



ECONOMIC AND SOCIAL COUNCIL

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OFFICIAL RECORDS

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President : Mr. Daniel COSÍO VILLEGAS (Mexico)

Present :

Representatives of the following States: Afghanistan, Bulgaria, Chile, China, Costa Rica, Finland, France, Mexico, Netherlands, New Zealand, Pakistan, Poland, Spain, Sudan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela.

Observers for the following Member States: Argentina, Australia, Belgium, Brazil, Czechoslovakia, Greece, Ireland, Israel, Italy, Japan, Peru, Philippines, Portugal, Sweden, United Arab Republic, Yugoslavia.

Observer for the following non-member State: Switzerland.

Representatives of the following specialized agencies: International Labour Organisation, International Bank for Reconstruction and Development, International Monetary Fund, World Health Organization.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 2

World economic situation

- (a) Survey of the world economic situation (E/3244, E/3256, E/3266 and Add.1; E/ECE/345; E/CN.12/498 and Add.1 and Corr.1; E/L.837) (*continued*)
- (c) General Assembly requests pertaining to international co-operation in economic fields (E/3202 and Add.1/Rev.1 and Add.2-6) (*continued*)

GENERAL DEBATE (concluded)

1. Mr. GARCÍA de LLERA (Spain) said that he could not share the pessimism expressed in the *World Economic Survey, 1958* (E/3244), particularly since three post-war recessions had been overcome without the serious difficulties encountered in the recessions between the two world wars. On the contrary, an analysis of economic trends in 1958 gave grounds for cautious optimism, since signs of recovery — achieved through their own intelligent efforts — were evident in the countries most affected by the recent recession.

2. At the end of 1957, United States economists had been deeply concerned by two facts. First, a 7 per cent decrease in new investments in plant and equipment in 1958 had been predicted; secondly, a general liquidation of stocks held by undertakings was expected to gain speed. By the beginning of 1958, the United States had been in full recession, and the reduction of economic activity had been much more rapid than during the recessions of 1948-1949 and 1953-1954.

3. At the beginning of 1958, all the economic indicators in the United States had shown a vertical drop. Steel production had declined by 38 per cent of capacity, there were over 5 million unemployed, and inventories were being quickly liquidated. The United States Government and monetary authorities had taken immediate steps to stimulate economic activity by successive reductions in the discount rate (from 3.5 per cent in 1957 to 1.75 per cent by the middle of 1958) and by increasing public expenditure. At the same time, the Government had taken the view that the economy must achieve its own recovery without excessive assistance, in order to avoid renewed inflation. Events had proved that view to be correct. The main factor making for recovery had been the liquidation of stocks in the last months of 1957 and the first half of 1958.

4. If the recession in North America had come on with unprecedented speed, the recovery had been equally fast. In July 1958, the budget estimates had provided for a deficit of \$12,000 million as compared with a deficit of \$2,800 million for the financial year 1957/58, and a surplus of \$1,600 million for 1956/57. The reason for such a large deficit had not been military expenditure, but deliberate economic planning to terminate the recession. The announcement of increased government expenditure, together with other factors, had brought about a very rapid recovery.

5. The United States authorities were satisfied that the recession was over; the discount rate had been raised, and public expenditure was being reduced. The most serious problem remaining was expansionary inflation, and the main future characteristic of the national economy was likely to be pressure for higher wages, together with the efforts of the authorities to prevent that pressure from affecting prices.

6. With regard to the situation in western Europe, not all countries had been equally affected by the slight contracting trend: some had continued their expansion in 1958, though at a slower rate. That seemed to have been the case in western Germany, Austria and Yugoslavia. In 1958, the chemical industry did not seem to have suffered much in western Europe, whereas the steel industry had lost ground in the European Coal

and Steel Community (4 per cent as compared with 1957) and in the United Kingdom. The slump in the coal industry was also making itself strongly felt, and large stocks had been accumulated.

7. Investments seemed to have decreased in western Europe in the first half of 1958 with a few exceptions such as France, Austria and Germany, where housing construction had reached a peak in the second quarter of the year.

8. The case of the United Kingdom was one of the most characteristic of the economic trend in Europe. Fearing a sharp fall in monetary reserves, the Government had raised the discount rate from 5 to 7 per cent in September 1957, set limits to bank loans, strengthened restrictions on capital issues and reduced public expenditure. Those measures had had an excellent effect on the balance of payments. The fall in internal demand had reduced imports, stimulated exports and strengthened the position of the pound sterling, but industrial production had slightly decreased, and some unemployment had been created. Nevertheless, the British economy had been greatly strengthened, and its future prospects were much more favourable. Monetary policy had played its part in the recovery. The discount rate had been gradually reduced from 7 per cent, until in November 1958 it was only 4 per cent. Restrictions on bank credit and capital issues had been abolished, the limits set for bank loans had been raised, and extensive facilities had been granted for obtaining durable goods on credit. The monetary readjustment had had some adverse effects, as was to be expected. In November 1958 the number of unemployed had reached 536,000, or approximately 2.5 per cent of the labour force, and the index of production had fallen by 3 per cent. On balance, however, the position appeared very favourable, both because of the measures adopted by the authorities and because of the satisfactory trend in the terms of trade, the fall in world prices of raw materials being very advantageous to the United Kingdom. Thus, the balance-of-payments problem had been solved, and the United Kingdom had accumulated large monetary reserves, which was a most important factor for stabilization.

