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President: Mr. M. MIR KHAN (Pakistan).

Present:

The representatives of the following countries: Argentina, Brazil, Canada, China, Dominican Republic, Egypt, Finland, France, Greece, Indonesia, Mexico, Netherlands, Pakistan, Poland, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers from the following countries: Bulgaria, Chile, Czechoslovakia, Federal Republic of Germany, Hungary, Israel, Italy, Japan, Spain, Syria.

The representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, International Monetary Fund, World Health Organization, Interim Commission for the International Trade Organization.

AGENDA ITEM 14

Non-governmental Organizations

REPORTS OF THE COUNCIL COMMITTEE ON NON-GOVERNMENTAL ORGANIZATIONS ON APPLICATIONS FOR HEARINGS (E/3023, E/3026)

1. Mr. EPINAT (France), speaking as Chairman of the Council Committee on Non-governmental Organizations and introducing the Committee's reports (E/3023 and E/3026), said that the Committee had considered the requests made by non-governmental organizations in consultative status for hearings by the Council or its Committees under rule 86 of the Council's rules of procedure. The decisions submitted to the Council in the reports had been taken unanimously.

The reports were approved.

AGENDA ITEM 2

World economic situation

(a) Survey of the world economic situation (E/2959, E/2982, E/2983, E/2984, E/2989, E/2998, E/3004 and Add.1 to 3) (resumed from the 973rd meeting)

2. Mr. PREBISCH (Executive Secretary, Economic Commission for Latin America) said that the signs of a slackening in the rate of economic expansion, to which the Secretary-General had referred in his statement at the 973rd meeting, had also been observed in Latin America. Whereas in 1953 and 1954 the national income per head of population had increased by 2 per cent per annum, the rate of increase had declined to 1 per cent in 1955, and in 1956 there was practically no increase in income per head of population. The decline had been due to temporary factors, which were described in the annual reports of the Economic Commission for Latin America (ECLA) to the Council for the years 1955 and 1956 (E/2883/Rev.1, E/2998).

3. The Secretary-General had also made a reference, at the 973rd meeting, to the manifest disparity between the level of exports and that of imports, the reasons for which were also explained in ECLA's annual reports. He felt, however, that certain factors which tended to widen the gap between imports and exports needed emphasis. The Latin American countries saw their export prospects diminishing as technical progress gathered momentum and agricultural production in Europe increased. The European Common Market, which would no doubt lead to an improvement in Europe's economic situation, was causing the countries of Latin America serious concern. They recognized, however, that, by actively stimulating industrial production in western Europe, the Common Market could hardly fail to encourage demand for raw materials from Latin America. But, in any case, its establishment set Latin America an extremely important and immediate problem.

4. He agreed with the Secretary-General that a change of structure in the Latin American countries was called for if, through the pursuit of a vigorous economic policy, the consequences of that disparity between exports and imports were to be remedied.

5. In addition, industrialization must play the leading part in economic development. The situation resulting from speeding up industrialization at the expense of agriculture and the production of primary commodities was well known, and some formula for striking a balance between agriculture and industry would have to be found.

