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*President*: Mr. Juan I. COOKE (Argentina)

*Present*:

The representatives of the following countries: Argentina, Australia, Belgium, China, Cuba, Czechoslovakia, Ecuador, Egypt, France, India, Norway, Pakistan, Turkey, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela, Yugoslavia.

Observers from the following Member States: Brazil, Indonesia, Netherlands, Poland, Uruguay.

Observer from the following non-member State: Romania.

The representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, International Monetary Fund.

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[Agenda item 2]

1. Mr. HAMMARSKJÖLD (Secretary-General) thanked the President for giving him an opportunity to introduce the documents which had been distributed on the agenda item under discussion. Economic development was studied and discussed in various inter-governmental groups and meetings, inside or outside the United Nations Organization. The discussion in the Economic and

Social Council represented the widest possible approach at the highest level, and, on the basis of a comprehensive and well-presented documentation, could give a lead to other inter-governmental bodies, and to governments themselves, in developing economic policy.

2. As matters stood currently, it could scarcely be claimed that the discussions had at present that wide significance. Their main importance lay in the opportunity they afforded of reviewing in a wider context various issues of vital concern. The Council decided on the basis of its annual debate whether or not immediate national or international measures were required; its decisions were reflected in various items on the agenda from year to year.

3. It should be the aim of the Secretariat to help the Council to develop its discussion on those lines by providing an ever-improved documentation; obviously, the Council's own work should be arranged with the same object in view. It was accordingly appropriate that the world economic situation and full employment were now being taken together. A joint consideration of the *World Economic Report 1952-53* (E/2560) and the reports of the regional commissions should help to raise the discussion in the Council to the place it should take in developing international economic policy.

4. It was well known that, in many areas where standards of living were low, production was not increasing as rapidly as in the more advanced areas, so that the economic gap was tending to widen rather than narrow. Moreover, in some areas where levels of living were extremely low, population was increasing faster than production. Those disturbing factors had been repeatedly aired in the Council, and their general significance was obvious. He wondered, however, if there was any general awareness of what those trends might come to mean if not checked; such awareness was necessary if public support for policies which could counteract the trends was to be obtained. A combination of various measures, more far-reaching in scope than any hitherto contemplated, would be required.

5. Internal economic stability was a problem common both to under-developed and to advanced areas. The simultaneous maintenance of a high and stable level of employment with stable prices was, in the first place, a domestic one. Domestic policies and their likelihood of success, however, were to a large extent influenced by international developments. In the other direction, domestic policies and national measures making for stability or instability affected the international situation. Economic stability had thus both a national and an international significance. Unfortunately, the world economy lacked to a considerable extent the flexibility to absorb the shocks which might be generated within

a country or group of countries. Such international arrangements as those made for dealing with currency shortages, though a step in the right direction, could not be considered sufficient.

6. The world-wide system of economic relationships that had existed before the two world wars had many imperfections, but it had worked. It had been seriously impaired, and no satisfactory new system had evolved to replace it. The situation was better now than it had been immediately after the war—as, indeed, it should be. The degree of improvement was not great enough, however, and the failure was undoubtedly due to the widespread political fears of the present time. Those fears had had a curious result. They had presented insurmountable obstacles to the steps everyone agreed were necessary to the attainment of a greater degree of integration and equilibrium in the world economy; at the same time they had resulted in measures which kept the system afloat but concealed the precarious nature of the balance.

7. Those were the hard facts of the world economic situation. It would in the circumstances be well to remember, in the ensuing discussion, that the economic situation was precarious; that it would not automatically right itself; and that there was no assurance that matters might not become worse rather than better. Secondly, it was essential that all governments and international organizations should co-operate to the fullest extent in providing sound, long-term solutions for the basic economic problems, taking a realistic view of the true scope of the difficulties and of the measures which were called for.

8. Mr. HOTCHKIS (United States of America) said that the Council's annual discussions on the world economic situation afforded an opportunity for a general exchange of views about world economic conditions before the consideration of recommendations on particular problems. It enabled each member to review recent developments in his own country which were of interest to others, and to appraise them in broad perspective. Again, the Council was provided with an impressive array of documents which would also be useful to other United Nations organs and the general public.

