Folder Title:	Research on Economics and Development - Bela Balassa - Chronological Record - December 1966 through February 1967
Folder ID:	30280541
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Dates:	12/12/1966 – 02/28/1967
Subfonds:	Records of the Office of the Vice President, Development Economics and Chief Economist and later Senior Vice President, Development Economics and Chief Economist (DECVP)
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B. Balassa
CHRONOLOGICAL FILE
December 15, 1966 - FEBRUARY 28, 1967

February 27, 1967

Mr. William B. Kelly, Jr.,
Senior Advisor
U.S. Delegation
KR Delegation
80 rue de Lausanne
Geneva, Switzerland

Dear Bill:

Your letter of February 17th crossed mine dated February 24th. I am in the process of preparing the chapters for the editor of the Johns Hopkins Press. It is expected that editing will be completed in the second half of March and the volume will be sent to the printer immediately thereafter. It is necessary that we do this since otherwise we cannot have the volume published in the Fall.

I understand that you are under great pressure of work and it will take several weeks to make all the changes. We should have no problem in going to the printer on schedule if I get your revised copy in about three weeks. However, you can make further revisions at the galley proof stage. So please get the major corrections done in three weeks time and, if necessary, leave the minor ones until afterwards.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

February 28, 1967

Dr. Sidney J. Wells
Royal College of Advanced Technology
Salford 5
Lancashire, England

Dear Sidney:

It has become necessary to reduce the length of your chapter for publication in our volume. In the process of revision, my object has been to "tighten" the chapter by removing unnecessary duplication as well as the discussion of secondary issues.

I trust that these cuts will not be disagreeable to you since you have already published an expanded version elsewhere. I would like, however, to direct your attention to two questions. For one thing, your conclusions on pp. 19-20 on discrimination did not seem to be completely correct since, in the first instance, you looked only at products with a tariff of over 15 percent without realizing that the results for this group are identical to that containing products with a tariff of less than 15 percent. Further, in concluding that the height of the tariff did not have a significant effect on the relative performance of EEC and EFTA in U.K. markets, you did not separate products with high and with low tariffs. Hence, the differences in our conclusions in regard to trade discrimination.

For another, following the arrangement used in your monograph, I have combined the material of the last two subsections in your chapter into one. It seemed to me that you do not have enough material to warrant a separate subsection on political considerations. At the same time, the bringing together of political and economic considerations brings the choice among alternative trade arrangements into clearer focus.

Should you disagree with any of my changes, please let me know by March 15th so that I can take account of your suggestions before the chapter goes to the printer.

Yours very truly,

Bela Balassa
Adviser
Economics Department

encl.

February 27, 1967

Mr. John Gallman
Washington Editor
The Johns Hopkins Press
1740 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dear John:

This is in reply to your letter of February 10th. In the meantime, I have received a letter from Staffan Linder indicating that he has no objections to the inclusion of his paper in our volume.

I am now in the process of editing the country studies which will be sent to you tomorrow. Your editor could start working with these even before he receives the Dosser and Kelly chapters since the subject matter of the two groups of studies is entirely different. I plan to do a considerable amount of re-writing on the Dosser chapter and I will send it to you, together with the Kelly chapter, next Monday.

I agree with your suggestion that the text tables should be set as close as possible to the first reference to each. In turn, the appendix tables should come at the end of each chapter. There are 40 text tables and 16 appendix tables; I expect to delete a few of Dosser's tables but this will hardly change the number.

The number of pages of the text is presently 378. I am cutting slightly the Wells chapter and will also cut the Dosser chapter so that the final number of pages will be about 365, double spaced typescript. I have deleted the questionnaire to Kreinin's chapter. Thus the appendices deal purely with methodology. Since these are designed for the specialist, I suggest that they should come at the end of the book. We have altogether 15 pages to Chapters 2 and 3, and I am writing an appendix of 5 to 10 pages to Chapter 1.

I am sorry to say that I will not be able to have camera ready copies of the diagrams prepared for the Kojima paper at the Bank. They are rather strict in their rules and do only official Bank work but the diagrams are quite simple and you shouldn't have any difficulty in getting them done elsewhere. I am enclosing the originals of the charts.

Mr. John Gallman February 27, 1967

I am deleting all the references in the text to the Atlantic Trade Project and will give a single reference to it in the Introduction. Also, in revising the Dosser chapter I am taking account of the suggestions received from you and from Larry Krause.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

CONFIDENTIAL

Mr. I. S. Friedman

February 27, 1967

Bela Balassa

U.S. Balance of Payments Position

Thank you for your note concerning my memo of February 20th.

In estimating the possible impact of the ending of the Vietnam war on the balance-of-payments, the Treasury used the $960 million figure which, to my best recollection, was also quoted by the New York Times as representing the balance-of-payments cost of the war.

It has further been assumed that part of the saving would be offset by the balance-of-payments cost of increases in foreign aid that would follow the ending of the war. Accordingly, the Treasury calculates with a net saving of $500 - $600 million.

BBalassa/pam

cc: Mr. A. M. Kamarck

February 27, 1967

Mr. Staffan B. Linder
The Stockholm School of Economics
Undergraduate and Graduate Divisions
Handelshogskolan 1 Stockholm
Sveavagen 65, Stockholm Va
Sweden

Dear Staffan:

I am happy to hear that you have consented to the inclusion of your chapter in our volume. In the footnote on the first page of the chapter, we can indicate the date of preparation. Please let me know what title I should use after your name -- Lecturer, Stockholm School of Economics?

You might not yet have seen the article in Business Week on the Wallenbergs. I am enclosing a copy.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Mr. John L. Ecob
Foreign Department
Richard D. Irwin, Inc.,
1818 Ridge Road
Homewood, Illinois

Dear Mr. Ecob:

Thank you for your letter of February 21st and for sending me a copy of the Trade Prospects book. I would indeed like to purchase a copy of the Portuguese edition of my "Theory of Economic Integration" if we cannot get another copy free.

I will appreciate receiving information on the publication date of the Spanish edition of my "Trade Prospects for Developing Countries."

Yours sincerely,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Mr. Donald S. Lamm
Editor
W. W. Norton & Company, Inc.,
Publishers
55 Fifth Avenue
New York, N. Y. 10003

Dear Don:

I am glad that you found my report on Maddison's manuscript useful. I am afraid I have a bad habit of not being able to restrict myself to a short appraisal!

It was good to see you in Washington and I hope that I'll see you again before long.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

M. Rene Buchler
370-372 rue Gabriel Peor
Colombes, Seine
France

Monsieur,

Veuillez trouver ci-enclos un cheque de 165 francs pour les frais de garage de ma voiture Fiat pendant les mois Febrier-Mars-Avril.

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

Bela Balassa

P.S.

Mon addresse personnelle est

2500 Que Street N.W.,
Washington, D.C. 20007

February 27, 1967

Dear Peter:

I see from your letter that I have neglected to answer your question regarding my back. This might have been a Freudian omission since, after four months of difficulties, I do not like to even think about it. But let me assure you that all is well and a few weeks of daily swimming have apparently cured me.

If all goes well I will come to visit you at the Ministry of Overseas Development on or around June 9th. I will write to you again in early May to find out what date would be convenient for you.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Miss Peter Ady
Ministry of Overseas Development
Eland House
Stag Place
London S.W. 1, England

February 27, 1967

Mr. Alfred Parmelee
Westley Wollcot & Co., Inc.,
59 East 54th Street
New York, N. Y. 10022

Dear Fred:

Many thanks for your letter and the evaluation of my portfolio. Following your suggestion, I have sent the bill and the letter of authorization to Fricke for payment. In this way, there will be no delay in the event that I am in Europe.

I wonder if you have seen a recent discussion on the French balance of payments in the Economist. While the columnist might over-estimate the possible deficit in the French balance of payments, I tend to agree that France will incur a deficit. I am enclosing the relevant clipping.

Carol and I were glad to hear that you and your wife plan to come to Washington on March 30th. We would be happy if you could join us for dinner on that day.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

February 27, 1967

Yugoslav Travel Bureau
Yugoslav State Tourist Office
Madison Avenue
New York City, N. Y.

Dear Sirs:

I would appreciate receiving your latest map of Yugoslavia together with any folders you have on resort places on the Dalmatian Coast. Please also send me a list of publications on Yugoslavia which can be obtained against payment.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Austrian Travel Agency
Park Avenue
New York City, N. Y.

Dear Sirs:

I would appreciate receiving information on hotels in Vienna and Salzburg as well as on the Salzburger Festspiele.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Hotel Enterprise Brela
Brela, Makarska
Yugoslavia

Dear Sirs:

I would appreciate receiving information on the availability of accommodations and on rates for a double room, with half pension, at your hotels Maestral and Mirna. Please let me know, also, what the differences are between the accommodations in these two hotels.

Please feel free to write your answer in English, French, German or Italian.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

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

Dear Sirs:

Thank you for your letter of February 7th. I have in the meantime returned the cloth edition of BALDWIN: Economic Development and Export Growth, and would appreciate it if you would send me the paperback version.

I would also like to receive the following books:

G. C. Allen, Japan as a Market and a Source of Supply, paper 21/-

S. A. Marglin, Public Investment Criteria, Allen & Unwin, 1967

E. A. G. Robinson, Economic Planning in the United Kingdom, 6/-

Your early attention to this order would be appreciated as I urgently need the Marglin book.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Mr. Harold van B. Cleveland
Vice President
First National City Bank
399 Park Avenue
New York, N. Y.

Dear Van:

This is to inform you that the volume containing the papers of my contributors in the Atlantic Trade Project will be published by the Johns Hopkins University Press under the title, "Studies in Trade Liberalization" in the Fall of 1967. I feel that the readers' reports vindicate my position concerning the value of the contributors' studies, and I am glad that the volume will be published by a reputable University Press.

I am enclosing the readers' reports, the first of which was written by Larry Krause.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

P.S.

Apparently the Council cannot supply me with a copy of Coppack's book, which might have gotten lost in the mail. Should you still have an extra copy, I would appreciate receiving one.

cc: W. Diebold, Jr.
David W. MacEachron

February 27, 1967

Mr. George F. Franklin
Executive Director
Council on Foreign Relations, Inc.
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Mr. Franklin:

This is to inform you that the volume containing the papers of my contributors in the Atlantic Trade Project will be published by the Johns Hopkins University Press under the title, "Studies in Trade Liberalization" in the Fall of 1967. I feel that the readers' reports vindicate my position concerning the value of the contributors' studies, and I am glad that the volume will be published by a reputable University Press.

I am enclosing the readers' reports, the first of which was written by Lawrence B. Krause, Senior Research Fellow, Brookings Institution.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

cc: Mr. W. Diebold, Jr.
Mr. David W. MacEachron

February 27, 1967

Misses Rorer and Weaver
Box 919
Goucher College
Towson, Maryland

Dear Mesdames:

Thank you for the invitation to address the Economics Club of Goucher College. I am sorry to say that I will not be able to accept this invitation for the coming semester.

I am presently with the International Bank and will join Johns Hopkins in September. My duties at the Bank do not leave me much time to accept invitations for lectures.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Mr. AtLee S. Arnold
Associate Editor
University of California Press
405 Hilgard Avenue
Los Angeles, California 90024

Dear Mr. Arnold:

This is to inform you that the Johns Hopkins University Press has accepted for publication, my book, "Studies in Trade Liberalization." Since the Hopkins Press will include the book in their Fall list, I accepted their offer.

I wish to thank you for considering my book for possible publication by the University of California Press. I am sorry that we could not reach an agreement on this occasion.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Mr. Leslie E. Phillabaum
Editor-in-chief
The University of North Carolina Press
Chapel Hill, N.C.

Dear Mr. Phillabaum:

This is to inform you that the Johns Hopkins University Press has accepted for publication, my book, "Studies in Trade Liberalization." Since the Hopkins Press will include the book in their Fall list, I accepted their offer.

I wish to thank you for considering my book for possible publication by The University of North Carolina Press. I am sorry that we could not reach an agreement on this occasion.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Department of Motor Vehicles
301 C Street, N.W.
Washington, D.C. 20001

Dear Sirs:

I am returning the motor vehicle registration certificate which you sent me. I sold my car to Mr. Myrick Sheldon of 5701 Helmsdale Lane, Alexandria, Virginia, on January 28th. Hence I have no need for the registration certificate.

Please let me know whether I have to return the registration plates to you.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

February 27, 1967

Dr. Ludwig Hantzschel
Gottingen,
Univ. Buchhandlung fur Import und Export
Weender Strasse 66, Postfach 434
34 Gottingen, Germany

Dear Dr. Hantzschel:

Thank you for your inquiry concerning my study on "Trade Liberalization among the Industrial Countries." The book will be published by McGraw-Hill Company. Please address your order to the New York or London office of this publishing firm.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Professor Van Doorn Ooms
Department of Economics
Economic Growth Center
Box 1987, Yale Station
Yale University
New Haven, Connecticut

Dear Van:

Many thanks for sending me a copy of your dissertation. I have given this to Bob de Vries. He tells me he has read it with great profit.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 27, 1967

Mr. P. J. Loftus
Director
Statistical Office
United Nations
New York, N. Y.

Dear Mr. Loftus:

This is to confirm our telephone conversation that, due to budget limitations, we will not take advantage of your offer to carry out calculations on commodity trade statistics at the International Trade Center.

With many thanks for your attention to this matter, I remain

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 24, 1967

Professor Irving B. Kravis
Department of Economics
University of Pennsylvania
Philadelphia 4, Pennsylvania

Dear Irving:

It was good to see you at the Treasury meeting; it is a pity that we did not have more time to talk. Should you again come to Washington during the next few months, perhaps we could have lunch together.

The enclosed letter to Knowlton and Surrey may be of interest to you. The Treasury does not seem to be too concerned with the possibility of retaliation and the need for conformity with GATT rules. Also, time and again I find an excessive preoccupation with tax measures to the exclusion of everything else. It might be useful if they invited representatives of State and Commerce so that one could consider the political cost of the proposed tax measures and compare alternatives that lie outside the tax field.

I read with great interest your recent report on nonferrous metals and several of the mimeograph papers. As have other trade economists, I have long struggled with the problem of estimating price elasticities from unit value indices. I only wish that you would also collect price observations for the intervening years so that the indices could be used in regression analyses.

I find it interesting that you have used OECD exports for weighting prices; I employed a similar method in averaging tariffs in my study on protection. Also, I was glad to see new evidence supporting the argument I have put forth in a recent issue of the AER emphasizing the importance of intra-industry as against inter-industry specialization. Finally, you have provided additional evidence concerning the effects of investments abroad on the U.S. trade balance through replacing U.S. exports and increasing imports into the United States.

My only criticism of the calculations relates to the treatment of quality changes. While in several instances you have tried to take account of such changes, in a few cases, corrections or qualifications seem to be necessary. Thus, I wonder if the price index for office machinery has much meaning since this commodity category comprises a variety of miscellaneous machines that have changed in quality over time. Other examples, where quality changes might distort price indices are heating and cooling equipment as well as Caravelle aircraft. Further, while the index of the price level has been adjusted for changes in horse power ratings in the case of aircraft engines, this has apparently not been done in calculating the index of competitiveness in these engines.

In thanking you again for the papers on price indices in international trade, I would like to ask you to send me further reports as they become available.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

February 24, 1967

Professor Roy Blough
Columbia Business School
Columbia University
New York 27, N. Y.

Dear Roy:

It was good to talk to you on the phone, and I greatly appreciate the information you gave me on Mr. Sidney Rolfe. This will help us to decide on the proposition he made to the Bank.

I am enclosing a copy of my letter to Knowlton and Surrey which may be of interest to you. The enclosed clipping from Le Monde shows that we are not the only ones thinking of measures to promote exports.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam
Encl.

February 24, 1967

Personal

Mr. William B. Kelly, Jr.,
U.S. Delegation
KR Delegation
80 rue de Lausanne
Geneva, Switzerland

Dear Bill:

Many thanks for your letter of February 8th. The report in question was written by Larry Krause, and in private conversation he characterized your chapter as the definitive piece of writing on this subject.

I am disturbed by the delay in obtaining approval for your chapter. According to your letter of January 6th, Ambassador Blumenthal was given a copy before he left for the Conference at Punta del Este. In your last letter, however, you speak of the submission of the final version at some future date. Since the book is scheduled to be published in the Fall, it will go to the printer next month. Therefore it would be good to clear up the matter of approval before that time.

I sent you three copies of your chapter to the State Department address. However, in order to speed up matters, this letter is being sent to you directly to Geneva.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

P.S.

I trust that you have, in the meantime, received the reimbursement for your expenses from the Council of Foreign Relations.

Mr. A. J. Macone

February 24, 1967

Bela Balassa

Conversion Ratios for Calculating f.o.b. values of imports
from data expressed in a c.i.f. basis.

In response to my memo of January 16th on the same subject, I received information on conversion ratios for several primary commodities from Messrs. Ali, Elz, Huang and Varon during the course of February. I have received no communication, however, concerning a number of commodities that are listed on the attached sheet. I would appreciate it if I could have the conversion ratios for these commodities by March 1st.

Please let me know if, for any reason, your staff cannot provide conversion ratios for some of these commodities.

BBalassa/pam
attch.

Conversion Ratios for Calculating f.o.b. values of Imports into Western Europe and Japan from Developing Countries

SITC number	Commodity	Conversion ratios (percent) 1960	1965
042	Rice	7	
051 (less 051.3)	Fresh fruits except bananas	25	
052	Dried fruit	12	
053	Fruits, preserved and prepared	25	
054,055	Vegetables	25	
111	Nonalcoholic beverages	10	
112	Alcoholic beverages	10	
09	Miscellaneous food preparations	7	
051.3	Bananas	40	
071	Coffee	5	
072,073	Cocoa and chocolates	5	
075	Spices	6	
21	Hides and skins	10	
231	Crude rubber	4	
241,242	Roundwood	35	
243	Sawnwood	30	
244	Cork	20	
29	Crude animal and vegetable materials	15	
281	Iron ore	40	
282	Iron and steel scrap	15	
283	Nonferrous ores other than bauxite	12	
284	Nonferrous scrap	12	
682	Copper	3	
683	Nickel	3	
689	Other nonferrous metals	3	
271	Crude fertilizers	30	
273-6	Other crude minerals	50	

February 24, 1967

The Second National Bank
Check-Credit Division
New Haven, Conn.

Dear Sirs:

In my letter of January 30th to you, I have asked for a statement of the amount of interest which was charged to me on my check-credit account No. 99 60106 3 during the year 1966. Since I urgently need the statement for my tax return, I would appreciate your early attention to this matter.

I am enclosing your latest statement which indicates that the loan balance has been fully paid.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

Mr. A. J. Macone

February 24, 1967

Bela Balassa

Comments on "The Structure of Protection in the Industrial Countries".

Some time ago I sent you three of the above papers with the request that your staff comment on the discussion of individual commodities on pages 14 to 21 in the paper. Thus far I have received only comments from Messrs. Els and Varon. May I assume that the lack of comments from other members of your staff indicates that they are in agreement with the statements made in the paper?

I would appreciate your early answer to this question since I am in the process of revising the paper for distribution in blue cover.

BBalassa/pam

Mr. A. M. Kamarck February 23, 1967

Bela Balassa

Economic Seminar Luncheon - February 24, 1967

The following people have been invited and will attend the luncheon for Professor Leibenstein on Friday, February 24th at 1:00 pm in Dining Room A:

Messrs. Kamarck
de Vries
King
Kalmanoff
Stolper
de Fontenay
Baranson
Balassa

BBalassa/pam

February 23, 1967

Mrs. Sylvia Konigsberg
Council on Foreign Relations, Inc.,
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Mrs. Konigsberg,

Enclosed are the corrected page proofs from Chapter 5 onwards. I wish to repeat my request that, aside from obvious misprints, no changes be made in the proofs without first clearing it with me. Also, I wish to receive the Index as well as the second set of proofs of the Preface.

A few comments on corrections I have made on the page proofs follow:

On page 115, an editor added the names of the authors of the OECD report on "Science, Economic Growth and Government Policy". There appears to be an error in one of the names; Svennilson's first name is Ingvar rather than Ingemar. I do not have access to this book; hence I wish to ask you to re-check the names of the other authors also.

On page 158 I have not been able tp provide the page numbers in footnote 12 because I had already returned Chapter 4 which was referred to here. The relevant pages in Chapter 4 are the ones containing footnotes 21 to 24. Please look for these numbers in Chapter 4 and provide the appropriate page numbers in the footnote on page 158.

On page 160 a change I had made in the galley proofs was incorrectly transcribed on to the galley that was sent to the printer. To correct this I have omitted two words in the middle of the second full paragraph, thereby shortening the page by one line. In turn, I have increased the length of the first full paragraph on the previous page by one line. Correspondingly, to equalize the number of lines, the last line on page 159 should be transposed on to page 160.

I have made some further changes on pages 162 and 163 which involves adding one line to each page. This should not give rise to difficulties since the two pages are facing each other. Should, however, the addition amount to two lines on page 162, the subtitle "Trade Arrangements without the EEC?" should be pushed up by one line.

Mrs. Konigsberg February 23, 1967

Due to recent developments, changes have been necessary on some other pages of Chapter 7 but this will not affect the number of lines on the individual pages.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

cc: Mr. John Swing

February 21, 1967

Mrs. Sylvia Konigsberg
Council on Foreign Relations, Inc.,
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Mrs. Konigsberg,

Enclosed are the corrected page proofs of the Introduction and Chapters 1 to 4. I have now the complete set of proofs and will send you the remainder later in the week.

On comparing the page proofs with the galley containing my corrections, I find that a number of my corrections have not been transcribed on the galley proofs that were sent to the printer. This has given rise to various problems; for example, inconsistencies have been introduced in the text in regard to the spelling of the word "geographical" and in the rounding of figures. I have restored my original formulation in all cases, which fact accounts for a good part of the corrections made in the page proofs in the Introduction and in Chapter 1.

I have also deleted the second sentence in Para 2 of the Introduction which was apparently added by an editor. This sentence destroys the continuity of the paragraph; also, it gives rise to confusion as regards the time period covered. Thus, in contrast to Para 1, the entire second paragraph relates to the post-1945 period and to the Presidential authority for tariff-cutting available at that time.

Since I will not again have the opportunity to see the proofs, I wish to ask that, aside from obvious misprints, no changes be made in the proofs without clearing it first with me. I can be reached during office hours at 202/DU1-2781 and in the evening at 202/333-5197. I would also like to receive the index as well as the second set of proofs of the preface; I will have to make some changes in the latter.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

encl.

cc: Mr. John Swing

February 20, 1967

American Mensa Selection Agency
P.O. Box 86
Gravesend Station
Brooklyn, N.Y.

Dear Sirs:

Please send me your test for membership in Mensa. It should be sent to my home address, 2500 Que Street, N.W., Washington, D.C. 20007. I am enclosing a cheque for $8.00.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

encl.

Mr. R. P. Messerly, Travel Office February 20, 1967

Bela Balassa

<u>Professor Power's trip to Washington</u>

I have written to Professor Power regarding his trip to Washington. In the letter I suggested that he stop in Kuala Lumpur and Bangkok on his way to Washington. Upon receipt and confirmation from him, I will advise you on how to write out his ticket.

BBalassa/pam

February 20, 1967

Lee H. Riley, Jr., M.D.
The Johns Hopkins Hospital
Baltimore, Maryland 21205

Dear Dr. Riley:

I am happy to report that apparently I have gotten over the slipped disc problem -- at least for the time being. It seems that the wearing of a corsette and daily swimming have proved beneficial.

I have not received a bill from you in connection with the examination at Johns Hopkins Hospital. May I ask you to send me one so that I can discharge my obligation to you.

Yours sincerely,

Bela Balassa

Mrs. Rosalind Gilmore February 20, 1967

Bela Balassa

Mr. John Pincus: Economic Seminar - March 22, 1967

We have invided Mr. John Pincus, an Economist with the Washington office of the Rand Corporation, to talk at the Economic Seminar on "Costs and Benefits of Foreign Aid."

Mr. Pincus has written extensively on foreign aid; he is perhaps best known for his article on "The Cost of Foreign Aid" which appears in the November, 1963 issue of The Review of Economics and Statistics. At the request of UNCTAD he has done further work on the subject and will report on his results at the Seminar.

Mr. Pincus has recently published a book on, "Trade, Aid and Development: The Rich and Poor Nations". He earlier published, "Economic Aid and International Cost Sharing".

BBalassa/pam

CONFIDENTIAL

Mr. I. S. Friedman

February 20, 1967

Bela Balassa

U.S. Balance of Payments Proposition

On February 16th, I participated, in a private capacity, at a meeting of Treasury advisers attended by Arnold Harberger, Carl Sharp, Irving Kravis, Raymond Vernon and, on the part of the Treasury, Assistant Secretaries Stanley Surrey and Winthrop Knowlton. The purpose of the meeting was to discuss the policies the U.S. government might apply to promote exports.

The Treasury Department prepared a projection of the U.S. balance-of-payments for the next 4 - 5 years. It is assumed that the ending of the Vietnam war would not bring a net saving in the full amount of the imputed balance of payments cost of the war ($960 million) because of the expected increase in foreign aid. The Treasury calculates with a net saving of $500 - $600 million on this count. It also assumes continuing restraint and hence modest increases in capital outflow (direct as well as portfolio investments). And while investment income from abroad is expected to increase, this will be more than offset by the rise in tourist expenditures abroad. With the introduction of jumbo aircrafts and improvements in hotel facilities, the deficit on the tourist account is likely to increase to a considerable extent.

Taken together, in order to re-establish equilibrium in the U.S. balance-of-payments on the liquidity definition, a surplus on trade account of about $7 billion would be required around 1970. This figure compares with a surplus of $3.7 billion in 1966, $4.8 billion in 1965, and $6.7 billion in 1964. Under the assumption that exports as well as imports rise at an annual rate of 8 percent, the merchandise trade surplus would be $5.3 billion in 1970. The Treasury expressed the view that measures of export promotion are likely to be necessary to reach a surplus of $7.0 billion.

Whatever the value of these forecasts, the Treasury's view has certain implications for the Bank. On the one hand, we may expect difficulties in receiving permission from the U.S. government to sell increasing amounts of bonds on the New York market. On the other hand, on the expectation that the multilateral part of the increasing total of U.S. foreign aid will rise in absolute as well as in relative terms following the ending of the Vietnam war, we may count on increased IDA financing. Accordingly, we may experience a shift in the relative availability of funds for Bank and for IDA lending.