9. In the Federal Republic of Germany, one of the greatest problems of the economy — namely, the inability to make investments abroad — was on the way to being solved. With the United Kingdom financing the Commonwealth, and France following its example in regard to the French Community, western Germany remained the only great potential market for capital in Europe; but the special structure of the economy had prevented the effective use of that market. The continual surplus in the balance of payments had forced monetary resources up to an abnormal level, causing inflationary expansion. It was much more advantageous for the Federal Republic to export its capital, and a fiscal reform had seemed necessary in order to prevent the unduly large flow of savings to the State. In 1958 the tax on dividends had been reduced to 15 per cent, and the necessary measures appeared to have been taken to make the Federal Republic a great lending country.

10. The Italian economy had maintained its rate of

activity during the past year, though it had not reached the extraordinary rate of growth achieved in previous years. The gross national product had increased by 6 per cent in 1957 (more than the 5 per cent provided for in the Vanoni plan).

11. The Scandinavian countries were in a position similar to that of Italy, and Belgium showed a net surplus in its balance of payments — obtained through the international exhibition — which was reckoned at \$180 million.

12. What he had said showed three satisfactory trends in the world economy: first, the remarkable recovery in the United States; secondly, the sound policies pursued by the principal countries of western Europe; and thirdly, the fact that the fall in prices on the great food and raw material markets of the world seemed to have been arrested in recent months.

13. In 1957, the decline in world trade had been considered a more serious factor in western economic prosperity than the recession suffered by the United States. The two main elements in the decline had been the fall in the prices of major raw materials and the economic contraction imposed by certain countries which had undergone too great an expansion. As the purchasing power of the total exports of primary producing countries declined, those countries had had to cut down their purchases abroad. World trade had also been adversely affected by the reductions in imports made by countries which had increased their imports too heavily.

14. Having no further need for emergency supplies, western European countries which had purchased extensively from the United States in 1957 had been able to cut down such purchases considerably, and thus end their dollar shortage. Those circumstances had affected world payments. Whereas in 1956 and 1957 the rest of the world had experienced a severe deficit vis-à-vis the United States, which had to be paid largely out of gold reserves, the situation had completely altered by the beginning of 1958, and gold purchases from the United States had risen sharply.

15. The main beneficiary of the loss of gold by the United States was western Europe, and particularly the sterling area. Thus, the United Kingdom had greatly increased its reserves and, after deductions for the repayment of loans, remained with a net amount of \$2,400 million, which was \$1,000 million more than at the height of the recession. The prospects of the sterling area for 1959 were thus very encouraging.

16. The contraction of imports by some European countries and some primary producing countries would have been far more severe without the help of international organizations. Increased financing by the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development had been a very important factor in halting the world depression and, at a meeting held in September 1958 at New Delhi, those two organizations had discussed the possibility of considerably increasing their loan capacity.

17. Turning to the subject of European economic co-operation and the free trade area, he observed that in 1958 there had been a continuing effort to strengthen economic ties between Common Market countries and

the other countries of the Organization for European Economic Co-operation (OEEC). Although no agreement had yet been reached, it had been possible to discuss practical ways of co-operating to restore economic unity to western Europe.

18. A further encouraging factor had been the meeting of the Central Banks Working Group, convened by the Trade Committee of the Economic Commission for Latin America, at Rio de Janeiro in November-December 1958, at which an agreement had been approved for the establishment of a payments union to be composed initially of Argentina, Brazil, Chile and Uruguay.

19. Referring briefly to the commodity trade problem, he recalled the Secretary-General's reference (1068th meeting) to the disappointing results achieved so far in the field of commodity agreements. Only four commodities were covered: wheat, sugar, tin and olive oil, two of which were of special interest to Spain. He would accordingly appeal to the United Nations economists to pay special attention to those problems, and devise more practical and efficient methods of regulating international commodity trade, which would help to stabilize the economies of many under-developed countries. His delegation shared the Secretary-General's view that a reasonable reduction of customs tariffs — along the lines proposed by the General Agreement on Tariffs and Trade (GATT) — and of certain consumer taxes in the industrialized countries would be of considerable help in solving the serious problems confronting the less developed countries.

