reductions"
p.14, line 10	repetitive
p.14, end first para	but see second sentence on top of page
p.14, 2nd para	is this a separate issue?
p.16, line 1	unclear
p.16, (a) & (b)	delete or shorten
p.16, (a), line 7	change "consequent" to "consequence"
pp.17-19 (c)	delete or shorten
p.19, lines 3-4	not in every industry
p.20, para 1, middle	how about the effects on the associated countries?
p.20, (e), end	I doubt that this would be of importance
p.21 (C), beginning	how about imports from the associated countries
p.21 (C), last sent.but one ?	
p.21 (a), 1st sent.	not an appropriate measure
p.22, para 1, middle	associated countries should be separated
p.37, (c), beginning	repetitive
p.38, para 3	why assume that the French producers act as a monopolist?
p.39, fig.1	French monopolist - why the horizontal supply curve?
p.39, (2)	why would he?
p.46, last para	this is not done
p.47, first lines	OK
p.48, first line	they were pretty large
p.49, 2nd full para	not an appropriate test
p.49, 3rd full para	compare with other LDCs



p.49, footnote 1	by whom is it suggested...?
p.49, footnote 2	too aggregated
p.50, table C-11	not conclusive because of trade creation in the EEC
p.56, line 3	evidence?
p.56, line 5	"quantitative" not "qualitative"
p.56, lines 5-6	delete "from knowledgeable investigators"
p.56, 1st full para line 10	"exports" not "imports"; what share of manufactured imports? What share of output in Portugal?
p.57, beginning	textile firms are mostly native
p.58, last para, middle	commodity composition?

February 27, 1973

Dr. Daniel Schydrowsky  
Center for Latin American  
Development Studies  
745 Commonwealth Ave.  
Boston, Mass. 02215

Dear Dani,

I enclose a letter from the NBER concerning our joint paper.  
I have answered the questions relating to my parts and would like  
to ask you to handle yours. Apparently, it is rather urgent.

Sincerely yours,

Bela Balassa



February 27, 1973

Professor Fritz Machlup  
President  
International Economic Association  
P. O. Box 644  
Princeton, N.J. 08540

Dear Fritz,

Having looked at the writings of Wionczek I withdraw my suggestion for making him the main speaker on the sectoral integration topic. He appears to be a proponent of sectoral integration and would be good as a discussant but not as a speaker. For main speaker I would propose Max Corden or Hans Liesner. It would be excellent if Max would take it; if not, Hans may be our best choice.

I wonder if we have any other questions outstanding on which I am to give an opinion. Please call me if this is the case.

It was a pleasure seeing you and Mitzi. Please thank her for me for the excellent lunch, and Carol sends a special thank-you for the chocolate cookies.

Hoping to see you again soon, I remain,

Sincerely yours,

Bela Balassa

P.S.

I enclose a note on the expenses incurred.

Bela Balassa

Statement of Expenses incurred in connection with  
Visit to Princeton, Saturday, February 24, 1973

Purpose of visit:	Discussions on the program of the next Congress of the International Economic Association to be held in Budapest in August 1974	
Expenses:	Round trip metroliner ticket Washington/Trenton/Washington	\$25.50
	Taxis Washington	2.70
	Taxis Trenton/Princeton and Princeton/Trenton	15.00
		<hr/>
		\$43.20



February 27, 1973

Mr. Maurice Scott  
Nuffield College  
Oxford OX1 1NF  
England

Dear Maurice,

I have delayed answering your letter since I wanted to discuss its contents with the Steering Group on Project Evaluation.

We are glad to know that you may be available for working with us following your mission to the Philippines. The delay fits in with our plans since no decision has yet been reached on the choice of countries for which shadow prices will be estimated. At present, attention is concentrated on work on the O.M. on which your comments are gratefully acknowledged. Herman van der Tak will send you a copy of the Annex dealing with estimation procedures as soon as this is available.

I look forward to receiving your paper on Kenya and I will do my best to send you comments within a reasonable time.

Sincerely yours,

Bela Balassa

cc. Mr. van der Tak

P.S.

I submitted some two months ago my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal" to the Oxford Economic Papers. I wonder if it will take them very long to decide on publication.

February 27, 1933

Publications Office  
Federal Reserve Board  
Constitution Avenue  
bet. 20 and 21 Streets N.W.  
Washington D.C.

Dear Sirs,

Please send me one copy of "International Money Markets  
and Flexible Exchange Rates" by Stanley W. Black.

Sincerely yours,

Bela Balassa



Home Address

2134 Wyoming Avenue N.W.  
Washington D.C. 20008

February 26, 1973

Crown Publishers Inc.  
419 Park Avenue S.  
New York, N.Y.

Dear Sirs,

On January 18 I ordered one copy of Ancient America in your series "Art of the World Library" and subsequently I sent you a cheque as requested. I have still not received the book however and would appreciate it if it could be mailed at the earliest.

Sincerely yours,

Bela Balassa

## OFFICE MEMORANDUM

TO: Mrs. Helen Hughes

DATE: February 26, 1973

FROM: Bela Balassa M

SUBJECT: Research on Capacity Utilization

1. After much delay, I have now been able to devote time to the reading of the research proposal drawn up by Mr. Francisco Thoumi on the above subject. The proposal provides an informed discussion of problems relating to capacity utilization and their analysis in developing countries. It is however somewhat repetitive and would benefit from judicious editing. In turn, it would be desirable to introduce (or to expand) the discussion of a few important issues, including differences between social and private profitability, the interindustry effects of increased capacity utilization, its implications for employment and for net foreign exchange earnings, and the policy choices available for raising the level of capacity utilization.
2. It further appears necessary to squarely face the relationship of the proposed study with the research project on the same subject organized by Rosenstein-Rodan and Schydrowsky (for short, RR-S) and in part financed by the Bank. The latter project is not even mentioned in the proposal that does however describe various other efforts to study capacity utilization in developed and developing countries. At the same time, the Research Committee is bound to raise questions concerning both the need for a second study on capacity utilization and the comparability of the results to be obtained in the two.

The Rosenstein-Rodan-Schydrowsky Project

3. The RR-S project has had a checkered history. At the beginning, it was little more than an expression of Rosenstein-Rodan's belief in the importance of introducing a second shift in Latin American industries, and the acceptance of this idea -- and of the project itself -- reflected his superb salesmanship. The Research Committee decided to finance the project largely on the strength of Rosenstein-Rodan's name while adding a clause making it dependent "on the receipt of a satisfactory research design, further information on the arrangements which have been made with the participatory agencies in Latin America and firm schedule of the work program" (E. Stern's letter of June 16, 1972, to Rosenstein-Rodan).
4. After an early and rather feeble effort, a description of the objectives and the design of the project was prepared by Schydrowsky. The description extends the scope of the project from second-shift to multiple-shift operations. It puts considerable emphasis on the private and social profitability of multi-shift operations and on the policies necessary for increased capacity utilization. The latter are not limited to macroeconomic policies but extend also to policies relating to labor, the cost of capital goods, tax regulations, and working capital.
5. Schydrowsky also provides a short questionnaire on the extent of capacity utilization to be sent to all firms reporting on industrial statistics as well as an interviewing guide. The latter is to be used in some fifty firms of the seven sectors in which interviews will be done in each of the countries



covered in the study (Chile, Colombia, Peru, and Venezuela). In the course of the interviews, questions will be asked on the extent of capacity utilization, the reasons for underutilization, the relative advantages of multiple shifting and capacity expansion, and the implications of increased utilization.

#### Data Collection in the Hughes-Thoumi-Winston Project

6. In turn, the proposed Hughes-Thoumi-Winston (for short, H-T-W) study envisages conducting a mail survey and complementing this by interviews in a smaller number of firms in countries where this appears necessary. The questionnaire, requesting information on the extent and the causes of capacity utilization, would be sent to 150 to 300 firms depending on the size of the industrial sector in the country concerned (Colombia, 300; Korea, 300; Nigeria, 150; Philippines, 300; and Yugoslavia, 200). In particular, the questionnaire would request information on "the amount of capital idleness that is due to each of the causes described above, (a) unexpected demand deficiency, (b) unanticipated input shortages including skilled labor, imported raw materials, electricity, etc., (c) demand characteristics including market structure, growing demand with scale economies, peak load capacity, and (d) anticipated input price rhythms including night-time wage premia, seasonally priced inputs, managerial preferences" (p.9).

7. I have doubts that reliable answers could be obtained through a mail survey on the extent to which one or another factor "explains" the lack of full capacity utilization. And, at any rate, one can hardly regard the effects of these factors on capacity utilization as additive since the existence of any one of them may suffice to explain underutilization. Conversely, if one of the deficiencies is removed, there is no guarantee that plant utilization can be increased.

8. Furthermore, it seems to me that reliance should be based chiefly on interviews, in part because the reliability of the answers would increase thereby and in part because the interview permits a follow-up of answers to particularly important questions. At the same time, while the number of firms interviewed should be greater than the fifty suggested for the RR-S project, it could well be less than the H-T-W propose to survey. Finally, the list of the countries to be studied should be reviewed in consultation with the Industrial Projects Department.

#### A Proposal for Coordination

9. The question remains if the Bank should finance a second research project on capacity utilization in developing countries and, if so, how can one assure the comparability of the results. In this connection, note should be taken of the costs involved. The Bank is to provide \$50,000 and the OAS a smaller amount to the RR-S project, to be used mainly for paying Boston University personnel and travel expenses, with much of local costs financed by the cooperating agencies in the developing countries. In turn, the budget of the H-T-W study is \$167 thousand inclusive of the local cost of five country studies.

10. In my opinion, it would be desirable to study questions relating to capacity utilization outside Latin America. This is because the results obtained for the countries of this region cannot be easily extended to countries in other areas which are generally at a lower level of industrial development and often follow different policies. At the same time, the optimal use of the information to be collected necessitates ensuring the comparability of the results in the two research projects. This, in turn, may permit reducing the number of countries to be studied in the H-T-W project, with corresponding decreases in costs.

11. Comparability of the results requires coordination in research design. While the five-question survey of the RR-S project cannot be modified any more, we should be able to influence the interview-plan of the project. This can be done on the strength of Mr. Stern's letter referred to above. It would involve a comparison of the interview-plans of the two projects and reaching an agreement on a set of questions acceptable to both. Similarly, agreement should be reached on a minimum of uniformity in the evaluation of the data and on work to be carried out on the policy aspects of the problem. The scope of evaluation may however differ as researchers can apply methods over and above the agreed-upon minimum.

12. I would suggest that discussions on the coordination of research design be started at the earliest. A first step could perhaps be a letter from Mr. Stern to Messrs. Rosenstein-Rodan and Schydrowsky suggesting the modalities of cooperation. This should be followed up by a working visit of Bank researchers to Boston University. The proposal on the H-T-W could subsequently be revised to reflect the agreement reached.

cc. Messrs. Stern  
Ray  
Moore  
Thoumi

Cauas  
Ahluwalia  
Condos  
Lluch  
Stoutjesdijk

BBalassa:alm



## OFFICE MEMORANDUM

TO: Mr. Thomas Hutcheson

DATE: February 22, 1973

FROM: Bela Balassa *N*SUBJECT: Incentives for Industrialization in Colombia

1. I have now had the chance to read your doctoral dissertation on the above subject. While the thesis would have benefited from a more detailed discussion of some of the topics, it is of consistently high quality. The following comments will focus on issues that have relevance for the Colombia study you are preparing jointly with Dani Schydlowsky and Malcolm Gillis in the framework of the Development Strategies in Semi-Industrial Countries project.
2. Chapter I should be useful in the writing of the introductory section on the development of the incentive system in Colombia. It would be necessary however to update some of the information provided in the Chapter. In particular, as your calculations of effective protection relate to 1969 and most of the price ratios pertain to 1970 and 1971, there is need for deriving the "liberalization index" for the years 1969-71 and for indicating changes in real exchange rates in 1970 and 1971.
3. Your discussion of the theory of effective protection in Chapter II covers familiar ground and does not require comment, although this does not reflect agreement with your views on e.g. the effective protection-domestic resource cost controversy. We seem to agree however on the treatment of non-traded goods; references to The Structure of Protection in Developing Countries would have made this even clearer.
4. But I wish to comment on the estimation of the free trade exchange rate where you use time-series analysis as well as an elasticity formula. I would be more negative on the usefulness of time-series analysis to the problem. In addition to the points you make, one may note that the method applied neglects tariffs and that there is no reason to assume a linear reaction function to changes in restrictions.
5. Questions arise also concerning your elasticity formula. First of all, you neglect changes in demand that would take place in response to changes in tariffs and exchange rates. Second, you assume perfect substitutability between domestic and foreign goods, although this holds for standardized commodities only. Third, apparently no account has been taken of Colombia's market position in coffee. In introducing these considerations, the extent of exchange rate adjustment should be recalculated in the Colombian study by using the formula in "Outline and Methodology". Also, there is need for more information on the extent and the coverage of the price comparisons reported in the Chapter.
6. In presenting the results of the effective protection calculations in Chapter III, you provide much interesting information that could be incorporated in the Colombia study. The discussion there should however be extended to individual industries in the 110 sector classification scheme, whenever this adds to our understanding of the system of protection in Colombia. Finally, let me express my puzzlement at the differences in the results obtained by using the Corden method and what you call the modified Scott-method. The large

absolute differences as well as the relatively low correlation between the two make me suspect that the traded inputs of nontraded goods have been handled differently in the two cases.

7. I find your discussion of the relationship of protection and the pattern of growth in Chapter V of considerable interest. I wonder, however, if one could indeed assume uniform protection in your base year, 1962. But, you would use the same statistical test, I presume, also under the assumption that the structure of protection in 1962 did not differ from that observed in 1969. As to the choice of alternative methods for estimating effective rates, it should be clear from a priori reasoning that the Scott (or Balassa) and not the Cor-den method will provide an indicator of incentives.

8. I agree with your criticisms of the paper by Carrie and Nelson as well as with your recommendations for increasing the real exchange rate and equalizing effective rates (Chapter VI). It is not clear, however, whether you wish to equalize effective rates among all sectors that amounts to free trade or only among manufacturing sectors with some discrimination against agriculture. While you discuss the case of coffee where an export tax is warranted, no note is taken of the real or imaginary reasons on the basis of which preferential treatment may be accorded to manufacturing.

9. Do you mind if I send copies of your Chapter V to other contributors in the project? It should be useful to them in writing the evaluation of the results of their studies.

cc. Mr. Schydrowsky

BBalassa:alm



Paul E. Smith

February 26, 1973

Bela Balassa

Absence from Headquarters

Further to your memo of February 22, I am not here on  
Wednesdays and most Monday afternoons.

BBalassa:alm

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008  
USA

February 23, 1973

Mr. Enrique Zileri  
Camana 615  
3<sup>o</sup> Piso  
c/o Caretas  
Lima  
Peru

Dear Enrique,

This is a belated note to thank you and Daphne for the very pleasant evening we spent at your home. I am only sorry that we had to leave rather early. I do hope that you will visit us if you come to Washington; I don't know when we will next come to Peru.

I would like to use the occasion to introduce the daughter of a friend of ours who will be arriving in Lima with her husband in a few weeks. Her name is Marina Benedetti; she is the daughter of the Ambassador of the European Common Market to the United States, Mr. Aldo-Maria Mazio. Her husband's first name is Adriano. He will be stationed with the Italian Embassy in Lima.

Carol joins me in sending our best regards to you and Daphne.

Sincerely yours,

Bela Balassa



February 23, 1973

Mrs. Aldo-Maria Mazio  
2534 Belmont Road N.W.  
Washington D.C.

Dear Mrs. Mazio,

It is only now that I have had a chance to write to our friends in Lima concerning the arrival there of your daughter and son-in-law. The people in question are Enrique and Daphne Zileri; he is the editor of a magazine in Lima. Unfortunately, I have only his office address which is Camana 615, 3<sup>o</sup> Piso, c/o Caretas, Lima.

The Zileris are very pleasant people and we spent a most enjoyable evening at their home located in a beautiful area overlooking Lima. They both speak English very well and I am sure that your daughter and son-in-law would enjoy meeting them. If I could be of any further help please do not hesitate to call on me.

I am sorry that you were not able to come to dinner at our house but I trust that we will have another occasion to invite you before long.

With sincere regards,

Sincerely yours,

Bela Balassa

## OFFICE MEMORANDUM

TO: Mr. Ravi Gulhati

DATE: February 22, 1973

FROM: Bela Balassa SUBJECT: KDFC Special Study

1. Given the length of the manuscript and limitations on my time, I will restrict myself to commenting on questions that relate to the evaluation of the economic rate of return in the study. As a general observation, let me state that I have been impressed by the careful and meticulous work that has gone into the evaluation. For various reasons, however, it would seem that the economic rates of return may have been overestimated.
2. "Best estimates" of economic rates of return have been derived by expressing traded inputs and outputs at foreign (c.i.f. or f.o.b.) prices and applying a foreign exchange conversion ratio of 1.2 to everything else. There are two cases where foreign prices seem to have been overstated. In the case of glass, domestic prices have been taken to equal foreign prices while the DRC study on Korea shows the former to exceed the latter by 25 percent. In turn, the expectations of future (probably subsidized) exports do not provide sufficient basis for assuming that the domestic manufacturing of steel radiators would be internationally competitive.
3. Further questions arise in connection with the use of foreign exchange conversion ratios. The conversion ratio of 1.2 (reflecting a 20 percent premium on foreign exchange) used the table "Sources of Discrepancy between Financial and Economic Rates of Return for 1970", appears overly high; the results of the DRC study referred to above suggests that this ratio might not exceed 10 percent. Moreover, from the table it would seem that the conversion ratio was not applied in appraising the value of output of the San Yang Foods Company that produces nontraded goods, thus overestimating the economic rate of return in this project.
4. The suggested adjustments would reduce the estimated economic rates of returns calculated for 1970. Adjustments should further be made on calculations relating to 1975 where zero foreign exchange premium was assumed. This assumption is not realistic not only because Korea is not expected to reach a free trade situation by 1975 but also because the adoption of free trade policies would tend to lower nominal wages and profits as the prices of the goods purchased by labor and capitalists would decline. More generally, the prices of various factors of production, including foreign exchange, are interrelated and changes in one price cannot fail to affect the others.
5. The interrelationship of factor prices is brought out on pp.10-11 of Volume II where it is noted that the assumptions of unchanged productivity and an annual rate of increase of 8 percent in real wages imply a decline in the share of profits. Apart from the fact that the official indices might have overestimated increases in real wages and that past increases may not continue, one should take account of increases in productivity that may result from improvements in organization, learning-by-doing, and decreases in waste in response to the threat of lower profits.



6. As to the organization of the study, it would seem desirable to briefly explain the assumptions underlying the calculations of economic rates of return in Volume I that is more likely to be widely read. Also, more attention should be given to the comparison of ex ante and ex post calculations of economic and financial returns and of the employment effects of the various projects. In turn, in Volume II, the assumptions made in handling the quality problem and treating nontraded goods should be more clearly stated.

7. Finally, the discussion of partial indicators and of the resource allocation impact of KDFC could be usefully reorganized. For one thing, externalities and import substitution should not be included under the heading "Resource Allocation to What End?"; the former relates to adjustments needed in economic rates of return calculated on the plant level while the latter can be added to the list of partial indicators. For another, the effective rate of protection should not be regarded as a "partial indicator" since this should give the same ranking of projects as the economic rate of return if the same shadow prices were used for both. (For proof, see my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal", Economic Staff Working Paper No. 142). Thus, while I welcome the statement that the effective rate of protection tests would have helped to identify in advance the projects which have actually yielded poor results (Volume I, p.24), the same observation applies to the ex ante calculation of economic rates of return.

cc. Messrs. Wood  
    . Hablutzel/Asanuma  
      Hughes  
      Please  
      Qureshi  
      Thadani  
      van der Tak

(tables to Messrs. Gulhati & Wood only)

BBalassa:alm

## OFFICE MEMORANDUM

TO: Mr. A. R. Abdel Meguid

DATE: February 22, 1973

FROM: Bela Balassa *N*SUBJECT: Draft O.M. on Project Analysis

1.. Your plea for including wages among the benefits of a project reflects a misconception as regards the nature of economic costs and benefits. As long as the objective function of the project appraiser includes only increases in net output, factor prices should express opportunity costs in terms of output foregone in other uses. This statement applies irrespective of whether market prices correctly reflect opportunity costs and holds equally well for labor and for non-labor factors of production.

2. Thus, rather than "net output /being/ measured ... as equivalent to the non-wage elements of value added" as you allege in Para 3 of your memo of February 15, this is calculated by deducting the opportunity cost of labor as well as that of capital and land. Net output will equal the entrepreneur's profit if the market prices of all other factors equal their shadow prices (opportunity costs). In turn, if market wages exceed shadow wages, part of the net output (social profit) will accrue to labor and, in the case of zero shadow wages mentioned by Mr. Chenery, the social profit will include the entire wage bill.