A related issue is that AID is apparently engaged in an exercise in "postwar planning". Earlier this month I had lunch with Gus Ranis and, among other things, we talked about President Woods' statement on the desirability of an international conference on aid. Ranis expressed interest in any studies the Bank might undertake on this problem and has also suggested to swap information on work dealing with the course of foreign aid in a post-Vietnam war situation. It might be useful to discuss this issue if and when we start working on the problems relating to the proposed international conference.

I am enclosing a copy of identical letters I sent to Messrs. Stanley Surrey and Winthrop Knowlton at the Treasury.

BBalassa/pam

cc: Mr. A. M. Kamarck

February 17, 1967

OECD
Agricultural Affairs Directorate
Rue Andre Pascal
Paris 16, France

Dear Sir:

At the Economics Department of the International Bank, we have undertaken a study of the exports of developing countries in the first half of the sixties. In this study we are making comparisons between exports in 1960 and 1965 and attempt to explain changes in trade flows by reference to the development of the consumption and production of individual commodities in the industrial countries.

We have here the January 1966 issue of the publication Food Consumption in the OECD Countries, which contains food balance sheets up to and including 1964-65. I wonder if we may ask you to supply us with more recent food balance sheets for the OECD countries including the final version for 1964-65 as well as the provisional version in 1956-66. Your assistance in this matter will be greatly appreciated.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

February 17, 1967

Professor John H. Power
Visiting Professor Economics
University of the Philippines
P.O. Box 776
Manila, Philippines

Dear Professor Power:

I have discussed at the Bank the possibility of carrying out a study on the structure of protection in Thailand or Malaysia under the auspices of the Bank.

We are interested in further exploring this possibility and would be glad if you could go to Kuala Lumpur and Bangkok on your way to Washington. Pending your agreement, I have asked the Travel Office to write out your ticket accordingly and we will also cover out of pocket expenses at these two places. For this purpose we would need your hotel bills.

Looking forward to seeing you in April, I remain

Sincerely yours,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

February 17, 1967

Mr. J.A.C. Faure
Unilever Limited
Unilever House
Blackfriars
London, E.C. 4, England

Dear Mr. Faure:

Several years ago, when I was working on my book, "Trade Prospects for Developing Countries," you and Mr. Savage kindly helped me on some questions relating to the consumption of fats and oils. This year I am at the International Bank as an Adviser to the Economics Department and have undertaken a study of the exports of developing countries in the first half of the sixties. In this study we are making comparisons between exports in 1960 and 1965 and attempt to explain changes in trade flows by reference to the development of the consumption and production of individual commodities in the industrial countries.

I wonder if I may ask you to help us in this work by sending us the last issue of the Proceedings of the International Session of Seed Crushers. I would also appreciate receiving the breakdowns underlying the results published in the Proceedings on the consumption of various oils and fats in the countries of North America, Western Europe, Japan and Oceania in the year 1965.

With kind regards to you and Mr. Savage,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

February 17, 1967

OECD
National Accounts Division
Rue Andre Pascal
Paris 16, France

Dear Sir:

At the Economics Department of the International Bank, we have undertaken a study of the exports of developed countries in the first half of the sixties. In order to evaluate the relationship between national incomes and imports from less developed countries, we would need data on the 1965 gross national product of the individual OECD countries, expressed in 1958 prices. It would be helpful if you could supply us with this information at an early date. In the meantime, if your 1965 volume of National Accounts Statistics has been published, I would appreciate receiving a copy of this also.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

February 17, 1967

Dear Staffan,

I understand from your recent letter that you would not like to have your chapter in its present form included in our volume "Studies in Trade Liberalization". I am afraid that I do not have the leisure to revise this chapter; at the same time, we would very much want to have it included in the volume. The manuscript was read by two people from Johns Hopkins Press, one of whom was Larry Krause. As you can see from the enclosed reader's reports, both Larry and the other reader think highly of the volume and on their recommendation the Governing Board of the Johns Hopkins Press decided to publish it. I asked Larry specifically about your chapter and he felt you had done a very good job and made an interesting contribution.

I would like to ask you, therefore, to reconsider the question and to agree to the publication of your chapter in our volume. I do believe that the text would require relatively few changes which you might be able to do over the weekend. I take the liberty of returning the first part of your chapter for eventual revisions.

I am glad to hear that you had a pleasant time at Yale. It is a pity that you did not get down to Washington.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Staffan B. Linder
The Stockholm School of Economics
Handelshogskolan 1 Stockholm
Sveavagen 65
Stockholm va
Sweden

February 17, 1967

Dear Tibor:

You should have received by now a copy of de Vries' letter to Little concerning the change in the dates of our meetings. I sincerely hope that this change will not inconvenience you and that you will be able to attend. I sent you some material relating to the meeting some time ago and will send copies of the contributors' reports as these come in. Due to the postponement of the meeting, I have given them a few weeks extension on the reports.

I also have to reschedule my trip to Europe and this may now not take place until early June. May I ask you to let me know if you and Little plan to be in Paris at that time.

Looking forward to seeing you in Washington, I remain

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

Mr. Tibor Scitovsky
Organization for Economic
Co-operation and Development
91, boulevard Exelmans
Paris 16^e, France

February 17, 1967

Mr. Maxwell Stamp
Maxwell Stamp Associates
Moor House
London Wall
London, E.C. 2, England

Dear Mr. Stamp:

I am enclosing the paper on "American Attitudes toward Trade Liberalization in the Atlantic Area" which you requested for inclusion in the Moorgate and Wall Street Review. Would you have any objections if I referred to this article in my book on trade liberalization? Your early answer to this question will be appreciated since I will be getting the page proofs of the book in the next few days.

As I mentioned to you in our conversation, my position on the desirability of a U.S.-Canada-EFTA free trade area is rather different from yours. At the same time, I have taken pains to restrict the discussion to U.S. objectives so as to reduce the clash with an article you may write favoring such an arrangement. Incidentally, Sperry Lea has read my paper and agrees with much of what it contains.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

February 17, 1967

Mr. Alfred Parmelee
Westley Wollcot & Co., Inc.,
59 East 54th Street
New York, N. Y. 10022

Dear Fred:

I waited with my note on balance-of-payments problems until yesterday's meeting of Treasury consultants. The purpose of the meeting was to discuss the possible measures that could be used to promote U.S. exports. At the meeting, Stanley Surrey, an Assistant Secretary, discussed balance-of-payments prospects for the next several years. The enclosed memo deals with this problem; needless to say, it should be kept strictly confidential. I suggest that you tear up this letter; in the memo I am not mentioning names.

I am also enclosing a list of my stocks, indicating which ones have been held for over six months. In this connection, I plan to call you sometime next week.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

P.S.

I am enclosing some material on Loehmann's (listed on ASE). My wife swears by the store and thinks that it has tremendous possibilities for expansion. While the stock ran up quite a bit in the past two weeks, it might be interesting to look into it.

The U.S. Balance-of-Payments: Problems and Prospects

I believe we can safely say that the sterling crisis is over: the deflationary measures have been successful in re-establishing equilibrium in the UK balance of payments. This is hardly a surprising development; the French and the Italians have done the same in the past few years. And although the problem remains that the large sterling liabilities present danger for the time of a reflation, it can be assumed that Wilson will be careful in reflating the economy.

It would appear, then, that we cannot expect another crisis in the UK balance of payments in the next 2 - 3 years and hence there is no threat for the dollar from that quarter. The possibility cannot be excluded, however, that if and when Britain enters the Common Market, sterling will be devalued somewhat. But, at the present time, the chances for entry into the EEC are less than fifty-fifty.

The danger to the U.S. balance-of-payments, then, lies largely in our own actions. In 1966 we experienced only a small deterioration on a liquidity basis while on the official settlement basis we had a surplus. But, aside from the use of some gimmicks, such as prepayments by European countries, the inflow of foreign capital in response to high interest rates contributed to the relatively favorable outcome. With the easing of interest rates, this flow cannot be expected to continue and one may say that the stock market has to navigate between the Scylla of high interest rates and the Charybdis of low interest rates and a capital outflow. Nevertheless, with interest rates coming down in Europe, the market is likely to avoid the dangers presented by these extremes and I believe that its course will be upward.

As regards the U.S. balance-of-payments, Roosa has correctly pointed out the likelihood of an increase in the deficit. The question is, then, how long we can go on incurring deficits and at what point effective action would be taken. While in the U.S. it is customary to look at changes in the gold stocks, foreigners worry little about this and rather consider the relationship between official dollar liabilities and the U.S. gold holdings. Continuing deficit can therefore give rise to alarm even if our gold holdings remain unchanges. But psychology matters a lot here, and we may well have deficits of about $2 billion a year for another 2 - 3 years without creating a crisis.

Further, I hope that the government will take effective measures before a crisis comes. I do not consider the doubling of the Interest Equilization Tax as an effective measure; its detrimental psychological interest in Euqope are likely to outweigh whatever effect it may have on portfolio investments. The application of the Interest Equalization Tax to direct investments or a tourist tax would certainly be more effective. I have seen no indication that the latter measures would be seriously considered at the present time.

Rather, attention has been given to expected changes in the balance-of-payments in the next five years or so. It is assumed that the ending of the Vietnam war would bring a net improvement not exceeding $0.5 billion because part of the saving would be used to increase foreign aid. At the same time, the increased deficit on the tourist account following the introduction of jumbo jets and the enlargement of hotel facilities in Europe, will not be offset by the rise in investment income. With direct foreign investment continuing at present rates, our trade surplus will have to rise in order to balance the accounts. Some estimates put the required trade surplus at $7 billion, which might not be reached without applying measures of export promotion. Various possible measures are under consideration but I am doubtful that Europeans would accept such a large surplus since it would, in part, be used to finance U.S. investments in Western Europe. Ultimately, further restrictions on direct investments may therefore be necessary.

February 17, 1967

Mr. Donald S. Lamm
W. W. Norton & Company Inc.
55 Fifth Avenue
New York, N. Y. 10003

Dear Don:

It was good to see you last week and I very much enjoyed our conversations on the modern economics series and other matters. I have now read the Maddison manuscript and am enclosing some detailed comments.

The study provides an interesting description of growth experience of Japan and Russia since 1870. While the author does not live up to the promise made in the introduction of providing a "quantitative appraisal" of the growth performance of the two countries, (quantitative appraisal cannot be equated with a profusion of tables), he has done a good job in collecting information on the subject and communicates this knowledge to the reader quite effectively.

The best parts of the book are the descriptive chapters (Chapters 1 and 3). The analysis of growth performance presented in Chapter 2 (Japan) and Chapter 4 (Russia) is weaker and somewhat impressionistic. In Chapter 2, too much emphasis is given to changes in the early period and there is an imbalance in the treatment of technological change in agriculture and in industry. The description on technological assistance from abroad is limited to the pre-twentieth century experience and nothing is said to licensing arrangements which have importantly contributed to Japanese growth in the post war period. Education is also unduly neglected. In turn, in Chapter 4 the author uncritically praises the high Soviet technological level and the efficiency in the use of capital in the Soviet Union. It would be useful if he consulted on this point some standard books on Soviet economic performance such as the study by Alec Nove.

The author has a penchant for tabular material as evidenced in his early writings. It would be useful if he reconsidered the use of such material with a view to reducing the number of tables. He should also emphasize the margin of error involved in the estimates. Chapter 5 consists mostly of tables and there is hardly any explanatory text. The chapter would not be appropriate for college consumption in its present form.

Readers will find Chapters 6 and 7 especially interesting. While Maddison often overstates his case, his observations are generally pertinent. In Chapter 7 I would tone down the discussion on the convergence of policies in East and West. Finally, the footnotes should be put at the end of the book.

While I am not very enthusiastic about the overall quality of Maddison's work, I recommend publication provided that the changes suggested by other readers and myself are made. It would also be useful to get Bergson's appraisal before a final decision is reached, since the part dealing with Russia appears to be weaker than that on Japan. Let me add, finally, that a book of this sort can have good sales in the college market; I might also use it myself if I gave a course on comparative economic systems.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Maddison: Russia and Japan

I find the subtitle of the book, "The Economics of Maximum Growth" inappropriate and suggest something like "Economic Growth in Russia and Japan" as the title.

Introduction

p.1 I doubt the validity of the estimates according to which the USSR and Japan would have a combined real output equal to that of the United States or of Western Europe. At any rate, Europe's GDP is less than that of the United States.

p. 1 Given the statistical error involved, Russia does not seem to have done better than many Western countries which have started from a higher level.

p. 2 I doubt that both the USSR and Japan would now be close to European productivity levels.

p. 2 The USSR has also been highly successful in raising the rate of savings and investment. In turn, Japan did develop a "massive military power" by the time of Pearl Harbour.

p. 2 It is an exaggeration to speak of a "substantial convergence between Western and Soviet policy on questions both of planning and the price mechanism." Also, the sentence following this is sheer journalism and should be deleted.

p. 3 Perhaps we should not speak of "major improvements" in quantitative data "revolutionizing" scientific economic history.

Chapter 1

p. 1 According to the author, "Japan is the only non-European country to have made a transition from being under-developed." He presumably means a country with a population of non-European origin.

p. 6 The meaning of the expression "daimyo" is not explained.

p. 6 What is meant by the statement that "American imperialism arrived in the form of the Commodore Perry"?

p. 6 I wonder if we can speak of the "breakdown" of the merchant class after 1850.

p. 7 It is an exaggeration to say that "the Meiji reform replaced feudalism with an up-to-date version of European capitalist institutions."

p. 12 It is noted that "in the Meiji period, Japanese militarism did not have as unfavourable effects on growth as it did in later times." In the discussion of later periods, this point is not elaborated.

p. 14 What is "maximum growth strategy"?

p. 17 It would be useful to define what is meant by heavy industry.

p. 18 I doubt that the share of heavy industry in total industrial output would be higher in Japan than in other industrial countries. This may be a statistical error or, perhaps, relative prices differ to a considerable extent from country to country.

p. 18 What is a "reasonable pay-off" of new investment?

p. 18 It is not clear whether the figures on the share of investment relate to gross or net investment.

p. 18 We cannot speak of the flexibility of an economy in terms of quality and costs. The truth of the matter is that Japan has had lower costs than her major trading partners.

p. 19 Educational effort should be measured as a proportion of GNP.

p. 21 I do not understand the U.S. figure for 1955-64 in Table I-6.

p. 22 Most observers would disagree with the statement, "price competition is sharper in Japan than in Europe." (p. 22)

p. 22 The statement concerning the similarity of the postwar price climate in Japan and in the West is incorrect. The author should consult the UN statistics on export price indices.

Chapter II

p. 1 The "burden" of foreigners is likely to have been much smaller than the benefit derived from their presence.

p. 2 Has Mexico surpassed the Japanese achievements in agriculture?

p. 11 The author tends to overestimate the benefits of the large firm - small firm dichotomy in Japan.

p. 12 It is not clear that "the Japanese wage system --- led to economic use of capital"

p. 17 In speaking of the high rate of growth of Japanese exports before World War I, one should not forget that Japan started from a very low level (Cf. Table II-9).

p. 19 The author should discuss the trade restrictive effects of Japanese quotas on imports.

p. 23 It should be noted that direct foreign investment in Japan is permitted in exceptional cases only.

Chapter III

p. 2 There are quite a few conflicting estimates in Soviet economic growth in the West.

p. 4 The differences between Tables III-1 and IV-2 are not so much conceptual as they are due to the exaggeration of Soviet official statistics.

p. 4 St. Petersbourg was hardly "a Versailles on the scale of Paris".

p. 8 There are plenty of people who regard the Mexican ejido (not ehido) system an obstacle to progress.

p. 23 I doubt if we can speak of "severe payment problems" in an autarchical economy.

Chapter IV

p. 2 Mention should be made on the distortion in the Soviet price system that inflates the share of investment in GNP.

p. 5 The high share of agricultural investment is relatively recent in the Soviet Union.

p. 6 The discussion on the relationship between investment and productivity is somewhat nuclear.

p. 7 I strongly doubt that the low return on Soviet investment would have been due to diminishing marginal productivity as the author intimates. The explanation is rather that the lack of rational prices has led to inefficiencies in the allocation of investment.

p. 8 No evidence is presented to support the statement that "in many parts of [Soviet] industry its present technical level is abreast of or beyond that of Western Europe." With the exception of a few sectors, Russia is behind Western Europe in industrial technology and this fact has nothing to do with her "lagging agriculture".

p. 12 The last sentence on this page makes little sense.

p. 14 The author overestimates the changes that have taken place in Russia's policy of autarchy.

p. 15 In the economic sense, the USSR is not larger than the U.S.

p. 15 The lack of scarcity price provides an important obstacle to specialization according to comparative advantage.

p. 16 Gigantomania also does damage the important segments of industry.

Chapter V

p. 6 Data on the growth of total input productivity should be used here. See Domar, Review of Economics and Statistics, February, 1964 and Balassa, American Economic Review, May 1964

Chapter VI

p. 3 The economy is attuned to a rapid (rather than to a high) growth. anyway, the word "high" is overused.

p. 3 The author greatly overestimates the role of the planning agency in Japan.

p. 4 I doubt the validity of the statement, "Japan's system of economic intelligence and statistical indicators is superior to that of most European countries."

p. 5 Japan fears the effects of foreign competition in her heavy industry; hence, the long list of exceptions in the Kennedy round negotiations.

p. 6 I would leave out references to "sub-optimal" growth policies in Europe.

p. 6 The statement, "the Soviet economy did better than most Western countries in the 1950's" should be qualified. Comparisons of total input productivity are of relevance here; also, the author underestimates the recovery elements in Soviet growth during the fifties. Finally, the Western European and the Soviet experiences with trade liberalization are hardly comparable.

p. 9 According to the author, "in the case of transport, the investment effort of the USSR has been proportionately lower than that of Western Europe. This lower investment was partly due to a more rational use of resources in the USSR which has avoided some of the competitive waste of the West." This statement does not make sense to me; according to informed observers, the Russians failed to renew their transportation equipment and will suffer the consequences in years to come. At the same time, it is not clear what is meant by "competitive waste" in transportation of Western Europe.

p. 12 More attention should be given to the implications of demands for better housing and consumer durables on growth.

p. 12 I doubt that the Soviet Union would remain an imposter of food.

February 16, 1967

Lic. Gerardo Bueno
Nacional Financiera
Venustiano Carranza 25
Mexico 1, D.F., Mexico

Dear Professor Bueno:

This is to invite you to participate in a Conference on our joint research project, "The Structure of Protection in Developing Countries," to be held in Washington on April 17-18 in the offices of the Bank. Representatives of the Bank, the Inter-American Development Bank and the OECD Development Center will also attend.

The purpose of the Conference is to discuss the preliminary results of the country studies and to revalue certain aspects of the methodology of the project. To help in this, you are asked to submit by March 15, a report on the present status of your work for distribution among all participants.

The Travel Office of the Bank will supply you with a round-trip ticket from your place of residence to Washington. Hotel reservations will be made from the night of April 16th, and you will be reimbursed for out-of-pocket expenses.

Looking forward to seeing you here,

Yours sincerely,

Andrew M. Kamarck
Director
Economics Department

BBalassa/pam

cc: Messrs. de Vries
Balassa
Travel Office

The attached letter has been sent to the following:

Professor Stephen R. Lewis, Jr.
Williams College
D epartment of Economics
Williamstown, Mass.

Lic. Gerardo Bueno
Nacional Financiera
Venustiano Carranza 25
Mexico 1, D.F., Mexico

Dr. Daniel Schydlowsky
c/o Harvard Development Advisory Service
~~Casilla 982~~
~~Correo Central~~
~~Buenos Aires, Argentina~~ Cambridge, Mass.

Miss Teresa Jeanneret
Universidad de Chile
Instituto de Economia
Castilla 3861
Santiago, Chile

Professor John H. Power
Visiting Professor Economics
University of the Philippines
P.O. Box 776
Manila, Philippines

Professor Guisinger
c/o Harvard Development Advisory Service
~~Casilla 982~~
~~Correo Central~~
~~Buenos Aires, Argentina~~ Cambridge, Mass.

Mr. A. M. Kamarck February 15, 1967

Bela Balassa

"Costs and Benefits of Foreign Aid"

I suggest that we invite Mr. John Pincus to give a talk to the Economic Seminar on "Costs and Benefits of Foreign Aid."

Mr. Pincus, an Economist with the Washington Office of the Rand Corporation, has written extensively on foreign aid, and has recently published a book on "Trade, Aid and Development: The Rich and Poor Nations." He is perhaps best known for his article on "The Cost of Foreign Aid" which appeared in the November, 1963 issue of the Review of Economics and Statistics. At the request of UNCTAD he has done further work on the subject and would report on his results at the Seminar.

Mr. Pincus could come on March 22nd or March 31st.

BBalassa/pam

February 13, 1967

Mrs. Ruth Rosenthal
Assistant Editor
The Review of Economics and Statistics
Littauer Center
Cambridge, Mass.

Dear Mrs. Rosenthal:

Enclosed are the proofs of the article written jointly with M. E. Kreinin. Please note that the first letter in Continental EFTA is capitalized because we consider this as a unit. Correspondingly, I had to modify the phrasing used in the second paragraph. Also, Western Europe is taken as a geographical area and therefore the first letter is capitalized.

To answer your queries, in the first line of galley 2 we have given the meaning of the abbreviation BTM. On page 14 I have corrected the error you noted in connection with reference No. 26 in the text.

On galley 6 in paragraph 4, the editor has replaced "her" by "Japan's". This is incorrect since "her" refers to Canada rather than to Japan. I have reinstated the original.

On galley 8 in paragraph 3, the words "is able to" have been added after the reference to Table 3. The correct wording is, "Table 3 provides".

In Table 3 the headings have been incorrectly set. Under "Exports" as well as under "Imports" the word "effects" relates to all four columns. In the original typing, the words "Direct" "Discriminatory" "Feedback" and "Total" were in the upper line, while "effects" was in the lower line and related to all four. One could either do it this way in the printed version, or repeat "effects" under each heading. Finally, in Table 4 both "trade values" and "gross domestic products" should be in lower case.

At the time the article was accepted for publication, the Yale Economic Growth Center ordered 700 reprints. I presume that this order is in your files; should this not be the case, please inform me immediately.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

February 10, 1967

World Politics
Princeton University
Princeton, N. J.

Dear Sirs:

I wish to subscribe to World Politics starting with the January, 1967 issue. Please bill me at the faculty rate.

Yours very truly,

Bela Balassa
Professor of Political Economy

February 10, 1967

Foreign Affairs,
Council on Foreign Relations,
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Sirs:

I wish to subscribe to Foreign Affairs starting with the January, 1967 issue. Please bill me at the faculty rate.

Yours very truly,

Bela Balassa
Professor of Political Economy

Mr. C. F. Owen February 10, 1967

Bela Balassa

Comments on Gertrude Lovasy's, "Effects on Developing Countries' Exports of Reducing Trade Barriers to Primary Products."

1. The paper provides a critical analysis of existing estimates on the possible expansion of the developing countries' exports of primary products if trade barriers on these commodities were eliminated. After a short discussion of some tentative estimates by UNCTAD, the author examines the conclusions reached by Gale Johnson and H. G. Johnson and provides also alternative estimates.

2. I would suggest that the paper be reorganized by centering the discussion around the estimates shown in H. G. Johnson's recent book, "Economic Policies Toward Less Developed Countries" which deals with agricultural protection (Gale Johnson's estimate); sugar protection; duties and excises on tropical products; U.S. petroleum quotas; and U.S. surplus disposal. By contrast, the UNCTAD figures may be put in an Appendix or deleted altogether; they hardly deserve serious consideration.

3. I agree with the criticisms of Gale Johnson's estimate on the effects of agricultural protectionism on the developing countries' exports. However, the author's own estimate appears to err on the low side and I find the wording of the conclusions on p. i somewhat exaggerated. The main problem seems to be that time has not permitted a detailed consideration of the case of a number of commodities in the study, and in such instances the author has apparently taken a rather conservative view of the prospects for exports. Further, she concentrates her attention on agricultural goods although exports of petroleum and, to some extent, unwrought metals, too, are limited by trade barriers in the industrial countries. Finally, with the exception of sugar, no consideration is given to the possible effects of reducing protection on the prices of primary products exported by developing countries.

4. It should also be noted that, in line with the objective of providing a critical appraisal of earlier estimates, the author has used data for the years 1959-61. Correspondingly, the absolute values of the estimates relate to trade flows of more than half a decade ago, and no account is taken of the effects of the Common Market's establishment. In the following, I will examine several of the author's conclusions in some detail.

I Introduction

5. Several statements need correction or amplification here: subsidies and price supports should be mentioned on p. 1 in connection with basic foods;

subsidies and mixing regulations favoring rapeseed and price support to olive oil should be noted in regard to oilseeds; it appears questionable that quality standards would limit U.S. imports in the case of the elimination of tariffs on groundnuts; citrus fruits are subject to tariffs and not only to revenue charges; one may hardly assume that the elimination of tariffs on tobacco would benefit chiefly U.S. producers; tariffs are irrelevant on U.S. cotton imports; tropical wood should be considered separately from other types of timber.

II Factors Determining the Effect of Reducing Trade Barriers

6. In conformity with my earlier suggestions, Table 1 may be usefully deleted. At the same time, it would appear appropriate to reformulate the statement, "some of the results [of other researchers] have to be rejected" (p. 4) and to indicate the need for adjusting the results instead. Finally, it should be noted that some estimates on the responsiveness of supply to price changes do exist.

III Effects of Reducing Trade Barriers: Global Approaches

7. There is a considerable degree of overlapping between this section and the next one. As indicated earlier, it would be desirable to start out with the estimates presented in H. G. Johnson's book and to discuss the various primary products individually. The UNCTAD figures are on a rather shaky ground, and their discussion in the paper is not very illuminating. Hardly anything would be lost by deleting them altogether.

8. The author's criticism of Gale Johnson's $2 billion figure on the effects of U.S. and European agricultural protection on the exports of the developing countries, is sound. She has also improved H. G. Johnson's estimate on sugar protectionism. On the other hand, she appears to underestimate the possibilities of expansion in regard to several products, including cotton, tropical wood, oilseeds, grains, livestock and meat, sugar, cocoa products, citrus fruit, wine, and tobacco.

9. The author considers only the possibilities of increasing the imports of long-staple cotton into the United States. However, the abolition of the U.S. price support system for cotton is likely to affect the relative shares of the developing countries in the world market. In this connection, it is not sufficient to refer to Gale Johnson's statement that U.S. production would not be much less in the absence of the farm program. The present U.S. export subsidy amounts to one-fourth of the export price of cotton and one can hardly assume that a price change of this magnitude would not affect supply. At the same time, the rise in the share of developing countries in world cotton exports gives promise for further increases in the future. Should we assume a supply elasticity of one in the United States, these countries would replace one-fourth of U.S. exports, valued at about $80 million a year.

