



Friday, 2 March 1951, at 10.15 a.m.

OFFICIAL RECORDS

SANTIAGO, CHILE

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President: Mr. Hernán SANTA CRUZ (Chile).

Present: The representatives of the following countries:

Belgium, Canada, Chile, China, Czechoslovakia, France, India, Iran, Mexico, Pakistan, Peru, Philippines, Poland, Sweden, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay.

The representatives of the following specialized agencies:

International Labour Organisation, International Bank for Reconstruction and Development, International Monetary Fund, International Telecommunications Union, World Health Organization.

World economic situation (E/1907, E/1910, E/1910/Add.1 and 2, E/1912, E/1912/Add.1 to 3 and E/C.2/280) (*continued*); report of the International Monetary Fund (E/1872 and E/1872/Add.1) (*continued*)

[Agenda items 3 and 8]

1. The PRESIDENT recalled that it had been decided at the previous meeting to discuss items 3 and 8 together. He invited the members of the Council, if they wished to put any questions to the Chairman of the Executive Board of the International Monetary Fund, in connexion with his statement at the preceding meeting, to do so.

2. Mr. FREI (Chile) had two questions to ask.

3. In the first place, had the Fund considered the possibility that an accumulation of monetary reserves might lead to an increase in inflationary pressures in the countries holding such reserves; and, in order to avoid such pressures, would it not be necessary to see that sufficient supplies of some commodities were maintained in those countries?

4. In the second place, did not the Fund consider that the disparity in prices of primary raw material exports in relation to those of imported goods might affect the economies of certain countries?

5. Mr. QURESHI (Pakistan) said that his country could endorse the suggestions of the Chairman of the

Executive Board of the Fund that sound domestic financial policies should be adopted by countries in order to combat inflation. However, the inflation which existed in undivided India, before his country had achieved independence, had been due primarily to an accumulation of export surpluses in view of the impossibility of importing the necessary commodities. He felt that many countries might soon find themselves in a similar position. He, therefore, asked what concrete steps the International Monetary Fund could suggest to ward off inflation arising from such causes.

6. Sir Ramaswami MUDALIAR (India) felt that apart from the advice furnished by the Fund to individual governments with regard to domestic policies some action on an international level was also necessary. He asked whether the Fund had any suggestions regarding such international action, and what steps the Fund itself was in a position to take in the matter.

7. Mr. KATZ-SUCHY (Poland) had no questions to put to the representative of the International Monetary Fund, but wished to make certain observations concerning his statement and the Fund's report.

8. He recalled the circumstances under which the Fund had been established in July 1944, and the objectives and functions laid down for it. In accordance with those objectives, the Members of the United Nations had been justified in expecting the Fund to play an important part in the development of international trade, the promotion of monetary stability, the correction of maladjustments in balances of payments, and the solution of post-war difficulties in the field of exchange. In the five years of its existence, the Fund had neither fulfilled nor actively pursued any of its objectives. Instead, it had become an instrument of the United States Government in furthering policies which were in contradiction to its stated aims. It had assisted in the development of a war economy in the United States and in the imposition of such an economy upon the countries of Western Europe. Ample proof of that fact could be found in the Fund's report.

9. The report showed that the Fund's transactions had reached the sum of only 51,800,000 dollars, a small

fraction of the total monetary settlements during that period. The Fund had not played a serious role in assisting governments to solve their balance of payment problems. In its chapter on the world economic situation, the Fund had paid no attention to problems of industry and trade, employment and standards of living, and had dealt with the economic problems on a financial and monetary level in an abstract manner. The discussion of equilibrium, inflation, and payment deficits, isolated from the basic economic problems, was useless. It had also avoided, in its report, the discussion of the inflationary pressures resulting from the trend toward a war economy in the capitalist countries.

10. The report defended and justified the wide-spread devaluation in 1949 as an economic necessity and a beneficial measure. It was a well-known fact that while the positive effects of devaluation were, at best, temporary even in the field of exchange, it had many undesirable effects upon the national economies as a whole, such as the lowering of the real wages and of the standard of living of large masses of the population, the loss of budgetary equilibrium and the creation of difficulties in the non-dollar balance of payments. The devaluation of 1949 had strengthened the economy of the United States in the international field and weakened those of the devaluating countries. The report did not show that in the United Kingdom the devaluation had been accompanied by a rise of 30 per cent in the price of bread and by a cut in social services. It had resulted in a decline in the real wages of British workers. In addition, confidence in the future of the pound sterling had been shaken.

