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CONTENTS

Agenda item 2:

Page

World economic situation:

- (a) Survey of the world economic situation, including the questions of full employment and of the expansion of world trade 61

President: Mr. ENGEN (Norway).

Present:

The representatives of the following countries: Argentina, Brazil, Canada, China, Czechoslovakia, Dominican Republic, Ecuador, Egypt, France, Greece, Indonesia, Netherlands, Norway, Pakistan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers from the following countries: Australia, Bulgaria, Chile, Costa Rica, Finland, Hungary, Iran, Israel, Italy, Poland, Romania, Venezuela.

The representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, International Bank for Reconstruction and Development, International Monetary Fund, Interim Commission for the International Trade Organization.

AGENDA ITEM 2

World economic situation

- (a) Survey of the world economic situation, including the questions of full employment and of the expansion of world trade (E/2864, E/2871 and Add.1 to 6, E/2880, E/2881, E/2882)

GENERAL DEBATE

1. The PRESIDENT recalled the fact that the Council had agreed to deal with item 2 of the agenda in two parts: it would first (a) survey the world economic situation, and then (b) consider the reports of the regional economic commissions.

2. He had great pleasure in welcoming, on behalf of the Council, the Secretary-General, who would introduce the *World Economic Survey 1955* (E/2864).

3. The SECRETARY-GENERAL, recalling that it was ten years since the Council had embarked on the tasks laid down in the Charter—, namely, to promote higher standards of living, full employment and conditions of economic and social progress and development—said the time had come to ask to what extent it was possible to report success in the advance towards those goals.

4. The *World Economic Survey 1955*, which was before the Council, was in part an attempt to evaluate the economic successes and failures of the post-war period. There was much in the record of the past ten years that provided legitimate grounds for satisfaction, but some of the most important economic problems were almost as far from solution as they had been when the Council had begun its work.

5. He did not propose to say more than a few words concerning the achievements of the first post-war decade, for they were documented in the *World Economic Survey 1955* and the regional economic surveys which were before the Council. It was nevertheless appropriate to recall that, both in the developed private enterprise economies and in the centrally planned economies, pre-war levels of *per capita* production and trade had by now been left far behind, and that while part of the rise in output had been side-tracked into armaments, a substantial margin had nevertheless been available in many areas for improvements in present and future levels of living.

6. In the centrally planned economies, highest priority had been given to investment in heavy industry as against light and consumer-goods industries and, until recently, agriculture. The standard of living had thus risen much less than output. With the growing attention now being given to agriculture, however, the lag between the rates of growth in production and consumption was expected to diminish.

7. In the developed private enterprise economies, a significant measure of both economic progress and security had been achieved. Defences had been built against the waste and misery of economic depression, and ways and means had been found in many countries of mitigating economic insecurity. It was true that the strength of those defences had yet to be seriously tested, but the widespread consciousness of a need in that area and the deeper understanding of the economic forces which gave rise to that need in themselves represented an impressive advance on the groping in the dark of the inter-war years.

8. He thought it fair to say that the Council had a record of positive achievement in that area. It had defined the manner in which the full employment obligation to which all nations subscribed in the Charter was to be understood, and the nature of the responsibilities which governments had thereby assumed—namely, to make legislative and administrative provisions adequate for the attainment of national full employment goals. Moreover, the Council had proclaimed the international, as well as the national, character of the full employment obligation; it had helped towards securing recognition of the principle that any country which failed to maintain full employment within its own borders by

that very fact made it more difficult for other countries to do so.

9. If international division of labour raised the productivity of the world community, it also increased the mutual interdependence of its several parts: the economic health of each came to depend in significant measure upon the well-being of all. When one member contracted the disease of unemployment it threatened all others, not only because the arteries of international trade became constricted, but also because so close was the attunement between members that palpitation in one might set off sympathetic vibrations in the others. The Council had therefore rightly emphasized the principle that each Member State had not only an internal but also an international responsibility to maintain conditions conducive to the good economic health of the world community.

10. It must be admitted that governments were far from agreement on the practical implications of that principle. The prolonged success in the industrially developed countries of national full-employment policies, combined with the unexpectedly mild international repercussions of the United States recession of 1953/54, had perhaps encouraged a greater degree of complacency than was warranted. Nevertheless, it seemed safe to say that over a substantial portion of the earth's surface man had tested the benefits of rising levels of material welfare and had even succeeded in harnessing, to a greater or lesser extent, economic forces hitherto regarded as beyond his control.

11. There were those who had feared, and perhaps still feared, that security might be inimical to progress—that the whiplash of insecurity was needed to spur mankind on to increased effort. No more convincing refutation of that thesis was required than that provided by the experience of the past decade. With levels of unemployment that in the 1930's would have been regarded as incredibly low, economic growth had been accelerated rather than stifled. Never in the history of man had his economic pulse been so quick, never had there been so great a degree of flexibility or so rapid and continuous an increase in work efficiency.

12. Unfortunately the achievement in stabilizing the national economies of the developed countries found no parallel in the stabilization of the national economies of the under-developed countries. Nor had sufficient progress been made in stabilizing and integrating the world economy as a whole. The world continued to be divided into two economic regions with only marginal trade relations between them. While world trade had grown significantly, the flow of international capital had never regained its importance of only a generation earlier, either in relation to trade or in relation to income and investment. He had dealt with those problems on past occasions and they were fully documented in the surveys before the Council. He would therefore now confine his words to one aspect which caused him great concern—namely, the problem of commodity stabilization.

13. While unemployment had long ceased to be considered acceptable as the price for keeping an industrial economy in balance, the world still did not seem to recognize that violent price fluctuations were not essential

to the maintenance of economic balance in farm and mining economies. Some degree of price flexibility was, of course, necessary to permit the adjustment of commodity markets to changing demand and supply conditions. Similarly, some degree of flexibility of manpower and resources was required to adjust to changing conditions in the economy at large. Nevertheless, just as it was realized that mass unemployment introduced not flexibility but economic paralysis, so it must be realized that the violent price fluctuations which had characterized commodity markets were not productive of economic balance but rather of economic chaos. One would search in vain for any economic purpose that might have been served by the price gyrations in coffee and cocoa in recent years, and whatever adjustment in raw materials demand and supply might have been required during the Korean boom and its subsequent collapse could surely have been accomplished with price movements only a fraction of those actually experienced.

14. At one time it had seemed to many economists that if the problem of stabilizing aggregate effective demand in the developed countries could be solved, the task of achieving stability in commodity markets would thereby be reduced to manageable proportions. Eloquent testimony of the secondary importance attached to the problem of commodity stability was to be found in the economics curriculum of every university; whereas the study of effective demand and employment had everywhere become the central theme of general economic analysis, the broad problem of commodity stabilization had for the most part received relatively marginal attention.

15. One of the most fundamental of the lessons to be learned from the economic developments of the past ten years, the Secretary-General noted, was that economic stability in the highly developed countries was by no means a sufficient condition for stability in the demand of those countries for primary products. Despite full employment and rapid growth in industrial countries, few under-developed countries knew from year to year where they stood regarding their export incomes and their supply of disposable foreign exchange. An inventory shift in a particular commodity might be of small moment in relation to the total inventory movement of a major developed country, and insignificant in relation to the aggregate production of that country, but it might spell disaster for the short-term, and perhaps even long-term, plans of the under-developed countries depending upon that commodity for the bulk of their foreign exchange incomes, and hence for their capacity to import development goods. Any unevenness in the advance of, say, heavy and light industries, such as had been witnessed recently in the developed countries, might mean windfall gains for some primary producers and extraordinary losses for others.