10. An analysis of the possible expansion of exports of tropical wood from developing countries would also be desirable. While tariffs on roundwood are relatively low, duties on sawnwood are higher, thereby raising the effective rate of protection. The effects of this protection on imports of sawnwood could therefore be usefully explored.

11. Consideration should further be given to the effects of subsidies and mixing regulations on rapeseed and of price support for olive oil on Common Market imports of oilseeds from less developed areas. While oilseeds are not subject to duty, the application of these measures effectively limits their imports into the EEC countries where domestically produced oilseeds provide one-half of the home consumption of oils and fats other than butter. Similar regulations are also in effect in other European countries. Finally, the elimination of the U.S. price support system on soybeans may increase the market opportunities for oilseeds produced in developing countries and lead to higher prices.

12. The author makes no allowance for possible increases in the imports of grains from less developed areas following the dismantling of the system of agricultural protection in the industrial countries. This conclusion applies to wheat and rice but not to feedgrains. The possibilities in the production of maize and other feedgrains in Argentina, Thailand, and Cambodia are considerable and these countries could encroach upon the European market if the present system of subsidies and price supports was discontinued. Such a change may also favorably influence the exports of animal feeding stuffs from the developing countries. Finally, it would be useful to reconsider the possibilities of expanding meat exports from Argentina and Uruguay, especially if changes are made in U.S. health regulations which exclude the imports of fresh and frozen meat from these countries.

13. The author's adjustments on the prospective expansion of sugar imports represent a considerable improvement in H. G. Johnson's estimates. Further adjustments are called for, however, that would entail an upward revision in the figures. For one thing, the author takes no account of possible increases of sugar consumption in developed countries although the reduction of prices would have such an effect.[1] For another, the effects of the elimination of price support would not be confined to producers on the U.S. mainland but the output of sugar in Puerto Rico and Hawaii would also decline.

14. While the discussion of trade in coffee, cocoa beans, tea, and bananas is unobjectionable, an analysis of protective regulations on cocoa products and citrus fruit is called for. As shown in my study on "The Structure of Protection in the Industrial Countries and its Effects on the Exports of Processed Goods from Developing Countries," high tariffs on cocoa products in the industrial countries discriminate against the imports of these commodities from less developed areas. For example, in the European Common Market, a tariff of 5.4 percent is levied in cocoa beans but the duty on cocoa powder and butter is 22 - 25 percent and on chocolate 30 percent. It can be expected that the elimination of these tariffs would contribute to the expansion of cocoa processing industries in less developed areas. Finally, in the case of citrus fruit, distinction should be made between the producers of summer and winter oranges which do not compete with each other and are subject to different tariff rates.

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[1] The impact of a rise in the world market price of sugar on consumption levels in non-producing developing countries is not clear. Inasmuch as these countries often have high taxes on sugar, consumer pressure may induce them to reduce taxes and to keep the retail price unchanged. But even if retail prices do rise, and there is a corresponding decline in consumption, this would not affect the balance-of-payments of the developing countries, taken together.

15. A reconsideration of the effects of protection on imports of tobacco also appears desirable. The author maintains that quality considerations would benefit U.S. tobacco in the event of a removal of protective barriers in Western Europe. But the recent shift from U.S. to African tobacco in European imports suggests the possibility of further changes in this direction and exports from developing countries would be favorably affected if the U.S. support system was abolished.

16. The possibilities for the expansion of wine exports from less developed areas are also greater than the author indicates. In this connection it should be noted that the U.S. system of specific duties discriminates against low-priced wine that is imported chiefly from developing countries. The removal of protective measures would also give a boost to European wine imports; even France could import more wine for mixing with domestic produce.

BBalassa/pam

cc: Miss Levasy
Messrs. Kamarck
de Vries
Macone

February 9, 1967

Mr. Alfred C. Wolf
Program Advisor to the President
Inter-American Development Bank
Washington, D. C. 20577

Dear Mr. Wolf:

I have now had an opportunity to read Mr. Delaplaine's "Study of the Economic Growth Problems of Latin America". I am sorry to say that after due consideration I have reached the conclusion that I could not recommend publication of the manuscript.

Mr. Delaplaine's study appears to be a collection of notes on various subjects, the relationships of which are not always made clear. While I would agree with several of the recommendations made by the author, I am disturbed by the lack of justification given to many of them. A related problem is that the methods of deriving the estimates are often not indicated and little effort is made to ensure their consistency.

The estimate of the capital requirements of Latin American countries is a case in point. The author establishes an upper limit for hard borrowing, expressed as a percentage of GDP, and derives projections on the need for concessionary lending (in effect, grants) on the basis of an assumed relationship between such lending, the rate of growth of exports, and that of GDP. Exports and grants are regarded as substitutes and it is assumed that both forms of foreign exchange earnings, taken individually, are in a fixed relationship with the rate of growth of GDP.

According to the author, "the long run growth rate of GDP in Latin America is in 1966/67 necessarily equal to the growth rate of exports less about 1.2%, at the present level of concessionary lending" (p. 1). In turn, for a given rate of growth of exports, he provides estimates on the need for concessionary lending that would increase the rate of growth of GDP by one percentage point. It is not clear how these relationships have been derived, and no explanation is given for the lack of consideration to domestic savings as an alternative way of financing an investment program.

Furthermore, exports should be compared to imports in order to derive the prospective trade gap that is contrasted to the savings gap (the difference between projected investment and savings). In Delaplaine's study, Table XVII includes some figures on balance-of-payments projections but the derivation of the data is not given. (In fact, according to the text, Table XVII would deal with agriculture). According to this table, the difference between exports and imports equals the balance of services less the allowable current account deficit, neither of which is shown in the text or in other tables.

Further problems relate to the assumed upward limit on hard borrowing and the postulated relationship between foreign capital and growth. In establishing the "limits" to hard lending, the author gives no attention to the rate of growth of this lending. However, as it has been repeatedly shown, there is a net flow of resources to developing countries as long as the rate of growth of hard lending exceeds the sum of amortization and the rate of interest, expressed as a percentage of outstanding debt. Similar considerations apply to private foreign investments, except that the effects of these investments on exports should also be considered.

I have not tried to cover all major issues raised in Delaplaine's study although his treatment of many of these is also open to criticism. This applies especially to the theoretical chapters that do not show much understanding of recent contributions to the problems in question. I do not believe, therefore, that the quality of the work can be much improved through further revisions.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

cc: Messrs. Kamarck
de Vries

February 9, 1967

Mr. Benton F. Massell
Director of Economic Research
University College
Nairobi, Kenya

Dear Ben:

I believe that Gerry Helleiner talked to you about our project on the Structure of Protection in Less Developed Countries. This project aims at combining comparable results for several countries derived on the basis of common methodology. The countries in question include Argentina, Chile and Mexico in Latin America, as well as Pakistan and the Philippines in Asia. We have some excellent people working on the country studies including John Power, Stev Lewis and Daniel Schydlowsky.

I am writing to you to explore the possibility of your interest in carrying out a study on Kenya. Since Kenya has the most industry among the countries of tropical Africa, we would be anxious to have it included in the project. We originally commissioned Helleiner to do this study but his duties do not permit him to do this.

I am enclosing a copy of the "Outline and Methodology" and a Supplement to it which describe in detail the objectives of the project as well as the methods employed.

I would appreciate it if you would let me know at your earliest convenience whether you might wish to participate in the project. Needless to say, we pay an appropriate honorarium.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

cc: Messrs. Kamarck
Dyer

February 9, 1967

Professor Gerald Helleiner
Economic Research Bureau
University College
Dar es Salaam, Tanganyika

Dear Gerry:

I am sorry that, due to the extension of your contract with the Rockefeller Foundation, you will not be able to participate in our project on the Structure of Protection in Less Developed Countries. I am afraid that we cannot accept Dudley Kessel as a substitute for you. We have well seasoned economists of a first rate calibre in the project and we would not want to involve somebody who has had no previous research experience.

I will write to Ben Massell about the possibility of his undertaking the study on Kenya; otherwise I am afraid that we will have to drop the African studies.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

cc: Messrs. Kamarck
Dyer

February 9, 1967

Dear Peter:

I am afraid that my trip has again been postponed; this time the reason is that my Norwegian contributor has not completed his assignment.

As things stand, I might not get to Europe before early June. I will be glad to accept your invitation to visit the Minister of Overseas Development if I can still be of help in the Coffee Diversification Study.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Miss Peter Ady
Ministry of Overseas Development
Eland House
Stag Place
London S.W. 1, England

February 9, 1967

Dear Mr. Blackhurst:

Thank you for your invitation to present a paper at your Department's Latin American workshop. I would be glad to come but I wonder if the seminar could be held earlier than 7:00 p.m. I would expect to combine my coming to Chicago with a visit to Wisconsin where I would be lecturing on a Tuesday. Since I have to limit my absence from the Bank, my lecture at your Department would have to be set at an hour which would permit me to return to Washington the same day.

Please let me know if my suggestion is acceptable to you and I would also like to have several alternative dates to choose from.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Richard Blackhurst
The University of Chicago
Department of Economics
Chicago, Illinois 60637

February 9, 1967

Dear Alexander:

You may recall that I had no opportunity to see Kafka's paper prior to his presentation in Chicago. Correspondingly, I had to make impromptu comments following his talk. I am afraid that I cannot quite recall what I said and I would certainly need the transcript in order to put my comments in publishable form.

Incidentally it seems to me that Kafka has changed a few things in his paper; in the event that he has deleted some items which I criticized, I expect to stick to the original.

I look forward to seeing you in Washington. Please give me fair warning before you come. Will your wife be accompanying you?

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Alexander Swoboda
The University of Chicago
Department of Economics
Chicago, Illinois 60637

February 9, 1967

Dear Mr. Braithwaite:

Many thanks for your letter of January 31st. Apparently you have an excellent filing system inasmuch as you could ascertain that the publication in question was sent to me in 1963.

Some of the material I had at Yale has not yet been unpacked following my transfer to Washington. I expect to get to it in the next few weeks and presumably the document is among other material I accumulated on Latin America.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Stanley N. Braithwaite
Chief
Special Studies Section
Naciones Unidas
Comision Economica Para America Latina
Av. Providencia 871
Casilla 179 D.
Santiago, Chile

February 8, 1967

Dear Mr. Ecob:

I have not yet received a reply to my letter of January 3rd. Since the latter might have gotten lost, I am sending you a copy with the request that you attend to this matter at your earliest convenience.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. John L. Ecob
Foreign Department
Richard D. Irwin, Inc.,
1818 Ridge Road
Homewood, Ill.

Mr. B. A. de Vries   February 6, 1967

Bela Balassa

Export Experience of Developing Countries

1. The paper provides much interesting information on an important problem: the differential export performance of developing countries and the effects of the economic policies followed on this performance. As noted in the Introduction to the study, in most writings emphasis is given to the demand factors and the influences affecting export supply are given little consideration. Exceptions are the GATT study on the relationship between industrialization and export performance, the discussion of this problem in a special issue of Kyklos, Gertrude Lovasy's paper on the effects of inflationary trends on exports, Maisel's study on Industrial Growth and World Trade, and the dissertation by Van Ooms written under my direction at Yale.

2. It would be useful to refer to these writings in the introduction so as to indicate the antecedents of the present study. As I noted in my October 12 memo, Van Ooms' work is of especial importance, in part because of the sophisticated use of econometric techniques, and in part because of the inclusion of the geographical pattern of exports as a determinant of export performance. The latter problem is sidestepped in the Introduction (Chapter I) to the present paper where it is noted that "more important within the framework of this study, are the variations in export growth directly related to differences in the growth of world exports of major commodities." (p. 1). It would be desirable to present some empirical evidence on this point. Reference may be made to the differences in growth rates of imports into developed countries from less developed areas; alternatively, use may be made of Van Ooms' results, according to which the commodity composition was of considerably greater importance than the geographical pattern of trade.

II Framework and Method of Analysis

3. This chapter describes the conceptual framework of the investigation, with emphasis on the distinction between major and minor exports, the definition of a country's trade position, and the separation of inward-looking and outward-looking policies. It provides a good introduction to the major issues and would require only a few changes or additional clarifications.

4. On p. 4 the definition of minor exports should be clarified; it would be useful to refer to the statistical cut-off point indicated on p. 11 already at this point. On the other hand, there is no need to describe here the statistical procedures used in regard to these exports. Neither is it desirable to anticipate the results of the study in regard to the relative expansion of minor exports and to discuss the "consensus" regarding expected future changes. Finally, the statement that "economic development ... if successful in increasing output at competitive prices ... must produce a broad diversification of exports." (p. 5) prejudges the issue.

5. On p. 7 the distinction made between short term and long term changes in a country's pattern of production is not entirely clear; neither is the discussion of the effects of changes in the general price level on exports. Further, the suggested relationship between inflation, consumption, and exports would need to be clarified. While in the absence of exchange rate adjustments inflation will indeed turn price incentives against exports, it does not necessarily lead to an increase in domestic consumption as alleged on p. 8.

6. It is also doubtful that "changes in the production pattern, as measured by the relative growth of agriculture and manufacturing, may be indicative of the trade orientation of a country's economic policies" (p. 8). The statistical results of Chapter IV show that both manufacturing and agricultural production are positively correlated with the expansion of exports. This is hardly surprising since all-round increases in production help to expand the exports of agricultural as well as industrial goods. The quoted statement reflects a tendency to place too much reliance on "stage theory" according to which the exports of manufactured goods is necessarily preceded by the building of an industrial base. Thus, the author maintains that "industrialisation will, initially, have a slow pay-off in export growth even under free trade and exchange policies. Once an industrial base has been established ... an appropriate policy orientation may, if maintained over a long period of time, lead to a relatively rapid increase in exports of manufactures." (p. 8).

7. While this statement applies to a few larger countries where heavy industry has a dominant role, it is hardly relevant in the case of small countries that develop particular branches of industry by utilising domestic materials and/or cheap labor. Examples are Taiwan, Thailand, Hong Kong, and Korea. Of these the latter two have not been included in the investigation; their inclusion would have further strengthened the observed relationship between the expansion of manufacturing production and that of exports.

III Export Variations

8. This chapter provides information on the growth rate of exports from 29 developing countries and on the deviation of actual exports from hypothetical exports, the latter being calculated under the assumption of constant commodity shares in world markets. The absolute differences between actual and hypothetical exports have also been expressed as a percentage of actual exports. Separate consideration is given to commodities that have experienced a very rapid expansion in the period 1950-53 to 1960-63.

9. Subsequently, annual rates of change in the value of exports are shown for countries with high and low trade position indices, as well as for large countries in the first group and small countries in the second. The trade position index is calculated as a weighted average of a country's shares in the world markets of its exports by using the proportion of these commodities in the country's total exports as weights. In the calculation, it is assumed that developing countries have a zero share in the world market for minor exports.

While this assumption can be criticized on the basis that developing countries often have a large share in world exports of commodities classified in the second category (examples are nonferrous metal ores and concentrates, alumina, leather, spices, some fruits, and fish), this may not appreciably influence the results. Neither is the classification affected by the choice of steel consumption as a measure of country size since the dividing line between the two groups happens to coincide, irrespective of whether we use steel consumption or GDP for this purpose. In later chapters, GDP is used for this purpose which is preferable on theoretical grounds since steel consumption reflects the orientation of the country's industrialization.

10. It is indicated that countries with lower than average trade position indices had a better performance in regard to their major exports than countries with high indices. Small countries are also said to be favored in this respect but this conclusion is based on a comparison of export performance of large countries with above average, and small countries with below average, trade position indices. The results are largely inconclusive if we compare instead the performances of large and small countries <u>within</u> each group. At the same time, this is the relevant comparison since country size and trade position indices are positively correlated.

11. Following a discussion of the relative performance of countries in regard to major exports and two groups of minor exports (manufactures and agricultural products), major commodities are separated into two categories on the basis of whether developed countries are competing producers or not. It would appear useful to expand the short discussion devoted to this comparison. It should be pointed out, for example, that the omission of large petroleum exporting countries and Cuba accounts for the relatively small share of the 29 developing countries in the world exports of noncompetitive commodities (18-19 percent). In turn, the conclusion that in the case of competing commodities "the shares of these countries that were below average at the start declined a bit less than those of the countries with above average initial shares." (p. 19) may be subject to a statistical error. From Table 4A it appears that the 16 countries which had a share of less than 10 percent in competing commodities in 1950-53 suffered a 22.0 percent decline in these shares, while a 15.8 percent decline is shown for the 15 countries that had a share of less than 8.4 percent in 1950-53. Alternatively, the results may be due to the preponderant weight of country No. 16 -- thereby pointing to the need for calculating unweighted averages of shares.

12. The section dealing with the case of commodities that experienced very rapid growth in world trade would also require further refinements and analysis. To begin with, the statement according to which the current value of world exports of timber, bauxite, and fishmeal increased by 250 percent between 1950-53 and 1960-63, while none of these commodities experienced an increase exceeding 36 percent in terms of constant prices, is incorrect. Appendix Table 3 shows that increases in quantity terms, exceeded 250 percent in all three cases. At the same time, the use of volume figures is especially important in this context since the prices of a number of commodities declined to a considerable extent from the high levels reached during the Korean war.

13. Questions arise also in connection with the classification system used which singled out commodities that had an export growth exceeding the 82 percent shown for minor exports. Inasmuch as the objective of the exercise is to indicate to what extent countries utilized the possibilities provided by the rapid expansion of demand for individual commodities, it hardly appears justified to exclude commodities such as currants, grapes, raisins, bananas, wheat, and edible vegetable oils, the exports of which increased by more than one-half during the ten-year period under consideration. In turn, if the present scheme of classification is used, the Philippines does not properly belong to the group of countries whose exports of the commodities in question increased more than the average. And, if the Philippines are excluded, the data do not bear out the conclusion that an "export minded policy augurs well for a country's chance of cashing in on the potentials of rapidly growing commodity markets" (p. 22) since the number of countries in the group with good and poor performance in regard to minor exports is equal.

IV Statistical Analysis of Inter-Country Differences in Export Growth

14. This chapter would require extensive revision. It is largely based on simple regression analysis: regressions have been calculated for pairs of the 10 explanatory and 6 dependent variables and multiple regression analysis has been used in only a few cases (Cf. Appendix Table 8). However, the results obtained by the use of simple regressions hardly permit us to derive meaningful conclusions because of the possible intercorrelation among the explanatory variables. The observed negative correlation between export performance and the rise of domestic prices (uncorrected for devaluation) may be due to a negative correlation between domestic prices and manufacturing production, for example. In other words, simple regressions do not correctly specify the underlying relationships and can give rise to spurious correlation. At any rate, in most cases the coefficients of determination are so low that they do not inspire confidence.

15. The correct procedure is to experiment with a number of explanatory variables in the framework of multiple regression analysis, and to select the set of variables that give the highest R^2. Alternative estimates should also be presented and the usual statistical tests for serial correlation should be given. Finally, it would be useful to expand the evaluation of the statistical results.

V Domestic Diversification versus Export Diversification

16. This is the most interesting chapter in the study and it provides much food for thought for the development economist. There are two questions, however, which need to be reconsidered. According to the author, "it must be recognized that industrialization involves the establishment of a broad range of industries ... While a country may have 'competitive advantages' in some industries only, the process of industrialization requires the establishment of others in which the country has decidedly less competitive advantage." (p. 34) As I indicated earlier, this approach does not apply to small countries

that are developing only a few industries. Neither does it apply to some of the industrial countries, such as Norway, Denmark, Belgium and the Netherlands where industrialization under conditions approaching free trade made it possible to avoid the cost of balanced growth in a small national market.

17. The recommendations made for developing countries with a gross domestic product exceeding $4 billion is also open to criticism. According to the author, for these countries "the best development strategy would seem to be an inward orientation, stressing broad industrial diversification with initial production predominantly for the domestic market." (p. 40) While this conclusion may pertain to India and Brazil, in my opinion recommendations of this sort should not be made for the other countries of the group. The problem seems to relate to the choice of $4 billion as the cut-off point between "large" and "small" countries.

18. I find the proposed cut-off point rather low. This is apparent if we consider that in small industrial countries, such as Belgium and the Netherlands, gross domestic product exceeds this figure by more than three times. At the same time, in the case of countries with different per capita income levels, the comparison of gross domestic products does not appropriately indicate the relative size of national markets for manufactured goods, so that spending on manufactures may be several times larger in Belgium and the Netherlands than in developing countries that have the same GDP. Yet the former two countries have never contemplated following an inward-looking policy of balanced growth and have instead developed particular industries.

19. Similar policies also seem to be appropriate for most developing countries with a GDP of $4 billion or higher. In fact, their unsatisfactory experience with inward-looking policies has led to a more outward-looking strategy in Pakistan and the Philippines. As regards Turkey, Anne Krueger's article in the October 1966 issue of the Journal of Political Economy indicates the high cost of broad industrial diversification. Finally, there are signs of changes in policies in Latin America, too.

VI Conclusion

20. These considerations point to the need for a reappraisal of some of the policy recommendations presented in the last chapter of the study. The emphasis should be on the desirability of outward-looking policies for all developing countries other than, perhaps, India and Brazil. In this connection, it should be noted that, notwithstanding a disclaimer, recommendations made in a Bank study in favor of inward-looking policies based on a broad diversification of industries would be taken to represent the official position of the Bank which is hardly desirable. Some of the statements made in the study regarding export promotion would also need to be reconsidered. It may be an exaggeration to say, for example, that "it would be unwise development planning to select new activities primarily because of their export prospects" (p. 45) since the world market provides a test of the efficiency of these industries. Also, it is difficult to understand the statement that countries such as Malaya and Thailand "pursued frankly outward orientation policies which even though

they might have seemed inconsistent with export expansion potentials, nevertheless resulted in favorable performance, especially in minor exports." (p. 45).

21. All in all, prior to the publication of the study, a reworking of the econometric results and a reconsideration of the policy recommendations would appear necessary. This would require a considerable amount of revision in Chapters IV to VI while fewer changes would be called for in earlier chapters. It would further be useful to re-read the entire manuscript for style and to carefully review the notation used.[1]

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1 For instance, in Table 3A, D_c, D_m and D are used to refer to absolute as well as to relative deviations in exports; on p. 25 "s" is used to refer to export shares, while in Appendix Table 8, "S" is used; in most instances "p" refers to a price index but in one case (p_x) refers to a ratio of indices. I also suggest rearranging Table 3A so that countries with positive D_c and negative D_m come into Group II; major exports (D_c) are generally more important than minor exports (D_m) and, in this way, we get an unbroken decline in the value of D.

BBalassa/pam

cc: Mr. A. M. Kamarck

February 6, 1967

World Affairs Bookshop, Inc.,
1625 Connecticut Ave., N.W.
Washington, D.C. 20009

Dear Sirs:

Enclosed please find my cheque in the amount of $9.27 to cover your invoice dated January 4, No. A 20276.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

Mr. John Gallman   February 6, 1967

Bela Balassa

Gold and International Monetary Form

I highly recommend the early publication of the proceedings of the Bologna Conference on "Gold and International Monetary Form". It is of considerable interest to economists and to the general reader to find in one place the views of eminent experts in international monetary problems such as Bernstein, Rueff, Triffen, Gilbert and Emminger. I believe that the publication of this volume will add luster to the list of Hopkins Press and will also be a profitable proposition. Profitability will increase if the volume can be brought out at an early date and I suggest that it should be accepted for publication on the basis of material presently available to us.

However, in accepting the volume for publication it should be emphasized that Hinshaw is to take the responsibility for careful editing. For example, while Robbins provides an interesting discussion of the general background, his statement could stand some editing. Further, I am not very enthusiastic about Bernstein's paper; parts of it make dull reading and some of his assertions are not supported by evidence (e.g. the distinction between the Triffin plan and the Bernstein plan on pages 11 - 12 is somewhat overdrawn). I also wonder if we should publish Bernstein's entire paper if, as it appears, Triffin and Rueff made shorter presentations. It may be desirable instead to rely on Bernstein's actual presentation at the Conference and, for the sake of uniformity, the footnotes may be deleted.

A final comment: I am wary about publishing Busschau's calculations on the estimated effect of a rise in the price of gold on gold production. I would not consider Busschaw as the top expert on this question as Hinshaw does; he has long been a representative of the gold mining interest in South Africa and I would surmise that his estimate is biased. But let us see it before deciding on this point.

BBalassa/pam

February 6, 1967

Mr. Charles Fricke
Hayden & Stone
One Wall Street
New York, N. Y.

Dear Mr. Fricke:

I am enclosing a cheque for $2,833.00 to pay for 100 shares of Alcon purchased last week. Another cheque for $200.00 represents 70% of the difference between the purchase price of 50 shares of American Airlines and the sales price of 40 shares of Eastern Airlines.

While the above transactions pertain to the joint account, on my single account the difference between the purchase price of 100 shares of Lorillard and the sales price of 70 shares of Sanders should be financed from the margin available on that account.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

February 6, 1967

Mr. Charles Fricke
Hayden & Stone
One Wall Street
New York, N. Y.

Dear Mr. Fricke:

I have received the enclosed note concerning a deficiency of $7,000 on my margin account. I do not understand how this figure was arrived at since the net difference between the value of purchases and sales does not exceed $3,500.

I wrote to you concerning this matter and sent two cheques in the amount of $2,833 and $200 earlier today.

Yours very truly,

Bela Balassa
Adviser
Economics Department

February 3, 1967

Dear Ron:

I sent to you today copies of two readers' reports on Studies in Trade Liberalization. I am now told that the first reader was Larry Krause.

I am enclosing the introduction. Please let me have your comments on this and especially on the part relating to your book.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor Ronald J. Wonnacott
The University of Western Ontario
Department of Economics and Sociology
London, Canada

Mr. Sarma February 3, 1967

Bela Balassa

Supplementary Finance & Compensatory Finance

I read your note of January 11th and Fleming's reply of January 18th. It seems to me that Fleming's purpose is to briefly restate his views on the differences between the compensatory and the supplementary financing schemes and on the difficulties of negotiating a balance-of-payment policy package under the latter. I would object to his statement that "the supplementary financing scheme is conceived in terms of discontinuous revision of plans" since the scheme in fact tries to help countries to carry out their medium-term plans and to avoid a downward revision of targets. Also, the formulation restricting the policy package to policies relating to the balance-of-payments is overly narrow; under the scheme the Agency would review policies designed to implement the plan. As regards Fund's role in carrying out the supplementary finance scheme, I am not sufficiently familiar with earlier discussions on the subject to be able to offer suggestions on Fleming's statements.

Concerning your own note, I am puzzled by the statement that "supplementary finance is viewed as part of basic finance." Both the compensatory and supplementary finance schemes provide ex post assistance to help the country in balance-of-payments difficulties. As I see it, the main differences between them lie in the methods used to determine eligibility (deviations from trends vs deviations from projected values), in the time-span of the two schemes, and in the rules on repayment.

