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ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES  
AND  
REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Statement by Mr. Philippe de Seynes, Under-Secretary  
for Economic and Social Affairs

As this debate opens, the economic picture is, in many respects, markedly more favourable than that which served as a background to the discussions of the Economic and Social Council in July of this year. The chief reason for optimism is, at this moment, the rate of the American recovery. So far, the impetus has come chiefly from the public sector, through a budgetary deficit the size of which seems to be due at least as much to the incidence of independent factors, as to the effects of an intentional anti-cyclical policy. Various steps taken by the banks and by the Government to facilitate construction have also helped a great deal to sustain the upturn in production. The surplus capacity in industry, however, is still large, and even if the present rate of progress persists, no doubt some time will have to elapse before the utilization of productive potential reaches a normal level again. It would therefore be unwise to say now that we are on the eve of a new boom, based on the expansion of fixed capital investment. We can only note that expenditure in this category ceased to decline during the third quarter of this year and that a slight increase is forecast for the fourth quarter. The outlook among businessmen is once more optimistic. One of the factors colouring the immediate prospect is the lag which has occurred between the industrial recovery, which became obvious by the end of the first quarter

of 1958, and the improvement in the employment situation which only began to make itself felt during the month of September. In point of fact, before the number of unemployed can be reduced to the pre-recession level, the volume of production will have to increase sufficiently to reabsorb the unemployment due to the development of the situation, absorb the annual increase in the labour force, and offset the effect of the technical progress and improvement of productivity per man hour which have accompanied the economic recovery. In order to attain these objectives, it will be necessary within the next twelve months to find new jobs for more than two million workers.

Western Europe in its turn is going through an economic slowdown: the index of industrial production has dropped slightly since the end of the first quarter. This weakening affects the coal, steel and building industries particularly, and in the engineering sector, the backlog of orders for capital goods has declined steadily. As in the United States, industrial capacity has developed more rapidly than output and the volume of private fixed capital investment has ceased to grow. At the same time, housing construction is suffering from credit restrictions and from cuts in the public housing and housing assistance programmes. A certain amount of unemployment has appeared almost everywhere and average working hours have been reduced. Although certain restrictive measures adopted during the boom have recently been abolished or made more flexible, there has not as yet been any sign of a reversal of the trend. It is not easy to make an exact diagnosis, but it would appear that this recessionary phase in Western Europe is due more to internal than to external factors and was not determined nor even directly influenced by developments in the United States. Exports to North America have been maintained in a remarkable fashion and so, until a very recent date, have sales to countries producing primary commodities, despite the decline in the rates for most of these products. If this analysis is correct, the events of this year will have confirmed the lessons which could be learned from the 1953-1954 recession, namely that a downturn, even a relatively sharp downturn, in the United States, provided it is brief, need not have such serious effects on the balance of payments of other industrial countries as was once feared. On the contrary,

American imports from Europe stayed firm, while there was a sharp decline in exports, owing partly to a return to normal conditions after the Suez crisis and partly to a decline in economic activity in other parts of the world. In reality, the United States economy, far from having exported a deflationary spiral to other industrial countries, would appear rather to have suffered itself from external forces.

In the centrally planned economies, the expansionist situation has continued. Industrial production in 1958 advanced at a rate of increase of over 10 per cent. The expansion was facilitated by improved supplies of raw materials and fuel, of both national and foreign origin; the improvement in the productivity of labour also contributed a great deal. In several countries, the Soviet Union constituting a noteworthy exception, the rate of increase of production was higher in light industry and the food trades than the average for industry as a whole [partly owing to the good harvests of 1957].

According to the available preliminary information, agricultural production for 1958 did not, in general, reach the level of 1957, except in the Soviet Union where, after a mediocre harvest last year, the results for this year would seem to equal the record figures of 1956. Trade between the centrally-planned economies and the rest of the world also continued to rise during 1958, although at an apparently slower rate than twelve months earlier. The expansion took place largely in trade with the under-developed countries, which was financed partly by Government loans.

Clearly, the situation remained the least satisfactory in the countries whose economy is based chiefly on the production of primary commodities. The American recovery has not yet been marked enough to bring about a rise in commodity prices. These, for the most part, continued to decline during the second quarter of this year and even, though to a lesser extent, during the third quarter. Where they did show a certain firmness, it appeared to be due either to poor harvests, as in the case of rice or cocoa, or to an adjustment on the supply side, as in the case of copper, rather than to any strengthening of demand.

