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Agenda item 2:

World economic situation:

(a) Survey of the world economic situation (*continued*). 33*President: Mr. M. MIR KHAN (Pakistan).**Present:*

The representatives of the following countries: Argentina, Brazil, Canada, China, Dominican Republic, Egypt, Finland, France, Greece, Indonesia, Mexico, Netherlands, Pakistan, Poland, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers from the following countries: Bulgaria, Chile, Czechoslovakia, Japan, Portugal, Romania, Spain, Switzerland, Syria.

The representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, International Monetary Fund, World Health Organization, Interim Commission for the International Trade Organization.

AGENDA ITEM 2

World economic situation

(a) Survey of the world economic situation (E/2959, E/2982, E/2983, E/2984, E/2989, E/2998, E/3004 and Add.1 to 3, E/3016) (*continued*)

1. Mr. BOERMA (Food and Agriculture Organization) said that world agricultural production in 1956/57 had exceeded the forecast made by the Food and Agriculture Organization (FAO) in 1952 by about 3 per cent. While production in Latin America had fallen short of the estimate, that in western Europe, North America, Oceania and the Far East had considerably exceeded it; and in the Near East and Africa the forecast had been approximately correct. The comparison between actual production and the estimates had been very useful indeed, and suggested that the latter — having proved fairly reliable on the whole — could be taken as an indicator of the world pattern of agricultural production for several years to come. FAO might request governments to co-operate again in making a similar estimate for the next five years.

2. Over the past few years, agricultural production had increased on an average at a rate of 3 per cent per year, which was rather more than 1 per cent faster than the growth of world population. In each of the less devel-

oped regions, the local rate of increase had been above the average for the world as a whole, output having tended to rise more slowly in the more developed countries. The increase in the less developed countries had to some extent been offset by the more rapid growth of population there. Difficulties inherited from the war, when production had fallen behind population growth, had not yet been overcome in the Far East or in Latin America, where production per head of population, although better than immediately after the war, was still lower than before the war. The deficiency resulted, not in lower standards of consumption, but in increased imports of foodstuffs, with consequent adverse effects on the balance of payments of the countries of those two regions.

3. Although the further removal of currency and other trade restrictions would enable the underfed peoples of the world to import more food, increased domestic production remained the most important means of improving food supplies in such countries. Not only would the major part of any improvement in consumption levels inevitably come from domestic production, but in predominantly agricultural countries increased production was the chief means both of improving trade balances and of raising the extremely low standards of living of the people. Thus, even in a world with surplus stocks, programmes to increase agricultural production in order to keep up with growing markets and expanding domestic requirements were still of paramount importance in the less developed regions.

4. The volume of trade in agricultural produce had continued to expand during 1956, in which year it had been 8 per cent greater than in 1955. Much of the increase was the result of greatly intensified surplus disposal operations by the United States of America and of poor crops in some countries of western Europe and the Far East. With supplies from current production and stocks so abundant in 1956, the average unit value of agricultural commodities in world trade had continued to decline slightly.

5. The bulk of the trade in agricultural commodities still consisted of imports by the main industrialized countries. As a whole, imports of those products which such countries could readily produce themselves, or for which substitutes could be developed, had tended to increase but slowly, or even to decline. On the other hand, trade in those products which the industrialized countries could not easily grow themselves, or for which there were no suitable substitutes, had continued to expand rapidly and proportionately to the growth of the world economy.

6. A recent development that might influence the pattern of agricultural trade over the next few years was the

move to set up enlarged trading areas with common markets or customs unions, such as the European Common Market and the free trade area established under the Central American integration programme. Similar agreements were being considered in other regions, but it was still too early to assess in detail the implications of such developments.

7. The problem of agricultural surpluses continued to be a potential danger to the stability of world agricultural markets. Notwithstanding the sharply increased volume of agricultural trade and, to a smaller extent, the restrictions on United States production, total stocks had shown a small increase in 1956/57 over the previous year which had been entirely due to a sharp rise in stocks of coarse grains in North America. On the other hand, United States stocks of wheat and cotton had begun to decline, and world stocks of rice and sugar were now more or less normal.

8. It was fortunate that three-quarters of total world stocks of agricultural commodities were held in North America, for the United States of America and Canada had consistently pursued a policy of considerable restraint in the disposal of their surpluses. While surplus-disposal deals had undoubtedly led to increases in actual food consumption in several countries, the acceleration of surplus disposal had caused concern among exporting countries. Intergovernmental consultations and exchanges of information on such measures had been intensified during the year.

9. World agricultural prices had remained fairly stable in 1956, with, if anything, a slight downward trend, notwithstanding the fact that general inflationary tendencies had become more pronounced in most countries. A major exception was the sharp rise in the world price of sugar, which had almost doubled during the closing months of 1956 and the beginning of 1957.

10. The past year had also seen a general rise in retail food prices in most countries. While in some areas that rise had been a continuation of an existing trend, 1956 had seen the recurrence of a rising trend in a rather large number of countries where it had been temporarily halted. The increase was in sharp contrast to the downward trend of food prices on world markets.

11. In the under-developed countries, the improvement of internal marketing procedures was still a matter of the greatest urgency. The present methods served to push up retail prices both in the under-developed countries and in the more developed countries. Farmers still seemed unable to share in the increase in the national income to which they had contributed. The prices received by farmers had in general slightly improved during 1956 and the early months of 1957, but the prices paid by them had continued to rise more rapidly in almost every country, so that the ratio of prices received to prices paid had further deteriorated. In a world where inflationary tendencies were becoming increasingly apparent over very wide areas, the declining trend in real farm incomes was becoming an increasingly embarrassing economic, social and political problem.

12. In most countries, farm support measures had become a more or less permanent feature of government policy. Although the various methods tried reflected

remarkable ingenuity, and had been carried out with varying degrees of success, it was often not realized with sufficient clarity that some of them might have undesirable international effects. The whole question of agricultural supports would be considered by the ninth FAO Conference in November 1957, on the basis of an elaborate study prepared with the help of a committee of government experts.

13. Clearly, the basic problems of agricultural production, trade and consumption deserved the continuing attention of governments. In the past, governments had often failed to recognize the place of agriculture as the cornerstone of the economy. But, as the Secretary-General had pointed out at the 973rd meeting, they were now coming to give increasing attention in their domestic economic policies to the crucial role of agriculture. It was in the interest of the harmonious development of the world economy that such an encouraging trend should persist.

14. Mr. MACKAY (Canada) said that, in his introductory statement, the Secretary-General had emphasized that the key economic problem facing the world in 1956 and 1957 had been that of inflationary pressures. The object of economic policy in the modern world was to maintain high levels of economic activity and employment, and at the same time to keep prices down. Efforts to force the rate of economic growth beyond prudent use of resources tended to be self-defeating. Expansion without inflation could be achieved only if all sectors within a nation, as well as the international community as a whole, adopted sound attitudes and followed responsible policies. His delegation fully agreed with the Secretary-General's observation that "domestic measures, whether they affected internal activity or foreign trade, might nevertheless have significant international repercussions".

