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CONTENTS

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, India, Italy, Japan, Portugal, Romania, Spain, Switzerland, Syria.

The representatives of the following specialized agencies: International Labour Organisation, International Civil Aviation Organization, International Bank for Reconstruction and Development, International Monetary Fund, Interim Commission for the International Trade Organization.

AGENDA ITEM 2

World economic situation

(a) Survey of the world economic situation (E/2959, E/2973 and Add.1 and Add.1/Corr.1 and Add.2, E/2982, E/2983, E/2984, E/2989, E/2998, E/3004 and Add.1 to 3, E/3016) (*continued*)

1. Mr. SINBEL (Egypt), after congratulating the Secretariat on its valuable " World Economic Survey, 1956 ", said that he wished to comment on certain trends in the world economy which had become clear since the Second World War and to draw attention to certain problems which must be tackled on a world-wide basis if international economic equilibrium was to be attained.

2. Chief among those problems was that of developing the under-developed areas. The concept of the balanced growth of the economy would have little meaning if development programmes did not result in a raising of levels of living and per capita income. It had been the experience of the densely populated under-developed countries that, to attain such a goal, they had to develop rapidly, so as to keep pace with population growth.

3. In countries in the process of development the death rate tended to decline, while the birth rate might stay constant for a long time. Consequently, such countries must maintain a rate of development that would offset the annual increase in population, and the additional increase resulting from the expected decline in the death rate. They must also develop sufficiently to raise their already low standard of living. For tha treason, a balanced growth resulting in a higher standard of living could not be obtained without rapid development. Consequently, it would be difficult to accept any advice to maintain a slow rate of development.

4. The great need for rapid development raised a number of problems and difficulties. In financing huge development programmes, it was important to pursue policies which would not result in serious inflation. An inflationary financing policy would lead to an increase in the cost of development and might disrupt the whole programme. A moderate increase in prices, however, was not only justifiable but inevitable, since development resulted in a great increase in employment and purchasing power. At the same time, owing to the great need for capital formation in the under-developed countries, resources tended to be shifted to the production of capital goods rather than consumer goods. There was therefore a tendency for the demand for consumer goods to exceed supplies and for prices to rise.

5. In a country where per capita income was low, and savings were coming to be less and less concentrated in the hands of the few, it was important that the government should encourage the accumulation of small savings so as to form substantial funds which could be invested in different projects. Banks, insurance companies and investment trusts could be very helpful in that respect. By borrowing from the public, the government could obtain substantial funds for investment; and such borrowing could also be used as a means of fighting inflation.

6. In the matter of external financing, which was of great importance to a developing country, world co-operation was highly welcome. The under-developed countries had used manipulation of the balance of payments as a means of external financing. They had found it necessary to resort to exchange control measures in order to establish an order of priority for imports. Imports of capital goods came first in the order of priority; and the more such countries were able to export, the more they were able to import, and the easier it was for them to carry out their development programmes. That applied particularly to countries whose exports were confined to one or more principal commodities. Failure to market their crops would hamper not only their development programmes, but also their efforts to raise the standard of living. In that connexion, he would draw the Council's attention to resolution 579 A (XX), which recommended that key countries should conduct their international trade

relations and trade policy with due regard to their possible harmful effects on the economy of other countries, especially countries whose trade depended on exports of relatively few commodities.

7. It was true that a developing country should try to diversify its exports, but that took time; and meanwhile development could not be successfully maintained unless the country's main products could be marketed. It was also important for such countries to diversify their markets, so as to make their economies less vulnerable to fluctuations. It was precisely that policy which had greatly helped Egypt in facing the economic and monetary difficulties of 1956.

8. The export trade of the under-developed countries had been badly hit by the accumulation of stocks in major producing countries. Agricultural surplus problems were becoming more acute. In that connexion, he would draw attention to the Report for 1955-1956 of the Food and Agriculture Organization (E/2973 and Add.1 and Add.1/Corr.1 and Add.2) which advocated that, wherever possible, the solution to the problem of surpluses should be sought through efforts to increase consumption rather than through measures to restrict supplies.

9. It was most important that the disposal of surpluses should be undertaken in an orderly manner to avoid any undue pressure resulting in sharp falls in prices on the world markets, and to avoid harmful interference with the normal pattern of production and international trade.

10. Food imports could raise another problem of external financing, especially in densely populated countries. The increase in the productivity of agriculture might not keep pace with the increased demand for food resulting from population growth and a higher standard of living. Food imports might exert heavy pressure on the balance of payments, and he thought that was a problem which should be dealt with on an international basis.

11. The Survey emphasized the dangers of inflation in both developed and under-developed countries; the inflationary pressure in developed countries being due to wage increases not matched by increased productivity, the working of many industries at almost full capacity, the inelasticity of supply and the rise in the prices of raw materials. Measures had been taken to check that inflation through monetary restrictions and higher rates of interest. While such measures had partly succeeded in offsetting the inflation, much remained to be done.

12. Wages were not only a source of effective demand and purchasing power. They were also an investment cost. Consequently, wages should not be raised to an extent that would hamper investment or lowered to an extent that would decrease the purchasing power of the workers.

13. High wage rates might increase the cost of investment and hamper exports. In the under-developed countries, an increase in employment or demand not matched by an equal increase in the supply of consumer goods was the main cause of the rise in prices. In order to reduce the cost of investment, most under-developed countries had followed an easy money policy resulting in lower rates of interest. It must be observed, however, that the rate of interest was not only an investment cost, but also an inducement to save and to lend. The rate of interest should not be lowered to an extent that would decrease the propensity to lend, or raised to an extent that would hamper investment.

14. The balance of payments was also a matter of international concern. Different methods had been adopted to correct the imbalance in the foreign trade of various countries. In the year under review there had been a well-marked increase in the capacity to export, especially in the case of certain countries which had almost completely recovered from the disruption caused by the Second World War. The great demand for manufactured products, machinery and equipment on the part of developing countries had helped substantially to encourage the exports of the highly industrialized countries. In the under-developed countries, the large-scale imports of equipment needed for development programmes, combined with certain difficulties in exporting their principal products, had resulted in deficits in their balances of payments. However, such temporary deficits should not be regarded as a sign of external disequilibrium. The imported equipment and machinery would eventually result in increased capacity to export and produce import substitutes, and consequently the deficit would disappear.

15. His delegation had been greatly interested in the Survey's references to the increase in the volume of trade between different countries, irrespective of their economic philosophy. Differences in economic philosophy should not interfere with the flow of international transactions. Every country followed an economic policy appropriate to its conditions and most suited to attain its aims. The exchange of goods and services should be encouraged, regardless of differences in economic systems. That was of great importance, not only to the parties directly involved, but to the world economy at large. The United Nations economic and statistical reports provided valuable information about world trade and served as a useful guide in that respect.