It may well be that we shall have to wait a while yet before the recovery spreads to the commodity sector, on the one hand because of the downturn in

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Europe, and on the other because of the surplus capacity which, in this sector also, has resulted from the previous period of expansion. Moreover, the short-term factors superimpose themselves here, in the case of certain products at least, on the long-term trends, which were themselves encouraged by the rise in prices, and which are expressed both in the development of synthetic products and in the reduction, owing to technical advances, in the raw material content of manufactured goods. The statistical data available indicate that during the first half of 1958, exports from the under-developed countries showed a decline of 7 to 8 per cent as compared with the corresponding period of the previous year. Since the price of manufactured goods has continued to rise, the deterioration in the terms of trade amounts to about 9 per cent. The drop in real income which results from this is therefore severe, and the losses in foreign currency are even more serious. These losses seriously affect capacity to import. For the under-developed countries as a whole, they may be calculated to be approximately 2,000 million or 2,500 million dollars, while very often imports of non-essential goods had already been drastically reduced. This new pressure on the balance of payments can only create disorder and confusion in carrying out development plans.

One of the most remarkable aspects of recent cyclical movements in Europe as well as in the United States is the coexistence of opposite trends. In both areas, high prices have been maintained despite inadequate effective demand, and the effects of deflationary forces and inflationary factors could be observed simultaneously. This phenomenon, which is studied in detail in the World Economic Survey published this year, makes the choice of an economic policy singularly complicated. In point of fact, Governments are hesitating to adopt a line of conduct and even more to keep to one. In Europe, they want to fight the decline, in the United States to encourage the recovery, but both fear, by so doing, to add to those factors which push prices upwards and thus tip the balance of forces over towards inflation. It is significant that in the United States, very shortly after the reversal of the trend was noted, the monetary authorities found it necessary to raise the discount rate. To the hesitation resulting from the coexistence of opposite forces is added the uncertainty due to the absence of certain information which, in complex economies, is necessary in order

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to form a diagnosis. Thus, recent events remind us that much still remains to be done if cyclical movements are to be mastered more effectively. It was considerations of this kind that prompted the Economic and Social Council, at the proposal of the Mexican delegation, to ask for more frequent reports on the development of the situation and the short-term prospects, as well as an examination of the gaps in the network of economic reports and of the appropriate remedies.

Mr. Chairman, even if one were to realize the full scope of the difficulties once again confronting the under-developed countries as a result of cyclical movements, one could not fail to find a number of encouraging signs, especially in comparison with earlier periods, in the resistance of the international system during the recent recession, which was nevertheless the most critical experienced since the war. Apart from some particularly glaring examples, Governments on the whole had not sought refuge in excessive protectionism or in currency manipulations. Among the creditor nations there has been an encouraging trend to utilize their balance of payment surpluses to assist others. Above all, instead of trying to "export their problems", Governments have shown a readiness to consider the implications of their domestic policies on the international community.

Possibly because the more persistent defects in world economy become more apparent in times of recession, international economic problems have seldom been subjected to such an intensive and critical examination. Suffice it to recall the wide range of questions debated at the Montreal Conference, the annual Assembly of the Monetary Fund and the International Bank as well as the GATT discussions at which the main aspects of trade policy were reviewed on the basis of a report prepared by experts. It was also, I believe, to a general examination of conscience that Mr. Foster Dulles, the Secretary of State of the United States, invited the Assembly in his statement during the general debate. Few exercises could be more salutary. Over and above economic vicissitudes, traditional national attitudes have to be constantly re-examined in the light of changing conditions. That is undoubtedly true for all countries, but particularly so in the case of those whose complex and evolved economic system give them an adaptability that less complex economic systems lack.