BBalassa/pam

cc: Mr. Friedman
Mr. Kamarck

February 3, 1967

Professor Edwin Mills
Chairman
Department of Political Economy
The Johns Hopkins University
Baltimore, Maryland

Dear Ed:

In accordance with our earlier conversation, attached is a list of telephone calls I have made in connection with official business for Hopkins.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Encl.

Official telephone calls made by Professor Bela Balassa:

November 28, 1966	Baltimore	HO 7-3300	Discussion with Mills on appointments	$2.05
December 1, 1966	Baltimore	507-7126	"	1.25
December 2, 1966	Baltimore	HO 7-3300	"	1.25
December 6, 1966	Waltham, Mass.	894-2818	Discussion with Professor Lefeber concerning Chakravarty and Marglin	3.50
December 16, 1966	Lincoln, Mass.	259-8293	Discussion with Professor Kindleberger concerning recent MIT Ph.Ds	3.50
December 20, 1966	Baltimore	HO 7-3300	Discussion with Mills on appointments	.55
				$12.10
			Plus 10% tax	1.20
				$13.30

February 3, 1967

Mrs. Angela Lavarello
The Johns Hopkins University
Department of Political Economy
Baltimore, Maryland 21218

Dear Mrs. Lavarello:

Enclosed is the reading list for my second semester course. Please have the list stencilled and send copies to the library. The copies for the students should be put in my office. I will pick them up on the day of the first session. I would like to ask you, however, to send to my address at the Bank, five copies of the reading list for my personal use.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

February 3, 1967

Mrs. Witherspoon
Council on Foreign Relations
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Mrs. Witherspoon:

I am enclosing the last statement of expenses on the Atlantic Trade Project. Both of these relate to Mr. Kelly's study.

Please send a cheque for $47.20 to Mr. Kelly to reimburse him for postage and publications. Also, please send a cheque for $32.40 to Miss Muddiman for the typing of Kelly's chapter.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

encl.

Mrs. Gilmour February 3, 1967

Bela Balassa

Professor Harvey Leibenstein's publications and vita

Mr. Harvey Leibenstein is a graduate of Princeton University. He taught there for a while and then moved to the University of California where he is now Professor of Economics. In the Fall of 1966 he was Visiting Professor of Economics at Harvard University.

Professor Leibenstein published widely on problems of economic development, population and the theory of the firm.

His books include -

Economic Backwardness and Economic Growth, 1957

Economic Theory and Organizational Analysis, 1960

A Theory of Economic-Demographic Development, 1954

With Walter Galenson, he is co-author of the famous article, "Investment Criteria Productivity and Economic Development in the August, 1955 issue of the Quarterly Journal of Economics.

The topic of Professor Leibenstein's talk is "Nonallocative Efficiency, Entrepreneurship and Growth". He will report on his recent research in an area on which he previously published a paper entitled, "Allocative Efficiency vs 'X-Efficiency'" in the June, 1966 issue of the American Economic Review. Participants at the seminar might find it useful to read this paper.

BBalassa/pam

February 2, 1967

Dear Mr. Gallman:

Enclosed is the author's questionnaire with various attachments.

I could not fill out the number of pages and tables on page 1 of the questionnaire as I do not have any copies of the manuscript left. May I ask you to return to me a copy, preferably the one where corrections have been made in ink, so that I can start rereading the manuscript.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

Mr. John Gallman
Johns Hopkins University Press
1740 Massachusettes Avenue N.W.
Washington, D.C.

February 2, 1967

Mr. Myrick Sheldon
5701 Helmsdale Lane
Alexandria, Virginia

Dear Mr. Sheldon:

Enclosed is the warranty for the 404 Peugeot I sold to you as well as your receipt for a check in the amount of $100. Please return the check to me at your earliest convenience.

I suggest that you have the service on the car done as soon as possible since we have slightly passed the 1000 km (620 miles) mark.

Sincerely,

Bela Balassa

Encl.

February 2, 1967

Dear Dani:

I have just finished a new draft of our joint paper which I enclose with some others. Could you please get a copy of the Lewis-Guisinger study from them since I do not have any left?

Upon rereading the paper, some questions have arisen in my mind about the treatment of comparative advantage. While the effective tariff is a better measure of the efficiency of individual industries than is Bruno's cost of foreign exchange, further considerations have to be introduced in regard to comparative advantage. There are two possibilities: either we accept the modified free trade position by arguing that all industries should ultimately become competitive on the world market or we accept the maintenance of some degree of protection indefinitely. In the former case, our analysis holds since temporary inefficiencies (high costs) in input-producing industries should not influence the choice among the final products. On the other hand, the comparative advantage of individual industries will be affected by the protection of their inputs in the latter case. One would now have to use a step-wise procedure: one should first get rid of industries where efficiency is below the accepted "norm" and consider subsequently various combinations of industries, possibly in an iterative process, by utilizing the Bruno measure. Thus, in the example, clothing may be preferred to precision equipment if inefficiencies in the steel industry do not exceed the "norm".

Please give me your thoughts on it and revise Section IV if you agree with me on this point.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Dr. Daniel Schydlowsky
c/o Harvard Development Advisory Service
Casilla 982
Correo Central
Buenos Aires, Argentina

February 2, 1967

Dear Steve:

I read with interest your note on the treatment of indirect taxes and the paper written jointly with Steve Guisinger. The paper represents an important step as compared to earlier work on protection in Pakistan but, as indicated in the enclosed comments, I would suggest a number of changes in it. In turn, my numerical example is designed to indicate the implications of your discussion on indirect taxes for the effective rate of protection.

I would like to have your reactions on my comments as well as on the enclosed paper on "Effective Tariffs, the Domestic Cost of Foreign Exchange, and the Equilibrium Rate of Exchange."

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor Stephen R. Lewis, Jr.
Williams College
Department of Economics
Williamstown, Mass.

Mr. C. G. Goor February 2, 1967

Bela Balassa

Regrouping of import data for 1965

Referring to our telephone conversation, I provide here a description of the work we would need to have done with the 1965 import statistics of the developed countries.

For each of the commodity divisions, groups, and subgroups listed in Appendix A[1], separate tables should be prepared indicating the value of imports for the year 1965. The list of the column and row headings is given below while the structure of the table is shown in Table 1:

Column headings

United States
Canada
North America (includes United States and Canada)
Common Market (includes Belgium-Luxenburg, France, Germany, Italy, Netherlands)
United Kingdom
Northern Europe (includes Austria, Denmark, Finland, Iceland, Ireland, Norway, Sweden, Switzerland)
Southern Europe (includes Greece, Portugal, Spain, Turkey, Yugoslavia)
Western Europe (includes Common Market, United Kingdom, Northern Europe, Southern Europe)
Japan
Oceania (includes Australia, New Zealand, and South Africa)
Developed Countries (includes North America, Western Europe, Japan and Oceania).

1 Included are 56 two-digit divisions, 89 three-digit groups, and 25 four-digit subgroups, requiring altogether 170 tables (two-digit divisions consisting of a single group have been counted only once.)

BBalassa/pam
attch.

Row headings

Total
Ec Cl I
Ec Cl II
Ec Cl III
US Amer
Canada
W. Europe
Common Market
Japan
Aus. NZ, SA
Lat Am Rps
West Indies (Other C NES less OS Oceania and OS Europe)
Latin America (Lat Am Rps and West Indies)
Africa
South Africa
Developing Africa (Africa less South Africa)
Non-Afr ME
Other Asia
OS Oceania
Asia (Other Asia and OJ Oceania)

Appendix A

Commodity Classification to be used for preparing Commodity Tables

Two-digit divisions

All two-digit divisions in commodity classes 5 to 8 except for 61, 62, 63, 65, 68, and 89

Altogether 22 divisions

Three-digit Commodity groups

All three-digit groups in commodity classes 0 to 4 plus the following:

611 Leather, 612 Manufacturers of leather, 613 Fur skins, tanned or dressed;
621 Materials of rubber, 629 Articles of rubber;
631 Veneer and plywood, 632 Wood manufacturers, 633 Cork manufacturers;
651 Textile yarn and thread, 652 Cotton fabrics, 653 Textile fabrics, woven other than cotton fabrics, 654 Tulle, lace, etc., 655 Special textile fabrics, 656 Made-up textile articles, 657 Floor coverings, tapestries;
689 Miscellaneous nonferrous base metals;
891 Musical instruments, 892 Printed matter, 893 Plastic articles, 894 Preambulators, toys, games, and sporting goods, 895 Office and Stationery Supplies, 896 Works of Art, 897 Jewelry, 899 Manufactured articles nes.

Altogether 89 groups

Four-digit subgroups

051.1 Oranges; 051.2 Lemons, 051.3 Bananas,
283.1 Copper ores, concentrates; 283.2 Nickel ores, concentrates, 283.3 Bauxite, 283.5 Zinc ores, concentrates, 283.6 Tin ores, concentrates, 283.7 Manganese ores, concentrates, 283.9 Nonferrous ores, concentrates, nes;
681.1 Silver, unworked or partly worked, 681.2 Platinum, 682.1 Copper alloys, unwrought, 682.2 Copper, alloys worked, 683.1 Nickel, alloys unwrought, 683.2 Nickel, alloys worked, 684.1 Aluminum alloys, unwrought, 684.2 Aluminum, alloys worked, 685.1 Lead, alloys, unwrought, 685.2 Lead, alloys worked, 686.1 Zinc, alloys unwrought, 686.2 Zinc alloys, unwrought, 687.1 Tin, alloys unwrought, 687.2 Tin, alloys worked.

Altogether 24 subgroups

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

January 31, 1967

This is to inform you that I have reached a preliminary understanding with Johns Hopkins University Press for the publication of "Studies in Trade Liberalization" containing the papers prepared by the individual contributors. The editor of Johns Hopkins Press told me that they had received a highly favorable report from a reader. The editor has now recommended the publication of the volume to the Board whose approval is expected in about two weeks.

Since we will have to proceed rather rapidly with the volume, I would like to ask you to let me have any suggestions for changes you may wish to make in your study by February 15th. If all goes well the volume will go into copy editing in the second half of February.

Yours very truly,

Bela Balassa
Adviser
Economics Department

January 31, 1967

Dear Tibor:

There is an error in my letter of January 30th to you. The papers of the contributors in my project are due in the second half of February rather than the second half of April.

Let me add that I have already invited Jagdish Bhagwati to participate at the meetings and expect to send him copies of the contributors' papers as they arrive. We are also happy to have Bergsman's participation; I assume that his travel expenses would be paid by the Development Center.

Incidentally, there is a chance that the meeting will be postponed by a week or two because some of my collaborators seem to be having difficulty in coming in early April. We will let you and Ian Little know as soon as a decision is reached on changing the dates.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mr. Tibor Scitovsky
Organization for Economic
Co-operation and Development
91, boulevard Exelmans
Paris 16^{e}, France

January 30, 1967

Government Employees Insurance Company
1001 Vermont Avenue, N.W.
Washington, D. C. 20005

Dear Sir:

Re: Insurance Policy No. 599-12-78

This is to inform you that I have sold my car which was insured by you. Therefore, I would like to terminate my policy as of January 31st.

The annual insurance premium was set at $162.10, of which I have paid you $65.84. According to the policy, I owe you 35% of the annual premium for a period of three months, which is $56.70. May I ask you, therefore, to reimburse me in the amount of $9.14.

The policy as well as the recently received notice of payment due are enclosed.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

Record Removal Notice

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Additional Comments

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January 30, 1967

Dear Mr. Wolf:

Thank you for your letter of January 24th. I have indeed received a copy of Mr. Delaplaine's manuscript and expect to read this within two weeks. I will then send you my comments on the paper.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Alfred C. Wolf
Program Advisor to the President
Inter-American Development Bank
Washington, D. C. 20577

January 30, 1967

Professor Noel Farley
Goucher College
Department of Economics
Towson
Baltimore 4, Maryland

Dear Noel:

I was delighted to hear that you are now at Goucher College. I will certainly be happy to give a talk there and I am looking forward to seeing you again. I am afraid, however, that we will have to postpone the date until next Fall.

I am presently with the International Bank and will join Johns Hopkins in September. My duties at the Bank do not leave me much time to accept invitations for lectures.

Yours very truly,

Bela Balassa
Adviser
Economics Department

January 30, 1967

Dear Mr. Cadman:

I am happy to give you permission to quote my article which appeared in the May, 1965 issue of the Manchester School of Economic and Social Studies.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mr. J. R. Cadman
Westminster Bank Limited
41 Lothbury
London, E.C. 2

January 30, 1967

Dear Arthur:

Many thanks for your letter of January 23rd. As I indicated earlier, I will be happy to discuss our project on The Structure of Protection in Less Developed Countries at the OECD Trade Committee.

There might, however, be some delay in my coming to Europe. My Norwegian contributor is late in preparing a paper which I will have to discuss with him in Oslo, and the date of my trip is contingent on the receipt of his paper.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mr. Arthur Karasz
IBRD
Deputy Sepcial Representative in Europe
4, Avenue d'Iena
Paris 16e, France

January 30, 1967

Dear Tibor:

I am happy to hear that you will be attending our meetings on the Structure of Protection in Less Developed Countries project. I am also glad to know that Maurice Scott of Oxford will be here too.

I am sending you today a paper prepared by Stephen Lewis and Stephen Guisinger on "Measuring Protection in a Developing Country: The Case of Pakistan." I will send you copies of further papers as they arrive. The papers are due in the second half of April.

Looking forward to seeing you in Washington, I remain

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mr. Tibor Scitovsky
Organization for Economic
Co-operation and Development
91, boulevard Exelmans
Paris 16e, France

January 26, 1967

Dear Don:

I will be happy to join you and Duesenberry for lunch on Wednesday, February 1st. Please let me know where we should meet. My office telephone number is DU 1-2781. Looking forward to seeing you, I remain

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Mr. Donald S. Lamm
W. W. Norton & Company Inc.
55 Fifth Avenue
New York, N. Y. 10003

January 27, 1967

Mr. Harry H. Bell
Director
Research Division
United Nations Conference on
Trade and Development
Palais des Nations
1211 Geneva 10, Switzerland

Dear Harry:

Thank you for your letter of January 16th. I still plan to go to Europe in the second half of April and I trust that I will be able to come to Geneva for a day or two.

Enclosed are my answers to the questions raised regarding my paper on the Structure of Protection. I hope that these comments are satisfactory to you.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Encl.

P.S.

At one time you told me that you would put me on the mailing list for UNCTAD documents. I have not received any in recent months, however, and I would like, among others, a copy of the recent paper by Adams.

Notes on comments made concerning "The Structure of Protection in Industrial Countries and Its Effects on the Exports of Processed Goods from Developing Nations."

1. In the numerical example labor income should indeed be 20 cents instead of 40 cents.

2. The suggested modification of the original formula is correct. The error in the formula was due to the fact that the letter s was missing before k. Since s (the rate of tariff) on capital is zero, this term will disappear in the transformed formula.

3. The formula on page 6 should be corrected as shown in your note.

4. In paragraph 14, page 7, "plywood" should be replaced by "pulpwood" rather than by "pulp and paper". In turn, I prefer to use the expression "primary commodities" instead of "commodity groups" since I have explained the definition of commodities in paragraph 13.

5. It seems to me that it is unnecessary to add "in developed countries" after "the rate of protection of labor" on page 6, paragraph 10. It should be clear from the context that we speak of protection in developed countries.

6. I am fully aware of the fact that the stages of transformation used in the paper do not tally among different product groups. Nevertheless I have used this classification because the focus of the paper is on the extent of protection on value added as we move from one stage of fabrication to another. With the exception of jute products and cordage, we have succeeded to follow fairly well the various stages of fabrication for individual products. At the same time, it appeared appropriate to start from the raw material stage and proceed to the finished product stage and I also wished to avoid "holes" in the table for any given commodity.

As regards the comments made on paper and paper articles, the inclusion of these commodities in one group has been made necessary by unavailability of separate input output coefficients for the two. At any rate imports of paper articles from developing countries are extremely small. The lack of input output data also explain the inclusion of unrefined and refined copper in one category. More generally, the system of classification used was constrained by the breakdown of input-output and trade data.

7. The conclusion concerning Japan in paragraph 26, page 13 is based on Japanese results shown in Stages 2, 3 and 4. It does not appear necessary to indicate the exceptions from the general observation made here.

8. On page 24, footnote 3 is missing while footnotes presently numbered 3 and 4 should be renumbered 2, 4 and 5. The description of footnote 3 follows:

> "Textile fabrics, rubber goods, plastic articles, miscellaneous chemical products, ingots and other primary forms of steel, rolling-mill products, other steel products, metal castings, metal manufactures."

9. Japan and the United Kingdom are exceptions to the general relationship between the degree of disaggregation and estimated increases in imports because both countries import chiefly products at a lower level of fabrication from less developed areas. Note that this comment relates only to British exports from non-Commonwealth countries since U.K. imports from the Commonwealth have been excluded from the investigation.

10. Please clarify your comment regarding the use of Commonwealth preference trade as a control to compare with "other" trade.

11. I have asked the Commodity Division at the Bank to check on the question of plywood.

12. I am not sure where the estimates of manufactured goods shown in your comment come from. The enclosed table indicates the relationship between my figures and the imports of manufactured goods from developing countries as reported in the United Nations Commodity Trade Statistics. The differences between the two sets of figures are small. At the same time no adjustment was made for synthetic and processed fibers in the case of which exports of developing countries are insignificant.

In connection with the table, I wish to recall that on page 24 I have already indicated the exclusion from the data of machinery and transport equipment shipped by developing countries to developed nations for purposes of repairing or reselling. On the same page, it has been noted that we have also excluded alumina which is properly classified as a primary product. The table lists some further items which should be added to the footnotes. Let me emphasize here that I had to follow the commodity classification system of the Common Market countries in order to be able to use their input-output tables.

The only error in the data on the 1964 imports of manufactured goods from less developed areas was in Japan where an item amounting to $9,000 was left out in the aggregation of data relating to 29 industries. I am enclosing ten copies of the corrected tables 3 and 4. Correspondingly, corrections should also be made in pages 23 and 25 of the text. In paragraph 48 on page 23 Japanese imports from less developed areas should be $64.6 instead of $55.6 million, the exports of Africa $58.8 (69.2) instead of $49.8 (60.2) million and the total exports of developing countries $1290.6 (1666.7) instead of $1281.6 (1657.7) million. Further, on page 25 the correct figure for the expansion of imports under Alternative I should be $417.3 instead of $413.7 million and under Alternative II $573.9 instead of $573.0 million. The percentage change in the latter case should be 44.5 while there is no modification in the former case. Finally, the 1964 level of imports should be $1290.6 instead of $1281.6 million.

BBalassa/pam
27.1.67

January 23, 1967

Mr. Abraham Aidenoff
Acting Director
Statistical Office
United Nations, New York

Dear Mr. Aidenoff:

Thank you for your letter of January 17th. I am glad to know that it will be possible to do the regrouping of import data for the year 1965 at the International Trade Statistics Centre of the United Nations. I trust that the information given below will be sufficient to indicate the scope of this work.

I For each of the commodity divisions, groups, and subgroups listed in Appendix A[1], separate tables should be prepared indicating the value of imports for the year 1965. The column headings of these tables would include various importing areas while the row headings would provide a complete list of exporting countries and country groupings in the breakdown used in Commodity Trade Statistics, 1965. The list of the column headings is given below while the structure of the table is shown in Table 1:

United States
Canada
North America (includes United States and Canada)
Common Market (includes Belgium-Luxenburg, France, Germany, Italy, Netherlands)
United Kingdom
Northern Europe (includes Austria, Denmark, Finland, Iceland, Ireland, Norway, Sweden, Switzerland)

Southern Europe (includes Greece, Portugal, Spain, Turkey, Yugoslavia)
Western Europe (includes Common Market, United Kingdom, Northern Europe, Southern Europe).
Japan
Oceania (includes Australia, New Zealand, and South Africa)
Developed Countries, UN definition (includes North America, Western Europe, Japan and Oceania)
Developed Countries, OECD definition (includes Developed Countries UN definition less Southern Europe)

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[1] Included are 56 two-digit divisions, 89 three-digit groups, and 25 four-digit subgroups, requiring altogether 170 tables (two-digit divisions consisting of a single group have been counted only once.)

Mr. Aidenoff January 23, 1967

II While the row headings of Table 1 correspond to the country classification of Commodity Trade Statistics, 1965, in Table 2 the data will be regrouped according to the major exporting areas. The row headings in this table include all the column headings plus Soviet-type economies (EC Cl III) and following groupings of developing countries:

Latin America (includes the Latin American Republics as well as the countries and the territories of the West Indies)
Africa (the continent of Africa less South Africa)
Middle East (the non-African countries of the Middle East in the UN classification system)
Asia (other Asia in the UN classification plus the small islands of Oceania included under Other C Nes in the UN classification system)
Developing Countries, UN definition (EC Cl II)
Developing Countries, OECD definition (EC Cl II less Southern Europe)

III Among the developed countries, the United States, Canada, Australia, New Zealand and South Africa report imports on an f.o.b. basis while imports into Western Europe and Japan are measured in c.i.f. prices. We need, therefore, a table in which all data are expressed in f.o.b. prices. For this purpose, we will supply conversion ratios (the ratio of f.o.b. to c.i.f. prices) in the appropriate commodity breakdown which should be used to transform European and Japanese imports to an f.o.b. basis. The results of these calculations would be shown in Table 3 which uses the same geographical classification as Table 2.

IV The import data shown in Table 3 should finally be regrouped into 51 commodity categories, the list of which is given in Appendix B.

With the exception of Australia and South Africa, data on the imports of developed countries have already been published in Volumes 16 to 26 of Commodity Trade Statistics, 1965. I wonder if in the meantime the import data for Australia and South Africa has also arrived, so that the described work can be undertaken. Please let me know further how much time is necessary for carrying out this work and what the cost of its various phases would be.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Appendix A

Commodity Classification to be used for preparing Tables 1, 2 and 3

Two-digit divisions

All two-digit divisions shown on pp. 3 - 4 of UN, statistical International Trade Classification Revised.

Altogether 56 divisions.

Three-digit Commodity groups

All three-digit groups in commodity classes 0 to 4 plus the following:

611 Leather, 612 Manufacturers of leather, 613 Fur skins, tanned or dressed;
621 Materials of rubber, 629 Articles of rubber;
631 Veneer and plywood, 632 Wood manufacturers, 633 Cork manufacturers;
651 Textile yarn and thread, 652 Cotton fabrics, 653 Textile fabrics, woven other than cotton fabrics, 654 Tulle, lace, etc., 655 Special textile fabrics, 656 Made-up textile articles, 657 Floor coverings, tapestries;
689 Miscellaneous nonferrous base metals;
891 Musical instruments, 892 Printed matter, 893 Plastic articles, 894 Preambulators, toys, games, and sporting goods, 895 Office and Stationery Supplies, 896 Works of Art, 897 Jewelry, 899 Manufactured articles nes.

Altogether 89 groups.

Four-digit subgroups

051.1 Oranges; 051.2 Lemons, 051.3 Bananas, 051.4-9 Other fresh fruits;
283.1 Copper ores, concentrates; 283.2 Nickel ores, concentrates, 283.3 Bausite, 283.5 Zinc ores, concentrates, 283.6 Tin ores, concentrates, 283.7 Manganese ores, concentrates, 283.9 Nonferrous ores, concentrates, nes;
681.1 Silver, unworked or partly worked, 681.2 Platinum, 682.1 Copper alloys, unwrought, 682.2 Copper, alloys worked, 683.1 Nickel, alloys unwrought, 683.2 Nickel, alloys worked, 684.1 Aluminum alloys, unwrought, 684.2 Aluminum, alloys worked, 685.1 Lead, alloys, unwrought, 685.2 Lead, alloys worked, 686.1 Zinc, alloys unwrought, 686.2 Zinc alloys, unwrought, 687.1 Tin, alloys unwrought, 687.2 Tin, alloys worked.

Altogether 25 subgroups.

Appendix B

The Commodity Breakdown of the Estimates of Export Earnings for Developing Countries

Commodities	SITC Numbers
Temperate Zone Foods	
1. Livestock, meat, dairy products, and eggs	00, 01, 02
2. Fish and fish preparations	03
3. Wheat and rice	041, 042, 046, 048
4. Coarse grains	043, 044, 045, 047
5. Animal feeding stuff	08
6. Oranges	051.1
7. Other fresh fruit	051.2, 4, 5, 7, 9
8. Preserved fruit	052, 053
9. Vegetables	054, 055
10. Beverages	11
Competing Tropical Foods	
1. Oilseeds	22
2. Vegetable oils and processed oils	42, 43
3. Animal oils and fats	41
4. Sugar, sugar products, honey	06
5. Tobacco	12
Noncompeting Tropical Foods	
1. Bananas	051.3
2. Coffee	071
3. Cocoa	072, 073
4. Tea	074
5. Spices	075
Agricultural Raw Materials	
1. Hides and skins	21
2. Rubber	23
3. Forest products	24, 25
4. Wool and silk	261, 262
5. Cotton	263
6. Jute	264
7. Vegetable fibers	265
8. Animal and vegetable matter	29
Fuels	
1. Coal	321
2. Crude petroleum	331
3. Petroleum products	332
4. Natural gas	341

Nonfuel Minerals and Metals

1. Iron ore	281
2. Manganese ore and ferromanganese	283.7, 671.4
3. Copper ores, concentrates, and unwrought metal	283.1, 682.1
4. Aluminum ores, alumina, and unwrought metal	283.3, 513.6, 684.1
5. Lead ores, concentrates, and unwrought metal	283.4, 685.1
6. Zinc ores, concentrates, and unwrought metal	283.5, 686.1
7. Tin ores, concentrates, and unwrought metal	283.6, 687.1
8. Other nonferrous metals	283.2, 8, 9, 285, 286/ 671.5 683.1, 689
9. Scrap metal	282, 284
10. Fertilizers and other crude minerals	27

Manufactured Goods

1. Chemicals	5
2. Leather and footwear	61, 85
3. Veneer, plywood, wood and cork manufactures, and paper	63, 64
4. Textile yarn, cotton fabrics, and clothing	651, 652, 841
5. Jute manufactures	653.4, 656.1
6. Floor coverings and other textile products	653-657 less 653.4 and 656.1
7. Silver, precious stones, pearls, and jewelry	667, 681, 897
8. Machinery and metal manufactures	67[a], 68[b], 69, 7
9. Other manufactured goods	62, 66 less 667, 8 less 841, 85, 897

Note: a. less 671.4, 671.5
b. less 681, 682.1, 683.1, 684.1, 685.1, 686.1, 687.1, 689

January 23, 1967

Dear Teresa,

For various reasons, we have postponed slightly the date of the meeting for the collaborators on the Protection in Less Developed Countries project. Please let me know by return mail if the dates April 3 to 4 are agreeable to you.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Miss Teresa Jeanneret
Universidad de Chile
Instituto de Economia
Castilla 3861
Santiago, Chile

January 23, 1967

Dear Professor Power,

For various reasons, we have postponed slightly the date of the meeting for the collaborators on the Protection in Less Developed Countries project. Please let me know by return mail if the dates April 3 to 4 are agreeable to you.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Professor John H. Power
Visiting Professor Economics
University of the Philippines
P.O. Box 776
Manila, Philippines

P.S.