6. One of the most important roles that industrial development had to play in Latin America was the absorption of manpower released from agriculture and crafts owing to technical progress. However, that role of manpower absorption had not been fulfilled in a measure compatible with the rapid growth of the active labour force in Latin America, and a proportionate part of that labour force tended to go to activities non-productive of goods, where productivity was generally very low. This tended to slow down the rate of economic development.
7. That dynamic weakness of industry was in great part the result of the lack of sufficient capital investment. In Latin America, the rate of investment was inadequate, and the participation of foreign capital extremely low. During recent years, 94 per cent of investment in Latin America had come out of national savings, a mere 6 per cent having been contributed by foreign capital. There was, moreover, a number of economic and social factors which tended to slow down the rate of investment. A greater influx of foreign capital and a vigorous domestic policy of economic development would enable the Latin American countries to increase their rate of growth. As a matter of general policy, the influx of foreign capital, which would set in as international tension relaxed, must go hand in hand with a national policy designed to stimulate national saving in Latin American countries.
8. But that stimulus would not be enough by itself. The most advanced Latin American countries should take firm measures to increase the domestic production of capital goods in order that a growing proportion of those savings could be invested internally so as to prevent recurrent pressures on the balance of payments. That presented a difficult problem, as the isolated internal markets of those countries did not always offer the possibility of sound development of capital goods industry, owing to the narrowness of those markets. Those and other considerations had been conducive to the idea of the regional market for some specific goods, among them capital goods.
9. At the present time, there were insuperable obstacles in the way of setting up a Latin American free trade area and common market, and for that reason the idea of a regional market restricted to certain highly manufactured goods, such as vehicles, machine tools, heavy chemical plant, etc., had been mooted. The secretariat of ECLA had been invited to study that question, and, with the aid of Latin American experts, to submit new proposals. There was no question of imitating the European conception of a common market. Certain countries in Latin America were endeavouring to break away from the system of bilateral agreements; a new system of mutual trade was contemplated, and the data so far collected showed that the idea was feasible. It was believed that, in order to avoid the establishment of exclusive groups, any regional agreement must be an open and not a closed one. Similarly, any agreement to set up a regional market would have to allow for the differences in development of countries in a particular region, and must not prejudice the evolution of the more economically backward of them.
10. Mr. ARMENGAUD (France) said that he would like first of all to congratulate the Secretariat on the outstanding quality of its work, while suggesting that in future it submit to the Council every year a report dealing with one of the major economic problems of the modern world.
11. There was hardly any long-term economic problem of greater importance to international organizations than the stabilization of balances of payments with a view to bringing about a permanent and progressive improvement in standards of living. None of the major objectives of economic and social policy could be achieved if the balance of payments was chronically out of gear. That balance depended only to a limited extent on the policies of individual governments; the essential factor was international co-operation.
12. The stabilization of the balance of payments could no longer be considered as an end in itself, having become simply one component of general policy. For the whole world was at present aware of the overriding importance of social objectives. Governments had understood that they must not only maintain a theoretical economic balance, but also try to achieve full employment — both of manpower and of resources — and ensure their countries' optimum economic and social development.
13. It was true that individual governments were faced with formidable economic problems in their attempts to achieve simultaneously stabilization of their balance of payments, full employment, and economic and social development. Many of those problems could only be solved by concerted action by states — a point that should be pressed by the United Nations. There was, however, no problem incapable of solution. Assuming that national activities and international economic and financial co-operation were expanded to meet the needs of the world economy, there were reasonable grounds for optimism about the social and economic future of the world. Besides, economic problems were fundamentally the same both for countries industrialized long ago and for those which were still essentially producers of raw materials. Of course, the problems of agricultural and industrial development were not of the same order in States with different economic structures. Those problems, however, arose in the same terms in every country, and the solutions were often similar in broad outline.
14. As was very properly emphasized in the "World Economic Survey, 1956" (E/2982), a considerable number of the problems whose solution governed the maintenance of economic equilibrium could be solved at the national level, for such equilibrium depended to a large extent on the way in which a country regulated the relationship between investment and consumption, allotted priorities between different categories of investment, balanced its internal finances, encouraged private savings, distributed the national income, and adjusted the demands of the home money market to the actual savings.
15. In every country, the authorities should keep careful watch over the pressures which were constantly arising in each sector of the economy, and the imbalances which might result from measures of doubtful value. If there were no such unbroken watch, financial stability would

be upset, and foreign payments accounts could be balanced only at the expense of full employment, or by slowing down economic and social development. General economic measures, such as a non-discriminatory monetary policy, should be replaced — as suggested in the Survey — by more selective and more carefully adjusted fiscal and financial policies.

16. It was also the duty of governments to ensure that the exploitation of national resources could be adjusted to the changes required in each country's economic structure. Discriminatory measures were required, particularly in the case of bottlenecks such as a shortage of power or skilled labour. Steps could also be taken to promote the large-scale development of entire sectors of the national economy where output was lagging behind rising consumption. In that connexion, the Survey quite rightly drew attention to the unduly slow development of food resources in a number of primary producing countries.

17. Other problems were peculiar to the industrialized countries. The inevitable pressure of wage claims in full-employment countries, and the increase in production costs which could result therefrom if productivity in the industry concerned failed to keep pace with the claims, created one of the major difficulties for such countries.

18. Foreign economic difficulties were no less serious than those met with at home. Technical progress and the increased output of synthetic substitutes had certainly created a serious problem for many primary producing countries. But increases in imports, which in many cases had outstripped the growth of production, often placed the industrialized countries in a very difficult position. Moreover, the necessary increase in exports met with considerable difficulties. The combination of those two factors made it more difficult everywhere to maintain currency reserves at a level which would enable both the short-term difficulties inherent in any market economy which was not provided with machinery to adjust production to consumption, and sudden decreases in agricultural output which could only be accommodated by a cautious policy of stockpiling and reallocation alike, to be coped with. Many countries had experienced difficulties of that kind, which would have been still more serious had not the international movement of capital and action by the International Monetary Fund (Fund) in many cases facilitated the maintenance of adequate reserves.

19. Those considerations showed what action should be taken. The main emphasis should be on the need for continued development of mutual consultation on economic matters and on the long-term study of general economic trends. No long-term action could bear fruit unless governments had a general grasp of the conditions in which their economic activity would proceed in coming years. Nor could any government successfully embark upon any large-scale action which was not co-ordinated with that taken by other countries. A framework already existed within which periodical consultations between States were possible; the Survey was perhaps rather pessimistic on that point. In the Organization for European Economic Co-operation (OEEC) and the European Payments Union (EPU), mutual consultations

were the order of the day, and their value had been repeatedly demonstrated. The French delegation hoped that such consultations would go from strength to strength, and was glad to see that the regional economic commissions, each in its own sphere, had already taken advantage of the opportunities offered to them in that field.

