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Chairman: Mr. Bohdan LEWANDOWSKI
 (Poland).

In the absence of the Chairman, Mr. Allana (Pakistan), Vice-Chairman, took the Chair.

AGENDA ITEM 37

International measures to assist in offsetting fluctuations in commodity prices (A/5221, A/C.2/L.665/Rev.2, E/3447, E/3644, E/CN.13/43, E/CN.13/45) (continued)

CONSIDERATION OF THE JOINT DRAFT RESOLUTION (A/C.2/L.665/REV.2) (concluded)

1. Mr. BOLT (New Zealand) said that as his country was deeply concerned with the problem of offsetting fluctuations in commodity prices, his delegation would support the draft resolution (A/C.2/L.665/Rev.2). Not least among the various causes of such fluctuations were the policies of agricultural protectionism followed by many of the industrialized countries, both those with free enterprise and those with centrally planned economies. Allied with those policies was the even more damaging practice of subsidizing agricultural exports, which not only had the effect of depressing the prices of agricultural raw materials but also aggravated price fluctuations. Thus commercial suppliers were forced into dependence on residual markets where a variety of factors, such as economic fluctuations, weather conditions and natural disasters, produced alternating gluts and shortages accompanied by drastic fluctuations in prices. For countries dependent on earnings from the export of primary commodities, those conditions caused severe hardship. The proposals examined by the Technical Working Group would do nothing to remove the underlying causes of those fluctuations but would only provide a financial palliative. That, however, was better than nothing and would serve as a stopgap while fundamental remedies were sought. Hence New Zealand supported the work done by the Technical Working Group and other groups with a view to the solution of commodity problems.

For the same reason, it supported the proposal to hold a United Nations Conference on Trade and Development, although the past experience of the Commission on International Commodity Trade demonstrated the need for a sufficiently flexible time-table to permit adequate preparation.

2. The second preambular paragraph of the draft resolution rightly indicated that fluctuations in prices of primary commodities had particularly adverse effects on the economies of developing countries. It should be remembered, however, that there were many countries, such as New Zealand, which were dependent on the primary commodity trade but were not "under-developed countries". The words "countries which export primary commodities" in operative paragraph 1 covered such countries, and it was for that reason that New Zealand was particularly interested in the draft resolution.

3. He was not entirely satisfied with operative paragraph 3, however, because it was possible that the Technical Working Group's work had reached the point where action could be taken on its recommendations, whereas the paragraph as worded would exclude the possibility of immediate action. New Zealand's support of the United Nations Conference on Trade and Development had been given on the understanding that it would not interfere with action already in progress. He therefore suggested that operative 3 should be amended to allow for the possibility of action being taken before the Conference was ready to make its recommendations: perhaps the words "transmit them, with its comments" could be replaced by the words "transmit its comments on them or on action taken".

4. Mr. NARANJO (Ecuador) said that when the vote had been taken on the draft resolution concerning the International Coffee Agreement, 1962 (849th meeting), his delegation had been obliged to abstain although it had been in favour of the text, because at that time Ecuador had not yet signed the Agreement. It had since signed that instrument and wished to be a cosponsor of the draft resolution under study, which was important because it dealt with a matter which was closely bound up with the economic and social development of the under-developed countries.

5. Mr. DELGADO (Senegal) said that his country, whose economy was largely dependent on the production of ground-nuts, was particularly concerned with the subject of the draft resolution. Senegal's own efforts to ensure fair remuneration for the producer were frustrated by world market conditions, which had been its primary concern in its negotiations with the European member countries of the Economic Community. It had likewise sought closer co-ordination of trade policies which would enable the African countries to improve their position on the world market and to that end had entered into an agreement with Niger and Nigeria to set up an African ground-nut council open to all African States which produced that

commodity. He wished to congratulate the Technical Working Group and the Commission on International Commodity Trade on the work they had already accomplished. His country welcomed the International Coffee Agreement, 1962, and hoped that similar agreements would be reached in respect of other commodities.

6. While supporting the draft resolution and appreciating the need for compensatory financing even if only on a short-term basis, his delegation felt that the problem went much deeper and that every effort should be made to formulate a policy which would ensure the long-term stabilization of prices. He therefore associated himself with the observations made by the representative of Mali (863rd meeting) concerning the French amendment (A/C.2/L.704). He was glad that the sponsors had taken that amendment into account in the revised draft resolution, which he hoped would be approved unanimously.