I trust that you have received my letter of December 19th. I have not yet been able to get down to writing the promised memo on the handling of indirect taxes but I hope to do so in the course of January.

January 23, 1967

Dear Mr. Henry:

I will be glad to give recommendations on your behalf to any University or institution to which you may apply.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. George B. Henry
309 Mansfield Street
New Haven, Connecticut 06511

January 23, 1967

Dear Dani,

For various reasons, we have postponed slightly the date of the meeting for the collaborators on the Protection in Less Developed Countries project. Please let me know by return mail if the dates April 3 to 4 are agreeable to you.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Dr. Daniel Schydlowsky
c/o Harvard Development Advisory Service
Harvard University
326 Littauer Center
Cambridge, Massachusetts 02138

January 20, 1967

Dear Gerardo:

I have just read your "La Expansion Economica y el Commercio Internacional." I find the use of Meade's diagrams for showing the impact of economic expansion on the terms of trade ingenious. You may wish to know that Johnson has derived similar results by the use of a simpler method in an essay published in his Money, Trade and Economic Growth. The essay separates the production and consumption effects of economic expansion and also deals with the case where technological change occurs in one industry only.

Incidentally, the derivation of the production possibility curve is not necessary for your argument. At the same time, it is not correct to say that an increase in capital endowment would not make it possible to expand the production of the labor intensive commodity. (In other words, an increase in capital endowment leads to a shift in the production possibility curve in its entire range). You arrived at a different result, I believe, because you have inadvertently modified the diagram on p. 25 on Travis, The Theory of Trade of Protection.

We are having some difficulty in finding a date for our Spring meeting that is convenient to everybody. I am afraid that we cannot hold it immediately after Easter. I wonder if April 3 - 4 would be agreeable to you. Another possibility might be March 30 - 31 but I am not as yet sure whether these dates are acceptable to others. Please let me know your preferences by return mail.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Lic. Gerardo Bueno
Nacional Financiera
Venustiano Carranza 25
Mexico 1, D.F. Mexico

January 20, 1967

Professor Joseph J. Spengler
Department of Economics and Business Administration
Duke University
Durham, North Carolina

Dear Professor Spengler:

Thank you for your letter of November 30th, in which you request a reprint of my article "Planning in an Open Economy," Kyklos, XIX, 1966.

I do not at present have the reprints but will send you one when they arrive.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 20, 1967

Dear Mr. Webbink:

Enclosed is a copy of my letter to Professor Bergson. I am sorry for the delay but a long illness prevented me from attending to this sooner.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

Mr. Paul Webbink
Vice President
Social Science Research Council
230 Park Avenue,
New York, N. Y. 10017

January 20, 1967

Dear Professor Bergson:

A protracted illness has delayed my answer to the invitation received from Mr. Paul Webbink of the Social Science Research Council to attend the conference on research on Eastern European economies to be held under your Chairmanship next May.

According to the invitation, each participant is asked to prepare a description of research on Eastern European economies in which he is currently engaged. While I am not working on problems of these economies at present, I maintain an interest in Soviet-type planning. Thus I would welcome the opportunity of participating at the conference although I would not expect to submit a description of research.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Professor Abram Bergson
Harvard University
Littauer Center
Cambridge, Massachusetts

January 20, 1967

Dear Henry:

This is a belated answer to your letter of December 20th. After a ten days' stay in the hospital, I am now on what I hope to be the road to recovery. Nevertheless, some pain and discomfort persists and the possibility of an operation -- which I try to avoid -- is not yet excluded.

We had very much hoped to come to New Haven for New Year's and to see you and Mabel then. This has now been postponed for a while but I hope that we might see you some day in Washington.

With our very best wishes for the New Year,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Professor Henry C. Wallich,
Department of Economics,
37 Hillhouse Avenue,
Box 1972 Yale Station
New Haven, Connecticut

January 20, 1967

Dear Professor Verdoorn:

This is a belated answer to your letter of December 14th due to a protracted illness with a slipped disc.

Please accept my sincere thanks for sending me your recent publications on the forecasting models used by the Central Planning Bureau. I was interested to see the further developments in your methodology.

You may wish to know that I have recently completed a paper on "Trade Creation and Trade Diversion in the European Common Market." The paper is to be published in the March issue of the Economic Journal and I will send you a copy as soon as the reprints arrive.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Prof. Dr. P. J. Verdoorn
Deputy Director
Central Planning Bureau
The Hague, Netherlands
van Stolkweg 14

January 20, 1967

Dear Dr. Dagnino Pastore:

This is a delayed answer to your letter of October 4th regarding your query on finding a Research Director for FIEL.

I have given some thought to the problem but I am afraid I cannot come up with any suggestions.

With best regards,

Sincerely yours,

Bela Balassa

Adviser
Economics Department

Dr. Jose M. Dagnino Pastore
Research Director
Fundacion de Investigaciones Economicas
Latindamericanas
Buenos Aires, Argentina

January 20, 1967

Dear Mr. Hemmer:

I am late in answering your letter due to a protracted illness with a slipped disc. I am better now but the doctor suggested that I should not travel for some time. It is also conceivable that an operation would be necessary in the next few weeks.

Since this illness has also greatly disrupted my schedule, I wonder if we could postpone my lecture until later. I will get in touch with you when I can come to New York to address your Graduate Economics Society.

I am sorry that I cannot give you a more positive answer at this time but circumstances do not make it possible.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Carl J. Hemmer
Graduate Economics Society
Department of Economics
Columbia University
New York, N. Y. 10027

Mrs. Margaret G. de Vries January 20, 1967

Bela Balassa

Many thanks for your paper on "Fund Members' Adherence to the Par Value Regime: Empirical Evidence." The paper makes an interesting point which most people are not familiar with.

I am interested to know of your work on exchange rates and purchasing power parities. I have briefly dealt with this subject in a recent note (written for your husband),a copy of which is enclosed.

I look forward to discussing your work with you.

BBalassa/pam

January 20, 1967

Dear Professor Jackson:

Many thanks for your invitation to attend the conference, "Socialized Agriculture and the Peasant" in Seattle on August 23 - 26, 1967. I am afraid that I will not be able to participate at the conference because I expect to be in Europe at that time.

Best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Professor W. A. Douglas Jackson
Chairman, Executive Committee
University of Washington
Seattle, Washington 98105

January 20, 1967

Board of Governors of the
Federal Reserve System
Division of Administrative Services
Washington, D.C. 20551

Dear Sir:

Thank you for sending me Staff Economic Studies Numbers 14 and 19. I understand that you do not maintain a mailing list for Staff Economic Studies but I wonder if there is any way I could receive information on the Studies when these are published.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 19, 1967

Dear Mrs. Sinanian:

Some time ago Miss Konigsberg sent me a set of forms to be filled out for McGraw-Hill. I find, however, that the questions contained in most of these forms are not applicable to a book such as mine.

For purposes of promoting the book, I have, therefore Prepared several papers of which I am enclosing two copies of each:

1. Curriculum Vitae

2. List of Publications

3. List of Newspapers and Periodicals to which Review Copies should be sent

4. List of outstanding personalities

5. Suggested notes for jacketk

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mrs. Sylva Sinanian
Council on Foreign Relations
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

January 19, 1967

Dear Bill:

Thank you for your letter of January 6th.

I look forward to hearing Mr. Blumenthal's comments of your paper. I trust that you will not have objections to publication.

Please let me have the statement of expenses at your earliest convenience. I would need a signed statement for any amounts paid to individuals but not for paper, postage and other material expenses.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. William B. Kelly, Jr.,
Geneva
Department of State
Washington, D.C. 20521

January 19, 1967

Dear Richard:

Many thanks for your "Price Measurements for International Comparisons." I read the report with great interest and found the step-wise regression method used for limiting the number of commodities in the sample especially ingenious.

With best regards to Nancy and you, I remain

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor Richard Ruggles
Yale University
Department of Economics
37 Hillhouse Avenue
Box 1972 Yale Station
New Haven, Connecticut

January 18, 1967

Mr. Stanley N. Braithwaite, Chief
Statistical Research Section
United Nations
Economic Commission for Latin America
Av. Providencia 871
Casilla 179 D.
Santiago, Chile

Dear Mr. Braithwaite:

In connection with a project on the structure of protection in developing countries, I have consulted some recent writings on international price comparisons with special reference to Latin America. Mr. Grinwald gave me a copy of the report on the recent Mexican meeting as well as the paper prepared by Doublas Steed for FIEL. Richard Ruggles sent me his paper on "Price Measures for International Comparisons" and suggested that I get in touch with you. I am especially interested in having a copy of your paper "A Measurement of Price Levels and the Purchasing Power of Currencies in Latin America, 1960-62," and "Lista Guia de Encuesta de Precios Basada en Especificaciones de Cepal." I would also appreciate receiving any material you may have on the above subject.

Thanking you in advance, I remain

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. B. B. King January 16, 1967

Bela Balassa

Comments on "The Mechanics of Growth and Debt"

I have read your manuscript on "The Mechanics of Growth and Debt" with great interest. There are plenty of good ideas in it that would benefit people dealing with related problems. At the same time, it seems to me that the manuscript actually contains three papers which are more or less independent from one another. These could be considered as separate essays in which the common element is the use of the "accumulation function" (Part II) -- a most useful device for simplifying mathematical expressions. I will make comments on each of these papers separately.

I In the first essay (Part III of the manuscript) you deal with savings and debt by the use of a Harrod-Domar growth model. I have some reservations regarding this model by reason of the assumed constancy of the underlying ratios, which makes it a rather inflexible tool of economic analysis. Either we maintain the warranted (you call it "intrinsic") rate of growth or the model explodes in one direction or the other. This is a shortcoming of <u>all</u> models predicated on the assumptions of constant coefficients, including the so-called "two-gap" models of Chenery and Strout.

However, in the present case, the Harrod-Domar model serves a useful purpose since it permits you to extend and to modify the conventional treatment of the effects of a capital inflow on the gross national product of developing countries. In the conventional analysis, the difference between the rate of return on the new investment and the rate of interest on loans is taken to represent the annual increment in GNP due to the inflow of foreign capital and it is implicitly assumed that the increment in income is fully consumed. This is what you call "direct additions" to GNP, calculated as the value of the original investment (ka, in your terminology) divided by the capital-output ratio (k) <u>minus</u> the interest in this investment (kai). In other words, you calculate with a rate of return of 1/k, which, in your examples, far exceeds the rate of interest (i).

Next, you remove the conventional assumption that the entire increment in income due to foreign investment is consumed, and assume instead that the marginal propensity to save (s) applies to this income also. Correspondingly, out of a net increment of GNP of a(1-ki), as(1-ki) will be saved. Now, since we are on the warranted growth path, this saving will be fully invested and GNP will grow ever thereafter (the "indirect addition" to income, in your terminology). With a warranted growth rate of $j=(s/k)$, the direct addition to GNP of single investment of ka in year n will be a(1-ki) and the indirect addition aj(1-ki)<u>J</u>, when <u>J</u> equals $(1+j)^n$.

Similar formulas are derived for foreign investments growing at a rate r. Subsequently, you note that "(i) if j exceeds r, debt and debt interest eventually become insignificant, and (ii) if r exceeds j, debt interest tends to a definite proposition of GDP." (p. 21). The first of these statements holds in relation to GNP although the accumulating debt and interest burden may create transfer-difficulties since payments would necessitate appropriate increases in imports. However, the second statement would need to be substantiated.

Further interesting conclusions are derived by assuming initial debt and interest on debt, an initial savings rate different from the marginal one, and by calculating the effects of alternative measures on GNP. These include increasing the rate of saving, the rate of return on capital, or the amount of foreign aid, and reducing the interest rate on the inflow of foreign capital. It should be emphasized, however, that the latter results greatly depend on the assumed initial ratio between foreign aid and GNP.

The model could also be used to indicate the implications of different schedules of amortization of loans, the granting of a grace period in repaying loans, the postponement of interest payments etc. On the other hand, I have found little interest in the comparisons made between the results derived on a "national savings" basis, i.e. under the assumption that a constant proportion of GNP is saved, and on a "domestic savings" basis, i.e. assuming a constant ratio of savings to GDP. Any student of economics should be able to tell that the results will differ if the same value of s is assumed in the two cases.

Such a comparison would find a better place in an appendix with the main results indicated in the text. But the text should include a discussion of the reasons for choosing the first approach. It is difficult to imagine circumstances where individuals make savings decisions on the basis of GDP rather than GNP. If interest on foreign loans is paid by the government, this is usually collected in the form of taxes, and savings decisions are based on after-tax income. In turn, the earnings of foreign companies are usually an accounting item for a developing country and do not affect savings behavior either.

Thus, as a rule, oil companies and the producers of minerals retain their share of profits and pay the government only the amount of royalties and taxes. Incidentally, it is incorrect to say that, on a domestic savings basis "the effect of each increment of aid is eventually to reduce income" (p.21) if i exceeds j. It is the indirect addition that becomes negative but this is outweighed by the positive direct addition. You appear to neglect the direct addition to income elsewhere in the essay also. Much of the discussion centers around the comparison of j and r; however, as I noted above, differences between the rate of return on new investment (1/k) and the rate of interest (i) are of primary importance.

II The second essay (Part IV) considers the two "gaps" (trade gap and savings gap) under static and under dynamic assumptions. The discussion is generally interesting and I welcome the inclusion of a target rate of income in the analysis. The emphasis on the need for equilibrating variables is also of importance, although more could be said on the differences between ex ante and ex post situations.

There is an apparent misstatement on p. 29 where the equation expressing the foreign exchange gap (F_1 = X-mZ and F_2 = I-sZ)[1] are combined under the assumption that the two gaps are equal ($F_1 = F_2$). The combined equation, I = (m + s) Z - X, is said to mean that "the larger exports are, for a given value of income, the smaller investment must be (p. 29). This is incorrect since the equalities have to hold independently and hence we cannot change X and I in opposite directions. Correspondingly, the conclusions on pp. 46-47 will also change.

There is further the question of causation. The combined equation cited in the previous paragraph has been transformed to derive a multiplier equation in which income depends on investment and exports. This is not so in the Chenery-Strout model, however, where income is taken as exogeneous. Rather, they assume that investment depends on income. Accordingly, the savings gap should be defined in (i - s) Z, where i is the propensity to invest. This modification would not effect the diagrammatical presentation, however.

On the following pages, various possibilities of equalizing the two gaps are examined. I would suggest to make this discussion more general by removing the assumption that s is at a maximum; it rarely is. Further, one may examine the possible effects of changes in the par value of the currency on exports and imports for the purpose of bringing the two gaps into equality. It would also be interesting to consider the implications of adjusting the target income level and removing the assumed constancy of m and s in the model. Finally, the conclusions on pp. 52-53 would stand some clarification.

III Part V is largely devoted to a consideration of some of the numerical results reached by Chenery and Strout. While the introduction to this Part contains some mathematical formulas relating to the earlier discussion, these are not subsequently used. At any rate, for reasons noted earlier, the statement made in the introduction that "the rate of growth of GNP is determined ultimately by the rate of growth of exports (h), if that is larger than the rate of growth of aid (r)" (p. 56) does not apply to the Chenery-Strout model. Moreover, one could hardly accept the conclusion that if r is larger than h, "the contribution of [foreign aid] will sooner or later become negative" (ibid). Here again you neglect the direct addition of aid to the gross national product.

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1 X and Z refer to exports and GNP, respectively, and m to the marginal propensity to import.

The discussion of the Chenery-Strout results for the trade gap model may be usefully supplemented by considering the results obtained by the use of the savings gap model, too. Further, in the revision of the paper, account would have to be taken of the results presented in the September, 1966 AER article by Chenery and Strout. Let me note finally that while your conclusions on the function of the interest rate in granting foreign aid are sound, they do not require elaborate model-building. At the same time, it would be of interest to the reader to expand the discussion of soft vs. hard aid.

In conclusion, I would like to re-emphasize the originality of the ideas contained in the manuscript and encourage you to revise it, with a view to publication. In the revision, the first essay might be cut while the second and, especially, the third could be expanded. At the same time, it would be useful to explain to the lay reader some of the results reached by the use of mathematical models in greater detail.

BBalassa/pam

January 16, 1967

Dear Professor Gillespie:

I have known Mr. Robert Rand for several years. He was a student in my graduate course in international trade at Yale and he also participated in the international economics workshop. Rand was one of the best students in the trade course and he also did a good job in the workshop.

While I have no information about his teaching abilities, on the basis of my acquaintance with him I highly recommend him for a position with your university.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor W. Irwin Gillespie
Chairman
Carleton University
Ottawa 1, Canada

January 17, 1967

Dear Mr. Dell:

My back permitting, I will come to New York to attend at least the Tuesday and Wednesday sessions of the UNCTAD Conference.

We have decided, however, against asking for a special session on projection work presently carried out and planned by various international organizations. Rather, we expect to have some informal discussions on the subject.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Sidney Dell
Director of the New York Office of UNCTAD
United Nations
New York, N. Y.

Mr. B. Balassa

January 17, 1967

B. A. de Vries

Terms of Reference

You are authorized to travel to New York on Tuesday, November 24th, for the purpose of participating at a Conference organized by UNCTAD on long-term projections.

BBalassa/pam

January 17, 1967

Mr. R. F. Krieger
Service Manager
Peugeot, Inc.
107-49 Queens Boulevard,
Forest Hills, N. Y. 11375

Dear Mr. Krieger:

With reference to my conversation with your secretary today, I would like to request a replacement for my lost warranty card.

I am enclosing a copy of the original bill as well as the accompanying letter from Peugeot of Paris. It is indicated on both the letter and the bill that the car was shipped from France on October 13, 1966. Please write out the warranty card as of that date.

I appreciate your assistance in providing me with a new warranty card. It would take me a long time to get a replacement from Paris; at the same time I have now driven the car 700 miles and would like the first inspection to be made immediately.

With best regards,

Yours very truly,

Bela Balassa
Adviser
Economics Department

Encl.

January 16, 1967

Miss Loretta Tallon
Department of Economics
Yale University
37 Hillhouse Avenue
New Haven, Connecticut

Dear Loretta:

I have written to AIESEC; I hope you will get the job. Please do not hesitate to write me for references any time you need one.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

P.S.-

I wrote to Eli International some time ago asking them about their flights to Europe in the summer but received no answer. May I ask you to call them and inquire about the dates of the flights. Please tell them that I am on leave from Yale this year and my wife and I would like to participate on one of their one month flights.

January 13, 1967

Mrs. Sylva Sinanian
Council on Foreign Relations
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Mrs. Sinanian:

Enclosed are the corrected proofs of the front matter to my book. On the second page of the Preface I included a list of studies done by my collaborators which I had earlier deleted from the introduction. The last sentence of the relevant paragraph will still change because I do not yet know who will publish the volume incorporating the country studies.

Considering the large number of changes I have made in the Preface, I would like to see a second page proof of the front matter. I presume that this could be sent to me after the page proofs of the chapters arrive.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

January 13, 1967

Mr. Harry H. Bell
Director
Research Division
United Nations Conference on Trade and Development
Palais des Nations
1211 Geneva 10, Switzerland

Dear Harry:

I have now had an opportunity to read the papers by Tsukuda, Poroy and Mennes. I have sent my comments directly to Poroy and Tsukuda; a copy of these letters is enclosed.

While Tsukuda's paper treats an interesting problem, the methods he uses could be improved. As I indicated in the enclosed note, I would prefer abandoning the capital variable since this expresses the flow rather than the stock of capital. Further, given the interdependence between the other two explanatory variables, it would be useful to carry out multiple regression analysis. In this way it would also be possible to cut down on the repetition in the paper.

I am somewhat disappointed with Poroy's paper. He is rather verbose and does not easily come to the point. Also, the paper is not always clear and it is questionable that the proposed method would appropriately serve the stated objective.

I read an earlier paper by Mennes which indicated the way the projections for 1970 were derived. The method is subject to a considerable degree of error, which fact reduces its usefulness in indicating the possible effects of changing a single variable. And while it could conceivably be used to indicate the effects of increased exports from the developing countries by introducing a shift in the import demand functions of the industrial nations, I think that this purpose could be better served by utilizing a simpler model.

In your letter of December 9th, you consider the use of reflection ratios. The method has been used by AID and I have also employed it in my trade liberalization study. I suggest that you apply this to indicate the effects of increased exports from developing countries, based on a trade matrix for the latest year available. The methodology is described in an article by Whitney Hicks in the October, 1963 issue of Southern Economic Journal.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 13, 1967

Mr. C. Tsukuda
Research Division
United Nations Conference on Trade and Development
Palais des Nations
1211 Geneva 10, Switzerland

Dear Mr. Tsukuda:

I have read your paper on "Comparative Advantage of Developing Countries, an Empirical Analysis" with interest. I agree with your general approach but I would suggest some modifications in the calculations.

1. I doubt the usefulness of fixed capital formation per employee as a measure of capital intensity. There are instances when one can use a flow variable as a proxy for a stock variable but this does not appear to be the case here. The ratio of new capital formation to the capital stock is likely to differ between industries and these differences will influence the results. I suggest, therefore, that the use of this variable in your calculations be abandoned.

2. The remaining two variables -- value added per employee and the ratio of material cost to wages and salaries -- may well be intercorrelated. You refer to this possibility in the paper but you have not tested for the existence of intercorrelation. This can be done by calculating a rank correlation between the two variables. If there is a correlation, I suggest the use of multiple regression analysis with the use of the two explanatory variables. Multiple regressions could be run, in any case, to indicate the relative importance of these variables in determining comparative advantage.

3. Your results show that the rank correlation coefficients are uniformly higher in the case where "static" rather than "dynamic" comparative advantage is used as a dependent variable. This is hardly surprising since the second indicator is very sensitive to the starting point used in the calculations. In your case developing countries already exported labor intensive and material intensive goods in appreciable quantities in the first period; hence, the rate of increase of exports is necessarily lower in these products than for, let's say, electronic components. It may be useful, therefore, to forget about dynamic comparative advantage in your paper and to make calculations on static and, perhaps, on total comparative advantage.

4. In my JP paper on effective tariffs I have noted that the export performance of developing countries depends not only on the labor and material intensiveness of the products but also on the technological requirements of

production. Thus, while airplanes are labor intensive, developing countries do not possess the technological know-how and the cooperative factors noted for their manufacture. Correspondingly, it might be of interest to separate the products included in your study into two or three groups depending on their technological requirements and make calculations separately for each group.

I hope that these comments might be helpful in revising the paper.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 13, 1967

Mr. I. Poroy
Research Division
United Nations Conference on Trade and Development
Palais des Nations
1211 Geneve 10
Switzerland

Dear Mr. Poroy:

Due to illness it has taken longer than I expected to read your paper. I think that you are on the right track but it seems to me that the paper needs a considerable amount of reworking.

I The first section is overly general and rather verbose. I suggest that you simply state the reasons for undertaking the study and postpone all mention of previous research to the second section.

II In the second section you consider previous work done on the classification of individual countries. Two methods are compared here, (a) the direct comparison of per capita incomes, and (b) indirect measurement of living standards by the use of various indicators. The discussion of the first type of comparison could be improved upon. For one thing there is a certain lack of clarity with regard to the assumptions made on the structure of prices on page 7; for another, you should introduce at an early stage, in addition to the Laspeyres index, the use of Paasche type indices. In this connection you might wish to look at my paper on Purchasing Power Parities in the December issue of the Journal of Political Economy. Finally, I would not reject out of hand comparisons made between the United States and Pakistan. Let me mention here that in Latin America an effort has been made to link the indices by comparing living standards in Latin America with those in Western Europe and comparing European standards with those in the United States.

III As regards the indirect measurement of living standards by using a set of indicators you seem to neglect Beckerman's contribution although in some respects this is similar to what you are proposing to do. At the same time your discussion of the statistical techniques used by Bennett and Niewiaroski is somewhat incomplete

III You make a good point here that countries should be ranked according to their economic development potential. "What is proposed -- you write -- is a collection of variables which may meaningfully be claimed to reflect in general a high or low degree of economic development potential in various countries." (p. 15) At a later point, however, you suggest to use per capita income as a dependent variable in determining the combination of indicators which has the greatest explanatory value. I presume that you wish to do this for the developed countries as Beckerman has done, and apply the results to developing nations.

Clearly, per capita incomes indicate development performance rather than potential so it has to be made clear what you have in mind. Also, I doubt the possibility of using the results of other researchers instead of undertaking regression analysis for this purpose. Finally, one should be careful in choosing the appropriate indicators since there may be a shift in the function between developing and developed countries. For this reason, I would not include among the variables the proportion of exports in GDP and export concentration indices, for example.

These comments indicate the possible pitfalls of the analysis you suggest. You should do some further thinking on it to avoid such pitfalls.

Yours very truly,

Bela Balassa
Adviser
Economics Department

January 13, 1967

Mr. P. J. Loftus
Chief
Statistical Office
United Nations
New York, N. Y.

Dear Mr. Loftus:

I am writing to you in connection with our data needs for a research project at the Bank. For the purposes of this project we would need information on the imports of developed countries according to the three digit SITC classification and in a geographical breakdown for 1965. Mr. Goor tells me that you are likely to have the basic material on tape. I wonder if we could either buy or rent the tape, or whether the appropriate rearrangement of basic data could be made by computer at the United Nations Statistical Office. I would also like to have some idea as to the possible cost of these two alternatives.

For each of the three digit SITC categories we would need the value of imports for the year 1965 for the following countries and groups of countries (column headings): United States, Canada, North America, together; Common Market, United Kingdom, Northern Europe, Southern Europe, Western Europe, together; Japan; Australia, New Zealand, South Africa, Oceania, together. In turn, the row headings of the table would include -- in addition to the previously mentioned areas -- Latin America, Africa, Middle East, Asia and Soviet-type economies. We would further like to have the country origin of imports into developed countries according to the above headings.