20. As to medium-term economic forecasts, efforts had already been made to define the general features of some countries' economic activities several years in advance. The study by the European Coal and Steel Community on general production objectives in member countries was a good example of what could be done in that direction. The eighth annual report of OEEC was also on a theme that could be developed and expanded. If the tradition was to be maintained of devoting a substantial part of each annual *Survey* to one of the main problems of long-term importance to the world economy, the French delegation would welcome some attention in a subsequent issue to the probable medium-term requirements of that economy, which would enable, *inter alia*, the planning of raw-materials production to be improved.

21. Greater knowledge of the data and prospects of the world economy would also foster closer and more effective co-operation between the nations. In that respect, the new possibilities of economic co-operation provided for in the treaty setting up the European Common Market were particularly felicitous. The treaty was designed to rationalize production in countries whose activities were often complementary, and to enable them, through the better utilization of their resources and the linking of their economic policies, gradually to reach a financial state which would make their activities effective and more comprehensive. The treaty was also drafted in such a way as to leave the door open to other participants.

22. The French delegation also wished to stress the need to expand technical assistance in the future. Should favourable circumstances result in the release of new financial resources, it would expect some part of them at least to be devoted to a specific purpose. There was room for fruitful development of existing United Nations activities in several fields. Experts were rare, even in the industrialized countries; the establishment of technological institutes was an urgent task to which France was trying to make its contribution by setting up several centres for training engineers.

23. Economic development, and in particular industrialization, presupposed a thorough knowledge of natural resources, of the potential they represented, and of the means of exploiting them in the light of technical progress. An inventory of natural resources — provided their physical, chemical and mechanical characteristics were described — would ensure a more solid basis for the research undertaken.

24. Conditions did not at present seem favourable for the achievement of such plans. France was faced with serious obligations. Pressed on all sides, in particular because of the growing needs of the overseas territories, anxious to see the Special United Nations Fund for

Economic Development (SUNFED) set up, and having undertaken to take part in it — as it had done in the International Finance Corporation — it was not in a position to enter into any further engagements at the present time, but it hoped to be able to contemplate such engagements in the near future when its present obligations might be less heavy.

25. The third point to which the French delegation wished to call attention was the need for continued efforts to develop reciprocal financial co-operation, and for the removal of obstacles to the free movement of both goods and capital. In that connexion, his delegation would point out that the treaty establishing the European Common Market, far from reflecting a tendency to create a new protectionist bloc, constituted the preparations for a European free trade area, as well as the maintenance and extension of EPU. The growing activity of the Fund during recent months had enabled many countries to obtain the short-term capital they required to stabilize their balance of payments and maintain their foreign currency reserves at a reasonable level. The French delegation hoped that the Fund's action, far from slackening, would become and remain one of the basic stabilizing factors in the balance of payments, provided each country endeavoured as best it could to ensure its own equilibrium.

26. The transfer of long-term capital, both from public and private sources, was another essential factor in economic development and the stability of balance of payments. It was true that the flow of public capital, particularly towards the less highly developed regions, to which France had made an appreciable contribution, was of imposing magnitude. A by no means negligible amount of public capital was, moreover, already being provided for international financial assistance through the intermediary of the International Bank for Reconstruction and Development. It was, however, desirable to intensify international assistance in order to correct the geographical distortion inherent in the very concept of bilateral aid. Moreover, an increased flow of private capital was imperative. The Secretary-General's report on the international movement of private capital (E/3021) revealed a very substantial expansion of private investment from the industrial countries in the still underdeveloped regions. A careful study of the statistics, however, showed an intense concentration of capital in certain countries and in certain economic sectors and a lack of substantial investment in many countries where the problems of economic development and balance-of-payments stability were most acute. There was a need to review, with a determination to achieve practical results, the measures that could be taken to ensure a more even international flow of private capital — in particular, the establishment of an instrument on private investment which could be the subject of multilateral agreements among the Members of the United Nations.

27. To sum up, the French delegation would suggest increased consultation and international co-operation in the field of forecasts and of economic action, the expansion of technical assistance, and, lastly, the development of measures which would promote movements of public and private capital.

28. Mr. JACOBY (United States of America) keenly appreciated the difficulty and importance of the Council's task, because, as a member of President Eisenhower's Council of Economic Advisers, he had had some experience of analysing the nation's economic performance and prospects. The task of appraising the economic prospects of the world was even more challenging in its complexity.

29. He thanked the Secretary-General for his penetrating introductory analysis of recent world economic developments. The participation in the discussion of the Secretary-General himself and the executive secretaries of the regional economic commissions bore witness to the crucial importance attached by the United Nations to economic growth and improved standards of living. He thanked the staff who had assisted in preparing the reports on which the Council's review of the world economic situation was based. In response to the Council's wish that the *World Economic Survey* should deal with long-term problems as well as current developments, almost half of the present Survey was devoted to the post-war balance-of-payments experience of different countries, and the discussion in the introduction of factors contributing to internal and external imbalance and of the problems of promoting sustained economic growth provided a stimulating background for the review. Most of his comments would directly relate to the issues raised in that chapter.

