



CONTENTS

Page

World economic situation (E/2193/Rev.1, E/2193/Add.1 and Corr.1, E/2193/Add.2 and Corr.1, and E/2193/Add.3 and Corr.1) (<i>continued</i>)	133
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President: Mr. S. Amjad ALI (Pakistan).

Present: The representatives of the following countries:

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

Observers from the following countries:

Chile, Netherlands, Turkey and Yugoslavia.

The representatives of the following specialized agencies:

International Labour Organisation, Food and Agriculture Organization of the United Nations, International Bank for Reconstruction and Development, International Monetary Fund.

World economic situation (E/2193/Rev.1¹, E/2193/Add.1² and Corr.1, E/2193/Add.2³ and Corr.1 and E/2193/Add.3⁴ and Corr.1) (*continued*)

[Agenda item 3]

General debate (continued)

1. Mr. NUNEZ PORTUONDO (Cuba) stated that the Cuban delegation, after four years of absence from the Council, was pleased to note that the Council had apparently passed its initial period of hesitancy, lack of co-ordination, unproductive argument and theorizing. On the other hand, it was undeniable that its lofty purposes were frustrated by the political propaganda and malicious activities of certain Eastern European countries.

2. Nevertheless it could not be claimed that the Council had yet fully reached the stage of practical achievement and had completely left behind it the period of doctrines, dogmas and short-sightedness which had

given rise to "speeches intended for the domestic consumption" of each country.

3. Yet it could be said that governments, because of the difficulties which they experienced, were becoming daily more convinced that, in order to achieve practical results in the economic and social fields, responsible planning based on policies, expressed in technical terms and supported by ample experience, was necessary; for the purposes of such planning, valuable assistance could be found in the impressive collection of studies, statistics and analyses provided to member States by the Council and the specialized agencies, whose vast field of activities brought, perhaps for the first time in history, the economic experience, past and present, of every area of the world within the range of human understanding.

4. It had been said that the motto of the Security Council should be "Peace is indivisible"; similarly, in his opinion, the catchword of the Economic and Social Council should be "Prosperity is also indivisible".

5. In a recent broadcast the eminent philosopher Lord Russell had stated that one of the essential conditions for the well-being and happiness of mankind in the current industrial age was that there should be approximate economic equality among the various parts of the world. According to Lord Russell, Western Europe and the United States of America enjoyed a level of material well-being which was in too sharp contrast with the low living standards of the other peoples of the world for them not to realize it fully and that the inevitable result was an explosive combination of hunger and envy, which gave rise to bitter hatred. The main objective of the Council was to avoid that dangerous combination by eradicating at the same time both hunger and envy.

6. For some three years the Council had been resolutely attacking the problem. Its efforts had greatly impressed the Cuban delegation, although it had not then been a member. The Council, whose executive powers were so limited and whose only instruments were discussion, study and recommendation, was nevertheless on the point of achieving the only tangible results on

¹ United Nations Publications, Sales No. 1952, II. C. 4.

² United Nations Publications, Sales No. 1952, II. C. 1.

³ United Nations Publications, Sales No. 1952, II. C. 2.

⁴ United Nations Publications, Sales No. 1952, II. C. 3.

behalf of mankind in the framework of the United Nations with its struggle to effect world economic stability and in launching the initial yet promising programmes of technical assistance for economic development.

7. It might be helpful in studying the current world economic situation for a delegation such as his, which represented a country commonly classified as under-developed and whose economy was so sensitive to international fluctuations, to speak of its own experience in relation to stability and development. The case of Cuba might be a useful typical example for the Council to consider, since that country was confronted with very distinct and serious problems connected with stability and economic development, the solution of which would certainly be of benefit to many other countries.

8. While he was aware that the Council would have the opportunity of studying both those major aspects of its proposed international economic activity when it passed to other items on its agenda dealing with them specifically, he considered it desirable to consider them at the moment, in order to avoid creating a vicious circle and expanding effort doomed to failure in advance. For practical reasons the items dealing with economic stability, on the one hand, and economic development, on the other, might be separated, but in actual fact stability and development constituted an indivisible whole for the under-developed countries. In other words, without relative stability there could be no development and without adequate development there could be no stability.

9. The Secretary-General's report on the world economic situation stressed that one of the main characteristics of the current economic situation was the following: The countries of primary production, which exported basic commodities and raw materials, after the period of increased prices and demand following the communist aggression in Korea, were at the moment somewhat anxiously visualizing the possibility of a return to a situation similar to that of 1949, in other words, a situation characterized, as far as they were concerned, by the following serious economic features: (a) a growing population and a threatening increase in unemployment; (b) a drop in exports due to the smaller demand from foreign countries with diminishing foreign currency resources; (c) a tendency of the prices of exports to fall because of the drop in demand which, in 1952, might be accelerated by the rising rate of production which was not easily placed in foreign markets, thus threatening to worsen the selling market because of the accumulation of surpluses; (d) a tendency of the terms of trade to deteriorate owing to the fall in the prices of raw materials and the increase in the prices of consumers goods, manufactured items and capital goods in the world market.

10. The crises in its economic history had taught Cuba to realize that periods of prosperity did not last and it had therefore entertained no exaggerated optimism about the 1950 boom resulting from the extraordinary increase in the demand for basic commodities required by the industrialized countries for their rearmament and strategic stock-piling. Nor had Cuba been surprised by the appearance on the economic horizon, scarcely a year after the aggression had been launched

in Korea, of the ominous tendency of export possibilities, and of the consequent revenue, to decrease.

11. Cuba knew only too well as a country producing exports, and especially when those exports consisted of only one or two principal products, that a fatal relationship existed between the price and volume of exports, on the one hand, and the living standard of the people, on the other, since the well-being of the country depended not only on the production of goods for export, but also on foreign demand.

12. Cuba knew only too well that, because of its peculiar structure, its economic situation was extremely vulnerable and that it was not in its power to provide the remedy for any crisis caused by a violent and far-reaching fluctuation in foreign demand.

13. In spite of the boom to which he had referred, the effects of which were tending to decrease, he was justified in stating that the outlook for exporting countries was not encouraging, since their prosperity would decline as foreign demand decreased.

14. To try to remedy the situation by greatly reducing the prices of exports was not an advisable solution. That would not result in an increased demand which Cuba could easily meet, because, under existing conditions, the demand for sugar was more or less inelastic and because, in view of possible crises, the possibility of broadening existing markets or of opening new markets by reducing prices would be rather hypothetical because of the shortage of foreign currency from which those markets suffered. Moreover, the method generally recommended to make price cuts feasible was to improve production techniques in order to economize on labour, but a cut in prices by that method would only add to the acute problem of unemployment which they were precisely trying to eradicate.

15. The only apparent solution was to cut production in order to adapt it to the fluctuations of the demand and to avoid surpluses which tended to reduce prices. But that too was no ideal solution, since it would entail a drop in the volume of exports and at the same time curtail one of the means of stimulating the flow of foreign currency required by Cuba to carry out the capital formation process necessary to achieve an effective economic development, the only possibility which countries exporting basic commodities had of escaping their tragic fate. A cut in production also involved the danger that other competing areas might make use of the opportunity to expand their own production. Cuba was therefore not prepared, if called upon to resort to such a heroic remedy, to reduce its production merely to find an unfair corresponding increase in the production of other countries, because its sacrifice would thus be meaningless.