15. The Secretary-General had also suggested that governments might consult together more systematically on the general outlines of their economic policies. The extensive machinery already established for such consultation offered every opportunity for greater co-operation, and more effective use of it would lead to the attainment of mutual objectives.

16. It did not necessarily follow that the slackening in the rate of economic growth in 1956, referred to both by the Secretary-General and by the authors of the "World Economic Survey, 1956" (E/2982) heralded a decline in economic activity. In the first place, one of the reasons for the reduced rate was that many nations had already reached the full utilization of their resources. It was the attempt to accelerate the rate of economic expansion of economies already working at full capacity that had contributed to the inflationary pressures experienced in 1956 and carried over into 1957. To cope with those pressures, a number of governments had pursued policies which, as was pointed out in the Survey, had met with some success. In the second place, the lack of balance in domestic economic activity could partly be explained by the process of adjustment that necessarily resulted from the transfer of resources between sectors. So long as there were alternative opportunities of finding work in a buoyant economy, a country

could take such adjustments in its stride without much difficulty. Indeed, if such adjustments were desirable on economic grounds in both the industrially advanced and the less developed countries, there was no better time to make them than the present, when aggregate demand remained strong and world trade was at a peak. To enable the nations of the world to continue to cope successfully with the present unbalanced situation — in which undue pressure in certain sectors persisted side by side with a decline in activity in others — a sound foundation would have to be laid for a period of further economic expansion.

17. One of the primary objectives of economic policy was to achieve a rate of economic growth that could be kept up over a long period. While the nations of the world would always want to be on the alert to detect basic weaknesses in their economic structure, they would also want to concentrate on sound and flexible economic policies that would encourage continuing growth and yet react quickly and effectively to the danger either of inflation or of deflation.

18. The significant progress which had been made towards rebuilding gold and dollar reserves, achieving convertibility of currencies and removing trade restrictions was heartening. As was pointed out in the Survey, payments difficulties had been exceptionally intractable during the early post-war years. To limit the drain on their gold and dollar reserves, most governments had retained the severe trade and exchange restrictions imposed during the war. By 1956, however, the gold and dollar reserves of many countries had risen to a satisfactory level at which they provided a cushion against sudden disturbances. The countries of western Europe and associated areas had achieved a substantial degree of convertibility. Some currency areas had progressively lifted trade restrictions, both among themselves and in relation to the dollar area.

19. Only a few years previously it had been customary to combat balance-of-payments difficulties by introducing or intensifying quantitative restrictions; today, there appeared to be a growing conviction that such difficulties should be overcome by positive internal measures. The balance-of-payments position of most countries had been strengthened by the multilateral trading and financial system developed since the war. However, achievements had been uneven, and some of Canada's important trading partners were still experiencing serious difficulties. Although assistance from the international community could help them to meet such difficulties, the fact remained that further progress would depend ultimately on the development of internal policies which would contribute to balanced economic growth and at the same time encourage increased domestic saving and attract the necessary foreign capital.

20. Having been in a similar position fifty years earlier, Canada had special sympathy for the under-developed countries, which relied to a large extent on primary production for their livelihood and were seeking to speed up their industrialization and to achieve more rapid and better-balanced economic development. Canada was now among the six largest trading and industrial nations of the world. Over the last fifty years its economy had undergone a major transformation. Its manufacturing

industries now employed about 25 per cent of the total labour force — about the same proportion as in the United States of America.

21. The international approach to the problem of closing the gap between exports and imports in individual countries might perhaps be more pragmatic. The nations of the world had made great progress in supplying capital and technical knowledge to the under-developed countries, but much more could be done through a greater interchange of private capital. The less developed countries — and, indeed, some of the more developed countries — would continue to depend on capital inflow to speed up their economic development. Although Canada was a highly developed country, it had had the heaviest net capital inflow of any country in the world in 1956 — about 1,400 million dollars. The reasons were that opportunities for productive investment in Canada were many, and the investor was assured of free access both to his capital and to his return thereon. In the short run, therefore, it might be just as important for the under-developed countries to create home conditions favourable to the inflow of capital as to reduce the gap between their imports and exports. The authors of the Survey were certainly right in stating that no country could rely on capital imports indefinitely, but in Canada's case such imports had long been invaluable in building up the country. The main problem was to reconcile national development objectives with the desirability of creating a climate favourable to foreign investment. That problem could be solved. For some years to come, the under-developed countries would continue to rely on foreign capital to speed up their economic expansion. Some of it would come from public sources; but, if the economic climate was right, a large proportion would come from private sources, partly built up at home and partly brought in from abroad.

22. A balance of trade could be achieved at a high as well as at a low level. Little would be gained if the efforts of the under-developed countries to achieve a better balance between exports and imports led to a contraction in the volume of foreign trade. It was in the interest of all nations that each country should achieve the greatest possible volume of foreign trade, in order to develop its economy at the optimum rate and to bring its citizens the benefits of the international division of labour. A lack of balance in its trade was not in itself necessarily harmful to a particular country; nor did it invariably represent a threat to world economic stability. If it served a productive purpose and was accompanied by either an inflow or an outflow of investment capital, it had its merits. When the authors of the Survey advised the under-developed countries to aim in the long run at a better balance between exports and imports, it was in fact warning them against the dangers of unproductive imbalance, accompanied by waste of resources, inflation and the flight of private capital.

23. The soundest basis for economic progress was to be found in balanced development. The United Nations was now putting into practice a fairly comprehensive programme in the field of industrialization which would be fully discussed in the Economic Committee together with the reports of the regional economic commissions

and the reports *Economic Developments in the Middle East 1955-1956* (E/2983) and *Economic Developments in Africa 1955-1956* (E/2984).

24. Particularly significant were the efforts made by the Governments of Belgium, France, Germany, Italy, the Netherlands and Luxembourg to establish a common market, as described in chapter IV of the *Economic Survey of Europe in 1956* (E/ECE/278). Equally significant was the fact that those countries had joined the other countries of western Europe in negotiations for the establishment of a free trade area. Undoubtedly the removal of trade barriers and the creation of such unified markets would have an important impact on the trade and commercial interests of outside countries.

25. In that connexion, the Netherlands representative, at the 973rd meeting, had significantly pointed out that the countries members of the European Common Market intended further to liberalize their trade and payments arrangements. The Canadian delegation, which was participating in the discussions of the Common Market proposals within the framework of the General Agreement on Tariffs and Trade (GATT), would continue to encourage concerted efforts to maintain and strengthen a multilateral system dedicated to the objectives of free trade and payments on a world-wide basis.

26. With the issue of the current number of the *World Economic Survey*, the United Nations had two years' experience by which to judge how far the *Survey* in its new form achieved its objectives. The Council might well discuss that matter at the present session and see how the *Survey* should develop in the future.