I would appreciate it if you would let me know at the earliest opportunity whether this work could be carried out at the United Nations and what its possible cost might be. I would then supply the exact geographical classification which, incidentally, roughly corresponds to that used by the United Nations.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 12, 1967

Professor H. Glejser
Departement D'Economie Applique
de L'Universite Libre de Bruxelles
49 rue du Chatelain
Bruxelles, Belgium

Dear Professor Glejser:

I have just read your excellent paper on "The Explanation of Differences in Trade-Product Ratios Among Countries." I have long been interested in the question of intercountry and intertemporal differences in the share of trade in GNP and I was glad to see a cross section study of the problem.

Your results will certainly help to clarify the issues but I wonder if you should not try to explain these more fully. As regards the negative regression coefficient for population you may wish to utilize the explanation given in Linder's "Trade and Transformation". The negative coefficient for per capita income corresponds to general expectations but it is conceivable that the results are due to a shift in the function. Thus a downward shift in the function may result in a negative coefficient even though the relevant coefficients for developed as well as for less developed countries are positive. It might be of interest, therefore, to calculate regressions for the two groups separately.

From your references it seems that you are not familiar with Linnemann's book, "Econometric Study on International Trade Flows." Linnemann continues the work done by Tinbergen and the two Finish economists and adds export concentration ratios as a further explanatory variable. I have written a review of this book for Econometrica in which I criticized his use of geographical distances (I am glad to see that you calculate economic distances instead) and the assumption that the negative coefficient for population would be due to economies of scale.

Finally, I consider your explanation "that protectionism (liberalism) might be fostered by unsuccessful (successful) export performance" somewhat one sided. The causation might well go the other way: in Latin America, for example, protectionism appears to have led to unsuccessful export performance rather than vice versa.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

January 12, 1967

Professor Charles Frank
Economic Growth Center
52 Hillhouse Avenue
New Haven, Conn.

Dear Chuck:

Thank you for sending me your publication list, curriculum vitae and reprints of some of your papers. I am sending these to Ed Mills, who is Chairman at Hopkins this year, with the request that he give the monograph on sugar to Peter Newman.

I found your papers on Cournot Equilibrium and the assortment problem interesting. The application of a simple linear programming model to sugar production in East Africa is also of interest but you seem overconfident in regard to the reliability of your projections. I find it difficult to accept that the statistical error would not exceed 5 percent. Only a few of your regression coefficients are significant which is hardly surprising since you worked with four variables while the number of observations is only ten. To my mind, the high coefficient of determination is not much of a help either. Because of the underlying trends, you are likely to have gotten a similar result with other functional forms too, although the projections are sensitive to the choice of the function. I struggled with time series of similar length in working on my Trade Prospects book and encountered these problems again and again. To escape them, I have relied to a considerable extent on intercountry comparisons, which you hardly utilize. Finally, it would have been interesting to explore in more detail the cost to Tanganyika and Kenya of importing sugar from Uganda rather than buying it on the world market. In this connection, you could have used the results of Snape's article in Economica.

These observations are not meant to deter from the value of your monograph but are merely designed to point out some of the pitfalls of forecasting. Let me add here, that I would like to see the paper you presented in San Francisco; this was not included with the reprints.

I expect that Ed Mills will call you in a few days to invite you to give a seminar at Johns Hopkins.

With kind regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

January 12, 1967

Dear Donald:

Many thanks for your letter of January 2nd. The Growth Center is very slow with its reprint series and I still do not have a copy of my Kyklos paper. I will send you one as soon as the reprints arrive. Other recent papers of mine appeared mostly in major journals but you may like to have a copy of my Manchester School article on Revealed Comparative Advantage.

I was interested to hear of your plans on the Mexican Study. When you go there you might like to meet Gerardo Bueno, who is one of my collaborators in the project on protection in developing countries. The project is going ahead roughly on schedule but it will take some time until the first papers are prepared.

With best regards,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

Mr. Donald Keesing
Columbia University
180 N. Balsamina Way
Memlo Park

January 12, 1967

Dear Gerhard:

Many thanks for your letter of January 3rd and for sending me the Soviet review of your book on Econometrics, as well as the list of your publications. You seem to have the longest bibliography of anybody I know.

I read the Soviet review of your book with considerable interest. The review indicates not only the increased demand for books on econometrics but also an effort to impartially review books by "bourgeois" economists. Incidentally, my book on The Theory of Economic Integration was recently published in Czech with a reasonably complimentary introduction.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Dr. Gerhard Tintner
Distinguished Professor of
Economics and Mathematics
University of Southern California
University Park
Los Angeles, California 90007

January 12, 1967

Dear Tibor:

Bob de Vries tells me that there will be, after all, a meeting to discuss the results of Walstedt's project. The timing has not yet been decided but we will let you know as soon as this is settled.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

M. Tibor Scitovsky
OECD
91, boulevard Exelmans
Paris XVI, France

January 12, 1967

Dear Harry:

There is a numerical error on page 32 of my trade protection paper. In line 8 the correct figure is $145 million instead of $316 million. Correspondingly, in line 10, $2.5 billion should be replaced by $1.2 billion. I am sorry for the inconvenience this may have caused you.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Harry H. Bell
Director
Research Division
Unived Nations Conference on Trade and Development
Palais des Nations
1211 Geneva 10
Switzerland

January 12, 1967

Mr. Hermann Engler
Kyklos
Unterer Heuberg 15
Basel, Switzerland

Dear Mr. Engler:

I will be glad to review for Kyklos -

Meerhaeghe van, M.A.G.
"International Economic Institutions"

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 12, 1967

Mr. R. F. Krieger
Service Manager
Peugeot, Inc.
107-40 Queens Boulevard,
Forest Hills, N. Y. 11375

Dear Mr. Krieger:

Thank you for your letter of January 10th and for sending me an Owner's Manual.

Apparently the Paris office of Peugeot did not send you a copy of my letter in which I requested a refund. In this letter I noted,

> "that the car did not function well on arrival; there was a considerable noise in the engine and the carburetor didn't work properly. It seems to me that the car was not properly serviced before shipping. Consequently, the local dealer had to service it and charged me $25.00 for it."

Let me add that the car was new when it was shipped by Peugeot of France and I have not yet driven it 600 miles here. It appears, therefore, that I am entitled to a $25.00 reimbursement for the dealer's service which was carried out immediately after the car arrived.

Yours very truly,

Bela Balassa
Adviser
Economics Department

January 12, 1967

Professor Harvey Leibenstein
Department of Economics
Harvard University
Cambridge, Mass.

Dear Harvey:

This is to extend an invitation to you to give a paper on "Nonallocative Efficiency Entrepreneurship and Growth" at our economics seminar at the Bank on February 10th. The usual procedure that we follow is for the visiting professor to have lunch with a small group of the economists in the Bank at around 12:30 p.m. Then, the seminar meets at 4:00 with the speaker speaking for 45 minutes or an hour with about a half hour for questions and discussion and the seminar over at 5:30 p.m. We pay for travel expenses and there is also an honorarium of $100.00.

Please let me know if this date is convenient. Looking forward to seeing you, I remain,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

BBalassa/pam

cc: Mr. A. M. Kamarck
Mr. B. A. de Vries
Mr. A. Ahmad

January 11, 1967

Mr. Donald S. Lamm
Editor
W. W. Norton & Company, Inc.
55 Fifth Avenue
New York, N. Y. 10003

Dear Don:

Many thanks for your letter of January 6th. I am getting better now; it seems that the plaster cast helps. I will be interested to hear of your wife's experience with physiotherapy; I have been thinking for some time of doing the same thing myself.

Let us talk about this and other matters when you come to Washington. Please give me a few days warning so that I can arrange for lunch.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. A. M. Kamarck January 10, 1967

Bela Balassa

Invitations to lecture at Economics Department Seminars

Harvey Leibenstein would be able to come on February 10th or 17th to give a seminar on "Nonallocative Efficiency Entrepreneurship and Growth." Please let me know if you have a preference for either of these dates. As the next speaker, I suggest John Pincus, who would talk on the results of his recent research under the title: "The Costs and Benefits of Aid -- A Quantitative Approach."

BBalassa/pam

January 10, 1967

Yale University Press
92A Yale Station
New Haven, Connecticut 06520

Dear Sir:

Enclosed please find my cheque in the amount of $2.44 to cover your Invoice No. 72155.

Yours very truly,

Bela Balassa
Adviser
Economics Department

encl.

January 10, 1967

SPECIAL DELIVERY

Professor Edwin Mills
Chairman
Department of Political Economy
Johns Hopkins University
Baltimore, Maryland

Dear Ed,

I have received a curriculum vitae and publication list from Charles Frank as well as reprints of some of his publications. The publication list looks quite impressive especially if you consider that the Advisory Committee has already accepted his dissertation for publication in book form by Princeton University Press.

Among the reprints the papers dealing with Cournot Equilibrium and the assortment problem are interesting. His monograph on "The Sugar Industry in East Africa" provides an application of simple linear programming techniques, while he apparently overestimates the reliability of consumption projections. Also, I would have liked fore discussion on the cost to Tanganyika and Kenya of importing sugar from Uganda instead of buying it on the world market. It seems, however, that Frank should be judged chiefly on the merits of his most recent writings (including the paper presented in San Francisco) and his dissertation.

Since we last talked I received information that the University of Michigan has also invited Chakravarty as a visitor and that they would be interested in having him stay on a permanent basis. The invitation -- an informal one -- went out a few days ago. It seems, therefore, that there is competition for him and it would be important to offer him a good salary if we want to invite him to Johns Hopkins.

I have some further news which I would prefer to discuss over the phone. I would appreciate it, therefore, if you would give me a call at your convenience. I now spend my entire day at the Bank.

Yours very truly,

Bela Balassa
Adviser
Economics Department

P.S.

Please give the monograph on the sugar industry to Peter Newman; he asked for it.

January 10, 1967

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

Dear Sirs:

Enclosed is a cheque for $30.64 to cover your invoices Nos. 64652 and 67007. You sent me a further invoice (No. 67042) on Baldwin's Economic Development and Export Growth. Apparently a mistake has been made, however, since I ordered the paperback edition which cost 15/- rather than the hard covered edition for which I was billed.

Yours very truly,

Bela Balassa
Professor of Political Economy

encl.

January 9, 1967

Dear Mr. Franck:

Please excuse me for not sending you the abbreviated version of my article, "Planning in an Open Economy" before now. I have been ill with a slipped disc which accounts for the delay.

For your convenience I am sending an original and a carbon copy of the paper.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mr. Christian Franck
Intereconomics
2 Hamburg 36
Germany

January 9, 1967

Federal Reserve System
Board of Governors
Constitution Avenue between 20th & 21st Street N.W.
Washington, D.C.

Dear Sir:

I have recently seen your Staff Economics Studies, Numbers 14 and 19. I would like to ask you to place me on your mailing list to receive these studies as they appear. I would also appreciate it if you could send me any back papers you have.

Yours very truly,

Bela Balassa
Adviser
Economics Department

January 9, 1967

Mrs. Sylva Sinanian
Council on Foreign Relations, Inc.,
New York, N. Y. 10021

Dear Mrs. Sinanian:

Enclosed are galley proofs 45 to 78. I will return the proofs of the front matter in a day or two.

Please note that in some cases words have been interchanged that have modified the meaning of the sentence. I have restored the original in such instances. I have also restored the original in cases where I felt that the editorial changes made the style of the book somewhat journalistic.

Finally, I would like to direct your attention to Table 4.1. The headings have been changed incorrectly in this case. The expression, "as a per cent of 1960 trade with industrial countries" belongs to the first six columns. In turn, figures in the last two columns are expressed in percentage terms; the main heading above these two columns is "Average Tariffs", while the subheadings are, "Industrial Materials" and "Manufactured Goods". While I have looked at the table headings, in view of our telephone conversation I have not proof read the figures in the tables.

Incidentally, I have compared the type of print in my book and the other Council volumes. I find that the letters used in my book are smaller than in the books by Kissinger, van Cleveland and Miriam Camps and correspondingly there are more letters per line and the lines are closer together. I wonder who decided to change the type of print; as a result of this, my book will be shorter than the others.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

January 9, 1967

Mr. Alfred Parmelee
Westley Wollcot & Co., Inc.
59 East 54th Street
New York, N. Y. 10022

Dear Fred:

Thank you for your letter of January 4th advising me about the recent transaction. I will call Fricke to tell him that the transaction should come on my single account. In the future, you may leave it to him to buy for the account from which a sale has been made.

I am enclosing a list of my portfolio as it stood on December 31st. Please let me know in what instalments and when I should pay your advisory fee. I suppose that the value of the account would have to be recalculated from time to time and the amount of the fee would change accordingly.

I look forward to seeing you in Washington. I would appreciate it if you would give me a few days advance notice of your arrival.

My best wishes for the New Year,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

January 9, 1967

Johns Hopkins Club, Inc.
Johns Hopkins University
Baltimore 18, Maryland

Dear Sir:

Due to a protracted illness I received your bill for November and your notification of my admission to membership only a few days ago.

I have two questions with regard to the account sent to me. First, while the printed portion of the form letter indicates that the annual fee for resident members is $10.00 a year, the bill shows $15.00. Second, the $15.00 membership fee has apparently been made retroactive to October 1st, 1966, while on my November bill I have been charged on a guest basis. I wonder if you could change this so that, in view of the retroactive payment of the membership fee, I pay for meals in November at the members rate.

I am enclosing the relevant papers and will make payment as soon as these are returned to me with your answer.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

January 9, 1967

Mr. Harold Dunkerley
Harvard University
Development Advisory Service
1737 Cambridge Street
Cambridge, Massachusetts

Dear Mr. Dunkerley:

I would appreciate receiving a copy of your paper on "Exchange rate systems and development in conditions of continuing inflation."

Yours very truly,

Bela Balassa
Adviser
Economics Department

January 9, 1967

Mr. Yves Maroni
U.S. Federal Reserve System
United States Government
Between 20th and 21st Streets N.W.
Washington, D.C.

Dear Mr. Maroni:

I would appreciate receiving a copy of your paper on "Exchange rate equilibrium and economic integration."

Yours very truly,

Bela Balassa

Professor of Political Economy

January 6, 1967

Dear Dani:

I am now out of the hospital although the upper part of my body is encased in a plaster cast. My stay in the hospital accounts for the delayed answer to your letters of December 5th and 21st.

I read your note with great interest and this spurred me to write a somewhat more detailed memo on this subject. A copy of the memo is enclosed.

I am again working on our joint paper. This delay has made it possible to take account of the Krueger article; I also plan to discuss the efficiency aspects of the problem. I should have the next draft ready in a few days.

I trust that this letter reaches you in Buenos Aires. From our earlier discussion, I am not sure whether you will spend some time in Peru before returning to Harvard. Please let me know what your program is and try to stop in Washington if possible. Expenses of such a stop would be paid by the Bank.

With best wishes for the New Year,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

encl.

Dr. Daniel Schydlowsky
c/o Harvard Development Advisory Service
Casilla 982*
Correo Central
Buenos Aires, Argentina

Confidential

Mr. Andrew M. Kamarck

January 6, 1967

Bela Balassa

Mr. Henry Bruton

I have known Henry Bruton for nearly ten years and have a high regard for him. He is a competent economist and a meticulous worker. I wonder, however, if he could complete a study on inflation in Chile within a period of three months for the Bank.

On the one hand, to my best knowledge he worked on topics other than inflation (return on education and changes in industrial efficiency over time) while in Chile; on the other, the problems of the Chilean inflation are rather complicated and he is not a fast worker. However, he might usefully carry out work on a topic on which he has done previous work provided that it is of interest to the Bank. I suggest, therefore, that we write to him inquiring about his possible research interest in a summer project without committing ourselves.

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January 6, 1967

Lee H. Riley, Jr., M.D.
The Johns Hopkins Hospital
Baltimore, Maryland 21205

Dear Dr. Riley:

I spent about ten days in traction and my condition has improved appreciably. While I still have some discomfort, I plan to wait for some time before deciding on an operation. Should an operation be necessary, I believe I would like to have it done at the Johns Hopkins Hospital. I will not, therefore, contact Dr. Rizzoli, whose name you have kindly given me.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 5, 1967

Mr. AtLee S. Arnold
Associate Editor
University of California Press
405 Hilgard Avenue
Los Angeles, California 90024

Dear Mr. Arnold:

I was glad to hear of your interest in our Studies in Trade Liberalization. I am sending you a copy of the manuscript under separate cover. The manuscript is complete except for a short appendix to Chapter 1 which I will write at the first opportunity.

I wish to add that I have edited the manuscript for contents but not for style. Also, there are a few typing errors which have not been corrected.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

January 4, 1967

Dear Harry,

I am up and around again although the upper part of my body is encased in a plaster cast. There is a definite improvement and I hope it will continue.

My illness has lead to a postponement of my trip to Europe. I now plan to go to Oslo and to Paris in the second half of April. I have been told at the Bank that they would have no objections to my going to Geneva for a day or two if I am invited by UNCTAD. Let me add here that besides discussing research with you and others, I am especially interested to meet Dr. Prebisch. Should this appear possible, please make mention of it in the letter of invitation.

I have recently received papers from Tsukuda and from Porcy. I hope to be able to read them sometime next week. Incidentally the missing footnote on page 32 is as follows:

Bela Balassa, Trade Prospects for Developing Countries, pp. 117 and 445.

With best wishes for the New Year to you, Mildred and Jane.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Harry H. Bell
Director
Research Division
United Nations Conference on Trade and Development
Palais des Nations
1211 Geneva 10
Switzerland

Mr. Barend A. de Vries

January 4, 1967

Bela Balassa

Budget for the Structure of Protection
in Less Developed Countries project

1. Enclosed is the proposed budget for the Structure of Protection in Less Developed Countries project. Please note that expenditures for the fiscal year 1966-67 were originally set at $10,000. The items listed include the compensation paid to the contributors, the cost of my September trip to Latin America, and consultant fees paid to me during the summer. Envisaged are the cost of a trip to Norway and France scheduled for April, as well as the travel expenses of the contributors for the March meeting to be held in Washington. Finally, I have included $1,350 for research expenses during the present fiscal year.

2. In addition to the expenses that can be foreseen as of now, the 1967-68 budget also includes the cost of a study on India, although we will not know until the summer whether such a study could be carried out. Further items relate to unforeseen research and travel expenses.

encl.
BBalassa/pam

January 3, 1967

Dear Mr. Ecob:

Thank you for your letter of December 29th. I already have four copies of the Apanish edition of my book, The Theory of Economic Integration, but I guess I can find some Spanish-speaking friends for the two copies you are sending to me. I wonder if you have any more copies of the Portuguese edition; I have received only one and would like a second copy.

I would also like to know what is happening with the Spanish edition of my book, Trade Prospects for Developing Countries. I was under the impression that the Spanish edition would be published some time in 1966. Please send me two copies of the book if it has appeared already; if not, inform me of the expected publication.

Finally, I would appreciate it if you would inform me how many copies of the Trade Prospects book were sold. I have not received a report on sales for quite a long time. I would also like to have an additional copy of this book for my own use.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. John L. Ecob
Foreign Department
Richard D. Irwin, Inc.,
1818 Ridge Road
Chicago, Ill.

January 3, 1967

Dear Ed,

I am on my feet again although the upper part of my body is encased in a plaster cast. I plan to go to Hopkins on Saturday and I wonder if we could have lunch together at the usual time.

I am enclosing Chakravarty's letter as well as a copy of my answer to him. We could talk about this on Saturday; I would also like to hear about the results of your conversations at the meetings.

Please ask Miss Lavarello to put out an announcement that I will give two sessions on the international economics course on Saturday -- one will be from 10 to 12 and the second from 1:30 to 3:30.

With best regards for the New Year to you and Barbara,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor Edwin Mills
Chairman
Department of Political Economy
Johns Hopkins University
Baltimore, Maryland

Mrs. Sylva Sinanian
Council on Foreign Relations, Inc.
New York, N. Y. 10021

January 3, 1967

Dear Miss Sinanian:

Enclosed are the corrected galley proofs of pp. 1-44 and the edited manuscript. I wish to raise some questions in connection with the copy editing. Please call me in case of disagreement or if you cannot read my handwriting at some points.

1. I have written Atlantic Free Trade Area in capital letters because I consider it as an entity. In the editing, this usage was accepted in the Introduction but it was changed to lower case in later chapters. I have restored it everywhere to its original form. Incidentally the Multilateral Force is a similar case and it is always capitalized. Abbreviations are also in capital letters: AFTA in the first case and MLF in the second.

2. For similar reasons, I have capitalized Continental EFTA although continental is in lower case everywhere else. The abbreviation in this case is CEFTA.

3. I have also used capital letters in referring to the U.S. Administration or President. This seems to be accepted usage; for example, Kissinger writes Administration in his book in the Atlantic series.

4. By contrast, I prefer to use lower case in referring to the allies or the Atlantic alliance (Van Cleveland writes allies and Atlantic Alliance).

5. I denote the four alternatives considered in the study by letters A, B, C and D. At the end of Chapter 4 this was accepted, but in the Introduction it was changed to 1, 2, 3 and 4 and in the early part of Chapter 4 to a, b, c and d. I have restored the original usage everywhere.

6. In cases where decimals are used, it is not appropriate to omit the 0's and one should write 4.0 instead of 4.

7. The expression "carry out trade" was changed in a few cases to "carry on trade". I have restored the original usage. I have also capitalized Appendix, in the case of which the editing was inconsistent.

8. The chapter headings are not always set in the same type. One should use the type employed in the case of Chapter 1 (p. 3).

With best wishes for the new year, I remain

Sincerely yours,

Bela Balassa

Adviser
Economics Department

January 3, 1967

Dear Professor Chakravarty:

Many thanks for your letter of December 26th. I was glad to hear that you may be interested in considering an appointment at Johns Hopkins. There is no need to send any papers, however, since we are familiar with your excellent writings.

Let me add here that I will talk with our Department Chairman in the next few days to discuss the possibility of a Visiting Professorship. He will then contact you directly.

With best regards for the New Year, I remain

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor S. Chakravarty
Delhi School of Economics
University of Delhi
Delhi 7, India

December 29, 1966

Mr. William B. Kelly, Jr.,
U.S. Delegation
KR Delegation
80 rue de Lausanne
Geneva, Switzerland

Dear Bill:

Enclosed is a cheque for $1,500 to cover your remmneration for writing the chapter on non-tariff barriers.

With best wishes for a Happy New Year,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

December 29, 1966

Dear Tibor:

Thank you for your letter of December 21, 1966. The hospital stay helped me somewhat and I have now resumed my normal activities. The final result will not be clear, however, until the plaster cast -- in which I am presently encased -- is removed.

I have talked to Walstedt here; he does not plan a meeting in the next few months. They will have progressed with their project by March, however, and you might find it useful.

The meeting with the contributors in my project will take place laterMarch. Should you be able to attend, we could send you in advance the progress reports to be prepared by late February. Needless to say I will be very happy if you can attend. My own plans now call for a trip to Europe in the second half of April.

Yours very truly,

Bela Balassa
Adviser
Economics Department

M. Tibor Scitovsky
OECD
91, boulevard Exelmans
Paris XVI, France

December 29, 1966

Dear Janet,

I will be glad to write a letter of reference to Hunter College. Please do not hesitate to ask me if you need references at any time in the future.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mrs. Janet Rothenberg Pack
106 Livingston Street
New Haven, Connecticut

December 29, 1966

Professor Walter L. Eisenberg
Department of Economics
Hunter College
695 Park Avenue
New York, N. Y.

Dear Professor Eisenberg:

This is to recommend Mrs. Janet Rothenberg Pack for a position at your college.

Mrs. Pack was my student in a graduate course on international trade at Berkeley in the academic year 1961-62. Subsequently she consulted me on her dissertation and on several occasions I discussed economic subjects with her at Yale.

She was my best student in the Berkeley class -- bright, interested and competent -- and my recent conversations with her confirm my favorable opinion of her capabilities. Aside from being an excellent economist she shows promise of becoming a good teacher. I highly recommend her for the position at Hunter College.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

December 28, 1966

Mrs. Ruth L. Davis
The Editor
Yale University Press
92A Yale Station,
New Haven, Connecticut 06520

Dear Mrs. Davis:

Mr. Abert's "The Coordination of Economic Policy in the Netherlands" offers a survey of Dutch political institutions, the functions of the statistical and planning apparatus and the models used in short-term forecasting and economic policy making in the Netherlands. The description of the institutions and models is reasonably accurate yet I do not recommend publication by Yale University Press.

To begin with, there is a certain dichotomy in the study in the sense that the long-winded description of political processes (pp. 20-56) and the duties of the Central Bureau of Statistics (pp. 58-75) is not adequately linked up with the discussion on short-term forecasting and policy-making. Further, while the author faithfully reproduces the description of the models used by the Planning Bureau from official publications, he does not attempt to critically evaluate them. Finally, he shows a certain naivity in the discussion of a variety of questions which betrays the lack of a strong background in economics.

In Chapter I, the author speaks of close links between political and technical processes (p. 2) but this idea is not followed up later. There is also some confusion about the nature of planning. Thus, we can hardly regard Holland "as a forerunner of recent Western European experiments with planning" (p. 1) since Dutch efforts have been restricted to short-term forecasting and have not entailed government intervention in private business while the medium-term (4 - 5 years) planning of the French and Belgian variety admits such intervention.

In Chapter II it is argued that "the main reason that parliament is not anxious to force the government to resign or to dissolve parliament is because politics and political parties reflect public attitudes that identify with religion rather than political issues." (p. 24) I am not entirely sure what is meant by this statement but recent events have demonstrated that political crises occur in the Netherlands also. It may not be entirely correct to say therefore that "the factors mentioned ... combine to limit the power of the parliament to effect any alternatives in government policy." (p. 39).

Mrs. Ruth L. Davis December 28, 1966

Chapter III provides too much detail on the organization of the Central Bureau of Statistics and the stages of preparation of the plan. As regards the latter, one also finds vague statements such as "presumably, if 'no change' in government policy appears to lead to unfavorable developments, alternative drafts of the plan are prepared to analyze the implications of various policy changes." (p. 103) Elsewhere, it is noted that "influence of Central Planning Bureau is mainly limited to influencing the climate of thought." (p. 102).

One can hardly find fault with the description of the models used by the Planning Bureau. It would have been desirable, however, to provide a critical appraisal of these models and to indicate their deficiencies. Instead, general statements are made such as "mathematical operations are more reliable than linguistic ones where a large number of variables are involved and no single pattern of interdependence exists." (p. 116). At the same time, no mention is made of the problem of interdependence among the variables and insufficient attention is given to the statistical reliability of the coefficients. (p. 146). Further, while it is noted that the coefficients of the second model have been estimated for the period 1923-1958, and for two subperiods (1923-30 and 1949-58) separately (p. 134) the differences in the results and the implications of these differences are not considered.