7. Mr. JAYAKODDY (Ceylon) said that although the subject of the draft resolution, which was of particular concern to the under-developed countries, had been exhaustively discussed and remedial measures of limited scope had been taken, an over-all solution of the fundamental difficulty was still to be found. Recognition of the need for a thorough analysis of the problem had led to the establishment of the Commission on International Commodity Trade and the Technical Working Group. The draft resolution under study was a logical further step. Operative paragraph 3 in particular reflected the urgency which his delegation attached to the matter. He would therefore vote in favour of the draft resolution.

8. Mr. FINGER (United States of America) expressed full agreement with the representatives of New Zealand and Senegal that compensatory financing was a palliative; nevertheless, it could have significant short-term effects. The New Zealand representative was also right in observing that much preparatory work had already been done; the sponsors of the draft resolution hoped that a decision on the matter would be taken by the Economic and Social Council in 1963. They were aware of the magnitude of the underlying problem, and the purpose of the draft was simply to focus on one facet which would be ripe for decision in the near future. They had also taken into account in their text the point made by New Zealand about countries which, although depending on a narrow range of exports of primary commodities, were not "under-developed" countries.

9. With regard to the oral amendment suggested by New Zealand, he recalled that that idea had actually been set forth in the original draft but had to some extent been lost sight of in the text of paragraph 3 as revised in accordance with the suggestions of a number of delegations. To meet the New Zealand representative's point, the words "and report on any action taken" could be inserted after the words "with its comments".

10. The CHAIRMAN announced that, as all the sponsors were in agreement, the insertion proposed by the United States representative would be considered part of the draft resolution. Bolivia wished to be added to the list of sponsors.

11. Mr. EL BANNA (United Arab Republic) asked if the words "the long-term stabilization of commodity prices" in operative paragraph 4 were to be understood as referring to stabilization in relation to the prices of manufactured goods, in other words, to the terms of trade. That, and not the stabilization of com-

modity prices *per se*, was the matter which was of concern to the Committee. He would also like to know whether he was correct in assuming that the study of the long-term trend would include the problem of trade discrimination.

12. Mr. RENAUD (France), replying to the first question put by the representative of the United Arab Republic, noted that operative paragraph 4 in its present form was the result of an amendment proposed by France and recalled the statement which he himself had made at the 863rd meeting. The words "long-term stabilization of commodity prices" were intended to indicate that the problem of commodity prices was not one which could be solved on a short-term basis but was rather one which would require the study of a number of possible long-term measures. He had also had in mind the problems faced by developing countries in that connexion and the need to enable them to purchase needed capital goods. Thus paragraph 4 in its revised form met the point raised by the United Arab Republic, whereas the original draft had not made provision for it.

13. Mr. ARKADYEV (Union of Soviet Socialist Republics) said that his delegation could not vote in favour of the draft resolution because the studies to which it referred touched only the surface of the problem and could not remove the underlying difficulty. As many countries seemed desirous of pursuing those studies, however, his delegation would not vote against the draft resolution but would abstain.

14. Mr. BERNARDO (Argentina) said that the draft resolution was a credit to the initiative of the sponsors in presenting aspects of the difficulties with which the developing countries were beset. In his view, the question clearly transcended the limits of the resolution. The point made by the representative of the United Arab Republic was of fundamental importance and, if the draft resolution was to receive unanimous approval, the meaning of operative paragraph 4 would have to be clarified by defining the nature of the long-term problems involved.

15. From the French representative's reply to the representative of the United Arab Republic, he believed that the sponsors might have had the Baumgartner plan—submitted to GATT—or some similar scheme in mind. But those were not the only, nor indeed the best, measures that could be taken. In the view of his delegation, the problem involved three different aspects. First, there was the decrease in export prices and earnings, which the exporting countries attempted to solve by increasing production of the goods exported. That resulted in further decreases. Secondly, there was the long-term erosion of prices, which the Baumgartner plan attempted to solve by applying formulae which had not yet been properly defined. Last and most important, there was the relationship of commodity prices to prices of manufactured goods, in other words, the terms of trade. In that connexion, a mere stabilization plan would be of little avail, for it would only lead to a stalemate instead of raising the real incomes of the primary exporting countries.