30. Interdependence was growing, so that the economic health of each country must be the concern of all, and, as President Eisenhower had said, "No people can live unto itself alone." What, then, was the economic path on which the world had been travelling, and what the great economic issues of general concern which confronted States Members as they looked into the future? They were no longer problems caused by the destruction and dislocations of the Second World War, since, generally speaking, the transition from reconstruction to renewed economic growth had been completed by 1950, and even before that year most countries had set themselves the goal of surpassing their pre-war standards of production and consumption. At the end of the war, many States had been deeply concerned about the way in which the productive capacity created to sustain an enormous war effort should be harnessed to peace-time activities. Fortunately, the fears of deflation and unemployment inspired by the memory of the cruel experiences of the 1930s had proved to be unfounded. The great demand for goods and services had from time to time created inflationary pressures in many countries, and the persistent economic problem of the post-war years had been how to expand productive facilities rather than how to put idle capacity to use.

31. The post-war decade had been a period of unprecedented economic achievement in large areas of the world. Year after year the industrialized countries had set up new production records, and though complex and difficult problems continued to face the underdeveloped countries, as a group those countries had also won substantial economic gains. Many had been laying the foundations for economic growth at a faster pace.

The volume of world trade had reached new high levels, and notable progress had been made towards the restoration of a multilateral and less restrictive system of trade. Private international investment was now expanding very rapidly, and during 1956 net direct investment abroad by United States firms had probably exceeded \$2,500 million — a new peak. Men of enterprise had found increasing opportunities both at home and abroad of contributing to the growth of production and the improvement of standards of living. Generally speaking, therefore, substantial strides had been made towards the realization of the universal hope for greater security from want, and for larger opportunities of personal fulfilment. It was a source of genuine satisfaction that the world economy was today stronger and better balanced than it had been on the eve of the Second World War.

32. Since the war, world economic growth had been subject only to brief interruptions, despite the fact that it had taken place during a period when most nations had had to shoulder extremely heavy burdens of national defence — burdens which had been increased by the circumstance that the physical requirements of military production were concentrated in those economic sectors where resources were also strained by the expansion of civilian investment. National security expenditure accounted for more than 60 per cent of the total expenditure of the Federal Government of the United States of America. Obviously, progress towards a limitation of armaments under adequate guarantees would be a great boon to all countries, easing inflationary pressures and releasing resources for more rapid economic growth. That was one reason which had impelled President Eisenhower to strive consistently for realistic international agreement on arms limitation, and the present discussions in the Sub-Committee on Disarmament gave ground for hope that some progress would soon be made.

33. In essence, the present world economic situation reflected the insistent and conflicting demands on limited resources created on the one hand by defence requirements, and on the other hand by the demands of the civilian economy. With people everywhere dissatisfied with and eager to improve their standard of living; with the enormous investment required to achieve radical transformation of productive techniques in many branches of industry; with the drive to expand power, transport and communications facilities in all countries; and with the rising requirements for housing and social services of growing populations, aggregate demand in many countries had risen and was continuing to rise faster than production. While in most countries the rate of saving since the war had exceeded previous records, the volume of savings had not matched the rising demand for investment.

34. The inflationary pressures of the present day were, of course, due to conditions which were very different from those which had confronted countries during the war or during the post-war reconstruction period. Yet the essential cause was the same — namely, excessive aggregate demand — and the consequent general rise in prices had had many evil consequences. Inflation created the very economic imbalances that the "World Economic Survey, 1956" properly warned governments

to avoid, since it brought in its wake not only inefficiency in the management of resources, and distortions in the pattern of their use, but grave social injustice, doing the greatest harm to those least able to protect themselves and undermining confidence in the value of money, thus weakening one of the mainsprings of economic progress — the incentive to save. In many countries, the present risk was not runaway inflation, but that of a persistent "creeping" rise in prices and costs which would insidiously weaken the purchasing power of money and destroy people's personal security.

35. A stable price level was not, of course, in itself a sufficient objective of economic policy, and must be sought in conjunction with a high level of employment and economic development; but stable price levels did contribute to the attainment of the common goal — namely, an expanding world economy of high employment and vigorous economic development. The idea that high employment could and must be harmonized with price stability was gaining ground, and no one — least of all the American people — would ever tolerate stagnation and unemployment. But he believed there would be general agreement that enhanced welfare for all could not be attained if the need for safeguarding monetary stability was neglected.

36. One of the most encouraging features of the struggle to maintain financial stability was that the dangers of inflation were now widely recognized, and people everywhere were growing weary of a rising cost of living coupled with dwindling purchasing power. Knowledge of economic movements and their causes and consequences was spreading rapidly, and many ordinary citizens now understood that inflation could wipe out their personal security just as effectively as prolonged unemployment. They knew that inflation reduced a country's ability to sell in foreign markets, that it encouraged excessive imports, and that it usually culminated in depression and unemployment, so that it was now widely accepted that the maintenance of general price stability was fully as important as the maintenance of a high level of employment.