16. Nor could the gains of the fat years always be offset against the losses of the lean years. The lean years were likely to bring difficulties and discouragement and to impede the drawing up of development plans and programmes, both private and public. In that case, the advent of better times might find countries ill-equipped and ill-prepared to take advantage of the improvement in their situation, and the new resources might be

dissipated on luxury imports. Moreover, the cycle of commodity prices was not necessarily superimposed upon any stable long-term trend; fluctuations in commodity prices were so irregular that there could be no assurance that the gains were cancelled out by the losses over any reasonable period. Indeed, violent price fluctuations in themselves exerted an adverse long-term effect upon commodity markets; the fat years were likely to be swallowed up by the increasingly lean years as the gyrations in prices encouraged industrial countries to strive for growing self-sufficiency.

17. There was no magic formula for solving the problem of commodity price stability. No amount of searching would yield a formula applicable in all circumstances. He was convinced, however, that the inability to make any serious headway with that problem constituted one of the greatest weaknesses in the fabric of international economic co-operation at the present time. While the commodity problem might be ancillary to the broad problem of economic stability in the highly developed countries, it could not be regarded as of secondary importance from the standpoint of the world at large; the vast majority of mankind still earned its living in primary rather than industrial production. It would be dangerous to under-estimate the difficulties attached to the problem of commodity stabilization. The root of those difficulties lay in the wide fluctuations in demand, especially for inventories, and in the yield of agricultural production, coupled with the extremely low price elasticities of both demand and supply for most primary products. Despite all efforts, both national and international, the practical means for increasing those elasticities or offsetting their effects on prices remained a baffling problem. In important respects, that problem was even more difficult than that of stabilizing employment.

18. Since the labour market was predominantly national in character, the main requirement for stabilizing employment was an appropriate national policy for full employment; what was required at the international level was that each country should keep reasonably in step with the others and not seek to solve its unemployment problem at the expense of others. Provided that was done, there was no conflict of national interests regarding the maintenance of full employment; all countries shared a common interest in its maintenance all over the world. Commodity markets, however, were in essence international rather than national; no nation, no matter how strong, was likely to prove adequate by itself in the task of price stabilization. National action must therefore be supplemented by, and indeed undertaken in, a framework of international policy if it was really to succeed. At the international level, however, the difficulties of reconciling the short-term interests of producing and consuming nations had proved a powerful obstacle to action despite the long-term benefits to be derived by all nations alike.

19. That was not, of course, to overlook the fact that inter-governmental arrangements with limited price ranges were now in operation for wheat, sugar and tin and that price fluctuations in those commodities had been reduced in more recent years. It was also pleasing to note that an agreement—which, however, awaited the signature of sufficient governments to bring it into force—had been

reached on olive oil, thereby demonstrating that the present machinery could be used effectively for commodities of lesser importance in total world trade but of vital concern to particular regions. Even so, it had taken almost a decade to arrive at those four agreements only; greater interest must surely be shown if substantial progress was to be made through the commodity-by-commodity approach which so many governments favoured.

20. It was the absence of a framework of international policy that compelled the under-developed countries each to seek its own salvation in its own way without reference to wider horizons. How often had not complaints been voiced that one under-developed country was moving along the slippery path to autarky, that another was neglecting its exports, whether agricultural or mineral, or that yet a third was manipulating its exchange rates in a manner contrary to the letter and spirit of the Bretton Woods agreements? Yet how many of those who criticized the under-developed countries in that fashion had given adequate thought to the structure of world economic relationships which had forced those countries into unorthodox patterns of behaviour?

21. At the present session, the Council was debating one notable proposal with a significant bearing on commodity stabilization—the proposal for a world food reserve (agenda item 7)—and in the past it had ranged over the whole gamut of international measures, from individual commodity agreements through buffer stocks to commodity currency proposals. So far, however, disappointingly little progress had been recorded. He had no desire to minimize the difficulties and complexities in that area, but he felt obliged to express his firm conviction that much more could be done than had so far been accomplished. Surely a great deal more had been achieved towards economic development in other, and no less difficult, directions. Only a generation earlier it would have been inconceivable that the nations of the world should embark upon a collective programme of technical and financial assistance to under-developed countries. Yet that programme was now a living reality. What goodwill and understanding had accomplished in establishing a foundation for international aid they could achieve also in laying the groundwork for stabilizing the trade of under-developed countries. If peoples and governments would come to understand that commodity stabilization was not merely a narrow matter of price haggling between producers and consumers, but was a problem of eliminating the wild fluctuations which beset the economies of under-developed countries, he had no doubt that ways and means would be found for its solution. In the light of the fact that both the Food and Agriculture Organization and the Contracting Parties to the General Agreement on Tariffs and Trade were working in that field and that there was a Commission on International Commodity Trade as well as an Interim Co-ordinating Committee for International Commodity Arrangements, it seemed to him that it was not so much new machinery that was required as proper education and goodwill, both of the public and of governments, to co-ordinate and utilize more effectively the machinery which already existed.

22. He did not wish to imply that commodity stabilization was an all-sufficient answer to economic develop-

ment. No matter what successes might be achieved in stabilizing commodity earnings, primary production alone could not be relied upon to close the gap in *per capita* incomes between the developed and the under-developed areas. That was not just because the extent of the gap depended partly upon the long-run terms of trade rather than merely on short-term fluctuations around the trend. The problem lay deeper than that: it had its roots in the world structure of demand. It was true that, with the growth of output and incomes of industrial countries, the demand for primary products might be expected to rise, but experience over a long period showed that that rise was far from proportional. Even if supplies of primary products were to keep pace with the demand and the terms of trade were to remain unchanged, the growth of income earned in primary production would lag considerably behind the growth in income of industrial countries. As was demonstrated in the *World Economic Survey 1955*, the growth of total output in the under-developed countries had lagged behind that of the developed countries, not because of lesser progress in each of the major sectors of production taken separately, but because agriculture, which accounted for a much higher proportion of the total in under-developed countries, had almost everywhere expanded at a much lower rate than manufacture.

23. If the under-developed countries were even to maintain, let alone increase, their relative share of the world's total output, they could not rely exclusively on expanded exports of primary products to industrial countries, but must embark upon a programme of broad economic development. The under-developed countries, with their very low productive capacities, could not, of course, hope to match the absolute growth of the developed countries; in absolute terms, the gap in *per capita* incomes between them must be expected to continue to widen in the foreseeable future. What was disappointing, however, was that, even in percentage terms, the under-developed countries had failed to match the rate of growth in *per capita* income of the industrial countries since before the war. In view of the very much lower levels from which the percentage changes were calculated in the case of the under-developed countries, a reasonable target for economic development should at least provide for a higher percentage rate of growth in the under-developed than in the developed countries. Otherwise it would be impossible ever to increase the share of the under-developed countries in the distribution of the *per capita* income of the world. That the target had not yet been reached merely emphasized how great was the need for intensified efforts, both national and international, to speed the process of economic development.

24. He said that if he did not speak about international aid, it was only because in that area the Council had at least laid a foundation on which it was possible to build. International aid, however generous and unselfish it might be, could never be an adequate substitute for stable and growing export earnings. Even in highly prosperous times, the year-to-year fluctuations in commodity earnings frequently cancelled out several times over the total international assistance which a country might be receiving from all sources. It was enough to realize that a change of only 5 per cent in average export prices was

approximately equivalent to the entire annual inflow of private and public capital and government grants to under-developed countries. Essential as it was to expand international financial aid in all its forms—private and public, bilateral and multilateral—highest priority must be given to expanding the trade of the under-developed countries, not only because of its significance as the preponderant factor in economic development, but because trade was after all the best form of aid.

25. Mr. MYRDAL (Executive Secretary, Economic Commission for Europe) said that the two main documents prepared by the secretariat of the Economic Commission for Europe (ECE) as background material for the discussion were the *Economic Survey of Europe in 1955* (E/ECE/235 and Corr.1 & 2), and the latest *Economic Bulletin for Europe*, published in May 1956. In accordance with its usual practice, the ECE secretariat had tried in the *Survey* not only to review developments in the European economy during the last year, but also to draw attention to certain long-term problems which were both important and topical and immediately relevant to the policies at present pursued by the governments in the region. In view of that, the *Survey* placed special emphasis on investment problems and policies.