The discussion of price policy is rather perfunctory whereas the section on wage policy is an example of the rather uncritical treatment of economic policy-making in the Netherlands. Thus, instead of pointing to the failure of Dutch wages policy in the years 1963-65, Abert offers the following statement: "The present situation illustrates the tendency for wages to rise under the pressure of demand for labor, despite a well-designed and conscientiously applied income policy." (p. 228) Subsequently, it is noted that "in retrospect, the authorized wage increases had a greater price-level effect than intended," (p. 229) when, in fact, the government accepted a 10 percent wage increase under duress and the actual rise of wages was 15 percent (p. 251).

There are several weak points in Chapter VIII and IX: the discussion of objectives and priorities in economic policy (p. 260) the treatment of imported inflation (p. 334) the juxtaposition of price stability and balance-of-payments equilibrium (p. 335), and the consideration of the link between the "marginal" export industries and inflationary pressures. (p. 346). In all these cases, certain shortcomings in the understanding of economic theory are apparent.

Mrs. Ruth L. Davis December 28, 1966

Let me add here that while no book-length treatment of Dutch planning is available, the interested reader has access to official documents and some shorter papers that are cited in Mr. Abert's bibliography. At the same time, the Dutch model of short-term forecasting is changing continuously and the 1963 model differs to a considerable extent from those described in the study. All in all, it is my view that the study is not up to the standards of the Yale University Press, although Abert may be encouraged to attempt publication elsewhere.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

December 28, 1966

Columbia University Press
2960 Broadway
New York, N. Y. 10027

Dear Sirs:

I would appreciate receiving a copy of your paperback edition entitled, "Foreign Tax Policies and Economic Growth."

Yours sincerely,

Bela Balassa

December 28, 1966

M. Rene Buchler
370-372 rue Gabriel Peor
Colombes, Seine
France

Monsieur,

Veuillez trouver ci-enclos un cheque de 165 francs pour les frais de garage de ma voiture Fiat pendant les mois Novembre-Decembre-Janvier.

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

Bela Balassa

P.S.

Mon addresse personnelle est

2500 Q Street N.W.,
Washington, D.C. 20007

December 27, 1966

Gentlemen:

I would appreciate receiving a copy of your publication on " A Long-Time Economic Growth, 1868-1965."

Yours sincerely,

Bela Balassa

U.S. Department of Commerce
Bureau of the Census
Washington, D.C.

December 27, 1966

Dear Mr. Gallman:

Enclosed are two copies of the Kelly chapter. The only thing missing is a short appendix to Chapter 1 on methodology. I will do this at the first opportunity.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. John Gallman
Johns Hopkins University Press
1740 Massachusettes Avenue N.W.
Washington, D.C.

December 27, 1966

Dear Mr. Phillabaum:

Enclosed is a copy of the Kelly chapter. The only thing missing is a short appendix to Chapter 1 on methodology. I will do this at the first opportunity.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Leslie E. Phillabaum
Editor-in-chief
The University of North Carolina Press
Chapel Hill, N. C.

December 27, 1966

Dear Professor Graham:

I have known Mr. Robert Rand for several years. He was a student in my graduate course in international trade at Yale and he also participated in the international economics workshop. Rand was one of the best students in the trade course and he also did a good job in the workshop.

While I have no information about his teaching abilities, on the basis of my acquaintance with him I highly recommend him for a position with your university.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Professor John F. Graham
Head of Department of Economics and Sociology
Dalhousie University
Halifax, N. S.

December 27, 1966

Dear Arthur:

Many thanks for your letter of December 20th. The summary statement of the Trade Committee looks fine to me. I do not think that we should add anything on the cooperation between the Bank and the OECD in this matter.

The seventh developing country under study is Mexico. In addition, for purposes of comparison, we will also examine the system of protection in Norway.

I planned to come to Europe early next year to talk to the Norwegian contributor and to see Scitovsky and others at the Developing Center but my recent trouble with a slipped disc makes it necessary to postpone transoceanic trips for a while.

According to present plans we will have a meeting of the contributors in the project in late March and I would come to Europe sometime in April. At that time I would be glad to respond to the invitation of the Trade Committee to explain the work carried out under my direction. Please let me know if this date would be satisfactory.

With best wishes for a happy New Year,

Yours sincerely,

Bela Balassa
Adviser
Economics Department

M. Arthur Karasz
IBRD Paris Office
4, Avenue d'iena
Paris 16^e, France

December 27, 1966

Dear Don:

Thanks for your note of December 12th inviting me to Norton's coffee break during the annual meeting of the American Economic Association.

Unfortunately trouble with a slipped disc has not permitted me to go to San Francisco. I would be happy to see you, however, if and when you come to Washington. I am an Adviser at the International Bank this year and am here most of the time. Perhaps you could call me at DU 1-2781 and we could arrange to have lunch together.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Mr. Donald S. Lamm
Editor
W. W. Norton & Company Inc.
55 Fifth Avenue
New York, N. Y.

December 27, 1966

Columbia University Press
2960 Broadway
New York, N. Y. 10027

Dear Sirs:

I would appreciate it if you would be good enough to send to Professor Bela Balassa the following paperback edition -

Foreign Tax Policies and Economic Growth

Yours sincerely,

Secretary to Professor Balassa

December 27, 1966

Dear Professor Tintner:

Enclosed are two copies of my review of Linnemann's, "Economic Study on International Trade Flows."

I hope that the review will be appropriate in its present form.

Yours very truly,

Bela Balassa
Adviser
Economics Department

encl.

Dr. Gerhard Tintner
Distinguished Professor Economics and Mathematics
University of Southern California
Los Angeles, California 90007

December 27, 1966

Dear Professor Cohen:

Thank you for your letter of December 21st. I understand that the EJ paper does not suit your purposes and I have no objection to the publication of the third of my Brussels lectures in your volume. You should eventually write to the Institute for European Studies for permission; this will be granted automatically since they have no copyright on my writings.

I would expect to make some small changes in the lecture before publication. I will do so as soon as I have the final word from you.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Professor Benjamin J. Cohen
Assistant Professor
Princeton University
Princeton, New Jersey 08540

December 27, 1966

Dear Bill:

I am enclosing an edited copy of your chapter. Please let me know if you object to any of the changes I have made; there will be time to make corrections before publication.

Two additional copies are being sent to you airmail printed matter and three copies by surfact mail.

Yours very truly,

Bela Balassa
Adviser
Economics Department

Mr. William B. Kelly, Jr.,
U.S. Delegation
KR Delegation
80 rue de Lausanne
Geneva, Switzerland

December 19, 1966

Mrs. Witherspoon
Council on Foreign Relations
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Mrs. Witherspoon:

Enclosed is a statement requesting the payment of a fee of $1,500 to Mr. Kelly. Also enclosed is a statement of my expenses incurred since May, 1966. Please note that the large postage expenses include the sending of the manuscript of several chapters from Paris to New Haven and back, airmail first-class. Further, I have estimated the approximate amount of postage for returning the proofs to the McGraw-Hill Company.

In a week or so I will send you a statement of expenses of Mr. Kelly as well as a note on typing expenses to be reimbursed.

With best regards,

Yours sincerely,

BelaBalassa
Adviser
Economics Department

encl.

December 19, 1966

The Atlantic Project
Council on Foreign Relations
The Harold Pratt House
58 East 68th Street
New York, N. Y. 10021

Dear Sirs:

This is to request a payment of Fifteen Hundred Dollars ($1,500) to Mr. W. B. Kelly, Jr., for the completion of the study on non-tariff barriers in the framework of the Atlantic Trade Project.

Yours very truly,

Bela Balassa
Director
Atlantic Trade Project

Statement of expenses incurred by Mr. Bela Balassa, Director
Atlantic Trade Project

1966	Postage	Telephone	Total
May	$6.50	$5.30	$11.80
June	8.20	-	8.20
July	4.50	-	4.50
August	6.80	-	6.80
September	-	3.50	3.50
October	-	4.20	4.20
November	-	4.80	4.80
December	8.40	3.50	11.90
	34.40	21.30	55.70

December 19, 1966

Dear Dani:

This is to thank you for your letters of November 24th and 25th. Your suggestions regarding our joint note are well taken and I will take account of them in the revision.

I plan to rework the methodology of the project in the next few weeks and I will then try to explain the treatment of preferential imports and the quality problem in greater detail. As regards indirect taxes, the choice of the measure used depends on the objective to be pursued. The measure I proposed considers the combined effects of tariffs and domestic taxation on reserves allocation and this is what we are after, I believe. You, on the other hand, look for the effects of the removal of tariffs only.

My back is not getting better; in fact I will go to the hospital tomorrow for traction. This will perhaps help.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Dr. Daniel Schydlowsky
c/o Harvard Development Advisory Service
Casilla 982
Correo Central
Buenos Aires, Argentina

December 19, 1966

Dear Professor Power:

Thank you for your recent letter. I have asked our Personnell Department to write out your contract. You should receive this within several weeks.

It appears now that I will not be able to go to the Philippines and we would like to invite you to come to Washington instead. I will be sending you in a day or two an official invitation to attend a meeting to be held in March with the participation of the contributors to the project.

I was interested to see your results which conform to your expectations that some industries have a negative value added. I also agree with your calculations on the rate of protection in sugar manufacturing.

Concerning the appendix to your paper, I wonder why you have chosen to use the expression "total rate of protection" instead of effective rate" and "appreciation rate of protection" instead of "nominal rates". The expressions "effective" and "nominal" have been employed by all writers on the subject, I believe, and it would confuse the reader to replace them with new expressions.

I have a further question concerning the calculations of effective tariffs in the event that indirect taxes are involved. The result will depend on whether the Philippines use accumulated tax or value added taxation. In the former case the domestic product is discriminated against to the extent that material inputs are subject to the indirect tax but imports bear only the tax levied on the final product. Your example considers the case of value added taxation where this problem does not arise. Let me add here that I plan to send a memo on the tax question in a few days.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

P.S.

My secretary will sign this letter as I am at present in the hospital with a slipped disc.

Professor John H. Power
Visiting Professor Economics
University of the Philippines
Manila, Philippines

December 19, 1966

Dear Bill:

I have just finished reading your manuscript. I wish to congratulate you on it; it is an excellent study. It is far better than anything I have seen written so far on non tariff barriers. Also there is less of a slant in favor of the United States than there was in the previous version.

I have made some editorial changes in the manuscript which I hope will meet with your approval. I deleted some phrases which appears to be repetitive and have slightly reduced the number of footnotes. The paper will be stencilled next week and I will send you several copies. At that time you can make further changes.

Johns Hopkins Press appears to be seriously interested in our volume. They now have two copies of the study and I hope to get a final answer from them in about three or four weeks. Should they not publish it, there is still North Carolina Press which has expressed interest.

I am sending today a note to the Council on Foreign Relations for the payment of your fee. You should receive it in about two or three weeks. Please let me have a list of your expenses so that I could ask for reimbursement. This list should not include a gift item, however; you should use some other word.

I am enclosing a list of queries.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Mr. William B. Kelly, Jr.,
US Delegation
KR Delegation
80 rye de Kaysabbe
Geneva, Switzerland

QUESTIONS ON W. B. KELLY'S MANUSCRIPT

P. 9 You refer here to changes in quantitative restrictions to be carried out on January 1, 1967. Would you please check if these will indeed come into effect on that date.

P. 11 I have a vague recollection that two or three years ago imports of petroleum from Canada also became subject to quantitative restrictions.

P. 14 You provide estimates on the possible increase of U.S. coal exports including "normal growth of exports as well as growth resulting from the relaxation of restrictions." Since, for our purpose, only the latter is relevant, it would be desirable to provide estimates which separate the two.

P. 27 In the second line you refer to a letter written in 1951. I wonder if this is the correct date or if there has been a typographical error.

P. 41 I am still puzzled by your statement that in some instances the application of ASP results in a lower duty because foreign prices are higher than U.S. prices. Please let me know how many such cases you have found.

P. 72 Something seems to be missing from footnote 110 on this page.

December 16, 1966

Dear Douglas:

This is to inform you that I am presently negotiating with the Johns Hopkins University Press and North Carolina University Press on the publication of our "Studies in Trade Liberalization." Nevertheless, I would encourage you to explore the possibility of publishing your Study as a separate monograph. This would in no way affect the success of my negotiations and, as you know, all contributors have the right to separate publication. Sidney Wells has already published his Study as a Chatham House paper and M. Kreinen plans to do so in the near future.

I was interested to hear of your work on trade and aid. I am sending you under separate cover a paper on "The Structure of Protection in the Industrial Countries and its Effects on the Exports of Processed Goods from Developing Nations." I hope you will find this of interest.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Professor D.G.M. Dosser
Professor of Economics
University of York
Heslington, York
England

December 15, 1966

Johns Hopkins Library
Graduate Reserve Room
Baltimore, Md.

Dear Sir:

I sent you last week two copies of my study, "Trade Liberalization among the Industrial Countries" as well as two copies of my "Trade Creation and Trade Diversion in the European Common Market." Please put these on reserve for the use of my students in my course on international trade.

Further, I wish to ask you to have two xerox copies made of my article, "The Factor Price Equilization Controversy" which appeared in Band 87 Heft 1 of the Weltwirtschaftliches Archiv. This paper should also be put on reserve.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

December 15, 1966

Lic. Gerardo Bueno
Nacional Financiera
Venustiano Carranza 25
Mexico 1, D.F. Mexico

Dear Gerardo:

May I ask you to send me by return mail the list of industries from the input/output table you are using for calculating effective tariffs.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

P.S.

If the input/output table uses the Standard Industrial Classification, please note the appropriate SIC numbers on your list of industries.

December 15, 1966

Miss Teresa Jeanneret
Universidad de Chile
Instituto de Economia
Castilla 3861
Santiago, Chile

Dear Teresa:

May I ask you to send me by return mail the list of industries from the input/output table you are using for calculating effective tariffs.

Sincerely yours,

Bela Balassa
Adviser
Economics Department

P.S.

If the input/output table uses the Standard Industrial Classification, please note the appropriate SIC numbers on your list of industries.

December 15, 1966

McGraw-Hill Book Co.
330 West 42nd Street
New York, N. Y. 10036

Dear Sirs:

Please send me the following books at professional discount:

Vanek, Estimating Foreign Resources Needs for Economic Development

Fisher, Identification Problems in Econometrics $2.95.

Yours sincerely,

Bela Balassa

December 15, 1966

John Wiley & Sons,
605 Third Avenue
New York, N. Y. 10016

Dear Sirs:

Please send me the following book at professional discount:

C. F. Christ, Econometric Models and Methods

Yours sincerely,

Bela Balassa

December 15, 1966

University of Chicago Press
5756 Ellis Avenue
Chicago, Ill.

Dear Sirs:

Please send me the following books at professional discount:-

Edwards, The Nation's Economic Objectives $1.75

Friedman, Capitalism and Freedom, paper $1.50

Stigler, Essays in the History of Economics, paper $2.95

Yours sincerely,

Bela Balassa

December 15, 1966

Princeton University Press
Princeton, N. J.

Dear Sirs:

I would appreciate your sending me the following book -

Machlup, Maintaining and Restoring Balance in International Payments

$6.50

Yours sincerely,

Bela Balassa

December 15, 1966

Random House
The College Department
501 Madison Avenue
New York, N. Y. 10002

Gentlemen:

I would be interested in receiving two of your recent paperback books for possible use in my course in international economics:

Mikesell, Public International Lending
for Development

Foreign Investments in Latin America

Yours very truly,

Bela Balassa

December 15, 1966

W. W. Norton & Company, Inc.,
55 Fifth Avenue
New York 10003

Attention: Mr. Donald S. Lamm

Dear Don:

Please send me the following book to me at professional discount:

North, D.C. - The Economic Growth of the United States, 1790-1860 - $1.95

Yours sincerely,

Bela Balassa

December 15, 1966

Mr. Helberg
Chief Trade Section
Research Division
UN Economic Commission for Europe
Geneva, Switzerland

Dear Mr. Helberg:

I have recently finished my paper on "Trade Creation and Trade Diversion in the European Common Market" in which you have expressed interest. The paper will be published in the March issue of the Economic Journal; a copy of the revised version is enclosed.

I read your articles on inter European trade and on trade projections with great interest. The method you used in indicating the effects of integration on the exports and imports of the EEC and EFTA is fine. The only problem is that this procedure does not permit you to tell whether changes in trade flows have been due to trade creation or trade diversion. In this connection see my comments on Waelbroeck's paper in the article referred to above. As you will see, your method bears a certain similarity to Waelbroeck's. A more recent analysis of the problem is contained in "The Information Approach to the Production of Interregional Trade Flows" published in the July, 1966 issue of the Review of Economic Studies.

Your comparisons between trade projections and actual developments indicate many of the pitfalls of forecasting. At the same time this paper is a testimony to the soundness of the general approach used by the ECE.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

December 15, 1966

Dear Dani:

This is to thank you for your letters of November 24th and 25th. Your suggestions regarding our joint note are well taken and I will take account of them in the revision.

I plan to rework the methodology of the project in the next few weeks and I will then try to explain the treatment of preferential imports and the quality problem in greater detail. As regards indirect taxes, I am not quite sure why you object to the procedure I have proposed. The suggested measure considers the combined effects of tariffs and domestic taxation on reserves allocation and this is what we are after, I believe. I do not see the usefulness of adjusting only for taxation on final goods but not on their inputs.

My back is not getting better; in fact I will go to the hospital tomorrow for traction. This will perhaps help.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Dr. Daniel Schydlowsky
c/o Harvard Development Advisory Service
Casilla 982
Correo Central
Buenos Aires, Argentina

December 15, 1966

Mr. Leslie E. Phillabaum
Editor-in-chief
The University of North Carolina Press
Chapel Hill, N. C.

Dear Mr. Phillabaum:

I am writing to you after a three weeks bed rest with a slipped disc and I am now on my way to the hospital for traction treatment. I expect to stay in the hospital for at least 7 to 10 days but my secretary will forward mail to me.

I was glad to hear of your interest in our Studies in Trade Liberalization. Incidentally, Mr. Kelly is the same person whose book you published. In fact the reason for my writing to you was that I knew of your publications in this field.

There is little overlapping of the Studies and my Trade Liberalization among the Industrial Countries. The latter discusses problems of trade liberalization in general terms and deals also with the political aspect. I am enclosing an outline which will indicate the topics discussed in the book. It will be published by the McGraw Hill Company in May or June, 1967.

I am sending you, under separate cover, a copy of Studies in Trade Liberalization. I am afraid, however, that I cannot as yet give you exclusive rights to it because prior to the receipt of your letter I had already sent a copy to another university press. You might still want to look at it and I should be able to make a decision within a few weeks. The copy I am sending to you does not include the Index to Chapter 1 and the Kelly chapter which I have not yet received.

With best regards,

Sincerely yours,

Bela Balassa
Adviser
Economics Department

Encl.

December 15, 1966

Madame Henri Chapron
6, Rue Balny d'Avricourt
Paris, XVII^{e}, France

Dear Mme. Chapron:

Please excuse the delay in returning the copy of my comments on Professor Mikesell's paper. I made only very few corrections. May I congratulate you on the excellent job you have done in summarizing my contribution.

Yours sincerely,

Bela Balassa
Adviser
Economics Department

Encl.

December 15, 1966

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

Dear Sirs:

I should like to order the following books:

Abramovitz, The Allocation of Economic Resources, paper, 22/6

Bhagwati, J. The Economics of Underdeveloped Countries, paper 12/6

Machlup, International Monetary Economics, paper 22/-

B. M. Gross, The State of the Nations, paper 15/-

F. W. Paish, Long-term and Short-term Interest Rates in the United Kingdom, paper 10/6

Surveys of Economic Theory, Vol. II, 21/-

Baldwin, Economic Development and Growth 15/-

Fisher, M. R., Wage Determination in an Integrated Europe 20/-

Soderstern, A Study of Economic Growth and International Trade

Machlup, International Monetary Economics 18/-

Ward-Bauer, Two Views on Aid to Developing Countries 7/6

Gerscherkron, Economic Backwardners in Historical Perspective, paper 27/6

Leontief, Essays in Economics, paper

R. J. Ball, Inflation and the Theory of Money, paper

Yours very truly

Bela Balassa

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Henry J. Bitterman

DATE: December 12, 1966

FROM: Bela Balassa

SUBJECT: Comments on "Some Aspects of International Lending before the IBRD."

1. The stated purpose of the paper is to direct attention "to those features of the earlier system [of international lending] that significantly influenced the establishment of the Bank and the terms of its articles of agreement." (p.1). But while the paper presents much interesting material, the links between the interwar experience and the Articles of Agreement are often not clear. On the one hand, the historical survey presented in the paper (e.g. the detailed discussion of marketing methods) is not always relevant for the Bank's operations; on the other, some of the provisions of the Agreement (e.g. the restriction of loans to the foreign currency costs of a project) have little to do with interwar experience. At the same time, the internal weaknesses of the international credit system and the effects of the Great Depression on lending operations are not clearly separated.

2. There also appears to be a tendency to present that part of historical evidence which was most readily accessible to the author and to generalize on the basis of this material. It is argued, for example, that "while much of the discussion relates to American experience in the pre-depression period, substantially the same conditions prevailed at an earlier period in other countries. American

data are merely more recent and more readily available than data for the other capital exporting countries." (p.2). It would be incorrect to assume, however, that the conditions prevailing in the twenties were "substantially the same" as before the First World War. The postwar inflation, reparation payments, the gold exchange standard, and the instability of foreign exchanges profoundly affected international lending after World War I and created a situation that was hardly comparable to that existing prior to 1913.

3. At the same time, data on British lending is available for over a century and the breakdown of these data is often more detailed than in the case of the United States. Further, one may take exception to the statement that "European losses [due to defaults of foreign borrowers] were probably proportionately as heavy as American." (p.3). Thus, due to the relative importance of loans to Russia, these losses were considerably higher in France than in the United States while the proportion of defaulted loans was rather small in the British case.

I Investment before the Depression

4. The statement according to which "various countries appeared at different times as borrowers or lenders depending on the availability of funds," (p.3) misrepresents the situation existing prior to the First World War. Britain was habitually a lender throughout the period, and France also became one in the second half of the nineteenth century. While the amount of this net lending fluctuated over time, these countries

rarely borrowed abroad. In turn, secular changes rather than year-by-year fluctuations were of importance for the other countries; the United States, for example, started out as a net borrower and gradually became a net lender.

5. Some qualifications would also be desirable in describing the situation under the gold standard. We find several instances of inconvertibility and even flexible exchange rates (Russia, Austria-Hungary) in the nineteenth century, although -- following the Napoleonic wars -- convertibility was maintained in all the major creditor countries. One may also modify the statement that "prevailing laissez-faire policies permitted the investment bankers to float loans as profit considerations determined, subject, however, to varying degrees of government control." (p.3). Not so much government control but rather political influences on international lending characterized this period, and the statutory powers of governments were rarely exercised even in countries, such as France, where the government had such a power. Further, it may be an exaggeration to say that "the intimate relations of the City with the Bank of England and the Treasury assured some harmony of interest" (p.4) in regard to foreign investments. And was there necessarily such a "harmony of interest" between the Bank of England and the Treasury?

II American Foreign Lending

6. It is not clear what is meant by the statement that "the volume of loans in the period 1921 to 1928 was related to the increase

in the gross national product." (p.1). In fact, during this period both domestic and foreign loans increased much more rapidly than GNP in the United States. Neither is it correct to say that "the United States economy offset its large and fluctuating surplus on current account by investment abroad in response to market considerations." (p.2). The two magnitudes are equal by definition; at the same time, the causation between the current account balance and foreign investments is not unidirectional. Thus, U.S. loans made it possible for European countries to increase, directly or indirectly, their purchases of American goods.

7. According to the author, "it is scarcely feasible to analyze the prospectuses of almost 2000 loans issued to the American market in the 1920's." (p.7). Thus, instead of classifying all borrowing according to the purposes of the loan, partial lists are given under each heading. Such lists are of limited usefulness, however, since the relative importance of the various uses of foreign loans is not indicated. At the same time, a reasonably complete classification of loans according to the purposes of financing is available for Britain, and this could also be done for the United States.

8. Given its relevance for the Bank, the paper could usefully provide a detailed discussion of the degree and the modalities of financial supervision by the representatives of the League of Nations in connection with the so-called League of Nations loans. Especial interest attaches to the question to what extent economic policies in

the borrowing countries were affected by the conditions attached to these loans.

9. Questions arise concerning the statement that "the pledging of revenues /as security to a loan/ no doubt was bad fiscal policy." (p.16). To substantiate this proposition the author argues that in the case of pledging customs revenues, "it was difficult to change the level of duties without impairing the rights of the bond holders." (p.16). In turn, "if a fiscal monopoly's profits were pledged, the monopoly had to be retained no matter how inefficient and costly it might be." (p.16). But customs duties were more frequently increased than reduced and, at any rate, the servicing of a loan did not necessarily use up all customs revenue. At the same time, the fiscal monopolies in question (tobacco, salt, etc.) were usually longstanding institutions that would not have been changed anyway.

III Special Cases

10. According to the author, "German external borrowing between 1924 and 1931 is one of the best known cases of imprudent borrowing and imprudent lending." (p.1). While there is a considerable amount of truth in this statement, it is not adequately substantiated in the paper. Further, it is questionable that "the German case may be regarded as balance of payments finance without a corresponding 'adjustment process' to correct the imbalance." (p.1) Inasmuch as investment grew as a result of the inflow of funds, the increase in productive capacity might have eventually led to financing through higher exports -- if the Great Depression

had not come. At the same time, the suggested relationship between foreign financing and rearmament appears to be somewhat exaggerated.

11. Some of the data of the table on the German balance-of-payments (p.7) are incorrect; the amounts shown under unidentified capital movement (errors and omissions) do not check out against the other items of the balance-of-payments. The text is in error also, since in the period under consideration the bulk of the deficit was due to reparation payments (RM 11.3 million) rather than to an import surplus (RM 3.0 million). Finally, there is an ambiguity concerning the financing of the balance-of-payments deficit by capital inflow, inasmuch as the capital inflow has also led to higher imports.

12. The author also provides information on borrowing by Latin American countries. Some of the statements made in this connection are open to criticism. Thus, inflation by itself (i.e. without devaluation) does not increase the local currency burden of the foreign debt. At the same time, it is not clear why borrowers were unable to raise "even the local currency equivalent of service charges" because of reliance on export taxes." (p.15). Do export taxes not rise with inflation and devaluation? Finally, the author's statement notwithstanding, the fall in the value of exports during the depression did create difficulties in servicing foreign loans since the amount of the latter generally remained unchanged. (p.17).

