UNITED NATIONS

GENERAL ASSEMBLY

Distr.
LIMITED

A/C.2/L.293
12 December 1956
ENGLISH
ORIGINAL: FRENCH

Eleventh session
SECOND COMMITTEE
Agenda item 27

# ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

Statement by Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs, to the Second Committee on 12 December 1956.

Mr. Chairman,

In the midst of the turbulence of current events, it may seem strange to look back upon the atmosphere of tranquility in which the state of the world economy was discussed by the Economic and Social Council last summer at Geneva.

And yet, if one looks below the surface of that discussion and into the deeper meaning of the situation on which it was based one will find at least some of the sssential clues to the origins of problems now clamouring for solution.

In discussing these matters I shall not, of course, deal in any way with the proximate causes of current conflicts; instead I shall simply seek to indicate in the broadest terms the economic setting in which these events are taking place.

If we turn first to those parts of the world which are industrially developed and based predominantly upon private enterprise systems of economy, we find that the post-war years have seen a fairly steady advance in output, incomes and living standards. The nature and extent of this advance has been documented in some detail in World Economic Survey, 1955 which the Council had before it at its summer session, and which is, of course, available to the Second Committee as well, as a general background for its discussion of the economic items on its agenda. Particularly striking is the success which has been achieved in the industrial countries in maintaining full employment in peace-time after a decade of mass unemployment before the war. From levels ranging as high as 20 to 30 per cent of the labour force in the nineteen-thirties, unemployment has been kept within a range of one to 5 per cent in the nineteen-

/...

fifties. Even in areas where beyond the years of depression there had been periods of relatively high levels of unemployment which had seemed irreducible, the problem has in many instances yielded to the forces of a dynamic effective demand.

The renewed expansion of production, income and employment since the end of the Korean hostilities is especially significant. It has taken place without the massive support from pent-up demand which was such a characteristic feature of the early post-war years. Nor as in the Korean phase has the growing demand been a response to expanded military requirements; on the contrary, the expansion has gained strength in the face of significant reductions in military expenditures. Clearly this reflects the growing confidence both of consumers and of business over long-term prospects, a confidence not only resting on experience of the past decade but supported by the widespread conviction that the maintenance of full employment has become an attainable, not merely a Utopian, goal.

Far from being concerned at the present time with methods of maintaining full employment, the real problem, as it seems to many governments, is how to reconcile high employment and rising demand with price stability and balance of payments equilibrium. During the past year or more we have in fact seen governments taking measures to curb the vigour of the current expansion in order to forestall the possibility of inflationary excesses. At the time that World Economic Survey, 1955 was written, expectations for 1956 were that output and trade in the industrial countries would continue to rise but at lower rates than in 1954 and 1955. Such information as has come in since that time seems generally to bear out these expectations. Obviously there is no intention on the part of governments to maintain the present restraints on economic activity beyond the point at which they cease to be necessary either to prevent the emergence of bottleneck situations or to limit the spilling over of excess demand to external transactions. Equally, however, it will require the utmost alertness on the part of governments if they are not to let the appropriate moment for easing the restraints slip by, thereby endangering stability in the opposite sense.

/...

One must confess, of course, that there is still much to be desired as regards our ability to detect and adequately diagnose situations calling for governmental intervention; and, indeed, there is even considerable room for argument as to which measures are appropriate for which occasions. A highly dynamic economy may be subject to a number of cross-currents; and the task of correctly evaluating them and determining which are likely to prevail and which to be cancelled out cannot, in our present state of knowledge - if indeed ever - be reduced to scientific precision. The best instruments at our disposal are a relentless vigilance and a sound economic judgement.

We must of course be in a position to take action to correct any tendencies towards disequilibrium before they build up into a cumulative trend too difficult to reverse. In this respect I believe we may take courage from the experience of the past decade. True that our ability to overcome tendencies towards depression has not yet been seriously tested in the post-war period. True, moreover, that the problem of halting creeping inflation or of preventing balance of payments difficulties provides grounds for concern in many countries. These difficulties will now be made even more acute, especially in western Europe, by events in the Middle East. With the reduction in the supply of oil and the increase in costs of imports formerly transported through the Suez Canal, serious production bottlenecks can now be foreseen. The immediate prospects include not only the likelihood of another upturn in prices and of renewed balance of payments pressures, but also of some slackening in the rate of production. But leaving aside these special - and let us hope, temporary - problems, it remains true that the industrial countries have experienced a record of growth in the post-war period which few would have been prepared to predict, and that while considerable instability in prices and the balance of payments has persisted it is a far cry from the grave imbalance of the early post-war years.

For the industrial countries there remains, however, an economic problem, broader than that of individual growth and stability, and more ectly involved in the major preoccupations of this assembly. It is the problem of the underlying economic relations of these countries with each other and with the rest of the world. It is hardly necessary for me to point out how great an evolution in these relations has already taken place during and since World War II. The system of relationships built up during the nineteenth century has gradually

/...

given way to entirely new forms. For its part, western Europe has had to learn to adjust to the process of evolution which has gained momentum during the past generation. The structure of its trade and its balance of payments - of enormous importance in the economic life of the area - has shifted drastically to conform to the necessities of the post-war world. There is no question but that further adaptation and adjustment will be required as more and more of the territories dependent upon metropolitan powers in western Europe mature towards independence.

