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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, Czechoslovakia, Ireland, Israel, Italy, Japan, Luxembourg, New Zealand, Portugal, Spain, Sweden, United Arab Republic.

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

Representatives of the following specialized agencies: International Labour Organisation, International Bank for Reconstruction and Development, 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. El BAKRI (Sudan) said that his country's economy largely depended on a single product — cotton — which normally accounted for about 60 per cent of the total value of Sudanese exports. Unfortunately, that crop was subject not only to climatic vagaries, but also to the fluctuations in and uncertainty of international commodity prices and demand.

2. The fall in primary commodity prices had depleted his country's foreign exchange reserves. Calculations indicated that the adverse movement of the terms of trade had caused a loss of £37 million (Sudanese) — a serious matter in view of the fact that in 1956 the value of all Sudan's exports had been about £65 million. Nevertheless, the Mission of the International Bank for Reconstruction and Development had reported that the country had demonstrated its economic growth in the past, and possessed the economic potential and capacity to sustain a very satisfactory rate of progress in the future.

3. For a country like the Sudan, which had only recently acquired its independence, the first problem was created by the change in status. New economic and social objectives had to be achieved as rapidly as possible while the exploitation of natural resources necessarily lagged. To make its economic independence complete, the Sudan had had to create its own currency, since when efforts to combat inflation and deflation had become more effective, and it was hoped soon to establish a central bank.

4. The latest issue of the *World Economic Survey* (E/3110), covering the year 1957, dealt with the problem of inflation, which became especially serious for the less developed countries when a fall in primary commodity prices was accompanied by an increase in the prices of their capital imports. It was often necessary to fight both inflationary and deflationary pressures simultaneously. In his own country, for example, inflation was due mainly to development expenditure, and the Government had been obliged to impose new taxes, to enforce saving, to restrict imports of consumer goods, and to cut ordinary expenditure by 75 per cent. At the same time, while pursuing public development plans, the Government had encouraged the banks to grant credits for productive schemes.

5. Another difficulty facing the under-developed countries was the lack of international liquidity caused by the current recession in the developed countries, which had restricted the flow of foreign capital and weakened demand for the primary products which were the under-developed countries' main source of foreign exchange.

6. His delegation felt that the best short-term remedy for that situation was an expansion in the foreign trade of the under-developed countries, and therefore welcomed all serious efforts to that end. Regional co-operation could do much to help neighbours to overcome their economic problems. The African countries had already laid the foundations for such co-operation at the Accra Conference, which had recommended that each independent African State taking part should establish its own economic research committee, and that all together should establish a Joint Economic Research Commission to serve as a forum for the pooling and exchange of information and views and to work out plans by which the States concerned could achieve all-round economic development without in any way jeopardizing their independence,

sovereignty or unity. He then briefly referred to other recommendations made by the Accra Conference — in particular, those relating to co-operation with the United Nations (especially the Economic Commission for Africa) and the specialized agencies — and to the creation of an African regional market. The formation of such a market was not a defence against similar developments in other parts of the world, but a means of facilitating the economic development of the region as a whole.

7. Another means of closing the gap between the industrialized and the less developed countries — which in his delegation's view was more dangerous for the world than political dichotomy — would be for the former to increase and broaden their general participation in the economic development of the latter, rather than to provide aid for specific projects. The world would undoubtedly be much better off if expenditure on armaments could be cut, and the funds thus released made available for technical asistance and economic development in the less developed areas.

8. A third remedy was for governments to weigh much more seriously the implications of their policies for the economies of other countries. More effective methods of prior consultation and co-operation should be devised, and his delegation was therefore looking forward to the discussion of the Secretary-General's report on existing facilities for such consultation (E/3119 and Corr.1).

9. The Sudanese Government viewed with great concern the implications of the European Common Market; in particular, the intention to bring overseas territories within its scope had aroused widespread fears and misgivings.

10. It was clear from the *Survey* that, despite the years of prosperity which the industrial countries of Europe and America had enjoyed, there had been no significant increase in the assistance they had given to the under-developed countries. Thus, the fat years were the prerogative of the industrial countries, whereas the lean years were shared by all.

11. His delegation viewed with great satisfaction the establishment of the Economic Commission for Africa, which it regarded as a great step forward along the road to regional and international co-operation and consultation.

12. Mr. GHORBAL (observer for the United Arab Republic), speaking at the invitation of the PRESIDENT, said that the primary producing countries had attempted to overcome the difficulties caused by the recession by diversifying their exports and by trying to increase the number of their export markets. The first course entailed a difficult and long-term process, but the second was easier, and it was by that means that certain primary producing countries — including his own — had managed, with the help of the countries which had opened their markets to them at such a critical time, to safeguard their economies. International co-operation could yield substantial results in that direction.

13. The reports prepared by the Secretariat showed that most of the capital exported by the industrial countries had been channelled to territories under their jurisdiction. While he admitted that that was natural, he hoped that assistance would also be provided for States which had recently achieved independence, especially since it appeared that some of the latter had been receiving relatively less assistance than before. He drew attention to the statement in the *Survey* (p. 111) that, while principal reliance must be placed on domestic resources, foreign capital might considerably facilitate the progress of stable growth, both by supplementing the supply of domestic savings and by financing imports of capital equipment. The authors went on to say that if the under-developed countries were able to augment their domestic resources by drawing on a greater supply of foreign capital, they would be better placed to counter the constant danger of inflation that accompanied their compelling need to hasten the pace of economic growth.

