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CONTENTS

Agenda item 2:

General discussion of international economic and social policy

Speakers:

Mr. Schweitzer (IMF)	7
Mr. Chenery (IBRD)	9
Mr. Percz Guerrero (UNCTAD)	10

President: Mr. DRISS (Tunisia)

AGENDA ITEM 2

General discussion of international economic and social policy (E/4942, E/4984, chap. III; E/5004, E/5005, E/5007, E/5009, E/5010, E/5016, E/C.2/726)

1. The PRESIDENT invited representatives of specialized agencies to give their views on the appraisal of the International Development Strategy.

2. Mr. SCHWEITZER (Managing Director, International Monetary Fund) said that, although IMF did not contribute directly to development aid, it co-operated closely with the United Nations to create favourable conditions for economic development and social progress. Since IMF's annual report would not be available until the autumn, the most useful contribution he could make to the Council's work at the present stage would be to give a rapid survey of the international economic and monetary situation. The views he expressed would be personal ones and would not necessarily represent those of IMF's Administrators.

3. He would first analyse the situation of the main industrial countries, because their economic policies exerted a dominating influence on the whole international system and hence on the economies of the developing countries. In addition, the recent increase in inflationary pressures, combined with crises on international monetary markets, had raised serious doubts about the adequacy of the economic policies of the industrial countries. He would then analyse the impact of that situation on the economy of the developing countries and on their future prospects.

4. The over-all economic performance of the main industrial countries during 1970 and early 1971 had been unsatisfactory and had been dominated by three developments: a slow and irregular rate of growth in total output, strong inflationary pressures, and wide imbalances in external payments that had culminated in severe disturbances to the international monetary system.

5. Inflation had become a serious problem in the industrialized world during the latter part of the 1960s and disequilibria in the balance of payments had led to recurrent crises in the international monetary system. As a result of the widespread failure to apply corrective policies in time, stringent stabilization measures had had to be adopted which had led to a general slowing down of economic activity from mid-1966 to mid-1967. There had been a considerable difference, however, in the impact of stabilization efforts on the United States of America and on the European countries.

6. In the United States of America the 1966-1967 economic slowdown had produced only a limited and temporary abatement of inflationary forces. A highly restrictive monetary policy had been pursued throughout 1969 which had caused output to decline and unemployment to increase in 1970. Fiscal and monetary policies had both been relaxed during that year. Meanwhile, inflationary forces had continued to exert strong upward pressures on costs and prices.

7. In Europe, the cyclical upswing after the 1966-1967 slowdown had led to a gradual using up of excess capacity, but renewed upward trends in costs and prices had not become apparent until early 1969. The action taken to restrain demand had often come too late, however, and the effects of some of the monetary restraints applied had been partially frustrated by capital inflows. Consequently, the rise in prices had continued strongly in 1970 and the growth of output had remained relatively high.

8. A recovery from recession now appeared to be under way in the United States, and Canada too was expected to regain economic momentum during 1971. Those facts should ensure a higher over-all rate of economic growth in the industrial world, but at the same time inflation continued to be a serious problem which would require the determined efforts of national authorities to bring it under control. A number of countries faced the difficult task of combating inflation while simultaneously bringing unemployment down to more tolerable levels. With wage increases substantially exceeding normal productivity growth, cost-push forces were evidently still strong in the industrialized countries. There was therefore a strong justification for the adoption of an incomes policy to supplement fiscal and monetary policies in the fight against inflation.

9. The economic development and policies he had outlined had led to the international monetary crisis of May 1971. One of the factors responsible for that crisis had been that in the United States during 1970 and early 1971 the domestic economy had been sluggish, unemployment high and financial policy stimulative, whereas in Europe pressures on resources had still been relatively strong and

policies in most countries had not yet shifted from restraint to stimulus.

10. Secondly, both the United States and Europe had put primary emphasis on monetary policy to stabilize the domestic economy. A third factor had been the unusually wide differences in credit conditions and interest rates between the United States and Europe, brought about by the divergences in cyclical positions coupled with the character of the combined fiscal and monetary policies. Those differences had given rise to sharp fluctuations in short-term capital flows and to wide swings in the balance of payments of individual major countries.