37. One of the outstanding lessons taught by the economic history of the past few years was that high employment and stable price levels were compatible goals of economic policy in free-market economies. Broadly speaking, both had been achieved in his country during the period 1953-1955, and only during the past eighteen months had general inflationary pressure on the price level manifested itself. Naturally, to reconcile steady economic growth with monetary stability — which was the basic economic challenge of the present day — was not easy, calling as it did for economic statesmanship of a high order, and unremitting vigilance by government financial authorities.

38. General monetary and credit restrictions were, and must continue to be, the primary means of reducing inflationary pressure, but fiscal policies designed to keep government expenditure to a minimum, to maintain revenue from taxation at a high level, and to create budget surpluses, could also make a vital contribution to the stability of price levels. But monetary and fiscal policies would not in themselves be enough to combat inflationary

pressure arising from private monopolistic practices, from price-fixing and from the internal immobility of labour and capital. Any steps to ameliorate such conditions would help to protect the purchasing power of money, and to avoid inflation.

39. It was stated in the Survey that cost inflation was a key element in present pressures on price levels, and that monetary and credit restraints alone had not appeared to provide a remedy for it. The lesson to be learnt from his country's experience of cost inflation during the past year was not that monetary and fiscal restraints were ineffective and should be abandoned, but rather that they needed to be timely and decisive and to be supplemented by other measures for making the economy more competitive and flexible in operation. If the monetary and fiscal climate was non-inflationary, and markets were open and competitive, business circles and labour unions were unlikely to pursue policies conducive to cost inflation. In the United States of America, the vigorous enforcement of anti-trust legislation, and the Government's gradual abandonment of its policy of supporting agricultural prices at high and rigid levels, illustrated the type of action that would fortify monetary and fiscal measures to prevent inflation.

40. Admittedly, the problem of preventing inflation was a particularly difficult one for countries striving to achieve their economic development from a comparatively low level of national income. Faced with relatively fixed resources and insufficient domestic capital formation to satisfy the demands of economic growth, they often found themselves subject to internal inflationary pressure and to balance-of-payments deficits. As had been pointed out by the Secretariat in its valuable analysis of the relationship between domestic policy and a country's balance-of-payments position, such a situation was probably a warning that development was being forced at a pace too fast to be sustained in the long run. It also suggested that under-developed countries, no less than the more advanced ones, should do everything possible to increase the internal mobility of their resources, and to encourage competition in all markets as a means of eliminating bottlenecks and mitigating inflationary pressures.

41. There was no real dilemma about reconciling steady economic growth with internal and external financial stability, and the choice with which a developing country was confronted was not that between more rapid growth without, or less rapid growth with, financial stability. In any case, the pace of a country's growth was limited by the real resources available, and they were not increased by an inflationary policy which could only encourage their misuse, thereby ultimately impeding rather than accelerating progress.

42. While the world economy had expanded more slowly in 1956 than in 1955, total output had soared to a new peak. The under-developed countries, though faring rather less well than the industrialized ones, had continued to make progress in developing basic facilities, in building new factories and in laying the foundations for more rapid growth in the future. In 1956, international trade had created new records, having expanded almost twice as fast as industrial production. Internal

movements of private capital had also been greater than at any time since the war, and that continued expansion had taken place in the face of the most restrictive monetary policies experienced by the present generation.

43. The unexpected strain to which many countries, particularly those of western Europe, had been subjected towards the end of 1956 by the blocking of the Suez Canal and the accompanying political crisis had severely tested their ability to withstand political and economic shocks. The crisis had proved the basic strength of the free economies and there had been no significant decline in over-all economic activity, although in a few countries individual sectors had been adversely affected. Despite increases in the price of oil and in freight rates, rises in prices had on the whole been moderate, there had been no major disruption in the mechanism of international payments, and no major industrial nation had found it necessary to reintroduce the restrictions on trade which had been gradually relaxed over the past decade.

44. An outstanding economic event since the Council's twenty-second session had been the proposal to establish a European common market, which promised to give a tremendous stimulus to efficient production and improved standards of living. Moreover, the market could also offer major economic advantages to third countries. In its broad lines, the treaty appeared to promote the principle of multilateral mutually beneficial international trade, and to seek a high degree of competition and of mobility of resources. It should help to reinforce the rising trend of world trade and the increased convertibility of currencies. In fact, the European Common Market could help to lower trade barriers, and to bring about a great expansion of international commerce in which western Europe, as one of the world's great trading areas, had a major stake, and from which all such areas could ultimately expect to benefit.

