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President: Mr. George F. DAVIDSON (Canada)

Present:

Representatives of the following States: Brazil, Canada, Chile, China, Costa Rica, Finland, France, Greece, Indonesia, Mexico, Netherlands, Pakistan, Poland, Sudan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers for the following Member States: Australia, Bulgaria, Israel, Italy, Japan, Laos, New Zealand, Portugal, Spain.

Observers for the following non-member States: Federal Republic of Germany, Holy See, Switzerland.

Representatives of the following specialized agencies: International Labour Organisation, United Nations Educational, Scientific and Cultural Organization, International Civil Aviation Organization, International Monetary Fund.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 2

World economic situation

(a) Survey of the world economic situation, including questions relating to employment and to the expansion of world trade (E/3110, E/3116, E/3117 and Corr.1, E/3119 and Corr. 1, E/3127 and Add.1-3, E/3151; E/CN.12/489 and Add.1-3; E/CN.13/27; E/ECE/317; E/L.795, E/L.801) (*continued*)

1. Mr. PREBISCH (Executive Secretary, Economic Commission for Latin America), describing the main features of the Latin American economy in the recent past, said that during the period under review there had been an aggravation and development of the long-standing problem of the economic vulnerability of the Latin American countries to events outside that region. At one time, industrialization had provided reason to believe that those countries would be less at the mercy of external fluctuations. That illusion had now been shattered. The Latin American countries were economically vulnerable because their exports accounted for a large proportion of their economic activity. The percentage was now lower, but the economy of the region was still as vul-

nerable. The most highly developed Latin American countries had done their best to cut their imports of manufactured consumer goods in favour of semi-manufactured goods and products essential to their economic development—namely, raw materials, especially petroleum products and capital goods.

2. Argentina — an extreme case, but one which reflected the general tendency in Latin America — had already reduced the ratio of its imports to the total economy to 7 per cent, and would persevere in its efforts over the next ten years with the object of bringing the figure down to 5 per cent. Countries which had already reduced their imports to such a substantial extent had no immediate margin for further cuts when world prices fell.

3. The problem of reducing imports was one of the most serious with which the Latin American countries were faced. It was the outcome of the development of the economic process and of an industrialization which had expanded in watertight compartments of the economy. The countries of the region were still developing their economies against an out-of-date background. Each of them traded with the great industrial centres of the world, but carried on only limited trade with the other countries of the region, which exacerbated Latin America's vulnerability to external economic fluctuations. An attempt to enlarge the range of goods which could be exported had become apparent, but it would succeed only if trade was organized on different bases. That was why the idea of creating a regional market in Latin America was gaining ground. It was clear that if there was more trade between the countries of the region, they would be less vulnerable to outside influences.

4. Comparing the efforts to achieve integration with those made in Europe with the object of reorganizing the European economy, he stressed that the conditions obtaining in the two areas differed in several respects. The volume of intra-European trade had formerly been large, and the aim, therefore, was to restore it. In Latin America, trade between the various countries was very limited, and means must therefore be found of changing its pattern. There was every reason to believe that, without adversely affecting the more general measures which might be taken to reduce fluctuations in the prices of primary commodities, it would be worth while trying to bring about profound changes in the economic structure of those countries and in their trade, along the lines he had just suggested.

5. There were other reasons militating in favour of the creation of a regional market in Latin America. It was obvious that the Latin American market was of limited scope, and the studies made the Economic Commission for Latin America (ECLA) had shown that the problem of capital equipment was so complicated that it would be

impossible to solve it within the next fifteen or twenty years unless the more advanced countries of the region increased their own output of capital goods not only out of their own resources but also by means of imports.

6. It might be asked whether that move towards economic integration did not conceal a tendency to economic self-sufficiency, which in the past had proved so fatal for the Latin American countries. He himself was convinced that a policy of modifying the pattern of imports, far from threatening Latin American trade with the great industrial centres of the world, would tend to encourage it. The creation of the regional market should be conceived in such a way that it would not harm such trade.