3. It is a different question that one may wish to incorporate in the objective function the employment-creating effect of the project. But this should not be done by adding wages to the net social profit. Rather, we may follow the O.M. and have the shadow prices reflect the employment objective, together with other objectives. Alternatively, as recommended in the memo I wrote results jointly with Messrs. Blitzer and Cauas, we may use efficiency prices reflecting opportunity costs in terms of output foregone and consider the employment objective separately by calculating the trade-off between employment and output. It should not be forgotten, however, that we will thereby be making a choice between present and future employment.

cc. Messrs. Chenery  
Haq

BBalassa:alm



*pink*

## OFFICE MEMORANDUM

**TO:** Mr. Herman van der Tak

**DATE:** February 22, 1973

**FROM:** Bela Balassa

**SUBJECT:** Meeting of the Steering Group on Project Analysis, February 20, 1973

I enclose some notes on our meeting of February 20.

cc. Mr. Baneth

BBalassa:alm

Meeting of the Steering Group on Project Analysis, February 20, 1973

At its meeting of February 20, the Steering Group on Project Analysis, consisting of Herman van der Tak (Central Projects, Chairman), Bela Balassa (DPS), and Jean Baneth (Asia Regional Office) considered certain issues relating to the O.M. on the Project Evaluation as well as the research program of the DRC on shadow prices. Agreement was reached on the following points:

O.M. on Project Evaluation

1. The recent papers by Messrs. Bruce and Ettinger reflect increasing interest in the use of shadow prices on the part of the Regional Departments. One should avoid, however, applying different methodologies of project evaluation in the individual regions. Rather, efforts should be concentrated on preparing the O.M. with the involvement of the Regional Departments so as to ensure that it provides a methodology acceptable to them. The individual Departments may then issue instructions on the implementation of the O.M. in their own region, should the conditions existing in the region make this necessary.
2. The Regional Departments should further specify the assumptions to be made in regard to the objectives, the policy constraints, and the main assumptions underlying project appraisal in the individual countries. It appears desirable that this be done in an Annex to the CPP.
3. In the revised O.M. considerable attention should be given to the interrelationships of shadow prices. In particular, one should consider the implications of making upward adjustments in the social profitability of Bank projects for the choice of the price of capital used in project evaluation. Such considerations apply especially to the use of shadow wages and to the inclusion of consumer surplus in the calculations, both of which raise the social profitability of the projects. Further attention should be given to the revenue aspects of using shadow prices in project evaluation.



4. Present Bank procurement rules are in conflict with the use of shadow prices in project evaluation as a preference margin of 15 percent is given to domestic producers in all countries, notwithstanding intercountry differences in the premium on foreign exchange that is expressed in its shadow price. It would be desirable to use the preparation of the O.M. as an occasion to bring up once again the question of procurement rules.

5. The Annex to the O.M. should also consider issues relating to the evaluation of projects which entail replacement of existing equipment. There are such cases in transportation as well as public utilities. Public utilities raise further problems as regards the evaluation of the benefits of the project.

DRC Research Program on Shadow Prices

6. The interrelationships of shadow prices will be the subject of research at the DRC. Messrs. Alan Manne (Consultant) and Charles Blitzler will be working on a demonstration model for a typical developing country that would permit investigating the interrelationships of shadow prices in a general equilibrium framework and analyzing the effects of changing objectives, policy constraints and assumptions on shadow prices. Similar experiments will be carried out with the Ivory Coast model when this is completed.

7. The DRC has asked Mr. Michael Bruno (Consultant) to write a review paper on the second-best implications of shadow prices. The paper will consider the effects of policy constraints and their removal on shadow prices as well as the implications of the partial use of shadow prices in Bank projects or in the public sector.

8. Mr. Anand of the DRC will prepare a research proposal on the income distributional implications of shadow prices. The proposal should consider the choice of the appropriate weighting scheme in project evaluation as well as the treatment of the income distributional objectives in project evaluation.

9. Considerable interest has been expressed in the financial implications of shadow prices. Although it is not clear if this problem is researchable, DRC will have a review paper prepared on the problem with indications of the possibilities for future research.



February 22, 1973

Dr. Nathaniel H. Leff  
115 Rechov Bayit Vegan  
Jerusalem  
Israel

Dear Nathaniel,

Many thanks for your letter of January 29. It seems that I have indeed been "brainwashed" by the Prebisch school as far as pre-World War 2 developments in Latin America are concerned. I will look up the articles you mention.

Sincerely yours,

Bela Balassa

February 22, 1973

Mrs. J. Ann Zammit  
Institute of Development Studies  
University of Sussex  
Andrew Cohen Building  
Falmer  
Brighton, Sussex BN1 9RE  
England

Dear Ann,

It was good to hear from you after such a long time. From your letter it appears that things are going well with you, for which I am glad.

To answer your question, a few years ago I wrote <sup>several</sup> ~~a few~~ papers on the effects of trade liberalization on the exports of the developing countries but I am not familiar with more recent work on the subject. You could perhaps write to Jan Tumlir at GATT who should be familiar with work in the area.

I enclose a list of my publications concerning the subject in question.

Sincerely yours,

Bela Balassa



pink

## OFFICE MEMORANDUM

TO: Files

DATE: February 21, 1973

FROM: Bela Balassa SUBJECT: Comments on Ivory Coast Models

1. This note will summarize the comments I made on the Ivory Coast models at the seminar held on February 16. The comments concern the Rural Models, the Urban Model, and the Central Model. For lack of time, I have not read the paper on the educational model, nor have I participated in its discussion.

Rural Models

2. The Rural Models are of high technical quality and, with some changes in the assumptions, they should provide valuable results for the Western Africa Department as well as for the Ivorians. In the following, I will indicate the implications of certain assumptions for the results obtained and will make recommendations for changes in these assumptions. This will be done separately for the North and the South Models.

3. In its present form, the North Model assumes (a) a 2 percent annual rate of increase of wages, including wages to migrants from Upper Volta; (b) no change in productivity other than through the choice among technological alternatives; (c) a decrease in the supply of local labor from 190 thousand in 1972 to 80 thousand in 1990; (d) unchanged product prices; and (e) the shadow exchange being equal to the actual exchange rate throughout the period. Assumptions (a) and (c) represent the continuation of past trends, while (b), (d), and (e) reflect lack of information on possible changes.

4. Given these assumptions, the optimizing solution of the model shows small increases in agricultural production during the seventies and stagnation during the eighties, accompanied by declining land use and rapidly increasing wage payments to migrants (p.31). In turn, taking the Five-Year Plan's production targets as exogenous, one gets explosive increases in wage payments to migrants and declining net social regional returns (p.34).

5. The results are explained if we consider that, in the absence of increases in product prices, productivity (for a given technique), and the exchange rate, the rise in wages would lead to a deterioration of the competitive position of Ivorian producers, and regional welfare would be adversely affected by the assumed pattern of migration also. But one should not extrapolate trends in either wage changes or migration. Wage changes could be made dependent on increases in productivity while a rising supply curve for migrant workers should be assumed in conformity with the Central Model. Nor will the extrapolation of past trends be appropriate for the outmigration of local labor since preferences as regards income, the risk of unemployment, and location differ among individuals. If we take account of these factors, a deceleration of migration would ensue.

6. The assumptions made as regards productivity and exchange rates should also be modified. One may borrow the assumption of productivity growth from the Central Model, combining it with shifts in techniques in the North Model, and adopt the 25 percent increase in the exchange rate obtained in



the Central Model. I would recommend that new computer runs be made reflecting these assumptions as well as the suggestions of the preceding paragraph, prior to the mission to the Ivory Coast.

7. The results of the South Model depend to a considerable extent on the assumptions made in regard to the future course of coffee and cocoa prices, wages, and migration. On the basis of these assumptions, the conclusion is reached that production would rise at a rapid rate, with smaller increases in regional value added due to greater reliance on imported labor (p.40). The assumptions on wage changes and migration should be reviewed for this model also, and explicit consideration should be given to the implications of the export tax on coffee and cocoa for foreign exchange earnings. While in the present version export taxes are used as policy variables to affect income distribution (p.29), their more conventional role in maximizing foreign exchange receipts would need to be separately considered. Attention should further be given to the incentive effects of export taxes.

#### The Urban Model

8. In commenting on the Urban Model, I will concentrate on the numerical results obtained. If, for comparability with the Central Model, one takes the case with a 10 percent discount rate, a 25 percent foreign exchange premium, and the continuation of the present tax and tariff structure, the production of competitive manufacturing shows annual increases of 70 percent in 1972-75, 18 percent in 1975-80, 11 percent in 1980-85, and 1 percent in 1985-90 (p.43). These results do not appear reasonable and contrast with the smooth changes of manufacturing production obtained in the preliminary version of the Central Model which does not contain extreme values. Nor does the behavior of gross investment appear reasonable as this would involve substantial increases in marginal capital-output ratios between 1972-75 and 1975-80. Finally, questions arise as regards the lack of sensitivity of the results to variations in the exchange rate premium from 0 to 75 percent (Cf. pp.38-44).

9. In the course of the discussion, it has been suggested that the behavior of marginal capital-output ratios can be explained by the elimination of excess capacity between 1975 and 1980. This however assumes that capacity is fungible within each of the eight industries (e.g. shoe manufacturing capacity can be used in producing clothing) and that the underutilization of capacity is exclusively demand-determined. Neither of these assumptions is realistic, however, and thus we cannot postulate that excess capacity would be eliminated within a short period as demand for manufactured goods increases.

10. The peculiar behavior of the model in the first half of the seventies should further be noted. From the table on p.32 it appears that even in the most favorable case when taxes and subsidies are maintained, the interest rate is 10 percent, and there is a foreign exchange premium of 75 percent, competitive manufacturing production would decline from Cfa 59 billion in 1970 to 29 billion in 1972, only to increase again to 120 billion in 1975. In the absence of detailed information on the structure of the model, it is difficult to explain these results. But the lack of initial conditions on output has necessarily affected the estimated pattern of manufacturing production in the model as the figures for the initial year (1972) do not correspond to actual magnitudes but were derived from the model itself. In turn, the lack of terminal conditions appears to have influenced the behavior of investment while the



rigidity of the model may explain the unresponsiveness of the results to changes in the exchange rate.

#### The Central Model

11. The Central Model shows considerable originality, especially as far as the formulation of the objective function is concerned. It also deserves kudos for having obtained what may be considered reasonable results in its preliminary version within a very short time. In the following, questions will be raised concerning the assumptions of the model as regards the process of urbanization. Furthermore, suggestions will be made on possible uses of the model that offer general interest.

12. In the Central Model, rural-urban migration is taken to be exogenous and it is assumed that migrants who do not find other occupations will be absorbed in traditional services, thereby raising the proportion of unskilled workers in this sector from 20 percent in 1970 to 50 percent in 1990 (p.23). With decreasing productivity in traditional services, the efficiency price of unskilled workers would decline at an annual rate of 1.5 percent as against an increase of 3.4 percent for rural workers. However, equalization between the wages of urban and rural labor would be reached only in 1985 and, by assumption, this would not affect the pattern of migration (p.26).

13. The full absorption of the unemployed into the traditional service sector does not appear to be a realistic assumption. It would seem more appropriate to assume partial absorption, together with the continuing operation of the "big family" system under which those who have found jobs provide for unemployed relatives. Also, migration should be taken to be endogenous rather than exogenous of the model. We will then not have the increase in unemployed and decline in the efficiency price of urban labor obtained in the present version of the model.

14. Let me add, finally, that the model in its complete form offers an interest that transcends its usefulness for the Ivory Coast. In particular, it appears to provide an excellent vehicle for investigating the impact on shadow prices of changes in the objective function, in policy constraints, and in some of the exogenous variables. It can also be used to indicate the pattern and cost of incentives in effective protection terms and to examine the potential effects of changes in trade policies on resource allocation and welfare, with account taken of budgetary constraints. Such work could be usefully undertaken after the results of the complete model are presented to the Ivorians in April.

cc. Messrs. Chenery	Goreux	Ahluwalia
Stern	Condos	Blitzer
Cauas	Davis	Clark
Duloy	Loup	Pursell
Manne	Vaurs	Stoutjesdijk

BBalassa:alm

February 21, 1973

Wiesenberger Services Inc.  
Five Hanover Square  
New York, N.Y. 10004

Dear Sir,

In reference to a recent article in The New York Times, I would like to ask you to send me the last edition of your "Mutual Funds Performance Monthly". A check for \$10.00 is enclosed.

Sincerely yours,

Bela Balassa

HOME ADDRESS  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008



February 20, 1973

Professor Jean Waelbroeck  
Universite Libre de Bruxelles  
Departement D'Economie Appliquee  
Ave. F. D. Roosevelt 50  
1050 Bruxelles  
Belgium

Dear Jean,

Please excuse the late answer to your letters of January 28 and February 2.

I am not at all surprised that you had difficulties solving the rather complicated world model. Computers are rarely obliging enough to provide results before one's deadline. The important thing is that the results have been obtained and we look forward to seeing you here together with your collaborator, Mr. Ginsburgh. Please let me know the dates when your paper will be available and when you plan to come to Washington.

I presume that you have in the meantime seen Wouter Tims. I am interested to know what transpired.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

cc. Messrs. Goreux  
Stoutjesdijk

P.S.

The biographical note is fine. I hope that you ~~will~~ have been able to reach an agreement with Mark Perlman for the inclusion of the precis of the papers published in your Review in the Journal of Economic Literature.

February 20, 1973

Mr. Helly Tineo Salazar  
Banco Central de Venezuela  
Depto de Investigaciones Economicas  
Organismos Internacionales  
Esq. de Carmelitas  
Caracas  
Venezuela

Dear Mr. Salazar,

It has been a long time since I last heard from you. I trust that the papers I sent have been helpful and you have completed your study on effective protection in Venezuela.

A Bank mission headed by Mr. Francesco Abbate is going to Venezuela in the near future and they have considerable interest in the work you have done. May I ask you to let them have a copy of your study. I look forward to reading it myself on their return to Washington.

Sincerely yours,

Bela Balassa

cc. Messrs. Ross  
Abbate



Home Address  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008

February 20, 1973

Mr. William J. Murray  
Amos G. Hewitt Insurance Agency  
Trust Company Building  
New Haven, Conn. 06510

Dear Mr. Murray,

I enclose a bill for the emergency treatment of Mr. Raphael Frande with the request that you make payment directly to the Georgetown University Hospital. Mr. Frande was serving dinner at my home on April 8, 1972 when a coffee-making machine blew up in his hands. He received the bill from the hospital on December 2, 1972; the further delay has been due to my absence from the United States.

Sincerely yours,

Bela Balassa

February 20, 1973

Mr. Ralph K. Davidson  
Deputy Director, Social Science  
The Rockefeller Foundation  
111 West 50th Street  
New York, N.Y. 10020

Dear Mr. Davidson,

My colleague, Dr. Trent Bertrand, asked me to write a letter to you on his behalf in connection with his assignment to Thailand.

Dr. Bertrand came to Hopkins four years ago and I have worked closely with him since. We alternate in teaching the graduate and undergraduate courses in international trade and economic development and supervise dissertations in these areas. Dr. Bertrand is an excellent teacher and has been of considerable help to students in writing their theses. His research is consistently of high quality and he has become favorably known to international economists. In consideration of his excellent teaching and research we promoted him to Associate Professor following an exceptionally short tenure as Assistant Professor.

Sincerely yours,

Bela Balassa  
Professor of Political Economy



Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008

February 20, 1973

Fund Investment Engineering  
Station Square Three  
P.O. Box 700  
Paoli, Pa. 19301

Dear Sirs,

As I am already a subscriber to Growth Fund Guide I would like to ask you to refund the unused portion of my subscription.

Sincerely yours,

Bela Balassa

## OFFICE MEMORANDUM

TO: Distribution list below

DATE: February 13, 1973

FROM: Bela Balassa

SUBJECT: Meeting of the Working Group on the Integration Policy Paper

1. At its February 12 meeting, the Working Group on the Integration Policy Paper concentrated on questions relating to the writing of the background papers. It has been agreed that rather than writing separate papers on the experience of lending agencies with integration projects, this will be discussed in the background papers on particular regional integration schemes. Agreement has further been reached on the contents, the time table, and the authors of the background papers.

2. The background papers should provide a survey of the experience of the individual integration schemes following the outline in Para 3. Factual aspects should be briefly stated and emphasis should be given to particular issues that appear to be of major importance. The choice of these issues for each paper will be made jointly with the Working Group. Principal candidates are: the operation of industry allocation schemes; the experience of investment banks; the strengths and weaknesses of the institutional structures; the distribution of the benefits and costs of integration among the member countries and the measures taken to rectify this allocation; the effects of integration on backward regions and on income distribution in the countries concerned; and the fiscal aspects of integration.

3. The background papers on regional integration schemes should cover the following issues:

A. Liberalization of trade and factor movements, with comparisons made between original intentions and actual realization (the form of integration; internal tariff reductions, exceptions, and the reimposition of trade restrictions; other incentives affecting trade flows; the treatment of extra-area trade and origin rules; provisions for the mobility of capital and labor).

B. Integration projects (integration investments in infrastructure; industry allocation schemes; regional investment banks; provisions for the allocation of benefits and costs of integration projects).

C. Effects of integration (changes in intra-area and extra-area trade flows; effects on resource allocation, investment activity, and economic growth; distribution of benefits and costs of integration among the participating countries; use of compensation schemes or preferential treatment to the least developed countries; effects on backward regions and on income distribution in individual countries).

D. Policy aspects (institutional structure; coordination of commercial policy; coordination of incentives to domestic and foreign investment; monetary cooperation and exchange rates; fiscal revenue aspects and the coordination of fiscal policies).

E. Evaluation (causes of the successes and failures of the integration scheme; future problems and their possible solution; the past and the prospective role of the World Bank and other lending agencies).



4. The length of the background papers should not exceed 20 double-spaced pages; they will be shorter in the case of prospective integration schemes where several of the points listed do not apply. The papers are to be prepared by June 30, 1973. The list of the papers and their authors is given in Para 5.

5. Experience of regional integration schemes

- |  |  |
|--|--|
| (a) Latin American Free Trade Association  | to be selected                                       |
| (b) Andean Common Market   | F.Thoumi (Industrialization Division, DED)           |
| (c) Central American Common Market   | "  |
| (d) Caribbean Free Trade Association   | J-U. Richter (Latin American & Caribbean Department) |
| (e) West African Economic Community  | G.Pursell (Development Research Center)              |
| (f) Central African Customs & Economic Union   | to be selected                                       |
| (g) East African Community   | P.Bottelier (Eastern Africa Department)              |
| (h) Regional Cooperation Agreement among Iran, Pakistan, and Turkey                              | (Industrialization Division, DED)                    |
| (i) Association of Southeast Asian Nations   | "  |
| (j) Agreements among countries at similar levels of development and located in different regions | "  |

Distribution

Messrs. Bottelier  
de Vries  
Hayes  
Holsen  
Hughes  
Kuczynski

Thoumi  
Richter  
Pursell

cc. for information to:  
Messrs. Chenery  
Stern  
Gulhati  
Haq  
Cauas  
Duloy

BBalassa:alm

Adresse Personnelle  
2134 Wyoming Ave. N.W.  
Washington D.C. 20008

le 16 fevrier, 1973

M. Eric Bernard  
158 bd. Malesherbes  
Paris 17e  
France

Dher Eric,

J'aimerais te demander la faveur d'ecrire une lettre "officielle" a SATCO en leur demandant le paiement de la somme de 677.95 francs qui m'est due a cause des reparations faites sur ma voiture assuree par Assurances Maritimes (la facture de \$155.59, equivalent a 777.95 FF moins la franchise de 100 FF), Mes lettres sont restees sans reponse, quoique les representants de l'assureur, MM. Gerard et Daniel Guian, m'avaient indique que paiement serait fait par l'intermediare de SATCO, le trans-porteur.

Je m'excuse de demander ton aide dans cette affaire mais je ne sais pas quoi faire.

Bela Balassa



Mr. Ian Hume

February 13, 1973

Bela Balassa

Romania

Professor David Granick did interview work on the intermediate management level. This has been written up and is available from Granick. He is at the University of Wisconsin, Madison, Wisconsin. There is nothing else that Montias is aware of.

BBalassa:alm

## OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery

DATE: February 13, 1973

FROM: Bela Balassa *MB*

SUBJECT: Country-Centered Work

In reference to our discussion yesterday, I enclose copies of memos by Jorge Cauas and myself and by Wouter Tims. These memos reflect our concern with "researchability" in the selection of countries on which DPS work would be concentrated.

cc. Mr. Cauas

BBalassa:alm



## OFFICE MEMORANDUM

TO: Messrs. Stern, Stevenson, Hayes, Haq

DATE: December 13, 1972

FROM: Jorge Cauas /

SUBJECT: Country-Centered Work in the DPS

I enclose a memorandum on "Suggested Criteria for Country Classification". I suggest that a Committee consisting of Irma Adelman, Bela Balassa, Helen Hughes, P.P. Kuczynski, and Wouter Tims should review these criteria as a preliminary step for selecting countries for work to be undertaken by the DPS. I have asked Bela Balassa to chair this Committee. His office will call prospective participants to arrange a meeting for later this week.

cc. Messrs. Chenery (o/r)  
Gulhati (o/r)  
Adelman  
Balassa  
Hughes  
Kuczynski  
Tims

## Suggested Criteria for Country Classification

Bela Balassa and Jorge Cauas

### General Criteria

Country Size: Large (with a population of above 50 million), medium (between 10 and 50 million), small (between 2 and 10 million), and very small (less than two million). There are 7 countries in the first category, 25 in the second, 45 in the third, and 28 in the fourth.