27. The Secretary-General, in his thought-provoking statement, had set the tone for the discussion on major economic problems. It might have given greater unity and cohesion to the debate if his statement had been published earlier. As regards the *World Economic Survey*, the burden on the Secretariat might be eased if Part I, dealing with specific long-term problems, could be issued in the spring of the year and Part II, in which economic developments and the world economic outlook were reviewed, in the summer. The Introduction could be prepared in conjunction with Part II if the problems dealt with related to current economic development. The contents of the *Survey* and the relationship between the *Survey* and the questionnaire on full employment and balance of payments could be discussed in the Economic Committee.

28. While the Canadian delegation approved the approach adopted in the last two issues of the *Survey*, it might be helpful to the Secretariat if representatives in the Economic Committee held a full exchange of views on the kind of long-range problems and other subjects that might usefully be examined in future issues. The Secretariat might also supply the Council with a brief outline of the history of the questionnaire on full employment. It was gratifying to note that the Secretariat had found the replies received very useful, and that they had been used extensively in the preparation of the 1956 *Survey*. The Secretariat's proposal that the use of the questionnaire be streamlined was also welcome. The present questionnaire was a great improvement over the earlier one.

29. Finally, his delegation hoped that the discussion on the *Survey* would be of some guidance to the Secretary-General, and that it would become an increasingly helpful and practical document for all nations in their assessment of world economic progress.

30. Mr. SOUZA GOMES (Brazil) said that his Government was deeply concerned about developments in the Council during the past few years. From its early position as mentor in matters of economic and social development throughout the world it had declined to the status of a mere observer of social and economic events. At its early sessions the Council had proclaimed to the advanced countries of the world that the circumstances prevailing after the Second World War had been very different from those prevailing before the First World War. At the outset, the Council had translated into rational terms the aspirations of the under-developed countries towards better living standards and had provided the world with masterly reports on how economic development could be achieved. Now, unhappily, the pioneering spirit had died, and the crucial economic problems of the world were ignored. The rich countries were becoming richer, but for mankind as a whole there had been no progress at all.

31. In the beginning, the governments of the world had entrusted the Council with the task of achieving world economic integration by providing equality of opportunity for an increasing number of countries. The Council had tackled that task by relying mainly on economic devices such as the movement of capital, the migration of labour and international trade and aid. Although such tools were important, the crux of the problem lay in the creation of the social and technological conditions essential to the successful inception of economic development in the under-developed countries. By failing to provide the latter with the financial means of ensuring their economic development, the Council had betrayed its early promise and had merely widened the gap between the rich and the poor countries. If the gap was not wider today, that was due not to any special action taken by the Council, but merely to the fact that the under-developed countries had learned much from their dealings with GATT, the International Monetary Fund (Fund), the International Bank for Reconstruction and Development (Bank), FAO and the regional economic commissions.

32. The under-developed countries could not be developed by the same processes as had served the countries which were already industrialized. The latter should understand that the former were obliged to take certain steps to protect their economy, as their sole means of achieving economic development.

33. Immediately after the Second World War a great effort had been made to build up a structure of international agencies designed to co-ordinate national economic policies on the world scale. But those agencies could not function effectively unless the Council provided them with a guiding philosophy. It might therefore be asked whether any good would be served by persevering with an already outdated and bureaucratic system which had already yielded all the fruit it was capable of bearing. It was necessary to re-build the very foundations of

economic and social co-operation. If that task was not attempted, the consequences would surely fall mainly upon the industrially advanced countries, for they had the greater share of power in their hands. Equality of opportunity for the under-developed countries depended in no small measure on the adjustments that the advanced countries were able to make in their own policies.

34. In the first place, the principles of international financing should be revised. Secondly, the governments and peoples of the advanced countries should realize that the co-existence of two sets of values, one for the rich countries and another for the poor, was in no way unjust or unfair. Thirdly, the effects of fluctuations in the prices of primary commodities on the world market should be automatically offset by compensatory imports of capital into the primary producing countries. Fourthly, it should be repeated that when the under-developed countries spoke of industrialization they meant the mechanization of agriculture, since that was the only known means of maintaining or increasing agricultural production in the face of the flight of rural labour to the cities.

35. The Commission on International Commodity Trade (CICT), if given the proper tools, might well exert a beneficial influence on the co-ordination of the activities of those agencies which, in one way or another, were concerned with the effects of the instability of primary commodity markets on the industrialization and general development of under-developed countries. By definitely linking those two issues, the prospects of improving co-ordination in matters of financing and technical assistance would be greatly improved. CICT would then be able to give the under-developed countries invaluable help by carrying out technical studies on and conducting statistical research into the price and income elasticities of demand for primary commodities, thereby enabling countries dependent on their exports the better to plan the allocation of foreign currencies and that part of their development programme which depended on imports of capital goods.

36. With regard to industrialization, his Government believed that the regional economic commissions were better equipped than any other bodies to prepare general development programmes, as well as specific projects at the request of governments, in their regions. Detailed information about such activities could be communicated to the Council, which would act as a clearing house not only for the regional economic commissions themselves, but also for the technical assistance authorities and financing agencies. More substantial funds could then be allotted to the regional economic commissions when that was essential to the proper execution of their routine work.

37. Turning to the international financing of economic development, he said that his Government considered it essential that better understanding be established between the Fund, the Bank, the International Finance Corporation and the Special United Nations Fund for Economic Development or a similar agency. The view still held in some eminent international financial circles that the flow of investment for economic development would materialize only if conditions in the public utilities

and heavy industry were favourable led to a vicious circle from which there was no escape. The view was valid in the case of international movements of private capital, which primarily sought the minimum degree of risk and a steady return, but was totally inappropriate to investment by international agencies, the primary aim of which was to remove the underlying deficiencies and bottlenecks obstructing a sound distribution of resources in under-developed countries. It was perfectly normal for a private bank to make its loans conditional on a reasonable return, but that was an absurd policy for an international agency whose responsibility it was to finance economic development.

38. His Government wished to suggest that, parallel to the revision of the present machinery of the Fund and the Bank, additional machinery should be set up for such financing as would permit under-developed countries to overcome balance-of-payments crises caused by a deterioration in their terms of trade and a consequent reduction in their capacity to import. Those crises were harmful and, being practically insurmountable in the short run, had a particularly adverse effect on balanced economic growth. Correctives available through the Fund might alleviate some of their effects, but either had no bearing on others or even tended to aggravate them, particularly those generated by the interplay of demand for industrial goods and that for primary products.

39. In order to achieve those objectives, his Government suggested that the Secretariat should prepare a consolidated text of all the resolutions of the United Nations and its specialized agencies relating to economic development, industrialization in the broad sense, primary commodity markets, the financing of economic development and technical assistance. The accomplishment of that most onerous and complex task would save time, reduce friction in discussion, eliminate overlapping decisions, and ensure more consistent observance of the principles and objectives of the United Nations Charter.