11. The Fund was optimistic and felt that the results of devaluation would be favourable, however it stated that devaluation could only provide adequate solutions when it was supplemented by other measures. But instead of suggesting such measures it took refuge in vague and general phrases. With its statement, on page 23 of the report, that "a general increase in incomes can add nothing to the aggregate supply of goods", the Fund advocated, in fact, the curtailment of real wages for the purpose of placing the burden and cost of a war economy on the shoulders of the working masses.

12. The Fund did not mention the difficulties arising, for many countries, resulting from the unwillingness of the United States to increase its imports. No real attempt had been made to analyse the problem. The report merely stated that that decline was "a reflection of the weakening competitive position of countries outside the western hemisphere".

13. In part III of its report, the Fund admitted that exchange restrictions had increased, and that it was difficult to find convincing reasons for pressing members to abandon those restrictions. Such a statement amounted to an admission of complete failure.

14. The Polish delegation felt that the International Monetary Fund had not fulfilled its duties, and it could not, therefore, approve its report.

15. Mr. GUTT (International Monetary Fund) wished to reply first to the remarks of the Polish representative. The latter had attributed to the Fund

responsibilities and powers which it had never possessed. The charge that the Fund had become an instrument of United States monetary policy was not true; the United States merely had a voting power in the Fund which was commensurate with its great contribution to the work of the organization. As regards the statement that the Fund's transactions had reached a total of only 51,800,000 dollars, he pointed out that after the inauguration of the European Recovery Programme, the Fund had decided to reduce its dollar allocations to the Marshall Plan countries.

16. The Polish representative had overlooked one of the most important functions of the Fund, which was to study the monetary position of the various countries and to furnish advice to governments. Consultations were being carried on continually with the governments members of the Fund, and numerous missions were being sent to various parts of the world.

17. The other allegations were equally unfounded. In its third annual report the Fund had made the point that in view of the fact that the world market had become a seller's rather than a buyer's market, devaluation had had to be considered in order to restore a stable economy in certain countries. Speaking from his long personal experience, he wished to state categorically that the devaluation of 1949 had been a measure which was necessary and economically justified.

18. Turning next to the questions raised by the representative of Chile, Mr. GUTT stressed the close attention which the Fund had always paid to the problems of under-developed countries. In the particular case of Chile, a mission had been sent to Chile the previous year, and had subsequently published a report on its inflationary problems. Unfortunately, not all the needs mentioned by the Chilean representative were within the power of the Fund to fulfil.

19. With regard to his first question, although it was undoubtedly desirable that stocks of essential commodities should be maintained in the countries concerned, it was beyond the Fund's power to bring about such stockpiling. As to his second question, that, again, was beyond the jurisdiction of the Fund. The problem should be dealt with through consultation between the consumer and producer countries, such as those at present being carried on in Washington.

20. In so far as the questions put by the representatives of India and Pakistan were concerned, Mr. GUTT again drew attention to the limitations placed upon his organization's activities. In most countries, inflation was caused by two factors, namely, domestic monetary and economic policy, and the impact of price fluctuations abroad. The first factor could be dealt with by the governments concerned while the second must be dealt with through international action. The Fund could furnish advice to individual governments and assist them in measures of internal policy, but it could not intervene alone to effect the conclusion of international agreements.

21. Mr. FREI (Chile) thought it would be useful if the Fund could present to the Council, at its next session, suggestions concerning possible modifications

of the Articles of Agreement which would permit the Fund to deal with some of the questions raised at the current meeting.

22. The PRESIDENT pointed out that the Fund reported to the Council only once each year, but that the Fund could participate in the Council's debates whenever it so desired, or at the specific request of the Council. Moreover, members of the Fund might express their views concerning its duties and powers at the annual meeting.

23. The President then proposed that the Council should adopt a resolution taking note of the report of the International Monetary Fund (E/1872).

24. Mr. KATZ-SUCHY (Poland) requested that such a draft resolution should be put to the vote.

A resolution taking note of the report of the International Monetary Fund was adopted by 15 votes to none, with 3 abstentions.

25. Mr. KATZ-SUCHY (Poland) drew the Council's attention to a press report recently published in the *Christian Science Monitor*, which charged that international communist agents were taking advantage of the Council's current session to exploit labour difficulties in Latin America and foment discord, in an attempt to disrupt the unity of the Latin American countries.