Income Level: High income (with GNP per head exceeding 700 dollars a year), middle income (between 300 and 700 dollars), low income (between 120 and 300 dollars), very low income (less than 120 dollars). There are 19 countries in the first category, 26 in the second, 30 in the third, and 30 in the fourth.

Industrialization: Semi-industrial (with the contribution of manufacturing to commodity production exceeding 40 percent), industrializing (between 20 and 40 percent), and nonindustrial (less than 20 percent). There are 52 countries in the first group, 48 in the second, and 15 in the third.

Location: The enclosed table indicates the distribution of the 105 developing countries that are members of the Bank among the <sup>(five)</sup> eight Regional Departments. The table also shows data on population, per capita, GNP, and the share of manufacturing in commodity production for these countries.

Extent of Regional Integration: Countries may further be classified according to their participation in regional integration schemes. Classification to be made by the Economics of Industry Division.



Trade Policy: Distinction may be made between countries with outward-oriented, neutral, and inward-oriented policies. Classification of countries may be done by the Program Review Division.

Economic System: Distinction may be made among socialist economies, including centralized and decentralized systems, and market economies, further classified as having little, average, and high degree of government intervention in the allocation of resources. Classification may be done by the Program Review Division.

#### Bank-Oriented Criteria

Operations: Importance of Bank operations for the country's investment program or as a proportion of the foreign aid program may be used as the relevant indicator. The Economic and Social Data Division may prepare a table on the indicator selected.

Mission Schedule: Schedule of projection basic missions for the period 1972-77 can be used to determine the timing of the work program.

Ongoing Research: Countries should be classified according to the extent of ongoing Bank research. Classification may be done by A. Ray.

Departmental Research Interest: Program Review Division may be asked to explore the interests of various Regional Departments in having research done in particular countries.

#### Country Criteria

Interest of Government: The Program Review Division, in conjunction with the Regional Departments, may be asked to classify countries according to the degree of interest of the government in having research done under Bank auspices.

Research Capability: The Development Research Center may be asked to classify countries according to the research capabilities of their academic or governmental institutions.

Proposed Country-Oriented Research

An attempt has been made over the last few weeks by a panel headed by Bela Balassa, to select a group of countries among those in which the Bank expects to operate, for concentration of research efforts by the DPS. In order to link the selection to actual operations programs, attention is given to the five-year programs of basic economic missions and reports as lastly presented in P & B's Table Vd of November 29, 1973, and in particular to such missions scheduled in FY 75 and FY 76. Further, to focus research primarily on countries which account for the major part of Bank/IDA operations, the 45-country panel of CPP system countries is used as a framework for the selection.

According to present schedules, basic missions are planned as follows:

	FY 74	FY 75	FY 76	FY 77
to CPP panel countries	13	14	7	4
to other countries <u>a/</u>	8	10	8	11
Total	21	24	15	15

a/ Includes Caribbean regional mission (77 74) and CACM countries regional mission (FY 75).

These schedules are not firm and experience in the current year does indicate the possibility that some of these missions will slip into later years. Still, for the purpose of planning research support, which will need considerable lead-time, the emphasis must be on missions to take place not earlier than FY 75. Some countries scheduled in FY 74 have been added, either to reflect on-going research in the DPS, or an interest in undertaking possibly smaller studies which could still serve as an input for scheduled basic missions.



Missions to countries not included in the sample panel and planned for FY 75 and FY 76 are either members of regional groupings to which special missions are scheduled, or very small countries, with three exceptions: Mauritius (75), Burma (75) and Afghanistan (75). The latter two were earlier removed from the panel as countries with major data problems and, for the same reason, do not qualify for research. Mauritius constitutes probably a borderline case.

Table 1 shows the missions schedule, identifies the CPP system panel countries and summarizes a suggested concentration of country research by the DPS. The selection is guided by the desire to include countries which vary in characteristics, rather than to include too many similar countries. Use was made for that purpose of a clustering exercise done by Irma Adelman. In addition, a reasonable spread over time and by Regional Departments has been attempted, and account is taken of on-going research work.

The selection is not more than a proposal at this stage, reflecting the country preferences of the research staff in the DPS. These preferences may well be at variance with the requirements and work programs of the Regional Departments, and therefore need to be compared and discussed with Chief Economists who may wish to suggest alternative countries. It further requires that reasonably firm programs of economic work do exist for these countries, or are in process of formulation. Close cooperation with the Program Review Division will be maintained on work programs, as those are presently prepared and collected.

Table 1 Basic Mission Schedule and Country Concentration for Research<sup>1/</sup>

	East Africa	West Africa	Europe, ME, N. Africa	Asia	Latin Am. Caribbean	Total Proposed
<u>FY 1974</u>	*Kenya *Zaire Botswana Burundi Somalia	*Ghana Guinea C.A.R. *Liberia	*Egypt *Iran Algeria	*Bangladesh *India *Philippines Papua, N.G.	*Argentina *Bolivia *Uruguay *Dom. Rep. <u>Caribb. Region</u>	3
<u>FY 1975</u>	*Ethiopia *Sudan Mauritius Swaziland	*Ivory Coast *Cameroon Congo *Sierra Leone Upper Volta	Afghanistan *Iraq Jordan Yemen PDR	Burma *Malaysia *Pakistan *Thailand	*Brazil *Colombia *Ecuador *Guatemala *Venezuela Guyana CACM	4
<u>FY 1976</u>	*Tanzania Lesotho	*Nigeria Chad *Mali	Lebanon *Syria Yemen AR	*Korea *Sri Lanka Fiji	*Peru El Salvador Jamaica Paraguay	6
<u>FY 1977</u>	*Uganda *Zambia Malawi Rwanda	Eq. Guinea Gabon Niger Togo	*Yugoslavia Oman	Singapore	*Mexico Honduras Haiti Trinidad, Tob.	2
<u>Not Scheduled</u>		Mauritania	*Morocco *Tunisia *Turkey	*Indonesia	*Chile	2
Total Proposed	2	3	3	5	4	17

\* Countries in the CPP sample panel.

1/ Countries proposed for the research program are underlined.



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## OFFICE MEMORANDUM

TO: Mr. Dragoslav Avramovic

DATE: February 13, 1973

FROM: Bela Balassa

SUBJECT: Central American Integration

1. Thank you for sending me copies of the memoranda reporting on recent Bank staff discussions on integration in Central America. I hope that the writing of a policy paper on economic integration may help convince the Board of the need to finance the pre-investment studies described in the memo. At the same time, I am concerned about the apparently exclusive import-substitution orientation of the proposed investments. I wonder if efficient size plants could be built in the industries in question in the event that these were selling solely in Central American markets. In their discussions the experts could perhaps explore the possibilities for exportation and the implications of exports for plant size and production costs.

2. The statement in my back-to-office memo of February 2 that "the member countries may have to pay a heavy price for /the return of Honduras to the Common Market/ in terms of restrictions on the freedom of intra-area trade" was based on information received at a meeting on problems of integration in Central America held in San Jose with the participation of Carlos Castillo and several others (see enclosure). I have been told there that the member countries would agree to setting an upper limit to Honduras' intra-CACM deficit, would reduce the extent of the duty-free exchange of commodities and, possibly, introduce tariff quotas. When I asked if the price for the return of Honduras in CACM may not be too high, I was told that this may well be the case but Honduras' return is desirable from the political point of view.

cc. Messrs. Meier  
Mrs. Neufeld  
Kendall

BBalassa:alm

Personas que participaron en la reunion del lunes 8 de enero  
por la mañana con el Prof. Bela Balassa

- Dr. Carlos Ml. Castillo  
Ex-Secretario de la Secretaria de Integracion  
Economica de Centroamerica  
Asesor del Presidente del Banco Interamericano  
de Desarrollo  
Asesor de la Oficina de Planificacion de la  
Presidencia de la republica
- Lic. Raul Hess E.  
Ex-Ministro de Hacienda Publica  
Ex-Gerente Banco Central de Costa Rica
- Lic. Jose Sancho  
Ex-funcionario de la Secretaria de Integracion  
Economica Centroamericana  
Funcionario Instituto Centroamericano de Adminis-  
tracion Publica
- Lic. Luis Villani Z.  
Director de la Direccion General de Integracion  
Economica. Gobierno de Costa Rica
- Dr. Fernando E. Naranjo V.  
Director Instituto de Investigaciones  
Escuela de Ciencias Economicas y Sociales



February 13, 1973

Professor E. S. Kirschen  
Universite Libre de Bruxelles  
Economics Department  
1050 Bruxelles  
Av. F.D. Roosevelt 50  
Belgium

Dear Etienne,

Thursday, March 8 is fine with us. We would expect you for dinner and hope that you could stay at our house for the night.

Sincerely yours,

Bela Balassa

February 13, 1973

Professor Fritz Machlup  
International Economic Association  
Office of the President  
P.O.Box 644  
Princeton, N.J. 08540

Dear Fritz,

I agree with Csikos-Nagy and Simai on the undesirability of segregating Western and socialist economists. Perhaps we could return to the original Groups G, H, I as Csikos-Nagy suggests. I do not think, however, that we should have a session on "Cooperation among Regional Blocs"; it would most likely lead to a rather general discussion on the merits of cooperation.

Nor would it be desirable to follow Simai's suggestions on organizing a session on capital markets. At the same time, I do not think that Victoria Curzon would be a good choice for Group B. She is a nice girl, but her knowledge of economics is limited and she gave a very weak paper on integration in Cambridge last September. Christopher Layton or Pierre Uri would be far superior choices.

Finally, Fauvel is confused about the meaning of integration. But would it not suffice to tell him that we are talking about international rather than national integration? I presume that members of your panel do not have conceptual difficulties.

With best regards,

Sincerely yours,

P.S.

I plan to arrive on Saturday, February 24, at 10.12 a.m. in Trenton and will take a cab from there as you suggested. (Please let me have your address and eventual suggestions on how to get there). I will have to take the 4.16 p.m. train from Trenton, I am afraid, that might necessitate cutting down on the "social schedule". But I would like to leave the decision on this to you.

Bela Balassa



February 13, 1973

Dr. Julio Berlinski  
Pueyrredon 336  
8p 25  
Buenos Aires  
Argentina

Dear Julio,

This is to introduce Mr. John C. Kendall who will be in Buenos Aires between February 20 and March 16 as head of a Bank mission.

I have given Mr. Kendall the tables you sent to me as well as other material relating to our project. May I ask you to give him copies of any further work you have completed and answer the queries he may have in connection with your study. This is of importance to us since our work should provide help to the Regional Departments. As your results are practically in final form, they can be made available within the Bank.

With best regards,

Sincerely yours,

Bela Balassa

cc. Mr. John Kendall

P.S.

I have looked at your results and have also talked to Dani about them. There seems to be a problem concerning the relationship between the Balassa and the Corden results; as apparent from the formulas shown in "Methodology and Outline", the former should always be greater than the latter.

*pink*

## OFFICE MEMORANDUM

TO: Messrs. van der Tak and Baneth

DATE: February 13, 1973

FROM: Bela Balassa *B*

SUBJECT: DRC Research on Shadow Pricing

I enclose a short note on recent discussions we had at the DRC on research on shadow prices. We have since written to Bruno asking him to accept the assigned task. Also, we have had conversations with Alan Manne on the structure of the simple equilibrium model we want to use to investigate interdependencies among shadow prices and the effects of alternative policy objectives and constraints. I can report on the results of these discussions at our next meeting.

cc. Messrs. Blitzer  
Cauas  
Duloy

BBalassa:alm



## OFFICE MEMORANDUM

TO: Mr. Jorge Cauas

DATE: February 2, 1972

FROM: Charles R. Blitzler *CRB*SUBJECT: DRC Meeting on Shadow Prices

1. Messrs Balassa, Blitzler, Clark, and Duloy met with Mr. Cauas on Monday, January 29, to discuss the status of the Shadow Price Project (RPO 208) and the direction of future DRC work in this area.
2. The major work which has been done to date consists of papers on the shadow price of foreign exchange (Balassa), social discount rate and shadow price of capital (Blitzler), and the shadow exchange rate over time (Bruno). These will be published shortly as DPS Working Papers.
3. Jon Levy has done the preliminary research for a similar piece on the shadow wage rates. Charles Blitzler will write a first draft sometime in March. The final draft will become also a DPS Working Paper.
4. Most of the discussion centered around possible directions for future research, point 5 in Balassa's memo of December 15. The Steering Committee on Shadow Prices has asked us to be more precise in defining these areas and our own priorities before they formally comment. It was agreed that it is now necessary to review staff interest and availability at an early date. In addition we should solicit comments, and possible collaboration, from a wider group of consultants than just Bruno and Manne.
5. It was agreed that working with Regional Departments in estimating shadow prices (point 5 (c) of Balassa memo) would be highly useful, but that the initiative will have to come from the regions themselves and the Steering Committee.
6. In regard to future work by Bruno, it seems that highest priority should be given to his writing a survey of the use of shadow prices under distortions of various kinds. Peter Clark will mention this in a letter which will also review the financial arrangements the DRC has made with him.
7. Montek Ahluwalia will be asked to think about income distribution implications (point 5 (e)).
8. Alan Manne will visit the DRC February 8 and 9 to discuss his future involvement in a shadow price project. Presumably this will be directed toward the development of a simple general equilibrium model to investigate interdependencies and effects of alternative policy objectives and constraints (point 5 (f)). Charles Blitzler will pursue this with him.
9. Pending the outcome of the economy-wide models symposium and Bruno's chapter for the Survey of Planning Models, work on applying the shadow prices from existing DRC models will be postponed (point 5 (g)).

10. Work on the financial implications of shadow prices (point 5 (h)) and their implications for distortion removal (point 5 (d)) are postponed until interested staff are available. *Recommendations for O.M.*

11. The draft O.M. on Project Appraisal has been circulated and comments on it will be discussed on Friday, February 2. The DRC comments will then be forwarded to Philip Hayes who is coordinating the DPS response. *B.B. internal coordinator. We must work on a summary.*

12. Bela Balassa will continue to represent the DRC on the Steering Committee and Charles Blitzer will act as internal coordinator for the Shadow Price Project.

cc: Messrs. Duloy  
Clark  
Balassa  
Ahluwalia  
Stoutjesdijk

CBlitzer/ta



## OFFICE MEMORANDUM

TO: Mr. Barend de Vries

DATE: February 13, 1973

FROM: Bela Balassa *N*SUBJECT: Estimation of Shadow Prices by Country Economists

1. I am sorry for not having been able to participate in the meeting you organized on the estimation of shadow prices by country economists; I had a meeting on the Draft O.M. at the same hour. I enclose comments on the latter written by Charles Blitzer, Jorge Cauas, and myself.

2. I have now read Ettinger's paper ("Estimation of Shadow Prices by Country Economists") as well as the earlier paper by Colin Bruce ("The Use of Shadow Prices in Bank Project Work"). Both of these are valuable efforts to clarify issues relating to the estimation of shadow prices and should provide useful inputs for the writing of the Annex to the O.M. I presume that, following the preparation of the O.M., these papers will be revised to emphasize the special features of shadow price estimation in the region concerned, leaving to the Annex the treatment of the general conceptual and methodological issues. This, as well as the desire to avoid repetition with my comments on the O.M. itself, explain that in commenting on the two papers I limit myself to a few selected issues.

The Policy Assumptions

3. Ettinger correctly notes that "shadow prices are important not only for calculating project rates of return, but also as guides to policy" (Para 12) and that it may be "important to use shadow pricing to press for policy changes" (Para 16). The same recommendation is made by Bruce (Para 9). However, according to Ettinger, "a reasonable assumption might be that the Bank can only influence market policies relating directly to the project (Para 17) and Bruce seems to be taking a similar position (Para 10). In both papers, the use of border prices for project's tradeable output and inputs is said to serve this purpose.

4. As noted in our comment on the O.M., the use of border prices in a particular project raises problems of the second-best, since private projects will be undertaken in response to a different set of prices. Also, it is incumbent on the Bank to give advice to countries on general economic policies that affect, among other things, the shadow price of foreign exchange. One should therefore raise the question of how changes in present policies and, in particular, the abolition of quotas and prohibitive tariffs would affect the shadow exchange rate. At the same time, calculating this rate under alternative policy assumptions is not such an impossible task as Ettinger suggests (Para 54). On this point, see the Annex to my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal".

The Shadow Exchange Rate

5. Assuming the continuation of present policies, both Bruce and Ettinger define the shadow exchange rate in terms of the marginal utility of an additional unit of foreign exchange. But while Bruce assumes that incremental foreign exchange will be fully spent on imports (Para 17), Ettinger postulates



that four-fifths will be spent on imports and one-fifth will involve reductions in exports (Para 34). If the country in question cannot affect world market prices, and trade is initially balanced, Ettinger's calculation reflects the implicit assumption that the import demand elasticity is four times as high as the export supply elasticity. I find it difficult to accept these figures; they are way out of line with the experience of seven countries reported in my Structure of Protection in Developing Countries. Nor do I think that export duties would be optimal in the countries concerned as Ettinger suggests (Para 41). It seems to me that by making the underlying elasticity assumptions explicit and dealing separately with major exports facing less than infinitely elastic foreign demand, improvements can be attained at relatively low cost. At the same time, rather than to follow Bruce in using average import proportions and tariffs in the calculations (Para 17), one should make the refinements suggested by Ettinger whenever possible (Paras 46-48).

#### Treatment of Nontradeables

6. Ettinger (Para 94) and Bruce (Para 19) are correct in stating that the major nontradeable inputs should be decomposed into primary factors and tradeable inputs and that such decomposition could best be done by the country economist. Bruce also suggests a number of useful simplifications that reduce the amount of work involved. Neither of the authors consider, however, the problems that arise if nontradeables are not produced at constant costs.

#### The Shadow Price of Labor

7. While Bruce emphasizes the savings-consumption aspect of the shadow price of labor, Ettinger provides a detailed discussion of factors affecting the opportunity cost of labor. My only objection relates to the neglect of the consumption of the unemployed. In the example given in Para 69, it would appear that the unemployed migrants have ceased to consume on the farm and are not consuming in the city either.

#### The Shadow Price of Capital

8. Bruce essentially limits himself to summarizing the discussion of the shadow price of capital in the OECD and the UNIDO guidelines. In turn, under the assumption that savings are not preferred to consumption, Ettinger takes the opportunity cost of capital in Bank lending to equal the highest marginal rate of return in any sector (Para 79). But how is the marginal rate of return defined? While at one point Ettinger speaks of the social rate of return, in the next sentence he claims that under perfect capital markets rates of return would be equalized, which is so for private but not for social rates of return. From later discussion, too, it appears that private rates of returns are being compared, yet these will be affected by protection and monopolistic market structure. Further questions arise concerning the assumption of the constant share of borrowing in calculating net rates of return when, as Ettinger himself states, "funds will be borrowed to the point where the expected private rate of return to the borrower equals the interest rate" (Para 82). Finally, it would be desirable to consider the possibilities of borrowing abroad, e.g. in the form of export credits on machinery purchases.

#### cc. Regional Chief Economists

Messrs. Chenery	Cauas	Hughes
Stern	Duloy	Bruce
van der Tak	Ahluwalia	Ettinger
Haq	Blitzer	Henderson
Stevenson	Clark P.	Parish
Gulhati	Stoutjesdijk	Reutlinger



pink

Mr. J. P. Hayes

February 12, 197

Bela Balassa

Comments on Draft O.M.

I enclose a copy of Comments on "Economic Analysis of Projects: Draft O.M." written by Charles Blitzer, Jorge Cauas, and myself.

cc. Messrs. Chenery  
Stern  
Haq  
Stevenson  
Gulhati

Hughes  
Adler H.  
Henderson  
Meguid  
Parish  
Reutlinger

Cauas  
Duloy  
Ahluwalia  
Anand  
Blitzer  
Clark P.  
Stoutjesdijk

BBalassa:alm

## OFFICE MEMORANDUM

TO: Mr. Herman van der Tak

DATE: February 12, 1973

FROM: Bela Balassa, *CB* Charles Blitzler, Jorge Cauas */*SUBJECT: Comments on "Economic Analysis of Projects: Draft O.M."

1. The authors of the Draft O.M. should be congratulated for effectively summarizing the major principles of project analysis and presenting these in a form understandable to the non-specialist. The new O.M. should make an important contribution to project evaluation in the Bank. In the following, suggestions are made for the revision of the present draft. We have concentrated on controversial issues which, in our view, should receive greater attention in the O.M. Further suggestions are made in an annotated copy of the Draft O.M. which is enclosed.

Objective Function and Shadow Prices

2. The Draft O.M. recommends that opportunity costs or shadow prices be used for all relevant inputs and outputs to derive a measure of social profitability on which the project should be judged. It is further added that "shadow prices are determined by the introduction of fundamental policy objectives and the basic resource-availabilities" (Para 6). The policy objectives, including "the removal of poverty, the promotion of growth, and the reduction of income inequalities" (Para 3) are to express the "value judgments of the government" (Para 25). This raises various questions as regards the possibility of deducing what a government's value judgments are, the acceptance of these value judgments by the Bank, and the ways and means of introducing them in project evaluation.

