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CONTENTS

President: Mr. M. MIR KHAN (Pakistan).

Present:

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

Observers from the following countries: Czechoslovakia, Japan, Switzerland.

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, World Health Organization, Interim Commission for the International Trade Organization.

AGENDA ITEM 2

World economic situation

(a) Survey of the world economic situation (E/2959, E/2982, E/2983, E/2984, E/2989, E/2998, E/3004, and Add.1 to 3, E/3016)

1. The SECRETARY-GENERAL said that the previous year had witnessed a continuation of the global economic growth which had been so distinguishing a feature of the post-war decade. At the same time, compared with one or two years earlier, the rate of expansion had slackened almost universally. In the industrialized private-enterprise economies, gross national production had increased by between 2 and 7 per cent in 1956 — rates which generally were less than those which had prevailed in 1955. Though the falling off in the rate of increase had been accompanied by a cessation of the boom in raw materials entering into the production of durable goods, the continuing expansion of economic activity in the industrialized countries had enabled primary commodity markets to remain generally firm; indeed, raw materials in general had fared better in 1956 than in 1955. Primary producing countries thus enjoyed a favourable external climate for pressing forward with their economic development programmes. Nevertheless, few countries had succeeded in raising their rates of income growth above the levels of 1955, in some cases because the higher prices of industrial exports had led to a deterioration in the terms of trade, but often also because of the effects of anti-inflationary measures adopted in the under-developed countries themselves.

2. In the centrally-planned economies, economic growth had continued at the more rapid rate which had characterized those countries during the post-war decade. However, the rate of increase had generally slackened by comparison with 1955, and — except in the Soviet Union — agriculture continued to lag behind industrial output.

3. It seemed highly probable that 1957 would see a continuation of the growth which had occurred in 1956, but it was doubtful whether the rates of expansion would match those of two or three years earlier. Although the persistence of the rising post-war trend was gratifying, the past eighteen months had been mainly significant in bringing to light the basic problems involved in the maintenance of long-term economic growth in every type of economy.

4. The fundamental question which had arisen in the private-enterprise economies was the extent to which economic growth could be reconciled with price stability, and with the avoidance of recurrent balance-of-payments difficulties. The problem had only been dimly perceived during the early post-war years, when pressures had been of the orthodox variety. So long as the source of inflationary pressure was to be found in a massive excess of investment demand over the supply of savings, reflecting all the abnormalities of a period of transition from war to peace, it seemed reasonable to assume that once normalcy had been achieved, inflationary pressure and the accompanying external imbalance would disappear. Indeed, for some time it had been feared almost everywhere that the period of transition might be followed by large-scale unemployment. In retrospect, it seemed that the decade of depression which had preceded the war and which, consciously or otherwise, had served as a guide for reflection on post-war problems, had exerted an undue influence. The extent to which results had differed from expectations could be seen not only from the fact that the major post-war problems of balance in the industrialized countries had been inflation rather than unemployment, but also from the fact that even the objective of full employment, which had loomed so large in the economic thinking of the pre-war generation, had been gradually receding into the background. The aim of full employment was being replaced by, or redefined to encompass, the more ambitious and more dynamic goal of economic growth.

5. The current phase of economic growth was undoubtedly the most nearly normal period of peace-time activity seen since the end of the war. It was unfortunately true that a very high proportion of resources was still being diverted into armaments in all parts of the world. When the time came, as it must, when the world could safely reduce its military expenditure, new problems as well as new opportunities would certainly emerge. In the meantime, the present period marked a phase of economic activity as nearly devoid of abnormal influence as the world could hope to experience. It was therefore especially important for the United Nations to give thought to any challenge to long-term economic growth, which experience taught might be thrown down in such circumstances.

