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Chairman: Mr. Jiří NOSEK (Czechoslovakia).

In the absence of the Chairman, Mr. Hagiwara (Japan), Vice-Chairman, took the chair.

AGENDA ITEM 12

Report of the Economic and Social Council (chapters II, III, IV and V) (A/3613, A/3661) (continued)

GENERAL DEBATE (continued)

1. Mr. SEN (Pakistan) stated that the world economic situation as described in chapter II of the report of the Economic and Social Council (A/3613) was not altogether encouraging. While the economies of the industrialized countries continued to expand, most of them were beset by the problem of inflation caused in part by higher costs and in part by the excess of investment demand over the savings available. The under-developed countries were in an equally bad position; their economy, too, was subject to inflationary pressure owing to the higher cost of imported manufactured articles and to higher freight rates. Moreover, as the world demand for primary products lagged behind the growth of output and incomes in the industrial countries, the terms of trade for the countries producing primary products became more and more unfavourable.

2. In order to correct their balance of payments position, many of them, including Pakistan, had found themselves compelled to adopt drastic import restrictions. Their best weapon against inflation, however, would be to increase production; that meant diversification of their economy and industrialization, since the possibilities for expanding their agriculture were obviously limited. The chief obstacle to the industrialization of the under-developed countries was the lack of sufficient capital. Although Pakistan had received generous aid from various countries, particularly the United States of America, that assistance fell far short of the country's present requirements. Moreover, the bulk of foreign private capital had so far been directed towards extractive industries, particularly petroleum, which was unfortunate for countries which, like Pakistan, did not possess such mineral wealth.

3. Although every conceivable form of legislation had been adopted, in Pakistan and elsewhere, to create a climate favourable to foreign private investment, there seemed to be little prospect of any increase of such investment in the future. Hence the importance of inter-

national economic assistance, whether bilateral or multilateral, and of adopting a disarmament programme which would free resources that might be used to hasten the economic development of the under-developed areas could not be over-emphasized. His delegation therefore supported the Japanese delegation's suggestion (454th meeting) that the next World Economic Survey should give special attention not only to the problem of inflation but also to the effects of disarmament on world economy, and in particular to the problems inherent in the reconversion of industries working for armament.

4. A subject of great interest to Pakistan was the creation of the European Common Market, certain aspects of which, however, could not but give rise to some apprehension. It was to be feared that, as a result of the adoption of preferential tariffs, the demands of the six associated countries for primary products would be satisfied mainly inside the free trade area thus created and the producers of raw materials outside that area would suffer accordingly. The creation of the European Common Market would thus have disastrous effects on world trade as a whole. Indeed, should other countries, such as those of Latin America, think of forming a similar economic community, it was even questionable whether the existence of mutually antagonistic free trade areas would be of benefit to the countries concerned. It would certainly be a negation of the Havana Charter.

5. The practical application of atomic energy, which might extend to agriculture and medicine, was of great interest to Pakistan and to all under-developed countries, for it opened up new prospects for them. He hoped that an improvement in the international situation would enable all countries to use atomic energy for the greater benefit of mankind and not for its destruction.

6. Mr. AL-DALLI (Iraq) said that his country was deeply interested in the Committee's work, in which it was actively participating, and it had already derived great benefit from various projects recommended by the Committee. His country looked forward to the establishment of the Special United Nations Fund for Economic Development (SUNFED) and a world food reserve; it was pleased to note the positive attitude adopted by the Economic and Social Council with regard to those two projects and the progress made by the Technical Assistance programmes in Iraq and other countries. As the Executive Chairman of the Technical Assistance Board (TAB) had said, in his opening address at the 127th meeting of the Technical Assistance Committee, the Technical Assistance Administration had a special responsibility towards the newly independent countries; it was to be hoped that those countries would receive the assistance they required in the shortest possible time.