26. In western Europe, despite the steady growth in output in recent years, fears of price inflation or of balance-of-payments difficulties had begun to revive towards the end of 1955. In a few countries governments faced with the problem of dealing with an excess pressure of demand had been able to plan to ease the pressure by takings steps to encourage a larger volume of imports. The balance-of-payments situation of many countries of western Europe, however, was not so favourable as to make that course practicable, and for them the problem was one of taking steps to restrain the rate of growth of total demand. The question was always how best to strike the right balance between the long-term claims of investment to provide the basis of future economic growth, and the immediate demands of consumers for higher living standards.

27. In the countries of eastern Europe and in the Soviet Union a high rate of investment had long been a basic premise of economic planning, and their rates of development had been, and were, more rapid than elsewhere. There also, however, similar questions of the right balance between the claims of investment and of consumption on limited resources had become not merely matters of urgent concern to governments but also the subject of increasingly open discussion. In that connexion he would like to say how much the ECE secretariat welcomed the increased flow of information on economic development in the USSR and eastern Europe and the prospect of still more information in the future. The freer exchange of ideas between governments and between economists in the East and West of Europe, which now seemed to be a real possibility, could not fail to benefit all concerned and to further the aims of the Economic and Social Council and of the United Nations generally.

28. In the latest *Economic Bulletin for Europe* the ECE secretariat had tried to bring its analysis of current economic trends in Europe more or less up to date. Since the publication of the *Bulletin*, the European

economy had continued to develop very much on the lines foreseen: the expansion of output had continued in most countries, but at a rather slower rate, and in some countries demand threatened to grow more rapidly than output. The crucial problem occupying the attention of many western European governments was still that of restraining inflationary tendencies; eastern Europe was faced with a similar problem, though in a different form—namely, how to satisfy the desire of the people for higher standards of living, after long years of sacrifice and efforts, without paying too high a price in the form of reductions in the investment which was essential for continued progress.

29. At its twentieth session (871st meeting) he had drawn the attention of the Council to the rising demands of defence programmes. He had pointed out that they constituted the main obstacle to a more rapid growth of civilian consumption and investment in the countries of both parts of Europe, on whose overstrained economies even the short-term effect of disarmament would be very salutary. Although defence expenditure now appeared to have passed its peak in most countries, the claims of defence were still a heavy burden on Europe's resources. The reduction of that burden was essentially a political problem, but no economist could fail to be impressed by the obvious economic advantages to all countries that such a reduction would confer and by the contribution such a reduction could make to the solution of the most immediate of the economic problems now confronting governments everywhere—namely, the problems of an overstrained economy, of inflationary pressure, and of threatened bottlenecks in production.

30. The Secretary-General had referred to the problems created for the under-developed countries by the violent fluctuations that had occurred in recent years in the prices of primary products, which provided the greater part of their export incomes and, in that connexion, had also considered the question of price-trends. At the twentieth session (871st meeting) of the Council he himself had pointed out that the countries of western Europe were steadily becoming more able to relax their restrictions on dollar imports and that that development, good as it was in itself, was having a grave effect on the import demands of western European countries from the under-developed countries. In the *Economic Survey of Europe in 1955*, it was pointed out that the economic expansion of Europe that had been taking place over the last few years appeared to have been of little benefit to the primary producing countries, especially those that were mainly dependent on exports of agricultural products. The *World Economic Survey 1955*, too, drew attention to the same trend. Imports into western Europe from the countries mainly dependent on exports of agricultural products had scarcely increased from 1954 to 1955 and that trend was still continuing.

31. There appeared to be three main reasons for the failure of European imports of agricultural products to rise, even with rapidly growing industrial production. Two of them were, in themselves, a matter for satisfaction: the increasing multilateralism of western European trade, and the technical progress reflected in the increased ability to produce substitute synthetic materials. The third reason was the growth of western Europe's own

food production, often behind protective barriers. Those developments laid on all countries an obligation to do everything possible to offset the inevitable difficulties involved for the under-developed countries. The *Economic Survey of Europe in 1955* drew attention to some of the undesirable consequences that might follow for western Europe if the export income and import capacity of the primary producing countries did not grow with the rising export capacity of western European industry, and it suggested that the industrialized countries of western Europe should, in their own interests, be prepared to relax protective barriers against imports of those products which the under-developed countries could produce relatively cheaply. In several of its studies over the past few years, the ECE secretariat had drawn attention to that same problem of interest conflicts, not only between western Europe and the whole of the under-developed world, but also between the richer north-western part of Europe and the poorer southern part.

32. The problem had an entirely different configuration in the USSR and the eastern European countries, which were already showing signs of offering an expanding market for the foods and materials of the primary producing countries and of developing a complementary export trade in machinery and other manufactured goods; for various reasons they were able to plan their trade in that way. That trade was, however, still very limited in size and distribution compared with the great traditional trade between western European countries and the primary producers.

33. He was conscious of another potential threat to the development of trade, on a mutually beneficial basis, between western Europe and the primary producing countries. It would be disastrous if the inflationary pressures at present disturbing so many western European countries were to lead to the development of serious balance-of-payments difficulties, and perhaps to a retreat by those countries into new policies of protection and import restrictions. That had not happened so far; indeed, some countries were trying to lessen internal inflationary pressures by admitting imports more freely than before. He hoped that the Council would agree that it was of the greatest importance that all countries, and particularly the developed countries, should feel the obligation to continue to deal with their domestic difficulties as far as possible by measures which were not liable to impede the growth of world trade and incomes in the primary producing countries as well as in the industrialized areas.

34. Mr. LOKANATHAN (Executive Secretary, Economic Commission for Asia and the Far East) said that economic development in Asia and the Far East had reached a critical stage at which the opportunity for, and possibility of, further advance depended at least as much on international action and effort as on national and domestic effort. At the eleventh session of the Economic Commission for Asia and the Far East (ECAFE), in 1955, some of the more developed countries in the Commission had stated that the development of the under-developed countries of Asia was a joint responsibility and that the more advanced countries should assist. The extent to which that lofty principle was translated into action would determine the march of the peoples of Asia in

their struggle to raise their standards of living and to increase their prosperity.

35. Within the last few years a social and political climate that was most favourable to economic development had evolved in the countries of the ECAFE region. Almost every government in the region had assumed direct responsibility for the economic and social welfare of its people, who in turn had come to judge the performance of their governments by their success in promoting economic development and industrialization. Asia appeared to have emerged from a period of stagnation and to be ready for a decisive march towards more rapid development.

36. For the first time an effort had been made in the *Economic Survey of Asia and the Far East 1955*¹ to review the economic progress achieved in the post-war period. Despite the limitations of statistical data and the reservations regarding their value, all the available evidence pointed to a rate of economic growth which in many cases had surpassed the rate of population growth; that development had inspired the governments and peoples of the countries of the region with confidence, with the result that efforts had been made to accelerate development and deal with population pressures. The degree of progress should not, of course, be exaggerated. Agricultural production, the mainstay of life in the region, was still substantially below pre-war levels on a *per capita* basis for the region as a whole, and, of the nine countries whose aggregate estimates for their domestic production had been reviewed, only four, with a combined population of less than 140 million, appeared to show an upward trend of more than 3 per cent per annum on a *per capita* basis. Increases in industrial production, substantial though they were, had not been enough to bring about an appreciable increase in total domestic production, owing to the heavy preponderance of agricultural production in the region. Furthermore, economic growth had not kept pace with that in industrial countries; indeed, the gap between them was becoming wider. The fact that it was not enough for the countries of the region to attain the same rate of growth as that of industrial countries, but that they needed to achieve a much greater rate, was a matter which had not so far received adequate attention.

