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*Twenty-sixth Session*

OFFICIAL RECORDS

**1027th meeting**

***Wednesday, 9 July 1958 at 10.30 a.m.***

PALAIS DES NATIONS, GENEVA

CONTENTS



*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, Laos, New Zealand, Spain.

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

Representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, International Civil Aviation Organization, International Bank for Reconstruction and Development, International Monetary Fund.

The representative of the International Atomic Energy Agency.

## Invitation to the Chairman of the Preparatory Committee for the Special Fund

1. The PRESIDENT said that a number of delegations had asked whether the Chairman of the Preparatory Committee for the Special Fund would be present to introduce the report of that Committee when it was considered by the Council in connexion with item 4 of the agenda. It was for the Council to decide whether it would invite him.

2. Mr. PHILLIPS (United States of America), supported by Mr. ORMSBY-GORE (United Kingdom) and Mr. BORIS (France), proposed that the Council should invite the Chairman of the Preparatory Committee for the Special Fund to be present on that occasion.

*It was so decided.*

## 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)*

3. The PRESIDENT said that he had received communications from the observers for Czechoslovakia and the United Arab Republic expressing the interest of their governments in item 2 (*a*) of the agenda and requesting permission to be heard by the Council on that item. He moved that those requests should be granted.

*It was so decided.*

4. Mr. NARASIMHAN (Executive Secretary, Economic Commission for Asia and the Far East) said that the rate of increase of production in the region covered by the Economic Commission for Asia and the Far East (ECAFE) had slowed down in 1957. In agriculture, the most notable feature had been a fall in the production of rice, which had been particularly sharp in Burma, Cambodia and India, and had been due to late monsoons and inadequate rains. There had also been a setback in industrial production in Japan and India, which had persisted in the early months of 1958. With regard to trade and payments, both exports and imports in the ECAFE region, excluding mainland China, had continued to grow — the former by 6 per cent and the latter by 19 per cent. The increase in imports as compared to exports was coupled with a deterioration in the terms of trade to the extent of 6 per cent in the third quarter of 1957, as compared with 1956, of which 1 per cent represented a fall in the unit value of exports and 5 per cent a rise in the unit value of imports. As a consequence, there had been a sharp rise in the trade deficit from the equivalent of $1,970 million in 1956 to $3,450 million in 1957.

5. That brief review illustrated the vulnerability of the economies of the ECAFE region. The vital role of food supplies, in particular, had been mentioned by the Secretary-General in his introductory statement (1024th meeting) and by the representative of FAO (1025th meeting). The ECAFE countries would continue to depend for many years on the vagaries of the climate, despite the irrigation projects and other protective measures being undertaken. Those factors should be borne in mind in any discussion concerning the establishment of national food reserves in under-developed countries with external help.

6. The worsening of the terms of trade illustrated the susceptibility of the ECAFE countries to external factors. In some of the primary exporting countries, there had been a fall in major exports, the prices of which had also declined. The adverse effects on the income of under-developed countries, particularly with regard to exports, of the slackening of the rate of growth in the industrial countries had been pointed out by the Secretary-General in his statement. In that connexion, he drew attention to chapters 5 and 6 of the *Economic Survey of Asia and the Far East, 1957*,[1] in which an attempt had been made to analyse the extent of such fluctuations and their effects not only on the balance of payments, but also on the internal economy and particularly the development plans of the ECAFE countries. The value of commodity agreements as a brake on such fluctuations had also been examined. The many suggestions made in the Council were heartening, but it was to be hoped that some concrete recommendations would be made leading to positive action with reference to specific commodities.

7. Finally, one of the most difficult problems facing the ECAFE countries was that of the increase in population, the full implications of which had not been generally appreciated in those countries, with the exception of Japan. For example, on the basis of present trends, the population of India might well rise from the present level of about 380,000,000 to 1,000 million by A.D. 2000. Japan at present had one of the lowest rates of increase of population in the ECAFE region, but Japanese experts postulated a rate of economic growth of 5 per cent per annum in order to meet the needs of the people. It was stated in the ECAFE *Survey* for 1957 that the increase in population was a threat to progress itself, and a sense of urgency in dealing with the problem was imperative, since it took a long time for any measures to show results. It was to be hoped that the studies undertaken by the ECAFE secretariat in co-operation with the Bureau of Social Affairs would help towards a better understanding and the ultimate solution of the problem.