7. It was a truism to say that the value of Latin American imports from foreign countries was a function of the purchases made by those countries in Latin America. Foreign purchasing power must therefore be used judiciously to stimulate economic development. That was one of the most important aspects of the organization of the Latin American market.

8. Pursuing his comparison of economic integration in Latin America and in Europe, he said that in Latin America success would depend upon the establishment of an efficient and rational system of preferences among the various countries. In that connexion, it had been said in the Council that it would be desirable for the Latin American regional market to be created gradually and progressively under conditions of multilateral competition. Contrary, however, to what was happening in Europe, where the creation of a common market was facilitated by previously existing conditions, Latin America was tackling an entirely new problem, which made it necessary to proceed by stages. It was equally essential that the countries of the region which had greater possibilities of integration should have at their disposal instruments enabling them to negotiate agreements, thus contributing to the creation of a favourable climate for broader and broader associations. It was also essential to break out of the narrow framework of bilateral negotiations; the agreements relating to economic integration must be open to all the countries of Latin America, and hence must be multilateral.

9. It should also be pointed out that the insistence from the outset on the idea of competition had been intended to correct the misapprehension of those who thought that the regional market must result in an artificial division of industry among the various countries. Although some specialization was inevitable, it would derive solely from the preference of each for certain industrial activities. He referred to the work of the Working Group on the Regional Market, which had met at Santiago in February 1958 to lay down the principles on which the methods and institutions of the regional market should be based. In accordance with the experts' suggestion, the ECLA secretariat was about to embark upon a new stage of the work, which would consist in new analyses of specific problems; in accordance with the instructions of the governments concerned, ECLA was considering convening at Rio de Janeiro a meeting of the Central Banks Working Group, which would be bigger than that held at Montevideo in 1957, and would study the introduction

of a multilateral payments system against the background of the efforts being made to liberalize trade.

10. In conclusion, he stressed that ECLA did not forget that it was a regional instrument of the Council; and in its efforts to help towards the economic integration of Latin America, it was not losing sight of the fact that that region was an integral part of the world.

11. Mr. VIDIC (Yugoslavia) said that the economic recession in the United States of America and the slowing down of economic development in many industrial countries were to a great extent the expression of unsolved long-term problems of the domestic and world economies. For that reason, existing world economic problems could not be considered a consequence of the recession, nor would they be automatically solved once the present economic decline had been overcome.

12. There were three main groups of long-term problems relating to economic stability. The first was the present state of disequilibrium, in which 18 per cent of the world's population enjoyed 67 per cent of the total world income. The second was the introduction of the policy of military blocs into the economic spheres, thus artificially dividing the world market, with serious repercussions on political stability. The third was the fact that, in the present stage of world development, any State — and particularly economically powerful States — could, by pursuing certain policies, harmfully affect not only its own development, but international economic stability.

13. Attention was now focused on the serious problem of primary commodity markets and the deterioration in the payments situation, both of which were aspects of the basic problem of the under-developed countries. The *World Economic Survey, 1957* (E/3110, p. 175) showed that in 1956 export earnings had fallen in twenty-two of the seventy-five reporting primary exporting countries, but for 1957 the figure was twenty-seven. The terms of trade of the primary exporting countries had further deteriorated because of the increase in the prices of imported industrial goods. To offset the ill-effects of fluctuations in the world market, the under-developed countries needed to diversify their economic pattern; that meant industrialization and additional foreign funds, which in turn meant an increase in exports of primary commodities.

14. The problem was aggravated by the deterioration of international liquidity. It appeared from page 185 of the *World Economic Survey, 1957* that during 1957 there had been a twofold increase in the proportion of primary exporting countries whose official reserves were sufficient to finance less than two months' imports at average 1956-1957 rates. It was therefore clear that the problem could not be solved by short-term measures alone, since insufficient international liquidity was the result of the unbalanced development of productive capacity in different parts of the world. The only solution was industrialization, for which more energetic international financial assistance was needed.