37. What was significant, however, was that the countries of the ECAFE region were moving forward and were determined to move faster. It was in that context that the United Nations, and particularly the Economic and Social Council, would have a determining influence in raising standards of living in the region.

38. The Secretary-General had focused attention on the question of securing greater stability of prices of primary products, a problem which had been the subject of debate at every ECAFE session so far. At the meeting of the Working Party on Economic Development in November 1955 there had been unanimity among all the country experts that the avoidance of economic instability was essential for sustained economic growth. No appreciable remedial measures were yet in sight, but in the meantime it should surely be possible to explore

the possibility of giving countries which depended upon exports of primary products a guarantee against the loss of foreign exchange. What they needed was some assurance that they could go forward with their programmes of economic development without the fear of having to reduce their pace owing to sharp falls in their foreign exchange earnings. Such an action could be truly termed international economic co-operation, and the sacrifices entailed would not be heavy, for losses of foreign exchange earnings by the under-developed countries should have been accompanied by gains to the developed countries as purchasers of primary products.

39. The future terms of trade were not the only cause of concern to the countries of the region: there was also the question of foreign aid and foreign financial flows. It was easy to criticize the under-developed countries for not making greater efforts to earn foreign exchange or to mobilize more domestic savings. They were working towards that end, but the mobilization of domestic resources was not a purely economic problem; it was complicated by social, political and administrative aspects. Even countries which were familiar with the methods of raising more resources found it difficult to implement measures because of the social and economic pattern of society. Again, efforts to promote export trade came up against basic structural difficulties. It was through no fault of their own that the countries exporting primary products had not managed to achieve the same proportionate increase in foreign trade as had the more developed countries. For example, while world exports had risen by 6 per cent between 1951 and the first half of 1955, the exports of countries in the ECAFE region had declined by 21 per cent. Those countries recognized that highest priority should be given to the problem of increasing foreign exchange and that efforts should be concentrated on the promotion of export industries or of those whose products could replace imports. They had, however, embarked on their programme of industrialization and development under a heavy handicap; they had to import technology and to import capital goods, and they could not pay for those imports by means of exports from current production.

40. The world must therefore realize that neither the supply of domestic capital, now existing or potentially realizable under present institutional arrangements and economic conditions, nor the amount of foreign exchange likely to be earned by any amount of effort, would be adequate to allow even a moderate rate of growth. Financial assistance was needed, and the extent to which it was provided would determine the trend of progress in the ensuing years. The under-developed countries needed some assurance that finance would not be allowed to limit their development and that their own national efforts would be matched by a guarantee of international assistance. That was the challenge to the United Nations, a challenge which could not be escaped.

41. The countries of the ECAFE region were trying, in a number of ways and with varying degrees of success, to deal with the difficult external and internal factors over which they had no effective control. The recognition that capital and foreign exchange were the most scarce factors, and that manpower was the most important under-utilized resource, had led to a pattern of

¹ United Nations Publications, sales number: 1956.II.F.1.

economic development that would open a new chapter in the history of the development of the world. Many schemes which required large capital outlay had been relegated to a lower order of priority in favour of those which could employ a number of workers, for not only did that mean a saving in capital, but the increased employment was a great social gain. Unemployment and under-employment were the inheritance of the under-developed countries, making the creation of employment opportunities a major objective in most countries of Asia. In countries as diverse as Japan, India and Indonesia, for example, the full-employment level of national income was regarded as the major determinant of their development programmes. Pursuit of the same objective had also resulted in a deliberate policy of fostering the development of cottage and small-scale industries, which needed less capital and more organization and could absorb a substantial volume of manpower.

42. In pursuing that objective, the countries were conscious of the need for sacrifice; raising the level of employment, increasing investment in village industry and in community development projects might entail the postponement of investment in basic industries, as well as delay in taking advantage of new technologies and the perpetuation of uneconomic units of production.

43. There were other problems, some of which the countries of the region could and should solve: for example, the continual inflationary, and less often deflationary, pressures in the economy. The source of inflationary pressures was often external; in some cases it was the inflexible military and other non-developmental expenditure, leading to budgetary deficits, while in others it was their own development efforts and programmes. Few of the countries had been wholly successful in developing and diversifying their economies sufficiently to strengthen the resistance to inflationary and deflationary pressures from abroad and from within; they were, however, seeking to control such pressures by flexible export duties, marketing boards and fiscal and tax policies, as well as by their monetary policies.

44. One of the most hopeful elements in the economic situation of the region had been the thinking and effort that had gone to the establishment of planning machinery and planning schemes. The plans varied from mere expressions of objectives and desires to the establishment of detailed development programmes and investment policies, especially in the public sector. In some countries planning was limited to the establishment of priorities in development expenditure, while in others it had developed into an over-all planning of investment, employment and production. Whatever the differences, however, the public were always sharers in the great enterprise and they recognized that it was primarily their responsibility to reach the targets set in the plans.

45. The economies of the countries of the ECAFE region, with the exception of mainland China, were neither socialist nor capitalist. Indeed, for many years to come they could not help remaining the sort of mixed economies which they were at present. The shortage of entrepreneurs and entrepreneur talent had necessarily led to the acceptance of entrepreneur functions by governments and government agencies. The widening public sector must therefore be accepted as part of the economic

system of Asia, although most countries were anxious to strengthen and develop private initiative and were taking steps to secure an adequate supply of business talent and ability.

46. Altogether a great deal was happening in the under-developed countries of Asia and the Far East to inspire hope and confidence, but more international help was necessary if progress was not to be arrested. He would therefore conclude by asking the same question as that asked in the *World Economic Survey 1955*: whether the scope and scale of present programmes and assistance represented the world's optimum contribution towards the achievement of the accepted objective.

47. Mr. PREBISCH (Executive Secretary, Economic Commission for Latin America) said that the main problem of economic development in the Latin American countries was how to provide for capital formation in order to increase income per head. As the report of the Economic Commission for Latin America (ECLA) (E/2883) had shown, there were many economic and social forces hindering such capital formation, which was essential for economic progress. Consequently a new combination of economic forces must be found to permit a higher rate of development by means of increased capital formation. That could not result from the normal action of economic forces; concerted national and international action was thus essential.

48. At the moment there was nothing to suggest that the rate of capital formation could be speeded up sufficiently to expedite economic development. The illusions of the immediate post-war period had vanished, and it was now clear that the increase which had occurred at one time had been due to the temporary improvement in exchange rates. The collapse of those rates, and the constant pressure of consumer demand characteristic of countries in process of development, had once more slowed down capital formation.

49. A substantial increase in exports would undoubtedly help to create more favourable conditions for speeding up capital formation, to which the present limited import opportunities were one of the greatest obstacles. During the last few years there had been some favourable signs. The Latin American countries were realizing more clearly the serious mistake they had made in maintaining too high an exchange rate and attempting to control the prices of primary commodities to give consumers temporary satisfaction. Policy in that respect was now changing and some improvements were already apparent as the result of the steps taken to remove the obstacles to increased exports.

50. The Latin American countries were trying to carry out a policy which would promote their exports, but in his opinion such a policy could no longer have the same effect as in the past on their development. Indeed, a number of factors were tending to slow down the rate of exports and keep it below the level essential for speedier economic development, the need for which had been stressed by the Secretary-General in his statement. In that connexion he wished to point out that in a preliminary report on trade opportunities open to the Latin American countries the Executive Secretary of the Economic Commission for Europe had reached the conclusion that

western Europe could absorb very little of the agricultural output of Latin America, particularly cereals and meat. Similar conclusions were suggested by the rise in production due to higher productivity or the increasing replacement of natural commodities by synthetic products, or the tendency for the European countries to develop their own agriculture sufficiently to cover all their needs. The possibility of developing markets outside western Europe should be carefully studied. He proposed to revert to that question when ECLA's programme of work was discussed.