8. Mr. COSIO VILLEGAS (Mexico) said that the world economy had passed through a rather bad year and that inflation, which was the main theme of the *World Economic Survey, 1957* (E/3110), was no longer in the picture. In the industrial countries, inflation had been a threat rather than a constant and overwhelming fact, but it had caused concern. In those countries it had proved impossible to find a policy which, by combining monetary, fiscal and other policies, would curb excessive demand in some centres and expand inadequate supply in others. Inflation had, however, been persistent in countries in the course of development. The reasons had been manifold, and it had therefore been hard to decide what factor had determined the first sharp rise in prices. The main cause, however, had been the lack of flexibility in the supply of domestic consumer goods. Increasing urbanization had taken the form of a greater demand for food, but since agriculture had necessarily lagged behind that demand, prices of foodstuffs had risen. The deficit might, of course, be met by imports, but such imports would depress domestic food prices, and thus discourage domestic expansion; furthermore, a country in the process of development had to preserve its foreign exchange in order to obtain equipment goods from abroad. The question therefore arose whether in under-developed countries the main inflationary pressure was excessive demand due to excessive public and private investment. Prices generally rose when a government put more money into circulation in order to finance government deficits, when private investment went beyond the available real resources and when there was an export surplus.

9. It had been suggested in the *Survey* that a good production programme was the best way of avoiding inflation. The recommendation was sound enough, but it must be recognized that the redistribution of a country's resources was a lengthy process, so that in the short run a country must put more faith in fiscal and monetary measures, although their effect was more restricted.

10. New taxation would provide the government with larger returns, and would thus limit or even eliminate the governmental deficit, but certain economic factors peculiar to countries in the course of development limited the efficacy of such measures. Individual incomes were low, and production — concentrated as it was on a very few products — could not long survive fiscal levies. Furthermore, the private investment required had to be attracted by the additional incentive of low taxes.

11. The demand for raw materials had not risen since the end of the war as fast as had the demand for industrial goods, and balance-of-payment deficits had thus been aggravated. Greater industrial production had been reflected in a lower rather than a greater demand for raw materials, and the result had been that the maintenance of the external balance had increasingly emphasized the difference between average standards of living in the industrialized countries and in the primary-producing countries. The industrialized countries were making the situation even worse by adopting policies which took no account of the unfavourable effects on other countries. It was therefore surprising and disappointing to find that the world economy was apparently working less effectively now than it had on the gold standard in the nineteenth century. Countries with surpluses and countries with deficits were not taking an equal share in correcting the international imbalance; the restrictions imposed by the former on demand were aggravating the deflation imposed on the latter in order to reach a new equilibrium.

12. The economic progress of under-developed countries depended largely on their ability to import, which in turn depended on the volume of their sales of raw materials. Fluctuations in the demand for and prices of raw materials caused incalculable harm to such countries. As the rate of capitalization rose and fell with the foreign exchange resources derived from the export of one or two primary products, a fall in the price of those products or an adverse balance of payments tended to restrict the import of equipment goods, reduce production and multiply domestic inflationary pressures. If the prices of industrial goods were reduced, the under-developed countries could increase their purchases and speed up their advancement. The fact was, however, that the prices for manufactured goods simply did not fall —

[1] United Nations publication, Sales No.: 1958.II.F.1.

or only in exceptional cases — partly because demand from the under-developed countries was not falling off sufficiently, but mainly because prices of industrial goods remained extremely rigid. The result was a dilemma: The under-developed countries had either to suffer from inflation or else to attain some external stability only at the cost of curbing their own growth.

13. The recession in the United States had affected some countries and had caused all countries to fear widespread irreparable consequences. Apparently, such fears were at present regarded as unfounded. Nevertheless, they should serve as a lesson. Every country represented in the Economic and Social Council must inevitably ask itself what the United Nations could do. Indeed, the United Nations was in duty bound to co-operate on a world-wide scale, and the Council was directly responsible for the economic aspects. The recession in the United States had illustrated a fact that was all too often forgotten — namely, that in modern times there were very few economic events whose effects could be confined to a single country, especially a single large country.

14. The United Nations should therefore improve not only its analysis of the immediate past and of causes, effects and remedies, but also its forecasting. It was essential to know as far in advance as possible whether any economic change was building up which might affect many or even all countries. That, however, involved extremely technical problems. Suggestions by previous speakers had led the Mexican delegation to wonder whether the Council might not be well advised to set up a very small group of experts, independent of governments, to report on the best methods of economic forecasting, and to draw attention in time to any economic difficulties in the offing.