16. His delegation welcomed the reference in the Survey to the fact that, in a dynamic world economy, international equilibrium required not only that each country should maintain internal balance, but also that the rates of growth in all countries should be consistent with one another, so that the rate of increase in a particular country's demand for imports could be matched by an equal rate of growth in the world demand for that country's exports.

17. In 1956, production in general seemed to have increased, but the increase could have been greater had it not been for certain unexpected disturbances in the world economy. The blocking of the Suez Canal had demonstrated what a harmful impact on the world economy such an economic disturbance could have. The events which had taken place in the last quarter of 1956 had had wide repercussions upon the world market prices of primary products, which had risen on the average by 7 to 8 per cent, the peak level being reached in December 1956. After the reopening of the Suez Canal in April 1957, the prices of primary products had reverted more or less to the level at which they had stood before the events occurred.

18. In reviewing the world economic situation, it was impossible to avoid the conclusion that most countries had adopted the system of economic planning in varying degrees. They had assumed responsibility for ensuring the economic and social welfare of the people, and for that purpose a plan was required. Economic passivity was no longer followed as a policy. To reach certain targets, most countries had made plans to be carried out in successive stages, according to an order of priority and their available resources. Many countries had achieved appreciable success in that respect. It was to be observed that significant changes had taken place in methods of planning and economic organization. The aim of those changes had been to reduce the degree of centralization in planning and management, by increasing the authority of economic administrations and of regional and local bodies. More and more reliance was to be placed on a broader use of economic incentives.

19. In 1956, a number of regional economic arrangements had been concluded. The European Common Market had been initiated to strengthen the economies of the participating countries, to make them more complementary and to co-ordinate the foreign trade of the region with the world at large. The effect of that common market on the world economy was yet to be studied, and his delegation hoped that it would not lead to discrimination in international economic life.

20. In that respect, he would like to draw the Council's attention to territories which had not yet obtained full sovereignty and were not free to carry out economic policies designed to achieve their economic aims. The economies of such areas should be so directed as to serve primarily the economic and social interests of the population.

21. With reference to economic conditions in Egypt in 1956, he said that, despite a relatively low level of both exports and imports during the last four months of 1956, Egypt's trade returns for the full year had shown a 3 per cent increase in export earnings and an expansion of expenditure on imports.

22. The composition of exports during 1956 had been more diversified than in 1955 and there had been a further lessening of concentration on cotton. In 1956, receipts from cotton shipments had accounted for only 70 per cent of the total value of exports, as compared with 77 per cent in 1955 and 82 per cent in 1954. The value of cotton exports had fallen by nearly 8 per cent from 1955 to 1956, chiefly owing to a reduction in their volume.

23. In contrast with the decline in earnings from cotton exports, there had been a substantial gain in earnings from the sale of rice, cotton yarn, onions, raw wool, potatoes, manganese, phosphate and leather goods.

24. The rise in import expenditures during 1956 had largely been the result of an increased outlay on wheat and maize imports, although imports of machinery and transport equipment had also shown a moderate increase reflecting a rising tempo of industrial development. As the result of an expansion in textile manufacturing, imports of textile machinery in 1956 had accounted for almost one-sixth of the total imports of capital goods.

25. Despite the freezing of a large proportion of the country's monetary reserves, the Egyptian economy had adapted itself to the new situation and had been able to weather the storm. Egypt had emerged from the crisis with its productive capacity unimpaired and its national product had continued to increase in all sectors of the economy.

26. The Government had started on the reorientation of economic and financial policies. New necessary measures had been taken to offset the unexpected economic difficulties and to safeguard and strengthen the national economy. As a result of those measures, the value of exports and imports had been almost the same as in the preceding year. The balance of payments had not deteriorated and the Government had suceeded in providing the country with the consumer and capital goods it needed. It had also been able to finance the national economy without resorting to inflationary measures. Thanks to that policy, the rise in prices had been much less than was expected.

27. In a country with a population problem, like Egypt, where the Government had assumed the responsibility of assuring the economic and social welfare of the nation, and where the government budget constituted a high proportion of the national income, there must be a comprehensive system of economic planning. In Egypt, however, economic planning did not involve encroachment upon private enterprise, but rather encouraged it. The Supreme Council for National Planning, established in January 1957, would fix the country's economic and social targets and approve the development plans in their different stages. The National Planning Commission was to prepare the general programme for economic and social development and was also responsible for supervising the execution of that programme and reviewing it at regular intervals. One of the main functions of the Commission was to survey the physical resources of the country and to study the various aspects of investment and consumption in the public and private sectors.

28. An economic organization had also been established to promote the national economy through commercial, industrial and financial activities. In those fields of activity, the organization would supplement and not compete with private business. Some of the enterprises to be established would be mixed, with the Government contributing to the capital, or public, with the Government providing all the capital. It would be a policy of economic passivity if the Government were to refrain from building up such enterprises in order to avoid interference with the economy. In certain fields of economic activity, private business might not be able to tackle the financial problems involved without government assistance, but once the project was well established, the economic organization could withdraw from it by selling the Government's shares to the public. In that way new scope would be provided for private investment. Another important role of the organization was to centralize the Government's financing of projects in one department. Such centralization was an important requisite for the co-ordination of the Government's investment policy.

29. Thanks to the diversification of markets, Egypt had been able to meet its economic difficulties and to

strengthen the factors making for external economic equilibrium. Foreign trade had been successfully used as a tool of economic development. The proportion of imports represented by imports of the producer's goods required for capital formation had increased up to 60 per cent. By budgeting the country's foreign exchange resources, the Government had been able to set up an order of priority for imports, according to needs. In the meantime, exports were being diversified to decrease the structural disequilibrium which arose from having a single crop as the main export.

30. A developing country needed capital, and Egyptian legislation encouraged foreigners to invest their capital in productive projects and created a favourable climate. The legislation in force gave foreign investors important privileges, the principal being that profits from foreign investments could be transferred without limitation and that foreign capital could be transferred within one year if suitable investment opportunities were not found. In a developing country like Egypt there was wide scope for foreign investment.

31. In conclusion, he emphasized the importance of world economic co-operation, with due regard to the special problems of individual countries, particularly the under-developed ones.

32. Mr. CARANICAS (Greece) paid a tribute to the authors of the Survey for their penetrating and pioneering analysis of the world economic situation. Their discussion of balance-of-payment problems during recent years, their presentation of the phenomenon of global inflation and their cautious but adequate conclusions from an enormous mass of data and statistics called for admiration. The Survey would, however, have been even more useful if it had appeared earlier, and in printed form.