40. Concluding with a few remarks about the proposed European Common Market, he said that his Government was concerned, first, about the possibility of artificial distortions in investment and trade, which, instead of being influenced by natural stimuli, such as increased productivity or profit, might be diverted, for political reasons, towards the colonial areas. It also feared the danger of the spread of colonial preference to the disadvantage of under-developed countries. It therefore hoped that the system to be inaugurated would be based on strict observance of Article 73 of the Charter as interpreted by the Trusteeship Council.

41. Mr. SAARI (Finland) congratulated the Secretary-General and his staff on the high quality of the "World Economic Survey, 1956", which would be very useful not only to organs of the United Nations and the specialized agencies, but also to national bodies dealing with economic problems. Finland had become a Member of the United Nations only the previous year, and his delegation was participating in the work of the Council for the first time, and as United Nations economic reports contained little information on his country, it might be fitting if he gave some account of its recent economic development.

42. Finland had a population of 4.2 million, and its gross national product was some 12,000 million Finnish marks — i.e., \$1,250 per head. It was difficult to draw conclusions about the significance for the standard of living of such figures, but it could be claimed that Finland had a relatively high national income per head of population and, more important, that its real national income had been rising at a rate of some 5 per cent per year during the past decade. Roughly one-third of the population was agricultural, and less than one-third worked in the manufacturing industries. Since the war, there had been a marked shift from rural to urban occupations, which had undoubtedly contributed to the rise in general productivity.

43. Under the terms of the Treaty of Peace of September 1944, Finland had had to cede to the Soviet Union about 12 per cent of its territory, made up in the main of densely populated farmland, but also including industrial centres, power plants and forests, as well as the only ice-free harbour within the Arctic Circle. In addition, his country had been required to pay by way of reparations \$300 million in 1938 values, the equivalent of which in 1952 values had been estimated at \$525 million. Payments, which had to be made entirely in kind, in the shape of industrial products and only to a small extent in that of Finland's traditional timber products, had had to be started at once.

44. At the same time, the country had been faced with the problem of resettling some 500,000 persons who had previously lived in the territory ceded to the Soviet Union. Most of them had been farmers, who did not wish to work in towns, so that new farms had had to be found for them. As a result, 2.25 million hectares had been taken over from private owners, as well as from state and local authorities, under the provisions of a special law. The process had formed one of the most striking land reforms in Europe.

45. Describing the main features of Finland's balance-of-payments position since the war, he said that it had been influenced by the following factors. First, visible and invisible imports had normally accounted for between one-fourth and one-fifth of the gross national product at market prices, which was a very high figure, exceeded by fewer than ten other nations. At the same time, despite higher output in the metallurgical and chemical industries, sawn timber and other forest products had still accounted for approximately 75 to 80 per cent of aggregate commodity exports. Metallurgical industries originally established to meet the bulk of reparations had since 1952 been developing diversified production for export, such as electric cables, motor vehicles, timber industry machinery, ships and power plant and equipment. As the proportion of commodities in Finland's balance of trade was normally about 90 per cent, world demand for Finnish forest products determined the size of the country's foreign currency earnings and hence its ability to pay for its imports. In turn, the movement of foreign trade regularly influenced the volume of domestic industry and employment.

46. Late in 1944, Finland had been on the brink of starvation: the gross national product per head of population had fallen to about 15 per cent below the pre-war level; productive capacity had been reduced and badly damaged; currency reserves had been practically ex-

hausted; and both reparations and reconstruction — including that of the northern areas, which had been almost completely devastated — had had to be launched at once. In 1945, Finnish exports had shrunk to one-sixth and Finnish imports to approximately one-eighth of their pre-war volume. The demands of reparations deliveries had made it necessary to give high priority not only to imports of the raw materials needed by the industries concerned, but also to the construction and expansion of industrial capacity to produce the necessary goods. Most of the machine tools had also had to be imported. Finland had managed, mainly as a result of its improved terms of trade, to accomplish the seemingly impossible task of paying reparations punctually, of re-settling and rehabilitating nearly half a million displaced persons, and of building new homes for them and an increasing population, as well as re-building war damaged property. Large quantities of timber had been needed for reconstruction in Europe, and Finland had profited from rising prices for scarce forest products such as sawn timber, plywood, pre-fabricated houses, etc. It had also been helped by the concessions granted in 1946 and 1948 by the Soviet Union in agreeing to extend the period for the payment of reparations from six to eight years and to forgo 24 per cent of the original amount.

47. Inflation had been kept in check up to the end of 1944 by means of rigorous price and wage controls, but subsequently the strain imposed by the Treaty of Peace and internal reconstruction, as well as by certain political and economic developments, had broken down the defences. In any case, inflation could not have been checked to any degree before 1947. Internal price and cost movements had made it necessary to adjust the exchange rate of the Finnish mark three times during 1945. Finland's terms of trade had remained favourable until about the end of 1947, when the market situation had changed. From 1948 onwards, serious efforts had been made to curb inflation, but previous shifts both in the domestic cost structure and in world demand and prices had by then weakened the terms of trade to such an extent that it had been impossible to avoid a further depreciation in the summer of 1949, and in the autumn of that year another devaluation had taken place when Finland, in company with several other nations, had adjusted its exchange rates to conform to the new pound sterling and dollar relationship. Even before the Korean War, conflicting pressures by different groups had created another wage and price spiral in 1950-1951, and efforts to stabilize the situation had largely failed owing to restrictions on foreign trade and inflexible price and wage relationships, which had hampered long-term economic planning. Finally, after energetic efforts, an economic truce had been signed in the spring of 1951 and accepted by political parties, by labour and by the leading economic organizations.

48. In several respects, 1951 had marked an important turning-point both in the general economic situation and in the foreign payments position. Finland's terms of trade had improved, having risen to an unprecedented peak common to a number of countries whose principal activity was the export of raw materials. In 1951, the value of Finnish exports had practically doubled, and for the first time the volume of both exports and imports

had risen above the pre-war level. The bulk of the country's foreign currency earnings had been used to bolster the Bank of Finland's meagre reserves, and had made possible a less hand-to-mouth licensing policy. In the autumn of 1951, a "stabilization programme" had been drawn up, under which, among other policy measures, a system had been introduced aiming at a more even distribution of employment, income and investment in export industries over the various phases of the trade cycle by freezing in the Central Bank part of the exceptionally high proceeds per unit exported. Unfortunately, that had been done too late, when world demand for forest products and prices had already been declining. As a result, by the end of 1951, the exceptionally high export earnings had already led to wage increases that had outstripped the rise in productivity, and to higher stumpage prices of timber.

49. As the result of a more liberal import policy, Finland had started 1952 with a volume of outstanding licences far greater than anything that had gone before; and, though a more rigorous policy had been enforced, it had become apparent that current export earnings were insufficient to meet the demand for imports, and that neither imports nor the internal costs of the exporting industries could be reduced proportionately as export earnings declined. The production techniques used in the cellulose industry had meant that late in 1952, when world prices had been falling rapidly, that industry had been processing pulpwood purchased in late 1951 and early 1952, when optimistic forecasts of the market situation had pushed up raw material prices. Given the crucial importance of foreign trade to the entire Finnish economy, the consequences of the reversal in 1952 of the export trend had been felt not only in the exporting industries themselves, but also in the forestry and building industries, and hence had adversely affected rural incomes. Thus the situation in 1952 had hardly been rosy, except that in September of that year reparations had finally been paid off.