6. A serious problem for the industrialized countries was that the expansion of recent years had been accompanied by recurrent inflationary pressure. The need to combat that tendency had often been sharpened by pressure on external balances which, in view of the low margin of foreign exchange reserves available in some countries, had become a much more insistent problem than that of internal pressure. Although the problem of inflation was usually regarded in terms of a global excess of investment demand over the supply of savings, it was becoming increasingly clear that such a view might be an over-simplification of a highly complex problem. Necessary as it was to curb an excess of effective demand in relation to total available productive resources, it should be remembered that a dynamic economy might generate an inflationary spiral in other ways which could not properly be remedied by restraining economic expansion. Prices might be subjected to upward pressure as a result of competing demands by workers, farmers and entrepreneurs seeking to increase or preserve their shares in the national income. Such cost inflation should be combated by an appropriate wage/price policy adhered to by labour, management, farmers and government. There was little reason to believe that it would be easier to achieve such policies in an economy subject to unemployment. On the other hand, discouragement of investment, even though it served as a temporary expedient to relieve the strain on the balance of payments, might hold up investment required to allow the structure of production to be adjusted to a changing pattern of demand. Although it was important to lower the fever of inflation in key industries, it was necessary to guard against the risk of placing the economy as a whole in a situation that might tend subsequently to generate new inflationary pressures.

7. While anti-inflationary policy was a national rather than an international responsibility, domestic measures — whether they affected internal activity or foreign trade — might nevertheless have significant international repercussions. In dealing with balance-of-payment difficulties by measures designed to curb domestic demand, a country naturally hoped to release resources for increasing its exports, while reducing its imports. When world demand remained strong, such a policy might succeed. When, however, many countries — acting independently — simultaneously restricted demand, such policies might prove mutually frustrating. If that problem had not yet become acute, it was undoubtedly because the measures taken so far had been on a scale involving not an actual decline in world economic activity, but only a slackening in its rate of increase. Competitive deflation was no more likely to preserve international balance then was competitive depreciation. The world economy might therefore benefit by more systematic consultation between governments on their general economic policies, thus enabling each country to act with better knowledge of the external situation and of the likely effects of its own policies thereon.

8. In the under-developed countries, too, where economic development had been the overriding social and political objective during the post-war decade, increasing prominence had been given to the question of achieving and maintaining economic balance while speeding up the rate of growth. The extent to which economic development could be influenced by external conditions, including favourable shifts in the terms of trade and the provision of international capital assistance, was generally recognized. But favourable external conditions were not enough; they must be accompanied by a sustained domestic effort to ensure balanced economic growth. In the final analysis, the vigour with which countries themselves pursued sound policies to ensure balanced growth was of crucial significance. Governments were coming increasingly to re-examine their internal programmes, particularly in the field of fiscal and monetary policy, with a view to testing their own capacity to achieve a proper balance between the supply of savings and the rate of investment. The problem was by no means simple, particularly in countries with inadequate public services and with low levels of taxable income, where the budget tended to be extremely inflexible on both the expenditure and the revenue side.

9. Equally important was the growing realization in the under-developed countries of the need to achieve a balance not only between savings and investment, but also between the pattern of demand and the structure of production. In that respect, a proper balance between industrial and agricultural development should be maintained. Few economists would now assert that international specialization required under-developed countries to depend exclusively for their economic growth on exchanging primary products for foreign manufactures. Countries with a dense population were particularly dependent upon the expansion of industry for their economic development and for the creation of adequate employment opportunities. Moreover, in view of the fact that world demand for primary products was increasing more slowly than that of manufactured goods, under-developed countries — which tried to maintain external equilibrium without correcting their unbalanced specialization in primary production — migh twell find themselves faced with a widening gap between their levels of living and those of the industrialized countries.

10. While the world had come to recognize that industrialization was essential to the economic growth of the under-developed countries, the latter had increasingly come to appreciate the importance of agricultural development for industrialization — and, indeed, for over-all economic expansion. An increase in productivity in agriculture was essential not only because it was the only means of immediately improving the living

standards of the under-developed countries, but also because it would provide the necessary raw materials for industrial development. At the same time, the role of increased farm production in the prevention both of inflationary pressure and of external imbalance was of strategic importance. As was stated in the "World Economic Survey, 1956" (E/2982), the difficulty of adapting the structure of production to the pattern of demand may set even narrower limits upon the rate of economic development attainable without inflationary pressure than those determined by the rate of growth of the supply of savings. Both in Asia and — more recently — in Latin America, it had been observed that in countries with limited supplies of food and other essential consumer goods, serious pressure both on domestic prices and on the balance of payments might often be generated by relatively moderate increases in development expenditure.