20. In Spain, the upward trend in national income had been maintained since 1950, but the rate of increase had slowed down to 3.8 per cent in 1958, as against 8.2 per cent in 1957, with an exponential rate of 6.6 per cent for the period 1950-1958. In 1958 the national income had been about 439,000 million pesetas. The increase in 1958 had been due to a rise of 2.1 per cent in agricultural production and 7.8 per cent in industrial production, notably steel, with a production of 1,475,000 tons, which had been made possible by a 37.5 per cent rise in pig-iron output compared with 1957. Electric-power production had increased by 12 per cent, and the production of sulphuric acid, the basis of the chemical industry, by 8.7 per cent. Similar increases had occurred in the production of phosphate and potash fertilizers, cement and coal. Petroleum imports continued to increase, amounting to some 5.9 million tons in 1958, and a new law offered excellent opportunities for petroleum prospecting. Despite the situation on the world market, the production of potassium salts, zinc and lead had risen in 1958, but the production of iron ores and pyrites had fallen, owing to a decline in world demand. The textile industry had increased production by 7.3 per cent in 1958 as compared with 1957, but cotton and wooll textiles were suffering a depression, owing to the fact that consumption had not grown at the same rate as production.

21. Spanish export trade, although greater than in 1956 and 1957, had shown a deficit of about 900 million gold pesetas, and imports had decreased in terms of value. Exports of minerals and certain primary commodities had declined, both in volume and in value, owing to the

state of the world market. Exports of manufactured goods had also suffered, not so much from the market situation as from the lack of balance between domestic and foreign prices which had reduced their competitive power. Exports of foodstuffs, however, especially of oranges, had risen appreciably in 1958, owing mainly to the more favourable exchange rates. The main imports had been petroleum and primary commodities, which had led to a reduction in purchases abroad of machinery and equipment. It was hoped that the new law on hydrocarbons would remedy a situation which might otherwise become the most serious problem of the Spanish economy.

22. The foreign trade situation, which had been deteriorating since the early years of the century, had become critical after the disastrous harvest of 1956, while the monetary situation remained inflationary despite the efforts to check inflation in recent years. All those factors had seriously affected the value of the peseta abroad.

23. The Spanish Government intended shortly to put into effect an economic stabilization programme supplementing the steps taken a year and a half previously against the serious threat of increasing inflation. Its position had of course been affected by economic events in Europe at the end of 1958 — in particular, the resumption of a certain degree of convertibility, the liberalization of trade, increased multilateral facilities for inter-European payments, and the formation of the Common Market. After consulting various national technical bodies, the Spanish Government had concluded that inflation must be checked and, simultaneously, the rate of Spain's integration with the more recent trends of the European economy must be accelerated. That was being done through co-operation with OEEC and IMF.

24. Spain had been an observer at OEEC since 1955 and an associate member since 1958. More recently, conversations had been started with the OEEC secretariat on a plan to integrate Spain fully and finally with the European economy. Simultaneously, the Spanish Government had begun negotiations with IMF which had sent a preliminary technical mission to Madrid in April 1959. The stabilization plan had been drawn up in consultation with both IMF and OEEC.

25. Expenditure in the public sector would be controlled in 1959/60, so that there would be no significant increase over 1958. In the private sector, a ceiling would be placed on bank credit, both from the Bank of Spain and from the commercial banks. Greater flexibility would be introduced in price controls, particularly in respect of goods in which trade was liberalized within OEEC. There would be a progressive liberalization of imports from OEEC countries and quotas would be lifted. Liberalization would be extended to as many primary commodities, foodstuffs and capital goods as possible, from countries with which Spain had no bilateral payments agreements. The Spanish tariff system would be reviewed and modernized, which would in due course enable Spain to accede to GATT. A similar liberalization would be introduced for invisible transactions. The final step would be the readjustment of the international value of the peseta on the basis of its present real value, and multiple rates of exchange would be abolished.

26. The Spanish Government was well aware that that course would not be easy for a country whose economic affairs had for many years continued in compulsory isolation. Spain therefore hoped for the understanding and support of those countries which were most interested in a healthy and orthodox development of its economy.

27. Mr. AUBOIN (France) said it was gratifying to find throughout the *World Economic Survey, 1958*, the conviction that an improvement in living conditions and in international understanding could come only from a determined resolve on the part of the more developed countries to pursue their economic expansion, thus enabling the less developed countries in turn to make up the leeway. Recent events showed that a vigorous recovery had set in in the United States, and that in Europe the record levels previously attained were again being approached. The *Survey* expressed apprehension that a desire to check the continued rise in prices and concern over the balance of payments might induce governments, even in the more developed countries, to slow down expansion deliberately. Such a deliberate slowing down would have a serious effect on the world as a whole.

28. The events of the preceding ten years, during which the development of world economy had been marked by constructive effort and a determination to use human labour and modern technical possibilities to the full, augured well for the future. During the first post-war years, the concern for balanced and durable growth through the restoration of a satisfactory monetary system had had to be relegated somewhat to the background. The result in many countries had been inflationary pressures, price increases and currency crises, which had obliged the authorities to revise their policy. It was not surprising, therefore, that in the more developed countries emphasis was more and more being attached not only to the physical—but also to the financial and monetary—aspect of expansion. In that development, the international organizations had played an extremely useful part.