7. The World Economic Survey, 1956 (E/2982), showed that while economic growth had continued

throughout the world, the rate of expansion had slackened almost everywhere. Despite that slackening, which was still noticeable in 1957, the Economic and Social Council, the International Monetary Fund and the Second Committee had repeatedly warned countries against the danger of inflation. On the other hand, the Under-Secretary for Economic and Social Affairs had stated before the Committee (454th meeting) that the slower rate of economic expansion had been largely brought about by the measures adopted by various Governments to check "creeping" or "galloping" inflation, as for example the raising of bank rates. The Under-Secretary appeared to fear that the deflationary measures adopted by one country after another might lead to a new depression. It was possible to find justification for both those divergent views of the same phenomenon. Yet it was no use trying to remedy the present situation by concentrating on inflation or deflation or on the purely monetary policies often adopted in either case. It was above all essential to discover the basic factors underlying the continued rise in prices and the threat of inflation. Those factors differed from one group of countries to another.

8. In the industrialized countries, inflationary pressures were due to the heavy expenditure the great Powers had to make on armaments, the decline of productivity in some of them and the pressures of certain economic groups to obtain a larger share of the national income. It was perhaps no exaggeration to say that the world was living under what might be termed a semi-war economy. Classical monetary measures were obviously inadequate; what was needed was a more drastic economic policy, which would restrict consumption and perhaps ration certain goods, so that the economic balance could be restored without any slackening of the military effort. It was therefore to be hoped that an agreement on disarmament would soon deliver the world from that nightmare. His delegation supported the Japanese delegation's request that the effects of any disarmament plan on world economy should be studied.

9. In the under-developed countries inflationary trends were due to other causes. They were the result of the rising prices of imported equipment and increased freight rates, population pressure, the decline in world prices for raw materials, the inability of such countries to obtain sufficient foreign capital to ensure economic development and, finally, their need for technical assistance in adapting their economies to the changing demands of their populations.

10. His delegation earnestly hoped, therefore, that the Committee would give great attention to the problem of the decline in world prices of raw materials, which had serious repercussions on the balance of payments in under-developed countries. The question was all the more urgent in that certain countries, such as those participating in the European Common Market, were giving to each other the benefit of preferential tariffs and that the disposal of stocks of accumulated agricultural commodities by other countries was a further threat to countries exporting primary products. It might therefore be of advantage to examine carefully the proposal made by the Sudanese representative in the General Assembly (690th plenary meeting) for a conference between countries which were the main exporters of agricultural prod-

ucts and those whose industrial production depended on those products.

11. A second question to which the Committee should give special attention was the insufficiency of the flow of foreign capital to the under-developed countries. That situation was a challenge to the United Nations, the specialized agencies and, in particular, the International Bank for Reconstruction and Development. It was regrettable that the Bank had not justified the hopes which had been placed in it. Its policy was conservative in the extreme, the volume of the loans it had granted was slight in comparison with its potentialities and its rate of interest was unnecessarily high, so much so that certain areas, such as the Middle East, had been unable to seek its assistance. The time had come to re-examine the statutes of the Bank in the light of those facts and of changing world conditions.

12. Iraq had been fortunate enough to obtain sufficient funds for the development of its economy, thanks to the agreement which it had concluded in 1951 with the oil companies, under which it was guaranteed 50 per cent of the companies' net profits. 70 per cent of the revenue accruing from oil exports was placed at the disposal of a Development Board set up in 1950 to finance the economic and social development of the country. The Board, which was a non-political body, was responsible for preparing economic development plans and programmes and was able to draw on the services of consultants and experts from friendly countries and from the specialized agencies. The balance of the revenue derived from petroleum exports was used to finance small economic and social development schemes carried out by the Government itself.

13. In 1957 Iraq had experienced the same economic difficulties as had other under-developed countries and had been obliged to take various steps to curb inflation, such as the lowering of customs duties and the stabilization of the price of bread. The total value of the imports required for the country's economic development, exclusive of the items imported by the oil companies, had doubled during the past three years. His Government considered, however, that the country's prosperity depended on the economic situation in the rest of the world, particularly in neighbouring countries, and it was prepared to co-operate in any programme designed to promote the economic development of the Middle East.

14. Mr. PETERS (Australia) said that the World Economic Survey was one of the most important of the periodic reports published by the United Nations; it was an indispensable reference work for all who participated in the framing of international economic policies.