14. Like other countries in a similar state of development, the United Arab Republic had husbanded its meagre foreign exchange reserves for the benefit of development projects, which nevertheless had had to be temporarily scaled down. Prospects, however, had recently improved. His country had concluded two agreements, one with the Soviet Union and one with the Federal Republic of Germany, which he thought would greatly assist its economic development. Agreements had also been signed with several European, Asian and African countries, as well as with some west European countries, and he was happy to say that one was shortly to be concluded between his government and the shareholders of the former Suez Canal Company.

15. He would like to express his delegation's recognition of the part played by international organizations in the development of the world economy, and more particularly in the economic development of less fortunate nations. The Economic Commission for Africa, though established much later than the other regional commissions, would benefit from their experience, and would undoubtedly play an important part in the development of that continent.

16. Mr. FARUQI (Pakistan), observing that, whereas at the twenty-fourth session the problem of inflation had been in the forefront of members' minds, it was the recession which was now causing the greatest concern, recalled that the Pakistani delegation had endeavoured more than once to show that inflation was not so serious as even a mild recession. In the primary producing countries, even a relatively slight decline in consumption caused unbearable hardships.

17. His delegation agreed with the conclusion reached in the *Survey* that experience of post-war recessions showed that anxiety about inflation was all too likely to persist for some time after the trend had been reversed. Inflation generally led to balance-of-payments difficulties. The result was that countries suffering from inflation, including those with large reserves of foreign exchange, were inclined to impose import restrictions of one kind or another, thereby aggravating the balance-of-payments difficulties of countries with small reserves.

18. No one could fail to agree with the further conclusion that, owing to the comparatively low elasticity of both world demand and supply in response to changes in the prices of primary products, and to the relatively high

elasticity — especially of supply — in response to changes in the prices of industrial products, world-wide inflation tended to bring about a considerable improvement in the terms of trade of the primary producing countries and a rise in their export incomes. It would seem therefore that a constantly expanding world economy, even if it might create a measure of inflation in the industrialized countries, was a necessary condition of economic existence for the under-developed countries.

19. In under-developed countries, inflationary pressure largely arose from expenditure on economic development — which, even though barely sufficient to maintain consumption levels and provide for the increase in population, was necessarily heavy — and from the inevitable and considerable unproductive period before the investment began to bear fruit.

20. It was difficult to accept the suggestion made in the *Survey* that if all the additional income generated by economic development could be saved there would be no inflation. The rate of saving in under-developed countries being very low, there would be little economic development at all if the former governed its pace. It was also suggested that taxes should be increased sufficiently to reduce consumption by the amount of the excess consumption demand generated by the additional investment. To spread the burden of inflation as evenly as possible, his government had raised the general level of taxation to help to finance part of the capital budget.

21. His delegation wholeheartedly endorsed the conclusion that the rate of growth of food production rather than that of the total output of consumer goods set the limit for feasible rates of general economic development. If the people could be assured of adequate victuals at reasonable prices, together with the minimum necessities of life, inflationary pressure would be largely under control in the under-developed countries.

22. His delegation was extremely disturbed about the prospects of international commodity trade. The *Survey* emphasized that world demand for primary products continued to lag behind over-all economic activity, and that that disparity had been aggravated by the policy of increasing the output of primary products in industrial countries. That created a very serious situation, for unless the under-developed countries could rely upon an adequate income for their primary products, the material assistance provided through multilateral or bilateral channels would be of little use.

23. The Pakistani delegation could not wholly subscribe to the finding that the deterioration in the terms of trade of the under-developed countries in 1957 had been due to a considerable increase in their imports, rather than to a decline in the value of their exports. For example, in 1956, the value of Pakistan's imports had been 19 per cent greater than in 1955, against a 6 per cent rise in the value of its exports. In 1957, exports had lost further ground, and the balance-of-payments deficit had been much larger than in 1956. The deterioration had been brought about by increased expenditure as well as by reduced earnings, though the latter had accounted for a greater part of the deficit than the former.

24. In Pakistan, which was predominantly agricultural, the primary aims of economic policy were to build up the infrastructure and to diversify the economy. In the first five-year plan, which had now entered its fourth year, high priority had been given to agricultural development, and emphasis had been placed on rapidly strengthening development efforts in East Pakistan and in the less developed areas of West Pakistan. Public expenditure on development in the power, irrigation and communications sectors had risen. In the industrial sector, private investment had been stimulated; and the Government had assumed responsibility for those industries in which private enterprise was not willing to take the initiative.

25. Internal and external strains and stresses, chiefly arising from inadequate resources and a drop in the output of food grains, had compelled his country to scale-down expenditure under its first five-year plan from Rs. 11,600 million to 10,800 million. Of the revised figure, Rs. 6,600 million would be found at home, the remainder being raised by external loans and grants.

26. Pakistan had had a difficult time in 1957, though there had been improvements in certain sectors. The country largely depended upon cotton and jute for its foreign exchange earnings, though the efforts to diversify exports had borne some fruit. Income from cotton, which had declined by about 20 per cent in 1956, had fallen to the record low figure of Rs. 294 million in 1957. Foreign exchange earnings as a whole had fallen to Rs. 1,896 million from Rs. 2,038 million in 1956.

27. His country's economic difficulties had three origins: the difficult food situation; the decline in foreign exchange earnings; and the large demands of the development programme on the country's limited resources. The solution of those problems would require further efforts and sacrifices by all classes. In common with other under-developed countries, Pakistan was engaged in the struggle to eradicate the age-old problem of poverty with all its attendant evils. Socio-economic changes of a revolutionary nature were often advocated as a remedy, but in the long run the sacrifice of high ideals to economic progress might well prove to be a backward step.