3. Various researchers suggested that one may derive a government's value judgments (objective function) from official pronouncements or, alternatively, from the observation of the government's actions. Needless to say, the two may differ to a considerable extent, not only because of the limitations of tools available to the government but also because official pronouncements are often meant for popular consumption rather than as a program of action. And not even in totalitarian systems is the government monolithic; rather, it represents a conglomerate of groups with different objectives and its actions often respond to pressures by special interests whose relative power is changing over time.

4. Indeed, advice by the Bank can be effective if it has as its "vehicle" one of the groups participating in the government; in turn, the Bank may strengthen the position of such progressive groups through its policy advice. And, if we also consider that the length of life of many governments is limited, we may conclude that the Bank should bring to bear its own value judgment on project evaluation. An example is the introduction of income distributional considerations by the Bank in evaluating projects submitted by national governments which do not take account of such objectives.



5. The next question concerns the ways and means of introducing policy objectives in project evaluation. The Draft O.M. suggests that this be done by expressing all policy objectives in the shadow prices of primary factors. While we feel sympathy with this view as it conforms to the general principles of model building, there is an alternative procedure that is analytically equivalent and has practical advantages. Apart from the fact that shadow prices expressing multiple objectives that would be "usable" for project evaluation have not yet been estimated for any developing country, one wonders if such shadow prices would be easily understandable -- and acceptable -- in the Bank. An alternative procedure is to have shadow prices express alternatives foregone in terms of efficiency criteria (i.e. national income foregone), and to introduce income distributional and other considerations at a subsequent stage. This would be done by indicating the income loss involved in pursuing particular objectives and by assigning weights to these objectives.

#### Policy Assumptions

6. The policy assumptions made in project evaluation are necessarily linked to the choice of objectives. The Draft O.M. gives emphasis to policy constraints while disregarding the possibility that governments may not wish to match official pronouncements with action. A case in point is the statement that "if the government is unable to secure a desired redistribution of income through taxation, then the allocation of investment resources can be used as an alternative method of redistributing income" (Para 7). Now, if the government does not really wish to redistribute income through taxation, it may not want to do this through project selection either. And if it does have such an objective but encounters political obstacles in doing so through taxation, it may not be able to do it through project selection either should this involve the use of fiscal instruments e.g. to subsidize the use of labor.

7. The assumptions made as regards future policy changes is a related question. In Para 42 it is noted that shadow exchange rates should be estimated "in the light of current and anticipated trade policies..." The statement implies that the Bank takes the present and the anticipated future policies of national governments as a datum. This procedure hardly appears appropriate as it would involve separating the Bank's policy-advisory and project-selection activities and foregoing the possibility of "concretizing" -- and buttressing -- policy advice through project selection. We would suggest therefore that, in making assumptions in regard to trade and other policies, the Bank should bring to bear its policy advice on the appraisal of projects.

#### Treatment of the Manufacturing Sector and the Second Best

8. While the Draft O.M. suggests taking the government's trade policies as given in estimating the shadow price of foreign exchange, it proposes using world market prices in valuing traded goods. This however is in contradiction with the trade policies followed by most developing countries that provide considerable protection to manufacturing activities. It also raises problems of the second-best since projects appraised by the Bank (for short, Bank projects) in the manufacturing sector will be discriminated against as compared to private projects that enjoy protection. Thus, it is conceivable that in a particular industry private entrepreneurs will undertake projects which are less efficient than are Bank projects in the same industry that were rejected because they are not profitable at world market prices. More generally, the O.M. Manual neglects problems related to the second best although these need to receive emphasis in project evaluation in a mixed economy. Particular attention should be given to the



relationship of market and shadow prices and to the financial implications of differences between the two.

9. A further question is if one can consider the protection of manufacturing industries to be irrational from the point-of-view of national objectives. This will not be the case if there are positive externalities in the manufacturing sector or governments regard the development of national industries as a "merit want". The Draft O.M. dismisses positive externalities in the form of demonstration and training effects on the grounds that "these are not amenable to quantification at present" (Para 17). Inability to quantify does not mean however that such effects should be taken to be nil in project evaluation. Indeed, learning-by-doing, training effects, potentialities for technological improvements, and interindustry relationships have been shown to give rise to positive externalities. Rather than dismissing these, one should try to assign a figure -- however notional -- to them as is done in Little, Scitovsky, Scott, "Industry and Trade in Some Developing Countries" and Balassa, "The Structure of Protection in Developing Countries".

10. Apart from the externalities provided by manufacturing industries, protection may be due to the establishment of such industries being considered as desirable per se in less developed countries. This possibility has been suggested by Harry Johnson and others and it should be considered in the O.M. even if only to reject it. But this again would involve overruling the government's preferences in project evaluation.

#### Shadow Price of Foreign Exchange

11. The section on converting foreign into domestic values and vice versa is perhaps the least satisfactory part of the O.M. First of all, the discussion on single and multiple conversion ratios in Para 42 may lead to confusion between the problems of "decomposition" and "conversion". Furthermore, the statement that decomposing nontraded goods into their component inputs "reduces the conversion problem to that of expressing the shadow wage rate (and other primary factors) in foreign currency ..." (Para 41) holds only under special assumptions that are not likely to be fulfilled in practice. Finally, by postponing the discussion of the measurement of consumer surplus to a later section, the problems related to expressing this in terms of foreign currency have been sidestepped.

12. To begin with the first point, an effort should be made to decompose nontraded inputs into traded goods and primary factors, irrespective of whether the calculations are made in domestic or in world market prices. This was suggested several years ago independently by Balassa, Little, and Tinbergen and it has been incorporated in the OECD and the UNIDO manuals. Nor does such decomposition encounter unsurmountable difficulties since one rarely has to go back more than two stages as shown in "The Structure of Protection in Developing Countries" study referred to above.

13. Once nontraded goods have been decomposed -- however roughly -- we face the "conversion problem" of expressing traded goods in domestic prices or primary factors in world market prices. There will be no need for estimating the shadow exchange rate and the remuneration of primary factors can be directly expressed in world market prices if the following assumptions are fulfilled: nontraded goods are produced at constant costs; there are no quantitative restric-



tions or prohibitive tariffs; and the country in question cannot affect world market prices. In such an eventuality both the benefits and the costs of the project can be expressed in world market prices. The former will equal the net foreign exchange savings in traded goods that are the project's output and inputs while the latter will be the opportunity cost of the primary factors used in the project, derived by calculating the marginal value product of individual factors in world market prices.

14. Such will not be the case, however, if any of the listed assumptions are not fulfilled. Thus, if the project will directly affect the prices and consumption of its output or inputs or if primary factors are used in producing commodities whose price and consumption are influenced by the withdrawal of these factors, consumer-producer surplus analysis will need to be made in domestic values and the shadow exchange rate used to convert domestic values into world market prices. In the general case, therefore, the shadow exchange rate cannot be replaced by "specific" conversion factors.

#### The Shadow Rate of Interest

15. The authors of the draft O.M. correctly state that in some cases additional savings will be considered more valuable than additional consumption. Now, if savings is used as a yardstick, future net benefits in terms of savings should be discounted at the so-called accounting rate of interest. There seem to be some ambiguities, however, as to what the authors mean by the "accounting rate of interest". This should be defined as the percentage rate of change in the value of additional savings at each point in time. Furthermore, it should be made clear that whenever the so-called "consumption (or subjective) rate of interest" cannot be determined from econometric data, neither will the "accounting rate of interest". When subjective judgments, or the specification of an inter-temporal utility function, is required to determine one, such judgments will also be necessary to determine the other. And, in cases when the relative value of savings to consumption is assumed to remain constant -- though not necessarily equal -- throughout the life of the project, the two rates will be identical.

16. As to the choice of the numeraire, it seems more appropriate to use consumption rather than saving for this purpose as consumption is a commonly accepted measure of social welfare in the aggregate. Moreover, if the numeraire is consumption, the discount rate can be more often taken as a constant throughout the project's life and this will not generally be the case for the accounting rate of interest that is used in discounting if savings are the numeraire.

#### Uses of the O.M.

17. According to your January 18 memo, "the paper and Annex are intended to give an up-to-date account of the Bank's approach to economic analysis of projects". If this is to mean an account of the procedures actually in use, the statement would not seem to correspond to reality. If, in turn, the Draft O.M. is meant to provide an approach based on up-to-date knowledge of the problem for future use in the Bank, the question arises to what extent it can be applied to particular situations.

18. Several of the observations made in earlier parts of this note bear on the question of applicability. Attention should further be given to data problems that are not considered in the Draft O.M. One may then wish to describe "best practice" and indicate what kind of shortcuts can be used if the relevant data are not available or a particular problem is not judged to be of importance. Efforts in this direction have been made in the Draft O.M. but these should find more general application.

19. The next question concerns the place of individual projects in the national economy. The authors of the Draft O.M. argue that the project should be considered in the framework of the sector development plan and shadow prices be used in framing sector strategies. Apart from the question of whether it is realistic to assume that sector strategies and development plans will be prepared in the borrowing countries, the information requirements of such strategies and plans would need to be indicated. Any such effort would have to be done in the framework of a development strategy for the national economy. At the same time, the actions taken in a particular sector will often affect shadow prices that can then not be taken as given as is done in project evaluation.

20. Finally, greater emphasis should be given to the interdependence of the shadow prices of the primary factors. This interdependence could be fully accounted for only in a general equilibrium analysis of the national economy. The DRC is planning research on the problem in the framework of a rather simple model that would hopefully indicate the nature of the interrelationships for particular cases.



## OFFICE MEMORANDUM

TO: Mr. Barend de Vries

DATE: February 12, 1973

FROM: Bela Balassa

SUBJECT: Regional Integration Mission

I enclose the suggested addition to your memo on Western African economic and industrial missions.

cc. Mr. Pursell

BBalassa:alm

8. Regional Integration Mission - January 1974

The regional integration mission will combine and extend work done by preceding missions on incentives and on the prospects for industrial growth in Ghana, the Ivory Coast, Mali, and Senegal. It will further examine the possibilities for the expansion of intraregional trade in the products of existing as well as new industries in Western Africa. In addition to trade in manufactured goods, the prospects for an increased exchange of agricultural products and the infrastructural requirements of trade expansion will also be analyzed.

9. The information collected will be used to provide a comparative evaluation of the industrial policies of the four countries and to appraise the implications of an expansion of intraregional trade for their economic development. On the basis of the findings, recommendations will be made on the reform of the system of incentives in the individual countries, on the possible coordination of these schemes, and on the modalities of cooperation necessary for the expansion of trade.

10. The composition of the mission will be roughly as follows:

Economist and Chief (Balassa)  
Industrial Economist (Pursell)  
Agricultural Economist  
Infrastructural Economist

It is envisaged that the incentive system and the prospects for industrial growth in Mali be studied at the time when the regional integration mission takes place.



Distribution List Below

February 7, 1973

Bela Balassa

Working Group on Integration Policy Paper

We will have a meeting to discuss the terms of reference of the policy paper on economic integration on Monday, February 12 at 11.00 a.m. in Mr. Hayes' office (D.428). A preliminary draft of the terms of reference is enclosed. Advance comments should be sent to Mr. Hayes with copies to other members of the Working Group.

Distribution

Messrs. Bottelier  
de Vries  
Hayes  
Holsen  
Hughes  
Kuczynski

BBalassa:alm

February 6, 1973

Mr. Norman Jacobs  
Foreign Policy Association  
345 East 46 Street  
New York, N.Y. 10017

Dear MR. Jacobs,

I enclose two more sections of my "The European Common Market" as well as the list of contents. Apart from the two items marked on the list, you should by now have received everything.

Sincerely yours,

Bela Balassa



JEAN WAELEBROECK  
C.O.R.E.  
DE CROYLAAN 54  
3030 ~~HE~~ HEVERLEE

February 7, 1973

LT

BELGIUM

INFORMATION ON WOUTER TIMS ITINERARY OBTAINABLE  
FROM BANK'S PARIS OFFICE RECORDS

BALASSA

Bela Balassa

DRC

BBalassa:alm

Mr. J. P. Hayes

February 5, 1973

Bela Balassa

Comments on "Economic Analysis of Projects: Draft O.M."

In response to your memo of January 31, I enclose a copy of a joint draft memo written by Charles Blitzler, Jorge Cauas and myself on the above subject.

BBalassa:alm



Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008

February 5, 1973

Kreeger Theatre  
at Arena Stage  
6th & M Streets S.W.  
Washington D.C.

Dear Sirs,

I enclose herewith my two tickets B8 and B11 for February 8th. Please exchange these for any of the following dates: February 26, 27 or March 5, 6. A stamped, addressed envelope is enclosed.

Sincerely yours,

Bela Balassa.

## OFFICE MEMORANDUM

TO: Files

DATE: February 2, 1973

FROM: Bela Balassa *M*SUBJECT: Meeting on Economic Integration

1. On January 30 a meeting was held with the participation of representatives of Regional Departments, the DPS, and IFC to discuss future Bank work on economic integration in developing countries. The participants of the meeting considered proposals for preparing policy papers on integration through trade and on multinational (integration) projects. Suggestions made for longer-term research on integration were further briefly discussed.
2. There was general agreement that, in view of the interrelationships of their subject matter, the two proposed policy papers should be combined into one. It was further agreed that the policy paper should be oriented towards Bank operational needs. In this connection, Bank financing of feasibility studies for integration projects and technical assistance on questions of integration were given especial attention.
3. It was further suggested that the scope of the policy paper be amplified to include agriculture, infrastructure, and services. The paper should also examine the political preconditions of integration, the institutional arrangements conducive to the progress of integration efforts, and the policy implications of various forms of integration.
4. It was agreed that a Working Group be set up, consisting of representatives of Regional Departments and the DPS, to prepare the terms of reference and a time table for the policy paper and the various background papers. The list of background papers in the December 22 memo on Bank Policy and Research on Economic Integration should be reviewed, and papers on CARIFTA and on preferential agreements among countries at similar levels of development but located in different regions be added. The members of the Working Group are Bela Balassa (Development Research Center), Pieter Bottelier (Eastern Africa), Barend de Vries (Western Africa), J.P. Hayes (Economic Analysis & Projections), John Holsen (Latin America & Caribbean), Helen Hughes (Development Economics), and Pedro-Pablo Kuczynski (Policy Planning & Program Review).
5. As regards longer-term research, representatives of the Western Africa Department, the Industrial Projects Department and the DPS will meet on February 9 to discuss the proposed research project on economic integration in West Africa and its relationship with mission work. Furthermore, work on programming studies of multinational (integration) projects will be reviewed in late February with the participation of representatives of the Western Africa, Latin America & Caribbean, and Industrial Projects Departments, and the DPS to consider the possible extension of the work now planned for Western Africa to Central America.

cc. Regional Chief Economists

Messrs. Chenery

Stern

Cauas

Haq

Hayes

Stevenson

Kuczynski

Gulhati

Hughes

Duloy

Stoutjesdijk

Pursell

van der Tak(o/r)

Qureshi

Hoffman

Moore

Holsen

Bottelier



February 2, 1973

Professor Edmar Bacha  
University of Brasilia  
Department of Economics  
Brasilia  
Brazil

Dear Edmar,

I enclose a revised version of my paper "Estimating the Shadow Price of Foreign Exchange in Project Appraisal". I hope that you will find it of interest; needless to say, any comments you may have would be appreciated.

Sincerely yours,

Bela Balassa

February 2, 1973

Professor Lance Taylor  
Harvard University  
Department of Economics  
Cambridge, Mass.

Dear Lance,

I enclose a revised version of my paper "Estimating the Shadow Price of Foreign Exchange in Project Appraisal". I hope that you will find it of interest; needless to say, any comments you may have would be appreciated.

Sincerely yours,

Bela Balassa



February 2, 1973

Mr. Ian M. Little  
Nuffield College  
Oxford  
England

Dear Ian,

I enclose a copy of my paper "Estimating the Shadow Price of Foreign Exchange in Project Appraisal". I hope that you will find it of interest; needless to say, any comments you may have would be appreciated.

Sincerely yours,

Bela Balassa

February 2, 1973

Professor Fritz Machlup  
Department of Economics  
Princeton University  
Princeton, N.J.

Dear Fritz,

I enclose my revised suggestions for the program of the Budapest meetings. Apart from recommendations on names, I am also suggesting changes that would involve reducing the number of speakers from socialist countries from two to one in Groups F and J. In turn, I added a discussant from a socialist country to Group C.

I am worried that we still have too many Americans and British on the program; also, among developing regions, Latin America is far better represented than Africa or Asia not to speak of the Middle East. Perhaps you will get specific suggestions from other members of the Program Committee that will permit us to reduce this imbalance.

As to adding new positions to the program, I wonder if third and fourth discussants would provide the best solution. Those so named would resent the exclusion of their comments in the volume of the Proceedings. An alternative solution would be to add chairmen to the general sessions; this would provide five additional slots. I am thinking of involving, among others, people like Robert Triffin, Gottfried Haberler, Robert Marjolin and Gunnar Myrdal as chairmen.

I wonder if you plan to come to Washington in the near future? Should this not be the case I could perhaps come to Princeton on a Saturday. This would not be possible, however, before late February or early March.

Sincerely yours,

Bela Balassa



4th Congress of the I. E. A.

Monday

19 August

1st Session (A. M.)

Opening - Welcome

"Definitions of Integration"

Speaker: James E. Meade or Bela Balassa

Discussion:

(1) Charles P. Kindleberger or Richard G. Lipsey

(2) (from Socialist country)

2nd Session (P. M.)

"Worldwide versus Regional Integration: Is There  
an Optimum Size of the Integrated Area?"

Speaker: Richard Cooper or Bela Balassa

Discussion:

(1) Germanico Salgado (Ecuador)

(2) (from Socialist country)

"The History of Thought on Economic Integration"  
(Presidential Address)

Fritz Machlup

Tuesday

20 August

3rd Session (A. M.)

"Socio-Political and Institutional Aspects of Integration"

Speaker: Joseph Bognar (Hungary)

Discussion:

See Working Group F

"Measuring the Degree or Progress of Integration"

Speaker: Jean Waelbroeck (Belgium)

Discussion:

(1) (from Socialist country)

(2) Ricardo Ffrench-Davis (Chile)

## Working Groups

### A. Measuring the Degree or Progress of Economic Integration

Chairman: Erik Lundberg (Sweden)

Speaker: in plenary session      Jean Waelbroeck (Belgium)

Discussion:

See 3rd Session

### B. Sectoral Integration: Agriculture, Transport, Energy, Selected Industries

Chairman: Sicco Mansholt (Netherlands)

Speaker: Hans Liesner (U.K. coal and steel)

Discussion:

(1) Sandor Ausch (Hungary)

(2) Erik Thorbecke (U.S. agriculture)

### C. Industrial Policy: Location, Technology, Multinational Firms, Competition, and Integration of Product Markets

Chairman: Raymond Vernon (U.S.)

Speaker: Pierre Uri (France) or Christopher Layton (UK-EEC)

Discussion:

(1) (from Socialist country)

(2) Kitamura (Japan)

### D. Migration and Integration of Labor Markets

Chairman:

Speaker: (from Socialist country)

Discussion:

(1) Goran Ohlin (Sweden)

(2) Andres Bianchi (Chile)

### E. Monetary and Fiscal Integration, Capital Flows, and Integration of Capital Markets

Chairman: Herbert Giersch (F.R.Germany)

Speaker: A. Lamfalussy (Belgium)

Discussion:

(1) John Williamson (UK)

(2) Carlos Massad (Chile)



## F. Socio-Political and Institutional Aspects of Integration

Chairman:

Speaker: in plenary session

Discussion:

(1) Uwe Kitzinger (UK)

(2) Frei (Chile) or Henrique Hurtado (Venezuela)

## G. Integration of Less Developed Areas and of Areas on Different Levels of Development

Chairman:

Speaker: Eduardo Lizano (Costa Rica)

Discussion:

(1) Dharam Ghai (Kenya)

(2) (from Socialist country)

## H. Integration through Planning: CMEA

Chairman:

Speaker: (from Socialist country)

Discussion:

(1)

(2) Michael Kaser, Alex Nove, or Francis Seton (UK)

## I. Integration within and among Industrial Countries with Market Economies

Chairman: Harry Johnson (UK)

Speaker: Tibor Scitovsky (US)

Discussion:

(1) Kyoshi Kojima (Japan)

(2) Ronald Wonnacott (Canada)

## J. World Trade and Intraregional Trade: Trends and Structural Changes

Chairman:

Speaker: W. Trzeciakowski (Poland)

Discussion:

(1) Jan Tumilir (US-GATT)

(2) Michael Michaely (Israel)

February 2, 1973

Mr. Norman Jacobs  
Foreign Policy Association  
345 East 46 Street  
New York, N.Y. 10017

Dear Mr. Jacobs,

I have decided after all to send you my manuscript on the Common Market in instalments. Enclosed please find the first few sections which represent about hne third of the total. Another third will be sent to you on Monday and the remainder within two weeks.