50. In 1953, the Central Bank and the foreign trade authorities had devoted themselves mainly to measures to reverse the continual drain on foreign currency reserves, with the object of accumulating some reserve of gold, United States dollars and the currencies of members of the European Payments Union (EPU).

51. In 1954 there had been a decisive improvement both in the unit prices of Finnish exports and in world demand for them. The improved international market situation had helped to reduce seasonal rural winter unemployment, and hence expenditure on unemployment relief, and to ease the financing of investment, so that it had been possible to liberalize import licensing policy once more.

52. Another landmark in Finland's post-war foreign transactions had been reached in 1955, when the volume of industrial production had been more than double that of the last pre-war year. By far the most rapid increase had been in the metal-processing and chemical industries, the expansion having been less marked in the traditional export industries. A somewhat slower but none the less rapid expansion in the textile industry might appear surprising, but should be viewed against the background of the search for effective protection

against quantitative import restrictions. It was noteworthy, too, that output in the mining industry had increased by 67 per cent in the relatively short period from 1948 to 1955. Expansion in the manufacturing industries had, however, been far surpassed by increases in the output of electric power of almost 10 per cent per year. The construction and financing of new power plants was one of the foremost problems of Finland's current expansion.

53. International demand for Finnish forest products had remained stable in 1955, and prices had been slowly rising. The further rise in export earnings that year had been the result both of higher unit prices and of a greater volume of exports, which in part had been due to expansion in capacity in the paper industry. The smooth flow of exports and the relative stability of the internal price and cost level in Finland had made it possible to introduce the first measures for liberalizing Finland's foreign trade. In July 1955, the so-called automatic import licensing system had come into operation, whereby importers of specified commodities set out in detailed lists, and accounting for about 40 per cent of total Finnish imports as they had stood in 1954, were permitted to import unlimited amounts of those commodities from any source, provided payment was made in the currency stipulated in the relevant trade agreement between Finland and the other countries concerned. Those "free lists" primarily featured raw materials, secondary supplies for production, such as chemicals, and food and feeding-stuffs. The free lists for imports from the dollar area, however, were more limited.

54. The payments agreements concluded between Finland and its leading European trading partners had been just as significant. Not being a member of the Organization for European Economic Co-operation, Finland could not automatically settle its bilateral balances through EPU. However, a number of individual agreements signed with western European countries in 1955 and 1956 extended to Finland the right of partial transferability of its potential export surpluses in EPU currencies into other member countries. At the end of 1955, external conditions for regulating Finland's foreign payments relations had still appeared relatively favourable, since, although the terms of trade had been slightly deteriorating from the autumn of 1955 onwards, and although world demand for products of the mechanical forest industry was still declining, demand for cellulose and paper had remained firm. On the other hand, internal developments had halted further liberalization, and disputes between major pressure groups concerning the distribution of income had culminated in a farmers' strike, followed by a general strike in March 1956 involving, it had been estimated, some 25 to 30 per cent of the total labour force and resulting in the loss of about 1.5 per cent of the national income. In the final settlement, wage demands had been fully met, increases of from 10 to 15 per cent having been granted. Employers had been compensated by reductions in corporation taxes and in children's allowance premiums. Farm incomes had been pegged to meet the wishes of farmers' associations. Price controls on domestic goods and services, which had been removed at the end of 1955, had been reintroduced, but it had been impossible to prevent a further

rise in the general price level, partly because of an over-all increase in internal production costs, partly because of a slower rise in productivity, and finally because certain governmental measures aimed at stabilizing state expenditure had themselves tended to push up market prices.

55. In an attempt to curb inflation, the Bank of Finland had continued to pursue a restrictive monetary policy in 1956, but had made more foreign exchange available for import licences despite its limited currency reserves. The effects of that policy had been felt at once, and in 1956 the volume of imports had expanded by 11.5 per cent by comparison with 1955. The volume of exports, however, had declined by 2 per cent. Invisible items in the balance of payments, mainly shipping, had as usual shown a favourable balance and had reduced the deficit in total transactions to half that in the balance of trade.

56. He then gave detailed figures for receipts, payments and net balances, and details of the cost of reparations included therein, for each of the years 1945 to 1946, to illustrate the general trends of Finland's foreign trade over that period. In 1945 and 1946, foreign loans had been raised, mainly to establish industries to produce goods for reparation deliveries, but also to buy consumer goods, chiefly food, in 1946. After a few years, the policy had been changed, loans having been sought for investment purposes alone. They had been raised in many countries, and also from the Bank, but Finland had never asked for or received a single cent of Marshall Aid. Foreign capital had been used in particular to pay for machinery purchased by the timber and electric power industries. Some small balances were still outstanding on pre-war loans, but repayment of post-war loans was proceeding according to schedule. Repayment of the public Swedish loans had been suspended only until 1959. Repayments had been considerable throughout the post-war period, and his country's indebtedness had therefore risen by only a moderate amount. In 1945-1948, the foreign loans raised had exceeded repayments, but during 1949-1954 repayments had equalled or exceeded new credits obtained, as was shown by the detailed figures for those years, which he quoted. At the end of 1956, Finland's total state debt to foreign countries had amounted to an equivalent of \$268 million. Private foreign long-term loans had been quite small.

57. Though it had only recently become a Member of the United Nations, Finland had joined the specialized agencies much earlier, except for the United Nations Educational, Scientific and Cultural Organization, which it had entered only in 1956. Although but a small country with limited economic resources, it was willing to do what it could to contribute towards economic integration. Accordingly, it had been taking an active part since August 1956 in research on the possibility of establishing a Nordic common market, with Denmark, Norway and Sweden. The work had been completed a week ago, and a report on the subject was just going to press.

58. The four Northern European countries were similar in many respects. They had all achieved a standard of living that was higher than the average for Europe; their social structure was largely the same, as was also their legal system; none had colonial interests; and all favoured the freest possible flow of foreign trade. The

Nordic Economic Collaboration Committee considered that a common market, reinforced by collaboration in commercial policy and financial arrangements, would allow its members further to improve standards of living, to create entirely new industries and types of product, and to concentrate on those lines of production for which the country concerned was most suited. Long negotiations were at present in progress between Finland and its trading partners, their object being to liberalize Finland's foreign trade by means of a global quota system, which it was hoped would help the country to abandon bilateralism, to liberalize its imports and to achieve monetary stability.