29. It had been realized that an active and flexible monetary policy designed to avoid excesses or shortages of liquidity and to maintain at least a relative stability in exchange rates and prices provided the surest basis for a balanced expansion. Experience had shown the futility of policies which used negative measures of restriction and economic nationalism as a means of promoting progress. France had always associated itself with that development, and had happily been able to participate fully in the decisive advance towards monetary convertibility, the liberation of trade and the progressive lowering of customs barriers made by most European countries in December 1958.

30. From the analyses made by the Secretary-General and the Commission on International Commodity Trade, the French delegation noted two significant facts: the exports of the less developed countries had decreased substantially in value from 1957 to 1958; and the fall in the consequent income of the raw material exporting countries had been accompanied by an unfavourable development in their terms of trade. The French delegation therefore fully agreed with the Secretary-General that the commodity problem was the crux of the vaster

problems of the economic development of the under-developed countries, and that the disquieting uncertainty concerning the growth of their national income was an impediment to the rate of expansion of those countries and to their economic stability.

31. Behind the great variations in economic activity, other factors still were persistently at work: a disequilibrium between production and demand, and the use of substitutes for raw materials or economies in their consumption. At the same time, the cyclical slowing down of world economic activity periodically raised the problem of raw materials. Thus, during the preceding two years, the international community had become increasingly aware of the difficulties in connexion with the commodity trade and of the need to overcome them—hence the reorganization of the Commission on International Commodity Trade, and the amount of activity at the international level. A concerted effort unprecedented in that sphere was at present being made. The Commission on International Commodity Trade intended to include in its programme of work a study of prospective production and demand (E/3225, para. 61). That was a difficult but not an impossible task.

32. The importance of such studies must not be allowed to obscure the fact that a system of concrete action already existed and should be made to function efficiently. If the principal producers and consumers all acceded to the existing international agreements, that would be the best proof that the international community had understood the need for a collective effort. At the same time, the primary producing under-developed countries themselves must genuinely work together. As was stated in the latest report of the International Monetary Fund (E/3197), the less developed countries could not escape the obligation to adapt their own economies to fluctuations between high and low demand, though the prevention and correction of excessive cyclical fluctuations were a responsibility primarily for the large industrial countries.

33. Both the *Survey* and the Secretary-General's statement (1068th meeting) had tackled the major question of economic growth in relation to the trend of prices. Their analysis had brought out what seemed to be a conflict between expansion and stability as objectives; and both had expressed the fear of the former objective being sacrificed to the latter, with the risks that would entail. The Council had heard divergent opinions on that important question. One essential factor was the cumulative character of chronic rises and falls in prices and their rapid repercussions on the balance of payments. France had had experience in that matter only recently.

34. The French Government had now put into effect an over-all reform with regard to financial reorganization and the establishment of links between the French and the international economies. The reform had been deliberately based on expansion. The main objective—namely, a reversal of the tendency towards a fall in the value of the franc and the exhaustion of reserves—had been achieved remarkably quickly. It had also been very soon apparent that the rise of prices was much more limited than had been originally foreseen. The most important point, however, was that the reform had led to a recovery which had become quite definite. The index

of industrial production for May had exceeded that of the corresponding month in 1958, and the figure of 171, compared with the basic index number of 1952 = 100, constituted a new record.

35. The expansion of exports had also been more rapid than expected, and external trade had again registered surpluses. Foreign exchange reserves had risen in six months by \$1,250 million, and now stood at \$1,633 million, or \$700 million more than France's short-term commitments. The French Government had decided in consequence to take new measures to relax exchange control.

36. A situation highly favourable to vigorous expansion had thus been created in France, which since the beginning of the year had been associated more closely with other European countries in the European Economic Community. In that connexion, he referred to a somewhat surprising remark made by the representative of the Soviet Union at the 1069th meeting to the effect that the Common Market was contrary to the principles of the United Nations Charter. He would add to the pertinent reply by the representative of the Netherlands at that same meeting that such allegations should not be lightly made. In the case in point, the baselessness of the complaint was further underlined by the unexpected solicitude of the USSR representative for western European unity and for OEEC. He assured the USSR representative that the objectives of the six member countries would not be achieved if the Community did not add its contribution to the development of exchange throughout the world.

37. With regard to American monetary policy, he would simply point out that the policy pursued by the United States had to its credit the tremendous achievement of eliminating the dollar gap, which not so long ago had been spoken of as permanent.

38. There was no reason to think that a policy which had yielded positive and manifestly desirable results could be reversed. His delegation was convinced, on the contrary, that it would continue to provide a firm foundation for the common objective of general progress.

39. Mr. FARUQI (Pakistan) observed that there were marked divergences of opinion in the Council as to the conclusions to be drawn from the *Survey* in regard to trade in primary commodities and the economic outlook for the future, even among countries belonging to the same broad group of economically developed countries and subscribing to the same ideology, such as the Netherlands on the one hand, and the United Kingdom and the United States of America on the other.

