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Chairman: Mr. Jiří NOSEK (Czechoslovakia).

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. SCHMIDT (Brazil) said that he would confine himself to a few general remarks on the world economic situation. What was wrong with the world's economy? His own reply would be that the basic cause of the present difficulties was that the wealthy countries continued to grow wealthier while the poor countries steadily grew poorer in comparison. During the war and immediately after it efforts had been made to set up a system of co-operation among Governments and to establish a number of specialized agencies that could promote reconstruction and economic development. Yet, in spite of all these well-intentioned activities, which was only one aspect of a psychological campaign aimed at obtaining the support of the masses in their own interests, the increase in per capita production, which was 45 per cent in the industrialized countries, was only 5 per cent in the under-developed countries.

2. It was necessary to enquire into the causes for the growing inequality between these two groups of countries. On the international level there was no mobile labour force and no interest in capital investment in the under-developed countries, so that the play of economic forces with their cumulative effects tended to strengthen these inequalities instead of reducing them. The effect of those natural forces on the international market was to increase the riches of the wealthy countries and to frustrate the efforts of the less advanced countries. Far from being encouraged to industrialize, those countries would lose the little they had in the way of industries and handicrafts and be reduced to exporting nothing but raw materials. Yet, as the present situation made clear, the inelasticity in the demand for raw materials led to enormous price fluctuations. Furthermore, the increase in the labour force due to the continuing population growth meant that any improvement in the technique of producing raw materials led to a fall in their sale price, and so gave an additional advantage to the importing countries. Lastly, technological progress tended to reduce the value of raw materials relative to the total cost of the finished product, so that the under-developed countries played a smaller part in the production of the

industrialized countries and were therefore less able to import the manufactured goods that were essential to their welfare and progress. Each of these factors reacted on the others, so that clearly the traditional type of trade without controls would never enable the under-developed countries to achieve their ultimate object of increasing their productivity and their income.

3. In addition, since private capital could be invested on much more favourable terms and with smaller risk in the industrialized countries, it was not available for financing the development of the under-developed countries. There were even grounds for believing that there was a considerable flight of capital from the under-developed countries to the more advanced countries. Nor could international public capital be relied on, since it fell far short of what was needed to make good the deficiencies of private capital.

4. In support of his argument he gave the example of his own country, which, although not typical, gave some idea of the difficulties facing exporters of raw materials. After the war coffee prices had made a sudden recovery, which had led some people to deny that there was any basic tendency for the terms of trade to worsen for countries producing raw materials. But this price improvement was due not to an increased demand but to a reduced supply. Indeed, any rise in price of primary products with an inelastic demand was always due to a reduction in the quantities exported, and adjustments between prices and volume could take place only within very narrow limits. Outside those limits the earnings of the exporting country were reduced by a sharp drop either in prices or in the volume of exports. Thus an increase of 60 per cent in the volume of coffee exports in Brazil in 1956 resulted in an increase of only 10 per cent in earnings. Since it seemed likely that there would be an increase in the supply of coffee, there was every indication that the long-term deterioration in the terms of trade would continue after that brief interruption.

5. Since international trade was not able to provide countries producing raw materials with the resources they needed, and even had the effect of increasing the disparity between them and the industrialized countries, the final solution of the problem would seem to lie in devising and carrying out an industrialization programme. This would lead to an increase in the total demand for raw materials and an improvement in their export prices, while the supply of manufactured goods would rise, which would have the effect of closing the gap between prices and costs.