45. The United States of America also believed that the cause of international peace and security would be strengthened by the greater prosperity of western Europe, and that the treaty and the results it sought to attain were therefore in a very real sense consonant with the objectives of the United Nations and the Council. Such were among the important reasons for which his Government had welcomed the treaty. The United States Government believed that any development with such far-reaching and, in many respects, novel implications, particularly for international trade and trade policy, required careful consideration. He would not, however, make any detailed comments on the European Common Market's potential profound long-term effects on international trade, because the treaty was to be thoroughly reviewed by the contracting parties to the General Agreement on Tariffs and Trade (GATT). As was the case with other countries, the United States of America was naturally interested in the possible effects of the treaty on its own trade with the areas concerned, and its aim during the review within GATT would be to ensure that its own interests, as well as those of all trading nations, were safeguarded, and that the multilateral trading system would be further strengthened by the initiative taken by the members of the European Common Market.

46. Those hopeful developments in western Europe during the past year stood out in sharp contrast to events in eastern Europe where, under the communist system, aspirations after greater freedom and improved standards of living had been met with repressive action which had shocked the whole free world.

47. Turning to recent developments in the United States free-market economy, he said that that economy had given further proof of its productive strength. In the first quarter of 1957, the gross national product had reached a seasonably adjusted annual rate of \$427,000 million — the highest level yet attained, and an increase of \$24,000 million over the corresponding period of 1956. In April 1957, total personal income had reached an annual rate of \$349,000 million — an increase of 5.5 per cent over the corresponding figure for April 1956. While part of the gains in those monetary values reflected price increases, the growth in real output and income had continued and had been substantial. During 1956, civilian employment had risen to the record figure of 65 million, and unemployment had averaged a bare 3.8 per cent of the civilian labour force, which indicated a state of full employment in the practical sense of that term.

48. The increase in total national output had occurred in a year in which two important sectors of the economy — the automobile and residential building industries — had experienced a significant decline in activity. Recently, big changes had occurred in the flow of resources through several sectors of the economy, and at various times there had been reductions in federal expenditure on defence, in consumer expenditure on durable goods, in agricultural incomes, in business investment and in expenditure by state and local authorities. But declines in particular sectors had released resources that were now being utilized elsewhere, with a consequent expansion rather than contraction in the aggregate volume of production.

49. Adjustments were, of course, inescapable in any unregimented economy with dynamic requirements, resources and technologies. The fact that they could be made without precipitating a general depression was evidence of the strength and resilience of the United States free-market economy which, under flexible fiscal and monetary policies, had demonstrated its capacity to adapt production to changes in the pattern of demand without the introduction of direct economic controls by the Government. Since the brief set-back of 1953-1954, the United States economy had continued to move steadily forward. New high levels had been reached in the first quarter of 1957 after an economic expansion of some three years' duration on a scale which only a few years earlier would have been thought unrealizable. Unemployment had declined to a minimum, new investment had been planned and carried out on a massive scale. Intensive utilization of productive resources had conduced to the development of inflationary pressure, so that the primary aim of domestic economic policy had been to curb inflation while allowing orderly economic growth. If his country succeeded in keeping economic growth at the maximum sustainable rate, it would help to provide steadily expanding markets for the materials, products and services of its trading partners all over the world. His Government's fiscal policy had been to maintain a

high level of taxation, despite rising revenues, in order to bring about a budget surplus. At the same time, the monetary authorities had severely limited the expansion of bank credits and the supply of money, and that "tight money policy" was still in operation.

50. Countries which had to struggle with economic development problems in conditions of extremely low productivity and a general scarcity of resources might wonder why, with all the resources available to it, money should be relatively scarce, and why interest rates should have risen in the United States of America. While the inflationary process was a complex one, and present causes of inflationary pressure differed from those of the early post-war years, the essence of the problem facing the United States economy could be briefly stated.

51. During 1956, gross private domestic investment in the United States of America had been \$67,000 million, with business outlay on plant and equipment alone increasing by 20 per cent over 1955. Such expenditure was obviously important for maintaining and expanding productive capacity, increasing productivity, turning new technological developments to advantage and providing the machines and power for the one million workers annually entering the United States labour force. Yet during 1956 total personal and corporate savings had amounted to only about \$45,000 million. Additional bank credit had filled the gap; but, even though savings had been higher in 1956 than in 1955, their growth had not kept pace with the increasing demand for investment. The United States of America, together with most of the rest of the world, had been suffering from a relative shortage of savings; and the inescapable upshot had been a sharp rise in interest rates on borrowed money, as well as upward pressure on price levels. Since funds to meet the demand for investment must come either from savings or from the creation of new money, borrowers tended to turn to commercial banks for the money they required. To allow rapid expansion of the money supply through bank loans at a time when resources were being fully utilized would simply intensify the pressure on prices without producing any increase in real national output. Resources made available to any one sector of the economy would have to be taken from other sectors by a process of pushing up market prices, since the economic law of supply and demand could not be escaped even in a country with large resources.

52. The problem of maintaining a stable price level was at the present time a crucial one for the United States economy. Progress had been made in dealing with it, but it had not yet been completely solved. Despite ample capacity in many industries, a substantial surplus in the federal budget and a money market under close restraint, there was at present some upward pressure on costs and prices. Efforts to reduce inflationary pressures still further would be continued, because the people would not tolerate "creeping" inflation.