40. There were various factors in the situation which the *Survey* might have taken into account. For example, freight rates as much as the low price of primary commodities played havoc with the terms of trade of the primary producing countries. The terms of trade mattered more than the volume of trade or the maintenance of a constant ratio of growth between the volume of trade in manufactured goods and primary commodities. The situation did not call for either over-optimism or panic, but the urgency of action should be measured by the rather insignificant advances so far made by under-developed countries in the field of economic development, despite

all the goodwill and material aid they had received from the economically developed countries.

41. The economically under-developed countries were entitled to protection and fair treatment in the sphere of trade in primary commodities. International agreements on a few commodities and the over-all volume of foreign aid had failed to secure substantial results. His delegation was firmly convinced, however, that the necessary goodwill existed in an abundant measure in the United Nations, and all that was required was a concrete policy to express it in terms of action.

42. Describing the general economic situation of Asia and the Far East, he said that it presented a dismal picture. Both agriculture and industry had suffered reverses, and the expansion of output had come to a temporary halt. On a per caput basis, the production of cereals in the region had declined to the lowest level since 1952, owing mainly to unfavourable weather conditions. However, industry in Taiwan, south Korea, Pakistan and the Philippines had expanded. The increase registered was, however, modest, and indicated a slowing down in the rate of growth. In the region as a whole, the textile industry had suffered most, owing to the decline in output resulting from a lag in the world consumption of textiles.

43. Food production in Pakistan had declined by 4.2 per cent in 1957/58, necessitating the import of food grain. Industrial output had increased at a declining rate, as foreign exchange difficulties had led to restrictions on imports of industrial requirements. Money in circulation had risen by 7 per cent. Monetary expansion in the face of stagnant agricultural output and declining industrial growth had exercised an upward pressure on the price level. Inflationary trends had also affected the balance of payments by reducing exportable surpluses and raising the intake of food grain at a time when export prices were moving down under the pressure of recessionary conditions in the world commodity markets. One of the first steps taken by the new Government of Pakistan had been to control the prices of the most essential requirements of the common man, which had reached a dangerous level. A Price Advisory Committee had been set up, and industrialists were allowed a margin of profit not exceeding 20 per cent of turnover. The Government had also tackled the problem of land reform, and had given the highest priority to food production. An Agricultural Commission was being set up which would report to the Government on agricultural production, and suggest measures for improving agriculture.

44. The new Government of Pakistan intended to lay greater stress on the development of medium- and small-scale industries, as well as cottage and domestic industries. It had realized that the concentration of large industries in a few important towns would neither increase the purchasing power of the people of the country nor expand employment opportunities. The smaller industries would provide fuller employment for the agricultural workers and their families. The Government encouraged foreign investment, and had revised its trade policy. Exporters were allowed to use 20 to 40 per cent of their foreign-exchange earnings for

importing goods from a list of 219 permissible items under the Export Bonus Scheme. His government had also taken measures to check inflationary trends in the country, and the bank rate had been raised. Government expenditure on economic development would be limited to the resources which were available from foreign aid, government savings and genuine private savings.

45. Mr. ORTIZ (Costa Rica) said that his delegation could not share the optimism expressed in some of the statements made during the debate.

46. It supported the view expressed by the Secretary-General (1068th meeting) and by the United Kingdom representative (1071st meeting) concerning the vital importance of the problem of the under-developed countries.

47. Turning to the economic situation of Costa Rica, he pointed out that the price of its main export, coffee, was continually declining on the world market, owing to competition from Africa. Costa Rica had therefore had to impose strong protectionist measures and high customs tariffs in order to avert an economic catastrophe. Its people suffered as a consequence, since they could not purchase manufactured products because of their high prices. The United Nations was helping the various nations of Central America to form a common market, but such plans took time to put into operation, and the economic situation of Costa Rica called for urgent action. He wondered whether the advanced countries which bought coffee at perhaps one cent less a pound realized the effects of their action on the Costa Rican economy. If such countries could agree for a period of ten years at least to buy coffee at a reasonable price, the under-developed countries of Central America could complete their plans for economic integration, industrialization and diversification of exports.

48. Costa Rica's faith in the United Nations remained unshaken, but it feared that the trend was for the highly industrialized countries to become wealthier, selling their goods at higher prices and buying raw materials at low prices, and for the under-developed countries of Central America to become poorer and to remain undeveloped because of the low prices paid for coffee.

49. Mr. MASOIN (Observer for Belgium), speaking at the invitation of the President, said that the Belgian Government was disturbed by the present situation. There was some disparity between the rapid economic rebound in the United States and the slow improvement in Europe. The new boom in the United States and Europe had so far had only a slight effect on primary commodity prices. The relative price stability was perhaps an earnest of coming long-term expansion, but the downward trend in the price of goods exported by overseas countries which were in the course of development was one more factor that seriously increased the deficit in their balance of payments and budgets. Even more serious, perhaps, was the fact that there was no certainty that the present terms of trade as between primary commodities and industrial goods were abnormal. Many countries had established their level of living on the basis of the exceptional terms prevailing between 1950 and 1956.