15. The 1956 Survey rightly stressed the need to reconcile long-term economic growth with internal and external stability, a problem which was particularly acute in the under-developed countries. The Survey demonstrated that inflation was a more complicated phenomenon than the older forms of economic analysis had indicated and that the older remedies seeking to restrain the pressure of investment demand on resources might have only a limited utility against cost inflation.

16. Australia had endeavoured to combat inflation, firstly, by adopting Government fiscal and monetary measures designed to keep investment in line with

available resources and, secondly by obtaining the co-operation of employers and workers in restraining demand and increasing productivity. That policy had enabled Australia, which was still in an early stage of economic development, to reach a very satisfactory state of internal and external balance at a high level of trade and industrial activity. This suggested that the maintenance of a broad measure of stability was compatible with the maintenance of high employment.

17. It could not be denied, however, that the expansion of world trade had been an important factor in Australia's economic development, for the country was still dependent on the export of a few agricultural commodities. For that reason Australia was able to appreciate fully the position of the under-developed countries many of which were similarly dependent on a narrow range of exports. In the long run the economic growth of under-developed countries could be financed only through balance of payments surpluses. There were only two ways of securing such surpluses, by achieving a sufficiently high export income, or an inflow of foreign capital. Rapid economic growth in under-developed countries required resort to both methods.

18. To enable under-developed countries to increase their export income, the major importing countries should seek to restrain fluctuations in their import demands and the major exporters of capital goods should seek to stabilize their prices. Fluctuations in demand and in prices were not, however, the only factors capable of jeopardizing the stability of world markets, for it could also be threatened by the amassing of vast stocks of surplus agricultural commodities and subsequent attempts to dispose of them. The bodies set up by the United Nations to deal with such problems had already made an important contribution to international co-operation. In his delegation's opinion it was not necessary to establish a new body. Consideration could be given to making more intensive use of the established bodies as a means of stabilizing markets and in giving wider application to measures such as the conclusion of agreements for particular agricultural products, on a commodity by commodity basis.

19. He did not think that there was any need for him to stress the importance of foreign investments for the financing of economic development. The Committee was familiar with the measures that must be taken to encourage a larger international flow of private investment. It was aware also that, although the bilateral and multilateral assistance received by the under-developed countries from 1954 to 1956 had amounted to almost \$5,250 million, severe limitations were imposed on the flow of this assistance by the need confronting many nations to assume a heavy burden of armament expenditure. Australia, like all the members of the Committee, looked forward hopefully to the time when disarmament might be able to set free large capital resources to speed the economic development of the under-developed countries; at the same time, however, it should not be overlooked that disarmament might give rise to added economic problems. Armament expenditures undoubtedly afforded some support to the existing high levels of economic activity and their sudden cessation might, for a while, depress the volume of demand and notably the demand for raw materials. Governments should therefore give careful consideration to recon-

version problems as soon as agreement was reached on the massive reduction of armaments and the dimensions of those problems could be more clearly discerned, as they could not be at present.

20. It was regrettable that the progress made by many countries in 1956 towards rebuilding their gold and dollar reserves had not continued. On the contrary at the end of 1956 the trend had been reversed in the case of all countries other than the United States, whose exports had been growing faster than its imports. That was a disturbing development and one which needed watching, for most countries depended on their exports to the United States to produce the income with which to buy the many commodities they imported from the dollar area.

21. In view of the disproportionate effects that changes in the United States trade patterns could have on the economy of other countries, it had been reassuring to hear the United States representative reaffirm, at the 454th meeting, his Government's determination to maintain a high level of domestic economic activity and to combat inflation. It was also reassuring to know that the United States Government was determined to promote savings, for private savings in the United States were one of the most important sources of capital for capital-importing countries.