53. It was well known that his country subscribed to the broad principle that competition between private enterprise in the open market was the best means of determining prices and allocating economic resources. Approximately 90 per cent of the United States national income was created in the private sector, and had been for the

past twenty-five years. At the present time the economy was as competitive as it had ever been, but ways and means of increasing the flexibility of individual prices would continue to be sought in order to ensure a stable price level. Part of the cure for inflation was increased competition.

54. It was precisely because his country's economic problems were continually changing in a dynamic world that, as President Eisenhower had pointed out in his Economic Report to Congress in January 1957, policies aimed at promoting stable growth must be flexible and capable of adjustment to different circumstances. During the past three years, United States economic policy had changed from one of offsetting restrictive forces and bringing about renewed expansion to one of restraining inflation. His Government was prepared to modify its policy again both promptly and decisively should it become necessary for it to do so.

55. It was pointed out in the Survey that the present expansion in the industrialized countries might be regarded as the first peace-time expansion since the Second World War which had not been fed by the pent-up demand of the immediate post-war period or by the pressure of military requirements. The period ahead therefore promised to be an interesting stage in the world's economic history, during which the ability of countries to maintain economic growth and stable price levels under what could be regarded as something approaching normal conditions of demand would be tested.

56. The future development of economic events was never more than a continuation of the past, and experience showed that it was not free from ups and downs. While no one could accurately foretell the future, there were indications that during the rest of 1957 the United States economy would display the following features: first, capital expenditure by business would be higher than in 1956; secondly, expenditure by state and local governments would increase substantially and federal government expenditure would at least remain at present levels; thirdly, total expenditure for new construction would continue at the present high rate; fourthly, consumer expenditure on goods and services would continue to expand; and fifthly, foreign trade and investment would remain high and would probably increase further. Hence there were good grounds for thinking that the present expansion would continue throughout the year.

57. The world was at present faced with new ordeals which would prove whether free societies could be wise and disciplined enough to master their economic and financial destinies. If they proved themselves capable of maintaining economic growth, a high level of employment and reasonable price stability, while at the same time preserving the basic principles of individual liberty in a free society, they would have unlocked the gates to an even more promising future. He believed that hope could be found in the history of the post-war period, which surely demonstrated that great things could be accomplished when free nations applied themselves to their economic tasks with determination and understanding.

58. Mr. BRILEJ (Yugoslavia) said that since the war, and particularly during the last few years, world production and trade had expanded rapidly. Even the international flow of private capital, which had earlier shown signs of chronic stagnation, had recently revived. However, such favourable developments seemed to have created the illusion that the critical point in post-war economic evolution had been passed and that future progress was assured. The extraordinary development of modern technology, while encouraging such optimism, at the same time made concerted international action imperative in order to ensure that its benefits resulted in steady and balanced economic and social progress.

59. The Yugoslav delegation fully subscribed to the appraisal of the world economic situation made in the "World Economic Survey, 1956" and agreed that the development of general economic stability and social security had not proceeded so rapidly as economic activity. While stressing the new heights which had been reached in 1956, the Survey warned its readers that the rate of growth was slowing down and that the economic picture had never been more obscure than at the beginning of 1956. While pressure of demand was still strong in the basic sectors in the industrial economies of the West, idle capacity was increasing in most of the other sectors, including that of durable consumer goods.

60. The Survey showed that, despite the high level of economic activity in recent years, the structural problems of the world economy were still unsolved. In particular, it stressed the difficulties with which the under-developed countries had been faced since the end of the Korean war, and drew attention to the short-term implications of possible changes in the present level of world economic activity.

61. Although the authors of the Survey put forward many convincing arguments, his delegation did not altogether accept their conclusions. For example, it could not agree with the recommendations for balancing the economies of developing countries. It had serious doubts about the possibility of adjusting the pattern of production to the pattern of demand without slowing down or bringing to a standstill the initial phase of economic development. An efficient development policy made it imperative to revolutionize the traditional patterns in investment and production, thus inevitably creating certain imbalances, and a higher level of production might have to be attained before those imbalances could be eliminated. The *World Economic Report 1953-54* (E/2729) had also put forward the view that temporary imbalances were an inevitable concomitant of economic development, and many speakers had supported that view at the Council's twentieth session. Nothing had happened since to undermine that opinion.

62. The quest for economic development was the primary concern of the post-war world, and particularly that of the under-developed countries. The Council had contributed to a better understanding of economic development and much useful work had been done in that field by the specialized agencies, the regional commissions, the technical assistance authorities and the United Nations Children's Fund. However, most of the Council's activities had been concerned with the pre-

paration of the ground for bolder and more decisive actions which had been taken outside the framework of the United Nations. Since the war, many new forms of international economic co-operation had emerged — a development which, in view of the complexity of modern international relationships, appeared to be inevitable. The under-developed countries had good reason to seek to improve their position in the world economy by various kinds of regional alignment.