33. In considering such a large number of countries, at varying stages of economic development, with different economic policies and a diversity of economic conditions and backgrounds, there was a real danger of losing sight of the fundamentals. The Secretary-General's address at the 973rd meeting had greatly helped in focusing attention on essentials, including the threatening problem of inflation.

34. His delegation had drawn the Council's attention at the twenty-second session (938th meeting) to the continuous inflationary pressures in different countries, and it was glad the Council had decided that the present year's Survey should be devoted mainly to the long-range problems of international balances of payments.

35. The Survey would, however, have been of only limited value if it had provided no guide to possible developments in the near future. By placing national problems in the context and perspective of the world economy, it would help governments to shape their individual monetary and economic policies.

36. As earlier speakers had dealt ably with other aspects of the situation, he would confine his remarks mainly to the problem of rising prices and inflation. According to the Survey, the margin of uncertainty was greater than a year before. Consequently, the study of current economic developments and inflationary pressures was a matter of vital interest to monetary authorities and economic policy-makers in both the industrialized and economically under-developed countries. Countries in both categories might be equally affected by an economic setback, and even more so by a world-wide depression.

37. The Canadian representative had rightly observed at the 976th meeting that if the nations of the world continued to cope successfully with the present problems of an involved situation, a sound foundation would have been laid for a period of further economic expansion. Though, as pointed out in the Survey, economic expansion had continued in 1956, the rate of advance had slowed down in many countries of western Europe and in North America, as compared with the preceding year. Weaknesses that had appeared in some sectors had been compensated for by a strong undercurrent of private business investment. Some countries had lowered their discount rate while maintaining their credit restrictions, which suggested that they were more concerned about the danger of excessive expansion than about the risks of a recession.

38. The most typical case of difficulties in the industrial sector — apart from residential building in the United States — was the automobile industry, which had been undergoing a genuine crisis for a year and a half in both the United Kingdom and the United States. Yet, as the representative of the United States had said at the 974th meeting, the gross national product of the United States, in the first quarter of 1957, had been higher than ever before. Continuing adjustments had been taking place in the highly developed countries. There had been unexpected recoveries, such as the recovery in the European textile industry, which contrasted with the weakness experienced by the same industry in the United States since the beginning of 1957.

39. All the available information went to show that in the first months of 1957 there had been a slight falling-off in general economic activity, a falling-off which had been reflected in the fall of freight rates, after their steep rise during the Suez crisis. Moreover, since the beginning of 1957, the prices of major raw materials had fallen by about 5 per cent. Although such a movement might be regarded as a " normalization " of the situation, the general trend seemed to be downward. That was especially evident in the trends of non-ferrous metal prices which were particularly sensitive to cyclical movements. There had also been an easing of the position with regard to sources of energy, such as coal and petroleum products. The index of industrial production in the United States had declined slightly, although normally it should have risen parallel with the growth of population.

40. It was clear that the almost universal slackening of the rate of expansion noted in the Survey was currently reflecting, in the United States, the mild recession which had set in throughout the world. Europe had been lagging behind in that connexion, since industrial expansion had continued until the end of 1956, though at a slower pace.

41. The Survey found that, in broad perspective, the expansion in 1956 could be regarded as the first peacetime expansion dominated neither by the pent-up demand of the immediate post-war period nor by the pressure of war activities during the Korean boom. The continua-

tion in 1957 of the slight downward movement observed by the Survey for 1956 — in western Europe the rate of increase of industrial production had been 4 per cent as compared with 9 per cent in 1955, while in the United States the 3 per cent rise in 1956 had been no more than a third of the increase achieved in the preceding year — suggested the question whether those phenomena were connected with the traditional cyclical movement that had been so feared in the first post-war years, and was currently so much ignored.

42. It might be said that the alternation of lean and prosperous years had reappeared when the period of war shortages had been overcome, about 1948. Those cyclical movements generally lasted eight or ten years, so that the time would seem to have come for the beginning of a fresh period of the cycle. There was no doubt that in a prolonged period of expansion, such as that which according to the Survey had entered its third year in North America and its fourth year in western Europe in 1956, each industry developed along its own lines, and in a way which must eventually be adapted to the possible outlets. Those industries which had been particularly dynamic, especially the automobile industry, had developed to an extent disproportionate to requirements.

43. That had necessitated a period of readjustment. The process of readjustment usually took place during a period of business recession. The Survey observed that the outlook for 1957, while cloudy with uncertainties, promised neither any acceleration in economic activity nor any serious recession. It might be concluded therefore that the expected setback to global economic growth — a setback which had in fact started and was continuing during the current year — had proved to be extremely mild, being confined to the halting of the expansion of recent years.

44. That was a classical phenomenon in a phase of expansion of long duration, such as the present one, which, according to Professor Baudhuin, would continue until about 1970. Furthermore, it would appear that the period of readjustment was already at an advanced stage. While 1957 was not likely to bring a marked revival of economic activity, the Survey indicated that there seemed to be no sign of a drying-up of aggregate demand, and no significant disturbing symptoms on the supply side.

45. In the long-term cyclical movements, which seemed to last 25 years in the positive and 25 years in the negative direction, crises had been of varying degrees of gravity. During the upward phase — in which the world was now engaged — crises were confined to a very moderate falling-off in business activity, and to the formation of plateaux rather than slumps. The process had been given the name " rolling adjustments ". In the industrial countries, and especially in the United States, the behaviour of the economy during the preceding eighteen months provided a classical example of rolling adjustment. Readjustment in some sectors of the economy had been offset by expansion elsewhere.

46. While, however, the current phase of economic growth seemed to have entered a period of normalcy, price increases and mounting balance-of-payments deficits, combined with the emergence of cost inflation, raised doubts as to the ability of individual countries to maintain stable economic growth. Despite monetary restraint and sound public finance, world-wide inflationary tendencies, and their persistence during the preceding eighteen months, were causing great concern in many countries. In the United States particularly, " creeping inflation " at a rate of more than 3 per cent a year, was continuing, and the question arose whether creeping inflation was inevitable under modern economic conditions. Many economists thought that at the present time national economies were characterized by the presence of a number of structural elements working in the direction of a continued erosion of the purchasing power of money.