15. Political tension had an adverse effect on world economy by diverting a huge share of economic resources to military production, and by artificially dividing the world market into two. The Yugoslav Government

advocated a broad economic policy, pursuing nothing other than normal economic aims, in order to help to bridge the existing division of the world, and to bring about an increase in economic and political stability.

16. With regard to the international effect of the economic policies of individual countries, recent years had witnessed increased efforts to achieve economic integration. That was in keeping with the developments of modern technology, but sometimes too much stress was placed on political affinity, and no country should disregard the impact that a policy of economic integration might have on other regions.

17. In Yugoslavia, economic development had been financed primarily from domestic resources, although valuable foreign aid had been received. Average annual investment in the post-war period — two-thirds of it in industry and mining — had amounted to 25 per cent of the national income. There had been considerable changes in the economic pattern during the vast social and economic reorganization that had taken place in the country. The proportion of agricultural population had fallen from 75 per cent in 1938 to 58 per cent in 1956, while the proportion of national income provided by industry and handicrafts had increased from 26 per cent to 46 per cent. Since the war, production of capital goods had increased elevenfold, electric power fivefold, and steel almost fivefold.

18. Those developments had necessarily resulted in a balance-of-payments deficit and some domestic inflation. As the *World Economic Survey, 1957* pointed out (p. 111), under-developed countries would be better able to counter the constant danger of inflation that accompanied their compelling need to hasten the pace of economic growth if they could draw on a greater supply of foreign capital. Heavy investment, combined with a vast defence expenditure necessitated by the world situation, was the reason there had been only a modest increase in personal consumption in Yugoslavia in spite of the considerable growth in production. Yugoslavia had, however, laid solid foundations for further economic development, the gradual elimination of the payments deficit, and a rise in personal consumption. Moreover, its economic development had been accompanied by closer links with the world economy and the establishment of trade relations with countries of both the east and the west. Yugoslavia's economic practice was the corollary of her political policy.

19. He had certain suggestions to make with regard to the special problems of the under-developed countries. The first problem — fluctuations in primary commodity markets — was being dealt with by five separate bodies: the Commission on International Commodity Trade, the General Agreement on Tariffs and Trade, the FAO Committee on Commodity Problems, the Interim Co-ordinating Committee on International Commodity Arrangements, and the International Monetary Fund. The activities of those bodies were not sufficiently co-ordinated, and their practical effect had been disappointing. It might be useful to resort to the method of consultation of government experts in order to examine the problem thoroughly, and perhaps to work out recommendations for further international action. Consideration might

also be given to the international liquidity problem and to an increase in the resources of the International Monetary Fund, whose method of operation might with advantage be adapted to new needs. He hoped that during the present session agreement could be reached, and practical steps taken to deal with that problem.

20. Yet, even when steps had been taken to stabilize primary commodity markets, the need for financing economic development in the under-developed countries would remain urgent, since many of those countries lacked the capacity even to increase their primary exports. All available resources should therefore be mobilized for broad action, particularly for that purpose, along the lines of SUNFED. Such action would improve the world economic situation and serve the genuine interests of the more developed countries. The *Annual Report of the Economic Commission for Asia and the Far East* (E/3102, para. 271) had drawn attention to the need for the industrial countries to maintain high and stable levels of employment, income and demand, if the primary exporting countries were to secure steady and growing markets for their agricultural and mineral products.

21. Mr. NESBITT (Canada) felt that the somewhat provocative remarks of the representative of the Soviet Union at the previous meeting could only have the effect of diverting attention from the main channels of discussion. It seemed odd that he should have been eager to accept those sections of the *Survey* dealing with economic difficulties of the industrialized countries of the west while rejecting as groundless the sections that dealt with inflationary tendencies in the Soviet Union.

