

UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
LIMITED

A/C.2/L.422
28 October 1959
ENGLISH
ORIGINAL: FRENCH

Fourteenth session
SECOND COMMITTEE
Agenda items 30 and 12

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

It has become the custom to open this general debate with a brief review of the main features of the world economic situation, and with your permission I should like, once again, to follow that tradition.

Throughout the year which has elapsed since I had the privilege of speaking before this Committee, expansionist tendencies have prevailed.

In the industrial countries generally, the recovery which began last autumn has continued. Production and income have continued to advance: in the United States they have reached new record levels, despite the recent slow-down resulting from the steel strike; in Western Europe the upswing has been more moderate, doubtless because of the smaller amplitude of the cyclical movement as a whole. Indices of employment have also risen, but not as sharply as those of production; the difference is a measure of the significant increase in productivity. In many countries productivity has been rising faster than wage rates, thus contributing to stability of prices. The existence of labour surpluses combined with excess productive capacity will no doubt have a braking effect on the growth of over-all investment for some time yet, but it will permit a considerable expansion of output during the years ahead.

In the centrally planned economies, industrial production has continued to show high rates of increase, comparable to those of the preceding period, stimulated by the launching of new long-term plans; but the total effect on income has been weakened by poor harvests. The increase in aggregate output has

sufficed not only to sustain the new investment programmes, but also to meet a growing demand for consumer goods, created by increases in wages, social benefits and agricultural incomes. Mainland China is an exception; although total output increased considerably during the first half of 1959, production targets have had to be substantially revised in the light of the 1958 results, and with monetary incomes increasing more rapidly than the supply of consumer goods, shortages have appeared.

In the under-developed countries, the situation, dominated by price movements in raw material markets, has, as usual, developed unevenly. Harvests have on the whole been more abundant than in 1958, but the end of the period of recession did not by any means provide the occasion for a general or uniform strengthening of commodity prices. Despite a marked improvement in the average prices of non-ferrous metals, rubber, oils and fats, the general price index for primary products in international trade, during the first half of 1959, was 4 per cent lower than in the corresponding period of 1958. Although there has been a recent hardening on the wool, long-staple cotton, wood and linseed oil markets, prices on the coffee, sugar and short-staple cotton markets are still depressed, indicating that considerable adjustments in production capacity will still be required. The weakness in the fuel markets - a new phenomenon in the post-war world - is no doubt temporary, but changes in the relative positions of the various sources of energy must be expected, as a result of the rapid development of production techniques.

In the aggregate the balance of trade of the less developed countries registered a smaller deficit in the first half of 1959 than in the corresponding period of 1958. This was largely the result of a further decline in imports, though some notable improvements in exports in the second quarter raised export earnings above the corresponding 1958 level. Notwithstanding the trade deficit, reserves of gold and foreign exchange were somewhat greater in mid-1959 than a year earlier: this reflects the continuing flow of capital into the less developed countries as a group.

Economic recovery is being accompanied by a revival of foreign trade, the principal gains from which are being derived by Western Europe and Japan.

/...

According to preliminary data for the first half of 1959, exports from Western Europe have been 5 per cent higher than during the first six months of 1958 and more than 2 per cent higher than the level reached in 1957. Thanks to the sustained development of their exports, combined with the improvement in their terms of trade, the major countries of this region have been able to strengthen their position materially vis-à-vis the rest of the world and, at the beginning of the year, were able to take a new and important step towards the complete convertibility of their currencies. In the United States, on the other hand, imports have risen in line with income, but exports have continued to decline as supply conditions have eased in Western Europe and as demand has declined in Latin America. Notwithstanding a decline in capital outflow, withdrawals of gold have continued, but with some slackening of this movement since the end of 1958.

*
* *

Each cyclical movement has its own characteristics. Such movements develop within the framework of long-term trends, which they accentuate or counteract, as the case may be; and they leave in their wake a combination of factors often very different from that of previous periods. We must be thankful that we can now speak of the last recession in the past tense. But it leaves behind it problems worthy of the attention of an international body such as this Committee.

There have been spectacular changes in the world distribution of gold and foreign exchange assets. A few years ago, there was a tendency to think that even a mild recession in the United States would cause a sharp reduction in gold and foreign exchange reserves in the rest of the world. But that theory has been revised in the light of the three post-war recessions. During the most recent recession, the United States, so far from exerting any pressure upon the foreign exchange resources of other countries, was itself losing gold to the rest of the world at an unprecedented rate.

There are, of course, certain proximate causes for this unexpected state of affairs: a cyclical weakening of demand for United States products in other countries, and a drop in United States shipments from the high levels reached in 1957 as a result of the Suez crisis. But it seems that there is also a more

/...

permanent phenomenon involved - a gradual return to what one might call a more normal state of international trade, resulting from the growth of export capacity in Western Europe.