11. During the previous two years, more and more countries had begun to question the long-term effectiveness of inflation (sometimes accompanied by a regime of highly artificial multiple exchange rates) as a means of accelerating economic development. However inescapable such methods might have seemed in the short run, the emerging tendency to re-examine the problem of economic growth in long-term perspective had revealed their shortcomings as a basis for permanent policy. Governments were discovering that heavy and continued reliance on inflationary methods, far from contributing to the maintenance of balance with rising investment and saving, had tended in the long run to discourage saving, and to misdirect investment.

12. No less striking than the problems raised by long-term growth in the private-enterprise economies were those currently under examination in the centrally planned economies. In country after country the extreme centralization typical of their development had been increasingly questioned. It was not only the growing remoteness of the central planning authorities from the actual sources of production that had been causing concern, but also the failure to devise sufficient inducements for promoting the most effective use of resources. The reappraisal of methods of planning and management had been promoted in part by the expansion in size and increase in complexity of the economy resulting from rapid development. Methods devised when the principal objective had been to establish new industries had proved inadequate for the co-ordination of their activities once they were in large-scale operation. Of greatest significance, however, had been the recognition of the need to eliminate various types of imbalance which had accompanied the rapid growth. Even though both saving and investment were centrally determined by government decision, acute problems of imbalance had been experienced owing to inadequate adjustment of the structure of production to the pattern of demand. Agricultural development had not kept pace with industrial development and, in the industrial sector itself, expansion had been hampered by inadequate supplies of basic materials and — in some cases — also of manpower. But the most striking feature of all had been the imbalance between the resources devoted to rapid increase of investment and those made available to satisfy the insistent claims of consumers. The strains and stresses created by such imbalances underlay the new emphasis in development plans on a measure of decentralization of controls, on greater specialization of production, and on a more economic allocation of scarce resources and of investment.

13. Solutions of the many questions inherent in the process of accelerating economic growth while maintaining internal and external balance were far from having been achieved. It was most encouraging to note, however, the tendency emerging almost everywhere to replace rigid adherence to dogma by a pragmatic approach and a patient re-examination of specific problems. Such an approach should be accompanied by a growing awareness not only of the regional but also of the world-wide implications of national policy. Although all signs of growing regional collaboration were welcome, the greater objective — a strengthening and expansion of the entire world economy — should never be forgotten.

14. In that respect, the Council could play a constructive role. When so many countries were facing similar problems of economic growth, and when regional arrangements for expanding markets were being freely discussed, the loosening of the bonds of doctrine in the field of economic policy presented the Council with an opportunity of serving the world economy. Although a free exchange of ideas on the subject of national problems could be of considerable value, the fact remained that economic balance was an international matter. The effects of national or regional policies could not be confined to the nations or regions in question; no more than individuals could countries "live unto themselves". He hoped, therefore, that the ensuing debate would play an important part in clarifying principles and intentions, and in guiding national and regional policies with the object of serving the wider interests of the world economy.

15. Mr. LUNS (Netherlands) said that, according to chapter 6 of the "World Economic Survey, 1956", the general trend in the countries with a centrally planned economy appeared to be towards a diminution in the degree of centralization of economic policy. Events in those countries seemed to suggest that everywhere economic policy had ultimately to respect certain laws. Contrasts between the various types of economy were, perhaps, less marked than was sometimes thought. Many of the problems besetting the countries with centrally planned economies, (described in chapter 6) were also being faced by other countries. The instruments of economic policy differed even less. No economy was completely free or completely controlled.