22. In most parts of the world, the post-war period had been one of impressive economic growth and social betterment. Canada had shared in the general expansion, the volume of output having risen by more than two-fifths since 1949. Much of the increase was due to higher productivity, which had made possible a real increase of almost one-third in the incomes of industrial workers. Part of that increase had been taken in the form of leisure time, so that working hours in industry had declined from an average of 42.3 hours per week in 1949 to 40.4 per week in 1957.

23. The year 1957 had marked a turning point in post-war economic development, but the current period of adjustment would provide an opportunity for consolidating the progress of the last few years and preparing for a resumption of economic expansion. Such periods of adjustment were essential in a dynamic and flexible economy. The change in the world economic climate since the Council had requested the study of inflationary trends contained in part I of the *World Economic Survey, 1957* strengthened the view expressed by the Canadian delegation at the 24th session that the Secretariat should be allowed greater flexibility in selecting subjects for examination in the *Survey*. The Secretariat had, however, related its analysis to the present world economic situation, and presented comments designed to help governments in dealing with current problems. It had drawn attention to significant structural changes which might have tended to give the economies of industrialized countries a somewhat more inflationary bias than in the past. There was some evidence of such changes in

Canada, but there was also evidence that the rise in prices was mainly due to excessive pressure of demand. The price rise had tended to continue after demand pressure had slackened, but that had been noted in previous cyclical movements.

24. In Canada, the economic downturn had been smaller than any in the inter-war period, and there were grounds for believing that a depression on the scale of that which had begun in 1929 could not occur in the modern world. In most countries, there were a number of "built-in stabilizers" in the form of price supports, unemployment insurance, social security schemes and collective bargaining arrangements which tended to arrest downward economic trends at an early stage. Government requirements made a larger claim on the national output, so that variations in government spending could have a significant influence on the level of economic activity. Moreover, since the war, far-reaching steps had been taken in the international field which had had the effect of reducing the impact of recessionary forces. The charters of the International Monetary Fund, the International Bank for Reconstruction and Development and the General Agreement on Tariffs and Trade were a reminder that restrictive national policies in times of economic difficulty exaggerated the recessive process, and that those institutions were designed to encourage expansionist policies as a means of overcoming recessionary tendencies. Canada supported such an expansionist policy, and her economic policy had played an important part in combating recessionary influences. Between 1956 and 1957, direct government spending had increased by approximately 7 per cent. Consumer expenditure had been encouraged by tax reductions and by an increase in unemployment insurance payments, pensions and family allowances. In order to counterbalance the decline in business investment, house-building had been stimulated by a reduction in down-payments on government-backed mortgages and the provision of \$300 million of new government funds to supplement private loans; the result had been an 80 per cent increase in new housing started during the first four months of 1958.

25. It now seemed likely that the end of the economic downturn had been reached in Canada. Industrial production had touched its lowest level in December and had since improved. Personal income and consumer expenditure were now stable and retail sales were ahead of last year's levels. After a six-month decline, employment had resumed its upward trend. The national budget for the forthcoming fiscal year had been based on the assumption of a 2 per cent increase in the gross national product for 1958, which would bring the total to an all-time record.

26. He would not attempt to belittle the seriousness of the unemployment situation during the previous winter, or of the fact that there were still more people unemployed at present than was usual for the time of year. The Canadian Government had shown its concern by introducing the subject at the recent Conference of the International Labour Organisation, where it had been considered in detail. He would therefore confine himself to a brief mention of three special aspects of Canadian unemployment. The first was the problem of seasonal variations in economic activity owing to the climate.

The second was the fact that the economic downturn had coincided with an increase in the labour force, owing to the high level of immigration during the previous year. The third was the situation of the older workers. Progress in human welfare had resulted in an increase in the average life-span, and the problem of the older worker, which was likely to be of growing importance in industrial countries, deserved special attention.