15. Mr. CHENG PAONAN (China) said that during the period under review the world's economic problem had undergone a fundamental change, from inflation to recession. Although the authors of the *World Economic Survey, 1957* were to be complimented on their efforts, the rapidity with which events changed made it difficult to keep the *Survey* up to date, and a supplement should therefore be issued in such periods of change, giving key statistics that became available too late for inclusion.

16. According to the *Survey*, with the conclusions of which he largely agreed, there was a great difference between the present recession in the United States and that of 1953/54. On the previous occasion, unprecedented economic prosperity in western Europe had helped to mitigate the impact of the United States recession on the world economy as a whole. The present recession, however, was likely to become world wide, since the boom in western Europe was also coming to an end. On the question of how the recession in the United States had affected the primary producing countries, the *Survey* said that, although in 1957 exports of metals and ores, coffee and cocoa had declined in comparison with 1956, the exports of primary producers as a whole had increased by 3 per cent. The *Survey* therefore concluded that the recession had had a relatively modest impact on under-developed countries other than exporters of minerals, but it forecast a significant decline in export earnings for those countries in 1958. That forecast was probably correct, but more up-to-date information was necessary in order to estimate the extent of the decline and the probable situation regarding imports. The outlook for raw-material producers was not likely to improve until economic conditions in the United States had taken a turn for the better. Even if the recession in the United States had been halted, it would be some time before recovery set in. In the opinion of the *Survey*, the time lag between the end of the decline in over-all activity and a recovery in business investment might well be greater than in 1954/55. It was probable, however, that the United States economy would be lifted first by such factors as the revival in residential building, the expansion in government expenditure, the increase in the consumption of durable goods, and the reversal in monetary policy, although according to the representative of the United States Chamber of Commerce, only the reversal of credit policy could so far be acknowledged as a major governmental factor in checking the recession. Those factors would probably raise the United States economy before the revival in business investment set in, and the revival in commodity trade might anticipate all of them. That view was based on the assumption that the western European countries would take steps to prevent their booms from turning into recessions.

17. The *Survey* provided an excellent analysis of inflation. The causes of inflation—namely, excess global demand, excess demand in certain sectors of the economy, or bottle-necks, and rising costs of production — were familiar. Two additional features deserved attention: the concept of mixed inflation, and the inadequacy of monetary policy as a method of combating inflation. Mixed inflation meant that inflation could exist side by side with elements of deflation. Inflation was usually taken to mean a rise in prices, but if an industry raised its prices while still operating well below capacity, it could not be described as inflationary, but was said to be in a state of either mixed inflation or mixed deflation. It would be preferable, however, to retain the traditional words " inflation " and " deflation ", qualifying them with the appropriate words to indicate their exact nature — for example, a price inflation would mean a rise of prices, cost inflation a rise in costs, and demand inflation an excess of demand over supply.

18. With regard to monetary policy, the conclusion reached by the *Survey* was that it was effective in curbing demand inflation in certain sectors in the economy — such as residential building and consumer durables — but it was not effective in combating demand inflation in other sectors, or in combating cost inflation. The *Survey* therefore rightly warned that in the face of excessive claims for higher incomes, general restraint on demand might not succeed in achieving price stability except at the expenses of permanently curbing the rate of growth — indeed, even at the expense of introducing higher levels of unemployment than the economy was prepared to accept.

19. Besides recession and inflation, another problem facing the industrial countries was the question of the European Common Market. When discussing the world economic situation at the twenty-fourth session (E/SR.977), he had said that although the formation of