16. In the western countries there were important public sectors; in other countries, while public utilities might be privately owned, the government regulated prices in the public interest. An undogmatic approach to problems of economic policy was therefore possible, and no solution should be ruled out *a priori*. The implementation of economic policy perforce depended largely on the circumstances in which a given country found itself. He was referring, of course, to the tools of economic policy, and his remarks in no way implied acceptance of the ultimate aims of the economic policy pursued in Communist countries. Obviously, the fundamental differences remained, but it should be stressed that purely

technical problems of economic policy could be discussed objectively.

17. The most pressing problems confronting the Council were those of the under-developed countries; in particular, the problem of financing their development. Those countries themselves were well aware that in framing their economic policies, they need not necessarily adopt in their entirety either the instruments of the private enterprise economies or those of the centrally planned economies. They must choose their own tools in the light of their own economic circumstances, and in that of the needs of their peoples. They could, however, benefit by the experience of others. Some of them had found that, in the absence of sufficient private capital, they had to rely on governmental initiative to a greater extent than did the developed countries. However, the under-developed countries might well consider, in view of the recent experience of the countries with a centrally planned economy, that decentralization of the power to take economic decisions — at least in certain sectors — was of some value. It had become accepted doctrine in domestic economic policy that a large measure of decentralization was attainable, provided that financial policy was directed towards balanced development.

18. The Survey contained a wealth of significant statistical data, and was a most helpful document. It was to be hoped that the representative of the International Monetary Fund would comment on it. The first point to be considered in examining the Survey was whether the method of research applied was suited to the general aims of the Council's discussion. The Council's main purpose was to try to find answers to the question of what action could and should be taken in the field of international economic policy. In that context, some of the data and part of the analysis in the Survey might prove to be irrelevant to some extent. The full force of research might perhaps have been brought to bear more closely on the problem of ascertaining how certain forms of action were likely to affect the world economic situation, or — in other words — how specified cuts in public expenditure or changes in indirect taxation could reduce balance-of-payments deficits.

19. With regard to the presentation of conclusions, he believed that a different emphasis might have been given to the main points, stress being laid on the factors affecting action rather than on technical considerations. A distinction should also be made between possible remedial measures in developed countries and those feasible in under-developed countries. If the former had spent more than they could afford, expenditure could be curtailed, as had been done by the Netherlands twice in recent years, and was again being done at present. The measures applied were based on an objective analysis made by the Netherlands Social and Economic Council, on which workers, employers and experts were represented in equal numbers.

20. For under-developed countries, curtailment of expenditure was not always the natural remedy, because for many of them the need for development was so great that other methods has to be sought; and such methods called for international action. To determine what that action should be, stock must be taken of total resources in order to decide how much must be reserved for national purposes and how much could be used to help other countries, which, both for their own sake and in the interest of world stability and peace, should be supported and strengthened. The pattern of spending had to be considered in the light of the relative urgency of the many different items over which the nations of the world had to spread their financial resources.

21. His delegation believed that the present level of assistance to under-developed countries was too low, especially in the international financing of development. The evidence to support that view was overwhelming. The Survey emphasized that rates of expansion should be " consistent " with one another, which, generally speaking, meant that the components of production should conform to the pattern of demand. But that technical requirement could not by itself determine the pace of development, and even if it were met, the general pace of development in under-developed countries might be lower or higher compared to that prevailing in developed countries. To some extent, rates of development were a matter of free choice in the light of the relative degrees of urgency allotted to various projects, and in accordance with the demands of social justice.

22. The Survey stressed that monetary and fiscal policies could not be the sole instrument with which to combat inflation effectively. He agreed that, as a rule, a combination of policies was required, particularly in under-developed countries, and that monetary and fiscal policies had definite limitations. At the same time, it should be borne in mind that they could be applied with considerable flexibility. In some passages, the Survey appeared to identify monetary policy with an interest-rates policy, but there were other methods — for example, quotas prescribed by central banks, or maintained by gentlemen's agreements on bank reserves or on the various types of credit extended by private banks. He believed that such a policy had been applied in Mexico with considerable success. Fiscal policy could also be administered in such a way as to stimulate certain sectors of the economy which clearly needed to be expanded. He agreed with the statement in the introduction to the Survey that monetary policy could not be an effective substitute for appropriate wage and price policies by labour, management and the government; and there it was vital for different population groups to accept some policy jointly agreed upon in the national interest. To that end, effective institutions adapted to conditions in each particular country could be of great assistance, and were already operating satisfactorily in various countries.