26. He protested vigorously against such high-handed methods on the part of the United States Press. His delegation was grateful to the Government of Chile for facilitating its participation in the Council's current session; such participation was its sole purpose in coming to Chile. The Press report was apparently in line with the instructions issued by the United States Government. The Polish delegation bitterly resented such an attempt on the part of the United States to create friction between the local authorities and certain delegations members of the Council, and regretted that the report should have appeared in a newspaper as widely respected as the *Christian Science Monitor*.

27. Mr. LUBIN (United States of America) pointed out to the representative of Poland that the Press of the United States was a free Press; the government at no time attempted to dictate or control what was to be published. The members of the Council were free to determine for themselves the truth or untruth of the charges made in the Press report which had been read.

28. The PRESIDENT said that the only action open to the Council in the matter was to take note of the Polish representative's statement.

29. Mr. BORIS (France), speaking with regard to item 8, said that he had been very gratified to hear the statements made by the Chairman of the Executive Board of the International Monetary Fund. He had succeeded in concentrating the discussion on the present situation; on the sole basis of the report the discussion might have been excessively retrospective, however interesting an academic debate on the causes and effects of the 1949 devaluations might have been. The discussion would probably be more useful if members of the Council were to concentrate on current problems.

30. Mr. Gutt's remarks on the campaign which the Fund was carrying out against inflation had also been timely. The French delegation noted them with particular satisfaction in view of the fact that speaking in Paris in September 1950 Mr. Pierre Mendès-France, had warned against the threat of inflation in terms which the French delegation now deemed it useful to recall.

31. Turning to consider the effects of the international situation on economic progress and the prospects of continuing world economic expansion, he first expressed regret that the basic documents prepared by the Secretariat had not been ready in time either in French or even in English, to enable delegations to study them before the beginning of the consideration of item 3.

32. Before attempting to analyse the effects of the political events subsequent to 30 June 1950, it was essential to examine the situation which had existed prior to that date, in order to avoid falling into a grave error in the assessment of the causes of the recent economic changes. It would in fact be a mistake to assume that the upward trend in the world economy had coincided with the events in Korea; in actual fact the recovery had started well before June 1950. As an illustration, he pointed out that during the second quarter of 1950, industrial and mining production had already reached a point 12 per cent above that for the corresponding quarter of 1948. During that same period, the volume of international trade had increased by 14 per cent and there had been a considerable reduction in the dollar deficit as a result of an increase in United States imports and a decrease in its exports. A further sign of the return to normal conditions had been the change in the balance of trade between the United States and the countries producing raw materials which had turned against the United States.

33. A superficial study might make it appear that France had been the exception to the general trend and that there the upward trend in the economy had not made itself felt until the beginning of the rearmament programme. Such a conclusion would, however, be inaccurate. France had, in fact, felt the effects of the depression several months later than most countries, and it was doubtless for that reason that its effects were still being felt during the first quarter of 1950. During the second quarter of that year, however, there had already been very definite signs of improvement. The production index had risen from 112 in March to 125 in June, as compared with an average of 123 in 1948. At the time of the beginning of recent events in Korea the level of employment in France was very high, the number of unemployed on the dole amounted to only 0.25 per cent of the working population; working hours were normal and prices had hardly moved since October 1949. The slight rise of 1.5 per cent in wholesale prices was more than offset by a 2 per cent decrease in retail prices. Accordingly, after the 5.5 per cent wage increase granted in March-April 1950, the position of the wage earners had improved as compared with 1949. At the same time, monetary stability had been accompanied by a favourable situation in the balance of payments, the deficit having been reduced by one-third since the beginning of 1949.

34. These figures refuted the suggestion that the Western Powers had had to rearm in order to avoid an economic depression. In actual fact, the slight recession had already been absorbed in the United States by the end of 1949, and the improvement had soon been felt in most other countries. Rearmament, rather than helping to solve difficulties, had actually created them.

35. He stressed the fact that in so far as France was concerned it had not been an easy decision to take to devote so much of its efforts towards the strengthening of its defence, in view of the other pressing tasks of rebuilding its economy. Nevertheless, France had to face the fact that the peoples of the world were once more threatened as a result of the great disparity between the military strength of some countries in Europe and the military weakness of others. France's decision to rearm had not been based on any plans of aggression, but on the desire not to court the aggression to which the inadequacy of its defence might expose it, since recent events no longer left any doubts that force could yield to the temptations offered by weakness. That decision was necessarily incorporated in a system of collective security, which could alone offer sufficient resistance to aggression in an eventuality which the French people firmly hoped would never materialize.