51. In view of those prospects, the economic expansion of the Latin American countries would require structural changes in their economies. As the Commission's report had endeavoured to show, industrialization was essential to their development. But industrialization called for a considerable flow of capital and technicians from other countries, and during the last ten years, as the Secretary-General's report had emphasized, the influx of foreign capital had not been sufficient to meet the requirements of economic development; that was one of the major problems.

52. The only conclusion was that the economic development of the countries of Latin America had so far remained purely theoretical. The problems and the changes required in the economic structure of the various countries were much better understood than they had been ten years earlier. Some valuable experiments had already been carried out, for instance in technical assistance and in the improvement of production methods, and had shown the ever-growing importance of planning economic development. Such planning was not inconsistent with the free interplay of economic forces. Furthermore, it was being realized to an ever greater extent that inflation could not assist economic development or serve in any way as an instrument of social policy in countries undergoing such development.

53. Those were principles on which no doubt an intelligent policy of economic development could be based, but if serious economic and social tension was to be averted it must be realized that everything so far had been but a preliminary phase. ECLA must continue to play its proper role, which was both a theoretical and a practical one.

54. He hoped to be able to make a few comments on the work of the Commission when the reports of the regional economic commissions were discussed.

55. Mr. ASMAUN (Indonesia) thanked the Secretary-General for his excellent introduction and the executive secretaries of the regional economic commissions for their clear accounts of the economic situation in different regions. His delegation was also grateful for the comprehensive reports prepared by the Secretariat.

56. As it was the Council's aim to exchange views in order to achieve a better understanding and, if possible, to solve the economic and financial problems afflicting different parts of the world, and to consider ways of encouraging economic co-operation, he wished to comment on some recent economic developments, particularly those affecting the less developed countries, which had been carefully analysed in the *World Economic Survey 1955*.

57. In 1955, trends in the highly industrialized countries had been favourable. Economic activity had increased considerably in Europe, and in the United States of America the recession that had persisted from mid-1953 to mid-1954 had given way to a further upward trend. Industrial production in the United States of America, western Europe and the Soviet Union had increased by 11, 9 and 12 per cent respectively. Given the economic interdependence of the modern world, a favourable business cycle in highly industrialized countries had also an impact on the less developed, for it stimulated demand for raw materials, of which the latter were the main producers. They would have benefited even more if they could have fully used their improved foreign exchange earnings for the purchase of capital goods. However, the increase in their purchasing power had not kept pace with the increase in production in the industrialized countries. It would therefore be desirable to facilitate the purchase of capital or consumer goods through medium-term and long-term credit arrangements, which would also be advantageous to industrialized countries by providing outlets for their manufactured goods or surplus commodities.

58. Under-developed countries were also unable to take advantage of the prosperity of industrialized countries for other reasons than their low purchasing power. First, being specially exposed to the hazards of the weather, they were sometimes obliged to spend large amounts of foreign currency on imports of food, and secondly, many of them were faced with large budget deficits, which were an obstacle to monetary equilibrium, led to high costs and therefore prevented steady progress. Nevertheless, their situation would be even worse if that of the highly industrialized countries, which affected them so greatly, were to deteriorate. A striking example of that fact had been the effect of the recent recession in the United States automobile industry on the rubber market, the principal source of Indonesia's foreign exchange earnings. Another example of a different kind was the existence of agricultural surpluses in the United States of America which, although made available on advantageous terms, were in themselves an unhealthy phenomenon which could not fail to have repercussions on the normal market conditions of other food-producing countries.

59. One of the weaknesses of the economic situation of western European countries was their high rate of production. For example, in the United Kingdom only 1 per cent of the total labour force had been unemployed in July 1955, a figure representing less than half the number of available vacancies; the result had been pressures causing inflationary tendencies. The same was true, to a lesser extent, of the Scandinavian countries, Belgium, the Netherlands, Luxembourg and Switzerland. In addition to the problem of over-employment, the countries of that area had their balance-of-payments and dollar problems, the latter being temporarily concealed owing to high dollar earnings arising out of defence requirements.

60. Some eastern European countries seemed to be experiencing manpower difficulties, due to efforts to diversify their industry, which ought, in part at least, to be alleviated by the reductions in the armed forces. They were also encountering some agricultural problems.

61. One trend in the highly industrialized countries, which was being watched with some concern because of its repercussions on the position of the less developed countries, and particularly its adverse effect on their exports, was the decline in the consumer-goods sector and the shift to heavy basic industries: the more so, as there had been a fall in the demand for primary products due to their more economic utilization, technological progress, re-processing of scrap materials and the substitution of synthetic for natural products.

62. Turning to the less developed countries, and particularly those of Asia and the Far East, he said that, generally speaking, 1955 had been a good year, the gold and foreign exchange holdings of all of them, except Burma and the Philippines, having increased. Notwithstanding, their over-all share in world exports had grown but slightly, mainly because the range of their exports was narrow and because they were particularly vulnerable to world market conditions and short-term price fluctuations. The economies of those countries being extremely sensitive to world conditions, the favourable business cycle in industrial countries was not enough to guarantee the stability of their export markets, which was one of the principal reasons for the unstable economic situation throughout Asia and the Far East. The precarious balance-of-payments situation of most of those countries, which led to import restriction affecting price levels, wages and costs and thus reduced their ability to compete in world markets, was the cause of constant concern, as was also their agricultural situation. Agricultural production was still 14 per cent below the 1934-1938 average (excluding China) so that, despite the fairly general improvement noted in the *World Economic Survey 1955*, there had been relatively little progress in the unending struggle to raise *per capita* income above the already low pre-war levels.

63. The figures given in the *Survey* showed that the progress made by industrial countries had not been equalled by the Asian countries either in respect of economic stabilization or in respect of growth, and it was very disquieting that, during a generally favourable period, economic and social conditions in Asia and the Far East should not have been so satisfactory as elsewhere, and that the gap between their living standards and those of more advanced countries was wider than ever. The prime remedy for that serious situation was the development of the less advanced countries which, in their various plans, were all striving to redress the one-sidedness of their economic structure, to diversify production and to develop their manifold resources. Unfortunately, in the short run all those tasks imposed a heavy burden on their often precarious finances. However well devised and executed their plans might be, they would never be able to pull themselves up by their own efforts, because for historical reasons they were at the moment largely dependent upon financial and technical help from abroad. What was needed was a more even and equitable growth of prosperity throughout the world.

64. The second remedy was international action to accelerate a steady flow of capital to less-developed countries, and in that connexion he drew attention to

the important recommendations made in the final communiqué issued at the end of the Asian-African Conference held at Bandung in April 1955. Some related to co-operation between the Asian and African countries themselves, but others related to international co-operation in the widest sense, and called for the early establishment of the Special United Nations Fund for Economic Development (SUNFED), larger allocations to Asian and African countries from the resources of the International Bank for Reconstruction and Development, and the establishment of an international finance corporation which would undertake, *inter alia*, equity investment.

65. The Conference had also recommended that collective action should be taken to stabilize international prices of and demand for primary commodities through bilateral and multilateral arrangements, and the adoption of a unified approach, so far as was practicable and desirable, by the Commission on International Commodity Trade and other international bodies active in the commodity field. The Council and its organs had a most important part to play in the solution of those problems, so vital to the less developed countries which, at the moment, depended for their very life on the export of primary commodities. Events in 1955 had proved the wisdom of those recommendations, because, as he had shown, favourable business conditions in the industrialized countries did not provide a panacea for the ills of the less advanced. More far-reaching international action and better guarantees of stable prices of raw materials were therefore needed. Even if the highly industrialized countries succeeded in overcoming inflationary or deflationary tendencies, and the present upward swing continued, the benefits to the less developed countries would still be relatively small. Hence, if it was really the intention of the former to narrow the gap, they should follow the course advocated at the Bandung Conference.