23. With regard to what international economic policy should be, he said that to promote undisturbed, balanced economic growth, and to avoid tensions in balances of payments, monetary policy, although useful, was not enough by itself. Programmes of expenditure of either public or private capital should be carefully planned, and demand and supply for individual commodities should be kept in balance, and total expenditure adjusted to financial resources. Those resources, however, were not unchanging, being affected by international policy. For any particular country, financial resources should be adjusted to the most desirable rate of development,

and the Council must bear clearly in mind that whatever was decided in the near future about the international financing of development would determine the relative rates of development in the various regions. If the international community continued to do too little in that field, the rates would continue to be very uneven, and the outcome would be an unbalanced pattern of development. Given responsible action, a much more balanced and satisfactory pattern could be achieved.

24. Referring to the part played by the European economy and its development in the world economy, he said that the review of the balance-of-payments position in the first three chapters of the Survey made it clear that there were three separate areas to be considered — namely, North America, especially the United States; western Europe; and, finally, the main countries producing primary commodities. The United States of America, where the level of economic activity was predominantly influenced by forces generated from within, as in the Soviet Union, exercised the greatest influence on the level of economic activity outside its borders. Although the value of United States imports amounted to less than five per cent of that of United States output (as was shown in table 16 in chapter 2), the magnitude of those imports, especially in the raw-materials sector, rendered the United States market of paramount importance to primary producers, which were directly affected by the general level of economic activity in the United States of America and of its production and consumption of raw materials.

25. It could be seen from table 16 that Europe was much more vulnerable to outside influences thanN orth America, and the prosperity of the latter continent, as well as the situation in the primary producing countries, was of vital importance to it. Europe's trade with the countries whose economies mainly depended on their exports of primary commodities had increased considerably in recent years, and its exports to them accounted for the greater part of its extra-European exports. Whatever the European countries might decide to do for themselves, they would always have to bear in mind their strong trade link with the raw-material-producing countries, and would be unable to dissociate themselves from the latter's economic destiny. The efforts towards European unification represented by the treaties recently signed at Rome and other less spectacular yet important instruments of co-operation, such as the Organization for European Economic Co-operation (OEEC) and the European Payments Union (EPU), should be viewed in that light. The combined effect of systematic intra-European concentration, and of more liberal trade and payments policies supported by effective credit facilities had been to lessen economic and financial fluctuations within the continent, and the stability thus achieved had strengthened the European economy and made it more capable of playing its part in world economic activity. It was Europe's position as a consumer of raw materials of all kinds that enabled it to fulfil that role. To substantiate that argument, he would point out that in 1956 Europe had absorbed more than 25 per cent of the total exports of States members of the Economic Commission for Asia and the Far East, about 30 per cent of exports from Latin America, and about 47 per cent of exports from the Middle East. Those purchases had a favourable effect on the balances of payments of the primary producing countries, for which exports were often the main source of foreign exchange.

26. The impact of those exports of raw materials to western Europe had become significant during the United States recession of 1954, as compared with what had happened in 1949. In 1954, a drop in United States production and imports had been more than offset for the primary producing countries by their continuously rising exports to western Europe. Those countries had thus been able in 1954 to maintain their levels of export, production and imports, whereas in 1949 they had felt the full weight of the United States recession. Those facts showed that the movement towards the integration of the European economy which had been developing during the last decade had increased Europe's stability, and thereby exerted a beneficial influence on the economies of the primary producing countries.

27. Institutions like OEEC and EPU had done a great deal to promote the conceptions of a European economy as distinct from separate and purely national ones, and that tendency would be considerably reinforced when the treaties creating the European Common Market and Euratom came into force. The latter, which was concerned only with the peaceful uses of atomic energy, would ensure that Europe kept abreast of modern technical development. The creation of a European common market, with consequent free movement of capital goods and services, would raise the continent's economic efficiency and bring improved standards of living. That in turn would generate increased demand for raw materials, and thus enable the under-developed countries to buy more capital goods, all of which was likely to strengthen economic development throughout the world.