28. Mr. FLEMING (International Monetary Fund) said that, unfortunately, the essay on inflation which formed part I of the *Survey* could not be said to be out of date. The problem of inflation was recurrent, even perennial. While it was true that the general pressure of demand would probably be somewhat less intense during the coming ten years than it had been since the war, population continued to increase, there was a backlog of public investment in many countries, technological progress was still making great demands on additional capital, and the great potential demand for industrial goods in the less developed countries might be enhanced by a rising flow of capital funds from industrial countries. But whether the general pressure of world demand became more or less intense in the future, it seemed likely that there would be periods of tight as well as slack demand, and that prices would rise to a much greater extent during the former than they fell during the latter.

29. The *Survey* strongly emphasized the part played by institutional peculiarities affecting prices from the supply and cost side. But perhaps too little emphasis had been

placed on the other aspect of the matter: the importance of the supply of money, and of the monetary demand for goods and services as causes of and remedies for inflation. Though peoples and governments tended to forget them, those factors were still of the greatest strategical importance in the framing of policy.

30. It was no doubt the case, as was pointed out in the *Survey*, that prices could rise with unwelcome rapidity, even though supplies of labour and physical capital were not fully utilized in substantial economic sectors. That might well have been true at various stages of the recent boom of certain consumer-goods branches in most industrial countries. But quite apart from the question — which might legitimately be raised — of the economically desirable degree of utilization of capacity, it did not follow from the mere existence of surplus capacity that the rise in prices was independent of demand in the sense that it would not be significantly affected by changes in the level of aggregate demand in relation to aggregate resources. Not only was a slackening of demand in industrial countries in times of inflation likely to affect the prices of foodstuffs and raw materials — it might be expected to moderate the rate of wage increases also. It would do so through its effects both on the cost of living and on profits, reducing the urgency of wage claims on the one hand, and stiffening the employers' resistance to them on the other.

31. The authors of the *Survey* placed considerable emphasis on the importance of excess demand in particular sectors of the economy, as distinct from excess demand for the national output as a whole. While in practice the two types of excess were usually found in conjunction with each other, the distinction had some logical validity. Structural maladjustments between demand and supply in particular industries undoubtedly exercised an inflationary influence, since prices and costs in industries where excess demand existed would rise, while prices and costs in under-employed industries might not fall significantly, or might even rise as a result of efforts to keep a constant structure of relative wages intact.

32. In many cases, therefore, it would theoretically be possible to damp inflationary tendencies by distributing either resources or demand somewhat differently among industries. There was, however, little that governments could do to adjust demand and supply in particular industries without running a risk of bolstering up uneconomic industries and impairing the flexibility of the economy as a whole.

33. In general, it might be said that theories which ememphasized cost inflation as opposed to demand inflation were more helpful for diagnosis than for prescribing a remedy. Granted that the various factors which combined to bring about an upward surge of costs sometimes created situations in which it was difficult to apply disinflationary financial policies without creating unemployment or checking economic growth, it was far from clear what policies other than financial restraint could be adopted. Governments must either attempt to check inflation by the prudent application of monetary and budgetary policy or let it take its course. Experience seemed to show that if left to its own devices, inflation tended to gather speed as time went on. On the other hand, any adverse effects which disinflationary policies might have on output and employment were likely to be much greater in the short than in the longer run, for in the latter the expectations of the various groups in the economy would become geared to a more moderate rate of price advance. The experience of the United States of America, the Federal Republic of Germany, Italy and Belgium since the war would seem to suggest that a policy of monetary discipline, while it might have temporary harmful effects on employment and output, was in the long term compatible with a satisfactory rate of growth in production and with the absorption of unemployed resources.

34. As to methods of bringing about inflation, everyone could agree that monetary policy should be combined with budgetary policy. In many countries, the elimination of budget deficits was an indispensable pre-condition for arresting the expansion in the money supply. In others, the curtailment of government expenditure and the introduction of additional taxation were important ways of reducing the speed of circulation of the existing money stock. But it must be remembered that, though indirect taxation might reduce the pressure of demand inflation, there was some danger that through its direct influence on the cost of living it might aggravate the wage/price spiral. Moreover, budgetary policies were, in general, capable of modification only once — or at most twice — a year.

35. By contrast, credit policy was a much more flexible instrument, for it could be modified by administrative action according to the needs of the moment. It was true that time might pass before credit contraction made itself felt in actual curtailment of monetary demand, but that was a weakness shared by most policies designed to influence the level of expenditure. The authors of the *Survey* were sceptical about the effect in recent years of high interest rates on the level of investment expenditure in industrial countries, whether on fixed capital or on inventories; but it was necessary to take into account their effect on building, the effect of credit restriction on the availability as well as on the price of investment funds, and the psychological repercussions of stringent monetary policy on profit expectations. It would be difficult to deny that monetary policy had had a considerable effect in reducing the pressure of monetary demand in the United Kingdom and in various continental European countries in 1956 and 1957.

36. He was glad to see that, so far as the primary producing countries were concerned, the *Survey* acknowledged the decisive part played by excess demand in the genesis of inflation, the importance of monetary supply in determining the level of demand, and the part played by budgetary policy in provoking the expansion of the monetary supply. It might be doubted whether the influence of excess demand on wages was exercised as exclusively through its influence on the cost of living, and as little through its direct effect on the scarcity of labour, as the authors of the *Survey* suggested; but they agreed that the existence of strong links between wages and the cost of living was usually a legacy from earlier inflation.

37. The belief that economic development could be

promoted by inflationary methods was an illusion which died hard, but one which experience had done much to destroy. As the authors of the *Survey* pointed out, policies which ignored the dangers inherent in physical and monetary instability provided, at best, an uncertain foundation for growth.