16. Cuba fully realized that those difficulties were common to most exporting countries. In its report on Cuba, the Truslow Mission of the International Bank had stated that it had been perhaps the fate of Cuba to have failed to act when sugar prosperity would have financed the action and to have sought to act only in periods when depression provided a motive but sugar did not provide the means. He felt that the Mission had been referring to the past, because, even if it were true that since the Second World War a relatively favourable development in the price of sugar and in the volume of

sugar cane had brought comparative prosperity to the country, the Cuban people, far from remaining satisfied with the situation which it knew from bitter experience to be subject to changes over which it had no control, represented such a force of public opinion that it had succeeded in influencing the economic policy of the successive governments.

17. Economic development had become the current subject in Cuba. Cuba was determined to evolve a sustained and persistent—although not necessarily continuously increasing—process of investment which, by making it possible to apply modern techniques on a wide and increasing scale to the production of goods and services and by increasing the investment of capital per employee, would raise the productivity, and consequently the revenue, consumption and savings of the majority of the people, while maintaining the process of capital formation which was the very basis of economic development. In that spirit, and with those aims in mind the Cuban people had made a conscientious effort to promote economic development, which had been uncoordinated in the beginning but had later become more definite, technical and widespread until a national programme of economic action had taken place.

18. Economic development in Cuba had been accompanied by the establishment of numerous bodies essential for effective action. The Cuban Institute for the Stabilization of Sugar and the National Committee for the Promotion and Protection of Havana Tobacco were among the important organizations dealing with exports. In order to maintain confidence in the Cuban national currency and to establish an adequate monetary policy, the National Bank of Cuba had been founded and the credit requirements of agriculture and industry, frequently impeded in their development by the shortsightedness of some private banking sectors, had not been forgotten as the Cuban Bank for Agriculture and Industrial Development had been established. The National Commission for Development supplied with ample credit, had been made responsible for a special programme of public works mainly intended to facilitate the access of agricultural produce to markets and to develop related industries.

19. An equally, if not more, important development was the establishment of the National Economic Board, into which the Board of War Economy had been converted. With its ample faculties, its highly qualified personnel, its permanent contracts, with all the public and private sectors dealing with the economic interests of the nation, it was the main body of co-ordination, policy and consultation for the national economy. The present Government had just reorganized the Board, giving it full autonomy and had requested its chairman to sit in the Cabinet as a Minister. One of the main achievements of the National Economic Board was the National Programme of Economic Action, prepared after careful study and consultation with all the nation's public and private institutions. It had recently reviewed that programme in order to make it more up-to-date and more dynamic, in keeping with the lofty sense of economic and social responsibility characteristic of the current Government.

20. The establishment of those organizations was an example of the awakening national conscience, which was quick to defend the long-term interests of the coun-

try; for whenever a law concerning the establishment of those institutions was presented to Congress, the Government and the Opposition, leaving aside their party interests, had approved their establishment.

21. Cuba had been in the forefront in defending and advocating the United Nations programmes of technical assistance, since it fully appreciated the value to its own economic development of the possibility of drawing upon the experience and knowledge accumulated by the community of nations. It had requested the International Monetary Fund and the International Bank for technical assistance and had received important reports which it was studying carefully in order to extract data which would improve the well-being and productivity of the Cuban people.

22. Cuba had submitted more than twenty applications for technical assistance under the United Nations Expanded Programme of Technical Assistance and "Point Four" of the Truman Plan.

23. Cuba had requested technical assistance from the United Nations in order to reorganize its national statistics, particularly those relating to consumption, industrial production, prices and national trade.

24. Cuba's second objective with regard to technical assistance was to establish a procedure for assessing the national income and how it was distributed, with special reference to the various income groups and their proportional distribution and to the amounts required to cover foreign commitments resulting from public and private loans, investments and for the payment of services. For that purpose it was intended to make a strictly scientific estimate of the national income on which to base an assessment of the national budget, the volume of taxation and public debt which the country could support. It would thus be possible to exclude various items concerning the lending of routinary administrative services from the budget and to strengthen the credits for investment and undertakings producing wealth and giving employment.

25. Cuba was also interested in having a survey made of its natural resources, with a view to ascertaining its national wealth. The living conditions of the Cuban family would also be studied, with particular reference to the cost of living and the family budget. The Cuban Ministry of Agriculture was doing admirable work in distributing high-quality seed to farmers of scarce resources, disseminating technical information for improving their crops, encouraging them to produce more secondary crops, providing them with facilities for improving the quality of their cattle, making veterinary services more easily available, sinking wells, lending tractors and other agricultural equipment and improving health conditions. Certain special services had been actively engaged in ensuring the strict application of the laws on soil conservation, the replanting and extending of forests and the development of irrigation.

26. One interesting initiative in agricultural development was the cultivation and processing of "kenaf" which offered promising possibilities. There were interesting achievements and projects in the industrial field, among them the establishment of a textile industry and improvements in the food preserving and canning industries and in the chemical industry.

27. The current government would continue to encourage the most advanced agricultural and industrial technical training methods. It intended to develop the transport system and had reorganized the Ministry of Communications, naming it the Ministry of Communications and Transport, which co-ordinated the activities of various transport bodies.

28. One significant fact showing the pace at which agriculture was being mechanized and the importance to Cuban economic development of securing foreign exchange was that approximately 300 tractors had been imported between 1935 and 1939, as against some 10,000 between 1946 and 1950.

29. Cuba had thus undertaken its economic development with great determination and had made good use of the short respite afforded it by the rise in the price of sugar in the world market during the Second World War and since the Korean conflict. The economic picture was much more encouraging than it had been after the First World War though Cuba had also shown great earnings during that period. It could therefore be said that the Cuban people had learnt from bitter experience to be far-sighted in planning their economy.

30. But the increased productivity and well-being which Cuba hoped to enjoy in the future would never become a reality if the main means of attaining that purpose, namely the acquisition of foreign currencies through the sale of Cuban sugar abroad, were to fail owing to the fluctuations on the world market entirely beyond the Cuban Government's control. It could not seriously be claimed that, however great the profits of a country during a five-year period or however energetically those profits were reinvested, sufficient resources could be accumulated to bring a scientific and progressive programme of economic development to full maturity. As the International Bank for Reconstruction and Development had stated in its third annual report (E/1077), economic development was necessarily a long and arduous process, to be measured in decades rather than years. If Cuba was to contribute on a large scale to the financing of its own economic development, the volume of sugar sales, the price of sugar and the terms of trade would have to remain stable for many years.

31. His delegation was inclined to believe the recent statement (584th meeting) by Mr. Rooth, the Managing Director of the International Monetary Fund, that there was no reason for supposing that the world would face a reduction in international trade. Nevertheless, as far as the curve of sugar prices was concerned, certain fluctuations ought to be studied closely. Page 34 of the *Review of International Commodity Problems, 1951*⁵, showed that the price of Cuban sugar on the "free market" had risen very rapidly reaching 8 cents per pound on 21 June 1951, a price 44 per cent higher than two months previously. However, the demand had proved temporary, and supplies from Cuba had improved. After the Korean truce proposals, the price had fallen as suddenly as it had risen and in August, the Cuban free market price had again reached the April level. That development was mainly due to an increase in available supplies and the decrease in demand. It could

be claimed that the sudden change had taken place at the high level, but the drop had continued in the first months of 1952.

32. Mr. NUNEZ PORTUONDO hoped it would not be considered out of order for him to draw attention to facts and trends of such great importance to his country: when Cuba did not develop economically, that did not mean it remained at a standstill: it constituted a dangerous recession.