6. The United Nations could do a great deal to help in the industrialization of the under-developed countries. They could be provided with the necessary technical assistance, efforts could be made to increase the volume of private and public investment, and a coherent

industrialization plan could be worked out. All these were tasks within the competence of the Economic and Social Council, the International Bank for Reconstruction and Development, the International Monetary Fund and GATT. But those bodies had been set up in a world economy based on freedom of trade and payments, and great changes would have to take place before they could join in carrying out a constructive undertaking of that kind. Thus far those bodies had either had insufficient funds to carry out their programmes or else their programmes had been badly conceived in the light of their limited resources. It had to be remembered that if the resources in public or private national or international capital were insufficient to bring about the required results under a system of free trade and free payments, some way would have to be found of rationing them and assigning them to projects that would stimulate development without in any way reducing world trade. If the under-developed countries could not in present circumstances obtain any greater financial aid for development, a new set of realistic regulations governing international trade and payments would have to be adopted. International organizations would then have to help the under-developed countries to work out and apply their policy of controls not only for international trade and payments, but also for the elimination of internal inflationary pressures. The world had to choose between two alternatives: it would either have to increase financial aid to the under-developed countries, or else modify the rules governing international trade. What could not continue was the present situation, in which the under-developed countries were allegedly on an equal footing with the industrialized countries, but had to comply with a body of rules that made it impossible for them to reduce the existing inequalities in the international economic sphere.

7. After paying a tribute to the work of the Economic Commission for Latin America and the Economic Commission for Asia and the Far East he asked the Committee to consider the desirability of setting up a regional economic commission for Africa. Such a commission would be of great value in the economic development of that continent, particularly to the African countries that had recently attained their independence. His delegation was collaborating with other delegations in preparing a draft resolution on this subject.

8. In conclusion he wished to make a few remarks on the subject of the greatly increased national consciousness in the under-developed countries, since this phenomenon, which emerged only when a certain economic standard had been reached, could act as a stimulus to economic development. Moreover when an economy was at the initial stage of development, only a strong awareness of the national interest could enable the country concerned to reduce its consumption further in order to make the savings required for investment, and as it were sacrifice its present to its future. But the emergence of nationalist feeling could also have its drawbacks, since if the under-developed countries did not receive aid they come to think of themselves as victimized by the rest of the world, and were inclined to follow an isolationist policy. In such a case nationalist feeling could hold back economic development. The people of Brazil, however, would never take up such an attitude, and felt that true nationalism could not hold others responsible for the

difficulties and misfortunes that beset their country from time to time. Although they needed technical and financial aid from other countries, they knew that essentially they must rely on their own efforts. Brazil was therefore resolutely proceeding with its industrialization, was striving to diversify its exports, and, fully confident in its destiny as a great nation, was preparing to face the economic, social and psychological repercussions of moving the capital from the coast to the interior of the country.

9. He considered that the work of the Committee should above all help the countries there represented to know and understand each other better, in the furtherance of mutual tolerance and better still, mutual help. The long technical discussions that took place should never cause the representatives to lose their feeling for human values. They should strive to establish close relations with one another, and drop the mask of contemplation in order to come to grips with the real essence of each nation. If a new spirit of that kind could inspire the Committee, its work would become truly constructive.

10. Mr. RUYGERS (Netherlands) pointed out that the various factors which together constituted inflation differed from one area to another. Thus, the more developed countries suffered from what might be called "creeping inflation", while in the under-developed countries the phenomenon tended to take the form of "galloping inflation". The two situations had different causes as well as different remedies. It was to be hoped that the Secretary-General's forthcoming report on the subject would shed light on possible solutions.

11. In its own experience, the Netherlands Government had found that, as the Under-Secretary for Economic and Social Affairs had emphasized in his opening statement (454th meeting), monetary measures, even when supplemented by fiscal measures, were often insufficient to combat inflation, particularly wage inflation. As an attempt to solve the problem, it had introduced a national wage policy linked to a system of price stabilization. The fundamental principle of that policy - which was applied voluntarily by the employers and the trade unions - was that, assuming price levels remained constant, wage increases must be linked with an increase in national productivity. A social and economic council composed of economists and representatives of employers and workers gave the Government general advice on the extent to which wage increases were economically possible. The Government then fixed the criteria which should apply to new collective contracts, in consultation with the Labour Foundation, another joint body. That system in no way infringed the right of undertakings to set their own prices or the right of trade unions to demand wage increases, and it had the advantage of distributing responsibility for safeguarding the purchasing power of the national currency between employers and workers.