Sincerely yours,

Bela Balassa



February 1, 1973

Review of Economics and Statistics  
Harvard University Press  
79 Garden Street  
Cambridge, Mass. 02138

Dear Sirs,

I find that my August 1968 issue of Review of Economics and Statistics is missing. Please send me another one, together with your bill.

Sincerely yours,

Bela Balassa

February 1, 1973

Quarterly Journal of Economics  
Harvard University Press  
79 Garden Street  
Cambridge, Mass. 02138

Dear Sirs,

I find that my November 1968 issue of the Quarterly Journal of Economics is missing. I wonder if you could send this to me in exchange for any of the following issues of which I have extra copies: February 1972, November 1971, February 1971, May 1959.

Should this not be possible, please send me a copy of the missing issue and bill me.

Sincerely yours,

Bela Balassa



February 1, 1973

Econometrica  
Econometric Society  
Box 1264  
Yale Station  
New Haven  
Conn. 06520

Dear Sirs,

I do not seem to have received the September 1971 issue of  
Econometrica and would appreciate your sending me one. Many thanks.

Sincerely yours,

Bela Balassa

February 1, 1973

Columbia University Press  
136 South Broadway  
Irvington-on-Hudson  
New York, NY 10533

Dear Sirs,

I would like to order the following N.B.E.R. volumes to be sent to the above address together with your bill.

Vol. V: William D. Nordhaus and James Tobin, Economic Growth

Vol. VI: Theodore W. Schultz, Human Resources

Vol. VII: Simon Kuznets, Quantitative Economic Research: Trends and Problems

Sincerely yours,

Bela Balassa

P. of P. E.

P.S.

I would like to have paperback versions.



## OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery

DATE: January 31, 1973

FROM: Bela Balassa *N*SUBJECT: Draft Monograph on Development Patterns

1. I understand that the draft prepared by Mr. Syrquin is a preliminary version of the monograph that will be subject to substantial revisions. I provide below some suggestions for the revision. If my comments remain on the general plane, this is due to the fact that the short deadline did not permit me to devote as much time to reading the draft monograph as I would have liked.

Organization

2. There is a great amount of interesting material in the draft monograph that has not been fully exploited. The discussion of the results is often cursory and tends to be uneven. It seems to me that the choice is between substantially increasing the length of the monograph or deleting certain parts. I would opt for deleting Chapter III that is rather different in character from the other chapters and also requires a higher level of sophistication on the part of the reader. Still, the length of the monograph is likely to increase if the results in the remaining chapters are discussed in sufficient detail.

3. I would further suggest reorganizing the monograph according to the nature of the economic processes (accumulation, resource allocation, trade, population and labor force) and to include under each heading the results obtained both in the pooled sample and in the samples divided by country size, trade orientation, and income. As it is, the reader has to go back and forth between Chapters II and IV in order to appreciate differences between the so-called uniform pattern derived from the pooled sample and the patterns shown in the various subgroups.

4. The present version gives too much attention to the so-called uniform pattern. To my mind, this is an average of patterns for countries with different structural characteristics and it is the latter that are of principal interest. Expressed differently, in reorganizing the monograph in the way suggested in Para 3, one can better answer the question whether and to what extent there is a uniform pattern.

5. Especial interest attaches to differences between developed and developing countries which may be concealed in the pooled regressions. In the absence of the numerical results for the two groups I could not check on this. However, some of the cases discussed below indicate the limitations of deriving conclusions for developing countries from the pooled regressions as is done in the present version of the monograph.

Some Statistical Problems

6. Despite the disclaimer in the introduction, at several points statements are made alleging a causal relationship among particular variables. This is the case, for example, in the discussion of the factors determining the volume



and the pattern of trade. While it is suggested that the export structure responds to changes in per capita incomes (p.28), the causation is bi-directional and indeed some people have emphasized the effects of a rise in manufactured exports on per capita incomes. Moreover, increases in total exports, in response to the adoption of outward-looking policies, may lead to higher incomes.

7. Also, in some instances, the conclusions derived from the regression results are overly strong. On p.24, it is suggested, for example, that "the uniformity shown by intercountry production patterns is rather surprising, since there are many reasons to expect diversity". The  $R^2$ -s in the regressions, ranging between .30 and .75, hardly warrant such a statement. Nor do the  $R^2$ -s ranging from .21 to .74 justify the conclusion that "there are substantial uniformities in trading patterns that contribute considerably to the homogeneity of the production patterns noted above". The  $R^2$ -s are especially low in the utilities and the service sectors and would require explanation.

8. Also, in reporting the results, greater attention should be paid to the level of statistical significance shown by the t-values. For example, on p.49 it is claimed that "manufactured exports responded positively to an increase in  $F$  [the inflow of capital]", although the value of the regression coefficient is low and it is not statistically significant. On the same page, it is alleged that "manufacturing proper seems to have responded positively to an inflow of resources". Yet, the regression coefficient shows a relative rather than an absolute change and it might be explained by the adverse effects of the capital inflow on agriculture.

9. There is further the question of the interpretation of the time trend. In some cases, like population growth, this has a rather straightforward interpretation. Elsewhere, it is not quite clear what it means. One may wonder, for example, if the apparent positive time trend in private consumption is the result of some (unknown) factors affecting all countries or it reflects changes in developing countries where the receipt as well as the expectation of foreign aid might have led to a rise in the share of private consumption.

10. On p.9 it is noted that "even though there are difficulties in selecting an exchange rate to compare income levels among countries, GNP is the best single measure of the level of development that has yet been devised". Perhaps one could go a little further and note the possible biases due to the use of exchange rates instead of purchasing power parities. While purchasing power parity calculations are available only for relatively few countries, there is evidence that the ratio of the two -- and hence the degree of underestimation of GNP converted at exchange rates -- varies inversely with income levels. This bias in turn will affect the regression results actually obtained (on this point, see my comment on your original paper in AER, June 1961). And, to the extent that the ratio of purchasing power parities to exchange rates varies with natural resource endowments and the educational level of labor, the results will further be affected.

11. More generally, it would seem desirable to give greater attention to data problems. To give one example, in Table 2 we find that for a hypothetical country of 10 million the capital inflow variable is positive at all income levels. Searching for a reason, I turned to Table A-26A where it appears that 72 out of 101 countries had a positive capital inflow in 1965. At the same time, the capital inflow is equated to the import surplus, and thus includes



decreases in reserves while, for the world as a whole, reserve changes are positive. There is a data problem here that might possibly have affected the regression results.

12. Finally, there is the question of the choice of the independent variables. Although the use of uniform regression equations for all processes is understandable in view of the effort required in experimenting with alternative formulations, it would seem desirable to make mention of the limitations of the procedure applied. This is particularly the case in explaining urbanization and population growth where a host of additional variables influence the observed pattern. (Indeed, in discussing influences bearing on population growth, greater emphasis is given to the results of other studies than to those of the draft monograph).

#### Some Specific Points

13. In the draft monograph, increases in government revenue are considered to be an aspect of accumulation. While this may hold for developing countries, such will not be the case in developed nations where increases in government revenue are associated with income distributional transfers rather than investment. The use of the results derived from the pooled sample regressions may thus not permit us to derive conclusions for developing countries. This is especially the case since, "the shares of taxes and government revenue tend to rise slowly at first and then accelerate" (p.11), i.e. the acceleration takes place in the developed countries where government revenue has mainly a transfer function.

14. I have found the observed positive correlation between per capita incomes and trade shares of especial interest as the earlier results of Sombart and Deutsch-Eckstein showed the opposite. It would be useful to refer to these contributions and to give reasons for differences in the results. In turn, you may cite my note on the importance of intraindustry specialization (AER, June 1966) in explaining why industrial imports tend to rise with per capita incomes. But here again, it would be useful to separate developed and developing countries as intraindustry specialization is characteristic of the former rather than the latter. Finally, increased specialization at higher income levels may explain the observed rise in the ratio of primary imports to incomes.

15. The discussion of productivity trends on pp.33-34 would need to be amplified. This would involve comparing the regression coefficients for the structure of production and that of the labor force in the subsamples. I suspect that the equalization of labor productivity among sectors through rapid increases in agricultural productivity has occurred more in developing countries. In turn, service productivity might rise more in the latter than in the former. The understanding of the pattern of productivity changes would be helped by preparing a summary table on the relevant results.

16. Also, the discussion of the motivation of capital flows on pp.39-44 is rather incomplete. It seems to deal chiefly with the case of direct and portfolio investments, neglecting unilateral transfers. Yet, as far as the latter is concerned, the desire to "get something for nothing" is certainly a consideration on the demand side while the desire to increase incomes in backward countries enters on the supply side. In turn, as far as direct and portfolio

investments are concerned, note should be taken of the results of Borts and Kopecky who "explain" capital flows by reference to international differences in savings and investment propensities. (The paper, together with my comments, has been published in the NBER volume, International Mobility and Movement of Capital).

17. Further questions arise concerning the effects of the capital inflow on particular economic variables. Like other recent studies, the results show that much of the inflow of capital is associated with higher consumption in the recipient countries; in fact, the propensity to consume appears to be higher, and the propensity to invest lower, from the inflow of capital than from domestic income. I find the attempt to "explain away" this result on pp.51-52 rather disingenuous. It seems to me that this question would need more research, in particular by separating the estimates for developed and for developing countries and, among the latter, excluding the recipients of military grants. The relationship between the inflow of capital and ex-post saving also necessitates further study as, in the case referred to when the trade gap is dominant (p.52), some may consider foreign aid to be wasted. If it were not possible to do further work on the economic effects of the capital inflow, you might consider deleting the relevant section.

cc. Mrs. Adelman  
Messrs. Carter  
Haq  
Syrquin  
Tims

BBalassa:alm



January 26, 1973

Hungarian Packing House  
1530 Second Avenue  
Bet. 79 and 80 Streets  
New York, N.Y. 10021

Dear Sirs,

On January 15 I sent you an order for smoked ham and sausage. I have not yet received the order and would like to ask you to send it airmail, special delivery. I need it urgently for a party in a week's time.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008

January 26, 1973

Harry N. Abrams Inc.  
110 East 59th Street  
New York, N.Y. 10022

Dear Sirs,

Please send me one copy of Anton-Dochstadter, Pre-Columbian Art in "Panorama of World Art" series. This should be sent to my home address together with your bill.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008



January 26, 1973

Professor E. S. Kirschen  
Universite Libre de Bruxelles  
Departement d'Economie Applique  
Av. F.D. Roosevelt 50  
1050 Brussels  
Belgium

Dear Etienne,

Many thanks for your letter of January 10 and for your recommendation of Mr. Sapir. He should have a good chance for admission if he received a stipend from Fonds National de la Recherche Scientifique. I see little hope otherwise as we do not have fellowship funds for foreign students.

My wife and I would be happy if you could join us for dinner on Monday, March 5. Perhaps you could also stay with us on that night. We live near to the center of the city so you could easily reach anybody in Washington.

Sincerely yours,

Bela Balassa

## OFFICE MEMORANDUM

TO: Messrs. Haq and Kuczynski, Mrs. Hughes

DATE: January 26, 1973

FROM: Bela Balassa 

SUBJECT: Eastern Africa Region

I enclose copies of two memoranda from Stanley Please indicating the interest of his Department in work on economic integration. Interest in undertaking such work has also been expressed by the Latin American and Caribbean and the Western Africa Departments.

BBalassa:alm



## OFFICE MEMORANDUM

TO: Mr. Bela Balassa

DATE: January 4, 1973

FROM: Stanley Please

SUBJECT: Industrialization in the Eastern Africa Region

1. When we last met, you informed me that you were intending to prepare an issues paper on economic integration and a policy paper on the problems of generation and appraisal of inter-country industrial projects. For this purpose it is required to have an input of work on the experience of the East African Community. I undertook to determine whether it would be possible for us to provide this input because it certainly seemed more sensible that it should be provided from the economists in the Region who had been concerned over a long period with Community problems rather than by a newcomer to the scene. We have now completed a review of our economic work program over the next 18 months and have included within it work on the East African Community. This work will be undertaken both to provide a general updating of our knowledge of developments in the Community and, secondly, to provide the more narrowly focussed study that you require for your own assignment. Pieter Bottelier will be involved on a continuous basis for about 3 months on this work. In addition, we have budgeted for one further economist who will be recruited from outside of the Region to work on the team. His precise assignment and, therefore, the choice of an appropriate person will have to wait for a clearer formulation of the mission's work.

2. Pieter Bottelier has suggested that this study would be an appropriate occasion to get the Common Market and Economic Affairs Secretariat of the Community more involved in our economic work particularly by requesting from them work already undertaken on industry matters. If this is to be done he should write to them as soon as possible in order to alert them to our needs. As I will be away in Zambia for virtually the whole of January I have suggested to him that he should talk to you directly about the papers you are intending to prepare and the precise input relating to the East African Community that you would like him to provide. I have asked Lyle Hansen and Kudlapur Krishna to join this discussion and, depending on its outcome, the latter may participate in the East African exercise on a limited basis, providing his present work on the Southern Sudan permits this. Following this discussion we will get in touch with the Community Secretariat. Would you, therefore, telephone Bottelier when you have returned to Washington.

cc: Messrs. Hansen, Krishna, Hornstein, Bottelier



## OFFICE MEMORANDUM

TO: Mr. Bernard R. Bell

DATE: December 12, 1972

FROM: Stanley Please

SUBJECT: Industrialization in the Eastern Africa Region

1. Several discussions have taken place and several pieces of paper have been circulated over the past few months on industrialization problems, which relate specifically or inter alia to the Eastern Africa Region. I would like to keep you, the Programs Department Directors and Division Chiefs informed on this matter not only to inform you of work which is going on or is being planned but also, of course, in the expectation that suggestions and comments on these plans will be elicited particularly from those on the more directly operational side of the Region.
2. In discussions with Helen Hughes, Lyle Hansen and I have emphasized the need for continuing work on small-scale industries. It is clear that in all the countries of the Region there is a danger that there will be an undue emphasis given to the problems of medium- and large-scale industrial development in situations in which the size of the market, the nature of the product and the availability of management and capital would suggest that it is in the small-scale sector that the largest developments should take place. Two country studies of this problem (Kenya and Ethiopia) have already been undertaken and we expressed the hope that these could be extended to other countries in the Region. In order to buttress these country studies we have also given encouragement to the proposed research study on small-scale industry which is intended to look at comparative experience in both successful and unsuccessful cases and to examine the institutional problems involved for the Bank itself in getting effectively involved in this field.
3. Secondly, we have indicated our desire that the appraisal of industrial strategy in our countries be continued and extended. For example, we want to obtain more in-depth analysis of industrialization and tariff, tax and exchange rate policy, like we have for Ethiopia. Additionally, from time to time, we shall need studies that identify new industrial investment possibilities. We need to give more attention to the ways in which more efficient management of state industrial enterprises can be achieved. This is of growing importance in the region. There is no agreed work program on these points, but these points are registered with Helen Hughes to be considered when designing future work programs.
4. Thirdly, we have had discussions with Helen Hughes, Bela Balassa and E. Stoutjesdijk, on problems of economic integration and of inter-country industrial projects. As you know, it is now commonplace in our economic reports to argue that the domestic market for manufactured goods in all developing countries, but particularly in the small and poor countries of Africa, is so small that the scope for import-saving industrialization is extremely limited if high-cost production is to be avoided. Once one proceeds beyond this point, however, it is clear that a series of concrete problems arises. Some of these lie beyond the immediate concern or direct involvement of Regional Departments. I have in mind, for instance, work on the question



of barriers to trade with the developed countries -- both price and non-price barriers. This has been the subject of an international seminar sponsored by the Bank and held in Washington in October.

5. As regards work more directly within the Region, it has been agreed that there is a need for further study both of policies to achieve a higher level of economic integration amongst developing countries and, secondly, for research on how to handle problems associated with regional industrial projects. Bela Balassa and Helen Hughes are proposing, firstly, that an issues paper on the benefits and costs of economic integration through trade agreements be prepared and, secondly, that a Bank policy paper on integration projects be prepared.

6. For the preparation of the issues paper on economic integration, it is proposed to undertake reappraisals, each lasting about 4-6 weeks, on the experience of the Central American Common Market and of the East African Community. These reappraisals will then be used, in combination with a more general survey of recent writings on regional integration in developing countries, as inputs for the preparation of the issues paper. I have said that it would be extremely useful for this Region to have such an issues paper prepared and that I would hope that we could provide the necessary staff time to undertake the study of the experience of the East African Community. Whenever economists in the Region can undertake a special study of this nature either in isolation or, as in this case, as part of a wider study, I think we should do so rather than always handing it over to specialists from the Development Policy Staff. It goes without saying that this can only be done at the sacrifice of other things. I recognize that country economists are always having additional assignments thrust upon them which are declared to be "highly desirable" but are rarely being relieved of other things.

7. The second set of research papers, the Bank policy papers on multinational or integration projects, would review experience with industrial allocation schemes in Central America, the CENITO group of countries, and the East African Community. The policy paper will focus on the evaluation and the promotion of integration projects and particularly on such issues as the measurement of benefits and costs to others than the nationals of the country where the project is to be undertaken. This raises the question of the use of compensation schemes for the equitable distribution of benefits and costs and of the evaluation procedures to be applied in the absence of compensation schemes. There is the particular need, of course, to determine the question of whether the Bank should play an active role as promoter of multinational projects and what form such promotion should take. This question is of special importance because governments may not propose projects whose benefits are shared with other countries. Once again, this particular proposal seems to me to be very important for the Eastern Africa Region, and I have again

agreed that if, as proposed above, we can assign an economist from the Region to work for 4-6 weeks on the experience of the East African Community, part of such an assignment would be to investigate the experience with the transfer tax scheme as an input into the second study.

cc: Messrs. Lejeune, Hornstein, Malone and Tolley  
Husain, Dean, Halbe and Roulet  
Kirmani/Adler  
Barry, Balassa and Mrs. Hughes  
All Programs Departments Economists



Mr. Bernard P. Sweeney

January 22, 1972

Bela Balassa

Mission to Peru/Returned Peruvian Soles

I enclose herewith a receipt from American Security and Trust for 2150 Peruvian Soles, together with my money exchange note from Peru showing the rate of exchange. I would like to have these Soles changed to U.S. dollars at the same rate, i.e. 43.38 soles per dollar,

le 19 janvier, 1973

MM. Gerard et Daniel Guian  
9 Quai George V  
76 - Le Havre  
France

Messieurs,

Dossier Facultes 2/5436  
Une Peugeot 304 - Immatriculee 634 TTA 75  
Assure: SATCO - Declaration d'assurance n. 814 du 1 fev. 1972

Le 30 juin 1972 vous avez bien voulu m'informer que l'affaire en reference est actuellement a votre Service Comptabilite a Paris, en vue d'un reglement qui sera effectue a votre Assure, SATCO. Le 11 juillet et, de nouveau, le 31 octobre j'ai ecrit a SATCO en leur demandant de regler l'affaire a mon compte bancaire. Comme je n'ai recu aucune reponse, je me permets de vous demander de bien vouloir m'indiquer la date a laquelle votre bureau effectue le reglement a SATCO.

Bela Balassa



Messrs. Duloy and Lluch

January 19, 1973

Bela Balassa

Working Papers

I enclose for your consideration the following two papers for inclusion in the Economic Staff Working Paper series:

"Estimating the Shadow Price of Foreign Exchange in Project Appraisal" by Bela Balassa

"On the Social Rate of Discount and Price of Capital in Cost-Benefit Analysis" by Charles Blitzer

BBalassa:alm



# Record Removal Notice



<b>File Title</b> Research on Economics and Development - Bela Balassa - Chronological Record - December 1972 through April 1973		<b>Barcode No.</b>  30280406		
<b>Document Date</b> 19 Jan. 18, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: Berck				
<b>Subject / Title</b> Account information				
<b>Exception(s)</b> Financial Information (iv)  Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			



January 19, 1973

Parke-Bernet Galleries Inc.  
171 East 84th Street  
New York, N.Y.

Dear Sirs,

I would appreciate your letting me know by return mail the dates of any auctions you are scheduling of Pre-Columbian art this year.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008

January 19, 1973

Professor Anton Zottmann  
Institut fur Weltwirtschaft  
2300 Kiel 1  
Postfach  
Dusternbrooker Weg 120-122  
West Germany

Dear Professor Zottmann,

I have been delayed in revising my paper on regional policies in the European Common Market. I expect that I can send you a revised version in the course of February.

Sincerely yours,

Bela Balassa



January 19, 1973

Mr. Gabriel F. Horschler  
314 East Capitol St. N.E.  
Apt. 507  
Washington D.C. 20003

Dear Mr. Horschler,

I was interested to read your proposal for a bibliography of the Hungarian economic reforms. I strongly support this project as it would permit the provision to non-specialists of an overview of the vast literature on the subject. Please use my name in any submissions you might make to a foundation.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008

January 18, 1973

Crown Publishers Inc.  
419 Park Avenue S.  
New York, N.Y.

Dear Sirs,

I wish to purchase Ancient America in your series "Art of the World Library". Please send the book and your bill to my home address as shown above.