33. In effect it must not be forgotten that Cuba's current economic situation was conditioned by the pressure of a rapidly increasing population, which had grown in round figures from 1,500,000 inhabitants in 1899 to 5,300,000 in 1950. The population thus contributed 25,000 persons to the national labour market each year, for whom new sources of employment had to be found. Besides the population suffered from large-scale permanent unemployment, which was further increased by wide seasonal unemployment.

34. The stability of Cuba's foreign trade was essential to its economic development, which was itself indispensable not only for raising the standard of living but also for preventing it from declining dangerously. The fear of, or preoccupation with, economic instability had been referred to at international conferences as frequently and as insistently as the subject of economic development. At the fourth meeting of the Foreign Ministers of the American States, held at Washington on 7 April 1951, the majority of the countries present, had insisted, even though they were faced with an increased demand for their products in the immediate future, that due account must be taken of the desirability of establishing a balanced relationship between the prices of exported raw materials and those of imported manufactured goods, in other words, of stabilizing the terms of trade.

35. The Council, in resolutions 290 (XI) and 341 (XII), had requested the Secretary-General to appoint a group of experts to prepare a report formulating and analysing alternative practical ways of dealing with the problem of reducing the international impact of possible recessions and to include recommendations concerning the appropriate national and international measures required to adjust, establish and maintain appropriate relations between prices of raw materials and manufactured goods, and thus ensure economic stability. It had, in fact, requested a group of experts to find a universal remedy for crises, particularly those affecting the under-developed countries. The Group of Experts had replied that it possessed no miraculous powers to sweep crises from the economic scene. In that connexion he drew attention to paragraphs 4 and 12 of the report of the Group of Experts on *Measures for International Economic Stability*⁶ (E/2156) noting that, in the experts' opinion, the key that could initiate great international economic crises was in the hands of the great industrial Powers, especially, the United States.

36. It must not be assumed that the Cuban delegation considered the report fatalistic in outlook, in that it minimized the importance of international economic co-operation and ascribed the entire responsibility to the industrial Powers. He had discovered in the report

⁵ United Nations Publications, Sales No. 1952.II.D.1.

⁶ United Nations Publications, Sales No. 1951.II.A.2.

very valuable and constructive ideas for future international action, which he would wholeheartedly support. He did not agree with some of the ideas expounded in the report in relation to the under-developed countries, because the conclusions to which they pointed were unduly fatalistic so far as those countries were concerned. According to paragraph 41, the vulnerability of the under-developed countries to international disturbances was simply another facet of their general problem of under-development and, in the long run, the process of development itself would make them less vulnerable by diversifying their economies and raising their living standards. The report continued that the only way to expedite economic development would be to ensure a great flow of foreign capital into those countries.

37. In his opinion, the income from the sale of goods abroad, which was conditioned by the terms of trade, could be one of the main sources of industrialization in the under-developed countries and for that purpose international markets must remain relatively stable.

38. He appreciated the importance and desirability of foreign investment, but it was more natural, wherever possible, to use domestic savings. The report on the third session of the Sub-Commission on Economic Development (E/CN.1/65) supported that view when it stressed the importance of national financing in economic development, considering it to be an indispensable pre-requisite for countries in implementing their social, political and economic programmes. That report later stated that foreign financing could be only of a subordinate character. The International Bank had indicated that it was in substantial agreement with those conclusions. The Council itself had been aware of the importance of national financing when, in resolution 222 (IX), part D, it had requested a survey of the methods of increasing national savings and of utilizing them more effectively for purposes of economic development.

39. He wanted to assert two perfectly defined ideas.

40. First, he did not agree with the old colonial policy of "putting all the eggs in one basket" which caused irreparable crises when the volume of foreign trade and the terms of trade fell sharply. He also believed that it was important for the under-developed countries to continue to enjoy the advantages of specialization in foreign trade, while at the same time endeavouring to produce other commodities. The old conflict of sugar versus the diversification of the national production, including its industrial development, had been overcome in the Cuban national conscience. The President of the National Economic Board had asserted some time ago that both elements were perfectly compatible; sugar production, with its team of technicians and its laboratories, with its financial resources and human potential, could be in the vanguard of industrialization and was not only the backbone of the national economy but, also, the principal source of employment and of dollar income.

41. Secondly, he had stressed the necessity for stabilizing the foreign trade situation, in order to enable the under-developed countries to use it as a source for national investment, and had emphasized the importance of the national financing of economic development without opposing or detracting from external financing, pro-

vided that foreign investment did not compromise national sovereignty or mortgage the sources of national wealth in favour of other countries. But it was much more natural and easy, circumstances permitting, for a national economy to meet investments from domestic rather than from foreign resources.

42. Cuba offered a magnificent field for investment. Its moderate tropical climate had not reduced the working capacity of its population as it had in the case of other countries on the same latitude. As the report of the International Bank stated, the Cuban was intelligent and clever and he quickly absorbed modern methods; the Cuban worker was resourceful and speedily acquired manual dexterity. Twenty-five thousand persons were added yearly to the labour market, which could be a negative factor if economic development did not keep pace with that growth and which would be a splendid labour potential as soon as economic development was expedited. The report further stated that Cuban soil was exceptionally fertile and that Cuba was in a very favourable geographic position, lying close to the great United States market and important trade routes.

43. Foreign capital had always been treated without discrimination in Cuba, and investment intended for economic development enjoyed favourable fiscal treatment. As far as the current political situation was concerned, the present Government was determined to maintain internal order, to abide by its international obligations and to demand the strictest honesty in its administration. Cuba, although determined to aid itself, was not, however, one of those ultra-nationalistic countries which closed their doors to outside co-operation.

44. To sum up, he pointed out that, as far as Cuba was concerned, economic stability and economic development were inseparable. International technical assistance, which Cuba was so desirous of securing, would be of little avail if foreign trade, one of its main sources of income, which would make national investment possible, disappeared.

45. As was clearly indicated in the report of the Group of Experts, the industrialized countries, whose influence on the demand in the international market was decisive, were particularly and directly responsible for maintaining the stability of the world economic situation, changes in which meant life or death for the under-developed countries. He was confident that they recognized their responsibilities and would thus be consistent with their international commitments.

46. He was also convinced that they realized that to expedite the economic development of the under-developed countries and to raise their living standards was the main weapon in defending democratic institutions and in halting the advance of subversive doctrines which held out visions of an earthly paradise to the under-developed people.

47. At the fourth meeting of the American Ministers of Foreign Affairs, a very clear position had been taken on the matter; it had been recognized that to raise the social, economic and cultural standards of the American peoples was one of the main methods of strengthening internal security against communist penetration.

48. He hoped that the United Nations, confronted with the serious problems which aggression or threats of aggression created for the democratic countries, would not forget that its military or political victories would have no real value if not accompanied by decisive economic and social victories. It should endeavour to discover and apply methods for creating better international co-operation which would guarantee economic stability and assure an improved standard of living for all peoples, so that hunger, envy and hatred might disappear and so that they might enjoy the physical well-being and moral happiness to which they were entitled as human beings.

49. Mr. HASAN (Pakistan) said that as the representative of an under-developed country, he had listened with great interest to the statements made by the representatives of a number of highly developed countries on the world economic situation. The economies of those countries played a decisive role in the world as a whole and even relatively insignificant events in some of them were fraught with incalculable consequences for the under-developed countries. While the problems and aspirations of the latter countries might seem elementary by comparison, they nevertheless affected the lives of millions of men.