47. Those structural elements included the sliding wage scales embodied in many collective agreements. Their net result was that wage rates were automatically adjusted — i.e., increased — when the index of consumer goods prices reached a certain point. Whether or not such automatism existed, however, the power of the trade unions assured the preservation, or the expansion, of their share of the national income, and a rigid element was thereby built into the wage/price spiral. A recent study by the United States Department of Labor strongly implied that excessive wage increases had been a main cause of the rise in prices in the last decade. If wage increases were not justified by a corresponding improvement in the productivity of labour, inflationary pressures were certainly bound to increase. Even wage increases in the industrial sector which remained within the limits of productivity improvement in the enterprises concerned gradually led, through the operation of the mechanism of the labour market, to a raising of the level of wages in those branches of industry which were unable to offset the increase by an improvement in productivity through capital investment. That " new " inflation, which had been described in the United States as the " cost push ", resulted from the effect of rising wages on prices. Professor Samuelson, for example, claimed that inflation could not be explained in terms of excessive demand alone, and that consequently an explanation must be sought in " cost push ".

48. Professor Slichter, together with a number of mainly Anglo-Saxon economists, claimed that creeping inflation could be held down successfully to what he regarded as a harmless snail's pace of about 2-3 per cent annually. He gave three main reasons for his belief: (1) the role of competition in keeping price advances close to rises in cost; (2) the role of technical progress, in holding back anticipatory equipment and materials purchases; and (3) the role of monetary policy in blocking the creation of debt for the purpose of taking advantage of anticipated declines in the purchasing power of the dollar.

49. There were others, however, who believed that creeping inflation might, if not halted, turn into galloping inflation, which was, in their view, certain to produce the very depression which economists such as Professor Slichter felt had been ruled out by modern organization and techniques. Their argument was a complex one, centring mainly on the effect of price expectations on decisions to spend or invest.

50. In considering the instruments of economic policy which might be applied in the fight against inflation, especially by economically weak or under-developed

countries, the Survey pointed out the insufficiency of both monetary and fiscal policy. As the Secretary-General had stated at the 973rd meeting, anti-inflationary policy was primarily a national rather than an international responsibility, although domestic measures might have significant international repercussions. It might be added that an individual country closely bound up with the international economy was unlikely to be able to avoid being caught in the whirlpool of monetary depression if other countries were pursuing inflationary policies.

51. The United States representative (974th meeting) and the United Kingdom representative (975th meeting) had both stressed the fact that the growth of savings was not keeping pace with the increasing demand for investment. If creeping inflation continued, it might have the effect of chasing savings from their traditional forms. Many economists, including Professor von Mises, had been studying the problem of protecting savings from the erosion of purchasing power.

52. If creeping inflation was allowed to continue, with or without the approval of monetary authorities, it might ultimately lead to accelerated inflation, as more and more sectors of the economy tried to secure protection through escalator arrangements linking wages, pensions, life insurance payments and fixed interest investments to the cost of living.

53. Sound economic growth hinged on the proper balance between savings and investment. The maintenance of a high rate of investment expansion without an adequate growth of savings would mean balance-of-payments disequilibrium and intensified pressure on prices. There were those who said that governments were faced with the dilemma of either allowing expansion to continue and accepting the consequences or curbing inflation at the cost of substantial unemployment. In his delegation's view such a dilemma did not exist. An expansion due to inflation could not continue indefinitely; it was bound to end in a depression and unemployment.

54. Despite the diversity of the theories of economic cycles and the different interpretations of the facts, there was, he believed, one point that had been definitely ascertained: the best way to prevent a depression and its serious economic and social consequences was a policy of moderation during the period of expansion. The United Kingdom representative had provided a useful example (at the 975th meeting) in describing his country's recent experience in regard to disinflationary policies. The representative of the International Monetary Fund had also provided new information about inflationary experiments and the effects of inflation on the balance of payments (975th meeting).

55. The Economic Committee should, he thought, try to elucidate further the apparent contradictions between policies of monetary stability and the maintenance of full employment. Incidentally, he might mention that those questions were dealt with in the latest annual report of the Bank for International Settlements. The Survey for 1957 might also study in more detail the appropriate ways and means of maintaining a high rate of economic growth coupled with a stable price level and balance of payments equilibrium.

56. Reference had been made to the European Common Market and Free Trade Area. He had listened with interest to the comments of the Netherlands (973rd meeting) and United Kingdom (975th meeting) representatives, the qualified support of the United States representative (974th meeting) and the fears expressed by the representatives of other countries. Greece had always supported all efforts and proposals aimed at closer political and economic co-operation between the peoples of Europe. In accordance with that attitude, Greece had taken all possible steps to promote the freedom of intra-European transactions. The main characteristics of Greek economic policy in recent years had been the utilization of fiscal and monetary measures and controls for the support and maintenance of the internal economic stability and the liberalization of imports by the almost complete abolition of quantitative restrictions. The application of that liberal economic and commercial policy was of particular importance in view of the fact, first, that the extent of liberalization undertaken by Greece had been wider than in any other European country, and, secondly, that because of the special nature of the country's economic problem Greece, together with other countries in process of development, was in substance exempt from the obligation to liberalize its trade. Account must also be taken of the fact that the pursuit of that policy in Greece had been especially difficult, not only because of the organic weaknesses of the economy, but also as a result of the abnormal and in fact wartime situation which had prevailed in Greece until the end of 1949.

57. His delegation believed that the establishment of a European free trade area could constitute a step towards either the integration or the disintegration of Europe. The direction towards which Europe would be led by the European free trade area would depend on the specific principles and the detailed arrangements and procedures agreed upon in its establishment. Accordingly, no declaration of principle in favour of or against the free trade area was possible before all the interested countries had recognized and agreed upon the content of such specific principles, arrangements and procedures. In view of present political conditions and technological progress, the progressive economic integration of Europe was a necessary prerequisite for the expansion of production and economic activity in Europe. In the absence of provisions for the development of the economically and technologically less advanced regions, a European free trade area would result in the progressive widening of the disparities between the economically advanced countries and those in process of development, and hence in the final analysis it would lead to the political disintegration of Europe.

58. The same results would be produced by the establishment of one or more partial associations of the economically advanced European countries. By the economically weaker peoples those associations would be regarded as associations of the rich, designed to increase their wealth still further in complete disregard for the elementary problems of the other peoples in the European community. In that respect, even agreement on a common market amongst the six countries might be misrepresented, unless arrangements making possible a wider

economic community comprising all members of the Organization for European Economic Co-operation (OEEC) were worked out soon enough. The Yugoslav representative had expressed concern lest the gap between the more and less highly developed countries should be widened by the new arrangements. It would be some time before it was known for certain whether or not the Yugoslav representative's fears (974th meeting) were justified.

