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CONTENTS

President: Mr. Juan I. COOKE (Argentina).

Present:

The representatives of the following countries: Argentina, Australia, Belgium, China, Cuba, Czechoslovakia, Ecuador, Egypt, France, India, Norway, Pakistan, Turkey, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela, Yugoslavia.

Observers from the following countries: Chile, Indonesia, Netherlands, Philippines.

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 Health Organization.

Economic development of under-developed countries

[Agenda item 3]

GENERAL DEBATE *(continued)*

1. The PRESIDENT welcomed Mr. Tafazzal Ali, the Minister of Commerce of the Pakistan Government, to the Economic and Social Council.

2. Mr. TAFAZZAL ALI (Pakistan) thanked the President for his warm welcome and expressed the hope that he would be able to make a useful contribution to the deliberations of the Council.

3. Mr. LOPEZ (Philippines), speaking on the Philippine Government's new five-year plan for economic development, said that the plan offered a fresh view of the problems confronting an under-developed country attempting to accelerate its economic and social progress with a minimum use of methods of compulsion, and also showed the effects on national planning of the limitations imposed by the world economic situation.

4. The programme was an integrated one, of the kind recommended in General Assembly resolution 623 (VII). Its chief aim was to increase employment, and to that end it provided for the development of basic transport and sources of power, communications and credit services, methods of increasing agricultural productivity, rural co-operatives, flood control and multi-purpose river projects, extension courses for farmers, more efficient marketing facilities, the development of light industries using local materials, land reform and the opening of new settlements for the landless.

5. The backlog in the implementation of land reform measures noted in the report on *Progress in Land Reform* (E/2526) was being eliminated, and all the resources of the Government were being applied to the search for a permanent solution.

6. Provision had been made for flexibility and for the periodic revision and readjustment which were essential in view of the dynamic state of the Philippine economy. A relatively minor part was assigned to capital from outside sources and the principle of self-help had been relied upon to the utmost. The plan was sound in conception and not too ambitious in scope.

7. The Philippines suffered from a scarcity of domestic savings, a marginal and unstable income from primary products and a lack of investment capital and technical knowledge.

8. The total first year investment under the new five-year plan was only $315,500,000, an increase of only $55 million over the average annual investment for the past three years. Nevertheless, it was expected to tax nearly to the limit the capacity of both public and private sectors of the economy.

9. More than one-third of the public investment would have to come from bank loans and public borrowing, whilst in the private sector reliance would have to be placed on new measures for mobilizing what domestic capital and savings were available.

10. Moreover, the plan would be vulnerable to such external hazards as the instability caused by cyclical fluctuations in prices of primary commodities and the still unsatisfactory relationship between the prices of such commodities and those of the imported capital goods essential to economic development. Even if those hazards were not aggravated during the period covered by the plan, it was still not certain whether the minimum need for accelerated economic development could be met and whether the demand for a better standard of living, which was making itself felt in all under-developed countries, would be satisfied.

11. The current issue of the *Economic Survey for Asia and the Far East* pointed out that economic progress in those regions would be slow unless there were a larger flow of foreign capital. But from what source was such capital to be obtained? Much emphasis had been placed on the possibility that private capital might assume the role hitherto taken by international public capital in the accelerated economic development of under-developed countries, but the conclusions of the study, *The International Flow of Private Capital, 1946 to 1951* (E/2531), did not hold out much hope that that expectation would soon be fulfilled.

12. There remained the alternatives for which the under-developed countries of Asia, including the

Philippines, had consistently expressed their preference: more equitable and stable prices for primary products moving in international trade and increased bilateral and international assistance, particularly in finance. The possibilities in that direction were by no means exhausted. Final action on the proposals to establish an international finance corporation and a special United Nations fund for economic development has been temporarily deferred, but could be expedited if it was so desired.

13. In a recent visit to Puerto Rico he had seen how effectively the Government's economic development plan was contributing to increased employment and production, and to general economic prosperity in a country which was enjoying every form of economic and financial assistance from the United States Government. Virtually every other under-developed country in the world faced problems similar to those of Puerto Rico, but their economic development programmes were based primarily on their own resources. They would welcome outside financial assistance, but they also felt justified in asking that measures be taken to prevent calamitous fluctuations in the value of their domestic resources, including the proceeds of the sale of their primary products. They were not asking for charity, but for initial assistance to launch them on the right road. The principle of self-help applied to developed as well as to under-developed countries. No outside help would benefit an under-developed country unless it was ready to help itself, but when a developed country helped an under-developed country, that was also self-help in the most significant sense of the term.