22. His country welcomed the establishment of the European Economic Community, which the Council had discussed at length. The Community would, he thought, bring greater prosperity and security to Western Europe, enhance its influence in the world and expand its capacity to assist the economic development of other regions. Australia, as an exporter of agricultural products and raw materials to Western Europe, realized that it must safeguard its export interest in the Community since this interest might suffer great damage if the Common Market became a vehicle for regional protectionism. The Treaty establishing the European Economic Community had not however, been conceived in a protectionist spirit. The increase in production and rise in levels of living that might be achieved in the Community would surely contribute greatly to the prosperity of the world at large.

23. His delegation had been pleased to learn that the Executive Secretary of the Economic Commission for Asia and the Far East (ECAFE) had been able to report progress in Asian countries in planning and programming for economic development. In addition, welcome changes had been effected in the Commission's work programme which would result in increasing emphasis being placed on long-term needs. Mr. Narasimhan, the new Executive Secretary of ECAFE, should be congratulated on the realism shown in his approach to the problems of the region.

24. In conclusion, he hoped that it would be possible to distribute the report of the Economic and Social Council somewhat earlier in future, so that Governments would have time to study it more thoroughly before the opening of the Session.

25. Mr. Lychowski (Poland) said that his country had undertaken a great economic reform, particularly in the matter of foreign trade. Hence, Poland was particularly interested in the international problems discussed in the report of the Economic and Social Council.

26. The first fact that struck the reader of the World Economic Survey was the very uneven development of production in the developed and under-developed parts of what might be called the "private enterprise world". From 1954 to 1956 industrial production in North America and Western Europe had risen by about 14 or 15 per cent while out of 23 under-developed countries for which statistics were available, only 3 had succeeded in increasing their agricultural output by approximately 10 per cent, 13 had a more or less stationary level of production and 7 showed a visible drop.

27. The reason why the industrial countries had not only maintained but actually increased their level of production and employment in recent years was undoubtedly that their monetary policy was based on highly developed productive forces and, in some cases, on very substantial reserves. In other words their position was becoming more and more independent of the position in the rest of the world: in consequence of the expansion of their agricultural output and the remarkable technical progress they had achieved in the manufacture of synthetic products, the output of their different branches of industry was less dependent on imports of agricultural products and raw materials. Secondly, there had been a noticeable increase in commercial exchanges between the highly developed regions, which might account, in part, for the substantial increase in world trade during the period under review. It had been found, however, that the thesis that a high level of economic activity in the highly developed countries automatically worked to the advantage of the under-developed countries was not always correct. From the inflationary troubles that were now prevalent it would even appear that the policy followed by the developed countries was not entirely to the advantage of their own economies.

28. He believed that the time had come to adopt a new policy which would take into account the deep political and social changes that had occurred outside the group of industrialized countries during the last decade. Such a policy should be designed first and foremost to make the pace of development of the different parts of the world more uniform by promoting economic relations between the developed and the under-developed countries, on the one hand, and between countries of different social and economic systems, on the other.

29. The export income of the raw materials-producing countries - which for them was the only source of finance for purposes of development - was declining steadily; hence, those countries needed above all material assistance. Whatever direct assistance they received, they also needed indirect aid in order to become self-sustaining. In some cases the remedy was industrialization, in others help in the development of agriculture or of the processing industries. Hence, any serious scheme of international action would have to be preceded by intensive studies of the natural resources of those countries and of the probable world demand for each of the primary or semi-finished products they exported.

30. Even if the improvement which had occurred in the last two or three years was taken into account, a glaring disproportion still existed between the participation of the socialist countries in international trade and their contribution to the world's industrial and agricultural production. If one considered that their

share of world trade had decreased by about 50 per cent since the pre-war period - when their production potential had been much lower - one was bound to recognize the need to study means of helping those countries to attain their proper place in international trade. In particular, trade between the countries with a planned economy and the rest of the world should be regularized, through long-term economic and financial agreements, for example. In that connexion, he noted with regret that the enormous economic potential of the most populous country in the world, the People's Republic of China, remained outside world economic development.