59. On entering a European free trade area, countries in the process of development would face disturbances in their balance of payments as a result of the incomparably greater competitive power of the technologically and economically advanced countries of western Europe. The consequences of such increased competitive power could not, without special measures, be offset by greater exports from the weaker countries, especially in view of the fact that the exports of those countries were largely agricultural, and in many instances of a luxury character. Those consequences were even more ominous in the light of certain proposals for a general exclusion of agricultural products from the advantages of free trade and a unified European market. The increased balance-of-payments difficulties of the weaker European countries in process of development within the framework of a European free trade area could in fact only be faced by the usual restrictive measures as a result of which production and the already wholly inadequate level of employment would decline and the economic development of the countries in question would be retarded and even arrested.

60. Irrespective of those potential developments and the accompanying depressing influences, investment within a unified European market would tend automatically to concentrate, in a cumulative manner, in the regions already developed and consequently away from those less advanced regions. Those results could be anticipated, not only because they were indicated by experience, but also because they could be deduced from an analysis of the factors which usually determined the location of industry. It was well known that developed countries and regions had important advantages in attracting the interest of investors, and that those advantages could be offset only by special measures. The main policy objective of the countries in process of development was to raise and accelerate productive investment, but that would be impossible unless adequate provision was made for the application of special methods and procedures.

61. Mr. MICHALOWSKI (Poland) observed that the Survey for 1956 was somewhat different from its predecessor for 1955. A year before, the Council had been provided with a most remarkable document presenting, for the first time in recent history, quantitative estimates of what was undoubtedly the main economic problem of the present time — the growing disparity of development between the developed and the under-developed parts of the capitalist world. Some extremely useful basic statistics showing the reasons for that abnormal course of world economic affairs had enabled the Council, at that time, to appreciate fully the extent of that important phenomenon.

62. The present Survey was somewhat different, since it consisted mainly of a study of balance-of-payments problems. On the other hand, the most urgent economic problem of the preceding eighteen months — the problem of the relationship between the growth and the internal and external balance of particular national economies — was dealt with somewhat academically in the introduction.

63. The difficulty of that problem had been realized for some time, both in theoretical economics and in the practical economic policies of various countries. The Congress of the International Economic Association had met in Rome in 1956 to consider the problem. While he did not intend to deal at length with a problem which did not affect directly either his own country or countries with similar types of economies, he would remind the Council that problems of permanent inflationary tendencies had never before been a subject of world-wide concern. Before the First World War, the automatic operation of the gold standard had prevented the emergence of such phenomena, and in the inter-war period the great depression had created problems of adjustment quite different from those which now had to be faced. The question was whether it was possible for highly developed industrial countries whose policies during the preceding twelve years had been directed towards maintaining — by all the methods of state intervention — a high level of employment and of internal economic activity, to promote economic growth within a framework which differed entirely from the close economic intercourse between different national economies which had existed in the form of widespread multilateral economic relations at the time of the gold standard.

64. No matter how well reasoned any theoretical appreciation of the relationships existing between demand inflation, productive capacity, cost inflation, consumption savings, etc., one simple truth seemed to emerge from the present world economic situation. That truth had been stated by the Secretary-General at the 973rd meeting when he said that the crucial fact was that economic balance was an international matter. He (Mr. Michalowski) would not contend that appropriate domestic policies were the necessary condition of maintaining that balance, but, as the Netherlands representative had rightly said at the same meeting, it was the Council's function to try to find answers to the question what action could and should be taken in the field of international economic policy concerning all the matters under discussion. He would therefore confine himself to the international aspect of the present situation, especially since his delegation was of the opinion that the solution of the problems of economic growth of the countries of the world was to be found in the sphere of international economic relations.

65. What had been happening throughout the preceding decade was a gradually increasing "compartmentalization" of the world economy. The fact was that the highly developed industrial countries had managed, while gradually losing some of their contacts with the under-developed parts of the world, to maintain, within their own sphere, a high level of employment and of economic activity leading (for a number of years) to an increase in their industrial and agricultural production. At the same time, more than half the world's population, living in the under-developed countries, had felt the effects

either of economic stagnation or even — owing to the accelerated growth of population — of a decrease in per capita production. The causes of that discrepancy (agricultural and raw material development in highly industrialized countries, competition of synthetic materials, etc.) were well known, and he need not dwell on the subject. So far as concerned the third major element in the world economy — the socialist countries — the policy of discrimination and blockade adopted nine years before had led gradually to a substantial decrease of trade between them and the rest of the world.

66. The tendency to split the world economy into smaller and smaller economic units continued. Recently, there had been a new project for dismembering the first of the three major groups to which he had just referred — i.e., the highly developed industrial countries. He was not going to argue with those who had defended the idea of the so-called Common Market in Europe. A common market might perhaps favour some of the interests of some of the participating countries; but it would certainly not favour international economic relations. Still less would it help to discharge the arduous task of maintaining the internal and external balances of the various national economies which chose to conduct a policy of economic growth.

67. A world dedicated to economic growth could not be composed of a number of larger or smaller economic units living side by side in a state of semi-isolation. For the more developed countries, such a situation would imply a constant need for using anti-inflationary measures which would check their sporadic tendencies of growth; while for the under-developed countries it could at best offer a very slow economic advance and, more probably, an endless prospect of economic stagnation. While he was sure no member of the Council would wish to revert to the old gold standard system, even if it were practicable to do so, it must not be forgotten that in the XIXth century that system had assured both economic growth and internal as well as external balance, not because of the rules of the game as such, but simply because those rules of the game had been allowed to act by an almost unhampered world exchange of goods, services and capital. No single country, no matter how powerful it might be, and no restrictive " club " of countries, could achieve economic growth without falling constantly into an external and internal imbalance compelling it to use brakes against the tendencies to expansion, for, as the Secretary-General had said at the 973rd meeting, economic balance was an international matter.

68. For Poland, economic relations with the outside world were becoming more and more important. The situation in Poland might serve as a vivid argument in support of the necessity for a world-wide exchange of goods, services and capital, as against the idea of further " compartmentalization " of the world economy.

69. His country's present economic difficulties arose chiefly from the necessity for making good the mistakes that had been committed in carrying out the undoubtedly vigorous process of industrialization, and in correcting the disproportions which had inevitably arisen in that process. The industrialization drive had brought Poland's industrial production to a level about five times as high as in 1938. That headlong process of industrialization had however been accompanied by an imbalance in the national economy as a whole. There had been an evident disproportion between the development of industry and agriculture, of heavy industry and the consumer-goods industry, of industrial production and the supply of raw materials, etc. During the preceding few months, Poland had been struggling hard not only to recover the basic economic balance but also to bring the whole economy more in line with that of the outside world and to achieve as large a degree of flexibility and administrative decentralization as was possible in a planned economy. The first results obtained in revising the new 1957 plan and in working out a new model for the economy clearly showed that the attempted reform was both possible and feasible.