59. In 1957, the demand for Finnish exports had so far been satisfactory, though not particularly good, but the payments position was giving grounds for concern. Meagre currency reserves and a large number of outstanding import licences towards the end of 1956 had made it necessary to discontinue the free lists under the automatic system. Difficulties had also been met with in the renewal of certain trade agreements. The most serious trouble, however, had been domestic, in that it had so far proved hard to draw up an over-all stabilization programme acceptable to the parliamentary majority which would also command sufficient support from the leading pressure groups. Apparently the most important factor making for internal monetary instability was the retention in full of import controls and the impossibility of removing them at the present exchange rates. Adjustment of the latter, provided that permission was forthcoming from the international bodies concerned, would not provide a permanent remedy unless adequate guarantees were also forthcoming that price changes resulting from a currency devaluation would not automatically start a new price-wage spiral. Other obstacles were the income and price index relationship, the absence of a system for compensating labour for a rise in productivity and disequilibrium in the state finances.

60. However, it must be said that, although the outlook was at the moment overcast, the Finnish economy was highly dynamic, as was demonstrated by an annual increase in real international income of 5 per cent over the past decade. His country had achieved good social standards, and its technologists and engineers had reached a high level of technical skill. Finally, Finland disposed of hitherto unused raw materials which guaranteed further industrial expansion, and the nation was willing and eager to take an active part in international economic collaboration and to shoulder the obligations arising from its membership of international organizations.

61. Mr. DRAGO (Argentina), congratulating the Secretariat on the objectivity with which it had summed up the world economic situation in 1956 and the various problems that had arisen, said that the economic consequences of the Middle East crisis had affected all countries, including those of Latin America. Moreover, low price levels for agricultural products had still further aggravated his country's economic situation. There was nothing surprising, therefore, in the concern shown by the Argentine Government in particular at the establishment of the European Common Market and the possible setting up of a free trade area in western Europe. His

Government feared that the trend towards European economic integration would lead to the introduction — at least temporarily — of a system of preferences, which might even be extended to certain extra-European territories, such as Morocco and Tunisia. As everyone knew, the economic stability and prosperity of the Latin American countries depended very largely on the income from their exports of basic raw materials, and a preferential trade area from which they were excluded would seriously handicap their continued economic expansion at a satisfactory rate.

62. The secretariat of the Economic Commission for Latin America (ECLA) had already made a preliminary study of the possible repercussions of the establishment of the European Common Market on Latin American exports. Moreover, the operative part of resolution 121 (VII), adopted by ECLA at its seventh session, gave the secretariat instructions for the continued study of the problem. ECLA considered, however, that the question should be studied in detail by the Council and the competent specialized agencies.

63. ECLA had also considered at its seventh session the adoption of a policy of regional economic co-operation, which had taken shape with the setting up of the Trade Committee at Bogota; that policy had already begun to yield practical results. The question of the obstacles created by bilateralism in intra-Latin-American payments agreements had also been studied by the ECLA Trade Committee. Consideration, too, had been given to the expansion of the intra-Latin-American regional market and to the establishment of a common market which, subject to general provisions beneficial to all participating countries, would ensure the more profitable utilization of resources and investments in each country's industry and facilitate the rational and effective industrialization of Latin America as a whole.

64. The Commission had also approved the Trade Committee's decision to set up a working party to study the possibility of gradually establishing a multilateral payments system and appropriate measures to that end.

65. The Trade Committee had also requested the secretariat to convene a group of experts to prepare the transition to a more liberal multilateral trade system and to examine the possibility of establishing a regional market for Latin American products, and especially for primary commodities. It had recommended the secretariat to draw up an inventory of industry in Latin America with a view to devising measures for correcting uneconomic working conditions — a product of duplication and idle capacity — which were a feature of certain Latin American industries.

66. The purpose of the Argentine Government's economic policy was to develop industrialization while bearing new requirements in mind. It was quite clear that action in that field must be directed mainly towards technical progress in agriculture. Unfortunately, the accumulation of surplus agricultural products, together with the decline in demand for raw materials, was preventing the Argentine economy from reaching a satisfactory level.

67. Foreign trade income was the most important asset of the insufficiently developed countries, whose exports

were virtually limited to primary commodities. Argentina was in process of an economic expansion in which its exports of agricultural products played an overwhelmingly important role. Consequently, the fall in prices of such products was a source of concern to his Government, particularly since there was little prospect of any immediate improvement in the matter. The Argentine Government welcomed the interest taken by FAO in the problem of agricultural surpluses, and hoped that effective steps would be taken to deal with it. It also supported the decision to set up an FAO Grains Group. He recalled that his delegation had long urged the necessity for consultation with the countries concerned before surpluses were unloaded on the international market. Speaking for himself, he would have preferred a more vigorous statement of that principle in FAO's report to the Council.

68. In conclusion, the Argentine Government would support any steps that would assist the development of the less highly developed countries. But it could not approve any measures that would obstruct, either directly or indirectly, the development of those countries which were financing their development out of their own resources.

69. Mr. ORTIZ (Dominican Republic) associated his delegation with the high praise bestowed by many speakers on the documents prepared for the Council by the Secretariat. In particular, he greatly appreciated the quality of the "World Economic Survey, 1956".

70. It was manifest from the Survey that the under-developed countries were one of the vital problems to which increasing attention must be paid. The Secretary-General had rightly said that while it was certain that the world was becoming increasingly aware of the need to promote their development, it did not appear to appreciate the urgency of the task.

71. Economic well-being was undeniably one of the prerequisites of social well-being. That was why the United Nations had given the complex problems of economic development so much attention, and why it would be necessary in the future to combine the closest international co-operation, founded on practical and realistic principles, with greater efforts by individual countries.

72. The ideal method of maintaining a balanced programme of economic development free from the evils of inflation and balance-of-payment difficulties was to create fresh demand to absorb new products, and to encourage internal and external financial support. That was no simple task. It was common knowledge that the world sadly lacked the necessary knowledge and experience to enable it to narrow the gap between productive capacity and the human needs of the under-developed countries. The picture of 1956 presented in the "World Economic Survey, 1956" and in the "Economic Survey of Latin America 1956" (E/CN.12/427 and Add.1 and 2) called once more for the Council's close and most careful attention.

73. With regard to Latin America, although the world market for primary commodities had been relatively stable in 1956, that was no reason for overlooking the

special situation of certain countries and certain commodities in the matter of the prices and volume of exportable surpluses.

74. It was stated in the ECLA Economic Survey that, despite the fact that Latin American trade had in general developed favourably in 1956, it had nevertheless been discouraging in that a deterioration had set in in the terms of trade which would partly offset the advantages which the countries of the region might derive from their efforts to increase their exports.

75. It was obvious that there was no universal panacea for those problems, closely related as they were to the stability of primary commodity prices, but their importance was equally obvious. The economic progress of Latin America would for many years be subject to fluctuations in the export market for certain products.

76. The authors of the "World Economic Survey, 1956" again stressed the fact that a proper international division of labour was the most effective method of utilizing the world's limited resources. If that was, as he believed it to be, an undeniable economic truth, it was necessary that all its implications should be carefully taken into account in planning the future economic development of Latin American countries. Perhaps the most important of those implications was that, if a more balanced expansion of the world economy was to be achieved, the pattern of production would have to be adapted more closely to that of demand, in such a way as to reduce the vulnerability of the under-developed countries, dependent as they were on imports for their development, to fluctuations in the world markets for primary commodities.