50. The *Survey* pointed out that development in the industrialized countries did not have a proportionate effect on the countries producing raw materials, because that development aimed at quality as much as quantity, and the expansion of the tertiary rather than the primary and secondary sectors.

51. That would appear to raise very broad problems. In the first place, the time had come to seek a solution to the problem of expansion not only through national and regional plans, but on a world-wide scale, as the Secretary-General had pertinently remarked. The word "expansion" was construed by some as expansion of productive capacity, by others as expansion of demand. Both notions were correct — the former in the long run and the second in the immediate future — and complementary, since demand should always exceed supply if the increase in productive capacity implied by progress was to be justified. That might be called inflation, but the elasticity of advanced economies should certainly not be underrated, nor the risks of an expansion of demand overrated. Admittedly, expansion carried on in special areas soon came up against boundaries formed by balance-of-payments deficits or a rise in prices and domestic costs, and led to a renewal of protectionism, which was no solution at all.

52. The overriding advantage of a world-wide expansionist policy was that its consequences balanced each other, without detriment to an increase in the economic potential and the improvement of well-being. That was how the Belgian Government had construed the Secretary-General's appeal, and why it supported it.

53. Secondly, the problem of the economic development of the under-developed countries must be thought out again. It tended to grow even worse with the rapid growth of their populations. In the Belgian Congo, \$300 million to \$400 million must be invested annually to enable a population increasing at the rate of 2.7 per cent per year to improve its per caput income by 2 to 2.5 per cent annually. As the Congo was essentially a primary producer — despite increasing industrialization — and Belgium a processing country, the Belgian Government had a twofold interest in the stabilization of prices for such commodities. It was a difficult problem, for if stabilization agreements were to last, they would have to be general — i.e., cover all commodities and be concluded on a world-wide scale.

54. The Belgian Government's main fear was that stabilization might in the long run work to the detriment of producing countries as a result of the constant reduction of their producing capacity or stock formation. Price stabilization would, therefore, seem to be only a very incomplete and very temporary part of the general problem of the economic development of the under-developed countries. What must be stabilized were the earnings of such countries, and that was possible only within a continued expansion of the world economy and by the continuous industrialization of the primary producing countries. The two problems were inter-related, and the solutions were also to be sought jointly.

55. If a policy of concerted expansion enabled world income to be increased annually by 4 per cent, some fraction of that increase might be devoted to invest-

ment in the under-developed countries. The costs of international transfers would soon become a regular item in national budgets, but all countries must join in mustering the resources.

56. Mr. EGGERMANN (International Federation of Christian Trade Unions), speaking at the invitation of the President, said that, while it was encouraging to see that the world economic situation was more hopeful than in the summer of 1958, his organization regretted the dilatoriness in stimulating expansion still displayed by many countries. In most countries—even those where production capacity was adequate for some increase in output—the present rate of economic development was far too low. It was clear from the *Survey* that the main reason why governments were not taking the necessary steps was fear of inflation. But at the moment that fear was exaggerated, and it was essential to remember that the consequences of deflation were equally serious. The authors of the *Survey* had shown that many countries were prepared to accept considerable periods of under-employment to ensure complete stability of prices.

57. The employment situation was far from satisfactory, the rate of increase in employment being far lower than that of output. The only solution was to establish a proper rate of economic development. The *Survey* showed that the rate of recovery was governed entirely by the extent of demand; and demand would be stimulated if all countries concerned took steps to increase consumption, investments and trade. Special efforts should be made to increase consumption by raising wages, reducing taxes on small and medium-sized incomes, and increasing social security benefits. Wage increases could not be regarded as a prime cause of inflation in an expanding economy, and trade union organizations would call for wage increases if governments failed to provide greater price stability by means of price controls and subsidies.

58. The *Survey* had stressed the importance of the role played by the public sector in economic recovery, and his organization appealed to all governments concerned to review their policies in that connexion and to increase their allocations for housing, schools, hospitals, etc.

59. It was generally known that the primary producing countries financed their economic development by means of exports; but exports had not increased in recent years, the main reason being that in the industrialized countries the demand for raw materials had increased more slowly than income. In addition to that long-term problem, there were also short-term fluctuations to contend with, but the authors of the *Survey* had forecast that the situation would be easier in 1959. In those circumstances, his organization attached great importance to national and international commodity policies. It was convinced, as were the authors of the *Survey* (chapter 2), that measures taken at the national level were utterly inadequate for solving a problem of international proportions. It also wished to associate itself with the main recommendations contained in chapter 3 of the *Survey*.

60. All the new plans prepared by the countries with planned economies provided for a lower rate of expansion in industry and agriculture. It was extremely significant that those responsible for the planned economies had approved a change in that direction. One contributory factor must have been the aspirations for a better life displayed by the peoples who had been affected by forced industrialization programmes. The new situation in the countries with planned economies confirmed his organization's conviction that the only economic policies to endure in the long run would be those which openly recognized the priority of social over purely economic considerations.