38. If the population started by having confidence in the stability of the currency, it might be possible in the early stages of inflation, by pushing up expenditure and prices, to raise slightly the proportion of total income that was saved and devoted to investment. That was mainly because prices rose faster than wages, so that real income was transferred from the poor, who did not save, to the rich, who did. Sooner or later, however, the workers realized what was happening and insisted upon wage rates being adapted to changes in the cost of living, thus putting an end to the abnormal profits and savings accruing to entrepreneurs as a result of the inflation. In such cases, the government very often found that it could save less than before, because of increased expenditure on subsidies required to keep down the cost of living and to keep the various public utilities — whose charges almost always lagged behind the general rise in prices and costs — running. In the end, real savings were probably little larger than they had been to begin with. Moreover, such savings as did accumulate during inflation were very badly invested. Savers invested their money directly in whatever way they could — often in land of in houses or in the accumulation of durable consumer goods. If, as was often the case, attempts were made to slow down the race in the price of essential goods, investment was diverted from industries producing essentials to those producing luxuries.

39. So far as the effect on the balance of payments was concerned, countries in the grip of inflation had the alternative of allowing their currency to depreciate on the foreign exchange market or of attempting to peg it at an over-valued level while restricting, by one device or another, their imports and other items of foreign expenditure. In either case, the country was unlikely to attract foreign investment, and the government would frequently have to contend with a flight of capital. If, as had usually been the case until recently, the alternative of over-valuing the currency was chosen, exports would eventually fall off, and imports would have to be restricted to an entirely uneconomic degree. Cases had occurred since the war where inflation embarked upon in the interests of industrialization had led to industrial stagnation because of the country's inability to import the necessary replacements of plant and equipment or even raw materials. Even when things did not come to such a pass, the general experience was that inflationary countries were caught up in a tangle of quantitative restrictions or multiple exchange rates which it was difficult, if not impossible, to administer in a rational manner, and which tended to hamper their economic development.

40. In recent years, more and more primary producing countries had come to see the futility of such a policy, and, often with the support and advice of the International Monetary Fund, had sought to check inflation, to lift their restrictions and to simplify their complicated exchange rate structures so as to restore the economic return on production for export. Their efforts at stabilization and reintegration into the world economy had not always been entirely successful at the first attempt, but they had almost always made some real progress.

41. Mr. PENTEADO (Brazil) said that the most significant negative factor in the current economic situation of countries producing and exporting primary commodities was the pronounced decline in their terms of trade, reflected in a decrease of 2 per cent in the price-index of primary commodities, as against a rise of 4 per cent in the price-index of manufactured goods. As had been pointed out, however, those index numbers failed to convey with sufficient clarity the unfavourable effects of the present situation on the less-developed countries, particularly those which were not substantial exporters of sugar, wool or mineral fuels.

42. The present situation had placed an additional burden on the less developed countries, not only making it harder for them to raise per capita income, but also threatening to undermine their economic structure. To the short-term fluctuations in, and the long-term downward tendency of, the prices of primary commodities had been added the falling-off in the growth of economic activity in industrialized countries. Consequently, not only had world demand for commodities weakened, but a parallel tendency on the part of the industrialized countries to put off purchases of many raw materials in the expectation of still lower prices had become apparent. On the other hand, increases in stocks and certain marketing methods were exerting growing pressure, with drastic results on prices. That situation in turn had adversely affected normal trade currents by reducing the capacity of the less developed countries to import consumer goods with which to meet their increasing needs resulting from demographic growth, changes in social structure and the aspiration for higher living standards. It also affected the capital goods required for the industrial programmes essential to economic development. In the long run, industrialization was the only means by which the less developed countries could protect themselves against the constantly recurring adverse trends of international trade, though that by no means disposed of the need for commodity agreements as a short-term safeguard.

43. The increased inflationary pressure, the unbalanced budgets and the deficitary balances of payments in the less developed countries were the result, not of attempts to speed up their economic development unduly, but rather of the difficulties they ran up against in the international economic sphere in achieving even a minimum of development. Budget deficits resulted from the need to finance infrastructure projects of the highest priority for which the governments concerned were unable to raise international public funds, whereas deficits in the balance of payments resulted mainly from the increasing need for foreign manufactured goods.

44. Important social considerations must also be taken into account. Governments often did not feel justified in curtailing expenditure on urgent social needs for which capital was not available from other sources. To a lesser extent, governments might also be reluctant to deny their populations access to certain facilities which

were taken for granted by more fortunate peoples. Even where governments had been obliged to control their imports, the practice had always been considered as temporary, and even those who criticized the under-developed countries for not building up emergency reserves of foreign exchange had displayed impatience at such restrictions on world trade. It followed logically that in the less developed countries inflationary tendencies could not be checked by internal monetary or fiscal measures alone. Foreign investment — both public and private — was essential, as were also international measures of co-operation, if the ever-widening gap between the industrialized and the less-developed countries was to be closed.

45. Brazil had not embarked upon industrialization for the sheer pleasure of it, or so that it could boast of its industrial accomplishments, but because that process was the sole means of cushioning the impact of fluctuations in commodity prices, of reducing the country's dependence on foreign industrial products and, in general, of ensuring full employment and raising the standard of living. But industrialization could not be financed out of national resources alone. The curtailment of domestic consumption in order to increase savings was not only incompatible with economic development under free enterprise, but might also have serious social repercussions. Other means, often involving decisions and actions of an essentially international nature, must be found — for example, the opening up of new markets for agricultural and other primary products and the orderly strengthening of the purchasing power of the countries producing them. In that way, increased income from exports combined with savings would provide adequate domestic capital for basic investment. Equally important was the channelling of foreign capital to supplement domestic investment and the provision of international economic and technical assistance to enable the optimum results to be obtained from the resources available. The operating rules of the international agencies providing such assistance did not at present allow them to meet the needs of the less developed countries. In addition, there was a lack of public international capital for financing infrastructure projects which made conditions for private capital more attractive. Thus, a vicious circle was set up which it would be impossible to break unless international co-operation was substantially improved and intensified.