The change of scenery on the international monetary stage sometimes seems to be arousing anxiety. Some people find it rather difficult to get used to the new setting, even if it is in some respects more normal than the previous one. There appears to be a certain feeling of strangeness in a world in which the dollar no longer occupies the exclusive and exceptional position that it assumed after the war; in which increased convertibility provides opportunities to which we had become unaccustomed; in which spontaneous movements of capital respond to the differences in interest rates obtaining in various markets and to the investment prospects created by different rates of expansion; in which such movements are determined by the comparative advantages of liquidity and income; in which, to put it briefly, these movements once again resume - at least to some extent - their equilibrating function in the international economy, instead of being essentially a source of disturbance.

There are of course a number of consequences arising from the present situation. The new responsibilities of Europe were to some extent the "leitmotif" of the Washington meetings, as they are at the present moment at the meetings of GATT; and it is encouraging to note that they are very widely recognized and accepted by European Governments. It is to be hoped that the difficulties which Europe is now experiencing in co-ordinating its various projects for economic integration will not have the effect of retarding the pursuit of a policy of greater liberalization of trade and of increased aid to other countries, especially in the under-developed areas of the world. Since the end of the war, Europe has contributed considerably in the elaboration of the theory of the "good creditor", and should not experience any conceptual difficulties in defining the attitude appropriate to its present position.

For a long time, the United States was in the fortunate - in fact, exceptional - situation where its decisions on economic policy, both domestic and foreign, could be reached without regard to their effect on the balance of payments. The world has benefited greatly from that situation, and may have become too used to it; it must be recognized that that period is now over. This does not mean that

/...

United States policy is bound to change its direction, but that some of the methods used for its implementation may possibly have to be reconsidered. In any event, we are henceforth in the presence of a new problem, a complicating element in international policy which serves to emphasize more strongly than ever the need for developing habits of consultation and co-operation with a view to the co-ordination of monetary and commercial policies. The progress already made towards convertibility increases rather than decreases that need.

I have spoken, Mr. President, of a return to more normal conditions; the meaning of this expression should not, however, be misunderstood: there are certain elements in the present situation which must not necessarily be regarded as permanent. It seems to me that we in this Organization must always hope that the circumstances which have given rise to heavy military expenditures throughout the world will change for the better in the not too distant future. This factor alone could have a considerable impact upon the United States balance of payments. It is, perhaps, partly for this reason, and partly also because of some uncertainty as to how far recent cyclical movements can be regarded as typical, that some of the Western European countries continue to view too rapid a transition to an entirely non-discriminatory commercial regime with some apprehension. Recent discussions at the International Monetary Fund pointed quite clearly to the existence of such apprehension.

The evolution of the system of international trade and payments will no doubt become more prominent than ever on the agenda of the principal inter-governmental agencies. The progress already achieved should not lead us to underestimate the difficulties and dangers there may be in reaching conclusions prematurely. While in Europe the progress already recorded on the road to convertibility must naturally be followed by a further liberalization of trade, the same train of circumstances may not be repeated elsewhere. It would be imprudent to try and apply a single formula to the whole world at the present time. In many of the under-developed countries an immediate or early return to convertibility could not be achieved except at the cost of maintaining if not intensifying restrictions on trade. Strong pressures on the balance of payments are often an inevitable consequence of a fairly energetic policy of development, and there are instances in which one could hardly expect any lessening of such pressures in

the foreseeable future. Exchange control and bilateral arrangements are sometimes the only alternative to a series of devaluations. In certain circumstances it is not impossible, as European experience shows, that multilateral agreements combined, where necessary, with a preferential system may be effective in stimulating the international movement of goods and capital. It is in the light of such factors, and bearing in mind the over-all objectives of a development policy, that we should judge certain negotiations now in progress. I have in mind particularly the plan under consideration in Latin America for a regional system of payments designed to facilitate the process of economic integration. Agreements of this character inevitably give rise to objections because they seem to be impeding progress towards a more universal system. But in the present circumstances, too rapid a march towards full convertibility might take place at the expense of other equally important objectives. The only way out of such a dilemma would be to resort to compromises based on trial and error.

*

* * *

The recession has, once again, shown how complex is the machinery of modern economic systems, how different tendencies interact one with another and how conflicts sometimes arise between fundamental objectives. There is no doubt that today, more than ever before, the search for equilibrium is made difficult by the demands of economic growth. This summer, the Economic and Social Council made its contribution to the discussion on this fundamental problem. I do not wish to go over this ground again except to point out that in my opinion, there is a real danger in treating this problem as a doctrinal dispute and in publicly taking up positions which accentuate divisions instead of helping to remove them.