11. A more basic cause of the crisis, however, had been an underlying payments situation that was less than satisfactory and the persistence of a deficit in the basic United States balance of payments. During the past year the continuing surplus in Japan's balance of payments had attracted increasing attention.

12. The recent disturbances in the exchange markets had raised anew the question of the effectiveness of the international adjustment process. That question had often arisen in connexion with the problem of managing short-term capital flows in a world of convertible currencies and integrated financial markets. Analysis of the problem had suggested a variety of possible approaches, including better co-ordination of national monetary policies, controls over capital movements, greater exchange rate flexibility, and accommodation of the flows while offsetting as effectively as possible their internal effects. All those matters were being studied by IMF and he would inform the Council of the progress of the study.

13. It was clear that the international monetary system could not function unless all countries played their full part in it. That implied that they should keep in mind two basic principles: the need to take steps to maintain or restore balance in their international payments, and the importance of taking into account the effects on other countries of any steps they might take to improve their internal economic situation.

14. In the light of those principles there was considerable scope for better international policy co-ordination. A fundamental requisite for such co-ordination was the strengthening of the role of fiscal policies in the main industrial countries so that monetary policies could be more closely related to the external position than they had been in recent years. A better balance between fiscal and monetary policies should be the aim.

15. Although that conclusion seemed to imply that there would continue to be a tendency for capital movements induced by interest-rate differentials to be much larger than in the past, it was also essential that yield-induced flows of capital should be held within reasonable limits, so as to minimize the strains on domestic monetary management and on foreign exchange reserves of the countries involved.

16. The strengthening of fiscal policy and improvement in the mix of fiscal and monetary policy in the industrial countries would not only help to manage the balance of payments but would make for better demand management and better over-all economic performance. In most indus-

trial countries, because of the comparative inflexibility of fiscal policy, monetary policy had often been used for domestic purposes beyond the point of its greatest efficiency, with untoward effects on the general level of economic activity and on financial markets, as also, in the case of the United States, on the level of world interest rates, on the international adjustment process and on the economies of other countries.

17. The less developed, primary producing countries had had a moderate trade surplus in 1970 despite a considerable deterioration of their terms of trade. There had been a sharp downturn in prices of minerals and metals after the first quarter and the weakness of agricultural raw material prices had lasted throughout the year. On the other hand, the over-all average of prices for commodities exported by those countries had risen some 2.5 per cent above the previous year's average and the total value of exports had risen by about 10.5 per cent owing to an increase in volume. Taking into account increases in the price of imports, however, effective purchasing power had risen by only about 5 per cent. Those factors, combined with a continuing deficit on services, had produced a large deficit on current account. On the other hand, there had been even larger receipts of capital and official transfers from the industrial countries, despite the stagnation of official aid. The net result had therefore been an over-all balance-of-payments surplus for the developing countries totalling some \$2,800 million in 1970 as compared with about \$1,650 million in 1969.

18. The future outlook for the primary producing countries -- excluding the special case of the oil-producing countries -- seemed less promising than it had done earlier, reflecting the general easing of demand in many industrial countries. Price prospects for several important agricultural products had led to some downward revisions of the increases expected earlier in both volume and value of those exports. The rate of increase in volume and value of exports was likely to be about 7 per cent and 6 per cent respectively.

19. On the other hand, the value of imports seemed likely to expand even more, possibly as much as 11 per cent in the year. That expansion should be sustained, despite the impact of less buoyant export earnings, because of the relatively comfortable reserve positions with which those countries had entered 1971, the supplementing of those reserves by the second SDR allocation, and the accessibility of capital and credit from some of the major industrial countries.

20. The exceptions to this predicted import expansion were the countries, many of them Asian, whose export earnings from foods, agricultural raw materials, ores and metals were particularly vulnerable to price weaknesses. The current slowdown in the growth of trade for those and many other primary-producing countries would be only temporary, however, if the GNP projections for the main industrial countries should prove correct and if the latter should enter a phase of renewed general expansion. If, however, a recovery of output growth in the industrial countries was accompanied by a continuing high rate of

inflation, as seemed likely, the effect on the import costs of primary-producing countries could be serious.

21. Developing nations throughout the world would benefit immeasurably from the restoration and maintenance of financial stability in the major industrial countries. Thus an improvement by those countries in the development and administration of their economic policies was not only in their own interests but was a matter of direct and vital concern to the developing countries.