46. In Brazil, the population was increasing at a rate of 2.5 per cent per year. The present per capita income was about $256, whereas, according to United Nations experts, a figure of $400 represented the lowest level at which a country's economy could become self-developing. If 1980 was taken as the target date for reaching such an income, it would be necessary to raise the standard of living not only of the present 62.4 million inhabitants, but of another 47.7 million who would be added in the meantime. That would mean that the gross national product would have to grow by 4.5 per cent per year, for which a total annual investment of about 14.4 per cent of the gross national income would be required. Even though investment in Brazil had recently been proceeding at a slightly better rate — 15.6 per cent over the period 1948-1956 — it should be remembered that the favourable external conditions prevailing at that time had now been almost completely reversed. If the value of Brazilian exports was to be increased from the present figure of $1,380 million to $2,176 million by 1980, serious difficulties would be encountered not only in overcoming the deterioration in the terms of trade and the inelasticity of demand for the country's export products, but also, and more specifically, in counteracting the probable decline in the prices or the volume — if not in both — of coffee and other traditional Brazilian export commodities, as well as in overcoming the stiff competition on the international market for semi-manufactured and manufactured products. On the other hand, if imports were to be kept within the average annual figure of 10 per cent of the net national income, as estimated by the Economic Commission for Latin America (ECLA), about $4,051 million worth of goods would have to be imported in 1980. Even if those purchases could be drastically curtailed, it would still be necessary to import something like $3,100 million worth. There would thus be a deficit of $1 billion in Brazil's trade balance in 1980.

47. It was obvious, therefore, that every effort would have to be made to eliminate, as quickly as possible, the fundamental causes of those tendencies, so that progress could be made at the highest rate compatible with the resources — both domestic and foreign — available.

48. It had therefore been with the utmost gratification that his delegation had heard the representative of the Netherlands propose that time-limits should be fixed for international projects in the field of economic policy (1024th meeting). That might contribute to a gradual solution of the problem of the instability of primary commodity prices. His delegation also believed that collective recommendations in specific cases and collective action in emergency situations might be an effective way of solving the most pressing problems, especially if the action was taken in co-ordination with the regional economic commissions.

49. The aims which Brazil sought to achieve with the aid of the international organizations had recently been summarized by the President of Brazil as follows: pioneering investment in the less advanced areas of the world; increasing the effectiveness of technical assistance programmes; protecting commodities against dangerous price fluctuations; and promoting wider and more effective action by the international financing organizations, by increasing their resources and liberalizing their policies and terms of reference.

50. His delegation was confident that the Council would in the near future make the most significant and far-reaching contributions towards a solution of world economic and social problems, the most serious of which, as so many representatives had pointed out, was the widening gap between the developed and the less developed countries.

51. Mr. CARANICAS (Greece) said that in the present situation there was a special need for international economic co-operation. It was one of the functions of the General Assembly and the Council to bring about such co-operation, and he agreed with the representative of the Netherlands that in that sphere expectations had not been fully realized.

52. The *World Economic Survey, 1957* contained a detailed study of inflation. The problem of the present time was the economic downturn, though it appeared that there might be a relation between the recession and what some had claimed was a new kind of inflation, not due to the excess of demand over supply. No doubt the present recession would be the subject of future studies which might examine methods of mitigating the effects of recessions, the nature of what had been called " mixed inflation ", and the sudden shifts from inflation to recession that had occurred in some cases.

53. If the turning point in business conditions in the United States of America was not reached before the end of 1958, and recovery was slow, with world commodity markets remaining depressed for some time, the major primary producing countries would enter 1959 with depleted liquid reserves and greater foreign exchange indebtedness, and might be compelled to restrict their imports still further. If that led to a decline in European exports, Europe would be more seriously affected than it had been by the economic recession in the United States of America.

54. One of the major economic problems was insufficient international liquidity, which during the previous ten years had been the basic cause of such obstacles to foreign trade as quota restrictions, currency inconvertibility and forced devaluations. It was pointed out in the *Economic Bulletin for Europe* (vol. 10, No. 1, pp. 57-58) that losses of reserves, especially in Asia and Latin America, might lead to steps resulting in a contraction of world trade and payments. The Council should not ignore the threat to the monetary reserves of various countries — particularly the primary producing countries. Compared with the greatly expanded volume of world trade, the gold and hard currency reserves of the principal trading nations were so inadequate that a crisis of confidence might disrupt the international exchange markets and bring about a relapse into crippling exchange controls. Mr. Adlai Stevenson had said recently that whereas the three main elements of nineteenth-century stability had been low tariffs, international lending and adequate trading reserves, today tariffs were up, trading reserves were down, and only international investment bore any resemblance to the past. Mr. Dean Acheson had commented in May 1958 that although nearly half the total exchange resources of the world were held by the United States of America and the Federal Republic of Germany, neither country was behaving like a creditor nation; and that the United Kingdom's reserves, on the other hand, were only half those of the Federal Republic of Germany and less than 4 per cent of the total, despite the fact that sterling financed 40 per cent of world trade, and the need for building up the United Kingdom's reserves ran counter to the need for extending credit for the export of capital, the essential means of industrialization in under-developed countries. The danger of the present precarious liquidity situation was that countries might not take the necessary measures to stimulate credit and production for fear of further damaging their reserves, and that the downturn in the world economy would thereby be intensified.