Though there is little doubt about objectives, there may exist considerable differences as to the strategy and tactics to be used to attain them.

In a mechanism as delicate as a modern economic system, based on a very elaborate division of labour and a complex system of trade, the margin of tolerance on one side or other of the point of equilibrium is not very great. Once this margin has been crossed, the cumulative forces of inflation or deflation may draw the economy into one or other of two vicious circles of rising prices or falling

/...

employment. Moreover, it is not always easy to establish quickly and certainly what the exact causes of the disequilibrium are. They are often connected with the budgetary situation, particularly in some of the under-developed countries where there is a tendency for government expenditure to run ahead of available revenues, or of the will to tax. During a period of rapid expansion, equilibrium may be threatened by the additional demands which are created by the investment process itself. Excess demand may also be brought about by institutional elements whereby the prices of the factors of production and of products themselves are fixed in such a way that total income moves out of line with available supplies. Again, there is perhaps a tendency to lose sight of the fact that equilibrium may be threatened by developments in supply as well as in demand. If supplies become inadequate in the key consumer goods sector, a situation may arise in which certain groups manage to obtain for themselves an undue share of the national income, while at the same time additional inflationary pressure is brought to bear on the economy as a whole. Conversely, the existence of excess supplies of certain products may, as the experience of the last two years has shown, set in motion deflationary forces that are difficult to combat in countries where these products represent the bulk of the export trade.

Equilibrium cannot be brought about by a simple prescription of universal application, but only by a combination of measures each of which might be insufficient or even dangerous if applied in isolation. Moreover, the extent of application of these measures is a matter for the practitioner rather than for doctrinal controversy. Certainly nothing is more important than to give government officials the means of arriving at rational decisions, of continuously evaluating the effect of government operations on the economy and the mutual interaction of the various economic sectors. It is with these considerations in mind that the Secretariat has carried out its activities in the field of budgetary classification and national accounts and proposes to intensify its efforts in the various techniques of programming.

*
* . *

/...

The Economic and Social Council is once again devoting considerable attention to the commodity problem, and the outlook here does not seem to be improving to any considerable extent. If the problem were limited only to certain products in certain countries, it would still be worthy of the attention of this Assembly, but it goes much further than this. It has wide repercussions at the very basis of world economy, and through the complex network of international trade it affects the existence of thousands of people who are concerned with cultivating or extracting the products in question.

If one examines the effects of the recession on the world economy, one cannot fail to be struck by a basic paradox. In the industrial countries, the crisis of those few months was weathered without any effect on their fundamental equilibrium. In most of the under-developed countries, on the other hand, the recession yielded its usual harvest of problems and difficulties, and it often compromised - or at least considerably retarded - the success of development plans. These difficulties have been traced in considerable detail in the World Economic Survey submitted this year to the Economic and Social Council, and the picture which emerges certainly shows little "natural harmony".

This Committee must once again, as in preceding years, carry out an appraisal of the effectiveness of the efforts made by the international community with regard to primary commodities. The activities of the past year include the renewal of the international wheat and sugar agreements, the coming into force of an agreement on olive oil, the meeting, under FAO auspices, of study groups which periodically examine the world situation with regard to supply and demand, the progress made towards the formation of a similar group for the regular study of the zinc and lead markets, and the conclusion of short-term agreements between producers to forestall a more serious drop in the price of coffee.

The decision taken two years ago to give new life to the Commission on International Commodity Trade has not yet produced its full results. It is easy to point out that this Commission does not have any power of action and that its responsibilities are oriented in the direction of studies rather than of negotiations. But studies are a necessary and important step towards any progress in the field of primary commodities. It is true that the idea of an international stabilization policy is strongly opposed by certain special interests and by

/...

certain schools of economic doctrine. But in other cases it is often simply a question of uncertainty or hesitation which induces inertia and encourages resistance to any attempt to put new ideas into action. Such uncertainty and hesitation could be removed through patient and systematic study. It is not difficult to envisage, at least in broad outline, the various types of instrument that might be used in dealing with trade in primary products; they were enumerated in the document to which I referred a few moments ago. Their wider ramifications, however, are sometimes obscure and, for this very reason, a subject of concern. A study of the various possible formulas, if pursued with the necessary vigour and persistence, might show that the solution of the problem is not perhaps forever beyond the capabilities of a world which has, in recent years, made striking improvements in the machinery for international action. A new flexibility can be detected today in the attitude of certain circles which previously were strongly opposed to any form of international stabilization. It is also gratifying to note that the European Economic Community, which represents the largest group of importers of primary commodities and whose entry on the world scene will no doubt bring about important changes in the structure of world trade, seems to have made the commodity problem one of its first concerns and is showing an encouraging tendency to consider it in a wider context than that of its own preferential system.