66. The relaxation of political tension was to be welcomed, but economic difficulties were still formidable, particularly to the less developed countries, and gave little sign of abating. It was accordingly in the enlightened self-interest of the highly industrialized countries themselves that that state of affairs should not persist. Governments, whose prime responsibility it was to combat inflationary and deflationary tendencies, were devising ways of doing so, but those tendencies also affected the economies of other countries, so that what our world of today in its close economic interdependence needed above all was an effective international co-operation aiming at mastering, by means of international consultations and combined efforts and action, all the exigencies, not only of a slump, in which case such co-operation might be taken for granted, but also of a favourable business cycle, in order to promote the balanced economic growth of the world. The achievements of the Benelux countries and the efforts of the countries of western Europe to achieve European economic integration within the framework of the Organization for European Economic Co-operation showed that such aims were not beyond reach.

67. World economic expansion also called for an increase in world trade, so that certain countries could import goods which they did not yet produce themselves,

together with equipment for exploiting their natural resources, for which there would be an increasing demand both at home and abroad, particularly as the raw material resources of the more highly industrialized countries approached exhaustion. One method would be the liberalization of world trade on the lines followed in western Europe, where 85.8 per cent of intra-European trade in that area had been liberalized by the end of 1955. However, what was increasingly possible for the internal trade of those countries and their trade with the dollar countries with the help of substantial financial, economic and monetary assistance was not at the moment feasible for many others. He understood why large sums had been devoted to Europe's pressing needs for reconstruction after the war, and to the further consolidation of its economic strength, but now that remarkably rapid progress had been achieved through large-scale aid there was every ground for advocating a policy of free world trade in order to open up outlets for the world's ever-growing industrial production, which was giving rise to intense competition between the principal industrial exporting countries.

68. The position of the less developed countries, some of which were in the initial stages of industrialization, was entirely different. Some were endeavouring to make good the devastations of war and its aftermath without the substantial assistance accorded to western European countries, and might have expected that after the period during which priority had had to be given to Europe's needs, they would receive well organized international aid on an adequate scale. However, they had received instead technical assistance, economic and financial aid having been left rather to private foreign investment, which, by its very nature, could not provide adequately for development at the rapid rate required. He reserved the right to comment at greater length on that point in connexion with item 5 of the agenda (financing of economic development). It was not surprising that the less developed countries should be first and foremost concerned with their own economic and industrial development, and that the expansion of free world trade could not as yet constitute the main goal of their trade policy. They were compelled to protect, within reasonable limits, their new industries, established to offset the effects of their mainly agricultural economies, in order to safeguard themselves from foreign competition, at least during the early stages, and the composition and pattern of their foreign trade would have to be determined by their principal domestic objectives and needs. Even if they had wished to buy all the manufactured goods offered to them and to follow a liberal import policy to cover their vast requirements, their foreign exchange holdings would have proved utterly inadequate. Hence they could not avoid restricting imports, and planning carefully how to spend their limited foreign exchange resources on the capital goods and essentials without which they could not survive or make progress. Such an import policy would not affect the total value, but merely the pattern, of their imports.

69. It had been argued that the aim of the international division of labour and stabilization should be achieved through the liberalization of trade, a multilateral payments system and currency convertibility. While he

agreed in principle with that argument, he must point out that such a course would give rise to certain difficulties. Problems recently encountered in the United Kingdom and the United States of America showed that there were certain limitations on a policy of liberalization, even between highly industrialized countries, so long as there were noticeable differences in the standards of living and, what was more important, in the wage scales and productivity of the trading partners. At the moment, completely free international trade seemed possible only for some countries, and mainly in high-quality goods or goods of a very special character.

70. Multilateralism was closely related to free convertibility, a problem to which no solution had yet been found. Though restricted convertibility, in the case of sterling, the Netherlands guilder and the West-German mark, had been achieved full convertibility still seemed some way off, and would require a sound and stable balance between the dollar and other currency areas, strong sterling, and the abrogation of any system entailing discrimination against other countries. Special preference systems violated the principle of free trade, and substituted free trade between groups of countries for free trade between individual countries.

71. A further expansion of international trade, of course, also depended on an improvement in the political climate, and rapid progress on a world-wide scale could hardly be expected so long as tension persisted. His delegation was therefore following with interest the efforts recently made within ECE for improving economic and financial relations between eastern and western Europe.

72. Indonesia had faith in the United Nations as a valuable forum where all international—including economic and financial—problems could be discussed, and where effective action could be planned. His Government accordingly hoped that the growing demand generated by expansion in the highly industrialized countries would not disturb the movement of the prices of certain commodities, and that the terms of trade between primary producing countries and manufacturing countries would remain fair and stable, so that the former could carry out their economic and social development programmes, for which purpose exports were of great importance. To the less advanced countries, international commodity trade presented a problem calling for top priority at the highest political level if world economic progress and stability were to be achieved. If all members of the Council shared that conviction and acted accordingly, he was certain that many difficulties with which the countries of Asia and Africa, and other less advanced ones, were faced at their present stage of development would prove to be surmountable, and he welcomed the evidence that the highly industrialized countries were becoming increasingly, if not yet adequately, aware of the needs of others. Some steps had already been taken, and recipient countries were grateful for technical assistance and financial aid, but both were at present being provided on too limited a scale to enable the gap to which he had referred to be bridged. Thus, even during periods when business trends were favourable, it was urgently necessary to assist less developed countries by the establishment of such institutions as SUNFED,

by stabilizing raw material prices and by any other suitable means.

73. Mr. NEBOT VELASCO (Ecuador) first congratulated the Secretariat on its excellent report, *World Economic Survey 1955* (E/2864), and ECLA on its annual report (E/2883), from which he would single out a few problems of particular importance.

74. Economic progress during the last ten years had been remarkable, but still inadequate for the under-developed countries in which two-thirds of humanity lived. To improve the living standards of those peoples, whose prospects for the future were at the moment very gloomy, real international co-operation was needed. In brief, the under-developed countries had not succeeded in increasing their production to any significant extent, and had not achieved full employment. The increase in *per capita* income was inadequate, and more rapid progress was hardly to be expected in the near future. Some progress had certainly been made, but since most programmes had to be carried out by governments themselves, permanent budgetary deficits ensued, making it impossible to complete the programmes in their entirety. Furthermore, a tendency to inflation had become apparent in those countries, and restrictions on international trade had led to a reduction in trade, not only in absolute terms but also in relation to world production.

75. The improvement in the international balance was thus not due, as might have been desired, to an increased integration of the world economy, but largely to a greater degree of compartmentalization within the various economic regions.

76. In the industrialized countries, *per capita* income had increased by 45 per cent over the past ten years, whereas in the under-developed countries it had risen by only about 5 per cent on an average. There were two reasons for that disparity. First, the under-developed countries had developed more slowly than the industrial countries, industrial development in particular having been inadequate; secondly, population had increased more rapidly in the under-developed countries than elsewhere.

77. In Latin America, the constant increase in the output of primary commodities, and the decline in demand and the fall in prices had created serious difficulties, and had led to a disequilibrium in trade, the counter-measures for which, such as the restriction of imports, had not yet proved efficacious. Thus the differences between the living standards of the developed countries and the under-developed countries where the annual increase in the birth rate was 2.9 per cent was becoming more marked, and the resultant lack of balance could become serious in the near future.

78. Turning to the financing of the development of the under-developed countries, he showed that capital investment was inadequate, but doubted whether it could be appreciably increased in the next few years. Yet, according to ECLA's calculations, the countries of Latin America needed capital at the rate of \$2,200 million a year, although the average annual amount of public and private investment had never been more than \$600 million during the last four years.

79. As exporters of agricultural products, the Latin-American countries were faced with two new and very serious problems: that of surpluses in the developed countries, where improvements in farming methods had led to an increase in output, and that of the use of synthetic products instead of certain natural ones. Those two phenomena, which tended to lead to a fall in the ever fluctuating prices of primary commodities on the international markets, had very seriously affected the economies of the under-developed countries, whose national revenue and balance of payments had been affected. Attempts must be made to find an effective solution to such problems, which were a source of great concern to Latin America.