36. He then discussed the effects of rearmament on the world economic situation. During the last quarter of 1950, there had been a considerable increase both in trade and in production. In a recent report of the Economic Commission for Europe it was pointed out that the usual seasonal reduction in industrial production during the summer months had not occurred in 1950. Exports from Europe had reached a record figure while imports had decreased. Thus Europe's position *vis-à-vis* the dollar area had continued to improve. It was difficult to decide to what extent those developments were due to a continuation of improvement which had become apparent before June 1950, and to what extent they were due to subsequent events. It was significant, however, that certain exports, particularly of steel and non-ferrous metals, from Europe to the United States had been abnormal and could be due only to extraordinary circumstances.

37. The implementation of large-scale armament programmes brought with it an increase in speculative buying and stock-piling, while the increase in government expenditures was an added stimulus to the general demand. At the same time, production was always late in getting under way and was limited by the availability of man-power and resources. The disparity between supply and demand was felt first in connexion with raw materials. Thus there was a definite tendency towards inflation not only in countries which increased their industrial production for defence purposes, but also in countries producing raw materials, particularly the under-developed countries.

38. The immediate effects on the international situation were therefore an increase in employment and production, a rise in prices, and the appearance of a seller's market, of bottle-necks and of shortages in certain sectors.

39. Inflation was not a new problem for the Council. That body was aware that when production had reached its ceiling, any increase in non-productive governmental expenditure was bound to take place at the expense of either consumption, investments or export. If it was to be at the expense of consumption the standard of living would naturally suffer. It was clear that armament programmes were liable to have an unfavourable effect on the standard of living of the population. In its long memorandum on that point (E/C.2/281/Add.1), the WFTU had simply been trying to prove an obvious fact. That any increase in military expenditure involved a corresponding decrease in civilian and productive expenditure from the level otherwise attainable was a truism which applied everywhere. It might have appeared to those who had read the document submitted by the WFTU that the countries of Eastern Europe had succeeded in overcoming the laws of nature and that they were able to increase their military strength, while at the same time achieving just as much economic progress as if they had no military commitments.

40. He would not attempt to enter into the question of who was responsible for the decision to rearm and he had only made those few remarks because the WFTU, which was not supposed to be a political organization, invariably entered into political controversies. He would simply recall how far France had gone towards disarmament while the USSR had amassed an immense number of divisions along its frontiers. Since he had mentioned the WFTU memorandum, he could not pass over in silence the allegation made that in France expenditures on social services had been cut down. In fact, the budget for social security in his country had increased from 760 thousand million francs in 1950 to 850 thousand million francs in 1951. It was also quite untrue to state that the budget for reconstruction had been cut. On the contrary, the expenditure allocated for the repair of war damages had risen from 278 thousand million francs in 1950 to 297 thousand million francs in 1951. Another allegation of the WFTU which was untrue was that the French Government had adopted fiscal measures benefiting large concerns to the detriment of wage earners. In particular, it was quite untrue that bachelors with a yearly income of 150,000 francs had not been exempted from taxation. On the other hand, there had recently been a further large increase in the rate of taxation of corporate profits.

41. Returning to the effects of the rearmament programme, he recalled that additional expenditure on armaments, besides having an adverse effect on consumption, could also bring about a reduction in productive investments, thus threatening the future standard of living of the country. Increased expenditure on armaments was also liable to have the effect of curtailing exports and thereby depriving the country of certain essential resources. Such a reduction in exports was also liable to have an adverse effect on the countries producing raw materials for they would no longer be able to purchase the capital equipment necessary for their own development and would accordingly suffer an increase in their internal inflationary pressure.

42. The representative of France went on to describe the measures which his country intended to take to combat inflation. The case of France was indeed of general interest because that country had been faced with practically all the problems bred by the war: the problem of shortages, the problem of reconstruction, the problem of equipping and modernizing the economy, the problem of housing, the problem of inflation, the problem of the dollar deficit and the problem of the development of the under-developed countries of the French Union. Each of those problems had been difficult enough in itself and their cumulative effect had made matters worse. In addition, the problems were aggravated by the fact that France did not have a strictly planned economy. In such circumstances, any new burdens on the economy were liable to disrupt the equilibrium of production on the one hand and consumption, investment and exports on the other. Thus the government had a very difficult task. Its plans had to be sufficiently flexible to allow for individual decisions and responses and, at the same time, it had to attempt to influence those individual decisions and responses so that they might have the desired effect on the economy as a whole. Government action was limited to the classical devices, budgetary and fiscal action, control of credit, and in addition the influencing of certain prices, by means of emergency imports for instance.