28. Although the Rome treaties, which were to be discussed by the contracting parties to the General Agreement on Tariffs and Trade in the autumn, had not yet been ratified, fears had already been expressed in some quarters about the possibility of a European common market's exercising an unfavourable influence on its members' trade and economic relations with third countries. That point required careful consideration, such as it had been given at the seventh session of the Economic Commission for Latin America (ECLA), and he was glad to note that the views there formulated had been moderate. The resolution finally adopted by ECLA did indeed express some concern, but at the same time acknowledged that the trend towards European integration deserved the fullest sympathy of the Latin American countries. Such an objective approach made it easier to deal with possible difficulties, and to seek a means of reconciling the interests of all.

29. Another objection sometimes raised was that, in the present era, all economic integration should be on a world-wide basis, and that regional integration could not fail to obstruct universal integration. He found that argument difficult to accept, because he would have thought that, generally speaking, it was easier to make progress by starting from the bottom than by descending from the top. Surely it was wiser and more profitable

to try out a new method or idea on a manageable scale. Benelux was in many respects an object lesson for more ambitious projects in western Europe, and there was no harm in remembering that before learning to walk one ought to know how to crawl.

30. He had not mentioned the compelling political motives favouring the creation of a European Common Market, as the Council was not the place for political discussion, but he would make an exception on one point, in order to refute the argument that the association of overseas territories with such a market might have undesirable effects, partly of a political nature. In speaking of under-developed areas it should be remembered that at the end of the nineteenth century they had been, almost without exception, non-self-governing territories; but as the trend towards independence gathered momentum more and more of them were becoming sovereign states. When the various organs of the United Nations discussed the important problems of the financing of economic development, they thought primarily in terms of the development of those sovereign nations. Nevertheless, the problem of the economic development of non-self-governing territories was equally urgent and important. How often had not the complaint been heard in the United Nations that the colonial Powers did not do enough to promote the economic and social progress of the territories under their administration. The treaty on the European Common Market would stimulate the economic development of Non-Self-Governing and associated territories, and he would emphasize that provision had been made in it for the creation of a fund for investment in the social and economic infrastructure of associated overseas territories, which would amount to $580 million for the first five years, over and above what was already being done by the administering Powers. The fund was to be administered by a supranational European board, and the investment programme would be drawn up after preliminary consultations at local level with representatives of the territories concerned, all of which demonstrated sufficiently clearly that, as stipulated in article CXXXI of the treaty, the association was primarily intended to serve the interests of the population of those overseas territories. It might be asked whether the additional assistance to be given by the six members of the European Common Market to the economic development of their overseas territories would make them less willing to contribute to the economic development of sovereign States in under-developed areas. The answer was that it would not. There was just as much need for the establishment of the Special United Nations Fund for Economic Development (SUNFED) after the creation of the European Common Market as there had been before, and he could state on behalf of his government that the Netherlands' pledge to contribute to SUNFED was still firm, and had not been affected by his country's proposed participation in the European Common Market. He was convinced too, that the association of the overseas territories with the European Common Market was not designed to perpetuate outmoded relationships. Indeed, the converse was true, for within the framework of the European Common Market existing bilateral relationships would be in some measure multilateralized. The more rapid economic development of the associated Non-Self-Governing Territories would in itself contribute to their political evolution, and for those reasons he believed that the association would make a positive contribution to the political, economic, social and educational progress of the peoples concerned and to the development of self-government and of free political institutions which, under the terms of the Charter, Members of the United Nations were pledged to ensure and assist.

31. Thus his main conclusion was that the solution of the balance-of-payments problems of the developed countries should be sought either through internal policies, such as the adjustment of expenditure to available resources, or through co-operation and integration, particularly within Europe. In the case of the under-developed countries, on the other hand, such measures would be inadequate, and such countries could not be expected to overcome their difficulties unaided. If they were to take their rightful place in the march towards a better future, which it was the Council's privilege to discuss and plan, they urgently needed more international financial aid.