61. The Federation wished to suggest that the Council should recommend all States Members of the United Nations to pay greater heed to the views expressed by workers.

62. The SECRETARY-GENERAL said that at the close of the debate on the world economic situation in plenary meeting, he wished to thank all the participating delegations for their kind comments on the *World Economic Survey, 1958*, as well as on his opening statement (1068th meeting). The debate had been a healthy one, and he thought that it was fair to say that it had been helpful in clarifying some of the major issues confronting the world economy. The problems were far from simple, and it could therefore surprise no one that agreement had not as yet been reached on the nature of the factors and causes at work, let alone on the policies required for their solution. The mere fact that the Economic and Social Council was an established forum where the nations of the world could meet to discuss those issues and earnestly seek to harmonize their views represented a major step forward.

63. The economic challenge which the United Nations had made to all mankind was a far-reaching one. It was nothing less than the balanced growth of the world economy. No one was so naïve as to believe that that goal could be achieved quickly. Yet, in his judgment, it was a goal which man could not afford to ignore if he was ultimately to learn to live at peace with himself and his fellow men.

64. The phrase "balanced growth of world economy" had been heard so often in the halls of the United Nations that he sometimes wondered whether the repetition might not have dulled people's senses to its true meaning. Yet, it was beyond question the most ambitious economic goal mankind had ever set itself, embracing—and in a sense superseding—all economic objectives. It involved not only balanced economic growth within nations—difficult to achieve as that target was in itself—but, even more, balanced economic growth among nations.

65. It was only in the present generation that the world had come to appreciate the true significance of the target of balanced growth, even within nations. Until the depression of the 1930s there had been, as all knew, a widespread tendency to assume that the economic problem was essentially one of achieving a balance between demand and supply in individual markets. It had been widely assumed that, if only prices were sufficiently flexible to maintain equilibrium in individual markets, global balance within the economy would take care of

itself. All had since come to realize that there was a wider problem of maintaining full employment, of achieving a balance between aggregate demand and supply, or a balance between savings and investment, over and above the problem of maintaining equilibrium in individual markets.

66. No one could fail to be impressed with the importance of that advance in economic thinking. It had been responsible for innumerable fiscal, financial and other institutional measures, vastly increasing the strength and resilience of the world economy. It had led to the development of a whole series of "automatic stabilizers" which had served to moderate the rate of economic decline in all three post-war recessions. As had been noted in the *World Economic Survey*, depressions of the order of magnitude of that of the 1930s had now become unthinkable. But the range between the depression dimensions of the 1930s and the magnitude of the post-war recessions was an extremely wide one. If there was really any difference of opinion in that area, it was not over whether one might take comfort from the improvement over the past. It was rather over the question whether the post-war experience was sufficient proof that it could now be assumed that all recessions were henceforth bound to be short and mild. As he had said in his earlier statement, he believed that "the understanding of economic forces—to say nothing of the power of complete control over them—was far from being so precise as to rule out for all time the possibility of an economic set-back of substantially greater dimensions than any that had been experienced in the post-war period" (1068th meeting, para. 5). Naturally he would be happy if future events proved that to have been wrong, but in the meantime he believed it necessary to continue to urge a word of caution in the Council against placing a heavier burden on the "automatic stabilizers" than they could really carry.

67. Nor was he pessimistic on the question of recovery from the latest recession. On the contrary, as he had indicated in his earlier statement, taking a short-term view of the situation, he thought that there was reason to feel encouraged by recent events. Although the *Survey* had been completed several months previously on the basis of data referring to earlier months, it had also expressed gratification that the recession, though sharper than the two earlier downturns, had proved to be even shorter. And far from assuming that the world was merely lucky in getting out of the recession, chapter 5 of the *Survey* examined in some detail the role of governmental monetary and fiscal policy in the recovery.

68. The basic problem discussed in the *Survey*, however, concerned not the magnitude of the last recession or the rate of recovery, but rather the longer-term problem of growth with stability — one phase, albeit a major one, of the problem of balanced growth of the world economy. Although the Secretariat had felt that discussion of that problem in the Council would benefit by a forceful presentation in the *Survey*, it would not be prepared to characterize its views as pessimistic or gloomy. To pose a problem for debate in the Council was not to imply that it was insoluble; indeed, if he really believed that he was dealing with iron walls through which no opening could be found, he could see no point in bringing the

problem to the attention of the Council. If he urged those problems upon the attention of the Council and the governments, it was in the hope of making some contribution, however small, to the search in which all were engaged for policies and programmes to maintain full employment, promote economic development and raise the levels of living everywhere.

