

84 ECONOMIC POLICIES TOWARD LESS DEVELOPED COUNTRIES

with Argentina, Chile, Colombia, Peru, India, Israel, Central African Federation, the Congo, Indonesia, Iran each owing \$200 million or more. By the end of 1958 this debt had increased to \$11.1 billion, with Brazil (\$1.5 billion), India (\$1.4 billion), and Argentina (\$1.4 billion) in the lead.⁴ Since 1958 the external indebtedness of the less developed countries has risen substantially.

During the last three decades the trading position of less developed countries has deteriorated seriously. Exports have followed one trend line, a slowly growing one. Imports have followed another trend, increasing more rapidly than exports. Price movements have not offset volume changes. Less developed countries now face an annual trade deficit of significant proportions. Capital movements have until now permitted these countries to finance their growing import surpluses, but obviously the gap between the growth of exports and the expansion of imports cannot continue indefinitely.

B. FACTORS DETERMINING TRADE OF LESS DEVELOPED COUNTRIES

1. *Growth of industrial countries*

The rate of expansion of exports of primary products depends upon the rate of growth of the industrial countries, the principal consumers of these commodities. Stagnation in the industrial countries automatically implies serious problems for less developed countries. Strong growth implies relative prosperity for less developed countries. During the past two decades the industrial countries experienced a great war, as well as a minor war, during both of which the demand for primary commodities was high. The rapid postwar recovery and high growth rates in Western Europe and Japan as well as relative stability and progress in the United States have contributed significantly to sustained and expanding demand for primary products from less developed countries.

As incomes in industrial countries increase, the components of the consumer budget shift. At low levels of individual income most of the budget is spent on food and other basic living requirements. As income increases, new items enter the budget, such as consumer durables, luxury foods, services, and so on. The amount spent on primary commodities increases, but relatively these products lose ground. This relative shift in expenditures has been conspicuous during the past two decades as the United States and Many West European countries have become high-consumption economies.

Per capita consumption of food and tobacco declined slightly in the United States and Western Europe between 1927-29 and 1955-57. Per capita tobacco consumption increased 31 percent over the period, but per capita consumption of most foods declined. Wheat consumption, for example, in 1955-57 was only 64 percent of the 1927-29 per capita level. The same phenomenon can be observed with 1948-50 as the base. In the period between 1948-50 and 1955-57 per capita consumption of tobacco also declined. Beverage crops increased in per capita consumption between 1927-29 and 1955-57, but declined from 1948-50 to 1955-57.⁵

⁴ Avramovic, Dragoslav, and Ravi Gulhati, "Dept. Servicing Problems of Low Income Countries, 1956-58," Johns Hopkins Press, Baltimore, 1960, table II, page 13-14.

⁵ "World Economic Survey, 1958," op. cit., table 3, p. 23.