Sincerely yours,

Bela Balassa



18 January 1973

Les Editions Nagel S.A.  
rue Orangerie 7  
Geneva  
Switzerland

Dear Sirs,

On a trip to Lima two weeks ago I obtained a copy of Peru by Larco Hoyle in your Archeologica Mundi series. On closer inspection I have discovered that pages 142-43 and 146-47 in the book are blank. I would appreciate it if you could replace the missing pages or exchange my copy. I would like to use the occasion to order the volume Central America in the same series. Please send the book and your bill to my home address shown below.

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008  
U.S.A.

18 January 1973

The Economists' Bookshop  
Clare Market  
Portugal Street  
London W.C.2.  
England

Dear Sirs,

I wish to order the following books, all of which were published by Thames and Hudson, London, in their "Ancient Peoples and Places" series. Please also send me your catalogue of art and antiquities.

M.D. Coe, Mexico  
K. Arimitsu, Korea  
C. Reichel-Dalmatoff, Colombia  
M.D. Coe, The Maya

Sincerely yours,

Bela Balassa



Mr. Peter Dixon

January 17, 1973

Bela Balassa

Korea

In accordance with our telephone conversation I enclose the preliminary results of the Korean study. These results should be considered confidential and they are not to be quoted or cited anywhere.

BBalassa:alm

Mr. Jorge Cauas

January 17, 1973

Bela Balassa

IEA Congress of Economic Integration

I am a member of the Program Committee of the 4th Congress of the International Economic Association to be held in Budapest in September 1974. The subject of the Congress is economic integration.

I enclose a copy of the provisional program and would like to ask you to give your personal and confidential opinion on suggested Latin American participants. As you can see, there are a number of people to choose from although additional suggestions are also appreciated. Would you please make notes on the enclosed program or give me your opinion in person. It will be kept in strict confidence.

BBalassa:alm

also sent Kuczynski & Lerdau



17 January 1973

Professor Einar Hope  
Norwegian School of Economics &  
Business Administration  
Institute of Economics  
5000 Bergen  
Helleveien 30  
Norway

Dear Professor Hope,

Thank you for your letter of December 19. Dr. Aukrust asked me some time ago to up-date the tables included in my paper on Norway. The tables have just been completed and I enclose a copy. You could contact him directly concerning the question of publication.

Sincerely yours,

Bela Balassa

cc. Dr. Aukrust

January 17, 1973

Dr. Odd Aukrust  
Central Bureau of Statistics  
Oslo Dep.  
Oslo 1  
Norway

Dear Dr. Aukrust,

Please excuse the delayed answer to your letter of November 17, 1972. This has been due in part to my absence from the United States and in part to the time needed for up-dating the tables; I enclose a copy. I also enclose a copy of my correspondence with Professor Einar Hope to whom I have also sent tables with the request that he contact you on the question of publication.

Sincerely yours,

Bela Balassa

P.S.

For comparability with the earlier table, I have not included item 0033 2380 72 in import of ships. The relevant magnitudes are:

1967	3467
1968	2066
1969	1218



January 17, 1973

Mr. Frederick Drew  
Las Amazonas 190  
San Isidro (El Olivar)  
Lima  
Peru

Dear Fred,

Following a visit to Costa Rica we have returned to Washington safe and sound. The stay in Peru remains a pleasant memory and we especially enjoyed our meetings with you. Carol and I very much hope that you will visit us when you come to Washington. My home address is 2134 Wyoming Avenue N.W., telephone number 265.0539.

We hope that everything goes well with you and your plans will come to fruition as you desire. Please let us have your new address when you re-locate.

We have been trying to call your son for several days but the number we were given does not answer. I have therefore written a letter to him today.

Carol joins me in sending our best regards.

Sincerely yours,

Bela Balassa

*pink*

## OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery

DATE: January 17, 1973

FROM: Bela Balassa

SUBJECT: DRC Publications Advisory Committee

I enclose the revised version of the terms of reference of the DRC Publications Advisory Committee for your approval.

cc. Messrs. Stern  
Cauas  
Bowen

BBalassa:alm



Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008  
January 17, 1973

Dear John,

On our trip to Peru in the first week of January your father asked me to inform you that help (i.e. money) is on the way. We have been trying to call you for several days but the number we were given does not answer. There is no further message but if you have any questions please call me in the evening at the following number: 202/265.0539.

Sincerely yours,

Bela Balassa

Mr. John Drew  
Mead Hall  
Brown University  
Providence, R.I.

## OFFICE MEMORANDUM

TO: Mr. Jorge Cauas

DATE: January 16, 1973

FROM: Bela Balassa *BB*SUBJECT: Back-to-Office Report, Lima, January 2-6, 1973

1. On January 2-6, 1973 I participated in the meetings of the Working Group on the Common External Tariff of the Andean Common Market. Apart from invited experts, the Working Group included representatives of the member countries as well as staff members of the Junta. The size of the group and the lack of constraints on the speakers made for rather lengthy sessions with a considerable degree of repetitiveness in the discussions. Nevertheless, and despite the opposition of a rather vociferous minority, the majority of those present reached a broad agreement on the major issues.
2. The first question considered was the way in which the common external tariff should be determined. The minority argued that one should accept the tariffs of the individual member countries as reflecting a politico-economic rationality and take these as a basis in determining the common external tariff by the use of an averaging procedure, with adjustments made in item-by-item negotiations. The majority, however, maintained that the tariffs of the member countries being the result of an historical process, they cannot be regarded as reflecting present objectives. At the same time, in view of existing large differences in the level and the structure of their tariffs, an average would not be meaningful for any of the member countries while item-by-item negotiations would be exceedingly cumbersome. Rather, the majority expressed the view that one should construct the common tariff schedule so as to reflect the objectives of the Andean Group in a rational manner. It was further agreed that this be done by using the effective protection measure as a yardstick.
3. There was broad consensus on the desirability of the common external tariff providing incentives to the manufacturing sector, with a further distinction made between traditional and nontraditional primary activities. There was much argument, however, on the question of differentiating levels of protection among industries within the manufacturing sector. While the majority agreed that differential treatment should be granted only in cases when there is reason to believe that the extent of external economies generated varies among industries, views differ as to the possibilities of establishing the existence of such differences in practice.
4. Much attention was also given to the problem of adjusting the tariff structure to reflect employment and technological objectives. There was broad agreement on the desirability of pursuing these objectives by the use of direct measures in the form of an employment premium and subsidies to research. However, several participants expressed the view that as such instruments are not available to the Junta of the Andean Group, employment and technological objectives should be incorporated in the tariff structure.
5. The harmonization of policies affecting trade flows was also subject of much controversy. A minority held that member countries should be free to grant export subsidies and to impose quantitative restrictions on imports. It was even suggested that the common external tariff should be set in the form of a band within which member countries could determine their own tariffs. However, in



line with the Cartagena agreement, the majority rejected the idea of a "tariff-band" and called for the elimination of quantitative restrictions as well as for the eventual harmonization of export subsidy schemes. Moreover, there was general agreement on the need to avoid large fluctuations in exchange rates that would create disturbances in intra-area trade.

6. It is expected that the proposals to be made by the Junta of the Andean Group will reflect the ideas of the majority of those participating in the meeting of the Working Group as the staff members of the Junta were part of this majority. It is a different question how this proposal will fare in the process of the negotiations. Among the member countries, Chile appears to want to water down commitments made in the Cartagena Agreement while Colombia would wish to maintain its import licensing system.

7. To assist the work of the Junta, I was asked to provide a revised version of my paper on the common external tariff that had been transmitted to the Junta in advance of the meetings of the Working Group in draft form. The revised version will be available before the end of the month and will also be distributed to the recipients of this memo.

cc. Messrs. Chenery	Alter
Stern	Avramovic
Haq/Kuczynski	Dosik
Hayes/Tims	Wiese
Stevenson/Gulhati	Kalmanoff
Hughes	Qureshi

BBalassa:alm

pink

## OFFICE MEMORANDUM

TO: Mr. Jorge Cauas

DATE: January 16, 1973

FROM: Bela Balassa *BB*SUBJECT: Back-to-Office Report, San José, January 8-9, 1973

1. On returning from the meeting of the Working Group on the Common External Tariff of the Andean Common Market I visited San Jose on January 8 and 9. During my stay there I was invited to participate in discussions on economic integration in Central America and to lecture on the policy implications of integration. I also had discussions on the unemployment survey carried out under Bank contract at the University of Costa Rica as well as on the possibilities of undertaking collaborative research on shadow prices in Costa Rica.
2. At the meeting held with the participation of government officials, Mr. Carlos Castillo, the former Secretary of SIECA, expressed his view as to the desirability of the lending agencies preparing for the resumption of progress towards economic integration in Central America. I understand that a proposal to this effect will be made to the Bank. However, while Castillo and other participants expressed optimism concerning the return of Honduras to the Common Market, the member countries may have to pay a heavy price for this in terms of restrictions on the freedom of intra-area trade. Should this be the case, the Bank may wish to make any action dependent on the terms to be agreed upon by the member countries.
3. As regards economic research at the University of Costa Rica, I was briefed on the progress of the work on the unemployment survey and I further explored the possibilities of undertaking collaborative research on shadow prices in Costa Rica. These subjects are discussed in a note appended to this memo.

cc. Messrs. Chenery  
Stern  
Haq/Kuczynski  
Hayes/Tims  
Stevenson/Gulhati  
Hughes

Alter  
Avramovic  
Gutierrez  
Holsen  
Renger  
Meier

BBalassa:alm



January 16, 1973

Note on Economic Research at the University of Costa Rica

Bela Balassa

Employment Survey

1. The employment survey carried out by the Instituto de Investigaciones at the University of Costa Rica encompasses 1700 households in the metropolitan area of San Jose. The survey will be carried out next month and will involve collecting data for the month of January. The tabulation and processing of the data are planned for March. A revised questionnaire will be sent to the Bank shortly.

Research on Shadow Prices

2. Contrary to our expectations, Costa Rica does not appear to be an appropriate choice for the estimation of a consistent set of shadow prices in the framework of the Bank's shadow price research project. This is because of the apparent smallness of differences between market and shadow prices that has discouraged the use of shadow prices in project evaluation in Costa Rica. In particular, Costa Rica does not have the massive open and disguised unemployment observed in many developing countries.

3. While the estimation of a consistent set of shadow prices in Costa Rica offers limited interest, there are several related topics on which research could be usefully undertaken. These include the estimation of the implications of the ILO labor force projections for wages; the effects of the system of minimum wages in coffee and banana plantations on employment; the impact of interest rate regulations on resource allocation; and the results of government pricing policy in agriculture. Finally, a question of more immediate concern is the extent of a devaluation necessary to re-equilibrate the balance of payments.

cc. Recipients of Back-to-Office memo  
Messrs. van der tak      Turnham  
         Baneth            Chaparro  
         Henderson  
         Hawkins

January 15, 1973

Mr. Maurice Scott  
Nuffield College  
Oxford  
England

Dear Maurice,

Due to other pressing work it has taken me long to finish the revision of my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal". I enclose a copy of the revised version. As you will see, the paper has changed a lot, hopefully for the better. I have also sent a copy to Max Corden and have submitted it to the Oxford Economic Papers.

During your stay here I promised to send you copies of the papers by Bruno and Manne; these are being mailed under separate cover.

We much enjoyed your stay here and would be happy if you could come to work with us again. As the newly-constituted Steering Committee on Sector and Project Economics, of which Herman van der Tak, Jean Baneth, and myself are members, will meet next month to discuss the research program in the area, it would be helpful if you could indicate your possible availability for the writing of papers on particular topics and/or for participation in our proposed work on estimating shadow prices in a particular country.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa



January 15, 1973

Hungarian Packing House  
1530 Second Avenue  
Bet. 79 and 80 Streets  
New York, N.Y. 10021

Dear Sirs,

We were very satisfied with the order of ham and sausage you sent us last November. I would like to repeat this order now with the request that you send this by return mail to my home address as I need it urgently. I enclose a cheque for \$20.00 to cover the purchases and postage.

Please send me 2 lbs. of Hungarian-style smoked ham and use the remainder of the money for Hungarian dry sausage (szarazkolbasz). I wish to have the one with the least amount of fat. The one you sent me last time was especially good; apart from being dry it had a good taste of paprika.

May I also ask you to let me know if it is possible to mail hurka and sutnivalo kolbasz? Should this be the case, I will send you a second order for these.

Awaiting your reply and the completion of my order, I remain,

Sincerely yours,

Bela Balassa

Home Address  
2134 Wyoming Avenue N.W.  
Washington D.C. 20008

## OFFICE MEMORANDUM

TO: Mr. Jorge Cauas

DATE: January 15, 1973

FROM: Bela Balassa *B*SUBJECT: DRC Publications Advisory Committee

1. I provide below a revised version of the terms of reference of the DRC Publications Advisory Committee, consisting of Messrs. Duloy, Lluch, and Balassa (Chairman); Mrs. Muhtasib has been appointed as secretary of the Committee. The revisions in Paras 4, 5, 6, and 8 of the earlier draft reflect the comments made by Mr. Bowen.

2. White Cover Papers. Preliminary drafts of papers that are circulated for comments with limited distribution are designated as "white cover papers". These may be sent out directly by the author (or authors) and do not require Committee approval. One copy of each paper should however be sent to the Committee to be part of the filing system described below.

3. Yellow Cover Papers. Papers that are in revised draft may be circulated in white covers or, if they are of more general interest, can be given wider circulation within as well as outside the Bank as "yellow cover papers". It is proposed that all such papers bear the imprint "DRC Discussion Papers" and be numbered consecutively. Papers suggested for the series should be submitted to the Committee in three copies. They will be read by a referee selected by the Committee as well as by a Committee member. The inclusion of a paper in the series will be decided by the Director of the DRC on recommendation by the Committee.

The Committee secretary will arrange for the duplication of the papers included in the series and will send copies to Messrs. Chenery, Stern, Bowen, the Departmental Directors and Division Chiefs in the DPS, Regional Chief Economists, and a limited number of institutions, such as the Yale Economic Growth Center in exchange for their discussion paper series. Additional copies may be sent out directly by the author.

4. Working Paper Series. A numbered series of Economics Staff Working Papers has been established in the DPS with the objective of giving wide circulation to Bank research papers that are considered to be of interest to people in the development field. Working Papers are distributed through the Bank's Addressograph office to Bank Officials from Division Chief upwards, to Bank permanent missions abroad and, on request, to those who regularly receive the list of the Working Papers. Additional copies can be sent out directly by the author. The procedure for approval is as under (3).

5. Occasional Papers. A numbered series of short monographs is published by the Johns Hopkins Press for the Bank under the title World Bank Occasional Papers. They are sold through regular channels in the developed countries and are distributed free to institutions in the developing countries.

Monographs suitable for the Occasional Papers series customarily go through several drafts before they are in a form appropriate for review by the Bank's Editorial Committee that makes the selection for inclusion in



the series. This procedure will be formalized by involving the DRC Publications Advisory Committee at an early stage of preparation of the manuscripts.

Manuscripts suggested for the series should be submitted in a preliminary draft to the Committee in three copies. They will usually be read by a referee selected by the Committee as well as by a member of the Committee. On the basis of the readers' reports the Committee will discuss with the author the desirable changes to be made in the manuscript. Manuscripts that are in a suitable condition to be considered for publication will be transmitted by the Committee, through the Director of the DRC, to the Bank's Editorial Committee, with suggestions for the choice of outside referees.

6. Books. The Bank publishes intermittently booklength studies. The books may contain the results of a particular research project or a selection of papers on a particular subject. The procedure of approval is as under (5).

7. Journal Articles. Staff members are encouraged to submit papers for publication in professional journals. Some of these papers may have been included in the Discussion Paper or the Working Paper series while others with a more specialized interest are in white covers. There is no need to ask the Committee's permission for submitting papers to professional journals; however, a copy should be deposited with the Committee secretary.

8. Reprint Series. The Bank distributes a series of reprints of selected articles by Bank staff published in professional journals and collective volumes. Articles suggested for inclusion in the series should be submitted to the Committee in six copies as soon as they are accepted for publication. The Committee will transmit four copies of the article with its recommendations through the Director of the DRC to the Editorial Committee which decides on inclusion in the reprint series.

9. Files. The Committee's secretary will maintain confidential files on all correspondence relating to publications, and will safeguard and keep records on papers written in the DRC and elsewhere. Furthermore, the secretary will maintain series of the DRC Discussion Papers, Economics Staff Working Papers, Bank journal reprints as well as discussion papers and reprints of other institutions.

cc. Messrs. Ahluwalia  
Clark  
Duloy  
Goreux  
Lluch  
Smith P.  
Stoutjesdijk

BBalassa:alm

## OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: January 12, 1973

FROM: Bela Balassa *M*SUBJECT: Bank Research Program

1. Your draft memo on the Bank research program reached me on my return to Washington yesterday. Time did not permit me to make detailed drafting suggestions; at any rate, I am not sure to what extent you may wish to make changes at this point. Some suggestions as regards approach, organization, and a few specific points follow.
2. I wonder if the document does not sound overly complacent. This relates to the description of some of the ongoing research on pp.2-3 as well as to the statements on collaborative research on pp.4 and 7-8. More generally, it might be desirable to make a sharper distinction between things that have been done and others we are planning to do.
3. In describing research under way, one may distinguish among research projects according to whether they aim at improving development policies, supporting sector work, and assisting project work. Among others, studies on incentive systems and proposed work on income distribution come under the first heading. There are plenty of examples on sector-oriented research while one may include under project work studies on projection evaluation methodology as well as on specific questions such as railway costing and elasticity supply standards.
4. Turning to some of the specific points on pp.2-3 of your memo, while the DRC planned using programming models to investigate the interdependence between the project, the sector, and the national economy, this has had limited success. The Mexican agricultural model is practically independent of the multi-sectoral model (DINAMICO), so that we cannot speak of the formulation of sectoral policies in the framework of an overall development strategy. It is the agricultural model rather than the multisectoral model that has proved to be useful and has led to an invitation to work with the Secretariat of the Presidencia in Mexico. In turn, I have doubts that the agricultural models being estimated for Brazil and Portugal will be useful for specifying sector strategies; apart from problems of data and solution procedures, the models do not include policy variables.
5. As regards project appraisal methodology, the papers on the short-cut methods of estimating shadow prices do not deal with the question of how economic and social objectives can be taken into account in project appraisal. The latter problems, together with the implications of market distortions for shadow prices and the relationship between private and economic profitability, will be the subject of another set of papers.
6. I think that we have as yet done rather little in furthering cooperative research with developing country institutions, and hence the statements made on p.4 do not accurately reflect the situation. As the first full Para on p.7 reveals, to the extent that developing country institutes do participate in our research, much of this involves data collection rather than true cooperation. However, the continuation of the Mexican agricultural study and the proposed Brazil project could be used as examples for the latter.



7. Finally, the section on dissemination could incorporate the list of major studies that is now given on p.5. One may then distinguish among working papers (circulated in mimeographed form in the Bank as well as outside), the Occasional Paper series, book-length studies (my Structure of Protection in Developing Countries published in 1971, the Mexico volume that just came off the press, as well as books in preparation), and the reprint series of journal articles.

cc. Messrs. Cauas  
Duloy

BBalassa:alm

Miss D. Pascual

January 12, 1973

Bela Balassa

Expense Accounts - Messrs. Sussman and Baruch

Following receipt of your note I have enquired with Messrs. Sussman and Baruch concerning the excess baggage charges on their trip to Paris in July 1972. As the enclosed letter indicates, the excess charges were incurred on account of the large amount of material brought to Paris for the discussions they had there with me.

Accordingly, I wish to ask you to credit Messrs. Sussman and Baruch for the excess baggage charges and to refund to them the amounts of \$28.09 and \$26.81 shown on their Statements of Expenses. Should you have any questions concerning this matter please call me.

BBalassa:alm

cc. Miss Edayoshi



January 12, 1973

Mr. Louis Mark Jr.  
Deputy Director for Economic Affairs  
Office of Soviet Union Affairs  
Department of State  
Washington D.C. 20520

Dear Mr. Mark,

I am sorry to say that your letter arrived after my departure for Lima and San Jose. Therefore, I was unable to see Mr. Thigpen.

It was good to hear from you and I do indeed remember our meetings at Yale and in Paris.

Sincerely yours,

Bela Balassa

January 12, 1973

Mr. Yung Whee Rhee  
c/o Mr. Joon Woo Nam  
Korea Institute of Science & Technology  
Sungbuk-ku  
Seoul  
Korea

Dear Yung,

Many thanks for your letter of December 12. I am glad to hear that despite the difficulties encountered, your work is progressing. I look forward to seeing you on your return.

Sincerely yours,

Bela Balassa



January 12, 1973

Private Planning Association  
of Canada  
2060 Sun Life Building  
Montreal 110  
Quebec  
Canada

Dear Sirs,

Please send me copies of the following publications together with your bill:

"Prospective Changes in the World Trade and Monetary  
Systems -- A Comment"

"The New Environment for Canadian-American Relations"

Sincerely yours,

Bela Balassa

December 29, 1972

Dear Jean,

I enclose a corrected copy of "Planning and Programming in the European Common Market" for publication in the European Economic Review. I append a summary to the paper as you requested as well as a curriculum vitae and publication list which can be used in the writing of a biographical note.