the Common Market might adversely affect primary producers to some extent, the net effect, thanks to the prospective increased demand for raw materials, should be beneficial to primary producers as a whole, and that it should not appreciably affect the competitive position of third-party raw-material producers with regard to the overseas territories of France and Belgium, since import duties on raw materials were normally negligible or non-existent. Those views were confirmed by the table on page 35 of the *Trade Intelligence Paper No. 6*, published by GATT. That study also examined the question of which areas might possibly be adversely affected by the establishment of the Common Market. Firstly, as semi-processed materials would be admitted into the Common Market tax-free from the overseas territories but taxable from third sources, the existence of the Market might encourage the expansion of semi-processing industries in the overseas territories to the disadvantage of such industries elsewhere. Although most of the semi-processing industries appeared to be in the industrial countries, and not in the under-developed countries, it was necessary to ascertain the extent to which the development of semi-processing industries in the overseas territories of France and Belgium might affect other underdeveloped countries. Secondly, the accelerated development of atomic energy under the Common Market might reduce the import into western Europe of coal and petroleum, but in view of the present high cost of coal and petroleum in Europe, the advent of atomic energy would only intensify existing conditions. Thirdly, the formation of the Common Market might adversely affect the advantage at present enjoyed by third-party producers of coffee and cocoa. Third-party cocoa producers, however, were already encountering difficulties, although it must be admitted that the Common Market might further aggravate their situation. The question of the impact of the Common Market on individual countries and individual commodities was too complicated to be discussed in the Council. Member governments should prepare studies on the possible repercussions of the Common Market on their principal products, and forward them to their respective regional economic commissions for analysis and circulation.

20. In the under-developed primary producing countries, two opposing forces were at work. On the one hand, there was the restrictive force of reduced demand for their products, expressed by a fall in commodity prices, in the quantity of exports and in export revenue, which should lead to a fall in their income and a decrease in their demand for imports of manufactured goods. On the other hand, there was an expansive force at work in the under-developed countries — namely, industrialization and economic development — under the impact of which the income and the imports of the developing countries should increase. According to the information given in the *Survey*, the dominant factor in 1957 would appear to have been the expansive force of economic development. The year 1957 had brought widespread gains in the gross domestic products of primary producing countries. Furthermore, the imports of those countries had increased by 11 per cent in 1957 as compared with 1956, and the increase in imports was at a faster rate than that in exports, thus widening the deficit in their balance of payments. Those trends were signs of an expanding economy.

21. In 1957, changes in national income in areas under his government's control had conformed to the general pattern for under-developed countries. The net domestic product had amounted to 29,800 million dollars local currency as compared with 26,000 million dollars in 1956. About a third of that product was from agriculture, which indicated that his country's dependence on agriculture was less than that of other ECAFE countries, with the exception of Japan. Slightly more than a quarter of the net domestic product was derived from mining, manufacturing and construction, which meant that his country derived more income from those sources than other ECAFE countries, again with the exception of Japan. In both those respects, Taiwan's economy was similar to that of Brazil, Greece and Ireland, which also derived a third of their income from agriculture and a quarter from mining, manufacturing and construction. The movement of his country's trade balance in 1957, however, had been somewhat against the general trend, since exports had increased faster than imports. That was due almost entirely to the high price fetched by sugar in the first half of the year.

22. For 1958 the *Survey* forecast a decline in the price, quantity and value of the exports of the primary producers and a reduction in the rate of expansion of their imports. Those were symptoms of deflation. Judging by the fact that many primary exporters were facing serious losses of foreign exchange, they would continue to experience payments deficits in 1958. Whether their internal economies would also contract in 1958 it was difficult to say, since side by side with the forces of deflation caused by a drop in export earnings, there would be inflationary forces at work, such as greater budgetary deficits. The prospective reduction in imports, though a symptom of deflation, was also inflationary in its effect.

23. No time was more opportune than the present for encouraging the international flow of capital. Owing to possible declines in their export earnings, the primary producers were more in need of foreign capital than ever. At the same time, capital outflows might help to relieve the deflationary pressure in the industrial countries.

24. A comprehensive analysis of the factors which had caused the decline in the prices of primary commodities was given in the *Commodity Survey, 1957*, issued by the Commission on International Commodity Trade (E/CN. 13/27). Two groups of those factors required particular attention: the falling off of demand for primary commodities in general, and the over-production of some primary commodities, such as copper and aluminium. Over-production alone could be reduced by concerted action to restrict output or supply, and even without such action it would eventually be absorbed if there was a rising demand. Unfortunately, the demand was falling. Since the level of economic activity in the industrial countries — which governed the demand for raw materials — was low, there seemed no way of stimulating exports or bolstering commodity prices. Nevertheless, some measures might be taken at the international level to alleviate the impact of declining demand. One such measure was borrowing from the International

Monetary Fund, which had been set up for that very purpose. It was welcome news that the Fund had given many times more credit in 1957 than in 1956, and that steps were being taken to strengthen it. A second possible palliative was the building up of a stabilization fund: When economic conditions were good, some kind of tax could be levied on the export of primary commodities for the purpose of building up such a fund on a national or international basis; in difficult times, the Fund could be used for the purchase of commodities, in order to stimulate demand for them.