Perhaps the most important reaction of western Europe to the new conditions is reflected in the efforts towards the creation of a common market. I believe it is clear that it is not the intention of those who are active in the formation of these plans to weaken the ties of western Europe to the rest of the world. On the contrary, it is to contribute to further integration and strengthening of the west European economy, and thereby to add to - not subtract from - strength of the rest of the world. Needless to say, an economically stronger western Europe can make a greater contribution to the world-wide task of economic development, both in increased trade with the rest of the world and in expanded technical and financial aid.

In the centrally planned economies it was clear that the war devastation had been enormous and the task of reconstruction correspondingly great but it was extremely difficult for some years after the war to judge the nature of economic developments. The statistics now available have helped to assess properly the measure of achievement of these countries in restoring and expanding their standards of living. It is evident that the rate of industrial advance in these countries during the first post-war decade was extremely rapid and sufficient to increase significantly their share of world output of some of the basic commodities, not only as compared with the immediate post-war years but also in comparison with the pre-war period. A vast new industrial capacity has been established in countries of central and east Europe; starting, as most of these countries have, at very low levels of economic development, their growth has naturally drawn world-wide attention, especially among countries which themselves face the tremendous tasks of economic development ahead of them.

/...

Events in recent months as well as official statements, have revealed the high price that had to be paid, however, for the lack of balance that characterized this rapid growth. I shall leave aside here as not relevant to our concerns in this Committee any elements there may be of a purely political character. Speaking simply from an economic point of view, it has to be said that the extreme imbalance associated with the rapid industrial growth created severe stresses and strains in the economic system of certain countries. Agricultural development has been insufficient, and even within industry dangerous disproportions were allowed to develop despite the planning process. The assumption was made that output could consistently be forced upwards without allocating a sufficient proportion of the additional resources becoming available to the satisfaction of the claims of consumers who were, in the last resort, supporting and carrying the whole structure. Indeed, in a few countries real wages were actually declining for about three years up to 1953. And if now this trend has been reversed it seems that the recovery has been insufficiently rapid to revive the people's sense of participation in the economy which is so necessary to social stability. There are numerous signs pointing to a reconsideration of the economic outlook, both internally and as regards their relations with each other and with the rest of the world. Certain adjustments have already been made, but it is clear that the process is not yet complete.

Turning now to the situation prevailing in the under-developed countries, we must admit that in spite of many hopeful elements in the recent record, we are far from having broken the back of the problem of mass poverty. The gravity of the position does not lie simply in the fact that we are compelled to report a widening of the disparity in per capita income between developed and under-developed countries since pre-war years. More serious is the fact that the past few years have witnessed no tendency for this process to be reversed, or even arrested. As was pointed out in World Economic Survey, 1955, while agriculture and manufacturing have each expanded at roughly similar rates in the under-developed as in developed countries, the rise in total output has been smaller in the under-developed regions because agriculture, which expanded at a much lower rate than manufacturing in both regions, accounts

/...

for a much higher proportion of total output in under-developed countries. Population growth, moreover, has been increasingly more rapid in many of the under-developed areas than in most industrial countries. The combined difference in output and population is reflected in a striking disparity in per capita growth: whereas in the developed private enterprise economies per capita output has risen about 45 per cent since before the war, in the under-developed regions the rise appears to have averaged about 5 per cent.

The failure thus far to set in motion forces of cumulative economic growth throughout a large part of the world is, in the long run, the most disturbing single feature of the present world economic situation, especially in view of the efforts, both national and international, since the war towards the promotion of economic development and the amount of energy and talent devoted to the study of these problems. It has regrettably to be said that all that has been done thus far in this field - and I do not wish to under-rate the progress which has been made - can only be regarded as woefully inadequate in the light of the facts I have cited.

This inadequacy applies both to the domestic and to the international fields. To take the latter first, let me refer briefly to commodity trade. As is shown in World Economic Survey, 1955 trade in primary products, both food and industrial raw materials, in the post-war period, has lagged behind total world trade. It has also lagged behind world output of primary products and even more so behind world manufacturing production. Since international trade, and specifically the export of primary products, constitute by far the largest source of foreign exchange required for financing economic development, to vital importance of such trade to the under-developed, as indeed to all countries cannot be over-estimated. I cannot do better in this connexion than to quotethe words of the Secretary-General in the Introduction to his current annual Report on the Work of the Organization:

> "A more stable and expanding foreign trade is the most essential economic condition of, and will supply the greatest financial resources for, the necessary acceleration of the processes of economic development."1/

1/ Document A/3137/Add.1, page 5.

/...