14. There was a current tendency to emphasize military power as the essential requirement for the maintenance of peace, but in the long run, the cause of freedom and peace would be most effectively advanced by measures to raise standards of living.

15. In his statement to the Council at its 755th meeting, the Secretary-General had spoken of his intention to place "greater emphasis than heretofore upon direct assistance to governments in economic and social development and towards work immediately connected with the formulation of economic and social policy, rather than with pure research or factual compilation".

16. His delegation recognized that the Council could hardly perform its functions without a steady supply of up-to-date information, but agreed that a policy of more direct and positive action would certainly be appropriate to the Council itself, if not to the Secretariat. The question was urgent; some of the more fortunate countries might feel that past policies of drift could be continued, but the peoples of the under-developed countries were becoming increasingly conscious of their right to a more abundant life.

17. Mr. SAKSENA (India) observed that the most important and urgent problem of the present day was that of economic and technical assistance to the under-developed areas. The uninitiated, however might well wonder what was meant by "an under-developed country". In a sense, some of the most advanced countries of the world were in fact the least developed inasmuch as, even though their *per capita* income and standards of living were high, their potential resources were still capable of sustaining a far larger population than they actually supported. On the other hand, there were regions which possessed no actual or potential resources, where the inhabitants eked out a living with difficulty and where there was scarcely any possibility of a rise in the standard of living. The countries that were regarded as under-developed were, however, those which, despite potential resources, had a low margin of productivity of labour and therefore a low *per capita* income and a correspondingly low standard of living.

18. It might next be asked why certain areas had in fact remained under-developed. The reasons in most cases were social and historical. So far as India was concerned, its economic decadence could be traced to events which had taken place in the eighteenth and nineteenth centuries. Prior to that era, India had ranked as one of the wealthiest and most advanced countries of the world. The breakdown of central authority early in the eighteenth century had produced a power vacuum into which the Western Powers had expanded. The economy of India had had to be subordinated to the economy of the ruling Power. Somewhat later there had been some capital investment in industry and some measure of industrial development, as also improvement of the means of transport and communication. But industrial investment had remained largely foreign in character and, because of the continued repatriation of profit and the monopoly of technical skills, the benefits derived by the country had been small.

19. A change in the outlook had taken place only after the First World War and had resulted in the establishment of several new industries, notably iron, steel, sugar, cotton and cement. After a serious dip during the depression of the 1930's, industrial advancement had continued, and the Second World War had afforded a further stimulus. Despite those improvements, a steadily increasing population had begun to exert pressure on the food resources, and the *per capita* income had shown no perceptible rise. In fact by 1948, even though the total industrial output had been large, the *per capita* output had remained low in comparison with other industrial countries, and the large industrial units had contributed only 6.6 per cent of the total national income.

20. Of the 360 million people of India today, only about 2,400,000 earned their living from industry, nearly 300 milion being dependent on agriculture. The *per capita* income was only about 55 dollars per annum and millions of people lived on the subsistence level. Undernourishment increased the incidence of disease and led to wastage and low productivity. Lack of resources was responsible for inadequate medical services and educational facilities. Low incomes reduced the margin for both saving and taxation, which in turn reduced capital formation and restricted the resources available for developmental purposes. Want of investment capital coupled with inadequate financial resources cut down *per capita* productivity and did not allow the income to rise. If India had no resources which could be developed, those conditions would have had to be endured, but that fortunately was not true. India did, in fact, possess vast resources which, if they could be developed, would provide for her people a standard of living comparable with that of the more advanced industrial countries of the world.

21. It might be asked why the developed countries should concern themselves with the plight of the under-developed areas. If that question had been asked in the preceding century it might have been difficult to provide an unequivocal answer, but in the twentieth century there were two compelling reasons, the one economic and the other political and social, which re-

quired that the collective wisdom of the world should be mobilized to solve that difficult problem. Economically the vast accumulation of productive power in the highly industrialized countries, on which their standard of living so largely depended, demanded that markets should be developed to help in the speedy distribution of the ever-expanding volume of production. That surplus could be absorbed in steadily increasing quantities only in the under-developed countries, whose purchasing power had a direct relation to the development of their economic resources and their terms of trade. Moreover, the under-developed regions possessed materials which the developed areas needed to maintain the tempo of their own economy. The economic welfare of the two parts was thus mutually interdependent and their relationship to each other was analogous to the relationship between the organs of a living entity.