69. Both in his addresses to the Council and in the *Survey*, he had frequently emphasized the very important advance that had already been made in the post-war period merely by the recognition and acceptance of the target of growth. When the target of full employment had first won acceptance during the depression, it had been conceived of largely in static terms of utilizing the existing manpower and productive capacity. It was only gradually in the course of the war that people had come to realize the enormous potential for economic growth possessed by any modern industrial economy. Gradually the emphasis had shifted from static to dynamic considerations, and the target of full employment had come to be reinterpreted to embrace not merely the utilization of existing resources but the continuous development of resources and improvement of productivity so as to promote high rates of economic growth.

70. That attitude had been reinforced during the early post-war years. In the face of widespread, intense inflationary pressures, governments and peoples throughout the world were, as he had indicated in his opening remarks, "growth-minded". Despite their preoccupation with the problems of inflation, governments strove to accelerate investment and promote rapid economic growth, confident that in the final analysis the acute inflation could not be eliminated unless there was a sufficient increase in productivity to permit a marked improvement in the balance between demand and supply.

71. It was the gradual decline in emphasis on the objective of economic growth in recent years that was the basis of the Secretariat's concern. That was the aspect to which he addressed himself, and to which much of the *Survey* was devoted. It was the slow rate of growth in the main industrial countries during the so-called boom period rather than the rate of recovery from the recession that raised the more basic long-term questions.

72. He realized that governments had ample reasons for the policies they adopted. He did not wish to minimize the dangers of inflation, of budget deficits or of deficits in the balance of payments. But it was proper to ask whether governments had not been coming in recent years to emphasize stability unduly at the expense of economic growth. In raising that question, moreover, he did not wish to imply that governments should go to the other extreme of promoting growth without regard to stability. It was because he believed that economic growth and economic stability were ultimately reconcilable, and not because he believed that governments should choose one rather than the other, that he had urged that problem upon the attention of governments. If he did not recommend unemployment and stagnation — even if at a high level — as a reasonable price to pay for price stability, neither did he recommend inflation as a means of promoting economic growth. Although the problem

was exceedingly difficult, and no simple solution could be found, he firmly believed that each country could, within the framework of its own traditions and institutions, resolve the conflict and achieve both growth and stability. But to do so it must, at least as a first step, recognize that there might be such a conflict, and that unemployment and stagnation were not an acceptable price to pay for stability.

73. The problem of balanced growth was more than a national problem. It was, in fact, because of its international implications that he attached so great an importance to it. The economic development of under-developed countries and the narrowing of the gap between their per caput incomes and those of the more advanced industrial countries had come to be recognized as the most important economic objective of the United Nations. The *World Economic Survey* had attempted to analyse one of the major elements of the problem — the element relating to the nature of the trade relationships between the developed and under-developed countries. The *Survey* found that one of the key factors in the problem of narrowing the gap in economic growth was the lag in demand of the industrial countries for primary commodities in relation to their own rates of economic growth. There were, of course, good and valid reasons for that lag, and the present *Survey* as well as those of the past had devoted considerable space to discussion of the basic factors. Obviously, there was no reason in logic or in policy why production in one sector should move in a constant ratio with that in other sectors. No one suggested that there might be anything illogical or improper in the fact that consumption of food and clothing, for instance, did not rise as fast as that of durable goods. Far from suggesting that the lag in demand for primary commodities was due to unsound circumstances, the *Survey* noted that, in principle, economies in using up natural resources must be no less beneficial to mankind than savings in manpower or capital. But, however beneficial such economies might be to mankind, people could not blind themselves to the problem which that lag created for the balanced growth of world economy.

74. He had put before the Council the thesis that the

trade relationships between developed and under-developed countries constituted a serious obstacle in meeting its objective of balanced growth of the world economy. Needless to say, that did not mean that internal inflation or external deflation had not played an important role in post-war international disequilibrium; the *World Economic Survey* for 1956,¹ as well as that for 1957,² had analysed that problem at considerable length. Nor was it intended to minimize the significant role which monetary and fiscal policy could play in eliminating such external imbalance as was due to inflationary or deflationary pressures. But that, to quote from his opening statement, was “a different matter from saying that all balance-of-payments problems of under-developed countries were amenable to such treatment. Policies of retrenchment could not solve problems arising from structural disequilibrium of the type which occurred because the demand of under-developed countries for capital goods tended to outrun the demand of industrial countries for primary products. Or, if such policies did solve those problems, they could do so only by preventing the very expansion which gave rise to them” (1068th meeting, para. 18).

75. All had come to accept the notion that equilibrium in the balance of payments in an industrial country, which was won at the cost of unemployment, was a sham equilibrium. He believed the time had come to recognize equally that any equilibrium in the balance of payments of under-developed countries which would doom them to widening rather than narrowing the gap between their per caput incomes and those of the developed countries would also be a hollow balance.

76. The PRESIDENT thanked the Secretary-General for his statement. He then declared the general debate on item 2 (a) and (c) closed and stated that, in accordance with the Council's decision concerning its arrangement of business, the item would be referred to the Economic Committee for detailed consideration and report.

The meeting rose at 6 p.m.

¹ United Nations publication, Sales No.: 1957.II.C.1.

² United Nations publication, Sales No.: 1958.II.C.1.