32. Mr. MYRDAL (Executive Secretary, Economic Commission for Europe) said that the executive secretaries of the regional economic commissions greatly appreciated the Council's invitation to take part in the discussion on the world economic situation, in addition to introducing their annual reports. He would speak at greater length when the Council came to consider the annual report of the Economic Commission for Europe (ECE) and would accordingly be brief on the present occasion. The Secretary-General had already referred to the main developments in Europe during the past year, which had been treated in detail in the latest *Economic Survey of Europe* (E/ECE/278), and in the *Economic Bulletin for Europe* for the first quarter of 1957. The latter, having been issued a little late, was even more up-to-date in delineating recent economic trends than its title would suggest. It also dealt with a number of topics of special interest, such as the use of highly skilled manpower in western Europe and the Secretariat's estimates of the national accounts of the Soviet Union. The *Bulletin* also contained a special article on Hungary, showing that after the tragic events of the previous autumn, industrial production had recovered rapidly, but without, of course, solving the basic economic problems.

33. The slower rate of expansion in most countries of western Europe in 1956 had been largely the outcome of deflationary policies designed to prevent the growth of demand from upsetting internal or external stability. The countries of that area now found themselves on the horns of a dilemma, which had been described as the choice between a continued expansion of their economies, together with the acceptance of some price increases and a possible weakening of their balances of payments, or a curbing of domestic demand which would check price increases, but at the cost of some reduction in the rate of expansion. Widespread adoption to an increasing extent of the second alternative would almost certainly mean that in 1957 output would expand at what might be considered the safer pace of 1956 as compared with the faster growth of the two preceding years.

34. The dilemma was perhaps even more acute in some of the less developed countries of southern Europe. Greece, for instance, appeared to have restored its domestic financial stability, but the growth of production during the past year had been distressingly small in relation to needs. Turkey, on the other hand, had sought to persevere with a substantial public investment programme, but at the price of internal and external financial strains which had seriously impaired its ability to pay for urgently needed imports of equipment and materials. In Italy, though the industrialized north had fully shared in the western European boom, the southern part of the country had responded but slowly to the efforts made to promote its development.

35. Recent experience thus confirmed the belief that general and continued prosperity among the more industrialized countries did not necessarily and automatically ensure satisfactory growth in the less developed areas. That also applied to under-developed overseas countries, where progress had been rather slow, though perhaps partly because of internal difficulties. It was disturbing that European countries, in spite of years of prosperity, should have been so preoccupied with their comparatively less pressing problems that there had been no significant increase in the level of assistance to under-developed countries — a point which had been ably brought out by the Netherlands representative.

36. The efforts now being made by the eastern European countries and the Soviet Union to modify their earlier methods of economic planning and management had been mentioned by the Secretary-General. The tendency to speak separately of western and eastern Europe was more than a matter of convenient exposition, unfortunately reflecting as it did the barrier between the two parts of Europe. Not only were the economic and social structures of the two areas different, but the economic relations between them were relatively restricted. Although it had steadily risen by about 20 per cent each year since 1953, trade between eastern and western Europe accounted on the average for only about 3 to 4 per cent of the total trade of western European countries, and for about 16 per cent of the total trade of eastern European countries — including the Soviet Union — much lower percentages on both sides than those which had prevailed before the war. With so much thought and energy being applied to integration within those two areas, it was perhaps necessary to emphasize the need for wider integration. The cold war had developed a certain momentum, and sustained attitudes which could continue to harm economic relationships between east and west, even though the general political climate had improved by comparison with the situation of five years ago. As a social scientist and a good European, he welcomed all efforts to achieve greater integration between any number of countries in every part of the continent; but he also believed that the ultimate goal should be co-operation on an all-European basis, for which all should strive in a realistic and conscientious way. He was glad that the governments which took part in the work of ECE considered that that aim should inspire the work of the Commission and its secretariat.