9. During the past decade the world had had to face a series of difficult readjustments, but by 1950 the fundamental tasks of post-war reconstruction had been largely completed. Western Europe, by its own strenuous efforts and with the help of the United States, had moved far towards recovery. Its industrial production as a whole had risen above the pre-war level and its trade balances had, by and large, greatly improved. deficits Export, which had to a great extent been covered by United States grants and loans, had substantially diminished. In Japan and the war-devastated areas of Asia, much had also been achieved. The foundation had therefore been laid upon which a healthy and steadily expanding world economy could be built.

10. There might have been hope that men would be able to devote their energies and resources to that purpose without being forced to divert them to the manu-

facture of armaments; but it was not to be. After the attack on Korea it had become apparent that the free world could no longer face with complacency the growing military might of the totalitarian powers. Its economy had had to be readjusted, with the result that there had been a sharp rise and subsequent fall in raw material prices, as well as other short-term fluctuations in production and international payments. However, as noted in the *World Economic Report 1952-53* (E/2560), the force of those movements had spent itself by 1953. World production and consumption had risen to record levels; unemployment almost everywhere was relatively low; and in many countries inflationary pressure had been eliminated or checked. Generally speaking, the world economy was in the most satisfactory state it had enjoyed since the beginning of the second world war.

11. Despite the taxing demands imposed by defence requirements, the free world had continued to improve its standards of living. Much more might have been achieved had it not been for the handicap of heavy rearmament programmes. However, the Soviet Union had proved unresponsive to all proposals for the reduction or control of armaments, and conference after conference designed to ease international tension had virtually ended in failure. The free world was compelled to maintain such military strength as was required for effective defence. Nevertheless, as reaffirmed in the joint declaration recently issued by President Eisenhower and Sir Winston Churchill, it would continue to explore any possibility which gave promise of leading to a more peaceful state of affairs.

12. He would also remind the Council of the vital importance of the United States President's proposal, submitted to the Eighth General Assembly on 8 December 1953, for the creation of an international atomic energy agency to which nations could contribute from their stockpiles of uranium ore and fissionable materials. The agency would have power to allocate those materials for peaceful purposes. In March 1954, his Government had transmitted to the Soviet Union Government a scheme for the proposed agency. The reply received in April was, to say the least, disappointing. He believed that all countries, particularly the less advanced, to which atomic power would be such a boon, would find it hard to forgive the recalcitrance of a country which obstructed the creation of such an agency.

13. Congress was at the moment engaged in amending the Atomic Energy Act, which would allow the United States to co-operate with friendly countries in that field. Thus, the foundation was being laid for the constructive application of atomic energy.

14. Turning to the present economic situation in his country, he said that, although 1953 as a whole had been in many respects a record year, a downward trend in economic activity had occurred after the peak reached in the middle of the year. The evidence showed that the decline had been moderate and had probably been halted. In assessing its nature and significance it was important to bear in mind that it had followed almost a decade of steady expansion with virtually no interruption, apart from the brief recession of 1949. There was no

reason for assuming that it would necessarily turn into a severe and prolonged recession.

15. During the first quarter of 1954 the gross national product had averaged about 4 per cent less than in the record second quarter of 1953. The most significant change had been a fall during the second half of 1953 in industrial production, which had, however, remained fairly steady over recent months, at a level approximately 10 per cent below the peak level in 1953. Unemployment figures in May 1954 showed a rise from 1.3 to 3.3 million in the course of a year. That was from 2 to 5 per cent of the civilian labour force. In a free economy some frictional and temporary unemployment was a concomitant of freedom of choice, but it was a matter of some concern that unemployment was at the moment at a somewhat higher level than could be attributed to that cause. However, the total civilian labour force had increased by over one million during the past year, so that the number of persons actually employed had declined by only 600,000. The total civilian labour force in May 1954 had been 61.1 million, as against 61.7 million in May 1953.

16. The confidence of business men and investors had been maintained during the past year, and outlays for plant, equipment and housing had remained virtually at 1953 levels; personal expenditure also had been well maintained; tax reductions and unemployment compensation had helped to keep up the level of individual incomes; farm incomes had had the benefit of price support; and reductions in federal expenditure had been partly offset by an increase in state and local government outlays. Thus, aggregate expenditure on fixed investment and consumption had been well maintained, though shifts had occurred in the relative importance of individual items.