55. The Greek Government had expressed its views in the International Monetary Fund and at the twenty-fifth session of the Council (1001st meeting) on the best means of meeting the need for larger reserves — namely, by increasing the resources of the Fund, by establishing stand-by arrangements with creditor countries, and by other appropriate measures. In view of the interest in the subject shown by other members of the Council, he suggested that next year's *World Economic Survey* should contain a chapter devoted to the problem of international liquidity.

56. Mr. MICHALOWSKI (Poland) said that he had prophesied the present deterioration in the world economy at the Council's twenty-fourth session (977th meeting). The present economic downturn was the sharpest that had taken place since the war, and the existing artificial division of the world economy would make recovery more difficult. He believed that the recession was a direct result of the gap between industrial capacity and the demand for foods in the industrialized part of the capitalist world.

57. With regard to the study on inflation in the *World Economic Survey, 1957*, the subject had been widely discussed only because inflation interfered with the economic policies of the industrialized capitalist countries and with their efforts to maintain full employment and a high level of economic activity by artificial means. Inflation was not the key to the fundamental problem affecting the world economy.

58. He agreed with the representative of the Netherlands about the importance of the wide gap in standards of living between the developed and under-developed countries. That was a problem more fundamental than inflation or the other major world problem of instability in the prices of raw materials. The correction of that instability was a prerequisite to any improvement in the situation of the less developed part of the capitalist world, but that problem was of a cyclical rather than a structural nature. The main structural problem of the under-developed countries concerned export markets.

59. Poland, with its planned economy, was less vulnerable than many other countries to the effects of the present downturn, but in view of the increasing importance to this country of economic relations with the rest of the world, it could not remain wholly immune if the recession continued. Poland had recently become an industrial country, but further industrial development was essential because of the rapid increase in the population. It was hoped that present industrial production could be doubled within the next seven or eight years. Present per capita output was five times what it had been before the war. A rise in living standards — which were still below the general level of modern industrial society — depended upon the success of the industrialization drive, but that in turn depended to some extent on the world economic situation.

60. In 1957, the main problem had been to increase the supply of consumer goods to meet substantial rises in personal incomes. There had been an increase in agricultural output as a result of a new agricultural policy ensuring a better economic return from individual farms, and greater stress had been laid on the production of manufactured consumer goods. However, it had been necessary to increase imports of consumer goods, which

had strained the balance of payments. Those various measures had succeeded in restoring the balance of the consumer market. Changes in industrial management methods had resulted in increased productivity, and it had been possible to reduce imports of finished consumer goods. However, industrial expansion would make it necessary to increase imports of raw materials and investment goods, which had to be reduced in 1957. That would be more difficult because of the recession, which created obstacles to exports to capitalist countries. As a relatively high proportion of Polish production was dependent upon foreign supplies, slackening of economic activity elsewhere tended to harm his country's economy. Poland therefore advocated a further development in international trade relations, particularly between countries with different economic and social systems. He referred in that connexion to the Secretary-General's report on facilities and methods for the conduct and development of intergovernmental economic consultations. Unfortunately, as Council resolution 654 E (XXIV) — in response to which the report had been submitted — was rather weakly worded, being the result of a compromise, the study had turned out to be an excellent academic analysis which made no attempt to evaluate, in the light of present economic conditions, any possibility of international economic consultation, and failed to take account of present political and economic realities — in particular, the main problem of the compartmentalization of the world economy.

61. He could not agree with the United Kingdom representative that an international economic conference was unnecessary because existing international institutions provided sufficient international economic co-operation (1027th meeting). He hoped that the present recession would have at least one good result, by convincing the industrialized capitalist countries of the need for further international co-operation and basic structural reforms in the whole world economy. The right procedure was not the maintenance of the existing division between the three main areas of the world economy — the industrialized countries, the primary producing countries, and the countries with planned economies — and the accentuation of that division by the creation of additional " communities ", " zones ", etc. within the industrial countries. What was needed was world economic co-operation covering all three areas. His delegation therefore supported the proposals made at the 1025th meeting by the representative of the Soviet Union.

62. Mr. PAVLIK (observer for Czechoslovakia), speaking at the invitation of the President, said that Czechoslovakia, which had always maintained economic and commercial relations with countries in all parts of the world, attached great importance to the development of trade and economic co-operation with all countries, whatever their economic and social systems, on a basis of equality and mutual benefit. Czechoslovakia's economy offered particularly favourable conditions for the development of international economic co-operation.

63. He then cited figures illustrating the remarkable development of Czechoslovak industry over the past ten years. The average annual increase in industrial production over that period had been 11.7 per cent, and Czechoslovakia now held third place in the production of coal and seventh place in the production of steel. Its production of capital goods had now reached the level of the most highly industrialized countries. It was expected that in 1965 the volume of industrial production would be between 90 and 95 per cent greater than in 1957, and that consumption would have risen by 45 per cent.

64. On those sound foundations, Czechoslovakia hoped to build up economic relations — which it hoped would be stable and lasting — with all countries, and especially with the under-developed countries. Czechoslovakia also hoped that the economic difficulties (reported in the *World Economic Survey, 1957*), which certain countries whose economy was based on private enterprise were encountering at present, would not hinder the development of economic co-operation. It was convinced that those difficulties could not be overcome without the co-operation of all countries in the economic sphere, and he stressed the Economic and Social Council's special responsibilities in that connexion. It was to be hoped that the Council would seize upon the specific proposals made during the debate to lay the foundations for the most extensive economic and commercial co-operation to meet the interests and pressing needs of all countries. He recalled that his country had taken part in the first United Nations Conference on Trade and Employment, held at Havana in 1947-1948, and that its experts had taken an active part in the work of the preparatory committee for that conference, and assured the Council that Czechoslovakia would continue to contribute to the best of its ability to all efforts to promote the development of international economic co-operation.