IV Defaults

13. The section provides a good description of the difficulties that borrowing countries encountered in repaying foreign loans during the depression. It is correctly indicated that "the defaults were one aspect of the collapse of the world economy in the 30's." (p.3).

V Retrospect

14. Whereas the previous section gives the impression that the depression was to a great extent responsible for the inability of countries to repay their obligations, in the final section the following statement is made: "It was realized that the depression had been a major factor in the defaults, but it was also the general consensus that much of the investment had been wasteful and had not resulted in increasing the capacity of the borrowing countries to service their debt." (p.1) It would be useful to provide more indication as to what is meant by "general consensus" and to present evidence to substantiate this statement. In this connection one may note that an investment which has not increased the capacity of the borrowing countries to service debt is not necessarily wasteful. Finally, while it is correct to say that "the German case cautioned against long-term financing of balance of payments deficits" (p.2) it should not be forgotten that the balance-of-payments financing under the Marshall Plan greatly helped the countries of Western Europe to rebuild their economies after the Second World War.

RENA ZAFIRIOU: INTERNATIONAL CAPITAL MARKETS -- HISTORICAL EVOLUTION AND PRESENT POSITION AND PROSPECTS

Comments by Bela Balassa

General Observations

1. Despite its title, the study does not deal with the development and the functioning of international capital markets. Rather, the author presents a highly personal view of the underlying causes of foreign investment and the effects of these investments on the national economies of the lending and the borrowing countries. Part I of the study deals with events in this century preceding the First World War. The yet-to-be written Parts II and III would bring the story up to the present.

2. Miss Zafiriou's main conclusions may be summarized as follows: In the major capital exporting countries, Britain and France,[1] a large proportion of domestic savings was invested abroad because the uneven distribution of incomes restricted domestic consumption and did not provide adequate investment opportunities at home. But, so Miss Zafiriou argues, foreign investments did not appreciably contribute to economic growth in the capital importing countries either and two-thirds of the amount of the inflow was "wasted". The overall conclusion is that

> "to the extent that the large volume of foreign lending was the by-product of an economic system which was gradually undermining the industrial vigor and social progress of the countries from which it originated, it played a part in the failure of the century to realize the full benefits of its great technological advances." (Conclusion, p.11)

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[1] Much of the discussion centers around Britain which was the larger capital exporter of the two, and roughly the same arguments are repeated again in the section on France.

Investments and Economic Growth

3. This is a pretty serious indictment of foreign investment and it reflects the belief that international capital flows have little to do with economic development. This conclusion is also applied to present day developing countries and the author disparagingly speaks of

> "the myth which dominates today's thinking ... namely that a large flow of resources from the more advanced to the less advanced countries is an organic economic process as well as a sine qua non for world economic development." (A. p.66).

While it is not clear what is meant by an "organic process," the statement indicates a tendency to belittle the potential contribution of capital and savings to growth.

4. I am reminded of a lecture by Simon Kuznets who tried to prove that new investment and economic growth are uncorrelated. To bolster his argument Kuznets pointed to the lack of a statistical relationship between the two variables in an intercountry comparison of data pertaining to the late nineteenth century. Aside from the unreliability of the data, the analysis suffers from the neglect of other variables (depreciation, population growth, war inflation, revolutions etc.) that reduce the measured correlation between new investment and growth. Subsequently, in more sophisticated investigations, several authors have indicated the existence of a positive correlation between investment and economic growth following the Second World War.[1]

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[1] Cf. e.g. Alexander Lamfulussy, The United Kingdom and the Six, Richard D. Irwin, Inc., 1963; T. P. Hill, "Growth and Investment according to International Comparisons," The Economic Journal, June 1964, pp. 287; and the excellent work done under the direction of Professor Kirschen at the Free University, Brussels.

5. In considering the possible effects of foreign investment on economic growth in areas of recent settlement (United States, Canada, Australia, Argentina, etc.), Miss Zafiriou does not apply statistical methods, and neither does she explore the economic implications of the increase in available resources associated with a capital inflow. Rather, she asserts

> "that the foreign issues made in London up to 1875 did not as a rule finance productive investments is generally acknowledged." (A. p.50)

But this conclusion is based on a single quotation from Cairncross, in whose opinion

> "up to 1870 (and even up to 1875) Britain lent chiefly to foreign governments, often European governments. The money was used to finance personal extravagances, budget deficits, wars, the construction of strategic railways and so on." (Home and Foreign Investment, 1870-1913, p. 185).

6. Cairncross apparently neglects to consider railroad building in the United States and India although by 1870-71 the two countries accounted for 36 percent of the cumulated value of British foreign investments as against 20 percent in Europe (A. pp.24-25). Moreover, the fungibility of economic resources has been disregarded in the discussion. Yet, unless the foreign loan permitted spending on improductive uses that would not have been undertaken otherwise, it increased the availability of resources in the borrowing country and freed funds for investment purposes.

7. And what about the use of loans between 1870 and 1913 when the bulk of British foreign investments took place? As regards British

investments in the United States, Miss Zafiriou maintains that

> "Considering the extravagance with which lines were built in the United States during this period it seems unlikely that the development of necessary railroad transportation would have been significantly held back if British capital had not been forthcoming." (A. p.51)

She adds that

> "there can be no doubt that U.S. economic development could have proceeded just as fast (and probably more smoothly) with a smaller volume of railroad construction ... /and/ while at certain times finance was an important factor in the building of American railroads, taking the period as a whole it seems unlikely that lack of finance would have prevented the United States from acquiring an adequate railroad network." (A. p.52).

8. These statements are not substantiated, however, References to "unscrupulous manipulation" of existing railroads by speculators do not establish the inefficiencies of railway construction. At the same time, economic historians have indicated that financing played a major role in railroad building and in earlier years the British share in this financing exceeded the 20 percent figure shown for 1913. (A. p.51) Thus, it can hardly be assumed that the absence of British investment would not have delayed the completion of the American railroad network. More generally, economic growth in the United States would have been retarded had it not been for the inflow of British capital, accounting for about 15 percent of U.S. net investments during the period 1870-1913.[1] Instead of considering the relative share

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[1] A ratio of 18 percent is derived if the growth of the value of U.K. investment in the United States is compared to net U.S. investments (A, p.24 and C, p.13) but, for reasons to be mentioned below, the changes in the outstanding value of British foreign investments tend to overestimate the actual inflow.

of British capital in U.S. investments, Miss Zafiriou suggests that

> "a considerable part of U.S. borrowing was a matter of convenience and cheapness than of an absolute shortage of capital." (A, p.53)

While this statement conforms with economic theory according to which not the "absolute shortage of capital" but its relative cheapness lends to international investment, the conclusion that

> "as far as the U.S. economy is concerned, the contribution of British capital cannot /therefore/ have been anything but marginal."

is a non-sequitur.

9. Similarly, no evidence is provided to substantiate the proposition that

> "a lot of British investment in Latin America ... was for speculative ventures or unproductive expenditures." (A. p.53)

Lastly, the discussion of British investments in the Dominions is another example of non-sequitur:

> "as in the other cases, -- so the author argues, -- not all the investments made in the Dominions were wise and not all the money was well spent, *so that* one can safely assume that their economic development could have proceeded at the same pace with a considerably smaller volume of foreign indebtedness." (A. p.54 -- my italics).

Underconsumption in the Nineteenth Century?

10. While the discussion of the benefits of foreign investment to borrowing countries has little economic content, the discussion pertaining to the lender countries reflects the acceptance of Hobson's underconsumptionist doctrine.[1] In Miss Zafiriou's opinion the failure of

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[1] Keynes' *Treatise of Money* is also cited at one point but no mention is made of the *General Theory*.

the century was that

> "after having so powerfully increased the world's capacity to satisfy human needs, it flunked the apparently much easier task of creating sufficient demand for the goods that could be produced. The loss was not merely the difference between potential and actual production, it was a much more serious one, it was the weakening of the incentive to maintain technological progress, which a chronic state of excess capacity and unemployment inevitably entailed, and it was also the ignorance, ill-health and privation that failure to provide adequately for social needs perpetuated beyond the time when these were unavoidable ills." (Conclusion, p.4).

Again, the statement is not substantiated and no evidence is provided on the allegedly "chronic state of excess capacity and unemployment."[1] To the present writer, it would appear that, like Hobson, Miss Zafiriou mistakes cyclical malaise for secular ills.

11. But how about Britain and France? Even if we reject the proposition according to which underconsumption was the mal de siècle, could this statement not be applied to the United Kingdom and France who provided the brunt of foreign investments? Miss Zafiriou believes that this is indeed the case and she purports to explain the large capital outflow from the two countries by lack of domestic opportunities for investment which, in turn, originated in inadequate domestic demand due to an extremely lopsided distribution of income. But such a conclusion can hardly be based on Colin Clark's calculations which Miss Zafiriou cites. (A. Appendix A, p.10) On the one hand, according to these figures there was less income inequality in France than in Germany or the United States; on the other, Colin Clark's calculations cannot be considered

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1 The reliability of Kuczynski's and Beveridge's figures on unemployment, cited on A pp.6 and 41 is open to doubt; at any rate, these figures do not indicate "chronic unemployment."

reliable. It may further be added that in the United Kingdom real wages rose *pari passu* with per capita incomes during the period under consideration while the share of the high income classes declined. (*ibid*)

12. Next, Miss Zafiriou argues that, in the absence of adequate domestic demand, economic growth in Britain and France was based largely on foreign demand which, in turn, responded to foreign lending. Thus, it is asserted

> "that capital exports played a major role in the mid-Victorian boom is shown ... by the fact that the increase in exports during the period was much greater than the increase in production." (A. p.11).

The argument is spelled out in more detail in the chapter on France:

> "That the growth of the economy during 1880-1910 was based on foreign rather than domestic demand is shown by the fact that, as in Britain, the national product and imports increased less than exports and other current foreign exchange earnings ... That the increase in foreign demand was associated with the large volume of foreign lending can be inferred, first, from the fairly close correlation between the increase in exports of capital and the increase in exports of merchandise and second, by the fact that capital exports not only did not place any strain on the gold reserve ... but were actually associated with a very large inflow of gold and also, probably, with a net outflow of short-term funds." (B. p.11)

13. This argument does not stand up to close scrutiny, however. To begin with, it is incorrect to say that in the two countries national product and imports increased less than exports. Actually, exports and imports grew *pari passu* and rose at a rate about double that of national income. At the same time there is no *a priori* reason to assume that increases in the share of exports in GNP would be associated with foreign investment. Exports rose faster than national income in Britain between 1780 and 1800, and again between 1840 and 1860, and other countries also

shared in this experience. More recently, trade increased much faster than GNP in the Common Market countries without extensive capital flows among them.

14. Further, it is an exaggeration to speak of a "close correlation" between exports and foreign investment and even the existence of such a correlation would not permit reaching a conclusion about the line of causation between the two variables. At any rate, in the case of France, the dominant relationship appears to be between foreign investment income and capital outflow rather than between exports and capital outflow. Foreign investment income also made it possible to avoid a strain on the gold reserve which fact, incidentally, has nothing to do with the relationship of exports and foreign investments.

The Sources of the Capital Outflow

15. The author repeatedly argues that foreign investments syphoned off "excess" or "surplus" savings in France and Britain. The experience of the two countries is contrasted with that of Germany where capital exports amounted to a much smaller proportion of savings. It is further added that

> "during the fifteen years preceding the First World War capital exports appear to have corresponded to some 5% of current foreign exchange earnings in Germany compared with some 15% in France and 20% in Britain." (C. p.2).

These comparisons are misleading, however, and different conclusions are reached if we relate foreign investments to the gross domestic product. Since GDP is defined as the net value of newly produced goods, without adjustments made for foreign investment income, it is evident that capital outflow represents a claim on the gross domestic product only if it exceeds income from foreign investments. An inspection of the data reveals that this was not the case in either Britain or France. In Britain, investment income exceeded the value of net foreign investments in every decade between 1870 and 1912 and, for the period as a whole, it was three-fourth's larger than cumulated net foreign investment. (A. p.64). Foreign investment income was higher than the net capital outflow in France also, (B. Table 10), while the opposite conclusion applies to Germany (C. p.6). Thus, Miss Zafiriou's conclusion is reversed: while British and French investment abroad can be regarded as a partial reinvestment of foreign earnings, part of Germany's GDP was invested abroad.

Savings and Growth in the Nineteenth Century

16. Let us next consider the possible effects of increasing consumption (reducing savings) in Britain. In line with her underconsumptionist philosophy, Miss Zafiriou argues that this would have been all to the good; higher consumption would have created investment opportunities in Britain and increased demand for the products of other countries. But could investment opportunities be utilized if, at the same time, savings were reduced? We come now to the crucial question as to whether the lack of investment opportunities or the lack of savings was the factor "constraining" the growth of the world economy in the nineteenth century. Even a writer such as Mrs. Robinson, whose position comes nearest to that of an underconsumptionist today and who advocates complete equalitarianism, agrees that the inequality of incomes was necessary up to 1914 because savings

had to be "squeezed" out of the people in order to permit growth.[1] But we also have some more recent instances when the decision to increase income inequalities was a decision for growth. While Miss Zafiriou apparently believes that in the after-war period, we have reached a sort of "millenium" with the full utilization of technological advances and equitable income distribution (Introduction, pp. 3-4) this does not quite seem to be the case.

17. The policy followed by Germany after the Second World War is a case in point. In 1948, the Germans faced a choice between an equalitarian income distribution accompanied by a low saving ratio, on the one hand, and income inequalities conducive to higher savings and investment, on the other. The second alternative was chosen and the decision was unquestionably the right one since instead of increasing the workers' relative share in the "pie", the size of the pie -- and thereby the workers' absolute share -- has increased. A similar policy was undertaken by France in connection with Fifth Plan (1966-70) which projects an increase in the share of profits and investment in national income. Finally, while income inequalities had been reduced in the earlier part of the century in the United States, this process has not continued in the period since World War II. Especially in recent years, the share of profits and that of investment increased but we can hardly speak of overinvestment or underconsumption.

International Allocation of Capital Funds

18. To return to the period preceding the First World War, there

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[1] Cf. Jean Robinson: Economics: An Awkward Corner, 1966

can be little doubt that there were abundant investment opportunities at that time and the factor constraining the growth of the world economy was the availability of savings. At the same time, international capital flows contributed to the efficient allocation of investment since capital moved in search for higher returns. It may be objected, however, that private profitability does not necessarily correspond to social productivity. While this possibility can hardly be disregarded, the burden of proof is on those who maintain that such differences would have caused serious inefficiencies in the world economy prior to 1913. Available information in intercountry differences in capital-labor and capital-land ratios would not support such an assertion.[1]

19. In this connection, reference can be made to the fact that loan rates obtained abroad exceeded domestic rates in Britain by 1 to 1.5 percentage points throughout the period in question, and the pro-

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[1] Miss Zafiriou maintains that British investment in the United States, Australia, and Canada was undesirable since these countries had a higher per capita income than Britain. But the 5 to 10 percent differences shown are well within the margin of error. At any rate, the data refer to 1913, i.e. the end of the period of large capital movements and Britain preceded all other countries in terms of per capita income as late as 1899 (Maizels, Industrial Growth and World Trade, p. 533). A further consideration is that the cited figures relate to gross domestic product so that investment income paid to foreigners is included in the borrower's production figures; adjustments made for foreign investment income might have put Britain in the final place even in 1913. Last but not least, the optimum allocation of investment depends also on the availability of land and other natural resources which factors favored North America and Australia as a place of investment over Britain.

portion of defaulted loans was relatively small.[1] At the same time, if the rate of return obtained on foreign obligations is adjusted for default (A. pp. 43-44), the same adjustment should be made for domestic loans. While information on the latter is not provided, I would not be surprised if differences in the proportion of domestic and foreign loans in default were small, if any.

20. But while the international allocation of investment might have been optimal from the point-of-view of the world economy, this does not exclude the possibility that Britain would have been better off if the amount of capital outflow was smaller. Again, references to underconsumption do not provide an explanation. Rather, I would tend to accept Kindleberger's hypothesis according to which British entrepreneurs were sluggish to enter new fields at the time when foreign competitors threatened Britain's supremacy in traditional industries. As a result, in the modern industries of that time, such as chemicals and machine tools, the major advances were made by Germany and the United States. Entrepreneurial decision-making rather than the availability of domestic markets was the major factor affecting the outcome since foreign trade was relatively unfettered with tariffs.

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[1] There is a confusion in the study in this respect. While on A. p.44 it is noted that "the total amounts involved were relatively small," elsewhere the statement is made that "the desire of investors to obtain better yields was so strong that they were willing to overlook the risks which some of the high-yielding issues offered in the London market entailed and it was not long before they reaped the harvest of insolvency." (A. p.13). In turn, on p. 43, the obligations of U.S. railroads are listed among the "better bonds" while on p. 14 it is agreed that "there were many defaults by American railroads." While the contradictions are not resolved, I tend to agree with the statement cited in the text since this is based on Cairncross' careful investigation while Hobson's evidence on the defaults of American railroads is not quite trustworthy.

The Use of Statistics

21. Finally, some comments on the use of statistics in the study are in order. While Miss Zafiriou presents much interesting information on capital flows, changes in wages, etc., there are several instances when statistical evidence is misrepresented and uncritical use is made of sources whose reliability is open to question. Examples of the former are the estimates on changes in per capita incomes and on British foreign investment while the latter comment relates chiefly to the use of Colin Clark's figures.

22. According to Miss Zafiriou,

> "the available calculations indicate that at the end of the 18th century Britain's trade had increased by a little over 1% a year and industrial production by less than 1% a year from the beginning of the century while the population increased by only 0.3% a year. This suggests that per capita incomes probably increased by not much more than 0.5% a year." (A. p.1)

In the same fashion, she derives an increase of per capita income of 1.8 percent for the period 1800-1875. But the growth of incomes per head cannot be estimated in this way, in part because there is no definite relationship between the expansion of trade and that of national income, and in part because increases in national income are affected not only by the growth of industrial production but also by that of agriculture. At any rate, various authors have made estimates on national incomees for much of the period under consideration, so that there is no need for the use of a roundabout procedure.[1] These data also indicate that changes

[1] Cf. e.g. Werner Schlote, British Overseas Trade, Oxford, Oxford University Press, 1852 and Phyllis Deane and M. J. Habakkuk "The Take-off in Britain: The Economics of Take-off into Sustained Growth, ed. W. W. Rostow, London, MacMillan, 1963.

in growth rates were not as abrupt as Miss Zafiriou suggests. Incidentally, according to Miss Zafiriou's estimates at the time of the British industrial revolution and the Irish famine, Ireland had a higher per capita growth rate than Britain. (A. p. 2n)

23. A further consideration is that the author relies to a considerable extent on Colin Clark's results although these have often been shown to be unreliable and have been superseded by more careful estimates. One should not use Colin Clark's figure on per capita incomes for the period preceding World War II, for example (A. p.30) when more reliable data have recently been provided by several authors including Maizels, Paige, and Maddison.[1] In turn, for more recent periods Miss Zafiriou derives per capita incomes expressed in real terms, for 1964 in Italy, Austria, and Ireland by assuming a 25 percent increase in prices between 1955 and 1964. (A. p.29n) It is not clear where this figure comes from. Miss Zafiriou should have utilized instead estimates on the GNP deflator which are available in OECD and UN publications. Finally, the 1964 figures cited are not comparable to Maizels' estimates for 1955 since data expressed in national currencies have been converted at the prevailing exchange rate in one case and by the use of purchasing

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[1] Also, one should not uncritically accept Colin Clark's calculations according to which "in 1913 net incomes produced per man hour in manufacturing was lower in Britain than in other Western countries and was in fact closer to the Japanese than to the German, let alone the U.S. level," (A. p.71), when Maizels shows that in the same year the net value of manufacturing per head of total population was (in 1955 prices) $245 in the United States, $200 in the United Kingdom, $180 in Germany, $165 in France, and $10 in Japan (Alfred Maizels, Industrial Growth and World Trade, p. 537) Colin Clark's figures, expressed in terms of "international units" are 0.445 for the United States, 0.320 for Germany, 0.180 for France, 0.177 for the United Kingdom, and 0.137 for Japan.

power parities in the other. Thus, the rise in Italy's per capita income between 1955 and 1964 should be correctly given as 55 rather than 40 percent.

24. The estimates on the flow of capital raise further problems. Miss Zafiriou argues that the figures on net capital exports shown in balance-of-payments statistics are overly low, in part because these have been derived "from highly speculative calculations of invisible current foreign exchange earnings" (A. p.7) and in part because of the reverse flow of short term capital that has been deducted from the balance-of-payments figures. But while it is possible that earnings on foreign investments have been underestimated, as long as we are interested in the amount of the net capital inflow -- and its relationship to domestic savings and the national product -- it will be necessary to take account of short term flows. At any rate, it is highly unlikely that reverse flows predominated on the short term account since London bankers financed much of Britain's export and import trade Finally, data on new issues provide no basis for adjusting capital inflow figures shown in balance-of-payments statistics since it is well known that these issues were purchased not only by Britishmen but also by Frenchmen, Germans, Americans, etc. Correspondingly, Miss Zafiriou far overstates the amount of net capital outflow from Britain (A. p.8).

25. Note further that data on the outstanding value of foreign investments do not provide a good basis for estimating annual outflows either. On the one hand, assets are subject to periodical revaluation, on the other, the value of investments increases as a result of the re-

investment of undistributed earnings. It follows that one cannot "marry" data on the outstanding value of investment and on capital flows as Miss Zafiriou does in the summary table. (Conclusion pp.1-2). At any rate, the relationship of this table with tabular material in the earlier part of the study is not entirely clear.

Concluding Observations

26. In general, the statistical material of the study is rather uneven, with sources of differing reliability used side by side and conflicts between the results often not indicated. At the same time, the author's reading of economic history is incomplete; for example, some important recent writings on the history of the period (e.g. works of Kindleberger, Habakkuk and Deane) have not been considered. Finally, Hobson's rather outdated underconsumptionist doctrine provides weak theoretical underpinnings to the study.

RENA ZAFIRIOU: INTERNATIONAL CAPITAL MARKETS -- HISTORICAL EVOLUTION AND PRESENT POSITION AND PROSPECTS

Bela Balassa

Specific Comments

Introduction

1. The introduction contains several misstatements concerning economic history. It is argued, for example, that

> "the material advancement which the new discoveries and new enterprise /of the Renaissance/ made possible remained for a long time unrealized,"

and that

> "the Napoleonic Wars may be considered a historic watershed." (p.1).

But the inventions of the Renaissance period were unimportant by comparison to those of the second half of the eighteenth century and the latter came into use without waiting for the Napoleonic Wars. The industrial revolution began in the second half of the eighteenth century rather than in 1820. Note further that wars cannot be regarded simply as obstacles to economic progress since, as Werner Sombart has shown, military demand has contributed to innovation in iron making and machine building. (Cf. his Krieg und Kapitalismus)

2. Objections can also be raised against the use of the concept of laissez-faire. While the statements made regarding the "more restricted role of government in the economy" by and large apply to England, the government's contribution to industrial development can hardly be neglected in France and Germany. Further, it is an exaggeration to say that

> "the economic environment has /since/ been completely transformed and that the problems which confront nations today are totally different from those of the past." (p.4)

A. Great Britain

3. Several questions arise in connection with the discussion on the causes of the depression of the eighteen-eighties. According to Miss Zafiriou -

> "there is a widely held view that the causes of the Great Depression had been monetary and that [this] was due to the falling off of world gold production on the one hand and to the abandonment of silver as a monetary metal by several major countries on the other." (A. p.31).

But this is by now a rather outdated view and should not have required a detailed examination. Neither would modern economists take seriously the explanation offered by a historian of the time, H. B. Gibbins, based on underconsumption, which Miss Zafiriou approvingly quotes.

4. According to the author, in addition to the unequal income distribution,

> "the rates of income taxation which by today's standards were nominal, as well as by the smallness of the public sector ... tended to make the growth of domestic demand lag behind the rate of capital accumulation" (A. p.30) in Britain.

The comparison with present day income tax rates is, however, irrelevant and most other countries did not even have income taxes at the time. Moreover, it does not appear likely that the share of the government budget in national income would have exceeded the British figure in more than a few countries. Finally, no evidence is provided to support the proposition that

> "the provision of social services in the Dominions was on a scale that seemed unthinkable in Britain." (A. p.62).

B. France

5. In Miss Zafiriou's view, the circumstances which explain France's emergence as the second largest capital exporting country during the period are almost identical with those of Britain. (B. p.1)

> "A large concentration of wealth ... together with nominal rates of taxation, made for a sluggish rise in domestic demand, which in turn restricted the opportunities for profitable investment at home." (B. p.3).

The evidence presented in the paper to support this proposition is rather meager, and the logic of some of the arguments again leaves much to be desired.

6. Yields obtained in domestic and foreign investments are a further consideration. While the empirical evidence on yields is far from conclusive, one can safely say that the large differential in yields on foreign and domestic securities observed in Britain was not found in France. According to White, part of the explanation is in the assumed safety of loans to foreign governments (chiefly Russia) and the tax advantages of foreign lending. Miss Zafiriou does not appear to favor these explanations; instead, she argues that

> "to compare yields on French securities after the massive export of capital had taken place is to ignore that the yields on French securities were close to those of foreign issues because so much of French saving had been invested in foreign issues." (B. p.23)

But this argument is not acceptable since individual investors take actual yields as given and do not base their decisions on possible changes in yields following a hypothetical shift in capital flows.

C. Other Capital Exporting Countries

7. There are some misstatements in the comparisons made between Germany, on the one hand, and England and France on the other. I will note them in the order followed by the study.

> (i) "Industrialization came later to Germany than to Britain and France." (C. p.4).

The correct statement would have been that industrialization came later to Germany and France than to Britain. While Britain preceded both countries by several decades, Germany caught up with British industrial production in 1899, while France reached the same level only in 1913. (Maizels, Industrial Growth and World Trade, p. 535).

> (ii) "The laissez-faire philosophy was never as fully accepted in Germany as in Britain or France." (C. p.5)

One should rather put Germany and France on the one side and Britain on the other. At the same time, the absolute figures presented on public indebtedness are not sufficient to establish the proposition that

> "the more active role played by the public sector in the [German] economy undoubtedly provided a greater outlet for domestic savings than in the other countries." (C. p.5)

Public indebtedness should have been expressed as a percentage of the total amount of bonds outstanding and the proportions compared among the countries in question.

> (iii) "Income distribution was less uneven in Germany than in Britain or France during this period although with growing industrialization the proportion of total income accruing to capital increased substantially." (C. p.5).

While the second part of the statement is correct, available evidence is not sufficient to judge intercountry differences in income inequalities.