31. The situation might be considerably improved by bilateral contacts between countries in the three economic groups. But at the international level it was unquestionably the United Nations which could take the most effective action. It was, of course, too much to hope that international action would make it possible to eliminate all the obstacles to the harmonious development of the world economy, but it could certainly help to reduce certain disproportions and inequalities, and by so doing contribute to the lessening of international tension. That was why his delegation attached great importance to the implementation of resolution 654 E (XXIV) of the Economic and Social Council, which it had supported although it would have preferred a more definite wording. He hoped that the Secretary-General - perhaps with the help of experts representing different regions - would submit to the Council at its coming summer session a series of suggestions with a view to the establishment of a system of intergovernmental consultation on the main problems of the world economy.

32. He agreed with other representatives that, generally speaking, the economic activities of the Council and indeed of the United Nations as a whole had lost something of their earlier vigour. The explanation lay probably in the abnormal course of economic development during the "cold war" years and in particular in the policies adopted by the highly industrialized countries. During those years the main decisions relating to the world economic situation had been taken outside the United Nations, either by bodies on which the industrialized countries were represented exclusively or else by bodies, such as the Organization for European Economic Cooperation (OEEC) and the Coal and Steel Community, which fell within the sphere of influence of those countries. For those reasons he thought that the role of the United Nations in the economic field, and in particular of the Economic and Social Council, should be strengthened.

33. In conclusion, he expressed support for the proposal of the representative of Romania (455th meeting) concerning a declaration of economic principles.

Mr. Nosek (Czechoslovakia) took the Chair.

34. Mr. ARAGON (Guatemala) said that among the problems dealt with in the report of the Economic and Social Council, that of inflation concerned most closely countries like Guatemala whose economy was developing but which were still dependent upon the export of a very small number of agricultural products and minerals. The members of the Council had understood the gravity of the problem and had decided, after thorough discussion, to request the Secretary-General to make a special study in the World Economic Survey

for 1957 of the cause and effects of the phenomenon, its international aspects and the means used or proposed for controlling it. The Guatemalan delegation accepted this constructive decision, for the under-developed countries, which had for years been endeavouring to raise their level of living, feared the possible effects of price inflation, especially in the industrialized countries, on their programmes of economic development. Its effects had already been felt in Latin America, where, according to some estimates, the rise in the prices of imports had resulted in an additional expenditure of \$200 million in the year ending September 1957. If that trend were to be intensified, the countries in that region would have great difficulty in maintaining a level of imports sufficient to satisfy consumer demand, and the execution of important projects might be hampered. Moreover, the decline in export prices in the year ending September 1957 had led to a drop of \$500 million in the receipts of foreign currency. The extreme vulnerability of the countries of Latin America was illustrated by the fact that the \$700 million thus lost during the same period represented twice the amount of the loans granted to them by the Export-Import Bank during the three years ending in June 1957.

35. Paragraphs 24 et seq. of the report of the Economic Commission for Latin America (E/2998)^{1/} contained a thorough analysis of the problem of inflation as it affected the countries of that region. He hoped that the further study to be undertaken by the regional economic commissions and subsequently by

the Council itself pursuant to Council resolution 654 D (XXIV) would pave the way to positive recommendations which would help Governments to determine what policy they should follow in such a delicate situation.

36. He also hoped that, when studying the great problems of the economic development of the under-developed countries, the Council and the regional economic commissions would analyse carefully the policy followed by the international financial institutions. When a number of bodies were dealing with general problems it was always useful to compare ideas and decide jointly on the action to be taken.

37. Referring to the reduction of armaments expenditure referred to in Economic and Social Council resolution 654 B (XXIV), he said that Guatemala associated itself with those members of the Council which had expressed the hope for early and substantial progress in that direction. While not prepared to concede that the establishment of the Special United Nations Fund for Economic Development should depend on international disarmament, the delegation of Guatemala realized that a slackening of the armaments race, even if it released only a small part of the funds now being applied to military purposes, would tend to strengthen the machinery of international financing considerably and so benefit the under-developed countries.

38. For all those reasons, the delegation of Guatemala unreservedly supported Economic and Social Council resolution 654 (XXIV).

^{1/} Official Records of the Economic and Social Council, Twenty-fourth session, Supplement No. 8.

The meeting rose at 4.50 p.m.