37. Mr. COSIO VELLEGAS (Mexico) thanked the Secretary-General and his staff for their excellent report on the world economic situation in 1956. Even if some of the conclusions might be challenged, the internal and external balance, both in the highly industrialized and in the less developed countries, during the period 1946-1956 had been analysed with extraordinary clarity.

38. Like other countries, Mexico had been affected by the problems and solutions mentioned in the report. The main object of his government's economic policy was to raise the living standards of the population by encouraging national economic activity. Between 1946 and 1956, his country had made great progress in all branches of industry; agricultural production and stock-farming had risen by 112 per cent, the output of petroleum by 134 per cent, that of electric power by 135 per cent, that of the manufacturing industries by 64 per cent and that of the mines by 36 per cent. During the last few years, over-all production had increased by 64 per cent, equivalent to an average annual increase of 5.1 per cent, or double the natural increment. Lastly, income per head of population had increased by 2.1 per cent per annum from 1946 to 1956.

39. One of the main factors in the growth of national output had been the increase in investment, which had accounted for nearly 14 per cent of the national product. Gross investment, at constant prices, had risen by 93 per cent, equivalent to an annual increase of 6.8 per cent. Sixty per cent of the funds had come from the private sector, and 40 per cent from the public sector. Despite that considerable investment programme, consumption per head of population had increased by 1.8 per cent per annum. Public investment had been financed mainly out of taxation and other state revenue. Foreign investment had played a subsidiary but extremely valuable part.

40. Nevertheless, his Government had twice run up against some obstacles in the way of economic development. Between 1946 and 1956, the currency had been twice devalued — by 78 per cent in 1948-1949, and by 45 per cent in 1954. Further, there was no doubt that his country's resources had not been fully utilized, and for that reason he thought that the question raised in the "World Economic Survey, 1956" was highly relevant: Though it might be true that, in industrialized countries, expansion of investment was not necessarily inflationary so long as there were still untapped resources, that did not apply to the under-developed countries. In his country, unexploited resources were merely potential, and did not represent an immediate production capacity. His Government was therefore obliged to consider what effects monetary expansion would have on the country's balance of payments and on the stability of the peso. Any attempt to procure new resources solely by the creation of additional purchasing power would tend to raise prices and reduce the gold and foreign exchange reserves. Since monetary and fiscal policy was an important instrument of economic development if it maintained price stability, his Government proposed to keep investment within the limits set by domestic economic resources, public and private. Experience had shown, moreover, that a stable domestic price level was not incompatible with a rapid growth in output.

41. There were some economic problems which also had external causes. During the Second World War,

heavy foreign demand and the high prices of raw materials had led to a substantial increase in his country's exports. Further, foreign capital had been attracted to Mexico for reasons of safety. The fiduciary issue had thus been considerably increased at a time when it was impossible to import more capital goods, in view of the strict export controls imposed on such goods by the industrialized countries. As a result of all that, the possibilities of increasing production had been limited, and there had been a disproportionate rise in prices. By the end of the war, the prices of Mexico's exports had levelled off, or even fallen; on the other hand, postponed demand had resulted in a considerable increase in high-priced imports. It had therefore been impossible to maintain the exchange rate without affecting the domestic economy. A somewhat similar situation had arisen during the Korean war.

42. Among other external causes, he would mention the fact that his country had recently suffered as a result of the sale of United States cotton surpluses at prices below Mexican domestic prices. In his view, it would be desirable for the economically stronger countries to try to prevent — or at any rate reduce the causes of — disequilibrium, which affected the domestic economy of other countries.

43. The CHAIRMAN announced that the observer for the Japanese Government had asked to make a brief statement on item 2 of the agenda, mainly on the disparity between the development of the advanced and of the less advanced countries, which he believed could be corrected by greater efforts on the part of the latter, by more effective assistance from the former and international organizations, and by the liberalization of world trade. He suggested that in conformity with rule 75 of the Council's rules of procedure that request be granted.

It was so decided.

The meeting rose at 12.35 p.m.

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