22. Mr. CHENERY (International Bank for Reconstruction and Development) said that he had been asked by the President of IBRD, Mr. McNamara, to express his regret at being unable to attend the fifty-first session of the Council. IBRD was in the process of evaluating its activities over the past year, which would be discussed at its annual meeting in September 1971.

23. He would concentrate on two topics: the evaluation of recent trends in developing countries and IBRD's role in the review and appraisal process.

24. With regard to the first topic, as the IMF representative had focused on the developed countries and on short-term trends in trade between the developed and less developed countries, he would concentrate on the less developed countries and on longer-term trends in their development.

25. The 5 per cent growth target set at the beginning of the First United Nations Development Decade had seemed ambitious at the time, but now that that target had more or less been reached people were raising their sights, and the present 6 per cent target was thought to be unsatisfactory unless accompanied by improved distribution of growth among countries and among groups within countries. The main change was a changed concept of the development process.

26. While the report of the Committee for Development Planning on its seventh session (E/4990) rightly showed that growth alone was insufficient and that there were a number of other important elements in development, there was a danger in suggesting that employment should be substituted for growth, although employment was certainly one of the most important factors in development. Measurement of unemployment was impossible in many developing countries and the concepts of the advanced countries in that respect were inappropriate. Even if such measurement were possible, it would not be of great value, since the number of people seeking work was not so much a problem as was the low productivity of those employed. Unemployment could be said to be a luxury of countries that had reached a stage of development at which people could leave their employment to seek better jobs. It was essential to concentrate on the basic problem of low productivity and the use of large numbers of people in low-paid employment and to consider income distribution directly.

27. The changed perspective of the development problem was being recognized to an increasing extent both in the sectors chosen for lending by IBRD and in the appraisal of projects. IBRD was working with countries in preparing projects, taking into account the opportunity cost of labour

as well as its market cost and trying to help countries themselves to identify projects that would lead to greater employment without sacrificing growth. The countries that had been successful in achieving fuller employment had been among the more rapidly growing countries. Growth was a necessary, though not a sufficient, condition for successful development and it was in that spirit that the targets of the Second United Nations Development Decade should be interpreted.

28. The experience of development during the past decade and the problem of appraising progress for the future was well documented in the *World Economic Survey, 1969-1970* (E/4942). IBRD had made a similar assessment, in which data on the countries of southern Europe was included. Of eighty-three countries, twenty-one, with a total population of 360 million, had been shown to be growing at a rate of more than 6.5 per cent, considerably above the target for the Second Development Decade. The twenty-one countries concerned were distributed among all the main regions of the world and their rapid growth had been achieved in widely differing ways. Twenty-six countries, with a total population of 370 million, were growing at a rate of between 4.5 and 6.5 per cent, and thirty-six, with a total population of 950 million, were achieving a rate of growth of less than 4.5 per cent. The last group included India and the smaller African countries, which were experiencing special problems. Thus 40 per cent of the countries considered, with 60 per cent of the total population, were growing so slowly that ways and means must be devised to help them to improve their performance.

29. There was no single pattern of successful development. Assessment of successful growth during the past ten years showed that there had been a variety of ways in which countries had succeeded in achieving not only rapid growth but fuller employment and better use of resources. In addition to the exploitation of natural resources, particularly minerals, which had been a large element in such growth, a growing number of countries had achieved a more balanced pattern of exports by increasing the share of manufactures and services in their total exports. Total exports of manufactures from developing countries to developed countries had for the past eight years been growing at a rate of 15 per cent, which could be considered a favourable performance, particularly in view of the obstacles placed by advanced countries in the way of such exports.

30. The need for aid was as great as ever, particularly for the slower-growing group of countries for which exports provided little immediate prospect of growth. As the more concessionary aid had stagnated, its allocation among countries became more important and had to be related to the alternatives of borrowing at more conventional terms or increasing exports.

31. He had been struck by the success of a number of countries which had moved away from control towards a more outward-looking economic system. That change of policy had resulted in an ability to export new commodities and in improved performance in the agricultural sector, in

which rapid growth had been achieved through technological improvements and through a rapid response by farmers to price incentives and the availability of new seeds, fertilizers and other inputs.