50. He would begin relating Pakistan's contribution to the account of the world economic situation by drawing attention to the devaluation of sterling and of several other currencies in September 1949, the culmination of a process of economic recession and of the widespread balance-of-payments crisis, which had begun in the first part of that year. Devaluation had been followed by a steady improvement in world production and economic activity. With the outbreak of hostilities in Korea there had been a large increase in speculative buying of all goods, particularly of raw materials and the stock-piling programmes of the United States and of other countries had led to a considerable rise in the prices of raw materials. Jute, cotton, wool, rubber and tin had found a ready sellers' market. The price of cotton in Pakistan, exclusive of export duty, had risen from about 100 rupees per maund in August 1950 to 220 rupees in March 1951, while the price of jute had risen from 25 to 66 rupees. There had been a similar rise in the price of other raw materials, particularly of those produced in the countries of South and South-East Asia.

51. In addition to an appreciable improvement in the balance of trade of the under-developed countries of South and South-East Asia, there had been a large increase in their national incomes. The export duties imposed by some of those countries to absorb the new purchasing power generated by the high prices of raw materials had created budgetary surpluses and had made fairly large sums available to their governments for developmental purposes. Like many other countries in the area, Pakistan had enjoyed the benefits of the boom; the volume of jute exports, for example, had doubled between the first half of 1950 and the first half of 1951, while cotton exports had increased by one-third. There had also been a considerable increase in prices, with the result that, while there had been an adverse balance of 160 million rupees in 1948-1949 and 258 million rupees in 1949-1950, there had been a surplus of 676 million rupees in 1950-1951 and of 272 million rupees during

the last nine months of 1951. Other countries in South and South-East Asia had also benefited from the increased demand for, and the high prices of, their products. For a short time the realization of the dreams of economic and social development, which the peoples of those countries had cherished for generations, had appeared to be in sight.

52. The Colombo Plan had been drawn up shortly before the prices of raw materials had begun to rise. The terms of trade of the participating countries had improved so much in the months following its preparation that the comparatively large deficits which had been anticipated, having regard to the requirements and the resources of the countries concerned, had been transformed into surpluses. The Plan had envisaged substantial drawings on the sterling balances of the participating countries, since it had been recognized that the external finances required for the implementation of the Plan would be found, in part at least, from those accumulated balances. The increased prices of raw materials had resulted in increased balances for most of those countries.

53. Unfortunately, the tempo of development in those countries had not kept pace with their improved foreign earnings. The *World Economic Report 1950-51* had drawn attention to the fact that the large gains in the export earnings of the primary producing countries since the middle of 1950 had not made a major direct contribution to the implementation of their development plans, a point which the Philippine representative had mentioned at the previous meeting.

54. The *World Economic Report 1950-51* stated that the fears of the under-developed countries regarding their inability to obtain capital goods from the industrialized countries on account of rearmament programmes had not materialized in 1951. It also stated that some countries had been prepared to permit the expenditure of part of their increased foreign exchange earnings on luxury goods, while some had been compelled to import large quantities of consumer goods to meet increased demand or to fight famines. As such statements might cast doubt on the sincerity of the claims made by the under-developed countries to be using every resource at their disposal to improve the standard of living of their peoples, they deserved careful examination.

55. The first point to be considered was the ability of the people of the under-developed areas in general and of South and South-East Asia in particular to absorb luxury goods. Only an infinitesimal proportion of the population of those areas could hope to buy luxury goods. In Pakistan itself imports were strictly licensed, except for items imported under "open general licence," which comprised almost 70 per cent of total imports and consisted either of capital goods or of necessities such as medicines, chemicals, etc. As already indicated, the new purchasing power generated by the increased prices of raw materials had been largely absorbed by the imposition of export duties and the budgetary surpluses resulting from those duties had been used for development purposes. The Central Government of Pakistan had, for example, made grants to the value of 180 million rupees to the provinces for educational and medical services over and above regular expenditure for those purposes. The improved budgetary

position had also enabled governments to undertake large-scale development programmes.

56. Where the availability of capital goods was concerned, Pakistan and other participants in the Colombo Plan had been offered capital goods with delivery periods ranging from two to three years. Not only had the prices quoted been high, but they had also invariably been subject to escalator clauses permitting adjustments to future increases in costs. Prices had therefore been uncertain and liable to unpredictable increases. At a recent meeting of the Colombo Plan countries it had been recognized that it had not been possible to use the available external finances, because additional capital goods were not obtainable at short notice.

57. During the short period when prices had been high there had perhaps been a general sense of prosperity and peoples which had been starved even of the bare necessities of life and had a large unsatisfied demand for consumer goods had perhaps imported quantities of non-capital goods. Rumours of the further devaluation of sterling and misgivings regarding the scaling-down of sterling balances might have led to some unwise expenditure. But it was clear from the *World Economic Report 1950-51* that the prosperity of the under-developed countries between 1950 and 1951 had been short-lived and Pakistan, like many other primary producing countries, had been one of the countries to suffer most from the recent economic recession.

58. A sharp decline in the export prices of Pakistan's principal exports—cotton and jute—had been noticeable in the latter half of 1951, although the economic situation in general had been one of great vitality. In recent months the prices of the principal raw materials had declined still further and the future could not be viewed with equanimity. The price of cotton had fallen from 160 rupees per maund (exclusive of export duty) to 96.8 rupees in October 1951. Cotton prices had recovered until February 1952, but had declined further since that date.

59. While economic trends and their effects were similar throughout South and South-East Asia, Pakistan had been particularly successful in avoiding inflationary tendencies, as a result of the measures taken by its Government, one of which had been the imposition of export duties. The country had had a balanced budget throughout the five years of its existence and its expenditure had been very strictly controlled. Special funds to finance development projects had been created with the additional revenues from export duties and the improved yields of existing taxes. Loans had been floated and savings schemes introduced to eliminate surplus purchasing power. Import policy had been liberalized and special concessions granted to industries in order to encourage investment. The fact that the cost of living index for industrial workers in West Pakistan had risen by one point only between 1948 and 1952 was an indication of the success those measures had achieved in preventing inflation.

60. Another fortunate aspect of Pakistan's economy had been the food situation. The decline in the prices of its exportable products had, however, been accompanied by a deterioration in the food position, which he would discuss in greater detail at a later stage. Pakistan hoped that the shortage was purely temporary

and of limited scope and that it would be overcome in the very near future.

61. The programmes of economic development, which the governments of the under-developed countries had planned in response to the increasing awareness of their peoples of their right to a better and fuller life, were not spectacular nor were they expected to yield dramatic results. At best, they aimed at a slight improvement in standards of living but, as a general rule, their object was to prevent any deterioration in existing standards. For centuries the peoples of those countries had suffered not only from hunger, pestilence and disease, but from the absence of hope. They had long believed that political freedom was the panacea for all their ills. Political freedom had not, however, so far brought them economic emancipation. They had recently begun to hope that the long-expected relief from their sufferings was within sight. Their governments had embarked on extensive economic planning. They had been optimistic, in view of their financial position, but had soon discovered that money could not buy machines, that the West was rearming and that the East must continue to wait for economic emancipation. Their hopes had been further shattered by the crash in prices.

62. The Government of Pakistan had proceeded to tackle the problem of economic development soon after the State had come into existence, despite adverse circumstances and the very extensive problems to be dealt with. It had later participated in the co-operative scheme for the economic development of South and South-East Asia, known as the Colombo Plan. The authors of the Plan had appreciated the need for realism; they had not envisaged the attainment of a utopia but had estimated that, after Pakistan's six-year plan had been carried into effect, the standard of living would be 30 per cent above the pre-war level.