I do not see your Review listed in the Journal of Economic Literature. This is a pity since the Journal is the basic source of bibliographical material. I wonder if you could contact the Editor, Mark Perlman, (Department of Economics, University of Pittsburgh, The Social Science Building, 139 University Place, Pittsburgh, Pa. 15213, USA) and have your Review added to the list. You could use my summary as an abstract of the paper for publication in the Journal.

Sincerely yours,

Bela Balassa

Professor Jean Waelbroeck  
CORE  
De Croylaan 54  
3030 Heverlee  
Belgium



# Planning and Programming in the European Common Market

Bela Balassa

## SUMMARY

This paper has examined the experience of the European Common Market with medium-term planning and programming since its establishment in 1968. It has been shown that planning on the industry level and an inward-oriented economic policy are closely interrelated and that French planning was successful in a more-or-less autarchical environment. With entry into the Common Market, however, much of the usefulness of French planning has disappeared. In turn, its generally outward-looking stance, reflecting the interests of the other EEC countries in trade with non-member nations, has not been conducive to applying French methods of planning on the Common Market level.

Programming in the EEC has been largely limited to the preparation of five-year projections and guidelines for policy making. But there have been substantial differences between projections and realization, and the projections have been of little value for public and private decision-making. Nor is there evidence that the Community's policy guidelines would have been followed by member country governments.

The usefulness of projections could be enhanced if these were prepared for periods of 2-3 years and linked to multinational budgeting as well as to short-term policy making. In turn, a draft program prepared by a group of senior statesmen, assisted by high-level experts, and subject to public discussion could provide a basis for reaching agreement on structural policies to be carried out during a four-year period corresponding to the tenure of the Commission. In this way, medium-term programming could become a program of action for the Common Market.



# Record Removal Notice



<b>File Title</b> Research on Economics and Development - Bela Balassa - Chronological Record - December 1972 through April 1973		<b>Barcode No.</b>  30280406
<b>Document Date</b> Dec. 20, 1972	<b>Document Type</b> Letter	
<b>Correspondents / Participants</b> From: Bela Belassa		
<b>Subject / Title</b> Request for reimbursement		
<b>Exception(s)</b> Financial Information (iv)		
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.
		<table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17	



December 20, 1972

Professor George H. Borts  
Managing Editor  
American Economic Review  
Robinson Hall  
Brown University  
Providence, R.I. 02912

Dear George,

Many thanks for your letter of November 29 and for your invitation to have dinner with the Board of Editors on December 28. Unfortunately, I will not be able to participate as I will be abroad at that time. Perhaps we will have another chance to meet in the coming months.

Sincerely yours,

Bela Balassa

December 20, 1972

Professor Fritz Machlup  
Department of Economics  
Princeton University  
Princeton, N.J.

Dear Fritz,

Please excuse the delay in answering your latest letter. I have since talked to a Chilean friend of mine, who is the Director of the Development Research Center here. He does not think that the senator in question would be a good choice for the Budapest meetings.

I would be happy to have discussions on the organization of the meetings if you so wish. I will be away for the next three weeks but plan to be in Washington afterwards.

Carol joins me in sending best wishes for the holidays to you and Mitzi.

Sincerely yours,

Bela Balassa



December 20, 1972

Dr. W. M. Corden  
Nuffield College  
Oxford  
England OX1 1NF

Dear Max,

Due to work on other questions I have only now been able to finish the revision of my "Estimating the Shadow Price of Foreign Exchange in Project Appraisal". I enclose a copy. As you will see, the paper has changed a lot, hopefully for the better. I am also sending a copy to Maurice Scott and have submitted the paper officially to the Oxford Economic Papers.

Please give me a call when you arrive at Princeton so that we can arrange for your coming to give a talk in Baltimore. I would also like to know if you have any plans for coming to Washington.

Looking forward to seeing you, I remain,

Sincerely yours,

Bela Balassa

December 20, 1972

Professor E.S. Kirschen  
Universite Libre de Bruxelles  
Rue du Chatelain 49  
1050 Bruxelles  
Belgium

Dear Etienne,

It was good to hear of your coming to the United States next March.

I have talked to the organizer of the faculty seminars at Hopkins but I am afraid that the March 7 date of our weekly seminars is already taken. I very much hope that you will come to the Washington area nevertheless and we would like to have you and Mrs. Kirschen to dinner at our home. Apart from March 7, when I am in Baltimore, any date would be fine with us.

Looking forward to <sup>see</sup>~~hear~~ing you, I remain,

Sincerely yours,

Bela Balassa



Adresse Personnelle  
2134 Wyoming Avenue N.W.  
Washington D.C. 20433

19 decembre, 1972

M. Jacques Brochier  
21 quai v. Augagneur 69  
Lyon  
France

Cher Jacques,

Nous avons reserver...

27.12	Lima	Country Club
28.12	Cuzco	Savoy Hotel
29.12	Macchu Pichu	Macchu Pichu Hotel
30 & 31.12	Cuzco	Savoy Hotel
1.1.-6.1	Lima	Country Club

Nous esperons bien que vous veniez.

Joyeux Noel!

Bela Balassa

Mrs. Flor de Liza R. Spriggs

December 19, 1972

Bela Balassa

Insurance Scheme for Domestic

Martine Morel has left my employ on December 17. Please cancel her insurance at the earliest possible date and send me a refund for the difference.



December 19, 1972

The Secretary  
International Monetary Fund  
19th & H Streets N.W.  
Washington D.C. 20431

Dear Sir,

Please send me volumes 18 and 19 of your Staff  
Papers. My check for \$6.00 is enclosed.

Sincerely yours,

Bela Balassa

December 15, 1972

Professor Robert Ferber  
Survey Research Laboratory  
University of Illinois  
414 David Kinley Hall  
Urbana, Ill. 61801

Dear Professor Ferber,

To my greatest regret I will not be able to present a paper at the International Conference on Consumption and Income. We have reviewed my work program at the Bank for the next year and there is unfortunately no time left for the writing of the paper for the Conference.

Sincerely yours,

Bela Balassa

copy - Mr. Grunwald



pink

## OFFICE MEMORANDUM

TO: Mr. Herman van der Tak

DATE: December 15, 1972

FROM: Bela Balassa *M*SUBJECT: Shadow Prices and Project Evaluation

In response to your telephone enquiry, I enclose a note on DRC Work on Shadow Prices and Project Evaluation. Enclosed are also a copy of my memo of November 21 which is cited in Mr. Henderson's December 4 memorandum as well as a note on Country-Centered Work in the DPS. The latter can help in selecting countries for which shadow prices are to be estimated.

cc. Messrs. Chenery (o/r)  
Stern  
Henderson

Cauas  
Duloy  
Clark  
Blitzer

BBalassa:alm

DRC Work on Shadow Prices and Project Evaluation

Bela Balassa

1. Following discussions with the Steering Group for Sector and Project Economics, the Development Research Center submitted a research proposal on Shadow Prices and Project Appraisal to the Bank Research Committee last April. The proposal was accepted by the Research Committee, with the proviso that the project be combined with a similar research project sponsored by the Economics Department.
2. In the submission to the Research Committee, it was proposed that the DRC should undertake work on shadow prices in two general areas. First, papers were to be written on short-cut methods of estimating the shadow prices of foreign exchange, capital, and labor for use in the Bank and in the developing countries. Second, research of a more long-term character was to be undertaken on various topics, such as changes in shadow prices over time and the effects of restrictions on these prices.
3. Two papers on short-cut methods of estimating shadow prices have been prepared so far: Balassa's "Estimating the Shadow Price of Foreign Exchange in Project Appraisal" and Blitzer's "On the Social Rate of Discount and Price of Capital in Cost-Benefit Analysis". These papers were presented at the Project Fest last October; in revised form they will be circulated as Economics Staff Working Papers before the end of the month. Furthermore, preliminary work has been done by Jonathan Levy on a paper on estimating the shadow price of labor.
4. Papers by Michael Bruno ("Resource Allocation Over Time and the Real Exchange Rate") and by Alan Manne ("On the Efficiency Price of Capital in a Dual Economy") belong to the second group of studies. These papers were presented at the International Meeting of Directors of Development Research and Training Institutes held last August in Belgrade. Michael Bruno is presently engaged in writing



a survey on the use of shadow prices in planning models as part of the volume on "Survey of Economy-Wide Models". The paper will be distributed in preliminary form in Spring 1973.

5. Subject to discussions with the Steering Committee and within the DRC, the Development Research Center may undertake work on shadow prices and project evaluation in several areas during the remainder of FY.1973 and in FY.1974. These areas are:

- (a) Revision of the paper on the shadow price of labor for circulation in the Bank (Balassa and Blitzer).
- (b) Contribution to the writing of the appendices on the estimation of particular shadow prices to the Operational Memorandum on Project Appraisal. Comments on draft versions of the Operational Memorandum (Balassa and Blitzer).
- (c) Assistance to Regional Departments in work on estimating shadow prices for particular countries (Blitzer).
- (d) Paper on the implications for shadow prices of removing distortions in economic policy measures (Bruno).
- (e) Paper on the implications for shadow prices of introducing income distributional considerations (Bruno).
- (f) Development of a simple general equilibrium model of sufficient realism to permit investigating the interrelationship of various shadow prices as well as the implications of alternative assumptions as regards the objective function and the policies followed (Blitzer, Manne).
- (g) Investigation of the effects on shadow prices of alternative specifications of the objective function and of alternative policy assumptions in the framework of multisectoral models that have been prepared (Mexico) or are in preparation (Chile, Ivory Coast) at the DRC. Investigation of the capability of such models to provide appropriate shadow prices (Blitzer, Clark, Duloy, and Manne).



Mr. Jorge Cauas

December 14, 1972

Bela Balassa

Short-Term Economic Theory and Policy: The Chilean Case

1. Your paper on the above subject represents a valuable contribution to the study of inflation. I have few substantive points to make; my comments aim chiefly at improving the exposition and clarifying the assumptions underlying the model.

A General Model for Short-Term Economic Policy

2. There are several statements in the description of the model that would need clarification and/or further elaboration. On page 3 you speak of "social behavioral patterns that feed the process ... thus aggravating the inflation". This would seem to imply that inflation would tend to accelerate; you elsewhere note that this has not been the case in Chile. Or has there been a tendency for acceleration that was counteracted by conscious policy?

3. You further state that "structural problems are considered to be at the root of inflation" and refer to "weakness in foreign trade and in the internal production structure" as well as the deficiencies of fiscal and tax systems and of monetary and banking structures (p.3). These questions are not touched upon later in the paper and I wonder if it is useful to make such statements without supporting evidence and an indication of the relative importance of particular structural deficiencies in generating inflation.

4. In repeating in a modified form the statement made in the introduction, you claim that "the monetary values of the variables are much more important than the real values, allowing them for simplifying assumptions in building the policy models to be used" (p.6). I am not sure what is meant by this statement. As long as economic agents react to changes in real variables, these should be of crucial importance in a model on inflation. I will return to this question below in connection with your wage determination equation.

Analytical Framework of the Cost Model

5. Having noted that "there is resistance to the transfer of productivity to prices, and that the trend is to transfer it to factors" (p.12), you take the minimum payment to factors (more precisely, the minimum acceptable rate of increase of factor payments) to depend on price increases in the previous period (for labor) or in the period in question (for capital and for imports). Subsequently, in equation (18) you indicate the conditions for a decrease in the rate of inflation. In this connection, several questions would need to be dealt with.

6. There is first the question of the definition of the factors of production. While from this point of view of your subsequent analysis, imports can be considered as a factor, they are not one of the factors among which the fruits of productivity growth would be distributed. The determination of the  $\pi$ 's would also require some discussion. The statement cited in the previous paragraph points to the need for making this dependent on productivity growth. In turn, the length of the period and the institutional pattern of wage setting should be described in order to justify the assumption of lagged wage determination.



7. Subsequently, in stating that "wage and salary earners tend to think in money terms" (p.15) you seem to abandon the idea that wage claims are based on changes in prices in the previous period. The question is not resolved when on p.16 you claim that workers "aim at obtaining the minimum money wage variation" since it is not explained how this is determined. Also, while changes in import prices are taken to be a function of variations in the rate of exchange, it is not clear what determines changes in the real exchange rate.

#### The Policy Model and Its Application

8. The model of the monetary sector is fine but more should be said to justify the omission of the real variables in the combined policy model. In particular, if the real exchange rate does not change, according to (3.21) import prices will rise at the same rate as general product prices and we face the problem of causation. Nor is it clear how wages are determined in the system. More generally, while I see the logic of separating the equilibrium rate of price increase from the cost-push effects, I wonder if one can neglect the effect of the former on the latter.

9. In the practical application of the model, the determination of wages is explicitly reintroduced so that the above criticisms do not apply. It would be useful, however, to explain in greater detail the derivation of the coefficients in (6.1) and (6.2). The remainder of the chapter is fine but I wonder if greater use could be made of the monetary model. Also, the importance of savings is noted in several places but these do not enter into the formulation of the model.

10. In chapter 8 of the paper, you raise a variety of issues. Among these, the trade-off between growth and inflation would require further study that would have to be complemented by explicit consideration of the alleged benefits of slowing-down inflation. As regards the question of the monthly readjustment of wages, this amounts to indexing which may under certain circumstances lead to an acceleration of inflation. Finally, I fully agree on the need for maintaining the real rate of interest and foreign exchange at reasonable levels.

BBalassa:alm

Mr. Ernest Stern

December 14, 1972

Bela Balassa

Bank Work on Integration

Paras 4 to 7 of the enclosed memo by Stanley Please deal with the above subject. Your attention is directed to the statement that, given the importance of the subject, Please would assign a staff member to examine the experience of the East African Community with regional integration in general and the transfer tax mechanism in particular. A similar promise has been made by Barend de Vries and Xavier de la Renaudiere for Western Africa.

BBalassa:alm



December 12, 1972

Professor Irving Kravis  
Department of Economics  
University of Pennsylvania  
Philadelphia, Pa.

Dear Irving,

I enclose a comment on a recent article by P.A. David  
that may be of interest to you. Looking forward to seeing  
you in January, I remain,

Sincerely yours,

Bela Balassa

December 12, 1972

Dr. Christopher Clague  
Department of Economics  
University of Maryland  
College Park, Md.

Dear Chris,

Congratulations on the publication of your joint paper with Vito Tanzi. I enclose a comment on a recent article by P.A. David that may be of interest to you.

Sincerely yours,

Bela Balassa



December 12, 1972

Professor P. A. David  
Department of Economics  
Harvard University  
Cambridge, Mass.

Dear Professor David,

I enclose a comment on your "Just How Misleading are Official Exchange Rate Conversions?" I would appreciate having your reactions to my comments as well as any clarification you can give on two additional matters.

Firstly, we were unable to obtain your equation (3) from (2). After much experimentation, and working backward from (3), my research assistant derived (2'') which however does not have the desired properties. If  $u$  is

$$(2'') \quad (\hat{Y/Y})_1 = \frac{u - 1}{u - y_1}$$

greater than one as in the case in your equation, the second derivative is positive; in turn, if  $u$  is less than one, the second derivative is positive in regions where  $u < y$ : and negative where  $u > y$ . However, there is no need to specify the sign of the second derivative in order to obtain the desired result that the ratio of purchasing power parities to exchange rates rises with per capita income differentials.

Furthermore, re-running your equation in order to derive the standard error of the estimate, we have obtained the same  $\beta$ -coefficient irrespective of whether a constrained (fn 2 on p.983) or an unconstrained form was used. I wonder if we might have misunderstood you at some point.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

December 12, 1972

Dr. Vito Tanzi  
Department of Economics  
American University  
Washington D.C.

Dear Vito,

Congratulations on the publication of your joint paper with  
Chris Clague. I enclose a comment on a recent article by P.A. David  
that may be of interest to you.

Sincerely yours,

Bela Balassa



December 12, 1972

Professor Larry Westphal  
Department of Economics  
Northwestern University  
Evanston, Ill.

Dear Larry,

Many thanks for your Christmas greetings, which I am hereby reciprocating (since we are not sending out Christmas cards this year!)

I have made reservations for us to have lunch together on December 21. Please let me know only if this is not convenient.

We got back the tables from the Print Shop; could you let us know if any of them have to be sent somewhere.

Sincerely yours,

Bela Balassa



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<b>Document Date</b> Dec. 11, 1972	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: Securities Diversifying Services Inc.				
<b>Subject / Title</b> Shares				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
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December 8, 1972

Mr. Oscar Arias  
Minister of Planning  
Ministry of Planning  
San Jose  
Costa Rica

Dear Mr. Arias,

Mr. Chaparro told me of his conversation with you concerning my plan to visit San Jose for having exploratory discussions on the possibility of undertaking research on shadow prices in Costa Rica. I will be in Lima in the first week of January advising the Andean Common Market and would plan to stop in San Jose on my way back to Washington on January 8 and 9.

I am writing to Mr. Naranjo asking him to make arrangements for my visit. I very much hope that you would have the opportunity to receive me during my visit.

Sincerely yours,

Bela Balassa

copy - Mr. Naranjo

December 8, 1972

Mr. Fernando Naranjo  
Director  
Departamento de Estudios Economicos  
Universidad de Costa Rica  
San Jose  
Costa Rica

Dear Mr. Naranjo,

I will be in Lima in the first week of January to advise the Andean Common Market on tariff policy. On my way back to Washington I would like to stop in San Jose on January 8 and 9 to have exploratory discussions on the possibility of undertaking research on shadow prices in Costa Rica. Mr. Chaparro at the World Bank discussed this matter with Mr. Arias who expressed an interest in my visit.

May I ask you to let me know if we could have discussions on the above subject on the days indicated. I would appreciate it if you could also make arrangements for my seeing people in the Planning Ministry and elsewhere who have an interest in the subject. I enclose a copy of a letter I wrote to Mr. Arias.

Sincerely yours,

Bela Balassa



*pink*

## OFFICE MEMORANDUM

TO: Mrs. Helen Hughes

DATE: December 8, 1972

FROM: Bela Balassa *M*SUBJECT: Steve Guisinger's Report on the Selection of Appropriate Border Prices in Project Appraisals

1. The first part of Mr. Guisinger's report represents a useful summary of the difficulties encountered in determining border prices for project appraisal in industry, including market imperfections, incomplete information, and product heterogeneity. While these problems are of considerable importance in general, it would seem useful to indicate their relevance for the kind of commodities the production of which the Bank finances. As the commodities in question are to a large extent standardized goods, the situation is not as desperate as it would appear from Guisinger's memo.
2. I welcome the idea of preparing a "manual" on border prices. It would indeed be useful to provide a description of the operational procedures for determining such prices. But, as is apparent also from Guisinger's discussion, there are relatively few general principles that would be applicable to all industries. Thus, once we get to the question of the sources of information and the price-determining factors, work has to be done on an industry-by-industry basis. Accordingly, a choice needs to be made as to the number of industries to be investigated and the scope of the investigation.
3. I would suggest that, rather than choosing a single industry for detailed study as Guisinger proposes, we should select several industries (e.g. steel, pulp and paper) where Bank lending is of importance, with the objective of gathering price data and related information on a continuous basis. This would require less detail than the proposed study of the textile industry but would provide more information than what is supposed to be collected for the Manual. In particular, apart from utilizing published price series, one would need to utilize private sources of price data. In this regard, we may follow the example of Kravis and Lipsey who obtained price information directly from industrialists and industrial associations (Cf. Price Competitiveness in World Trade, Studies in International Economic Relations No.6, National Bureau of Economic Research, New York, 1971).
4. My suggestions respond to the proposal made earlier by Mr. Gulhati for establishing a price data file. Initially this would be done for selected industries that are of especial importance for Bank operations. The industries in question could be selected by representatives of IFC and the interested Bank departments.

cc. Recipients of Mrs. Hughes' memo of November 28.

BBalassa:alm

Mr. Jorge Cauas

December 7, 1972

Bela Balassa

Visit to Costa Rica

In the course of discussions with Mr. Chenery on the choice of a country for estimating a set of shadow prices I suggested that we take a relatively simple, uncomplicated case rather than one of the large countries. In response to a question from Mr. Chenery I suggested Costa Rica as a possibility. Apart from the reasonably good data base, this suggestion was made on the basis of Mr. Chenery's favorable assessment of the Department of Economic Studies at the University of Costa Rica.

Following conversations with you, I discussed the matter with Mr. Pfefferman, Senior Economist in the Latin American & Caribbean Department. Pfefferman talked to Mr. Chaparro, the Country Economist for Costa Rica, who in turn raised the issue with Mr. Oscar Arias, the Minister of Planning, who visited Washington this week. Mr. Chaparro indicated to me that the Minister was very enthusiastic about the possibility of research on shadow prices in Costa Rica as he sees this as a way of improving economic work there. Therefore, it would seem worthwhile undertaking the visit.

I enclose drafts of letters addressed to Mr. Arias and Mr. Naranjo, the Director of the Department of Economic Studies at the University of Costa Rica, to make arrangements for a visit there on January 8 and 9 on my way back from Lima. I also asked Mr. Chaparro to read my draft letters and show them to Mr. Pfefferman.

BBalassa:alm



December 7, 1972

Professor Richard Cooper  
Department of Economics  
Yale University  
New Haven, Conn.

Dear Professor Cooper,

Mr. Balassa is not certain if he sent you the papers on the Development Strategies in Semi-Industrial Countries project which you requested. To be on the safe side, we are enclosing copies of the papers.