32. Three aspects of the Bank Group's regular activities in review and appraisal would be of interest to the Council: preparation of country reports, preparation of sectoral reports on individual parts of the economy and work in co-ordination groups in which IBRD normally played the role of secretariat and provider of analyses.

33. Since the fiftieth session of the Council, when the President of IBRD had described its activities in the preparation of country economic reports, IBRD had been directing its attention to the idea of focusing every third or fourth year on a given country and going more deeply not only into its current balance-of-payments position and the status of growth of various aggregates, but also into the more difficult areas of employment, income distribution and structural change, on which less data were available and in relation to which the success of development in the broader sense had to be judged.

34. In the financial year ending 30 June 1971, there had been sixty-three IBRD missions in the field carrying out broad reviews of development and country prospects, and it was expected to maintain their number at the same level in the future. The missions were conducted in co-operation with the specialized agencies of the United Nations, particularly IMF, and it was hoped to strengthen those close working relationships so that the country economic report could provide a joint assessment. The purpose of such reports was to analyse all aspects of development experience; after being reviewed with the Governments concerned they were made available to the specialized agencies, regional economic commissions and other United Nations bodies and all Governments concerned with development.

35. A newer element in IBRD's economic reporting system was the preparation of sectoral reports concerned with individual sectors of the economy as well as with general subjects such as population, employment and regional distribution. They were prepared in the same way as the country reports and were made available to the same bodies. Twenty-three sectoral missions had been organized by IBRD alone or in co-operation with FAO or UNESCO during the past year, and their number was expected to be increased in the future.

36. In its third role, IBRD acted as secretariat to co-ordination groups in some fifteen countries and had been engaged for a number of years in intensive review and appraisal through private and candid discussion with the Governments concerned and with the various bodies providing capital and technical assistance to the country. Such discussion was important not only in the appraisal process but also in evaluating the country's development programme and helping to relate the experience of other countries to its development. Fourteen such co-ordination meetings had been held during the past year under IBRD's chairmanship and it had participated in two other similar meetings.

37. The 6 per cent growth target should be understood in the broader context of providing fuller employment,

improved income distribution and structural change leading to a capacity for sustained growth. That would require a continuation of the extension of trade and a change in its composition. Continued rapid increase in exports of manufactures from the less developed countries was essential, since the growth of primary export products alone would be insufficient to sustain growth at 6 per cent.

38. On the basis of the economic reports to which he had referred, IBRD had been making an assessment of the feasibility of accelerated growth in all the major countries and had concluded that the 6 per cent target was feasible, given three conditions: firstly, the mobilization of savings and sufficient use of resources; secondly, a continued rapid increase in exports, particularly of manufactures; thirdly, an increased flow of development assistance. Since development assistance was increasing less rapidly than trade, it should in the future be allocated selectively to countries that could not benefit immediately from their trading prospects. That was particularly important in the case of soft assistance of the type provided through the Bank Group, through IDA and through bilateral aid channels. The less developed among the developing countries obviously deserved special attention.

39. He hoped that the appraisal process would not be looked upon mainly as a statistical exercise in which a large number of measures were tabulated and an attempt made to arrive at a weighted average of good or poor performance. What was needed was an insight into the particular way a given country had developed or could develop, greater weight being given in some cases to export performance and in others to education or mobilization of internal resources. The resources of the United Nations system should be focused on the diversified experience of countries, bearing in mind the great differences in development objectives from country to country, and efforts should be made to apply the experience of one kind of country to another.

40. Mr. PEREZ GUERRERO (Secretary-General, United Nations Conference on Trade and Development) said that the views expressed by the Secretary-General of the United Nations in his message to the Council fully reflected those held in UNCTAD. Governments were at present being consulted on the agenda for the third session of the United Nations Conference on Trade and Development and he expected to submit to the Trade and Development Board at the end of July a draft provisional agenda which was likely to command a large measure of support. It would provide a framework for preparatory work for the Conference at both the national and the intergovernmental levels. Many issues would thus be considered in intergovernmental organizations with a limited membership before being submitted to the Conference itself for consideration in a world-wide context. Such a system of multi-level decision-making had proved effective in the case of preferences and should help to solve trade and development problems taken up at the third session of the Conference. At a time when major events were taking place in a regional context, with implications for the rest of the world, it was important that the centre of gravity should remain within UNCTAD.