63. It was inevitable that Pakistan's development programme should hinge upon agriculture. It might in fact be said that almost the entire programme was connected directly or indirectly with agriculture. Roads, railroads and waterways were to be provided to open up the country, facilitate the transport of agricultural produce and supply the needs of rural areas. Ports were to be modernized to facilitate the export of agricultural products. The purely industrial sector constituted only 15 per cent of the programme and that also was related to agriculture, since it provided for the processing of agricultural products to protect their position in the world market. Despite the lure of industrialization, the Government of Pakistan was convinced that agriculture was the mainstay of the country's economy. Of the total programme of 2,600 million rupees, a sum of 820 million rupees had been allocated for the expansion and improvement of agricultural production.

64. Among the items included in the programme were irrigation works recently completed at a cost of about 150 million rupees, to bring 2 million acres of land in an area known as Thal under cultivation. A barrage at Kotori (in the Province of Sind), which would irrigate 2 to 8 million acres, was under construction, as well as a similar project known as Kurran Garhi in the North-West Frontier Province. One of the areas most in need of development was Baluchistan, which

had been neglected for centuries. Of its 10 million acres of arable land only 60,000 were under cultivation owing to a shortage of water, which was also a barrier to economic development in other provinces of West Pakistan. Vagaries of water supplies due to changed political conditions had begun to make agriculture hazardous in those parts of the Punjab where the canal system was not under Pakistan's control. In East Pakistan, which grew 85 per cent of the world's jute and was therefore short of food grains, a scheme of irrigation and flood control, which would make the province self-supporting in regard to food, was being evolved with the help of an FAO expert.

65. In accordance with the advice so frequently tendered to the countries of the East, Pakistan had made every effort to increase its agricultural output and to improve agricultural life. The total acreage under the principal crops had been 1.8 per cent greater in the year 1950-1951 than in the year 1949-1950. The yield had, however, increased by only about 0.9 per cent. The phenomenon of increased acreage accompanied by diminishing yields was common to the under-developed countries and was inevitable in areas where both the land and the tiller were exhausted.

66. The importance of improving agricultural yields was fully recognized in Pakistan, as it probably was in other countries of South and South-East Asia. The Government of Pakistan had recently appointed an agricultural commission under the Chairmanship of Lord Boyd-Orr and a sum of 50 million rupees had been appropriated to carry out the improvements recommended by the Commission. It had also set up an Agricultural Development Finance Corporation, with a capital of 50 million rupees, to make loans to farmers for the purchase of fertilizers and implements and for general improvements on their lands. A number of centres were being set up in co-operation with the Technical Cooperation Administration of the United States, which would train personnel for rural development to include not only agricultural improvements but community development, the expansion of health and educational facilities and so on.

67. While Pakistan could not claim that the measures it had taken to increase agricultural production had been purely altruistic, it had nevertheless endeavoured to make its own small contribution to the economic well-being of the world. In return, every effort was being made to oust its products from the world markets and to replace them by substitutes. There was of course no question of halting scientific progress, but consideration should be given to the effects of the increased production of raw materials and of substitutes, to its repercussion on prices and on the economies of the under-developed areas. As other representatives had pointed out, an increase in the prices of raw materials produced a disturbance in the economies of the highly developed countries, while a fall in their prices led to an aggravation of the misery and suffering of the under-developed countries. Some way must be found to reconcile the interests of the two groups of countries. It seemed to Pakistan that the solution lay in the development of the poorer areas of the world, which would enable their populations to purchase the products of the more developed countries; the mutual prosperity of both groups of countries would then bring harmony

and peace to a world at present torn by dissension and schisms.

68. Other important measures taken by the Government of Pakistan, which would ultimately transform rural life, related to land tenure. In 1951 the Government of Pakistan had approved provincial legislation providing for the termination of the *zamindari* system, which was in theory synonymous with landlordism. Legislation had been passed authorizing the Government to acquire zamindaries and to allot them to the peasants, who would in future have an abiding interest in the land and thus in its improvement. The system of land tenure had also been improved in West Pakistan, where the *ryotwari* system, which was synonymous with peasant ownership, prevailed. Compulsory agreements governing the rights of tenants and landlords had, for example, been introduced and provision had been made to compensate tenants for permanent improvements. A sliding scale assessment had been introduced under which land revenue assessment was adjusted to reflect current price variations.

69. The Government of Pakistan realized that small and uneconomic holdings were a stumbling block to agricultural progress. A valuable feature of the recent East Bengal Land Acquisition of Tenancy Act had been the provision for the compulsory consolidation of holdings of a village, where three-fourths of the cultivators concerned were in favour of such a scheme. Serious efforts were also being made to promote co-operative farming in the Punjab and the North-West Frontier Province and measures were being taken by the Provincial Governments to counteract the innate conservatism of cultivators.

70. The next most important sector of development was the generation of power, which was closely related to agriculture. The development of power was essential in view of the hundreds of thousands of acres which were waterlogged and the vast tracts which had to be reclaimed. At the time of attaining its independence, Pakistan had had the lowest *per capita* consumption of electricity in the world. A number of hydro-electric works had gone into operation since 1947, while orders had recently been placed for 144,000 kilowatts of thermo-stations and the construction of three hydro-electric works was being planned, which would add a little over 300,000 kilowatts to existing capacity.

71. He would not give details of the development programme and its effect on production at the present stage. He had given some information on the agricultural programme in order to convince the Council that Pakistan had not succumbed to the lure of industrialization and still attached primary importance to agriculture. The financing of the programme was a separate subject which would be discussed at a later stage. In general, however, the under-developed countries could not hope for economic stability without the implementation of their economic development programmes. Lasting political freedom could not be achieved in the absence of economic well-being.

72. In conclusion, he wished to congratulate the Secretary-General on the excellence of the report under discussion.

73. Mr. LUBIN (United States of America) wished first to congratulate the Assistant Secretary-General in charge of Economic Affairs, as also his assistants and

staff, on the extremely high standard of the *World Economic Report 1950-51* now before the Council.

74. He recalled that when the Council had last reviewed the world economic situation, in February 1951, the vast defence effort had still been in the early stages. It had been evident that large amounts of the free world's resources would have to be diverted to rearmament; all those who represented free peoples, however, had agreed that there was no other answer to the challenge of aggression. The theme of the twelfth session of the Council had therefore centred round the question of the effect the defence effort was likely to have on economic development.

75. During that discussion, representatives of the under-developed countries had expressed the fear that economic development would be neglected during the emergency period and that capital goods would not be available; they had predicted that rising prices would reduce the purchasing power of their earnings before the supply situation became easier and equipment was again obtainable. Furthermore, they had feared that the requirements of defence would necessitate the contraction of grants and loans from abroad.

76. The representatives of the industrialized countries, in their turn, had seen in the accelerated defence effort the danger of raw material shortages, curtailment of civilian production, inadequate supplies of consumer goods, new balance of payment difficulties and renewed inflation.

77. It would be useful to review world economic events since that time, in the light of the genuine concern that had then been expressed. Broadly speaking, the economic task of governments in the meantime had been the maintenance or adoption of policies that would increase production while, at the same time, holding inflation in check. Countries had not all been equally successful in their efforts. Their collective record was, however, impressive and provided a basis upon which to face the future with more confidence than most members had been able to muster a year earlier.