43. The present problem was to strengthen the country's defences without impairing its standard of living, while at the same time maintaining the rate of productive investments at the level necessary for the development of the French Union as well as that of metropolitan France. It was also necessary to keep exports at a high enough level to offset essential imports. His government's policy in the matter had already been set forth in document E/1912/Add.1. It seemed obvious that the only solution to the problem lay in an increase in production. The conclusion reached by the French Government was that it was possible to achieve an effective increase of 5 per cent in the gross national output. That was a small margin in comparison with that which was available in other countries where more ample reserves of man-power and industrial equipment were available.

44. Production could be increased in two ways: either by increasing the man-power employed or by increasing the productivity of the man-power already employed. Since France had already practically achieved full employment, only the second course was open to it. Increased productivity could not be achieved, however, without new investments. Thus if a country were to cut down its investments in favour of its defence programme, it would run the risk of failing to achieve the very purpose of that programme, for lack of adequate investments. Consequently, it was essential to achieve a perfect balance between the two.

45. An increase in the production of war materials might of course in itself stimulate productivity. Certain items of expenditure under the general programme of military expenditure might be in the nature of investments which could develop the productive capacity of the country.

46. The solution of the problem would be much easier if some elasticity were available with respect to the third factor, namely, consumption. However, it was the firm opinion both of the government and the general public that private consumption — which was still only just at the pre-war level — could not be reduced, but ought to be increased, as the result in part of the increased production anticipated.

47. A constant effort would be necessary to put those plans into effect. In the first place, it was essential that expenditures of public services, military expenditure and public investments should be kept within very strict limits. In the second place, the economy should not be allowed to suffer from the effects of speculative buying, since that might lead to harmful movements of capital within the French Union. Movements of capital abroad, being subject to strict regulations, could at least be prevented in theory.

48. Spontaneous private investments were also a factor to be taken into account. It was quite possible that the appearance of inflationary pressures might lead to an increase in private investment, which might in turn disrupt economic equilibrium.

49. In order to prevent those various disruptive elements, the public authorities would have to exercise strict supervision over orders placed by the government, private investments, the use and stockpiling of raw materials and manufactured products and the use of man-power. Thus the French Government could hope to avoid taking any stricter measures such as price and wage control, the rationing of certain products and the extension of a strict allocation of raw materials; those steps would only be taken in the last resort.

50. Having dealt with the internal influences on the national economy, he turned next to consider the external factors which were beyond the control of national governments.

51. His government's programme involved a certain increase in imports and a corresponding increase in exports based on the assumption that there would be a certain relationship between the prices of the two. Any deterioration in the terms of trade would suffice to destroy the balance, necessitating a more than proportionate increase in exports. That might in turn affect domestic consumption and investment. Equilibrium at the national level was therefore dependent on equilibrium at the international level.

52. In general his government regarded the development of international trade as one of the essential means whereby the countries undergoing increased economic tension could overcome their difficulties. The development of international trade would guarantee a rational division of labour and hence also a general increase in productivity and production. It would be extremely unfortunate if the new situation were to lead to the abandonment of the measures which had promoted the recent improvement in international trade. It would be far better to combat inflation by taking the necessary monetary and fiscal measures rather than to protect the balance of payments by the strict control of foreign trade. In that connexion, the European Payments

Union which had entered into force retroactively on 1 July 1950 had already been extremely helpful. His government was particularly concerned that it should remain in force whatever obstacles it might encounter. Although it was not an ideal solution, the European Payments Union did represent an important step forward in the economic relations between the countries of Europe.

53. In Europe greater freedom of exchanges was developing and non-discriminatory trade was increasing. The removal of tariffs was being gradually extended to the overseas territories of the countries participating in the OEEC. The improvement in the productivity of Europe, which would result from freer trade, ought to go a long way in cutting down the difference between the cost of production of goods in Europe and America. It should also prevent the expenditure on rearmament from bringing about too great a deterioration in the terms of trade between Europe and the United States.