27. Whereas in the industrialized countries the chief impact of the recession had been on the unemployment figures, in the under-developed countries the repercussions had been different. There had been sharp falls in the prices of some of the primary commodities on which many of them depended for their prosperity, while supplies had been greater in 1957 than in 1956. The difficulties of the commodity-producing industries were therefore a variant of the general problem of excess capacity, which had led to a cut-back in capital investment in the industrialized countries. Canada, as a major producer and exporter of primary commodities, appreciated and shared the problems of the less developed countries in that respect.

28. It was difficult to generalize about the international aspects of economic fluctuations. For example, although Canada's total imports had declined from 1956 to 1957, purchases from Latin America and Europe had shown a moderate increase, while imports from Asia had remained stable. In considering the possible effects upon its trading partners of an economic downturn in one country, it was therefore important to take account of variations between trends in different sectors of the economy and of the composition of the import and export trade among the countries concerned. One mitigating feature of the present situation was that the small decline in the imports of the United States had been more than counterbalanced by a drop in its exports, thus improving the liquidity position of many countries.

29. The Soviet Union representative had made some gloomy forecasts about the destiny of the large part of the world that was devoted to the principles of free enterprise. The Canadian delegation reaffirmed its faith in the basically healthy condition of the free economy and in its ability to yield even greater gains in output and living standards than in the past.

30. Mr. WAHLBECK (Finland), stressing the value of part I of the *Survey*, said that inflation was still a major problem, though recessionary trends had recently appeared in several countries. A realistic analysis of inflation must take into consideration the institutional changes which had occurred in the post-war years. Finland, for example, had experienced the automatic tying of wages to the cost-of-living index, the application by entrepreneurs of a rigid full-cost pricing system, the determination of credit policy by changes in economic indicators, and the fixing of agricultural income in relation to the general level of earnings. On the one hand, those phenomena were direct consequences of the decline in the value of money; on the other hand, inflation had tended, under present conditions, to become automatic. In those circumstances, if the general equilibrium was even slightly upset, a cumulative inflation might easily set in unless the necessary countermeasures were taken early enough.

31. The decline in the value of money was attributable not only to excess demand, but also to the institutional changes to which he had referred. He agreed with the conclusion in the *Survey* that an effort to stabilize prices by restricting aggregate demand alone might bring economic growth to a standstill if the restrictive measures were too severe. The operation of institutional factors, however, made it very difficult to choose the right measures in checking a cost inflation. Since the behaviour of entrepreneurs, politicians and trade unions all had to be taken into account, policy could not be based on narrowly economic considerations alone. In a small country, highly dependent on foreign trade, it was not always easy, in determining economic policy, to take both short- and long-term aims into account simultaneously. In Finland, the curtailment of aggregate demand by the application of a general restrictive policy had in the short run been detrimental to economic growth and employment.

32. Inflation, however, had not been the only important economic problem with which Finland had had to deal. In the previous year, a rise in prices had naturally followed the 39 per cent devaluation carried out in September 1957, but the rise had been smaller than expected, and no wage/price spiral had set in. The extensive liberalization of foreign trade carried out in the autumn of 1957 had necessitated a cautious monetary policy for balance-of-payments reasons.

33. After the war, aggregate demand had been so great that the employment situation had been very satisfactory, owing partly to reconstruction work and partly to favourable conditions in export markets. More recently, however, unemployment had become of major importance. During the 1957/58 season, the number of registered unemployed had reached a peak of 78,000, representing approximately 5.9 per cent of the male labour force. Among the causes of that unemployment had been the rapid growth of the labour force, normal seasonal fluctuations, the influence of structural and regional factors, and the foreign trade situation.

34. The level of economic activity in Finland was dependent on exports, but the marked rise in costs, particularly in 1956, had weakened the competitive ability of the export industry at a time when the rate of international economic growth had been slowing down, and when the export markets had begun to stagnate. The devaluation of September 1957 had, however, improved the situation, especially so far as the export of timber products was concerned. One of the reasons there had been so much unemployment in the winter of 1957/58 was that some branches of industry catering for the home market had found it difficult to adapt themselves to the changed situation brought about partly by the liberalization of foreign trade and partly by the decline in the level of income. During the first quarter of 1958, the volume of industrial output had accordingly fallen by about 8 per cent as compared with the corresponding period of 1957.