70. In order, however, to level out an imbalance accumulated during several years of dogmatic policy, a transition period was needed during which additional amounts of raw materials and consumer goods would re-establish the lost balance, thus providing the whole mechanism with a new " take-off ". It was in that connexion that relations with the outside world were important. Much had been done in the preceding few months in that respect, including, for example, credit purchases of certain quantities of agricultural commodities in the United States and agreements with several other countries. On the whole, however, the establishment of Poland's new " economic model " with balanced proportions existing within the already industrialized economy was encountering difficulties which arose, not from hostility to Poland, but from the unfortunate condition of the world economy to which he had referred. Poland was making internally all the necessary efforts to achieve its goals. But, to take only one example, the task of reforming the country's very unsatisfactory system of wage and price relations would necessitate a further and bigger flow of goods from abroad. Thus, the final success of the reform would to a considerable degree depend on the general state of world international economic relations, and unfortunately that general condition was still not very encouraging.

71. The Polish delegation was strongly of the opinion that prevailing trends were indicative of the future deterioration of the world economy as a whole. Even countries which at present enjoyed a relatively high level of production and employment were relying more and more on artificial devices in order to keep a precarious internal and external balance and were thus adversely affecting the economic prospects of other countries. It was for the international bodies, and in the first place for the Council, to stress the latent dangers of such policies and to devise international action that would help to restore the economic unity of the world.

72. There was a serious threat that a gradual slackening of demand for primary products in the industrialized countries would jeopardize the long-term development of the under-developed part of the world. In order to prevent the further deterioration of economic relations between the developed and the under-developed parts of the world, as well as for psychological reasons, it was particularly important that international action be taken with the ultimate aim of adjusting the development of

the under-developed countries' national resources, and thus of their exports, to the prospective demand for primary products in the countries which were their main markets and their main suppliers of development goods. He therefore welcomed the fact that that problem had been mentioned in the Survey and had also received attention from the French and other representatives. As regards the form which such international action could initially take, he recalled that the Secretary-General had asked in his introductory statement at the 973rd meeting whether the world economy might not benefit by more systematic consultation between governments on the general outlines of their economic policies. At the eleventh session of the General Assembly a similar idea put forward by the delegations of Yugoslavia and Poland had failed to win approval by only a few votes. He still wondered whether it would not be possible to organize such a consultation, possibly not between government representatives, but, as the Soviet Union representative had suggested, between eminent economists of different countries and different schools of thought.

73. Another aspect of the economic development of under-developed countries on which international action seemed desirable was external financing. His delegation had repeatedly stated that in its view the main funds for economic development must be obtained by assuring the under-developed countries a proper place within the newly emerging international division of labour. However, that did not mean that the long-awaited Special United Nations Fund for Economic Development would not have an essential, though secondary, role to play.

74. Turning in conclusion to the problem of economic relations between countries of different social and economic systems, he pointed out that although there had been signs that the gulf which at present split the world on ideological lines was tending to close, other signs, particularly in Europe, where for example the proposal for a common market was the source of grave concern, seemed to point in the opposite direction. In his delegation's view, the regional economic commissions could perform a vital service by drawing attention to specific possibilities of regional and inter-regional economic co-operation designed for the benefit of entire regions, irrespective of ideological or economic differences among the countries comprising them.

75. The economic development of Poland, whether in steel, sulphur extraction or power, was designed to serve the well-being and progress of Europe as a whole. Poland's own interests were bound up with a unified and growing European economy, capable of playing a substantial role in constantly expanding world trade. There was, he repeated, no possibility of maintaining a balanced and growing world economy divided along the lines of differences in industrial development, differences in currency systems, or differences of an ideological nature. His country pledged its full support for any international action that would help to release the great potential which the combined economic efforts of all countries in the world would represent.

76. Mr. FARUQI (Pakistan) said that the annual discussion on the world economic situation had come to be regarded as one of the most important means of highlighting diverging views on major economic problems and policies. In the blending of those views on a rational basis lay the hope for the future well-being of the peoples of the world. Experience had shown that the needs and requirements of the industrialized countries and the under-developed countries were not competitive but complementary. Economic isolation was no longer a practical propositon. Major economic changes in one country made their influence felt thousands of miles away. It was therefore enlightened self-interest which made governments adopt measures that were of benefit from the global rather than the strictly national point of view.

77. Post-war economic experience had also shown that people could be induced to make sacrifices, by denying themselves consumer goods and services, provided they really believed that their restraint would contribute to economic development and its attendant blessings in the foreseeable future. For the under-developed countries there was indeed no choice but accelerated economic development if they were to break the vicious circle of low incomes, low savings and low investment. Caution had been urged on them, but as the Netherlands representative had rightly seen (973rd meeting), the whole crux of the matter was that their development must be at a rate sufficient to absorb the annual increase in population as well as to bring about an ostensible increase in living standards within five to seven years.

78. It was a matter of the utmost concern, particularly to the under-developed countries, that although world production had increased in 1956, the rate of increase had been lower than in 1955, while the margin of uncertainty was greater now than at the time of the Council's twenty-second session. Even as things were, the primary producing countries were not sharing fully in the world's present prosperity, because the world demand for primary products had lagged substantially behind that for manufactures. He shuddered to think what would happen if there were a further falling-off of world production, because even a small down-turn in the economic activity of the industrialized countries had far more serious repercussions in the under-developed countries and because in their case even a slight decrease in consumption, such as would necessarily accompany any fall in international commodity trade, would cause grim human suffering.

79. The "World Economic Survey, 1956" rightly drew attention to the emergence of cost inflation in the industrialized countries' economies. Apart from distorting their domestic economic structure, such inflation also had serious repercussions on the economic development of under-developed countries, which had to buy the capital and other development goods they required at inflated prices. As a result their new industries were over-capitalized and thus had higher production costs, so that one important benefit expected from the industrialization process, namely, the supply of consumer goods at reasonable prices, was altogether lost.

80. In the stimulating section devoted to the subject of inflation and inflationary processes the Survey pointed out that, despite the under-employment of resources, increased investment could quickly become inflationary in the under-developed countries unless there was a corresponding increase in the output of consumer goods.

Investment in the economic infrastructure, which produced no short-term results, was therefore, of necessity, inflationary, even though it was the vital first step in economic development. The emergence of inflationary pressures during the initial period was in fact the price the under-developed countries had to pay for economic development. However, an under-developed country need not fear those inflationary pressures if it was self-sufficient in essential consumer goods, primarily food and clothing. It was the rigid nature of a country's external economy that set the limit to its economic development. As the Survey pointed out, most under-developed countries had shown much less flexibility than the industrial countries in adapting their exports to the changing structure of world demand, and had in consequence experienced serious difficulties in financing their rising demand for imports. They were thus faced with the dilemma that a rate of growth consistent with external equilibrium would result in a widening gap between their levels of living and those of the industrial countries. Foreign economic assistance was the only means by which that dilemma could be solved.