25. Finally, he warned the Council against accepting as trustworthy the information issued by the Chinese Communists on economic conditions on the Chinese mainland. He cited the fact that *Politika*, Yugoslavia's largest newspaper, had admitted that its reports from Communist China were rosier than the facts warranted, and that the correspondent of *Politika* had acknowledged that he had given readers a picture of life in Communist China " that was being refuted by events ".

26. Mr. ORMSBY-GORE (United Kingdom) said that important changes had taken place in the international economies since the twenty-fourth session of the Economic and Social Council. A long phase of economic expansion had come to an end, and in the primary produce markets many, though not all, prices had fallen. At its twenty-fourth session, the Council had considered that inflation was the most immediate problem, and that it would continue throughout 1957 and 1958. Although conditions had changed in many respects since that conclusion had been reached, the *World Economic Survey, 1957* was an important study, for inflation was likely to remain a continuing threat to economic stability. Since 1945, inflation in varying degrees had been a constant feature of the world economy, and had been to the 1950s what unemployment had been to the 1930s. The discussion on disinflationary policies was most useful. In 1957, such policies had been followed by many countries, but in 1958 the question for several industrial countries was how far disinflationary policies could be pressed before excessive unemployment resulted, and one form of economic instability was substituted for another.

27. It had been a matter of some surprise that, while disinflation had reduced many of the normal inflationary pressures, some prices had continued to rise. The authors of the *Survey* had suggested that inflation and surplus capacity had too often been regarded as direct opposites, and rising prices and unemployment as mutually exclusive extremes. It had been generally assumed that prices would be held down if an end was put to over-full employment; in practice, however, the matter was not quite as simple as that. Inflation might also spread outwards in an economy from certain individual key industries, even while total demand was not sufficient to absorb the entire productive capacity of the economy.

28. On a number of matters, the Soviet representative's remarks — although he had perhaps not intended them to be taken wholly seriously — had been instructive, though they were not new. The British public would remember that it had been the United Kingdom and the United States of America which had reduced their armaments immediately after the war, while the Soviet Union had retained them on a large scale.

29. The period under review had seen a check to the steady growth of production in industrial countries. In Europe, that check had meant no more than the substitution of an uneasy stability for rapid growth, but in the United States it had produced the most serious recession since the war. Should the uneasy stability in Europe give way to a recession at the same time as the already existing recession in the United States and in the primary producing countries, there would occur, for the first time since the Second World War, something like a slump on a world-wide scale. At present, that was no more than a possibility, but it should not be ignored.

30. The decline in world trade had so far been comparatively small, and had been shared almost equally between the industrial and the primary producing countries; but the fall — in particular, in manufacturing countries — was more recent, and reflected clearly the slowing down in intra-European trade, the sharp fall in Canadian imports and the recession in the United States. The future course of trade depended on the course of the recession in the United States and its influence on the balance of payments of that country, on economic activity in western Europe and in other manufacturing countries, and on the economic position of the primary producing countries. Since experience showed that the response of the imports of a country to changes in its national income was a delayed process, and since the incomes of both industrial and primary producing countries were at present static and might in some cases even fall again, world trade in late 1958 and early 1959 might be expected to show a further decline. Such conditions clearly indicated a danger that certain countries, particularly among the primary producers, might encounter payments difficulties as their balances of payments reacted to the contraction in world trade. Some countries, indeed, were already experiencing such difficulties.

31. International agencies, most notably the International Monetary Fund, would again have an increasingly important part to play. The United Kingdom Government hoped that other industrial countries would join in seeking to deal with the problems of the decline in commodity prices by making use of the extensive and adequate international machinery already to hand. When the Soviet representative had reverted to the suggestion that another world economic conference should be convened, he had once more omitted to explain why he thought that the existing international organizations could not cope with the situation. It would be a mistake to hold new conferences or to create new pieces of international machinery unless it could be clearly demonstrated that the very many agencies and organizations already in existence were inadequate. There was every reason to hope that by good sense, pooled experience and united effort, the present difficulties might be surmounted through the use of the existing machinery.