Of no less concern than the long-term trends is the instability of trade in primary products. The members of this Committee are, I am sure, familiar with the statement made by the Secretary-General to the last session of the Economic and Social Council on 16 July 1956. As he pointed out at that time:

> "... One of the most fundamental of the lessons we have to learn from the economic developments of the past ten years is that economic stability in the highly developed countries is by no means a sufficient condition for stability in the demand of these countries for primary products. Despite full employment and rapid growth in industrial countries, few under-developed countries know from year to year where they stand regarding their export incomes and their supply of disposable foreign exchange.
>
> ... It is enough to realize that a change of only 5 per cent in average export prices is approximately equivalent to the entire annual inflow of private and public capital and government grants to under-developed countries. ..."

The Secretary-General added that there was no magic formula for solving the problem of commodity price stability. The Committee will note from the <u>Report of the Economic and Social Council</u>[1/] and from the Secretary-General's Annual Report to the General Assembly that much consideration has been given in the past year to the question of commodity trade. Revised international agreements were made in wheat and sugar and an agreement concluded earlier on tin came into force during the year. These are the only three commodities in which international agreements are in force at present; an agreement on olive oil has also been concluded but has not yet been ratified. Other action in the commodity field includes the establishment of a working party to consider the need for action in cocoa. Seen in the perspective of the decade as a whole, however, these results appear very meagre and it is clear that the problem of commodity instability remains one of the greatest weaknesses in the fabric of international economic co-operation.

It must also be said that the policies concerning aid to under-developed countries are still in a relatively early stage of formation. In this connexion we should note the growing tendency in many quarters to look upon the United Nations as a proper vehicle for enlargement of aid programmes, and to attach

1/ Document A/3154.

more importance to internationalization of aid than has been customary hitherto. I have no doubt that bilateral forms of aid will continue to play a major and probably even a predominant role and I certainly do not see any need for conflict between bilateral and multilateral programmes. On the contrary, as has been pointed out in certain speeches in the General Debate in Plenary, and as the Secretary-General has also had occasion to stress, the two types of programme should mutually support each other. In this context it appears that the international organizations may gradually be assigned a more important role, whether as intermediaries between Governments or as agencies contributing to the disinterested elaboration of a system of standards and criteria for programmes of international aid.

Undoubtedly the most significant step taken this year to increase the international flow of capital funds to the under-developed countries has been the establishment of the International Finance Corporation. The Committee will, I am sure, recall that it has helped to initiate the studies and explorations which have now led to the creation of this new institution. There has also been an increase in Government action over recent years to promote the flow of private capital. The measures taken include relaxation of exchange restrictions, guarantees of private foreign investment against extraordinary risks, and reduction of international double taxation. Timely as these actions have been, they have not had more than a modest impact on capital movements and the situation has now been clouded over by the tensions generated by recent events.

While capital movements and the behaviour of commodity prices could, under favourable conditions, greatly help to accelerate a process of development already begun, they are no substitute for the most effective internal mobilization of resources in these countries.

Industrialization has become a key-word in our thinking here and the determination of under-developed countries to industrialize is a fact which the advanced countries have come to accept. They have recognized that the advantages of international specialization are not necessarily set aside if under-developed countries seek to produce for themselves industrial goods which they had previously imported. On the contrary, the putting to work of unutilized or under-utilized resources in industry may often provide the only means for a rise

/...

in real incomes sufficient to increase the degree of participation of a particular country in international specialization and exchange.

The importance of industrialization is properly reflected in the Economic and Social Council and in the work of the Secretariat. Only this year, the Council has laid the foundations of a programme of studies and panel discussions which aims at the dissemination of experience recently acquired in the field of industrialization of under-developed countries, particularly within the framework of technical assistance.

While the importance of industrialization has been well grasped in most countries, it has not always been equally well understood that industrial development should not occur at the expense of agriculture. A rise in the surplus generated by the agricultural sector over and above its own needs is essential to provide the additional savings required to finance the new investment. With relatively rare exceptions it may be regarded as a fairly safe general rule that the growth of agriculture must go hand in hand with that of industry. The extreme examples of the failure to appreciate this rule are to be found in the centrally planned economies where the stagnation of agriculture for many years has become a major stumbling block to further growth of the economy. The lessons to be learned from this experience are by no means confined to the centrally planned economies. Since industrialization is usually associated with the migration of agricultural labour to the towns and with rising incomes, it is inevitable that the demand for food should increase greatly, especially in under-developed countries where food consumption is far below requirements. And, in a very real sense, food may ultimately prove a more serious bottleneck than even raw materials, capital equipment or skilled labour. Few countries can increase exports sufficiently to pay not only for imports of raw materials and capital goods but also of food to meet expanded consumption requirements. The increased demand for food must therefore be met from home production, lest countries be confronted with grave inflationary and balance of payments pressure that would ultimately frustrate the process of economic development.

This is a time in which major adjustments have to be made. It is natural to think that the main economic burden of changing conditions in the world shall be borne by those best equipped to do so. However, the burden cannot be assumed

/...

exclusively by those countries if the maximum benefits of international co-operation are to be secured. Furthermore, these adjustments must take time - a heavy price would be paid if pressures were built up to the breaking point. The world economic situation confronting this Assembly and this Committee calls above all for a mutual accommodation of interests and for the utmost wisdom in carrying out the Charter's objective of "harmonizing the actions of nations" in the attainment of common ends.

-----