35. Since the middle of 1957, Finland had had practically no recourse to quantitative control of imports as an instrument of economic policy. It was therefore particularly necessary to take into account the country's relatively meagre foreign exchange reserves and the fact that, during the period of controlled foreign trade, the

structure of the economy had adapted itself to prevailing conditions. Income from exports had been inadequate for the pursuit of an expansive short-term economic policy, and it had been necessary, after the devaluation, to try to keep aggregate demand within the limits set by available foreign exchange reserves. Expenditure on unemployment relief had been a heavy drain: In 1957, for example, it had amounted to 19 per cent of current expenditure, and 12 per cent of total expenditure.

36. In assessing prospects for the future, it ought to be borne in mind that the working-age population was rapidly increasing, and by 1971 would have increased by about 21 per cent over the 1956 figure. It was obvious, therefore, that more attention than ever before would have to be paid to questions of long-term economic growth. The major problem would be how to allocate investments so as to improve competitive ability in world markets and to find employment for the large age-groups entering the labour market. If the necessary capital, from domestic savings and foreign loans, could be directed into channels where the input-output ratio was most favourable, a considerable growth in the national economy could be brought about.

37. The pattern of international trade in the near future, and particularly the development of demand for the country's principal exports, would have a decisive effect upon the employment situation in Finland. Should the symptoms of depression on the world market grow more serious and restrictive policies abroad gain ground owing to balance-of-payments difficulties, Finland would face new employment problems. He hoped the Secretariat would give special attention to the problems of disequilibrium in payment relationships and international liquidity, by which the attainment of a high income level was being impeded and economic growth retarded.

38. Mr. TATTENBACH (Costa Rica) said that a question of particular interest to the countries of Latin America was the demographic situation; population was increasing rapidly as a result of improved health conditions and a decrease in infant mortality. In Costa Rica, the annual rate of increase in population was 4 per cent, and it was hardly less in neighbouring countries. The spread of education also created a new and important problem. Between 1951 and 1956, the school-age population of Costa Rica had increased by 51 per cent, compared with an increase for the population as a whole of only 18 per cent; the number of university students had also grown considerably. Those young people naturally demanded better living conditions, and it was difficult to meet their requirements in countries where economic conditions were at the mercy of fluctuations in commodity prices. Economic conditions in those countries might change if their efforts to bring about industrialization were successful, but for that they needed long-term financial assistance. The signature of the Multilateral Treaty on Free Trade and Central American Integration and of the Agreement on the Integration Regime for Central American Industries showed that the Central American countries were on the right path.

39. Mr. KAWASAKI (observer for Japan), speaking at the invitation of the PRESIDENT, said he would like

to draw attention to the peculiar pattern of inflation in a moderately advanced country like Japan.

40. On the one hand, Japan had advanced modern industries, while on the other hand her agrarian population—a considerable part of it under-employed—represented nearly 40 per cent of the total population. Consequently, the steadily rising level of wages was not a factor which accelerated inflation, as in the highly industrialized countries. The pressure of over-population, however, made it difficult to achieve both economic growth and stability. To absorb the ever-increasing labour force required an annual rate of economic growth of not less than 5 per cent, so that the annual rate of investment and imports must also be expanded in the same ratio; but in a country like Japan, where most of the raw materials for industry had to be imported, a rising tempo of economic growth immediately caused an adverse balance of payments, which would sooner or later provoke an inflationary trend. That trend had to be resisted by the application of direct counter-inflationary policies.

41. Being largely dependent on exports, Japan was much concerned about the recent recessionary trend, the causes of which, as the *Survey* indicated, had deeper roots than previous post-war recessions. While it was generally believed that the industrially developed countries were unlikely to suffer a slump comparable with the great depression of the 1930s—thanks to their “built-in stabilizers”—the less developed countries had nothing similar to fall back on, and were the hardest hit by the fall in commodity prices. If the present trend continued, those less developed countries would lag far behind the other countries in economic development, and thus become a major disturbing factor—both economically and politically.