81. In that connexion, he pointed out that the current tendency to replace outright grants by loans repayable in local currency, based on the mistaken idea that the under-developed countries had no great difficulty in finding the internal expenditure required for their development, had created a rather burdensome obligation for the recipient countries; if they accepted it, it was only because they had no other means of obtaining the necessary foreign exchange.

82. The under-developed countries welcomed the greatly improved balance-of-payments position in western Europe which had made possible a progressive reduction in exchange and trade controls; but their own external balances were for the most part undergoing increased pressure. The reason for the difference between the two situations again lay in the flexible and dynamic nature of the industrial economies as against the rigid and static nature of the primary producing economies. The industrial countries had been able to adapt their economies to the changing pattern of domestic and foreign demand, whereas in the under-developed countries imports had generally risen more than domestic output, while exports had risen less. Those under-developed countries which had sought to create a rapid rate of growth had thus seen the risk of persistent disequilibrium in their economic relations with other countries. He wholeheartedly endorsed the Secretary-General's view that the solution of that difficulty would depend on the ability of the under-developed countries to draw upon a larger flow of external resources than had thus far been available to them.

83. After expressing appreciation of the detailed and objective manner in which the Economic Commission for Europe (ECE) had dealt, in the *Economic Survey of Europe in 1956* (E/ECE/278) with the extremely important question of the proposed establishment of a common market and a wider free trade area, he said that three distinct features of the Common Market, as described in the ECE *Survey*, caused his Government some concern. In the first place, examples were cited of cases where the adoption of a common tariff based on an average of existing rates would raise the cost of imported non-manufactured goods from outside the free trade area for processing industries in some member countries of the Common Market. Secondly, the tendency for western Europe's internal trade to expand, to some extent at the expense of trade with the outside world, might well turn the terms of trade with other countries in favour of the Common Market or Free Trade Area countries as a group. There would also be a shift of demand from low-cost sources of supply outside western Europe to higher-cost sources within the area. Thirdly, if a free trade area covering all the present members of OEEC came into existence, about 40 per cent of present world trade would then take place within the framework of preferential arrangements, while about 25 per cent would be at a disadvantage as a result of such arrangements; that would seem to run counter to the progress that had so far been made towards freer trade. One result of the proposals, which were ostensibly designed for the economic integration of western Europe, might well be that other countries would draw together in preferential trading areas of their own. If that happened, the benefits envisaged for western Europe as a result of the Common Market and Free Trade Area would be significantly reduced, and the world would have travelled a long way from the spirit of the Havana Charter.

84. The determination of the Asian countries to better their economic lot was shown by the rapid increase in expenditure on development in the public sector, thanks largely to the generous assistance of friendly countries and international organizations. That increase had in turn stimulated private enterprise by providing credit, marketing and other facilities such as power, transport and communications and by raising the demand for agricultural products and manufactured goods. Steps had been taken to encourage private investment and foreign capital was encouraged in every possible way, full facilities being ordinarily made available for repatriation of the initial capital and the remittance of current earnings. Governments were also entering into joint ventures with private foreign capital.

85. It was in the development of agriculture, which was and would long continue to be the backbone of the Asian countries' economies, that they had had least success. Even though agricultural production in the crop year 1955/56 had been at a record level, it had still been below pre-war average on a per capita basis and India, Indonesia and Pakistan had all experienced a food crisis. That illustrated the point he had already made, that Asia had not shared in the general post-war prosperity. The provision of adequate supplies of food at prices within the common man's reach was, in his view, the key to the economic development of Asia, since it was the best means of guarding against the baneful effects of the inflationary pressures that accompanied economic development in under-developed countries.

86. As the Council was aware, Pakistan had inherited a totally neglected and predominantly agricultural economy. The first objectives of economic policy, therefore, had been to build up the infrastructure and diversify the economy. In the industrial sector outstanding results had been achieved, industrial production in 1956 being more than four times that in 1950. The increase would

have been larger but for limited allocations of foreign exchange to industry for capital, equipment, spare parts and industrial raw materials. The country had attained self-sufficiency in a number of consumer goods and had also entered the export market in certain manufactured goods, including jute, cotton, yarn, textiles and leather goods. Manufactured goods now accounted for 11 per cent of its total export earnings as against 3 per cent two years previously. Agricultural production, on the other hand, had apparently not even kept pace with the increase of population. The balance-of-payments position had also been far from satisfactory, and although in previous years national income in real terms had increased rather faster than the population, it had fallen by 1.7 per cent in 1955/56 compared with 1954/55, owing to the decline in agricultural production and the adverse trend in terms of trade.

87. The guiding principles of Pakistan's economic policy were to push on development as fast as the available real resources permitted, with particular emphasis on East Pakistan and other less developed areas, to accord top priority to the development of agriculture, to promote the further expansion of the industrial sector, at the same time paying attention to increasing productivity and making better use of the existing capacity, to ensure that development and stability went hand in hand and to derive the maximum social advantage from all economic progress that was made. The Five-Year Plan for 1955/1960, which had been approved in principle by the Government of Pakistan, provided for a 20 per cent increase in national income and a 12 per cent increase in per capita income by 1960. Public and private savings were expected to provide 13 and 51 per cent respectively of the total planned expenditure of Rs. 1,080 million, while private foreign investment and external assistance were expected to make up the balance. In that connexion, Pakistan had the fullest confidence that its economic problems would be understood by its friends. He took the opportunity of expressing his country's gratitude to those friendly countries that had already assisted it, particularly the United States of America, Canada and Australia, as well as to the International Bank for Reconstruction and Development, which had helped to finance some of its most crucial projects.

88. If the present debate helped to rouse the social conscience of the world and resulted in a better awareness of mutual economic problems, particularly of the multifarious socio-economic problems of the under-developed countries, it would have proved very fruitful indeed and the commendable efforts of the Secretary-General and his staff would have been amply rewarded.

89. Mr. CHENG PAONAN (China) said his remarks would relate to the basic question of growth versus stability, which appeared to be the main theme of the "World Economic Survey, 1956" as it had been the main theme of the Secretary-General's introductory statement.