78. The economy of the free world had adjusted itself to the heavy burden of defence with far fewer adverse consequences during the transition period than most people had deemed possible. The free world had been able not only to provide large quantities of defence material but also to increase the supply of goods available to the civil economy: more goods had, in fact, been produced by the world as a whole in 1951 than in any previous year in history. Improvements had taken place in both the developed and the under-developed countries, but the greatest improvements had been in the countries which had at that time already achieved the highest levels of production.

79. Hand in hand with expanded production, there had been an increase in the supply of capital goods to the under-developed countries. As the *World Economic Report 1950-51* stated, the fears of the latter that the demands of rearmament programmes would make it impossible for them to procure capital goods from industrialized countries had not materialized. There had been instances of supply difficulties and longer delivery periods but not on such a scale as to reduce imports. Imports of capital goods by under-developed countries

had, in fact, been substantially larger in 1951 than in 1950. Another significant aspect of the capital goods situation brought out in the Report was the fact that imports of capital goods could have been even higher but for the fact that some under-developed countries had not been prepared with enough development projects to enable them to absorb more capital goods.

80. Another fear expressed by the under-developed countries at the twelfth session of the Council had been that rises in the prices of their own exports would soon be countered by even greater increases in the prices of their imports. The fact was, however, that in 1951 the under-developed countries had been able to finance a substantially larger quantity of imports from all sources than in 1950 and had at the same time been able to increase their foreign exchange reserves sufficiently to do more than maintain their purchasing power.

81. The Council would remember that at the twelfth session¹ the representative of India had wondered whether the policy of positive assistance to economic development abroad would not demand heavier sacrifices from the people of the industrial nations, and particularly from the people of the United States, than they would be prepared to make. That was a sincere and perfectly reasonable question. The answer was to be found in the events of the past fourteen months: despite the heavy burden of defence, an increasing quantity of grants and loans had been made available to the under-developed parts of the world in 1951. The Colombo Plan had been unfolding in South-East Asia through the co-operative efforts of the members of the British Commonwealth and other friendly governments; France had aided in the development of certain areas; the Norwegian people had recently established a public fund for help to under-developed countries; and United States assistance had been continued on an increasing scale.

82. As for the fears of the industrialized countries that shortages of raw materials would cripple production and that civilian standards of living would consequently deteriorate, the facts revealed that, with the exception of coal and steel in the European area, material shortages had proved to be less of a handicap to production than had been anticipated. According to the most recent quarterly *Economic Bulletin for Europe*, the European industrial production index had been 12 per cent higher in 1951 than in 1950.

83. The terms of trade, which had turned sharply against the countries of Western Europe, had tended to improve, particularly since the middle of 1951. To that extent, the problem of balancing their international transactions had eased, but the United Kingdom and France had experienced increased deficits in their trade balances, as distinct from their terms of trade, during that period.

84. Thus the facts of the past year did not confirm the fears expressed at Santiago. The situation during the present period of building for defence was so different from that of the war years that the lessons of the Second World War had not been applicable to any great extent. There were still problems of great urg-

¹ See *Official Records of the Economic and Social Council, Twelfth Session*, 453rd meeting, para 36.

ency, which it was the duty of the Council to appraise as best it could during the current session.

85. The world economic situation was still dominated by the world political situation. Much had been done to strengthen the defences of the free world against aggression but international relations remained tense. Fighting was proceeding in Korea, Indo-China, Burma and Malaya; Yugoslavia was still threatened; it had so far proved impossible to agree upon a treaty to end the occupation of Austria; tension was mounting in Berlin; and military preparations continued to burden both the free and the totalitarian countries. Until certain governments were willing to join in a programme of disarmament and peaceful co-operation within the spirit and framework of the Charter, peoples and nations which valued their independence and freedom had no alternative but to continue to support the unwelcome burden of building up their strength in order to deter, and if necessary to resist and defeat, further aggression and subversion.

86. Since the outbreak of war in Korea, increased production had provided the countries of the free world not only with expanding quantities of defence materials but also with increased supplies of civilian goods. The increased production, together with anti-inflation measures, had largely eliminated the panic purchasing that had forced prices up, with the result that the general price level in most countries had been fairly stable in recent months and the prospects of controlling inflation were brighter. That did not mean that the danger of inflation was over. The free world still faced a period of increasing defence activities, with the accompanying growth in government demand for goods and services which would otherwise be available to the civilian economy; thus the factors which could produce inflation were still present in many countries and the maintenance of economic stability required not only constant vigilance but the continuation or adoption of anti-inflation programmes.

87. In contrast with the general expansion of the world economy during 1951 had been the emergence of pockets of unemployment and of excess capacity in certain sectors. There had been a world-wide recession in the textile industry since the latter part of 1951, partly a reaction from the speculative excesses and the accumulation of inventories which had followed the outbreak of the Korean war and partly a reflection of over-capacity in terms of effective world demand.

88. Capacity to produce certain types of textiles, and especially cotton goods, had been expanded in recent years, both in the large industrialized countries and in some of the under-developed countries. Production had increased particularly rapidly in 1950 and early 1951, in expectation of a greatly increased demand as a result of the Korean situation; in most countries, with the exception of Czechoslovakia and some countries of the Far East, output had exceeded pre-war levels. The first consequence of the sharp increase had been the accumulation of stocks, in the face of a smaller demand than had been expected; that had been followed by cuts in production, with consequent unemployment. Prices of fibres and fabrics had now dropped to lower levels and there was a tendency for demand to increase slightly.

89. The textile industries were still, however, faced with persistent and fundamental problems. The develop-

ment of synthetic fibres was bringing a technological revolution which would affect cotton producers and wool growers all over the world. In so far as the new fibres might require new types of spindles and looms and might outwear natural fibres and reduce the replacement demand, they would also affect the manufacturers and sellers of textiles and the workers in textile plants. If textile manufacturing capacity was to be put to its full use, means would have to be found to reduce costs through improved productivity and efficiency, so that the vast potential markets where incomes were low might be exploited. Those markets were not only in Asia and the Far East, where less cotton *per capita* was now used than before the war, but also in industrialized countries. It was equally important, however, that every effort should be made to raise the purchasing power of the people of those areas by improving the productivity of the goods they were best equipped to produce, so that they might be able to buy more textiles and other things they were in need of, bearing in mind always that to decide for itself what it wished to produce was the sovereign right of every country.

90. The Council would undoubtedly agree that the time had come for the countries of the world to reassess their potentialities as textile producers; the question of alternative uses of capital and labour should be examined before they were employed on uneconomic textile facilities.

91. In ironic contrast to its increased efforts for the production of textiles, the world had not been giving sufficient attention to increasing food production to nourish its growing population. The preliminary report of the Secretary-General on The World Social Situation (E/CN.5/267) provided an illuminating discussion on the food and nutrition problem, pointing out that the *per capita* output of food for the world as a whole in 1951, six years after the close of the Second World War, had been below the pre-war level. In all save a few countries, calorie consumption was below the nutritional standard set by the Food and Agriculture Organization. Yet in many countries labour was living on agriculture for industry and the productivity of those who remained in agriculture failed to increase. In Eastern Europe, traditionally a major exporter of grain and foodstuffs, agriculture was not progressing; the ECE *Economic Survey for Europe in 1951* (E/ECE/140/Rev.1) revealed that, despite the substantial rise in certain industrial crops in some Eastern European countries, Eastern European agricultural production was still well below pre-war level. In view of the social costs of neglected food production and the rising prices that would accompany short supply, the problem of increasing the world's food supply was clearly the most urgent in the economic and social field.