22. Politically and socially also the world had advanced towards a high degree of integration. Modern means of communication had brought within the range of vision of the under-developed countries the happier political and social environment in which other peoples of the world lived. That had given rise to a ferment of ideas and had destroyed the placid acceptance of the traditional way of life. The peoples of the under-developed countries desired a better life for themselves and their children and would be content with nothing less. Any thwarting of those aspirations or any delay in their realization would cause embitterment and build up pressures which would be a menace to the peace and stability of the world. The long-range interest of both the developed and the under-developed world were thus completely in harmony. Their short-range interests might conflict, but it was the path of wisdom to act so as to reduce the sacrifice of short-term interests to a minimum, while allowing full play to policies which in the long run would lead to a better and a happier world.

23. Granted that it was in the interest of all countries to pool their resources so as to raise the standard of living of people in the under-developed countries, there remained the question of the respective roles of the developed and the under-developed countries in that great enterprise. India had stated in categorical terms that the primary responsibility for the economic development of the country was its own. It had adopted that policy because it knew that a country which relied on crutches lent or presented to it by other countries would forever remain weak and dependent. In pursuance of that policy, India had formulated a five-year plan which had for its purpose a better, richer and happier life for every man and woman within the framework of a democratic society. At present there was great inequality in the distribution of wealth between the rich and the poor, between the urban and the rural areas. That must be corrected if democracy was to grow. The plan, which would cover the period from 1951 to 1956, involved an outlay of $4,100 million, distributed over the different sectors of the economy in accordance with their estimated needs. The highest priority had been given to agriculture, irrigation and power, since more than two-thirds of the people were dependent on land. Moreover, without a substantial increase in the production of food and raw materials, industrial expansion would be impossible. Of the total amount of $4,100 million which would be required for the plan, the entire amount, with the exception of $700 million which would be received from outside, would be raised from domestic resources.

24. That did not, of course, mean that India did not need or would not welcome financial assistance if it were offered. There was only one qualification to acceptance of outside economic assistance: it should not be offered in exchange for a surrender of any part of India's sovereignty. India, like some of the other countries of Asia, had only recently achieved independence. It was jealous of the freedom it had attained after a hard struggle and would not barter it for economic advantage. That position was fortunately well understood by most of the industrially advanced countries, and the help which they had so far extended to the under-developed countries had been without strings and had not imposed any onerous conditions on the recipient countries. The under-developed countries had reason to be grateful for the assistance given to them under the Colombo Plan, under President Truman's Point Four Programme, under the United Nations Expanded Programme of Technical Assistance and various other schemes of technical help. The International Bank for Reconstruction and Development and the International Monetary Fund and also the other specialized agencies had given those countries much-needed assistance. But the combined resources of those various agencies were not commensurate with the needs of the under-developed countries; there was still a great deal to be done which could be accomplished only if the flow of assistance was vastly increased. India had been greatly heartened by the announcement made by President Eisenhower the previous year to the effect that his Government was ready to ask its people to join with all nations in devoting a substantial percentage of the savings which would be achieved by disarmament to a fund for world aid and reconstruction, and hoped that favourable conditions would soon be created for the implementation of that solemn pledge.

25. As he had already pointed out, what the under-developed countries needed was an increase in their resources to meet the obligation of economic development. One way of increasing those resources lay in improving the terms of trade of the under-developed countries *vis-à-vis* the developed ones. It was with a view to examining that possibility that the group of experts whose report, *Commodity Trade and Economic Development* (E/2519), was before the Council had been appointed. They had had to face the task of recommending means to provide the under-developed countries with such accession of strength as would enable them to meet the challenge of the more developed countries on equal terms.

26. Priority in the group's terms of reference was given to paragraph 1 (*a*) of General Assembly resolution 623 (VII), the basis of which was the clearly stated dual objective of a "more satisfactory formation of domestic savings in the countries in the process of development" and "to facilitate the establishment of fair wage levels for the working populations of these countries with a view to reducing the existing disparity between their standards of living and those in the highly industrialized countries". The same paragraph spoke of prices for primary commodities which were adequate, just and equitable.