32. Conditions in the industrial countries were, of course, dominated by the economic condition of the United States. The Council would have derived some encouragement from the statement made by the representative of that country. In the present rather

precarious state of the world's economic health, the rest of the world should continue to be able to earn dollars through its normal trade with the North American market. The statesmanship which the United States had recently shown in renewing the Reciprocal Trade Agreements Act for a further five-year period would be widely welcomed, but it would not be realistic to count too much on any immediate upturn in the United States.

33. No serious repercussions of the United States recession had so far been felt in western Europe, and production was holding up quite well. Some decline in European exports to primary commodity countries must, however, be expected later in the year, and that and other factors might well have a depressing effect on European activity. While disinflationary policies had played a necessary part in Europe during the past two years and had averted the worst aspects of inflation, they might, if persevered in too long, endanger in quite a different way the economic stability which had been achieved after years of effort. The time had perhaps come for governments in western Europe to turn their attention to expansion, and consciously to pursue policies to prevent any further decline in their production and trade.

34. The United Kingdom had found it necessary to adopt disinflationary policies ever since the latter part of 1955. Its first aim had been to maintain an orderly expansion with stable prices at home, and to maintain equilibrium in the United Kingdom balance of payments, thus preserving the value of sterling throughout the world. The latter aim was, as it always must be, paramount. Those efforts had, on the whole, been successful. The value of sterling had been sustained in the face of two speculative attacks, one of them — in 1957 — being exceptionally severe. The level of exchange reserves had been brought to the highest point since September 1957, and a very favourable surplus on the balance of payments had been achieved in 1956 and 1957. The United Kingdom had strengthened its financial position both by increasing its reserves and by reducing its liabilities. Meanwhile, no new restrictions had been placed on the use of sterling, and the London market had remained open for long-term borrowing, while a high level of employment had been maintained.

35. If the major industrial countries changed over to the pursuit of expansionary policies in the second part of 1958, an attempt must be made to reverse the forces which were at present driving towards a world recession, and care must be exercised lest renewed expansion brought back with it the familiar features of creeping inflation. Expansion must be controlled expansion, and must be undertaken at a time and in a measure chosen by each country for itself in relation both to its own needs and to its international obligations. The United Kingdom Government regarded as its responsibilities the maintainance of the stability of sterling and the extension of its use as an international currency, the carrying on of trade at a high level, and the preservation of stable prices and high employment in the domestic economy. Those aims were not always easy to reconcile, but giving priority to the first provided the only real hope of achieving the other aims in the long run.

36. The factors making for recession in the world economy should not be exaggerated. The problems encountered in the recession were very small indeed compared with those which the world had experienced in the 1930s; at that time industrial production in the United States had fallen by over 40 per cent, whereas the present recession had brought a fall of only 13 per cent. Countries had become more skilled in the management of their economic affairs than they had been in the past, and had built up a tradition of international economic co-operation for the solution of their problems. The work of the Economic and Social Council would itself contribute to the attainment of the objective desired by all — that of increased prosperity for all nations.

37. Mr. SASTROAMIDJOJO (Indonesia) said that much of the progress made in the post-war period had been confined to the highly industrialized countries, whereas most of the under-developed countries were falling behind. Long-term economic analysis of the world economy was increasingly needed. The present economic recession, the most serious in the post-war period, had already caused serious difficulties in the under-developed countries, most of which still faced the same basic problems that had beset them throughout the post-war period — in particular, how to speed up economic development with resources which could barely cover the existing, often quite low, standards of living.

38. The economic advancement of the under-developed countries depended mainly on their ability to earn foreign exchange by exporting primary commodities. Commodity markets had begun to fall off in the second half of 1957, a trend which had continued into the early months of 1958. In Indonesia, that trend had been sharply illustrated by the fall in the price of rubber, a commodity which accounted for about 46 per cent of exports. Meanwhile, the price of manufactured goods in international trade had continued to rise during 1957, and the terms of trade had thus become less favourable for the under-developed countries, declining by the end of 1957 to the lowest level in the post-war period. The *World Economic Survey, 1957* rightly concluded that any over-all increase in exports from the primary exporting countries would be unlikely in 1958, and that the total value of exports from those countries would probably decline for the first time since the difficult readjustments after the Korean hostilities. The situation was paradoxical, for the industrial recession had been accompanied by a rise in the prices of manufactured goods, so that steps had to be taken to deal at the same time with a recession and an inflation.

39. Developments in the United States were being closely followed. The serious economic set-back it was experiencing and the slowing down of production in many countries were a major challenge to the ability of the industrial countries to maintain the full employment policy to which they were pledged under Article 55 of the United Nations Charter.