90. Beginning with the industrialized countries, he pointed out that, greatly though they had differed in other respects during recent years, they had all enjoyed full or rather overfull employment. A fully employed economy was by nature unstable and could be easily inflated by an expansion of demand or depressed by cut-backs in expenditure. Although during the past year and a half the industrialized countries had had frequent scares of economic recession and although the margin of uncertainty, as the Survey pointed out, was now greater than two years previously, the present danger was inflation rather than recession. Such inflation was due not only to excess demand but also to bottlenecks in production and increases in wages; for that reason, as the Survey rightly pointed out, monetary policy was inadequate as a weapon to combat it. He wished the authors had gone further and studied the increasingly important problem of wage/price policy.

91. The present inflation in the industrialized countries, however, was a potential rather than a real danger and in some economists' view the real danger, not only to the industrialized countries, but also to the primary producers, was that the present moderate inflation might, if unchecked, lead to a recession as a result of cost increases and the profits squeeze which acted as a disincentive to investment. The key factor in the situation was the profits squeeze. It was undoubtedly true, as was stated in chapter 4 of the Survey, that "the current boom has indeed been characterized by an increased pressure on profit margins in a number of cases, and in some instances, such as in the United States, a decline in margins was evident in many industries in 1956"; but on the whole the profits squeeze had so far been insignificant and expectations for profits in the months ahead were optimistic. As the situation might at any time be complicated by unforeseen factors, however, it clearly required constant review.

92. Turning to the proposal for a common market in western Europe, he pointed out that a single market eventually embracing a total population of 240 millions could not but constitute a powerful impetus to the further development of an already strong European economy. He agreed with the United States representative that the achievement of prosperity and improved well-being in western Europe would contribute to international peace and security (974th meeting). The proposal might, however, raise certain problems both for industrial countries outside the Common Market and for primary producing countries, although, as far as the latter at least were concerned, the net effect might well be beneficial, bearing in mind the fact that the greatest single factor determining the demand for raw materials was the level of industrial activity in the economically advanced countries. It would, moreover, be in the interests of the Common Market countries to refrain from doing anything to impair the economic health and buying power of the primary producers. It was true that with the formation of the Common Market the products of the French and Belgian overseas territories would be able to enjoy free entry not only into the metropolitan countries but also into other participating countries. To that extent those territories would be in a more favoured position than other primary producers. However, import duties on raw materials were usually low, so that the advantage which French and Belgian overseas territories would enjoy in that respect would be a slight one. It was, however, important that no new measures should be enacted conferring additional advantages on the overseas territories and in general that the more obvious dangers

of the project should be avoided. He was convinced that the Common Market could be made a beneficia project both to its members and to the primary producers.

93. The problem of the under-developed countries was also a problem of combining growth with stability. The internal aspect of instability was inflation. The Survey explained inflation in the under-developed countries by the same factors as those which caused economic instability in the industrial countries, namely, expanding demand, rising costs and bottlenecks in production. In under-developed countries, however, bottlenecks in production and supply were usually much more important than rising costs; they accounted for the faster and steeper rise of prices in the under-developed countries and emphasized the need for more and more imports, for parallel development in agriculture, and for expansion in the output of consumer goods, the last two being measures specifically advocated by the Secretary-General. The rise in prices in turn induced widespread speculation and hoarding, which themselves contributed to further rises in prices. Initiated by the increase in global demand, inflation in the under-developed countries was thus perpetuated and aggravated by bottlenecks and shortages and by speculation and hoarding.

94. If due attention was paid to the speculative factor, it would be easier to understand the functions and limits of interest policy in the under-developed countries. Interest policy had in fact a greater role to play than that assigned to it in the Survey. A high rate of interest was an indispensable instrument of control when speculation was rampant; but when speculation died down, the rate of interest did not usually go down in proportion, but, remaining high, acted as a drag on normal investment. If the rate of interest was not reduced, it could no longer be used as a weapon with which to combat inflation. The problem in such countries was how to lower high interest rates to promote development without causing economic instability. To that extent he agreed with the Survey regarding the limited usefulness of interest policy under inflationary conditions.

95. The Survey also discussed in full the problem of external disequilibrium in relation to the under-developed countries. It reached the conclusion that, owing to the relatively high propensity of the under-developed countries to import consumption goods and the relatively low propensity of the industrial countries to import food and raw materials, the under-developed countries, if they were to avoid payments difficulties, could only develop at a snail's pace, except where foreign capital was available. The conclusion was no less unpalatable for being familiar.

96. While all under-developed countries were undergoing payments difficulties of one kind or another, the Far East seemed to be the hardest hit in that respect. The Annual Report of the Economic Commission for Asia and the Far East (E/2959) attributed the fall in exports from the Far East to two major factors: the replacement of natural raw materials by synthetic materials, and greater economy in the use of natural raw materials. There had been rapid progress in the use of synthetic raw materials, and, thanks to the tremendous advances made by the chemical industry, synthetic materials were now being made which were every bit as good as the natural materials. The process of substitution could not be halted, much less reversed, and the only question that arose was how primary producers were to adapt themselves to the new situation. To some extent they might be able to compete with synthetic materials by reducing prices, but their only alternative was to reduce production of the natural materials concerned and shift to other lines of production. In view of the importance of the problem he thought it would be justifiable to request the Secretariat to examine it thoroughly. In addition, it should be asked to collect and publish, once every two or three years, information concerning the production capacity, actual production and prices of synthetic materials, since such information would be useful to primary producers in planning their production.

97. Turning, finally, to the areas under his Government's control, he said that at the end of 1956 the first four-year plan for economic development had been brought to successful conclusion and the second four-year plan was now under way. As a whole, the results of the first four-year plan had exceeded expectations. Domestic income had been increased by 41.8 per cent or 10 per cent per annum, and per capita income by 6 per cent per annum. By 1956, agriculture had accounted for exactly a third of the national income, industry for a little less than a third and trade, finance, government services and the rest for a little over a third.

98. Taiwan thus stood midway between the fully industrialized Powers and the under-developed countries whose economy was predominantly agricultural. The economic problems it had encountered were mostly those common to all regions in process of development. First, there was the problem of economic instability, due to large government expenditures and the increase in investments and consumption. Although the increase in consumption was to be welcomed, since raising the people's standard of living was the ultimate aim of economic policy, it might put a brake on the rate of capital accumulation or constitute a threat to economic stability.

99. Secondly, like many other countries, Taiwan was faced with the problem of international payments. Its imports had continued to increase in 1956, as the result of development needs and the rise in personal consumption, while the value of exports had been some 2 per cent less than in the preceding year, owing mainly to a decrease in the export of rice and bottlenecks in shipping brought about by the Suez crisis. The widening gap between imports and exports had been closed only by means of United States economic aid.

100. In conclusion, he expressed his gratitude to the Secretariat for its excellent Survey, which sought to reach down to the fundamentals underlying some of the more important problems which faced industrialized and under-developed countries alike.

The meeting rose at 1 p.m.

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