27. In view of those clear statements of its terms of reference, it was, to say the least, a matter of concern that the group of experts should have arrived at

the view that equitable, fair and just prices amounted in effect to no more than stable prices. The experts also took the view that there could be no objective criterion for determining exactly what constituted an "adequate, just and equitable" relationship between the prices of primary products and the prices of manufactured goods. That statement was inexplicable in view of the fact that the resolution itself stated clearly what the objective criteria were in determining that relationship, namely that the price relationship should be such as to promote domestic savings in under-developed countries and to facilitate the establishment of fair wage levels for the working population of those countries.

28. On those important matters, particularly the relationship of fair prices to wage levels, the experts' report contained no consideration or recommendation. It must therefore unfortunately be admitted that the group of experts had failed to discharge its primary responsibility and had concentrated entirely on the subject of means for attaining some measure of stability in the prices level of important primary commodities.

29. It was more difficult to understand the experts' decision to limit themselves to a search for stability in the prices of primary commodities inasmuch as they had taken note of a statement in the United Nations study entitled *Relative Prices of Exports and Imports of Under-Developed Countries*[1], which pointed out that on the eve of the Second World War a given quantity of primary exports would pay on the average for only 60 per cent of the quantity of manufactured goods which it could buy in the 1870's. Even if that single fact had sometimes been overstressed, it must be regarded, until it was refuted, as substantial evidence of gradual deterioration of the terms of trade for the less developed countries. That factor should have impressed on the group of experts the importance of focusing its main attention on the stated objectives in paragraph 1 (*a*) of resolution 623 (VII), rather than completely ignoring those objectives.

30. It appeared to the Indian delegation that it should have been possible for the group of experts to conduct certain studies into the relationship of the prices of primary commodities and the prices of finished goods made wholly or in part from those commodities. There was, for example, *prima facie* evidence, based on price fluctuations of manganese ore, that United States steel manufacturers were able to pay somewhat higher prices for manganese ore than formerly, without causing any fluctuation in the price of the finished product. Studies of that kind might have helped the Council to decide whether or not the criterion of adequacy mentioned in resolution 623 (VII) was being fulfilled by prices now being paid by the more highly developed countries for primary commodities.

31. Having inexplicably limited themselves to the search for stability in prices of primary commodities, the experts stated that nothing could operate against secular trends in prices. While that statement was obviously substantially correct, it furnished the experts with another reason to limit their studies.

32. In view of the above-mentioned approach to the problem it was not surprising that the group of experts should have succeeded in covering only rather familiar territory. Undoubtedly its review of price proposals in that field had factual value. The experts' recommendation regarding international commodity agreements, however, seemed to underestimate the effectiveness of existing single commodity agreements, particularly in view of the progress made in that field in 1953. Current evidence indicated that it might be difficult to establish a single method of approach which could embrace a number of commodities in one agreement. It might be best, therefore, in the future to allow an element of flexibility to governments and to the main producers of primary commodities when devising methods to attain at last some of the objectives stated in resolution 623 (VII) by working out single commodity agreements.

33. Some mention should be made of the experts' observations on contra-cyclical lending. Undoubtedly such lending had value and probably the experts were right in suggesting that it was unnecessary to create fresh channels through which such lending should be operated. The International Monetary Fund might reasonably be expected to play a larger part in that field, but a most important consideration in such operations did not appear to have been mentioned, i.e., that when such lending took place the clear aim should be to help the economic development of under-developed countries without creating conditions which were in any way restrictive.

34. One of the main recommendations of the group of experts was that international buffer stock agreements might be considered. They realized that that arrangement would involve a considerable outlay of funds, and for that reason they made proposals for automatically financing the stock by the creation of new money through commodity reserve currency schemes. They had not, however, been able to make a firm recommendation regarding the latter aspect of the over-all scheme, and had expressed the view that the theoretical merits of the scheme justified its further study. The Indian delegation would not object to such further study, which must of course include a full working out of the financial implications of the scheme. Until that had been done the Indian delegation would be unable to commit itself on the matter.

35. Perhaps the group of experts' most important recommendation was that a trade stabilization commission should be set up consisting of eight or nine member governments, so as to provide permanent representation for the most important trading countries, and adequate rotation of representation for other countries. The Indian delegation regarded that proposal as premature, mainly because the contracting parties proposed to undertake a thorough review later in the year of the operation of the General Agreement on Tariffs and Trade, and at that meeting the possibility of raising the question of enlarging the scope of the Agreement might well occur. In those circumstances, India would prefer to await the outcome of the review conference before committing itself in any way to an organization of the nature recommended by the experts.