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Payment difficulties, although less serious than might have been feared, have been occasioned or aggravated by recessionist trends. The weaknesses deriving from the level and distribution of exchange reserves have this year helped to lend special importance to international liquidity. This problem is, of course, common to many industrialized countries as well as to the under-developed countries, but it is more acute and pressing for the latter. To assess its dimensions, it is not enough to make a comparison with earlier periods; one must keep in mind the extent of the fluctuations that recently affected payments balances. It is also necessary to take into account certain factors peculiar to the present situation. Fluctuations in world prices have, in fact, for a number of years continued to have a corrosive effect on the foreign exchange supplies that might have been accumulated during more favourable periods. Many countries today have to save up sufficient currency reserves not only to finance an increasing volume of foreign trade, but also to compensate for the decline in the purchasing power of existing currency supplies. Furthermore, when payment difficulties occur, it is far more difficult than at other times to make the necessary adjustments by means of immediate restrictive measures. The imports of the under-developed countries nowadays include a higher proportion of equipment goods required for large-scale development plans spread over a number of years, the execution of which cannot be abruptly suspended or even seriously delayed without causing serious losses. The International Monetary Fund has done much in latter years to help Governments overcome temporary difficulties arising out of a disequilibrium in the balance of payments, but by doing so the Fund has had to commit a large part of its own resources, so that if a further crisis should occur, its ability to meet it would now be limited. Thus the decision taken during the New Delhi session to increase the resources of the Monetary Fund is particularly timely.

Greater international liquidity will not suffice to remove the chronic problems resulting from the instability of commodity income. Even the favourable situation in the industrial countries cannot guarantee stable commodity prices, not only on account of the long-term trends to which I have just referred, but also because sharp fluctuations in commodity prices are today perfectly compatible with a comparatively stable level of general economic activity in economies which have become most complex.

Much thought and effort has been devoted since the war to the consideration of this problem without however making any decisive progress. During the coming months, most of the previously concluded stabilization agreements will probably be renewed and, in some cases, strengthened; others concerning non-ferrous metals may be studied. But the scope of such a course of action is fairly narrow. Furthermore, the existence of inter-governmental arrangements permits the existence of considerable anomalies in national policies and should not, presumably, prevent each Government from considering at any time to what extent those anomalies may be adjusted in the interests of international economy. The field of government measures which affect commodities is very wide and diversified today. It covers the customs system, the tax system, subsidizing programmes and sometimes even social policies.

By re-establishing the Commission on International Commodity Trade, the Economic and Social Council clearly indicated that it wished to set up a centre where commodity problems could be given continuous and detailed study and where the various forms of governmental and inter-governmental action could be discussed.

We should realize that there are certain inherent risks in the production and trade of commodities, and that that is a fundamental factor which conditions the scope and scaling of development plans in a number of countries. We must also acknowledge that there is a whole series of measures which the under-developed countries themselves can take and have, in fact, often taken to alleviate the effects of unstable prices.

That is a field in which forms of international co-operation should constantly be evaluated and, if possible, improved. The report of the GATT experts, to which I have just referred, also gives a clear idea of the consequences of agricultural protection systems. It is true that judicious and enlightened action has in many cases made it possible to turn the existence of surplus food, caused by the agricultural protection policy, to the advantage of the poorer countries. But this fact should not prevent the problem from being viewed in its entirety. The GATT report clearly shows that some slight changes in the policy of certain developed countries could have far-reaching effects on the export income of a number of under-developed countries. Agricultural protection is perhaps the most "untouchable" aspect of economic

policy and it is specially encouraging to note that the countries principally concerned have agreed to hold international consultations on the subject.

However deeply rooted trade policies are in the political, social and cultural structures of many countries, far-reaching changes are none the less in progress or undergoing study. One of the more characteristic features of the current period is a desire to bring about regional arrangements. In this respect I cannot leave unmentioned the efforts made by ECIA to establish a regional market in Latin America. This idea, which has long been latent but inherent in the history and geography of the area, is beginning to take shape. A preliminary project - a forerunner so to speak - has been made to comprise five Central American Republics, which have recently drawn up and signed two important documents pertaining to the establishment of a free trade zone.