65. Mr. EGGERMANN (International Federation of Christian Trade Unions), speaking at the invitation of the President, said that the striking reversal of the world economic situation that had taken place during the past year showed that there was nothing inevitable about a continually increasing rate of economic growth, which could be ensured only by energetic and well planned measures on an international and national level. Everything possible should be done to alleviate the suffering already caused by the present economic downturn; his organization had assumed, perhaps too confidently, that after ten years of work by the United Nations, it would be generally admitted that social considerations should be paramount in economic planning, and that remedial measures would be taken at once when an adverse economic situation developed. The *World Economic Survey, 1957* had explained that the downturn was primarily the result of a slackening in demand. He wished to stress that a high effective demand was a prerequisite for an expanding economy that could provide full employment. The great depression of the 1930s had demonstrated the futility of trying to combat a recession with deflationary measures; such policies could lead only to misery for those least responsible for the situation.

66. However, his organization was aware of the dangers of trying to achieve an expanding economy and full employment by means of inflationary pressure, which would not, in the long run, promote the prosperity and well-being of the population. Such policies created great

hardships for those with fixed incomes, and were bound to lead eventually to government action to curb the extreme consequences of inflation. Such government action might, in turn, bring about other complications

67. He believed that the policies adopted by most industrial countries to counter inflation and achieve price stability entailed the risk of slowing down economic activity too drastically without necessarily achieving price stability. In fact, the prime impact of credit restrictions and high interest rates had been on the level of demand, and had discouraged the purchase of durable consumer goods and such economic activities as house-building that were the most desirable for social reasons, and that were particularly dependent upon credit. Yet credit restriction had little impact on business investment where business expectations were optimistic, since the curtailment of bank credit could be offset by the use of accumulated liquid reserves, flotations on the capital market, or recourse to financial institutions other than banks.

68. As a result, it had proved less easy to control the rise in prices than to curb the level of demand. Everything possible should be done, therefore, to stimulate demand as the best means of reviving economic activity, particularly by raising the purchasing power of consumers. Such an increase, in the form of higher wages, reduced taxes for low and middle income groups and improved social security measures, would not only reverse the decline in expenditure on durable consumer goods in most industrial countries, but would also raise the level of business investments, which depended on the existing or anticipated demand for consumer goods.

69. However, although his organization considered that its main function was to bring about an increase in the real income of workers within the limits of economic possibilities, it was aware of the responsibility that trade union organizations had to exercise, and realized that living standards could not improve if prices rose faster than wages. Accordingly, it was always prepared to consider what might be done to restrain inflationary tendencies. In a number of countries, direct wage and price restraints had been imposed by governments; and although such action might sometimes be necessary, it should always be the exception. The taking of such steps had led his organization to realize even more clearly that some self-restraint on the part of unions was preferable to a situation in which normal collective bargaining was effectively suspended. The trade union role could be most effective when demands for wage increases kept closely in line with increases in labour productivity. The *World Economic Survey, 1957* had commented on that aspect. It was significant that wage costs in such rapidly expanding industries as metallurgy and engineering had risen less than the average because of the greater increase in productivity. Reference was also made in the *Survey* to the fact that the rate of increase in hourly earnings had been less sensitive to changes in output than the rate of increase in output per man-hour. In other words, reductions in demand might slow down the rate of increase in hourly earnings less than they depressed the rate of progress in labour productivity. The authors of the *Survey* had therefore concluded that the recent slackening in demand, by slowing down productivity much more than the granting of wage increases, might have contributed to cost inflation. That was another way in which the " tight money " policies might have defeated their own aims. The situation was regrettable, because it was mainly in the industries where productivity increases were greatest that there was the best opportunity for a cut-back in prices. Such a cutback would then allow price increases in industries where the rate of increase of labour productivity had been lower, without jeopardizing the general price stability of the economy.

70. He stressed the urgent need for closer international collaboration to help solve the problems of economic expansion, and referred to the comment in the *Survey* that the world economy of today seemed to operate even less efficiently than under the nineteenth century gold standard. His organization therefore supported all attempts at economic integration, such as those that had been made in western Europe and were contemplated in Latin America.

71. The information in chapters 2 and 5 of the *Survey* was most disquieting. The rate of expansion in demand for raw materials had declined, and exports from the primary exporting countries, which had increased by almost 5 per cent in value between 1955 and 1956, had increased by only 3 per cent between 1956 and 1957. As the downward trend continued, a decline had been forecast in the unit value of exports, as well as a reduction in total export earnings. The rate of expansion in imports had been significantly higher between 1956 and 1957 than between 1955 and 1956, resulting in a deterioration in the balance of trade of primary exporting countries. It was encouraging that the adverse consequences of the situation had been mitigated during 1957 by a larger inflow of capital from the industrial countries, but the situation had worsened in 1958, and the capacity of the primary exporting countries to deal with their balance-of-payments problems in 1958 would be reduced. Those countries would therefore be under pressure to reduce their rate of expansion of imports during the present year, and some restrictive measures had already been adopted in many countries. There would also be a restraining effect on fixed capital formation. Thus, the general prospects for balanced economic growth were far from reassuring.

72. Chapter 2 of the *Survey* contained useful suggestions with regard to improvements in taxation methods which might increase domestic resources, and the need for expanded agricultural output as an ingredient of long-term stable growth. Nevertheless, the development programmes in the less developed countries were often affected by factors outside their control, and it was therefore imperative to consider programmes under which international collaboration would be fostered to the fullest extent. His organization had said in the past that it was individual government policies, rather than deficiency in international machinery, which hampered the full realization of the objectives of the United Nations Charter, and that belief had been strengthened by the reports on the international machinery for trade co-operation (E/3127) and on the facilities and methods which now existed for the conduct and development of intergovernmental economic consultations (E/3119 and Corr. 1). He hoped the Council would appeal to all

countries to fulfil their responsibilities, particularly in connexion with the effect that the policies of the industrial countries must have on the development programmes of under-developed areas.