42. The *Survey* had drawn attention to the inflationary pressure inherent in the economic structure of the primary producing countries. A further study could perhaps be made of the extent to which capital formation was needed as an instrument of counter inflationary pressure and for carrying out economic development, and of the part that could be played in the capital formation of primary producing countries by the economic co-operation of industrial countries. There was not enough international co-operation in combating the recession. Since 1957, the dollar-shortage problem had once again come to the forefront. That fact revealed the need for closer international co-operation to increase the liquidity of currencies throughout the world, and for more vigorous intervention by the international organizations which provided appropriate instruments for concerted international action.

43. Mr. BOGLIETTI (World Federation of Trade Unions), speaking at the invitation of the PRESIDENT, said that the outlook indicated in the *World Economic Survey, 1957* was far from encouraging. Even optimists who considered that the lowest point of the United States recession had been reached expected a prolonged period of stagnation, with the number of unemployed reaching seven million by the beginning of 1959. There was a tendency on the part of employers to take advantage of the situation by attempting to cripple the trade-union

movement, as could be seen from the adoption by the United States Senate of a law designed to curtail trade-union rights. Unemployment—which affected negro workers most severely, because of the discrimination against them—would be difficult to overcome in view of the development of automation.

44. The United States recession was accompanied by a marked slackening of the rate of expansion and economic activity in Europe. Signs of that were a decrease in production in some countries, an increase in stocks of coal in the countries of the European Coal and Steel Community, and serious unemployment in some others. International competition was increasing, and employers were already opposing requests for wage increases in the Common Market countries. The situation was further aggravated by the drop in exports of primary producing countries, and the tendency among American business men to reduce imports and step up exports—a tendency which was bound to have an adverse effect on the exports of western European countries and hence on their balance of payments. The World Federation of Trade Unions (WFTU) accordingly suggested that the United Nations should convene an international conference of the countries concerned, with a view to working out a policy designed to assist countries with an unfavourable balance of payments, restoring equilibrium in international trade and considering the possibility of a redistribution of monetary reserves.

45. The repercussions of the recession on the under-developed countries, particularly on primary producers, had been very severe. In the Federation of Malaya, seven thousand miners had been dismissed following the decision of the International Tin Council to curtail production. From 10.7 per cent in 1950 the share in world trade of Asia and the Far East, exclusive of Japan, had dropped to 6.6 per cent. The situation was particularly serious for Africa, since 70 per cent of Africa's exports went to western Europe. The WFTU welcomed the establishment of the Economic Commission for Africa, and hoped it would help to promote the economic and social development of the countries of the region in accordance with the true interests of the African peoples.

46. In view of the importance to the under-developed countries of the commodity market, the WFTU urged that the United Nations should convene an international conference to study ways and means of stabilizing commodity prices.

47. The WFTU considered that unemployment should be combated by the expansion of public investment for social purposes—unemployment insurance, wage increases, tax reductions, etc.—and by the development of trade without any artificial hindrances or barriers. Such measures could be financed by the funds released by the reduction of armaments.

48. In analysing the problems of inflation, the authors of the *World Economic Survey, 1957* cited as one of its causes the cumulative wage/price spiral, apparently taking the view that wage increases were in part responsible for inflation. The WFTU could not share that view; it considered that the main cause of inflation was unproductive investment, particularly investment in armaments, which were artificial stimulants of the economy. The

present situation in the United States clearly showed that the rise in prices was not determined solely by pressure of demand, and certainly not by a demand stimulated by wage increases. Wage increases were a powerful stimulant to technical progress, which helped to strengthen industry and production at the national and international levels. The rise in prices in the industrial countries where the free enterprise system prevailed was the result of a policy determined by the large monopolies which governed the market.