92. World food supplies could indeed be increased, not only by the utilization of all possible means to reclaim arable land but by increasing the yield of land that was already in use. In the United States, for example, while industrial output had been increased by 76 per cent between the pre-war years and 1950, food production had risen by 40 per cent. There had been very little increase in the area of land under cultivation and, moreover, the number of people working on the land had been decreasing during that period. The agricultural output per worker had, in fact, increased by

about 65 per cent. Besides the use of modern machinery, the increase had also been attributable to the use of new hybrid strains of seeds, improved fertilizers and new weed and insect sprays.

93. There was convincing evidence that, with relatively little capital but with a diligent application of well-known techniques and practices, the world could produce an adequate food supply within a relatively short time. The various technical assistance programmes were already making important contributions in that direction but the really great contributions would come from the farmers themselves, as they made increasing use of the constantly growing wealth of scientific knowledge. Governments, too, could play a decisive part by bringing modern knowledge and techniques to the farmers, through schools and extension work.

94. FAO had passed some emphatic resolutions on the subject at its 1951 Conference, and had placed on record its belief that in the years immediately ahead it was reasonable to hope for a well-balanced increase in world production of basic foods and other essential agricultural products that would exceed the rate of population increase by 1 or 2 per cent per annum. The goal of an adequate diet for everyone was modest enough; surely every country would be willing to exert itself to attain it.

95. Turning to the situation in the United States, Mr. Lubin stated that the past fifteen months had been characterized by a sustained high level of economic activity, a subsiding of the severe inflationary pressures which had followed the outbreak of war in Korea, and considerable stability in the price level. Expanded production in the heavy industries had been offset by declines in activity in the consumer goods industries, with the result that, since the spring of 1951, industrial production and employment, taken as a whole, had fluctuated within a narrow range at near-record levels. Unemployment had been especially small, varying seasonally under two million, or less than 3 per cent, of the labour force.

96. In the civilian sector, food production had remained stable and at high levels, but output of textiles and apparel, leather and shoes, and, more recently, household equipment and other consumer durable goods had declined, partly as a reaction from the unusually large production in the last half of 1950 and partly because of a smaller civilian demand than had been anticipated. As demand had decreased, prices of those goods had also dropped.

97. Some unemployment had followed in the soft-goods sectors, whereupon steps had been taken to alleviate the situation by placing government contracts in localities affected. Apart from that, there had been little unemployment except briefly, in some of the metal-using civilian industries, where world-wide shortages of critical materials and necessary allocations to defence industries had brought cuts in production and some unemployment in 1951.

98. The phase of downward readjustment appeared to be almost over in the United States; on the whole, it could be said that the realignment of the economy for defence production had been accomplished with remarkably few dislocations of the economy. The comparative stability in the general level of prices in the

United States within the last year was in contrast to the marked increases in the first eight months after the outbreak of war in Korea. As compared with a rise of 16 per cent in those first eight months, wholesale prices had remained relatively stable. During the past year, consumers' goods and services had risen by only 2 per cent at retail, as compared with a rise of 8 per cent in the previous eight months.

99. Various factors had contributed to the general abatement of inflationary pressures. There had been ample stocks in the hands of business and consumers. That fact, together with a confidence that goods would continue to be available at government-controlled prices, had led to a decrease in the consumer and business buying and a rise in the savings of the population. At the same time, the supply of certain scarce materials such as steel had been increased by expanded industrial capacity. There had, furthermore, been various governmental actions—allocation and production controls, price and wage controls, selective credit controls and general credit measures—all of which had helped to stabilize the situation. Substantial increases in taxes had absorbed large amounts of what would otherwise have been purchasing power. Thus a combination of factors—the behaviour of business and private consumers as well as effective government policies—had played a part in keeping inflationary pressures under control.

100. That did not mean that the United States need no longer be concerned over the course of the price level during the immediate future. A change in any one of the above factors could lead to a renewal of inflationary pressures. For one thing, the prospect of a deficit of some magnitude in the Federal Budget owing to further increases in defence expenditure might lead to a net expansion in demand. It was because of that, as well as other possibilities, that the United States Government was holding in readiness certain anti-inflationary controls that had been suspended as unnecessary for the moment.

101. Some of the forces that had led to the reduction of inflationary pressures in the United States had also affected its economic relations with the rest of the world and had had a special bearing upon the course of its imports and exports.

102. The movement in the quantity of United States imports did not generally depart for very long from the trends in domestic production. With the attack on South Korea and the decision to expand defences there had come a marked increase in imports, part of it representing speculative buying. As compared with the quarterly average of the year preceding the outbreak of the Korean war, the first quarter of 1951 showed an increase of physical imports of 27 per cent. The fact was that United States imports during that period had outrun the expansion of its domestic output. There had followed a sharp decline in import demand, which had appeared ominous to many observers. Events, however, had shown it to be temporary, and since mid-1951 imports had resumed their upward trend. By the fourth quarter of 1951 the index of physical volume of imports had got back to 17 per cent above the pre-Korean level and within 10 points of the post-Korean high.

103. The United States production of goods and services should continue to expand. Since stocks of imported materials had declined during 1951, there was

every reason to expect that with expanded production there would come a further increase in the United States demand for imports, which would increase the ability of other countries to earn dollars.

104. Many members had noted the leading role played by the United States in post-war efforts to reduce trade barriers and had expressed the hope that it would not change that policy. He could assure the Council that trade liberalization continued to be a major objective in United States foreign economic policy. The Government was seeking to provide dollars to other countries by promoting imports with the United States.

105. Just as the accumulation of stocks had had an effect on the level of imports, so had the increase in United States output of certain scarce materials, such as steel, had an effect on its ability to supply capital goods to the under-developed countries. Despite the fact that supplies had not been sufficient to meet its domestic needs, the value of United States exports of the major categories of capital goods to the under-developed countries had been over 51 per cent higher during the last six months of 1951 than in the six months before the attack on South Korea; nor had the bulk of that expansion been accounted for by increased prices, for the rise in export prices of "finished manufactures" had been only 12 per cent. Despite the fears expressed at the twelfth session of the Council, every major under-developed area of the free world had received more capital goods from the United States in 1951 than it had in 1950.

106. The great bulk of the goods received by the under-developed countries had been paid for by their exports. Part of them, however, had been financed by grants and loans made available by the American people. Through their government alone in the fiscal year 1951, such grants and loans had totalled \$690 million, an increase of \$170 million over the year before. While those amounts had not been as large as some had hoped, they were not negligible sums. Effectively used, grants and loans of such magnitude could have a real impact on economic development in the under-developed areas.

107. In brief, the dire predictions of some Council members at the twelfth session had not been fulfilled as far as the United States was concerned. The people of the United States had not allowed the economic development of under-developed areas to become a casualty of the defence effort. Exports of development goods had increased, not declined; their prices had been stabilized, they had not soared upwards. Grants and loan assistance had not been curtailed but had been augmented so that under-developed countries could import more than their current earnings allowed.

108. Those events had occurred during a period when the United States terms of trade had been deteriorating. The index of its terms of trade during the last half of 1951 had been 14 per cent worse than in the six months before the outbreak of the war in Korea. That meant that every dollar received for exports had been able to buy only 86 per cent as much in imports as formerly.

109. Those figures related to the total trade of the United States with the rest of the world, but the available data on raw material prices showed that for 1950 and a part of 1951, the under-developed countries as a group had derived great benefit from the deteriorating

terms of trade of the United States. The prices of United States imported raw materials as a whole—and a large part of those materials came from those countries—had been 60 per cent higher in the last half of 1951 than in the six months before Korea. In contrast, the average price of finished manufactures exported from the United States had risen by 12 per cent.