Lastly, it must be borne in mind that an anti-cyclical policy is often insufficient when over-production becomes chronic and assumes excessive proportions. Only a long-term and many-sided action can then provide a way out of the impasse. Stabilization plans cannot succeed unless they are accompanied by schemes for the adjustment of supply and for the creation of alternative employment opportunities within the framework of a long-term programme which the international agencies could help to define and promote.

*
* *

One of the main responsibilities of an organization such as ours is to study and appraise developments in the institutional machinery which provides a framework for the functioning of the world economy. The past year has seen important changes in this respect: an increase in the resources of the International Bank for Reconstruction and Development and of the International

/...

Monetary Fund; the establishment of two agencies of the European Economic Community: the European Investment Bank and the Development Fund for the Overseas Countries and Territories; the arrangements worked out within the British Commonwealth for new types of loans: Exchequer loans and Commonwealth assistance loans; the signing of the charter of the Inter-American Bank. The members of this Committee will, I am sure, be proud and gratified that a new body, the International Development Association, is shortly to be set up under the auspices of the International Bank. They may rightly regard this step as an endorsement of their own strenuous efforts to promote a multilateral financial assistance programme, although the system finally adopted is somewhat different from the one elaborated here.

Great importance has also recently been attached to measures designed to facilitate the flow of private capital to under-developed countries. Since 1955, private international investment has been steadily increasing and at a faster rate than trade, but its distribution is still very uneven. One problem that remains unsolved is the participation of private capital in the development of countries with no mineral resources or whose domestic markets are too small to absorb the output of profitable enterprise. A major effort is being made continuously to extend and develop national measures to promote the international flow of capital. We are thus witnessing a trend towards arrangements under which direct private investment or participation is combined with public investment from national or international sources. The inquiry which the Secretariat is at present conducting under the resolution drawn up by this Committee last year will no doubt throw some interesting light on various aspects of these questions.

Programmes designed to disseminate technical knowledge and to bring about conditions favourable to investment have continued to increase both in number and scope. Only a few days ago the Committee officially took note of the initial operations of the Special Fund which was established last year by a decision of the General Assembly.

The world today has a highly diversified system of institutions, which is doing much to internationalize the problem of economic development. The possibilities for international action are, however, far from exhausted and this Committee will not fail, once more, to ascertain where the shortcomings are, and the means for dealing with them.

/...

In general, it is not so much new machinery which is needed, perhaps, but sufficient resources to keep the existing machinery going; or rather, the problem of machinery would be easy to solve if adequate resources were available. Despite the reappearance of a high rate of savings in the industrial countries, the problem of the scarcity of capital in relation to the huge needs created by technological progress and the aspirations of peoples remains as pressing as ever. Indeed, the scarcity of capital is always in the background of our discussions. It may be, however, that a more systematic effort is required to elucidate all the implications of this. There is a need for a comprehensive and periodic review of the economic factors and governmental decisions affecting economic development. That, it seems to me, was the kind of review which the Secretary of State of the United States was inviting us to undertake in his statement last year to the General Assembly which resulted in the adoption of resolution 1316 (XIII) "Charting Anew". I would venture to say that the reports which have come to us in implementation of that resolution do not seem to indicate that all Governments have appreciated the importance and scope of an undertaking of this nature.

Finally, it would be vain to hope that steps taken by Governments or by the various governmental agencies could lead to rational and well-balanced development unless some broad outline for the future had been worked out to serve as a basis for the formulation of long-term plans. The Netherlands delegation has on more than one occasion suggested to the Economic and Social Council that an effort should be made to establish a series of development objectives at the world level. With that aim in view, the Economic and Social Council, at its last session, requested the Secretariat to undertake certain preliminary work with a view to the projection of long-term trends. The representative of India referred to this same need in speaking at a plenary meeting of the General Assembly. One phrase in particular used by Mr. Krishna Menon might serve as a guide to the sceptical: "There is a difference between visions of the future and just being visionary."

The task is an ambitious one which can be carried out only stage by stage, but the analytical and factual information available to us today should enable us to make at least a modest start in the right direction.

Under the Charter, the economic organs of the United Nations have no power of decision; but the principles of the Charter do make it possible for them to exercise an unrivalled influence, given an intelligent and consistent use of their opportunities. If they could help in overcoming the dispersion and fragmentation of effort which is wide-spread today and in avoiding the resultant losses, they would thereby be making a considerable contribution to promoting the fundamental aims of the Charter.