Negotiations which have recently received great encouragement have been started with a view to covering a much wider group, to include all the Republics of Latin America. The wish for a regional market fits naturally into the process of development of the continent. It now has found its fundamental justification and a strong impetus in the demands of industrialization which, in Latin America, has already passed beyond the stage of the relatively simple production of a small number of consumer goods, and reached that of complex industries requiring intensive utilization of capital and a high rate of investment. Such industries can neither be established nor survive unless they have available to them an adequate market, with fewer customs barriers and a considerable flexibility in the payments system. It may be that the action undertaken to abolish the division into compartments and to remedy the situation created by wide divergencies in customs tariffs and exchange systems will require an instrument establishing some preferential system under the shelter of which the twenty diverse nations may progressively free their exchanges and rationalize their payments system. If that is so, the possibility should be considered without too much dogmatism. It would not necessarily be such as to delay or obstruct progress towards a more universally applicable system of trade and payments. In the light of experience in Europe in the last ten years, in payments as in trade, opinion has come to admit more and more that the ideal of a world order can be sought through a series of partial institutional arrangements, even when they seem, for the time



being, to run counter to the principle of universality. It is essential that such arrangements should be neither conceived nor developed in isolation, but that they should continually be compared with the principles and procedures which world institutions are trying to put into execution, and that they should be judged not by rigid law but by a rule of reason and good sense. The decision to submit the plan for a Latin American common market for examination by GATT is therefore wise, specially as the most enlightened partisans of the European Common Market admit that intervention by GATT is in the end in the interests of a project the full execution of which would have such a considerable effect on the world economic situation as a whole.

That an effort to achieve inter-governmental co-operation, in the form of a scheme for a regional Latin American market, should have emerged under the auspices of the United Nations is an event of which the significance cannot be lost on us, particularly on the eve of the first session of the Economic Commission for Africa. It would be vain to draw parallels and to pretend that solutions valid in certain cases can be reproduced in different circumstances. But one cannot avoid noticing that Africa also, as a result of the historic processes now shaping its destiny, may emerge from the emancipation phase as a group of separate political units, which may not be the most favourable condition for the rational development of each one. It is accordingly important that an instrument should be created at once to facilitate the execution of programmes of concerted action and act as a centre where economic policies can be compared and brought into harmony with each other.

However important and desirable regional arrangements may be, they must be placed in their proper perspective, as a whole, if their part in the development process is to be appraised correctly. A common market or a free exchange zone in an under-developed area may give valuable assistance in overcoming the weaknesses of limited national markets; but it is not an alternative to the development of exports on the world market. Rather, the regional integration should be considered as a means of strengthening the position of a given production zone in relation to the world market.

In most of the under-developed countries foreign currency revenues will continue to be the principal dynamic factor for their development, the strategic

area where the success or failure of development plans is decided. Because the interplay of export trade and the spontaneous movements of capital have so often proved inadequate or too unstable to ensure a cumulative process of growth, programmes of financial assistance have become indispensable. Such programmes have grown and multiplied. They have become an enduring feature of the modern world. This very year new measures have been proposed and new projects subjected to examination. However impressive these efforts may be, there have been many warnings of their insufficiency; moreover their consequences are far from being distributed throughout the world in accordance with ideal principles, as the needs or capacities for development require. But however much we may be concerned with assistance programmes, it is at least equally important to ensure that no effort shall be spared to correct the anomalies which hamper world trade. Trade policies and policies of assistance are in reality twin instruments to achieve the same purpose. The frontier between these two forms of international action is sometimes uncertain. Arrangements which are apparently commercial hide elements of assistance. It may be that such practices are not always the most rational. But formulas are not the first consideration. What is important is to ensure that policies of assistance and trade policies shall both be conceived and formulated in the same "intellectual climate" so that both may contribute effectively to the creation of an international economic order which meets the needs of the under-developed areas of the world.

The examination of international economic problems, which has none the less reached a remarkable degree of organization today, is still in certain respects fragmentary. Too often, on account of the distribution of responsibilities between different agencies, it has a tendency to dissociate elements which are in fact closely connected. It also often includes only a limited number of those active in international life, leaving valuable partners outside its fields of vision and action. It is the vocation of this Assembly to deal with problems as a whole and to cover the whole world. It can thus make an original and irreplaceable contribution and perhaps, when organizing its work, it might from time to time remember the importance of a more systematic and comprehensive examination of the problems of our times.

I tried just now to sum up the various elements in the present situation. If we had to deal only with contemporary problems, we might experience a feeling of relief. As a cure for this, all we have to do is to refer to a small volume recently published by the United Nations, "The Future Growth of World Population". The projections into the future presented in that publication show a considerable advance over the calculations prepared a few years back and are an impressive illustration of what we have grown accustomed to call, not without reason, "the population explosion". Information of this kind enables us to see the debates of this Committee in their true perspective and give full meaning to the efforts made to achieve international solidarity through this Organization.

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