110. He was aware, of course, that the prices of certain of the products exported by the under-developed countries, especially rubber, tin, wool and jute had recently fallen substantially from their speculative post-Korean peaks. It appeared, nevertheless, that the under-developed countries' terms of trade, at least with the United States, still remained more favourable than before the outbreak of the Korean war.

111. Turning to the future, he spoke of the prospect of maintaining high levels of production and employment in the United States after defence expenditure had declined to the rate required for continuing national security. The United States Government was well aware not only of the domestic but of the international impact of changes in the level of its economic activity; it realized that fluctuations that might have a minor impact in the United States could have more important effects in other parts of the world.

112. In the years immediately following the Second World War, the adjustment of the American economy to a peace-time basis had been remarkably smooth: the question now was whether the adjustment to a reduced level of defence expenditure could be accomplished as smoothly. There were, of course, many differences between the two situations, some of which would make the coming problem more difficult. Firstly, the quantity of deferred needs for both consumers' and producers' goods was likely to be much smaller than after the Second World War. Secondly, although the total dollar volume of liquid assets in the hands of consumers and business men was higher at present than it had been at the end of the war, the purchasing power of those assets would not be as great as it had then been, owing to price increases. Moreover, the gold and dollar reserves of some of the major trading nations were lower than they had been at the end of the war and their purchasing power was substantially less. Thirdly, the employment problem would be of a different nature. Whereas at the end of the Second World War many people who had joined the labour force from patriotic motives had no desire to remain once the war was over, it was probable that when defence expenditure declined many of those no longer needed in defence activities would want to remain in the labour market and would need other work.

113. On the favourable side, the most striking difference between the Second World War situation and the coming situation was that the reduction in defence expenditure would be only a fraction of the reduction made after the Second World War. Defence expenditure in 1946 had been \$119,000 million less than in 1944, in terms of 1951 prices, but the annual reduction when the present defence programme was shifted to the maintenance level would be only from \$15,000 million to \$25,000 million, or about 20 per cent of the reduction after the Second World War. Moreover, whereas the \$119,000 million curtailment had been related to a full employment gross national product of about \$275,-

000 million in 1951 prices, the probable cut of \$15,000 million to \$25,000 million would in all probability be related to a prospective full employment gross national product of about \$350,000 million.

114. A second favourable difference was the fact that the armed forces had been reduced by 10 million over a two-year period after the Second World War. The total strength of the United States armed forces at the peak of the present defence programme would be only about 3,700,000, so that any reduction such as that that had occurred after the Second World War was obviously impossible. The United States regretted that the international political situation did not allow of any significant reduction in its armed forces at present but it trusted that the proposals under consideration by the Disarmament Commission would soon make a radical reduction possible.

115. The above comparisons gave a basis for the conclusion that the coming adjustment would be less of a problem than had been the adjustment so successfully handled after the Second World War. There were, moreover, other factors in the situation that led the United States to believe that it was now in a better position to deal with adjustment problems than it had been in the past.

116. During the last two years, fundamental changes had been taking place in the structure of the United States economy, changes that had permanently raised the level of demand to new heights. Among the most important had been a radical change in what United States consumers regarded as a normal standard of living. Amenities such as electricity in rural areas, a rarity twenty years ago, were now widely available and regarded as essential. Approximately 20 million new consumers had been added to the economy. There was an increased demand for new construction as a result of the dispersion of dwellings and business from the centres of the cities to the suburbs. Of particular importance was the fact that income in the United States was more evenly distributed. There was a stronger organization of labour, with the result that the position of workers was more secure and their purchasing power more stable.

117. In addition to the increased demand for consumers' goods, there were many urgent public needs arising from some of those structural changes. As a result of the growth in population and the geographical shift in population, the need for certain public projects had been increasing. Construction of that type had been curtailed by defence restrictions and would have to be resumed at the first opportunity.

118. Moreover, the restrictions made necessary by the defence programme had also prevented the satisfaction of normal private demand in some areas of the economy. Residential construction had been limited. The same was true of certain types of business construction, as well as of equipment which used steel, copper and aluminium, metals which had been in short supply and the uses of which had been restricted. Expenditure for those purposes could be expected to increase when restrictions were removed; though it was not likely to be as great as after the Second World War, it would certainly not be negligible.

119. Furthermore, the effect of the successful operation of the economy in the past six years upon the

psychology of the American private investors could not be disregarded. They were focusing attention more and more on the requirements of an economy operating at expanding levels and were discarding the concept of a limited market.

120. Such an inclination of American investors to base their plans upon an expectation of long-term growth had a solid foundation, not only in the structural changes in the economy but also in other changes that made for greater stability than there had been before the war. There were now in existence certain devices which automatically came into play as stabilizing factors, should economic conditions change. For example, the coverage of the social security programme had been extended and the benefits increased, thus making more purchasing power available. The tax structure provided a better cushion against recessionary forces. Agricultural incomes were protected against sudden and severe declines through a system of farm price supports. Bank deposit insurance had been increased to \$10,000 for every covered depositor. Through Federal guarantees of mortgages, the savings which more than half the American families had invested in the houses they occupied had been better safeguarded.

121. Those considerations could not be evaluated in quantitative terms and it was therefore impossible to estimate at the present time the extent to which those structural and stabilizing factors would moderate a possible downward swing in the United States economic activity. A variety of measures were, however, available to the Government to counteract recessionary tendencies, if necessary.

122. The first would be the removal of any direct restrictions on business investments and consumer and mortgage credit. The second was the traditional easing of general credit and banking policy. In that connexion, the provision of additional government-guaranteed mortgage credit at moderate rates could, if necessary, serve as a stimulus to the construction industry. The third was the freeing of purchasing power by tax-reductions; since taxes were at very high levels, that method had great possibilities. The fourth was the acceleration of public works construction; there was general agreement among the American people on the need for increased efforts to prevent national disasters such as the recent floods in the Missouri Valley.

123. He had sought to place the problem of adjustment in its proper perspective by a comparison with the situation after the Second World War. The war effort had absorbed a considerable part of the country's productive resources. Military expenditure had been drastically cut after the war and the problem of adjustment had been one of great magnitude. There had, however, been factors which had enabled the transition to be effected with comparative ease. The future adjustment problem would be considerably less difficult, but might nevertheless be large enough to give some cause for concern. The United States did not wish to appear complacent, but was confident in its ability to deal with the problem.

124. The people of the United States were determined to maintain high levels of demand and to continue to trade their products on a large scale with the peoples of other peace-loving countries. They were resolved to

have an expanding economy, not only at home but abroad, realizing that only a world-wide expanding economy could provide reasonable over-all stability and individual economic security within a framework of genuine democracy and freedom.

125. As the representative of Cuba had pointed out, the development of the under-developed countries was fundamental to the continued development of the economies of the rest of the world. The development of those countries would therefore continue to be a cardinal point in the foreign policy of the United States. President Truman had clearly stated in his State of the Union message earlier in the year, that there was noth-

ing of greater importance in all the United States' foreign policy. The President had also pointed out on another occasion that, if the cost of maintaining defences to prevent aggression and war could be reduced, new energies and resources would be liberated for greatly enlarged programmes of reconstruction and development. The American people would exert every effort to speed the day when the threat of aggression would have subsided and men and women everywhere would be able to devote all their energies to raising their standards of living and to the full realization of their rich potentialities.

The meeting rose at 5.35 p.m.