12. Turning to the energy problem, he emphasized that, unlike the other two great industrial areas of the world, the Soviet Union and the United States, Western Europe had to import increasing quantities of coal and oil to support its modern industries. Even if part of those imports could be paid for in local currencies, there was no doubt that within a few years they would seriously compromise the balance of payments and

terms of trade of the countries in question. That was why the Netherlands was keenly interested in the possibilities of the peaceful use of nuclear energy and hoped that the International Atomic Energy Agency would bring about important developments in that sphere. The Netherlands atomic energy programme, the target-date for which was 1975, would absorb at least 7 per cent of the country's total industrial investments. That was a heavy burden for the economy of a small State, but unless the effort was made, the Netherlands and indeed the whole of Western Europe might become an under-developed area in under 25 years. The energy problem existed not only in Europe but in all parts of the world. It was probable that even nuclear fuels themselves would not keep pace with the ever-increasing need for energy. That was why the Netherlands delegation had unreservedly supported the proposal made by France at the twenty-first session of the Economic and Social Council which had resulted in a most interesting study by the Secretary-General of the use of solar, wind, and tidal energy (E/2997).^{1/}

13. Referring to the question of the economic integration of certain areas, he said he thought that common markets were beneficial not only to the countries which belonged to them, but also to the rest of the world. For example, the value of Netherlands purchases outside Benelux was now eight times greater than in 1938. As the Yugoslav representative had rightly said, regional economic integration was a step in the direction of world integration. In regard to the European Common Market in particular, it seemed to be feared in some quarters that the increased financial aid which the countries members of the Economic Commission for Europe (ECE) intended to give their overseas territories would prevent them from providing funds for the economic development of sovereign States in the under-developed areas.

14. In that respect, his Government wished to reaffirm that its intention to join the European Common Market in no way affected its pledge to contribute to the Special United Nations Fund for Economic Development when that fund was established.

15. Mr. SZITA (Hungary) recalled that although Hungary had only recently been admitted to the United Nations, it had long been participating in the work of many international organizations concerned with economic problems, and particularly the Economic Commission for Europe.

16. In connexion with the present discussion, his Government wished to emphasize the exceptional importance it attached to United Nations efforts to promote economic development and to extend international economic co-operation. It found the economic studies of the United Nations and the regional commissions extremely useful; the Secretary-General and his staff were, in particular, to be congratulated on the World Economic Survey 1956 (E/2982). That Survey showed that although progress had continued during the past year the pace had been slower; the world was now confronted with serious problems, particularly in connexion with the need to develop international economic relations, to combat inflation and to improve the situation of the under-developed countries.

17. In view of the increasing economic interdependence of countries, one of the fundamental tasks of the

United Nations should be to make a practical contribution to the establishment of healthier economic relations and in particular to promote the development of international trade. Despite some improvement, international trade still encountered barriers which should be removed: many discriminatory measures dating back to the cold war period - embargoes, certain customs tariffs, import restrictions - remained in force and their political effects were deplorable. In the opinion of his delegation, the General Assembly should declare economic relations to be a fundamental factor in international co-operation and should explicitly condemn all restrictions on normal international trade. The United Nations would similarly promote understanding between peoples if it attempted to remove the difficulties which still too often hindered the exchange of information and of economic and trade delegations. Hungary, which wished to develop its economic relations with all countries on the basis of equality and mutual interest, supported Council resolution 654 E (XXIV) and was prepared to support any similar proposal. The conclusion of long-term trade agreements was also of great importance, because those agreements provided firm foundations for economic programmes and had an important stabilizing influence on markets and prices. All those problems urgently required practical solution. That was why his delegation, which also believed that it would be extremely useful to set up an international trade organization under United Nations auspices, regretted that the Economic and Social Council had not felt able to go beyond the cautious action recommended in resolution 654 A (XXIV).