54. He then drew attention to the initiatives taken by France to promote international economic co-operation, such as the Schumann Plan. The purpose of that plan had been to raise the standard of living of European workers by increasing production and reducing commodity prices in an area of over 100 million inhabitants, and not, as maintained in certain quarters, to establish an international cartel. Another proposal which would soon be put before governments was the marketing of European agricultural products. The French Government believed that there was a close relationship between expansion of agricultural production and technical progress on the one hand, and stable prices and markets on the other. The aim was to ensure the production of the quantities of food necessary to relieve the shortage of foodstuffs in Europe and to raise the nutritional standards of the world. In addition, the plan would stimulate improved production techniques.

55. Lastly, France had advocated the establishment of a European investment bank, a proposal of special importance to countries which were forced to contract their investments. Economic expansion depended largely on proper channelling of investments. In Europe, the ratio between capital investment and volume of output was higher than in the United States because of limited markets, insufficient utilization of capacity, location of plants and inadequate transport facilities, with a resulting higher cost of production. For that reason the French Government had favoured co-ordination of investment through a European investment bank which would set up or modernize industries designed to meet the needs of the European market, and which would be economically sound and competitive.

56. Passing from intra-European to intercontinental economic relations, he then examined the dollar question and recalled the services rendered by the European Co-operation Administration in saving the European economy from disaster and bringing it back to normal. The Marshall Plan, however, had outlived its usefulness. In the long run, international trade relations could not be based on subsidies. To achieve equilibrium, world trade had to be expanded and new trade channels

established. It was in the interests of a creditor country, and it was its duty, to assist in the restoration of a favourable balance of payments by lowering customs duties. Europe would no doubt be obliged to increase its purchases in the dollar area; it might happen that as a result of unfavourable terms of trade the increase in the value of dollar imports would exceed the increase in the volume of imports. In order to avoid such a situation, an increase in European exports and services to the dollar area was desirable.

57. As regards the question of raw materials, the French delegation realized that its views might be in conflict with those of some other delegations, although the difference of opinion was not as far-reaching as might appear. He had already pointed out, with regard to industrial countries having a precarious balance of payments, that a further increase in the price of raw materials might jeopardize the implementation of programmes already constituting a maximum effort. Those countries would be unable to export amounts equivalent to their imports and as a result, the raw-material producing countries would have increasing difficulty in procuring the needed commodities. Being unable to spend their foreign currency on consumer goods and equipment, they would accumulate excess currency which, in turn, would create inflationary pressure within their borders. In this way increases in the price of raw materials would have an adverse effect on the economies of all countries. That fact had been recognized in the opening statement of the President of the Council (438th meeting) as well as in a memorandum submitted by New Zealand (E/1912/Add.3). The common danger of inflation therefore threatened both raw-material producing and raw-material importing countries alike. In order to meet that threat, increased production of raw materials at stable prices was desirable.

58. It was only natural that countries which had embarked upon a national defence programme should wish to continue their normal economic activity as far as possible, and to that end establish allocation schemes, but the international commodity committees must guarantee to the producer countries that they would be able to make their views known and defend them.

59. In order to increase their production, the countries producing raw materials ought to modernize and improve their agricultural and mining equipment. They should also develop industries with a view to satisfying local demand and thereby counteracting inflationary pressure. Thus the new world situation, far from making the problem of the development of under-developed areas less pressing, would serve to stimulate its solution. Although the effects of rearmament continued to disturb the persons responsible for it, the under-developed countries at least could benefit by it, provided that they did not seek excessive and short-lived profits by altering prices unduly, in an evolution of the terms of trade which would exhaust the resources of the importing countries. Hence, it was in the common interests of ensuring the equilibrium of the forces capable of guaranteeing world peace that the importing countries had embarked upon their effort and there was

nothing excessive in their demand that that effort should be made possible.

60. There were great possibilities for mutually advantageous trade relations between industrialized and under-developed countries, provided both showed a spirit of mutual understanding. He referred in that connexion to an article in a publication by the Economic Commission for Europe pointing to the decline in the trade relations between Europe and Latin America since the Second World War, in spite of the fact that the two continents complemented each other economically. Europe needed certain raw materials from Latin America in order to carry out its economic recovery programme, while Latin America was anxious to obtain the commodities and equipment which Europe could supply. In recent years, France had made good progress in developing trade relations with certain Latin American countries, and it hoped to establish such relations with the other countries of that continent. The French Government had specially set aside part of its production for export.