77. He quoted the example of sugar, the production of which represented the most effective form in which his country's resources could be utilized. Exports of sugar and imports of manufactured goods played in his country's economy the parts played by investment and savings in an industrialized economy. It was those exports, rather than investment, that provided the principal source of the Dominican Republic's national income.

78. His delegation maintained that the goal of constantly expanding world trade still called for intense effort and the most far-reaching international co-operation. The barriers of various kinds that prevented free access to markets, restrictive commercial practices, and the various factors impeding a fuller liberalization of that trade were obstacles in the way of the attainment of the basic objectives of the United Nations. Undoubtedly there were valid reasons, both economic and political, why those difficulties could not be entirely overcome; nevertheless, his delegation was convinced that co-operation among the appropriate international bodies would make for greater prosperity and speedier economic progress for all. In that connexion, his Government felt that GATT, which had greatly helped the gradual liberalization of international trade, should be given the strongest support. It shared the view expressed by other delegations that no new machinery for the promotion of international trade co-operation was required.

79. Reference had been made to the Rome treaties, which were designed to promote the peaceful uses of atomic energy in six European countries and the creation

of a common European market. At the 973rd meeting, the Netherlands representative had mentioned the fear prevalent in some quarters that that move towards the economic integration of a group of European countries might have unfavourable effects on their trade and economic relations with outside countries. His delegation wished to state that it viewed with the utmost sympathy and admiration the efforts that had resulted in the conclusion of the treaties. While its long-term repercussions could not be foreseen, the European Common Market was undoubtedly one of the outstanding economic achievements of modern times. His delegation, like others, was confident that its country's trade interests would be fully protected by the revision now being undertaken under the auspices of GATT with the object of giving a fresh impetus to the multilateral system and of ensuring that existing trade relations between the countries members of the Market and those in process of development—the producers of raw materials—became increasingly firm and mutually beneficial.

80. A brief account of the economic development of his own country, which was a typical example of a country in process of development, might not come amiss. The gradual development of all sectors of the Dominican economy had led to an extraordinary increase in the volume of his country's trade, which in 1956 had reached the highest level yet recorded at values of 125 million pesos for exports and 108 million pesos for imports. The volume of exports had also substantially increased, having been 214,000 tons greater than in 1955. It was noteworthy, however, that the mean value per ton of exports had been nearly 8 pesos lower than in 1955, whereas that of imports had been nearly 9 pesos higher.

81. The industrial sector had also expanded appreciably during the past year. The social and economic improvement plan, inaugurated in 1937, had laid the foundations for a programme of industrial development the application of which had made it possible to increase capital investment in Dominican industry from barely 100 million pesos to much more than 200 million pesos (1956) in less than ten years. One immediate result of industrialization had been a diminution in the Republic's dependence on foreign supplies to meet home demand for manufactured goods. Again, whereas previously more than half of Dominican industry's requirements of raw materials, in terms of value, had been of foreign origin, the proportion had fallen to less than 15 per cent in 1956.

82. His Government, desiring to stimulate the participation of private capital in the exploitation of the country's natural resources and in the establishment of new industries, had granted special facilities, as a result of which there had been a fresh influx of capital, which was yielding an excellent return, especially in mining.

83. His delegation had been particularly interested in what had been said about the important part that should be ascribed to fiscal and monetary factors in the execution of economic development programmes. Taxation was an extremely effective tool in the formation of the capital required by under-developed countries for social and economic development work and to stimulate private investment. The Government had framed its entire taxation policy in such a way as to improve the relation-

ship between the total revenue from taxation and the national income as a whole.

84. That policy was fully in accordance with the consensus reached at the Technical Assistance Conference on Comparative Fiscal Administration, held at Geneva in July 1951, under the Council's auspices. It had resulted in a fairer incidence of taxation and in increased yield that had made it possible to triple the revenue from taxation during the past ten years.

85. His Government had always striven to avoid divergencies between fiscal and monetary policy, so as not to disturb economic development programmes. The substantial revenue yielded by the reorganized fiscal system had enabled the State to build up the resources needed for investment in works of great social benefit, had helped to promote price stability, had inhibited inflation and had kept the currency on a sound footing.

86. His delegation supported the views expressed by the Secretary-General in his introductory statement at the 973rd meeting, to the effect that, in the last analysis, the crucial points were the vigour with which countries pursued sound policies to achieve balanced economic growth, and their ability to review their internal programmes, especially in the field of fiscal and monetary policy. Such efforts by the countries in process of development, combined with close international co-operation, could not fail to yield positive results and the improvement in well-being to which man was entitled. The twentieth century had been privileged to face those problems with enthusiasm and vigour. His delegation optimistically reasserted its faith that, by uniting forces, it would be possible to eliminate inadequate economic policies, to achieve fuller social progress and to raise standards of living.

87. Mr. DRINKWATER (World Federation of Trade Unions), speaking at the invitation of the PRESIDENT, said that he would direct his remarks to the analysis in the "World Economic Survey, 1956" of factors affecting the expansion, stability and balance of the world economy.

88. The year 1956 had been another important year in the development of the unity and organization of trade unions, as well as for action on behalf of the workers. If wages had remained the central issue, the demand for shorter working hours had strengthened and some important successes had been achieved. Fringe benefits, social security and automation had also been much discussed. Where necessary, workers had launched powerful strikes in many countries, thereby showing their determination to press legitimate claims. In socialist countries the further strengthening of trade union activities, to which reference had been made at the twenty-second session, had continued; its objective was more effective utilization of the wide possibilities of action open to the trade unions both with regard to production and to living and working conditions.

89. Following the pattern adopted in the Survey, he commented first on the developed capitalist "industrial countries", where interest was focused on the decline in the rate of growth of production in 1956, largely owing to government policies of restriction: a trend which had persisted at the beginning of 1957 while prices had risen faster than ever. Though a steadily increasing rate of

growth in every economy was not to be expected at all times, he noted that in some countries there had been no over-all expansion at all, but stagnation. The authors of the Survey drew attention to the important fact that the economies of those countries, if they were to remain in balance, must constantly move forward; they could not stand still.

90. Profits had been accumulated on an unprecedented scale during the post-war period, with a corresponding appearance of new capital, further increased by credit, seeking profitable outlets. Rearmament apart, the continued investment of such capital must tend sooner or later to expand consumer-goods capacity, while automation and technological progress in general obviously increased still further the expansion in productive capacity resulting from each new investment. As was indicated in the Survey, there was already idle capacity in the food and textiles industries, as well as considerable under-utilization and some unemployment in the durable consumer goods industries and slackness in the industries serving building and the manufacturers of durable consumer goods. Hence there was no need to emphasize that, if there was to be over-all expansion rather than recession, what was needed was not merely an expansion of civilian demand as a whole, including both investment and consumption, but, specifically, an adequate growth of consumption. As was stated in the introduction to the Survey, there is "no evidence in the case of consumption goods of pressure of excess demand", and "there is... little doubt that output in most consumer-goods industries could be significantly expanded if demand were greater".