36. Even at the present stage, however, it would caution against the proposed composition of the trade stabilization commission. It could see no reason why the main trading countries should automatically find a place in a commission whose main purpose would be directed toward price and other factors relating to primary commodities. It felt that some of the criteria which should determine its composition would be the

[1] United Nations Publications, Sales No.: 1949.II.B.3.

importance of trade in primary commodities, and general regional demographic considerations.

37. The Secretary-General's report on the *International Flow of Private Capital, 1946-1952* (E/2531) was valuable inasmuch as it drew attention to certain disturbing factors which, though already known, were not sufficiently appreciated. During the seven post-war years, the great bulk of investment capital had come from the United States and a considerable portion of that capital had been absorbed by economically developed countries, such as Australia and Canada. Again, on page 7 of that report it was stated that many of the world's over-populated regions with relatively undeveloped manufacturing industry were recording a net outflow of private long-term capital during the period under review, e.g. Ceylon, India, Indonesia and Egypt. Private foreign capital apparently tended to be attracted to countries with plentiful natural resources rather than with abundant manpower. It was also stated that the bulk of investment capital which had been exported had found employment in extractive industries.

38. The main tendencies which governed the flow of private capital were stated in chapter 2 of the report and that chapter again emphasized the disinclination of investment capital to move to Asia. The report referred also to loans by the International Bank and the grant of credits by the import-export banks. There again, the share of Asia relative to its needs had been small. The Bank had no doubt increased its contribution and revised its policies to make the maximum contribution in the development field such as those of channelling systems to small and medium scale enterprise in the private field through a domestically established financing institution. The Bank's efforts, however, were necessarily limited by its charter to the provision of loan capital on projects sponsored or guaranteed by governments.

39. The reasons for the reluctance of private capital to move into under-developed areas were diverse. They included such imponderables as political instability, threat of internal conflicts, or social structure, and such other factors as exchange control, government policy on nationalization of industry, the level of taxation, the availability of raw materials or the size of markets. The premium which would have to be added as compensation for all those adverse factors over and above the normal average profits in the exporting country would push the desired margin of profit in the importing country so high as to make the proposition largely unattractive. In other words, to induce capital to move from the exporting to an importing country, the reward would have to be the average net earning capacity in the country of export plus adequate compensation for adverse factors in the country of import. In view of the fact that average net profits in the United States, the principal exporting country, were high and that there was an unlimited field for investment in neighbouring Canada in the extractive industries, the most favoured of all, it was not possible for the under-developed countries to offer anything more attractive. It was therefore not surprising that the under-developed countries, and more especially the under-developed countries in Asia, had received hardly anything by way of investment capital.

40. He would briefly refer to some of the inducements his Government had offered to attract private investment capital. While each investment project was scrutinized to ensure that it was beneficial to the national economy, once approval was given, firstly, it was treated on a footing of equality with domestic enterprise in all respects; secondly, all facilities were given for remittances of dividends and repatriation of capital, including (in the case of new capital) appreciation of capital; thirdly, the Constitution of India provided for payment of adequate compensation for assets taken over by the Government, thus providing a complete safeguard against unjust expropriation; fourthly, while India preferred joint participation with Indian enterprise, there was no law fixing the proportion, and in several cases the Government of India had agreed to complete control being left to foreign shareholders. The importance of the project to the national economy was the determining factor in each case. India had a democratic constitution and an independent and impartial judiciary to safeguard the constitutional rights of its people and its general economic stability. On all objective considerations, India should provide the economic "climate" which foreign investors generally considered salubrious.

41. Despite those inducements, there had been an insignificant flow of investment capital to India. It would almost appear that the only way India could obtain private investment capital would be to furnish some kind of assurance of payment of guaranteed profits with an undertaking to subordinate its economic policies to the interest of foreign investors. That was a concession which no independent country, however under-developed it might be, would be willing to grant. The position therefore was that if the development of the economy of under-developed countries was left to the free play of economic forces and to purely private incentives, there was hardly any prospect of improvement taking place in the foreseeable future. The Economic and Social Council had been considering the establishment of an international finance corporation for channelling private capital without governmental guarantees. The Indian delegation felt that the establishment of that institution should be taken up as a matter of urgency.