61. In conclusion, he thought that notwithstanding the difficult international situation, it should be possible, though perhaps more difficult than before, to achieve economic progress. He hoped that as soon as the necessary balance of power had been achieved, the free world would be able to breathe once more. New problems would then arise if the stimulus of defence orders were missing. The Council should therefore not lose sight of the responsibilities it had assumed with regard to the prevention of crises and the maintenance of full employment.

62. Sir Bertrand JERRAM (United Kingdom) said that his government would have welcomed a longer period between the circulation of the papers submitted by the Secretariat and the start of the debate and expressed the hope that in future the Secretariat would find it possible to meet the obvious needs of governments in this respect. The *World Economic Survey 1949-1950* was better than any of its predecessors and much hard work had gone into its preparation. He wished that the report itself, as well as the documents relating to Africa (E/1910/Add.1) and the Middle East (E/1910/Add.2), could have been made available earlier.

63. A large section of the report was devoted to the discussion of the devaluation of the pound sterling and of other currencies and the effect it had had upon international trade and international payments during 1950. He would not be drawn by the provocative intervention of the Polish representative into discussing the role of the International Monetary Fund, but as his government's economic policy had played some part in it, he wished to make a few comments. In general terms, what the report on the world economic situation said about the effects of devaluation was correct, but it tended to underestimate the influence which devaluation had had on narrowing the dollar gap during the first six months of 1950, thus helping to correct the most flagrant cause of international disequilibrium at that time. It was true that other factors had contributed to the increase in exports between 1949 and 1950 from the non-dollar

areas to the dollar area, and that the nature of the decline in dollar imports by the sterling area and the non-dollar areas of Latin America could be in part attributed to administrative restrictions rather than to the interplay of prices. Nevertheless, he was unshaken in his conviction that over and above those factors, the devaluation of sterling and other currencies had been important in checking the decline, both in value and in volume, of exports to the dollar area from the rest of the world — which was indeed its intrinsic object.

64. It was hard to say with any precision what might have happened if other factors, in particular the hostilities in Korea, had not changed the world economic situation so substantially. The evidence showed, however, that even if there had been greater confidence in the maintenance of peace and security than was possible at the present time, the upward trend in production which had begun during the first half of 1950 would have continued and gathered momentum. If by the efforts now being made in other organs of the United Nations it were possible for mankind to return to devoting its energies to peaceful progress, the world could look forward to a steady upward demand based on increased world consumption. The fears of recession which had led to so many restrictive practices in the past, were already on the way to being set aside for good by the United Nations determination to maintain full and productive employment.

65. But with the world as it was, in order to defend its national security and maintain its pledges to dependent territories and to its partners in the British Commonwealth of nations and the signatories of the North Atlantic Treaty, the United Kingdom had to bear a grievous burden. It had to assess, as the United States had assessed in the President's report to Congress, how much the economy of the country could sustain over an indefinite period of international tension.

66. For five years, since the end of the war, the United Kingdom had striven — and striven successfully — for increased production. The memorandum circulated by his delegation to the Council (E/1912/Add.2) had shown that industrial production in the United Kingdom had risen by 9 per cent between 1949 and 1950. A number of factors were responsible for that increase, including the improved supply of raw materials, shortages of which had been a stumbling block in the early post-war years. Thanks to substantial assistance from the United States and Canada increased production had been brought about. That meant increased imports of raw materials, which in turn had led to increased production of raw materials. To the extent to which raw material imports could be increased, his country had been in a position to take full advantage of the opportunities presented by the devaluation of sterling to increase the volume of its exports. Thus, since the beginning of 1950 the over-all balance of payments of the United Kingdom had been in surplus in spite of some change in the terms of trade unfavourable to the United Kingdom and favourable to the countries from which it bought its raw materials.

67. The return to an uneasy international situation had put an end to the symptoms of recovery. It might

mean that there would be no surplus at all in the first year of intensive rearmament, but that was by no means certain. The world-wide movement towards rearmament had brought about an abnormal demand for raw materials, which had outpaced the increased production of raw materials, inflating their prices and creating some serious shortages. The United Kingdom and other Western European importers of raw materials must inevitably suffer a setback in their economic progress, which would, unless an abnormal effort were made, decrease the quantity of goods which they could make available to the outside world. The United Kingdom was ready to make that abnormal effort and believed that the economy of the country could sustain the necessary burden without going back upon any existing obligations.