91. There appeared to be little basis for the argument advanced against wage claims that they inflated demand and so pushed up prices. On the contrary, since prices were already rising, effective demand would fall even farther behind present production capacity unless wages increased at least proportionately.

92. With regard to wages as an element of costs, he said that to the extent that wage increases were not already covered by increased production they could in most cases be met out of profits without affecting selling prices. Trade unions could not limit their responsibility merely to maintaining an existing standard of living. They sought an improvement, which they felt was right, on purely economic grounds. The objective basic needs of the worker, the very minimum which should be met by wages, were by no means static, but changed with scientific, economic and social progress. He illustrated that argument by pointing out that, for example, in the United States of America the weekly budget for a typical family of four, calculated at the University of California in 1956, — the "Heller" budget — had been \$108, whereas the average weekly earnings of factory production workers had been just over \$80 at that time. In the case of other workers, the gap would be even higher. Wage rates in the United States of America were relatively high, and similar calculations for other countries would yield even more telling results.

93. With regard to investment, it appeared that an important factor making for imbalance by impeding expansion and contributing to inflation was the existence of bottlenecks in basic industries, particularly power,

steel and engineering. Investment, which was largely controlled by the big firms, had apparently been so channelled as to foster growth of productive capacity in the economy as a whole faster than in those basic sectors. The authors of the Survey spoke of a "national conservatism" in estimating future demand for the products of the basic industries. He drew attention to the fact that steel was precisely one of the most highly monopolized industries where there was the greatest opportunity for restricting production to ensure high profits. It was further pointed out in the Survey that rearmament absorbed a high proportion of the output of such basic industries. That clearly not only made for uncertainty in estimating future demand for their products, but also impeded expansion and disturbed the economy, which was thus deprived of supplies necessary for its natural development. The attack on the problem of inflation must be directed first and foremost to the root cause, which, in his Federation's view, was the altogether excessive burden of military expenditure.

94. With regard to the balance of payments, recent experience had shown that the restriction of consumer demand in a particular country was by no means necessarily followed by a corresponding increase in exports, but might merely lower the level of employment and output. The expansion of international trade and the solution of balance-of-payments problems could be ensured only by expanding general consumption.

95. He welcomed the upward trend, even if slow, of East-West trade, and the recent decisions to reduce the obstacles hampering the development of trade with the People's Republic of China.

96. More rapid development of the under-developed countries and improvement of the terms on which they had to conduct their trade could also contribute to a general improvement in world trade. There again, a cut in military expenditure would make it possible to give those countries more help in solving their problems of financing and would release industrial capacity capable of meeting their needs for equipment and the like.

97. He was glad to note from the Survey that in most cases over-all production in under-developed countries had increased during 1956 by from 3 to 5 per cent on an average. Since that expansion had outstripped population growth, some real progress had been made, and at the same time advances had been recorded in the execution of national development plans. However, the average rate of progress was still very slow; indeed, in some countries total output had remained unchanged or had even declined per head of population. Studies and discussions in the United Nations were serving to bring out in sharp relief certain aspects of the problem of development, and the essential need for independent development through industrialization, including the creation of the necessary production-goods industries, was emerging more and more plainly.

98. If the experience of 1956 with regard to exports of the primary products on which less developed countries remained so heavily dependent could be regarded as characteristic, it confirmed once again that while such dependence persisted the economic problems of those countries could not be solved; and that conclusion was

but further reinforced by the fact that the demand for primary products in world trade was lagging behind the demand for manufactured goods.

99. The evidence of some general economic progress, albeit slow, should not be allowed to conceal the fact that progress in raising living standards was generally even slower. Indeed, in some countries the position had deteriorated further. To take but one example, he pointed out that consumption per head had declined in Latin America as a whole. Since under-developed countries had large resources of unemployed or under-employed manpower, as well as natural resources, available, it was necessary to plan for a steady increase in the volume of consumption needs as an integral part of economic development to guarantee the necessary improvement in standards of living. Otherwise there would be no growth in the internal market, which must provide the economic basis for the growth of the national economy as a whole. To achieve that it was, of course, necessary that those countries should have effective control of their own national resources.

100. The impact of inflation was clearly particularly disastrous for the working people of under-developed countries, where rises in prices — sometimes on a prodigious scale — reduced the already desperately low purchasing power of wages and other income. In such circumstances, the workers would and must insist on their wages being raised to protect them and their families, and in that connexion a guaranteed national minimum wage, adjusted regularly to take account of price increases, was essential. In general, notwithstanding the urgent need of national economic development, which the workers fully appreciated, such development must not be financed at their expense through inflation and increases in consumer prices.

101. Turning to another question, he said that the economic and social development of the African continent was a matter that was being raised with ever-growing insistence by the African peoples, but powerful financial and industrial concerns, some long-established and others relatively new, were striving to extend their control over the exploitation of the natural resources and labour of the regions. Plans were under way to associate parts of Africa with the European Common Market. His Federation was not at all convinced that Africa's progress could be assured in that way; it could only lead to a further subjugation of the territories concerned to the interests of an enlarged group of private big-business interests.

102. In view of the accession to independence of a number of African States, and of the aspirations of other peoples to similar independence, he urged the Council to examine the proposal, supported by his Federation and by other organizations, concerning the establishment of a regional economic commission for Africa. The positive and expanding work of the existing regional commissions suggested that such a decision would have fruitful results.

103. Finally, with reference to the economic situation in the centrally planned economies he said that the rate of expansion had fallen off during 1956, though, as the Secretary-General had pointed out at the 973rd meeting, "economic growth had continued at the more rapid rate which had characterized those countries during the

post-war decade". Consumption had increased in each one of them, in some cases faster than the national income. The vigorous efforts those countries were making to tackle a number of problems and difficulties arising from the extremely rapid rhythm of development since the war were very important. According to the latest *Economic Bulletin for Europe*, "to the extent to which this year can be regarded as a year of re-deployment of resources in those countries — at the expense of a temporary sacrifice of some of the possibilities of over-all expansion — it may well be followed by a recovery of the over-all rate of growth next year". The measures of decentralization, apart from their general economic importance, were particularly interesting for the trade unions and the mass of the workers, because the more important role in economic planning now allotted to the factories and local and regional organizations provided new scope for more effective and positive participation of the workers and trade unions in the task of raising production and improving standards of living.

104. In conclusion, he stated the Federation's view that a substantial all-round reduction in military expenditure would be one of the greatest contributions to the stable expansion of the world economy at the present stage, and that the fundamental elements in a policy of economic expansion and stability were the achievement and maintenance of full employment and the provision of steadily rising standards of living for the masses.

105. The PRESIDENT announced that the observer for the Government of Chile had asked to make a statement of about ten minutes' duration on item 2, with special reference to ECLA. He proposed that in conformity with rule 75 of the Council's rules of procedure that request be granted.

It was so decided.

The meeting rose at 6 p.m.