17. Government and consumer expenditure on manufacturing products had fallen, and there had been a marked reduction in the rate of investment in stocks, chiefly of manufactured goods—both of which facts accounted for the much sharper decline in industrial production than in other fields.

18. Explaining that recession, he said that his Government had curtailed its defence programme and, flexible though its economy was, it could hardly readjust itself immediately and painlessly to a cut of about 5,000 million dollars a year in national security expenditure. There was no pent-up volume of civilian demand, such as had existed at the end of the war, to facilitate the transition from military to civilian production.

19. A major part of the decline in industrial production was, however, attributable to a significant change in the attitude of business men to the size of the stocks which they wished to hold. For a year before mid-1953, despite a rise in sales of goods for final use, production had been growing still more rapidly, so that stocks were being accumulated at the rate of 6,000 million dollars a year by the second quarter of 1953. When sales began to fall off, business men had taken steps to reduce stocks, and that had had effects throughout the entire economy. In the first quarter of 1954 stocks had been shrinking at the rate of 5,000 million dollars a year. Four-fifths of the

concurrent decline in total production could be attributed to that process.

20. The decline in production had shown no tendency to gain momentum, and the industrial index had remained steady in March and April, rising slightly in May. Prices had remained fairly stable, and there was evidence to show that consumer expenditure on durable goods was tending to rise again. Defence expenditure had been reduced to approximately the planned level. There were, therefore, grounds for supposing that business men would feel that the time had come for some cautious re-stocking.

21. The decline in economic activity had not been accompanied by any substantial net reduction in the outflow of United States dollars. Though imports had fallen by about one-tenth in comparison with the high level of the first part of 1953, dollar payments for other purposes had been maintained, and in some cases increased. While total foreign aid had been reduced, assistance to under-developed countries had grown. Despite the substantial reduction in aid to Western European countries, the latter had on the whole expanded production, improved their fiscal and monetary position and developed and diversified their international trade. It was gratifying that they were maintaining a high level of economic activity and were not experiencing a similar recession.

22. In assessing the immediate outlook, the many factors which strengthened the ability of the United States to resist depression must be borne in mind. They included the large volume of savings, held to a great extent in fairly liquid form; the system of unemployment insurance; numerous private and public pension programmes; and Federal bank deposit and mortgage guarantee insurance systems. Large corporations were to an increasing degree establishing long-range capital budgets for the expansion of plant and equipment, and had given no indication of reducing them. Furthermore, the Government was determined to take any steps necessary should the readjustment process show any tendency to falter. Although the United States was a country of free enterprise, the Government played a major role in economic life and was ready, if required, to supplement the efforts of private business in order to maintain the economy at a healthy level. The methods it could use had been described by the President in a letter to Congress transmitting his economic report in January 1954.

23. The determination of the United States to preserve a strong and sound economy would not only ensure the material well-being of its people, but also make a major contribution to the economic stability of the world. Although it was impossible to be absolutely certain that economic activity in the United States would expand in the near future, the long-term outlook was good. In the first place, the population was growing rapidly and had risen by about 20 million since the end of the war—an increase of no less than one-seventh in less than a decade. It was estimated that by 1960 it would have increased to between 175 and 180 million. A growing population would mean a constant increase in the demand for goods and services. Secondly, there would be continuous need

for new construction of all kinds to meet growing consumer requirements. Thirdly, the United States firmly believed in the value of scientific and industrial research, expenditure on which had increased four-fold since 1941 and amounted to approximately 4,000 million dollars in 1953. Out of that sum the Government had contributed 2,500 million dollars, the rest being provided by industrial and non-profit making institutions. Research led to the development of new raw materials, new uses for existing raw materials, new products and processes. It brought about rapid technological changes, accelerating the obsolescence of machinery and equipment, and provided constantly growing opportunities for capital investment. Fourthly, the American economy was flexible as well as dynamic. Fifthly, American business men continuously sought cheaper and better means of producing goods and services. Neither labour nor management feared labour-saving devices, which in the long run helped to increase employment and raise living standards. Finally, the competitive free enterprise system encouraged people to give of their best, knowing as they did that there were opportunities for those with the will and ability to seize them and that the fruits of greater and cheaper production would be shared by all in the shape of a better standard of living and more leisure.