42. With regard to land reform, the Indian Government had given the highest priority to that question and had adopted various measures of reform. It had also taken effective measures for agricultural development in the shape of community projects, national expansion services and river-valley projects which would ensure a steady flow of water. It recognized, however, that much remained to be done by way of provision of land to the landless and a better organization of agriculture and village economy through the establishment of co-operative village management. Its ideal was the establishment of a co-operative commonwealth which would steer clear of class conflict and cut-throat competition.

43. A movement had recently grown in India for obtaining gifts of land which could be distributed to the landless by voluntary transfer. That movement had already secured some 3 million acres of land for distribution. Much still remained to be done, but it was hoped that with a general improvement in the economic condition of the country agricultural output and income would increase. In order to reduce the under-employment from which the Indian peasantry suffered, the five-year plan laid stress on the development of

the cottage industries. The study presented by the Secretariat was undoubtedly useful so far as it went, but it should be supplemented by information in regard to the impact made by land reforms on output, savings and occupational structure.

44. Mr. BORIS (France) said that General Assembly resolutions 622 C (VII) and 623 (VII) showed that the Assembly was not satisfied with the Council's previous action on the flow of capital and on primary commodities, although both problems had been exhaustively discussed in the Council. The fact that the Council had gone no further was due to the obstacles it had encountered, and in particular to the fact that such vast problems could not be solved by partial measures and that global solutions, where the results were often difficult to foresee, were such as to inspire hesitation. Nevertheless, the Council should go over the same ground again, even at the risk of repeating itself and of encountering the same obstacles. At least one of the obstacles, however, should have disappeared.

45. At the Council's fourteenth session after lengthy discussions a draft resolution which allowed for commodity agreements had been submitted. At the plenary meeting, however, practically everything that concerned such agreements had been deleted from the text, except for the recording of a favourable opinion by the Director-General of the Food and Agriculture Organization (FAO), nor had any reference to the recommendations in the report on *Measures for International Economic Stability* (E/2156) been retained. Moreover, the staunchest opponents of any such recommendations had been the representatives of the under-developed countries.

46. The French delegation had deplored that attitude and had shown disappointment by abstaining in the final vote (638th meeting). It was still ready to vote in favour of a text similar to the one the Council had rejected in 1952, in other words, to recommend, as did the General Assembly in resolution 623 (VII), the conclusion of international agreements or arrangements relating to individual primary commodities or groups of primary commodities.

47. The General Assembly had admittedly recommended also the conclusion of agreements which would ensure a just and equitable relationship between the prices of primary commodities and the prices of capital goods and other manufactured articles. The Council had discussed that question on a number of occasions; in resolution 427 (XIV) it had asked the Secretary-General to prepare a study on the relative movements of prices of various classes of goods moving in international trade. The General Assembly had been more categorical than the Council. At the same time, it had also extended the scope of the study proposed by the Council by asking for the inclusion of an estimate of the financial repercussions which changes in the terms of trade between primary commodities and capital goods and other manufactured articles produced on the national incomes of countries in the process of development, and an analysis of the distribution of those incomes.

48. The Secretary-General's report on "Repercussions of Changes in Terms of Trade on the Economies of Countries in Process of Development" (E/2456) was useful and instructive. The statistical appendix to that report (E/2456/Add.1) and the Secretary-General's report on "Relative Prices of Primary Products and Manufactures in International Trade" (E/2455) were less satisfactory, since they contained innumerable figures and tables from which it was very difficult to draw any over-all conclusions. It might be better in future, however, to refrain from making requests which involved an excessive amount of work in proportion to the results achieved.

49. The experts' report on *Commodity Trade and Economic Development* (E/2519) was an excellent introduction to the nature of the problem and a very competent survey of the various solutions that might be envisaged. The objectivity of the experts had failed only in paragraph 47: the remarks in that paragraph were an intolerable insinuation against the more developed countries. It was the French Government's constant policy and deep conviction that the problem of the economic development of the under-developed countries was of capital importance to the modern world. It was in the interests of the industrialized countries themselves, as much as in the interests of the less-developed countries, to find a solution to that problem, since on it depended the stability and continued expansion of the world economy. The facts were there to prove the sincerity of the French Government's declarations. France had assumed responsibility for the development of several major under-developed territories and was diverting more than two per cent of its national income to economic, social and cultural investments in those countries. That figure was exactly the percentage mentioned by the representatives of India and Venezuela. In addition France also made available to the territories for which it was responsible budgetary assistance and subsidies, some of which were intended to maintain the prices paid to producers, particularly indigenous producers of primary commodities.