73. With regard to economic developments in Africa, he wished to express his organization's satisfaction that the Economic Commission for Africa had been established, and he looked forward to a competent analysis of the regional problems of that area similar to those provided by the other regional commissions.

74. It appeared that in the centrally planned economies, greater attention was now being paid to the need for increasing the output of consumer goods and stimulating agricultural production, which showed that even in those areas account had had to be taken of the innate human desire for better living standards and of the opposition of the population to forced industrialization programmes that had led to great hardships. His organization believed that economic progress brought about at the expense of social progress was valueless, and condemned all economic and social systems which did not consider the development of the human personality as their main objective. It therefore trusted that the Council would always stress such considerations in its resolutions.

75. Mr. de SEYNES, Under-Secretary for Economic and Social Affairs, thanked the members of the Council for the kind words they had said about him and his colleagues, and for the compliments they had paid to the very small team which had prepared the *World Economic Survey, 1957.*

76. By referring to a " very small team ", he meant to emphasize the inadequacy of the Secretariat's resources, a factor which must be taken into account in assessing the importance of the work entailed in compiling an economic analysis of such a size. Inadequacy of resources had hampered the work of the Secretariat since the start of the United Nations; and the more and more pressing and numerous demands of the controlling organs made it unlikely that the situation would be improved. The Council would be advised to take that factor into account in arriving at its decisions.

77. Another hindrance which he thought deserved mention resulted from external influences. During the debate there had been several references to the difficulties encountered in bringing the analysis of the economic situation really up to date and in trying to make a proper appraisal of events which often went beyond the provisions that could be made within the Council. He thought, therefore, that the Secretariat should continue to be free to select the subjects for inclusion in the *World Economic Survey* each year. In making that choice, the technical factors were more important than the political ones to which the Council perhaps paid particular attention. That was why he and his colleagues were grateful to those delegations — particularly the Canadian delegation — which had spoken against restricting the Secretariat's freedom of choice.

78. During the debate on the world economic situation, the question had often been raised of the time-lag between events and their appraisal in the Secretariat's annual survey. However. if members turned to the *World Economy Survey, 1956*, they would find more than one passage revealing a much less secure optimism in regarp to the economic situation than had been generally evidenced at the time. In any event, no one could regret that the Council had included on its agenda a study of inflation, which remained and would remain a pressing long-term problem, despite the emergence of the current recession, but that too, in his view, was an argument in favour of the Secretariat's freedom of choice.

79. He had listened with great attention to the comments made during the general debate which had just taken place, and would like to deal in particular with those made by the Mexican representative on economic forecasting (1027th meeting). Economic information and forecasting were of special importance to all governments, and particularly to those with a free enterprise system. Economic forecasting would, however, remain hazardous until it could be based on perfected scientific methods. It was understandable, therefore, that a document issued under the imprint of the United Nations should be extremely circumspect in its language, for those surveys were regarded as authoritative.

80. With regard to the problem of economic forecasting, he recalled that the Secretariat sent out every year to Member States a questionnaire asking them to supply short-term forecasts on trends in production, employment, prices and trade. Both by their number and their nature, the replies received were not very encouraging, and could scarcely encourage the authors of the survey to hazard predictions regarding the economic situation. Their task was further complicated by the inadequacy of the data at their disposal and the fact that those data did not all refer to the same period. In substance, too, they were far from satisfactory and, as he had already mentioned to the Statistical Commission of the Council, there were two fields in which economic information was notoriously insufficient: stock movements and consumption trends. Governments should therefore develop their information machinery before any attempt was made to perfect techniques by means of which valid conclusions could be drawn from that information.

81. The representative of China had asked (1027th meeting) whether, to supplement the information supplied to the Council in the *World Economic Survey*, a separate sheet containing the latest available data might not be published as a sort of supplement to the *Survey*; to that he would reply that such a supplement could contain only data which had become available since the month of May, and that, since an economic analysis had to show fundamental trends, it might be undesirable to link those trends to fortuitous results covering only a few months. He further recalled that the Secretariat published every month a *Statistical Bulletin* supplying the latest information on production, employment, prices and trade.

82. To the French representative, who had suggested (1025th meeting) that global indices might entail a certain distortion of the facts, which in turn could lead to faulty appraisals of economic phenomena, he would reply by expressing the hope that that did not refer to the use of those indices the *Survey*. The French representative

could find in the *Survey* all the detailed information necessary to qualify those summary indices, particularly in regard to exports of the major raw materials.

83. The Polish representative had referred to the Secretary-General's Report on Facilities and Methods for the Conduct and Development of Intergovernmental Economic Consultations (E/3119). The Secretariat was fully aware that that document reflected the compromise character of the resolution as a result of which it had been drawn up. The general picture given in that report showed that the existing machinery was adequate for economic consultations on almost all subjects of international interest; it was for governments to make use of it. The Secretariat had expressed no opinion regarding the possibility of creating new machinery for the conduct of consultations, for that was a question on which governments had to decide.

84. Mr. ZAKHAROV (Union of Soviet Socialist Republics) reserved the right to speak later in reply to some observations made at the 1027th meeting by the representative of the United Kingdom.

85. The PRESIDENT declared that, subject to the right of the representative of the Soviet Union to make his reply, the debate on item 2 (*a*) of the agenda was closed, and proposed that the item should be referred to the Economic Committee.

It was so decided.

The meeting rose at 5.55 p.m.

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