41. The technology gap was one of the most important single factors perpetuating the income disparity between the developing and developed countries of the world. The developing countries had neither adequate access to technology nor the capacity to absorb it satisfactorily. Their trade and development problems, particularly those related to industrialization and employment, could not be solved without reference to the technological factors which increasingly determined the pattern of world production and trade. At its organizational (first) session, held at Geneva from 14-21 June 1971, the UNCTAD Intergovernmental Group on Transfer of Technology had reached a consensus on a detailed programme of work that would serve as a framework for national and international action to promote the transfer of operative technology to the developing countries in the coming years. In that important field UNCTAD's contribution would be an integral part of the common efforts of the United Nations system as a whole.

42. The accelerating trend of inflation in developed market economies was of special concern to the developing countries, which depended on the industrialized countries for a large proportion of their trade. They were adversely affected by the unprecedentedly sharp rise since 1968 in world prices of manufactured goods. That had resulted in a significant discrepancy between the nominal and real values of the flow of financial resources to developing countries, and was bound to accentuate the deterioration in their terms of trade. It was therefore urgently necessary to mobilize additional resources to help them to expand and diversify their economies and to give their products greater access to the markets of developed countries. With regard to the latter, the generalized system of preferences, whose implementation had just begun with the introduction of the EEC scheme, was a major step designed to benefit all developing countries.

43. Although the proposal to establish a link between the creation of new international liquidity and the provision of development finance had met with resistance in some quarters, it was gaining support. In accordance with the International Development Strategy, that question would be examined before the allocation of SDRs in 1972. The Executive Directors of IMF had begun consideration of the main issues involved. As the Secretary-General of the United Nations had stressed at the twenty-fifth session of the General Assembly, reforms of the international monetary system should take due account of the need to stimulate development, particularly in the countries which needed it most.

44. An appraisal of past trends and achievements revealed a number of negative aspects, such as the persistence of agricultural protectionism in industrialized countries, the lack of significant progress in the attack on non-tariff barriers, the failure to curb inflation in developed market economies, and the worsening of the employment situation in developing countries. On the other hand, there was now a better understanding of the major issues of development, with greater emphasis on technological and social factors,

and of the magnitude, direction and urgency of the international efforts required to change the pattern of world production and trade. That understanding was reflected in the International Development Strategy. Although all outstanding problems could not be solved in ten years, it was important that the process of transformation towards a more rational international division of labour should be well under way by the end of the present decade.

45. Since a large part of the International Development Strategy reflected the results of prior discussions, consultations and negotiations within UNCTAD, the implementation, review and appraisal of objectives and policies within UNCTAD's area of competence had assumed even greater importance than in the past. In its decision 64 (IX) on the contribution of UNCTAD to the preparatory work for the Second United Nations Development Decade, adopted on 16 February 1970, the Trade and Development Board stated that the aim would be to tackle effectively all major problems within the competence of UNCTAD which the international community would face during the Decade, taking into account the developments which might occur in the implementation of the relevant policy measures and seeking at all times new areas of agreement and the widening of existing ones. The contribution of UNCTAD and all other organizations of the United Nations system to the Second Development Decade would be regarded as a continuing effort and the International Development Strategy provided for major reviews and appraisals at appropriate intervals in the course of the Decade. The Trade and Development Board would consider UNCTAD's role in that connexion at its eleventh session, in accordance with General Assembly resolutions 2641 (XXV), paragraph 3, and 2725 (XXV), paragraph 4. It would also take into account the recommendations of the Economic and Social Council on the system of over-all appraisal in accordance with paragraph 4 of General Assembly resolution 2641 (XXV). In deciding on the system of over-all appraisal, the General Assembly would have before it the views of the Board on the global sectoral appraisal to be carried out within UNCTAD. The Board was bound to assume a key role in such an appraisal, with the support of its subsidiary bodies.

46. The past two decades had witnessed an unprecedented expansion of world production and trade, but the developing countries had not shared equitably in that expansion: their share of world trade had, in fact, steadily declined. That adverse trend should be arrested and as far as possible reversed. He was confident that that could be achieved in due course if commercial policy measures were supported by appropriate action in the broader area of economic and social policy, and if the Governments of developed and developing countries were guided in the formulation of their policies by long-term objectives of structural change conducive to a more balanced development of the world economy.

The meeting rose at 12 noon.