50. The experts were to be commended on having tried to elucidate the concepts of "stability" and of "just and equitable" prices. They defined "stability" not as fixity for all time, but as freedom from violent short-run fluctuations. That definition should not give rise to any objections. Nevertheless at the fourteenth session of the Council (638th meeting), in connexion with the adoption of resolution 427 (XIV), the phrase "with a view to alleviating pronounced fluctuations in the prices of primary commodities"—one of the objectives of agreements on primary commodities—had been rejected by 11 votes to 7, the majority including most of the under-developed countries. If the situation had been allowed to remain like that, it would have been impossible to give effect to the Assembly's clearly expressed wishes. The experts had therefore been right to make their position quite clear at the beginning of their report.

51. Since 1952, countries had had an opportunity to assess whether the advantages they had derived from the violent fluctuations that had occurred in 1950 to 1952 had exceeded the disadvantages, from a long-term point of view. The Secretary-General's report on "Repercussions of Changes in Terms of Trade on the Economies of Countries in Process of Development" (E/2456 and Add.1) was very instructive in that connexion. While some under-developed countries had temporarily benefited from very high export prices, they had not often been able to use their additional resources to accelerate economic development, either because their plans for equipment had not been ready or because the most useful capital goods had not been available on the international market or, again, because

the distribution of the increased income had promoted expenditure on consumer goods. When the price trend had been reversed in 1952, various consumer habits had been maintained with the result that there had been a decline in savings and investments.

52. He agreed with the experts that the terms "just" and "equitable", applied to the desirable relationship between prices of primary products and capital goods and other manufactured articles, could not be expressed in figures. The experts' conclusion was that for all practical purposes the meaning of those words was the same as that of the term "reasonably stable". It would in fact appear that the demands of justice and equity could best be met by reasonable stability. The experts defined "reasonable" export prices and terms of trade by explaining that they must obviously be such as to enable the under-developed countries to obtain income returns for the productive resources employed in their export sectors higher than those resources would yield if employed in their domestic sectors of production. He could not entirely agree that that formula was valid for any country.

53. In paragraph 64 of the report (E/2519) the experts stated that their terms of reference related most clearly to stabilizing the real export earnings of primary producing countries, especially in relation to the finance of their development. That aspect of the problem was undoubtedly worthy of consideration, but it was quite impossible to express in mathematical terms the optimum level of stabilization of prices or the reasonable relationship of terms of trade. For some time yet, the world would probably have to be content with empiric solutions applied to specific cases. In the meantime, a vague idea of the objective and a knowledge of the approximate direction from which it could be approached would have to suffice.

54. The experts systematically reviewed the various possible solutions, and his delegation was in agreement with most of their judgments.

55. Bilateral contracts would undoubtedly have a certain value in encouraging the expansion of production, but their value as a stabilizing device was generally very limited. Multilateral contracts, such as the International Wheat Agreement, had certain advantages, since they were a form of mutual insurance policy, balancing the interests of exporters and importers, without interfering with the operation of the free market. Nevertheless, owing to the fact that the parties concerned expected very high prices or very low prices, the agreed gap between the upper and lower prices might be so large that considerable price fluctuations could continue to operate inside it: the agreement would then have no practical effect. Moreover, multilateral contracts could be concluded only for a limited number of commodities for which all prices could be related to a single basic prices even if they included a number of varieties. Experience had shown that it was difficult to promote agreement between all the major producers and consumers, and the refusal of a single one of them was enough to reduce the effectiveness of the system considerably. In brief, multilateral contracts were an attractive solution when certain technical conditions were satisfied but, if the views of governments about them were too far apart, they were quite futile.

56. His delegation was fully in agreement with the experts' unequivocal condemnation of international quota agreements.

57. With regard to international buffer stock agreements, the experts recognized that in theory they had great virtue. On the other hand, they had to be rigorously administered and they must be free from political pressure, something which was very difficult to ensure. In theory, the purpose of buffer stocks was not to interfere with the price trend, but only to moderate violent short-term fluctuations of price. In fact, it was very tempting not to abide by that rule. As the experts said, past experiences had been unfortunate. The main obstacle to international buffer stock agreements however was the problem of financing them. That problem was insuperable.