80. The existence of surplus stocks of primary commodities and instability in prices had adverse repercussions, both economic and social, for Latin America. Thus it was that during the second half of 1954 and throughout 1955 the trade balances of the Latin American countries had declined. The fall in the prices of rubber and coffee which had affected sixteen countries had been particularly marked, whereas the fall in the prices of other products had been somewhat less. In ECLA's opinion such disequilibrium would constitute a serious threat if allowed to persist.

81. The rising trend in the prices of manufactured products, added to the fall in the prices of primary commodities, further aggravated the situation in the under-developed countries.

82. A low rate of national savings, due to low *per capita* incomes, was also preventing the Latin American countries from developing their potential resources. Capital investment had fallen from 18 to about 13.5 per cent of the total national income, and was still falling. The same trend was to be observed in the renewal of former investments. That situation was alarming, and the measures taken to meet it had not yielded the expected results. Steps taken to ensure the stability of domestic prices, such as foreign-exchange control and new monetary policies designed to combat inflation, had made difficulties for production, and had often discouraged exports.

83. In Ecuador, the national income from agriculture had been 10 per cent lower in 1955 than in 1954. The standard of living of the population showed scant improvement, having risen by only 11.3 per cent in five years, an average of 2.3 per cent per annum. The level of economic activity having suffered from the fall in earnings from exports, Ecuador had been forced to adopt a policy of stimulating exports and restricting imports, and, since no increase in exports was expected, would have to continue to do so in 1956. It was obliged to follow an import restriction policy even though such a policy was harmful to its development.

84. Better balance must be achieved between all aspects of the economic development of the various countries. Any steps to that end must, however, take into account the struggle against inflation. The Latin American countries could not develop successfully without first solving the structural problems inherent in their economies.

85. It was to be hoped that the reports submitted to the Council would enable sound decisions to be taken to

solve the problems of the under-developed countries, especially the problem of improving the living standards of their peoples.

86. Mr. STIKKER (Netherlands) said that, in pondering the road travelled during the past decade, it was striking to remember the spirit of unbounded optimism that had prevailed among the statesmen who had created the United Nations. Mr. Cordell Hull had said in 1944: "When a general international organization, based on the principle of the sovereign equality of all peace-loving States, has been established, there will no longer be need for spheres of influence, for allowances, for balance of power or for any other of the special arrangements through which, in the unhappy past, the nations have striven to safeguard their security or to promote their interests." Experience had shown that on the political plane peaceful co-operation between sovereign and equal States was not so easily to be achieved, that not all countries were willing to play their part, and that so long as they remained sovereign and were presumed equal there was hardly any means of forcing them to co-operate. Hence tensions had persisted, plans for disarmament had failed and the United Nations had played but a limited part in world affairs. To remedy that situation the first need was to restore, or rather to establish, confidence; but that was a state of mind not to be created by words, but only by deeds and, in the absence of the latter, countries would continue to live in an atmosphere of distrust which pervaded not only politics, but also the United Nations' economic and social activities.

87. However, if allowance were made for that factor, the situation with regard to economic development, if considered independently, was a little brighter. During the first five years of the past decade, the havoc wrought by the war had been repaired and the more advanced countries had been able to turn their attention to the needs of the less fortunate ones and to initiate a vast and growing undertaking to improve the latter's standards of living and production.

88. The reason for the greater success of the economic as distinct from the political enterprises of the United Nations was, first, that political co-operation had a long history, and had in the past usually taken the form of wartime alliances to resist a common enemy. Economic co-operation, on the other hand—and he had in mind neither the valuable studies initiated under the League of Nations nor the occasional pre-war international conferences, such as the World Economic Conferences of 1927 and 1933, but the systematic work being done in the Council—was a new development, a continuous struggle against poverty, disease and ignorance with which there could be no truce, for they threatened the whole of mankind.

89. Secondly, the aims of foreign policy were to safeguard the State against possible attack, so that it vacillated between confidence in and mistrust of the intentions of other States. The study of economic and social policies, however, aimed as it was at safeguarding the world against the consequences of natural disasters, could be firmly based on a common knowledge of the enemy to be defeated. All were obliged to fight in the same cause, and were therefore free to trust one another and to

concert action on the basis of common understanding. Though he was not so naive as to suggest that there was nothing but harmony in the economic and social spheres, they did differ from the political in that they called for practical solutions and lent themselves to the scientific approach, which, in spite of the constant presence of national self-interest, could result in effective measures. For those reasons, he believed that the prospects of the Council's being able to fulfil its task were more hopeful, but he regretted that the better understanding of the problems of others, and general confidence, were being frustrated by certain States with centrally planned economies, which were withholding information. On the other hand, one of the gains won during the past decade was the acceptance and understanding by other countries of responsibility for "the promotion of the economic and social advancement of all peoples", and particularly those of the under-developed countries.

90. The overwhelming mass of documents prepared each year by the Secretariat for the discussion on the world economic situation placed the Council in a dilemma: either the Council could discuss it superficially, or each member could comment on particular aspects of special concern to his country. In the latter event the general debate lost much of its interest and the Secretariat's efforts were not rewarded by the response they merited. The different approach of devoting more than half the space to a special subject, adopted in the present *World Economic Survey 1955*, might offer a way out. He believed that in future even less space might be devoted to the analysis of recent trends, in order to focus attention on real matters of principle, and hoped that it would be possible to select a suitable subject of general interest every year. The way in which the Secretary-General had devoted primary attention to commodity stabilization in his introductory statement suggested that he shared the opinion that a useful precedent had been established which ought to be followed up. For example, transport, as an important factor in economic development, might be taken as the main theme of one of the future surveys, because such international agencies as were at present dealing with various transport questions did so largely from a technical and regional point of view, world aspects, as a rule, being touched upon only incidentally. Transport was a subject which had many interesting facets both for developed and under-developed countries, so that a more thorough discussion of it in the context of the world economic situation as a whole might be advantageous. That was only a suggestion, and his delegation would be glad to consider others.

91. Commenting on the question of balanced growth, which lent itself to thorough examination and was the subject of the introduction to the *Survey*, he said that in modern economies there was no other problem that was so great a test of the ability of economists and administrators alike. The days were past when it could be argued that economic forces would always tend to bring about equilibrium, and the lesson had been learned from bitter experience that they had to be manipulated if the kind of equilibrium considered to be the ideal was to be achieved. Naturally, opinion on the true nature of that equilibrium differed, and his country was among those which felt that the right equilibrium was one in which the initiative

of the individual had free play in the attainment of freedom. Others laid less stress on individual well-being, and yet others on the rapid consolidation of national power. The *Survey* gave some idea of how each country was trying in its own way to solve the riddle, and he proposed to make his observations on the basis of the classification of countries adopted in the *Survey*, which, though open to criticism, was not easy to replace, because of the elusive shades of distinction between various systems.

92. Turning first to the "centrally planned economies", he said that the lack of detailed statistics might have been the reason for the relative brevity of chapter 3 in part I of the *Survey*, and again stressed the importance for the Council's work of full and reliable data. He hoped that the improvement in the exchange of information between members of ECE would continue. In the meantime, owing to the lack of adequate information, it was extremely difficult to judge objectively whether economic growth in those countries, which was often expressed in terms of percentages and indices rather than in absolute figures, could be considered as well balanced. According to the criteria normally applied in analysing the economies of the western countries, the answer would probably be in the negative. There were also indications that the governments themselves of such countries were dissatisfied, in some important respects, with certain economic trends. It could not be denied that during recent years important changes in economic policy had taken place at comparatively short intervals. For instance, in 1953 there had been a sudden change in favour of the production of consumption goods, whereas in 1955 there had been a swing back in favour of heavy industry. Other symptoms showing a lack of balance had manifested themselves in the serious economic difficulties which Czechoslovakia, Hungary and Poland were at present experiencing, and the disproportion between industrial and agricultural growth in most countries of the group was well known.