18. Turning to the question of economic integration, he pointed out that the establishment of a European Common Market would inevitably tend to divide Europe into opposing economic as well as political blocs. The United Nations should study the consequences of that measure for the countries outside the proposed Community. Some of those consequences seemed obvious. Exports to the countries within the Common Market would, for example, become increasingly difficult: it should be borne in mind that under the Treaty establishing the European Economic Community the parties were required to standardize their customs duties, which in many cases would mean that such duties would be raised. Moreover, competition between the countries outside the Common Market would be intensified, especially since some members of the future Community intended to penetrate other markets in Asia and Africa, for example, through their colonies. Many other countries shared Hungary's apprehensions and had voiced them at the last session of ECE.

19. The Economic Commission for Latin America, for its part, had studied the possibility of establishing a Latin American common market in order to mitigate the effects of the European project, and there had even been some question of similar action by the Scandinavian and Far Eastern countries. All those projects were open to the same objections. The remedy for the world's economic ills lay not in the creation of artificial blocs but in the adoption of methods based on the equality and mutual interests of all nations, not in the establishment of new preferential systems but in the abolition of such systems. That was the purpose of all the proposals concerning all-European co-operation which had been discussed at the last session

^{1/} United Nations publication, Sales No.:1957.II.B.1.

of ECE. For its part, the United Nations should take specific steps to support any proposal in that direction on the world level, for, as the Secretary-General had said in the twenty-fourth session of the Economic and Social Council (973rd meeting), referring to the problems of regional collaboration, sight must never be lost of the primary objective, which was to strengthen and expand the world economy as a whole.

20. Another problem in need of serious study was that of inflation and its causes. The Secretary-General had indicated in the Economic and Social Council that it would be an over-simplification of the problem to attribute inflation to one factor only - an excess of investment demand over the supply of savings. Many authorities attributed inflation to the rise in production cost but in the opinion of the Hungarian delegation that was merely a symptom and not a cause. In any event, inflation could generally be said to reflect an over-all disequilibrium of the economy rather than a conflict between certain factors. That contention would seem to be borne out by the fact that in several countries inflation was closely connected with a balance of payments deficit. Undoubtedly, the level of military expenditures by certain States was playing a decisive part in setting off the inflationary spiral: that was perhaps the key to the problem, although the surveys made so far had at best only skimmed the surface of the question. It would also be advisable to study the various anti-inflationary measures taken in the past few years: he believed investigation would prove that those steps merely staved off inflationary trends for the time being, at the cost of causing other difficulties. The Hungarian delegation therefore approved the Economic and Social Council's decision to deal fully with the problem of inflation in the next World Economic Survey (resolution 654 D (XXIV)).

21. Although the socialist countries had many problems of their own, their immunity from inflation largely explained why their economic development was proceeding faster than that of the capitalist countries. For the period 1950 to 1955, industrial production had increased at the rate of 95 per cent in the socialist countries, and only 31 per cent in other countries. Hungary had been seriously threatened by inflation towards the end of 1956, following the counter-revolution and the strikes that had accompanied it. Thanks to the socialist structure of the national economy, the Hungarian Government had been able to take the necessary steps to avert that danger: since it maintained direct control over producing and selling enterprises, it had been able to maintain price levels and avoid panic pending the restoration of normal conditions and the resumption of industrial activity. The generous and prompt assistance Hungary had received from the other socialist countries, particularly the Soviet Union and the People's Republic of China, had played an important part in the rapid consolidation of its economy. Hungary had also received a certain amount of assistance from the Red Cross and several other international organizations. It would appear, however, that its remarkable achievements were attributable to the vigour of its socialist economy and the support the Government was receiving from all sectors of the population in its efforts to develop the economy. Although all traces of the counter-revolution had not yet been eliminated - the national income had been lower in 1956 than in 1955, and would be barely higher in 1957 than in 1956 - the

Government's efforts could be called successful. During the last four months of 1957, the average income of the industrial worker was already more than 20 per cent higher than in the corresponding period of 1956. Industrial production, particularly of consumer goods, and agricultural production were increasing steadily. Savings, which had been almost halved in November 1956, had already exceeded the level of the preceding year, which was evidence of the population's confidence in the stability of the currency. Lastly, Hungary, which had scrupulously met all its international financial commitments, even at the most critical period, had rapidly re-established its trade relations. Naturally it was still confronted with great problems, but it could be said to have succeeded in re-establishing its economy and in doing so more rapidly than some foreign experts had predicted and more rapidly than it had itself hoped.