24. The growth of new industries and the contraction of old ones, coupled with changes in the habits and tastes of consumers, would require some re-distribution of resources which could not be accomplished without occasionally halting or even briefly reversing the progress of the economy; nor could the economy remain unaffected by developments abroad which might sometimes be adverse. But the United States was confident that a great future lay before it and that its economic progress would not only raise the standards of its own people, but also reinforce the economy of the entire world.

25. Mr. NUÑEZ PORTUONDO (Cuba) said it would cause his delegation the greatest satisfaction if at some future time it could be said that substantial progress had been made in regard even to part of the world economic problems, an item which had a permanent place on the Council's agenda. In the under-developed countries, at any rate, it was unfortunately true that it became every day more difficult to provide the population with a minimum of well-being. In considering the item at all, it was an obvious duty to say so. As his delegation had repeatedly pointed out, those problems would continue, and economic crises would grow more acute, if international co-operation was lacking or forthcoming only on an insufficient scale.

26. He expressed his appreciation of the way in which the *World Economic Report 1952-53* (E/2560), had been prepared, even though his delegation might not agree with all its conclusions.

27. Chapter 3 of the Report contained a review covering Argentina, Brazil, Chile, Cuba and Mexico, which countries accounted for the major part of the population, the agricultural and industrial output and the foreign trade of Latin America. It was correctly stated therein that "the impact of the weakening of raw material markets upon the export position of the countries under review

was of a complex nature". That complexity was well brought out, so far as Argentina and Cuba were concerned, in the last paragraph on page 57, beginning: "In the same period (the crop year 1953-54), the changes in crops in Argentina and Cuba were much more pronounced, although the movements were in opposite directions . . .", from which it was clear that scarcity and surplus had produced the same deplorable effects in the two countries.

28. The above factors explained the movement of Cuba's terms of trade (page 60 of the Report), which had fallen as follows: 1951, 93; first half of 1952, 88; second half of 1952, 85; average for 1952, 87; first four months of 1953, 77. The Report recognized the efforts made to control prices in Cuba, and in that connexion he referred representatives to the last two paragraphs on page 63.

29. In the year 1952-53 there had been profound disequilibrium in Cuba between production for export and actual export. The 1952 sugar crop had reached the record figure of 7 million long tons; part had had to be stocked and the following year's production reduced. With the end of hostilities in Korea the demand for sugar and other Cuban exports had declined. The results might be imagined when it was considered that export was almost the only source of foreign currency. From the middle of 1952 economic activity had had to be curtailed. As a result of the effect of the high 1952 yield and heavy previous public investment, the gross national product had, however, reached a record figure of 2,395 million dollars. Imports, accordingly, had continued to be high, but reduced exports and the deficit in the balance of trade had led to a reduction of foreign currency reserves.

30. The reduction of sugar production in 1953 had meant a fall in the national income and that could not be wholly compensated by extraordinary public investment. Imports had declined in consequence. Exports, however, had continued at a high level, because, although the price of sugar had continued to fall, physical sales had been greater than production and there had also been an increase in the export of tobacco and minerals. The result of all those factors had been a favourable trade balance in 1953; there was some improvement also in the current balance of payments.

31. He would refer in passing to the fact that the tobacco industry had been gravely injured by what his delegation felt to be unconsidered statements by certain cancer institutes. Without being an expert in medicine, he felt that certain statistics published had no scientific justification. An investigation had been made among a certain group of persons who had died of cancer to find out if they had been smokers; the results would, he felt, have been equally conclusive if the inquiry had been directed to ascertaining whether the same group had been, say, tea drinkers. When Columbus discovered Cuba, all the natives smoked, and cancer was unknown. Although practically the whole population still smoked, cancer mortality was no higher than in any other country.

32. The analysis for the year 1952-53 in Cuba showed how necessary it was to find a remedy for the economic uncertainty which afflicted the world. That subject had

recently been discussed by the Inter-American Conference at Caracas, and its importance was underlined both in the resolutions adopted and in the decision to hold a meeting of ministers of finance and economics shortly with a view to finding practical solutions. The Cuban delegation to the Conference had pointed out that, to attract foreign capital, it was necessary to have freedom of trade, freedom of exchanges, freedom to set up business, and monetary stability.