68. The Chancellor of the Exchequer had pointed out that the cost of defence in the next three years might be as much as 4,700 million pounds sterling and that it might be more if costs went up. The cost of defence in the United Kingdom was going to rise from £16 per head of population in 1951 to £36 per head in 1953-54. The extra burden of 300 million pounds sterling would have to be borne next year over and above the direct cost of rearmament if the balance of payments was to be maintained at the same level as in 1950.

69. How was the effort to be made? Four different ways were open: expansion of production; reduction of consumption; reduction of investment; or allowing the balance of payments to deteriorate by exporting less or importing more. The United Kingdom Government had mainly chosen first alternative, the expansion of production. Wherever possible it would try to do it by more intensive use of existing equipment. That would entail more overtime, a greater number of women in industry, more old people deferring their retirement. It would also entail an intensive effort to overcome the shortage of essential raw materials which, rather than shortage of labour, was likely to be the limiting factor. On present calculations production would probably increase by a little over 4 per cent in the current year but, if raw-materials producing countries made more raw materials available, there might be better results.

70. It was inevitable that consumption in the United Kingdom would have to be reduced and more consumer goods exported abroad, where they would doubtless play an important part in absorbing the extra purchasing power brought about by higher prices of raw material in the raw-material producing countries.

71. Of the 2,850 million pounds sterling to be spent on defence production research and works during the next three years, roughly 85 per cent would be spent on engineering and vehicle production, including ship-building and aircraft, building and textiles. There would therefore have to be some diversion of labour from industries catering for domestic consumption, but the government would try to maintain at full pressure those sections of industry which were working for the export market. The Prime Minister had said that although an overriding priority would be given to defence, that would not be done indiscriminately. The objective of the United Kingdom Government was

to carry out its heavy rearmament programme in doing the least possible damage to the essential foundations of its economy. Since the defence programme involved a load of 20 per cent of the output of the engineering industry as compared to 80 per cent in 1943, there would still be some scope for choice and adjustment in the placing of engineering contracts in those sections of the engineering industry least harnessed to defence. There was thus still scope for maintaining some of those exports which were essential to the economic development of the under-developed countries.

72. Since overseas investments would be discussed in connexion with the financing of development, he would confine himself to saying that his country stood by its commitments to the United Nations, to the countries of South and South East Asia, and to its dependent territories. The joint declaration of the Commonwealth Prime Ministers reaffirmed the aims of the Commonwealth in respect of the economic development of under-developed territories and the adoption by all the Commonwealth countries of the Colombo Plan was practical evidence of their intentions.

73. The interrelationship of national and international economic policies within the family of the United Nations made it necessary to ensure that obstacles to the progress of programmes of economic stability were minimized. Governments should try to agree upon steps to ease the difficulties caused by the very great demand for raw materials. Steps must also be taken to secure equitable distribution. To those ends the Governments of the United Kingdom, the United States of America and France had agreed to establish international commodity groups representing the governments of producing and consuming countries throughout the free world. A number of them had already been set up. In addition, the Commonwealth Prime Ministers had recommended the strengthening of existing Commonwealth consultation on economic questions for that purpose. The interests of all governments in promoting stable markets as well as concern for the world economy as a whole should lead them to increase production of raw materials and at the same time to curb inflation. Governments of consumer countries would have to take stringent fiscal measures to curb inflation and to make appropriate arrangements to ensure the distribution of available raw materials to essential users. In the United Kingdom measures had already been taken to set up allocation schemes for those commodities in shortest supply.

74. To sum up, in his view, the most constructive conclusion which the Council could reach would be to resolve afresh, both collectively and individually, to face the evils of rearmament as solidly as the Council had faced the problems of unemployment. The causes of rearmament were beyond the Council's control; they were to be found in the international behaviour of the Soviet Union. In the present circumstances governments could only concentrate on strengthening their economies to sustain the extra effort. An increase in the production of raw materials would be not only justifiable economically; it would be an intrinsic part of such an effort, so would national measures to curb inflationary pressures. In the United Kingdom sacri-

fications would be made for those purposes. He was confident that the Council would not allow itself to be divided by military threats. The United Nations, in its economic organs, no less than in its political ones, must

prove itself capable of withstanding the disruptive influences which were menacing it.

The meeting rose at 1.15 p.m.