22. Where the situation of the under-developed countries was concerned, no one could claim that those countries were faced with insurmountable difficulties. Their economic backwardness was neither inherent in their countries' natural conditions nor in their peoples; it was due to the fact that they had been unable to develop normally while under colonial domination. One conclusive fact was that their industrial production was only 7 per cent of world production, whereas their share of international trade was 26 per cent. The World Economic Survey 1956 clearly revealed the disastrous consequences of fluctuations in the prices of raw materials and agricultural commodities on the economy of countries dependent on the export of those products. It would be helpful, however, to study the cause of those fluctuations and to determine, in co-operation with the countries concerned, the forces controlling markets in basic commodities by accumulating substantial stocks for speculative purposes. The structure of trade between the under-developed countries and other countries also called for investigation. A very great number of under-developed countries wished to ensure stable outlets for their products and to obtain manufactures and capital goods in exchange: a detailed study would enable them to find trade partners whose economic structure was in line with their own.

23. Lastly, a study should be made of the impact on the economy of the under-developed countries of the various forms of economic assistance now available to them. Obviously any financial assistance had its advantages, but they were often relative and in some cases the assistance given might defeat its own purpose. He was not referring to the political conditions attached to the granting of certain credits: for the moment, he was concerned solely with the consequences of certain economic conditions such as the term, rate of interest and method of repayment of loans. The purpose of a loan was also extremely important, and it was vital to know whether investments were being made primarily in the interests of the country making the loan or of the country receiving it.

24. In that connexion, it would be useful to study the nature of the economic relations that had recently been established between certain economically weak countries and the socialist countries. Those relations were based upon mutual interest and the strengthening of the economic independence of the country assisted. Hungary was firmly resolved to continue its efforts to

help the under-developed countries in that spirit and was prepared in particular, to provide them with any technical assistance they might need.

25. The Secretariat had published an interesting report (E/3047)^{2/} on economic assistance to under-developed countries during the last few years: it would also be interesting to study the sums disbursed by the under-developed countries in the form of profits, interest, redemptions and so forth.

26. The Members of the United Nations had for some years been studying the possibility of establishing a Special United Nations Fund for the economic development of under-developed countries, in accordance with the unanimous wish of the under-developed countries themselves. Accordingly, the Hungarian delegation hoped that the General Assembly would respond to the Economic and Social Council's appeal and would decide to set up the Special Fund at the earliest possible date.

27. In conclusion, the Hungarian delegation welcomed the suggestion made during the current debate that a declaration of economic principles should be drawn up to govern international economic relations. His dele-

gation would also support the proposal to convene an international economic conference, for it thought that such a conference would be an effective way to determine areas of agreement and to reconcile divergences of opinion through the frank discussion of existing problems.

28. Mr. THAKUR (Nepal) believed that the inflationary trends evident in under-developed countries were due to the rise in prices of capital goods, the fall in prices of agricultural products and raw materials, and the lack of capital.

29. Nepal was mainly an agricultural country and needed to improve its methods of cultivation and irrigation. In addition, the inadequacy of its communications was jeopardizing the marketing of its agricultural products, on which its prosperity largely depended. The provision of foreign capital would be extremely helpful from that standpoint and the delegation of Nepal strongly hoped that the specialized agencies, especially the International Bank for Reconstruction and Development, would take the necessary action. He was glad to note that the Committee was seriously studying the possibility of setting up the Special United Nations Fund for Economic Development and a world food reserve.

The meeting rose at 5.10 p.m.

^{2/} Official Records of the Economic and Social Council, Twenty-third session, Annexes, agenda item 6.