40. The Indonesian delegation did not think that the current recession would develop into a major depression, since several sectors of the economy had escaped, particularly the agricultural sector in the United States. " Built-in stabilizers " were also operating to prevent a

depression, and tight-money policies had been relaxed by the lowering of the bank rate in the United Kingdom and other countries. Nevertheless, the outlook for the under-developed countries was not promising, even if no depression occurred, since demand from the more highly developed countries was likely to fall off, and their recovery would need time to exert its effect.

41. The governments of the industrialized countries themselves must decide how to fight recessionary trends and when such measures should be put into effect, but no nation should determine its actions solely in the light of domestic considerations. The leading industrial countries could not afford to ignore their international responsibilities in shaping their economic policies. Otherwise, the under-developed countries would be made to bear a large part of the cost of economic contraction which had occurred through no fault of theirs. Any prolonged decline in the demand for the produce of the under-developed countries would cause serious economic difficulties, since those countries rarely possessed adequate foreign exchange resources, and could not count on adequate external assistance to pull them through a long period of inadequate demand for their exports without widespread dislocation.

42. The recession had not yet had the widespread international effects that might have been anticipated. No general problem of international illiquidity had developed. However, the gains in international reserves during the last few months had been unevenly distributed. Many countries had not been able to improve their reserves position, and others, such as Indonesia, had sustained very serious losses. Many countries, including Indonesia, suffering from balance-of-payments difficulties had been helped by the assistance of foreign governments and by the lending activities of the International Monetary Fund, which had drawn considerably on its available resources. Moreover, because of the relatively low level of the world's foreign exchange reserves, countries were unable to withstand even moderate fluctuations in world trade without restricting imports. For the under-developed countries, that retarded economic growth and the acquiring of basic necessities. The question therefore arose whether the resources available to the International Monetary Fund should not be expanded.

43. In that connexion, his delegation wished to emphasize the concern it felt regarding the possibly unfavourable impact of the establishment of the European Economic Community on international trade, particularly with respect to the high protective tariff wall for some commodities. Such problems should be discussed with the under-developed countries.

44. Despite the industrial recession, the basic economic problem facing the world was that of long-term economic development. That question would be discussed under agenda item 4, but his delegation wished to express its concern that a large proportion of the world's resources, which might be used for economic development, continued to be spent on armaments.

45. His delegation considered that the Council's discussion of the *Survey* would benefit if representatives of the People's Republic of China were allowed to participate. The problem which highly industrialized countries faced of reconciling sustained economic growth with price stability was important not only to those countries, but also to the under-developed countries. When economic growth in the industrialized countries was restricted, or even reversed, as a result of measures to control inflationary pressures, an almost inevitable result was a decline in demand for the exports of the primary producing countries. Many under-developed countries had either to forgo an acceptable rate of development or to resort to methods of government financing, which resulted in inflationary pressures in the absence of external assistance. Since 1953, his country had suffered continuously from inflationary pressures, due mainly to the budgetary deficit resulting from subsidies for promoting economic and social development, controlling the price of rice, and from the decrease in foreign trade. In order to combat inflation, his government had had to apply more stringently a retrenchment policy enforced since 1956, cutting down on unwarranted expenditure and credit granted by private institutions. The employment situation in Indonesia had failed to improve in 1957 because of the increase in the labour force. Measures had been taken to prevent a further deterioration. In agriculture, first priority had been accorded to food production. A major consideration in that connexion was the need to lessen the drain on foreign exchange reserves, and for that purpose also there had been continued concentration on rehabilitation programmes for commercial crops.

46. Turning to the world economic situation, he said that the measures to be undertaken should be more specific; for example, measures against deflation might not be beneficial for sectors not affected by the recession. As far as under-developed countries were concerned, too much reliance had been placed on the high level of the business cycle, whilst the general instability of raw-material prices had been overlooked. Measures to mitigate the instability of primary commodity prices were not only vital for the economy of under-developed countries, but were in the interest of the industrialized countries. There was insufficient co-ordination between the measures taken by the highly developed countries. Besides the problem of instability, there was also that of bridging the gap until there was a revival of economic activity, particularly with regard to financial and technical aid. Unfortunately, the question of aid had been affected by political considerations, but it was to be hoped that international co-operation would lead to a solution.

The meeting rose at 1.10 p.m.

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