63. The position of the integration projects of the more highly developed countries was more obscure. It might, for example, be asked what the effect of the European Common Market would be on outside countries, particularly the less developed ones. While its establishment might enhance the already high economic potential of western Europe, it might equally broaden the gap between the developed and the under-developed areas of the world. The European Common Market countries would have to show great understanding of the problems of the other countries if the possible adverse effects of the new project were to be offset.

64. The sub-regional organizations which had developed outside the United Nations amid a divided Europe were mainly inspired by political motives. Was such a development really likely to promote the economic aims which most members of the Council had in mind? Those organizations should abandon their exclusive character and seek a *modus vivendi* which would permit mutual contacts outside their sub-regional framework and offer prospects of more effective world co-operation. In that respect, the regional economic commissions could play an important role.

65. It was gratifying to note the encouraging developments which had recently occurred in the field of East-West trade, hitherto so bedevilled by political considerations. The latest change of attitude on the part of certain western countries towards trade with China was also a favourable sign. It showed that political obstacles could not be maintained indefinitely in the face of economic realities. The current measures of economic decentralization in the Soviet Union, too, would probably contribute to the development of East-West trade. The fact remained, however, that such development would require time. Even if the political barriers were removed, a number of fundamental obstacles, such as differences in international systems and foreign trade instruments, would still have to be overcome.

66. The larger sphere of world trade was still beset by difficulties which derived from the unfavourable position of under-developed countries in the world economy or from the restrictive measures which many developing countries were obliged to take to protect their economies. There was also the complex problem of the stabilization of primary commodity markets.

67. The establishment of a universal trade mechanism within the United Nations, already discussed by the Council, was an attractive idea, but the ground would have to be thoroughly prepared before it could be put into practice. Limited action might, perhaps, have to be taken before the problem was tackled as a whole. At the same time, it would be necessary to promote direct contacts between countries with different foreign

trade systems, and gradually to build up trade and instruments of payment acceptable to the optimum number of countries. In that way, the road to multi-lateralism would be opened.

68. Most unfortunately, the United Nations had been unable to take any really effective action in respect of international financing, despite the fact that that process lay at the very roots of economic development. Although much time had been spent in paving the way for SUNFED, the project had not yet materialized. Such a failure was beginning seriously to affect not only the work of the Council, but also the role of the United Nations itself. The fact that the United States Development Fund project embodied many of the features of SUNFED served only to confirm the belief that the principles underlying the latter were sound. It was to be hoped that the United States Government would support international financing through the United Nations over and above its bilateral arrangements. Partial action could not take the place of SUNFED, which represented a collective obligation of the international community towards those of its members which the blind course of history had placed in an inferior position. The realization of SUNFED would be a manifestation of general solidarity, indispensable to the achievement of a balanced world economy, and an expression of confidence in the United Nations itself.

69. Mr. KAWASAKI (Observer for the Government of Japan) said that, among the problems dealt with in the "World Economic Survey, 1956" his Government had been most keenly concerned about the ever-widening gap between the advanced and the less advanced countries of the world. The rate of expansion of the volume of trade between the advanced countries was much greater than that between them and the less advanced countries. That trend was due to the fact that, whereas exports from less advanced to advanced countries were lagging, imports to the less advanced countries were increasing year by year. It was a striking fact that the lag was much more marked in the case of those countries which relied on exports of agricultural commodities than in that of those exporting minerals. The former were exposed to the fluctuations in world agricultural prices, and yet were obliged, to meet the needs of internal development, to import large quantities of capital goods. They included, in particular, the countries of south-east Asia.

70. If the gap was to be closed and the less advanced countries enabled to enjoy their fair share of world prosperity, it was essential, first, to increase the efficacy of economic aid provided by the advanced countries. The Council had had that question under consideration for many years, and it was more urgent than ever that it should achieve some practical results in that respect. From that standpoint, he would follow with the utmost interest the Council's debates on such items on its agenda as the sources of energy for economic development, the establishment of SUNFED, the world food reserve and technical assistance.

71. Secondly, the less advanced countries themselves would have to put forth greater efforts to develop their

domestic resources, to accumulate their own capital and to improve their technology. Although they had obviously to absorb great quantities of foreign capital and to receive substantial aid from international organizations, the most fruitful springs of economic development were to be found in the tireless work and ingenuity of their own peoples in accumulating domestic capital and thus ensuring that foreign aid — whether from governments or from international agencies — could be turned to the best possible account.

72. Thirdly, it was essential to liberalize world trade. A balanced development of the world economy could be achieved only by reducing tariffs and other restrictive

trade practices to the utmost possible extent and by establishing a firm basis for multilateral free trade. In that respect, the establishment of customs unions and the development of the so-called integrated economies, which inevitably led to discrimination against outsiders, should be embarked upon only with the greatest circumspection.

73. Unless those three requirements were met, the less advanced countries would never be able to close the gap between their own economic development and that of the advanced countries.

The meeting rose at 1.5 p.m.