93. There was, of course, no single and simple yardstick for measuring the success of any government's economic policy. The Secretariat had examined in detail various aspects of economic growth, concentrating its attention particularly on internal financial equilibrium and external balance-of-payments problems. He did not intend to comment on that interesting analysis, preferring to approach the question from a somewhat different angle and to examine where, and to what extent, economic policy in the different categories of country had taken account of the interests of others, and of the world economy as a whole, because he believed that aspect, which had been ignored by the authors of the *Survey*, to be of particular importance in a discussion covering the entire world.

94. So far as the centrally planned economies were concerned, the answer to his question was regrettably not difficult to find. The policy of economic self-sufficiency pursued by communist governments was contrary to the harmonious development of the world economy and those governments did not deny that the interests of others carried little weight in their councils. Mr. Krushchev, in a statement quoted in the *Survey* (p. 89), had emphasized the importance of economic co-operation

but had confined his support explicitly to the interests of "the socialist camp as a whole". Though it might be true that a national policy directed towards the maximum expansion of the domestic economy indirectly, and perhaps unwillingly, served the interests of the world as a whole, that pre-supposed a certain similarity between the aims pursued, which in important respects was absent as between countries of the Soviet bloc and others. The principal object of economic policy in the industrial countries was the well-being of their citizens, but that did not appear to be so in the countries with a centrally planned economy, which paid scant heed to the welfare and human dignity of the individual.

95. In the light of those factors, he could only conclude that the economic growth in the latter group of countries had not been sufficiently balanced in the western sense, since they had not adequately served the interests of the peoples of the world.

96. With regard to the "industrial countries", the outstanding feature seemed to be the continuous expansion of production, consumption and investment which had occurred after their recovery from the effects of the war, and particularly since 1948. It was understandable that that phenomenal growth should provoke some anxiety in certain quarters, but he wondered whether there was any justification for the ominous parallels with 1929 drawn by those only too ready to believe that history repeated itself.

97. The analysis in the *Survey* of the situation in those countries certainly did not suggest that they were beset by business recession. Without indulging in any false optimism, it was clear that the economic situation in 1956 was entirely different from that obtaining in 1929. Post-war reconstruction and the satisfaction of accumulated demand, mentioned in the *Survey* as important factors in the state of current business, had certainly contributed to the boom, but present conditions were, perhaps, just as much due to a number of entirely different factors, such as high investment in industry and housing, inevitably high defence expenditure, measures to improve the standard of living of the working classes—causing large increases in production and consumption, particularly of durable consumer goods—and a considerable growth in international trade established between developed countries. All those factors had helped to strengthen economic equilibrium, and might be described in the American phrase as "built-in stabilizers" which had underpinned the economy and made it more or less foolproof. Consequently, the industrial countries were facing a situation which was almost the reverse of that of the 1930s which had inspired Lord Keynes's theory that spending and investment should be encouraged as a means of overcoming deflation and unemployment. The dangers confronting the industrial countries at the moment were not deflation and unemployment, but too high a level of employment, and inflation. The restrictive measures taken by the monetary authorities of various industrial countries were clear evidence that those dangers were realized, but they would have to be taken circumspectly, otherwise interference in normal financial relations might threaten existing economic structures. A note of warning against the indiscriminate use of such methods had been sounded in the introduc-

tion to the *Survey*, and the distinction between demand inflation, which required one set of remedies, and cost inflation, which called for another, should be borne in mind by all.

98. In his observations on the third group, the "primary producing countries", he intended to confine himself to those which were less developed. The problem of balanced growth varied from one to another, and the considerable differences between the economic outlook of, for instance, the producers of cereals, of staple fibres, of minerals and of petroleum were abundantly clear from the *Survey*. Broadly speaking, it seemed that countries with a diversified economy were better off than those which were dependent upon one or few products. The *Survey* laid particular stress on the widening gap between economic growth in industrial and that in under-developed countries. That regrettable circumstance should stimulate the nations to find means of promoting the economic growth of the latter, one of which means, as he had suggested at the twenty-first session (906th meeting), was the application of modern planning techniques to ensure that the best possible use was made of all available and potential resources. Planning techniques were usually worked out by economists and technicians, but once the plans had been approved by governments it still remained to make them acceptable to the general public, which must be educated to understand the objectives aimed at.

99. It was convincingly argued in the *Survey* that balanced growth must often be preceded by growth in key economic sectors, one of which was regarded in some countries as the production of food for domestic use. If that were considered as an aim in itself, its effect might not be very far-reaching, but it could sometimes provide a useful starting-point, because it would require tools, fertilizers and other industrial goods which would have to be produced within the country concerned. Measures to increase domestic food production might have the triple advantage of improving nutritional standards and the balance of payments and of raising the purchasing power of the rural population.

100. A primary requirement for many under-developed countries was to build up an intra-structure; but the choice of the right one would call for careful planning if uneconomic investment was to be avoided.

101. It was now an accepted fact that industrialization was vital to the under-developed countries; but the questions were: to what extent it should be carried, of what kind it should be and how it could be accomplished with a maximum of human freedom and in the best possible social conditions. Industrial investment required even more careful preparation than investment in agriculture, because the amount of fixed capital which would be wasted in case of failure was substantially larger. The *Survey*, without suggesting an alternative, stressed that in the case of many under-developed countries comparative prices were not a guide to what should be done.

102. The question of comparative prices and of industrialization was directly related to that of import policy. A country in course of development would usually

wish to protect its infant industries in some measure and it remained to decide in each case to what extent and for how long it should do so. Development possibilities would be greatly increased if such countries could count on stable and remunerative prices for their principal exports, which, for a long time to come, would consist of primary products; and there the observations on commodity stabilization made by the Secretary-General, the Executive Secretary of ECAFE, and the representatives of Indonesia and Ecuador were of particular relevance. Although, on the whole, the terms of trade of the under-developed countries had improved during the past decade, there had nevertheless been considerable fluctuations in the prices of individual products, and it was vitally important that all countries should strive to secure the price stabilization of certain primary materials, which would guarantee to developed countries a more or less stable income, thus providing a sound basis for long-term estimates of what they could hope to import in order to maintain their rate of expansion. Such a steady income would also provide some capital for further development, but, if it was to be used for that purpose, there must be an adequate taxation system and conditions favourable to investment. That might sound like a counsel of perfection, because it was a well-known fact that many under-developed countries lacked the means for capital formation. But there, the only remedy was foreign investment, which could best be provided through the United Nations, thus avoiding the disadvantages of bilateral arrangements. That was why his Government firmly supported the creation of SUNFED.

103. In conclusion, he said that every country must first and foremost bear in mind the growing influence which its economic plans and policy had on the conditions in, needs and possibilities of other countries, not only within the same group but within either of the other two. If that fact were ignored, disaster might well follow. The world was still far from the necessary unity and co-operation, but, as was stated in the introduction to the *Survey*: "For the first time in a generation trade restrictions are being progressively removed, especially by industrial countries. . . ." He could have wished that that process had been more rapid and thorough, with the abolition not only of the more immediate barriers to international trade, such as tariffs and quantitative restrictions, but also of the many forms of indirect protection that still existed, such as state trading, dual pricing, flag discrimination, etc., which continued to prevent the full deployment of economic resources. It was even more serious to learn from the *Survey* that "much of the improvement in the international balance which has been attained to date reflects not increased integration of the world economy, but rather a greater degree of compartmentalization of regions". Such painful truths raised the question whether, perhaps, the world was not, in fact, composed of a dollar area, a sterling area, a European Payments Union area and a Soviet bloc. Nevertheless, although things were far from perfect, an effort was being made to comprehend the reasons for those imperfections, to eliminate them and to work together to build something better.

The meeting rose at 6 p.m.