49. In the countries with a planned economy, industrial production had risen by 10 per cent. Despite certain difficulties, real wages had increased in all those countries, working hours had been reduced in many of them — without any decrease in wages — social security had been improved and broadened, and the trade unions had played an ever increasing part in the formulation of economic policy.

50. Mr. DALLAS (International Confederation of Free Trade Unions), speaking at the invitation of the PRESIDENT, observed that though in 1957 the problem of inflation had seemed to warrant the Council's request that the next *Survey* should be devoted to a detailed study of that problem it had turned out that part II of the *Survey*, dealing with the economic recession which had set in in the latter part of 1957, was of much greater consequence.

51. The first salient feature of the present situation was the serious unemployment in industrial countries resulting from the sharp fall in industrial production in the United States, and from the marked slowing-down in the pace of economic expansion in western Europe. In the industrial countries of North America and western Europe taken together, nearly three-and-a-half million more people had been unemployed in March 1958 than in March 1957. Moreover, the unemployment figures did not tell the whole story, for they did not show the increasing number of workers who had had to accept reduced working hours, with consequent reductions in income. He was interested to note that the centrally planned economies had also had similar problems.

52. The second salient feature was the fall in primary commodity prices. There was little doubt that an important contributory cause of that fall had been the slowing-down in the rate of expansion, followed by the recession in the industrial countries. He would like to speak further on that subject during the discussion of the relevant agenda item, but for the moment he would draw particular attention to the repercussions of a fall in commodity prices on the economies of the under-developed countries. In 1957, as the *Survey* showed, the foreign exchange reserves of the primary commodity producing countries had fallen by 8 per cent. In his statement to the Council at the twenty-second session (934th meeting), the Secretary-General had said that the present annual inflow of public and private capital and government grants to under-developed countries was equivalent to a change of only 5 per cent in their average export prices. In the last twelve months alone, world

commodity prices had fallen on an average by 10 per cent.

53. The current recession was the most serious setback to the world's economy since the prolonged depression of the 1930s. Even if the United States recession was not likely to be on the scale of the depression of the 1930s, its repercussions might cause much more serious disturbances in the economies of less developed countries. It was even unlikely that the industrial countries of western Europe had yet experienced the full impact on their export trade of the decline in purchasing power of the primary commodity producing countries.

54. The main responsibility for ensuring an expanding world production and trade must rest with the leading industrial countries. The free trade unions felt bound to express their deep disappointment at the failure of the governments of those countries to carry out their obligations under the United Nations Charter to maintain full employment and economic expansion. Recent events had shown that some governments had not been prepared to take prompt and adequate measures to deal with the situation. That was partly because governments and national banking authorities had recently been giving a higher priority to other objectives of economic policy — such as price stability — and in some cases had continued to regard the combating of inflation as the major problem even after the trend towards recession had become apparent. He hoped that the effort to combat the recession would be maintained, and that the United States Government would not be dissuaded from taking further action in the belief that the situation would quickly right itself. If governments had listened to the appeals of the trade-union movement for immediate action at the very first signs of recession, much of the hardship which had been caused could have been avoided.

55. At its meeting held at Brussels the previous week, the ICFTU Executive Board had adopted a resolution appealing to the Economic and Social Council to urge all governments to pursue full employment policies, to adopt measures to stimulate and maintain high levels of capital investment, and to ensure that the mass of consumers had sufficient purchasing power to support maximum production. The resolution also called upon governments to consider jointly the shortage of the foreign exchange reserves of many countries in relation to the level of world trade, and to increase the flow of financial aid to economically under-developed countries. It was widely recognized that such aid as was given at present was not sufficient to finance essential development programmes, and the ICFTU hoped that in the not too distant future the scope of the Special Fund would be extended to include the financing of capital investment projects.

56. Another matter urged in the ICFTU resolution was international action to stabilize the prices of primary commodities. His organization hoped the Council would promote an international action on those lines.

The meeting rose at 5.50 p.m.