Sincerely yours,

*Awa Muhtasib*

Secretary to Bela Balassa

December 7, 1972

Basil Blackwell  
49 Broad Street  
Oxford  
England

Dear Sirs,

Please send me one copy of the Oxford University Institute of Economics and Statistics Bulletin, February 1972. My cheque for \$5 is enclosed to cover costs.

Sincerely yours,

Bela Balassa



Mr. Elkyn Chaparro

December 7, 1972

Bela Balassa

Visit to Costa Rica

I enclose copies of letters to Messrs. Arias and Naranjo concerning my visit to Costa Rica. I would like to ask you to look these over before I send them out. Please let me know if they are O.K.

BBalassa:alm

Mr. Moeen Qureshi

December 7, 1972

Bela Balassa

Industrial Protection

Your note on IFC policy on industrial protection provides an excellent statement of the usefulness and limitations of the effective protection concept in industrial project evaluation. It should be a valuable reference to other Bank departments that finance industrial projects.

I look forward to seeing Steve Guisinger's study in a revised form.

BBalassa:alm



December 6, 1972

Dr. Daniel Schydlowsky  
Center for Latin American  
Development Studies  
745 Commonwealth Avenue  
Boston Mass. 02215

Dear Dani,

We ordered altogether 250 reprints of our joint paper of which 50 were free. I sent out 50 reprints in our joint names and I am sending you the 50 copies you originally asked for. Since the 50 free reprints were sent out in our joint names, your share in the total of \$57.05 I paid comes to \$14.26.

I enclose a copy of the letter I sent to Lima. I hope that you will receive an invitation after all.

Sincerely yours,

Bela Balassa

December 6, 1972

Mr. Robert Maxwell  
World Development  
Headington Hill Hall  
Oxford OX3 OBJ  
England

Dear Mr. Maxwell,

Thank you for your letter of November 8 concerning the new journal World Development. Paul Streeten had spoken to me earlier about the journal and asked me to contribute to it. I hope that I will be able to do so in the not too distant future. In the meantime I have passed over your letter to our library with the suggestion that they order World Development.

Sincerely yours,

Bela Balassa



Joint Library

December 6, 1972

Bela Balassa

"World Development"

I enclose a descriptive brochure of the new journal, World Development. I suggest that you order this for the Bank/Fund Joint Library.

December 6, 1972

Mrs. Elinda F. Kornblith  
Department of Economics  
University of Rochester  
College of Arts and Science  
Rochester  
New York 14627

Dear Mrs. Kornblith,

Thank you for your letter of November 21 and for your curriculum vitae. I have passed these to our Personnel Department with the request that they explore the possibility of employing you at the Bank.

Sincerely yours,

Bela Balassa

copy - Personnel Department



December 6, 1972

Dr. Richard Thorn,  
9 chemin du val St. Andre  
13100 Aix-en-Provence  
France

Dear Dick,

Many thanks for your letter of November 19. You have indeed chosen a nice place to spend your sabbatical. I have pleasant memories of summer visits to Aix.

I would be very happy to lecture at your faculte, especially since I have been working on European integration over the past year or so. I am not sure, however, if I will be in Europe before the end of the semester there. Perhaps you could let me know the date of the last seminar and I will write you if I can make it.

Sincerely yours,

Bela Balassa

December 6, 1972

Mr. Juan Carlos Blanco  
Ministro Interino  
Ministerio de Relaciones Exteriores  
Montevideo  
Uruguay

Dear Mr. Minister,

You were very kind in expressing your thanks for my contribution to the conference "La IIa. década del Desarrollo de las Naciones Unidas y los procesos de integración económica". I was indeed happy to participate and enjoyed the discussions we had. I very much hope that the conference has contributed to the cause of economic integration in Latin America.

Sincerely yours,

Bela Balassa



Miss Kyoko Edayoshi

December 6, 1972

Bela Balassa

Computer Expenses - Larry Westphal

I enclose an accounting for computer expenses submitted by Mr. Larry Westphal in connection with the research project entitled "Korea, Price Incentives Policies", which is a sub-project under Research Project RPO 201, "Development Strategies in Semi-Industrial Countries".

I have approved the accounting and I wish to ask you to have sent a check in the amount of \$1348.74 to him at the Department of Economics, Northwestern University, Evanston, Illinois 60201.

BBalassa:alm

December 6, 1972

Professor Jean Waelbroeck  
CORE  
De Croylaan 54  
3030 Heverlee  
Belgium

Dear Jean,

This is to acknowledge your letter of November 27. I have discussed its contents with Louis Goreux and the following reflects our joint views.

We agree that working on demand functions for low elasticity products is of limited interest. Not only would the expansion of the exports of these products have adverse effects on prices but they have also been studied by several researchers. At the same time, there are only a few such products, mostly in the non-competing tropical foods category (coffee, cocoa, and tea) so that we are still left with products in the other five groups (temperate zone foods, competing tropical foods, agricultural raw materials, oil and minerals, and metals). Louis and I feel that taking one commodity from each of these groups would not be satisfactory since they would not appropriately represent the group as a whole. This is why we are asking for survey-type work complemented by additional research to fill in the lacunae as described on page 4 of your June 1 memo, "Interactions between Countries". Page 7 of the same memo contains a list of commodities and commodity groups to be studied.

Late January is fine with us for your visit to Washington. I will be abroad until January 17 but will have sufficient time to read your paper before your arrival. We also plan to circulate the paper among people who have an interest in model building and in projections.

Your visit to Washington would also offer an opportunity to discuss the possibility of your spending some months at the DRC. As you know, a new Director has been appointed in the person of Mr. Jorge Cauas who is presently re-evaluating the research program. It would help him if you would send a short note together with your paper indicating the further extensions to your research that could be undertaken at the DRC.

May I use the occasion to wish you and your family a merry Christmas. With best regards,

Sincerely yours,

Bela Balassa

P.S.

You will receive the revised version of my paper on "Planning and Programming in the Common Market" by the end of the year.

cc. Messrs. Goreux, Stoutjesdijk



Mr. Hollis B. Chenery

December 6, 1972

Bela Balassa

Shadow Prices and Project Evaluation

I enclose a copy of my November 21 memo on the subject. Following the receipt of the memorandum from Mr. Henderson you may wish to combine the contents of the two memoranda in issuing terms of reference for our work in the area. This will enable us to make a start as early as next week.

BBalassa:alm

December 5, 1972

Dr. Augustine H. H. Tan  
University of Singapore  
Department of Economics  
Bukit Timah Road  
Singapore 10

Dear Augustine,

I am in receipt of your telegram dated November 29 in which you indicate that the estimates of your study will be complete by March 31. This represents a considerable delay compared to the other studies and I would appreciate your sending me any preliminary results that may become available before that date.

On ~~May~~ 31, 1972 I wrote to you enquiring if, in view of your many obligations, you might want to make Dr. Chua a co-author of the study. Please let me know by return mail if you have adopted this solution. Also I would like to know when you plan to complete the write-up of the study.

With best regards,

Sincerely yours,

Bela Balassa



copy - Professor Cotta

December 5, 1972

Mr. Milton Abelson  
Harvard University DAS  
1737 Cambridge Street  
Cambridge, Mass. 02138

Dear Mr. Abelson,

In answer to your letter of November 14 I wish to warmly recommend Professor Alain Cotta as an overseas adviser for the Harvard Development Advisory Service. I have known Professor Cotta for a number of years and I have had close contact with him during this period. He is an outstanding researcher, one of the best in France, and as the Dean of the Université de Paris IX Dauphine for several years, he also showed himself an extremely good administrator. Let me add that Professor Cotta has been advising business firms in France that should well prepare him for advising developing countries. Finally, he has a keen policy sense, good judgment, as well as a pleasant personality.

I believe that the DAS would benefit from having Professor Cotta as an adviser and I recommend him without reservations.

Yours sincerely,

Bela Balassa

Home Address

2134 Wyoming Avenue N.W.  
Washington D.C. 20008

December 5, 1972

Mr. Michael Woyevodsky  
2319 Ashmound Place N.W.  
Washington D.C.

Dear Mr. Woyevodsky,

I am embarrassed not to have written you earlier concerning the sofa, but we have had delays with Sloane's and an agreement was reached only recently. Sloane's president was adamant in demanding that I pay a \$200 charge for the return of the sofa. In turn, he offered me a \$200 reduction from the price that was already discounted in case I kept it. After some deliberation I have chosen the second alternative. Correspondingly, we will not be in the market for a new sofa for some time.

We very much appreciated the suggestions you made concerning the decoration of our house on your last visit. As we are not planning to make purchases in the near future may I ask you to indicate how much I owe you for the visit.

Sincerely yours,

Bela Balassa



December 5, 1972

Dr. Zvi Sussman  
Director,  
Research Department  
Bank of Israel  
Jerusalem  
Israel

Dear Dr. Sussman,

After considerable delay I have received today the travel expense forms you submitted last August. On the forms it is indicated that the Bank paid \$32 excess baggage charge both for you and for Mr. Baruch. I presume that this was necessary because of the large amount of material you brought with you to Paris. Should this be the case, please send me a statement to this effect so that the travel expense accounts can be settled.

Your early answer would be appreciated.

Sincerely yours,

Bela Balassa  
B1



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<b>Document Date</b> Dec. 5, 1972	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> From: Bela Belassa To: Tudor Hedge Fund				
<b>Subject / Title</b> Shares				
<b>Exception(s)</b> Personal Information  Financial Information (iv)				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			



## OFFICE MEMORANDUM

TO: Messrs. H.B. Chenery and J. Cauas

DATE: December 4, 1972

FROM: Bela Balassa

SUBJECT: Proposed Work Program

1. In line with our discussions, I enclose a summary report of my activities in calendar year 1972 as well as a tentative work program for 1973. The activities report represents a summation of monthly reports in which greater detail is provided. The work program provides a proposed allocation of the 165 days I expect to have available for Bank work in 1973.
2. It will be apparent that research advising in its various forms accounted for a large part of my activities in 1972. Research Committee work, the preparation of research proposals and programs, comments on Bank research papers, and work on the DRC research program and related matters (some of them however of an administrative character), taken together, required 62 days of my time in 1972, practically the same as my own research for the Bank during the same period. Another important activity was policy advising, including an advisory mission to Portugal and preparing for one at the Andean Common Market.
3. In 1973, the bulk of my time will be taken up by the Development Strategies research project. Work on the project will include revision of the estimates being prepared by the contributors; reworking of the country studies following their submission in early 1973; the comparative evaluation of the results; and the preparation of the entire volume for review. I also expect to start work on a research project on economic integration in West Africa, co-sponsored by the regional department, if this is accepted by the Research Committee. Much of the remainder of my time would be devoted to advising on research, including the shadow price project and Bank work on development policies, as well as policy advising (again in Portugal and the advisory mission to the Andean Common Market).
4. There are several possible other activities for 1973, including intensive participation in research on development policies proposed by Mr. Chenery, the writing of a Bank policy paper on multinational (integration) projects, work on purchasing power parities, the preparation of a paper on regional integration and relative prices in Latin America for a Conference on Consumption and Income, and further work on export promotion in developing countries. Apart from the 10 days that have been left unallocated, these activities would have to be undertaken at the expense of those listed.

cc. Mr. Stern

BBalassa:alm

Activities Report

January 1, 1972 - December 31, 1972

Bela Balassa

<u>Research</u>		<u>Days</u>
Development Strategies in Semi-Industrial Countries: work on methodology, consultations with contributors, meeting of contributors in Washington		26
Export Promotion in Developing Countries: first draft of paper "Export Subsidies by Developing Countries and GATT"		6
"Just How Misleading are Official Exchange Rate Conversions?" Comment on a paper by P.A. David (Economic Journal, September 1972)		7
Estimating the Shadow Price of Foreign Exchange: paper prepared for the September Project Fest		13
Regional Integration and Trade in Less Developed Countries: paper prepared for the Cambridge Conference on Trade and Development		5
Comments on "Policy Problems in the Adjustment Process" by R.E. Baldwin (World Bank Seminar on Industrialization and Trade Policies in the 1970's)		<u>4</u> 61
<u>Service</u>		
Research Committee work		6
Research proposals and programs		
Shadow prices	4	
Industry	3	
Economic integration	4	11
Comments on research papers		
Development Research Center	13	
Development Economics Department	4	
Economic Analysis and Projections Department	3	
Other Bank departments	4	24
Policy Advising		
Portugal	9	
Andean Group	3	
Bank	3	15
Lecturing: EDI		<u>1</u> 57



Management

Days

Research program and other DRC matters

21  
21

Other

Participation in Belgrade Conference of Directors  
of Development Institutes

6

Participation in Cambridge Conference on Trade and  
Development

4

Liaison with OECD Development Centre

2

Miscellaneous: participation in meetings, reading of  
Bank documents, Bank correspondence, miscellaneous  
Bank matters

16  
28

Grand Total

167

Proposed Work Program

January 1, 1973 - December 31, 1973

Bela Balassa

	<u>Days</u>
<u>Research</u>	
Development Strategies in Semi-Industrial Countries	80
Economic Integration in Western Africa	<u>10</u>
	90
 <u>Service</u>	
Research Committee	5
Advising on Bank research on development policies	5
Steering Group on research on project evaluation and shadow prices	5
Comments on research papers	15
Policy advising (Portugal and the Andean Group)	<u>15</u>
	45
 <u>Management</u>	
Research program and other DRC matters	10
 <u>Other</u>	10
 <u>Unallocated</u>	<u>10</u>
	165



## OFFICE MEMORANDUM

TO: Mr. Jorge Cauas

DATE: <sup>Dec</sup> November 4, 1972FROM: Bela Balassa *MB*SUBJECT: Research in Industrial Programming

1. I enclose my comments on Larry Westphal's note dated November 27. It seems to me that decisions should be reached at an early date on two issues that transcend the scope of FERTILEA. They are the inclusion of technical material in the monograph on Industrial Planning with Economies of Scale and the methods to be used in DRC research on industrial programming.
2. As noted in Para 5 of my memo, I favor putting technical material in appendices rather than including it in chapters designed for nonspecialist readers of the monograph. As the volume is now in preparation, a decision on this matter is rather urgent.
3. A decision should also be reached on the choice between simulation and optimization models in future work on industrial programming in the DRC. There is apparently a disagreement between Larry Westphal and Ardy Stoutjesdijk on this point that needs to be settled as it greatly affects future research. I would suggest asking Charles Frank and David Kendrick to participate in the discussions, with a view to making recommendations on the methods to be applied.


cc. Messrs. Chenery  
Stern  
Westphal  
Frank C.  
Meeraus

BBalassa:alm

## OFFICE MEMORANDUM

TO: Mr. Larry Westphal

DATE: December 4, 1972

FROM: Bela Balassa SUBJECT: FERTILEA

1. I applaud your thoughtful suggestions for the revision of FERTILEA and on the structure of the proposed monograph on Industrial Planning with Economies of Scale. The following comments are designed to sharpen some of the points you have made and, in one case, to indicate a point of disagreement.
2. I would slightly amend the first part of your statement on the objectives of the monograph to read "to explain the practical use of a particular methodology to a nonspecialist audience" (p.1 -- newly added words italicized). As I see it, this is indeed the crux of the matter. Apart from the sections designed for the specialist, the monograph should provide a nontechnical description of the method of systems analysis; describe the uses of this methodology in the particular case studies; and indicate the conditions under which the method applied is superior to "conventional" project analysis.
3. As to the last point, it is of particular importance to explain to the reader, and the potential user, the deficiencies of conventional project analysis in cases when economies of scale, joint production using shared production facilities, and interdependence among individual activities are significant. In the case of FERTILEA this would help to answer Helen Hughes' query as to whether the same results could have been "derived by a much simpler, cheaper methodology". More generally, it should be shown in what kind of situation do we need to apply systems analysis.
4. The next question concerns the data requirements of systems analysis as compared to "conventional" project appraisal. You interpret the latter too narrowly in arguing that it needs less information. To my mind, project appraisal should encompass all relevant considerations of interdependence, including international interdependence. This is done in the case of a cement plant proposed for Togo where the implications of sales to the Ivory Coast and Ghana are also considered. Also, in appraising a fertilizer plant in East Africa, the Bank would have to take account of alternative possibilities in terms of production and trade within the area. The difference between the two approaches is not that between sector and project analysis as you suggest (pp.3-4) but rather in solution methodology.
5. I agree on the need to describe in the volume what you call "the component building blocks" (p.5) of the solution of FERTILEA to the nonspecialist reader, leading him step-by-step from the basic data to the solution. You recall that in my memo of October 31, I also stressed the need to provide information on demand, production, and costs as well as on alternative solutions. This could best be done in the form of tables and numerical examples. I do not think however that one should provide equations in the text of chapters designed for the nonspecialist reader -- whether in the general part of the volume or in the part dealing with FERTILEA. In particular, I find the device of setting off in bold face type the mathematically couched discussion in the text inappropriate. Also, if you were to discuss branch and bound methods, IPE-type methods etc. in Chapter 3 that is designed for the nonspecialist reader (p.7), there is the danger that he will not read



the remainder of the monograph. I would rather suggest putting more technical material in appendices as I have done in my Structure of Protection in Developing Countries

6. I welcome your recommendations for revising the chapter on the distribution of gains from integration in the East African fertilizer sector. I found Ardy Stoutjesdijk's answer (cf. his memo of November 7) to my suggestions for such a revision rather unsatisfactory. Apart from the fact that the calculation of the division of gains made in FERTILEA violates the "one-price rule", there is need to provide results under alternative assumptions since the distribution of benefits among the countries in question will greatly affect any decision they might take on fertilizer projects.

7. I come finally to your discussion of the advantages of simulation over optimization models in applying systems analysis. The choice between these alternatives should be decided since, apart from the write-up of the volume of industrial planning, it would affect our research program on the application of systems analysis to industrial projects. And not only is the cost of simulation considerably lower than that of searching for a global optimum by using mixed integer programming, but we could also forego proposed work aimed at refining the methodology of mixed integer programming.

cc. Messrs. Frank C.	Chenery
Meeraus	Cauas
Stoutjesdijk	Stern
	Duloy
	Moore
	Bowen
	Please
	Hughes

BBalassa:alm

December 1, 1972

Mr. Javier Silva Ruete  
Director-Secretario  
Acuerdo de Cartagena  
Junta  
Casilla de Correo 3237  
Lima  
Peru

Dear Mr. Silva,

From your letter of November 8 it appears that we will indeed have an illustrious group of economists to participate in the advisory meeting on the common tariff of the Andean Common Market. I have since heard, however, that Daniel Schydlofsky may not join us at the meetings. This would be very unfortunate since he is one of the very few people who has done original work on tariff setting in developing countries. I expect that he would make an important contribution to our subject and I very much hope that you will be able to find a solution to ensure his participation.

Sincerely yours,

Bela Balassa

copy - Dr. Schydlofsky





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<b>Document Date</b> Dec. 1, 1972	<b>Document Type</b> Letter	
<b>Correspondents / Participants</b> From: Bela Belassa To: Sibley Memorial Hospital		
<b>Subject / Title</b> Hospital Expenses		
<b>Exception(s)</b> Personal Information		
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.
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<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17	

December 1, 1972

Mr. Henry Tchen  
Apt.2  
110 Morningside Drive  
New York, N.Y. 10027

Dear Mr. Tchen,

I understand from your letter of October 31 that you have applied to the Young Professional program of the World Bank. As you may know, there are two competitive admissions a year to the Program. After a first selection from the applications, the Bank representatives interview people for admission. I wish you luck in getting into the program.

Sincerely yours,

Bela Balassa





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<b>Correspondents / Participants</b> From: Ravi Gulhati To: Staff Relations		
<b>Subject / Title</b> Passport information / visa information of Olivia Adriana de Paula		
<b>Exception(s)</b> Personal Information		
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.
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<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17	

December 1, 1972

Dr. J. Rohwedder  
Seminar für theoretische Volkswirt-  
schaftslehre der Universität Kiel  
2300 KIEL  
Olshausenstrasse 40-60  
West Germany

Dear Dr. Rohwedder,

This is in response to your letter of November 9. I am sorry to say that time does not allow me to answer the questions you have posed. You may, however, consult my books, The Theory of Economic Integration and Trade Liberalization among Industrial Countries: Objectives and Alternatives, where I provide a detailed discussion of most of these issues.

Sincerely yours,

Bela Balassa



Mr. Shinji Asanuma

December 1, 1972

Bela Balassa

Korean Study

I enclose the tables on the Korean study as you requested. I would like to add that while net nominal and effective protection was calculated only on the sector level, you could easily calculate these for the particular industries you are interested in. The adjustment should be made utilizing the following formula:

$$Z_1' = d(1+Z_1) - 1$$

where  $Z_1$  is the effective rate of protection calculated at the existing exchange rate,  $Z_1'$  is the net (adjusted) effective rate, and  $d$  is the ratio of the actual to the free trade exchange rate. In the Korean case the ratio is .91.

BBalassa:alm

P.S.

Annex Table 1 has been completely revised and will be available next week. The figures for Total, Special, and Actual Tariff and the Price Comparison figures are correct; the revision is in the selection of nominal protection rates.