33. The Cuban Government had enacted a law exempting new manufacturing industries from taxation, and removing other restrictions; it had set up a guaranteed loan fund and was providing credit for agriculture, fisheries and other industries. A plan was under consideration to invest 350 million pesos to combat unemployment and economic recession by means of further development.

34. Internal measures had, however, to be supplemented by international action. In spite of the efforts of many international bodies, the liberalization of trade and currency convertibility were objects still to be attained. Little had been done to solve the particular problems relating to basic commodities. One exception was the International Sugar Agreement, to which, incidentally, the present Report might have given more attention. Sugar was not the only commodity to suffer from frequent and violent price fluctuations.

35. Double taxation on income from foreign investments was another of the obstacles which were particularly prejudicial to under-developed countries. The Cuban Government had constantly advocated that such income should be taxed only in the country in which it was produced. Some of the international credit institutes, moreover, were too restrictive in their loan policy. The International Bank for Reconstruction and Development IBRD, for example, seemed more interested in financing electrification and transport than agricultural and industrial production. As his delegation had stated previously in the Council, as well as at the Conference in Caracas, it was to be hoped that IBRD would revise its policy by allowing long-term loans at reasonable interest and without requiring exaggerated guarantees, thus helping to increase agricultural and industrial production.

36. He felt sure the important problems he had mentioned would be taken into account in drawing up the resolutions to be adopted by the Council.

37. His delegation could in general agree with the statement by the Committee of Experts set up under General Assembly resolution 623 (VII) on the Uruguayan proposal concerning the incidence of fluctuations in marine freight rates on the ceiling prices of primary commodities purchased by the industrial countries.

38. The declaration he had made to the 722nd meeting of the Council on 11 July 1953 still held good in regard to the three sub-sections of item 2 (b). He would merely add that the various plans for achieving full employment had little hope of success so long as aggressive wars forced

the western Powers to tie up so large a proportion of their resources. His delegation, nevertheless, would co-operate to the full in any measures likely to secure full employment.

39. Item 2 (c), placed on the agenda at the request of the Soviet Union, had greatly surprised his Government. Ever since the first session of the Council, held in London in 1946, when it had been decided to hold an international conference on trade and employment, the Soviet Union had categorically refused to co-operate with the other nations. It had declined to take part in the preparations for an international trade organization or for the General Agreement on Tariffs and Trade; it had refused to take part in the conference which had drawn up the Havana Charter. According to the document circulated (E/2549), the Soviet Union now believed that "trade is a sound and solid foundation for the development of peaceful relations between all countries, regardless of differences in their economic and social structures." It would be more than a little ingenuous to have faith in that apparent act of contrition.

40. Cuba had given adequate evidence of the sincerity of its desire to expand trade. In view of the collective interest in the preservation of peace, however, it would be more than reluctant to support, without adequate reserves, a general pronouncement in favour of increasing trade between East and West. The Council should not lose sight of collective interests, the aims of the Charter, or the resolutions approved by the General Assembly. Members should remember that nothing prevented the Soviet Union from signing the various pertinent agreements or joining IBRD or the International Monetary Fund. If, as it now claimed, the Soviet Union sincerely desired an expansion of international trade, it was natural that it should assume the same obligations as the countries which were already members of the organizations in question.

41. His delegation was, as always, fully prepared to support any resolutions that aimed at improving standards of living, but would do so always with the reserve that it was necessary to preserve its own sovereignty and liberty. It was opposed to compromises which, sooner or later, might lead to the loss of its liberty and the imposition of doctrines which were repugnant to its traditions and way of life.

42. Mr. KUMYKIN (Union of Soviet Socialist Republics), referring to the Cuban representative's statement, pointed out that the Soviet Union had been one of the first signatories of the International Sugar Agreement.

43. Mr. NUÑEZ PORTUONDO (Cuba) expressed regret at any misapprehension that might have arisen. What he had wished to convey was that nothing had prevented the Soviet Union from signing the International Sugar Agreement, just as nothing prevented it from signing other international agreements.

The meeting rose at 12.20 p.m.