58. On the subject of provisions for obtaining stability in real terms of trade, the experts explained that any arrangements designed to cause the prices of primary and manufactured commodities to move in unison by freezing the terms of trade between them would increase the propagation of inflationary or deflationary movements from one country to another. The experts might also have considered the excellent study on the possibility of fixing an international "parity price" contained in paragraph 44 of the report on *Measures for International Economic Stability* (E/2156). The most effective action to stabilize real terms of trade could be taken only by the countries concerned, which should, through their buying policy, limit the price fluctuations in capital goods and primary commodities. There were cases in which the consideration of parity prices could be taken into account in drawing up bilateral contracts. Some rigidity in the sale price of capital goods could be introduced through a system of insurance or State guarantees; the country exporting the primary commodities would also agree to maintain stable prices for a certain period of time.

59. The experts recommended that the possibilities of simultaneously negotiating a number of commodity agreements on primary products should be examined. As they said, that procedure should open the way for bargaining: a country would recede from its demands for one commodity for a certain time in exchange for a concession on another. His Government appreciated those advantages, although at the same time it was aware of a number of practical obstacles.

60. As the experts stated, contra-cyclical lending was not conceptually distinct from the operations of the International Monetary Fund. The Fund should be the body responsible for giving temporary assistance to countries adversely affected by depressive influences. If it was to do that it should pursue a bold and generous policy at all times and not restrict recourse to its resources to safeguard its narrowing reserves. He was fully in agreement, therefore, with the experts' conclusion that there was no need to establish a new international agency and that the Fund should be left to find the remedy for cyclical fluctuations.

61. Under automatic compensation schemes, countries which gained from a shift in the terms of trade would be called upon to make compensatory payments to countries which had suffered income losses from the same shift. An initial difficulty lay in defining what the experts called the "standard" terms of trade. He fully agreed with their remarks in that connexion and felt that the obstacle was insuperable. It might be helpful to remind the Council that in paragraph 205 of the report. on *National and International Measures for Full Employment* (E/1584), the group of experts had

considered the possibility of setting up some scheme for replenishing international reserves. That scheme had been sufficiently automatic to escape the criticism voiced in the report on *Commodity Trade and Economic Development* (E/2519). Nevertheless when the earlier report had been discussed by the Council, the suggestion had given rise to serious objections.

62. Chapter 8 of the report on *Commodity Trade and Economic Development* dealt with national measures for stabilization, and with prices and terms of trade. The measures advocated were intended to ensure full employment together with continued economic expansion and stability, without the risk of inflation. There was never any harm in repeating such advice as that given to the under-developed countries in paragraph 245 of the report, or to the industrialized countries in the subsequent paragraphs.

63. None of the measures which he had just outlined were new. Either they had already been put into effect or they could be put into effect without the need for establishing any new agency. The experts had reviewed a series of procedures the advantages of which were well known, and had shown their limitations. The only real way to eliminate unstable prices and terms of trade was to promote economic expansion and full employment. That was doubtless why the experts had finally fallen back on a scheme for monetary reform directed primarily to those ends and based on the setting up of a commodity reserve currency scheme. In Chapter 6 of the report they had set out most convincingly the theoretical advantages of the system, which would allow buffer stocks to be accumulated without financial sacrifice. Their demonstration had tended to show that the automatic anti-cyclical action of the new monetary system would be entirely effective. While the consideration of the scheme would involve a highly technical discussion, and there seemed to be general agreement in the Council that the question was of academic interest only, the work that had gone into Chapter 6 and the interesting concurring note by Mr. Goudriaan in appendix C might well form the subject of study and a report by the International Monetary Fund.

64. While he did not think that there was any need to set up a new body to reconsider all the measures that had been studied and commented on in the report, it would be helpful for the Council to receive fuller and more regular information on questions concerning primary commodities, market trends, and fluctuations in terms of trade. That task could be entrusted to an existing agency such as the Interim Co-ordinating Committee for International Commodity Arrangements, which might be asked to draw the Council's attention to any matters of particular interest in relation to primary commodities, whether of a general or specific nature. There would not seem to be any need to change the statues of ICCICA, but the Council might adopt a resolution requesting it to do that work and giving it the necessary means of action. If that suggestion met with general approval, his delegation would be happy to submit a draft resolution.

The meeting rose at 12.55 p.m.

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