16. It should not be forgotten also that certain long-range solutions necessitated compensatory financial measures in order to offset the losses suffered by exporters as a result of the policies pursued by the industrial countries. There were other problems too for which solutions would have to be found.

17. Mr. EL BANNA (United Arab Republic) endorsed the views of the Argentine representative. He himself had been convinced that the draft resolution was intended to refer to terms of trade, but the explanation given by the French representative had not satisfied him, and he felt that that important point should be fully clarified. It was inappropriate to speak of the long-term stabilization of prices. The problem was one of relativity and had both a cyclical and a long-run aspect. Solving the first would help to solve the second, but the two were distinct.

18. Mr. FINGER (United States of America) said that the draft resolution was not intended to solve all the trade problems of the developing countries, but only to stimulate action on certain specific points. His country had taken no stand either for or against the Baumgartner plan.

19. He wished to suggest a revision of paragraph 4 of the draft resolution, which he had prepared in consultation with the French representative and which he hoped would satisfy the representatives of Argentina and the United Arab Republic: The words "tending to assure the long-term stabilization of commodity prices" should be changed to read "tending to assure solutions to the long-term problems of primary producing countries, including measures aimed at the long-term stabilization of commodity prices". That wording embraced many complex problems but avoided encyclopaedic definitions.

20. Mr. EL BANNA (United Arab Republic) thanked the United States representative for his suggestion, which would however be more acceptable if the word "relative" was inserted before the words "commodity prices". The usefulness of the United Nations Conference on Trade and Development would be enhanced by good preparatory work. If that work could be completed in 1963, the Conference, at which compensatory financing could be studied, could then be convened.

21. Mr. FINGER (United States of America) urged the representative of the United Arab Republic not to insist on the term "relative", the use of which had caused two important trading nations to abstain from participating in the Commission on International Commodity Trade for several years. The word "stabilization" did not mean that prices were to be frozen; the long-term trend might indeed be towards rising prices and expanding markets. The question of prices paid for manufactured goods, which was the other aspect of the equation, was dealt with in another draft resolution (A/C.2/L.663/Rev.1).

22. Mr. BOLT (New Zealand) said that the wording "at remunerative levels" had been successfully used in the past as a compromise formula, and suggested that it should be adopted. His delegation shared the concern of the United Arab Republic in that connexion.

23. Mr. EL BANNA (United Arab Republic) said that he would accept any wording that conveyed the relative character of the terms of trade.

24. Mr. BERNARDO (Argentina) said that the wording proposed by the New Zealand representative was acceptable to his delegation. If the representative of the United Arab Republic could see his way to accepting it also, the draft resolution might be adopted in the light of the clarifying statements that had been made.

25. Mr. UNWIN (United Kingdom) said that the text as it stood was reasonable and acceptable. However, the new ideas, the introduction of which was being

sought, might cause some delegations to change their attitude; he proposed to suspend discussion of the question for twenty-four hours.

26. Mr. FINGER (United States of America) said, with respect to the New Zealand proposal, that other delegations might not be prepared to accept it. He thought the new wording was broad enough to satisfy the United Arab Republic and Argentina.

27. Mr. SOUSSAN (Morocco) appealed to the sponsors to keep in mind the aims of the draft resolution. He hoped that the suggestion of the New Zealand representative, although not equivalent to the inclusion of the word "relative", would be adopted.

28. Mr. BUTTI (Iraq) suggested that the word "commodity" should be added between the words "primary" and "producing" in operative paragraph 4 which the United States representative proposed to modify.

29. Mr. FINGER (United States of America) accepted the suggestion. He advised the Moroccan representative that, after consultations, the sponsors had found that the New Zealand amendment would create difficulties. However, the Commission on International Commodity Trade would take all aspects into account in studying ways and means of solving the problems of the primary producing countries.

30. Mr. EL BANNA (United Arab Republic) said that he would support the New Zealand proposal if it were agreeable to the other representatives, especially Argentina. As regards the United States oral amendment to operative paragraph 4, he suggested that the reference should be to "long-term trade problems" instead of simply "long-term problems".

31. The CHAIRMAN pointed out that the time-limit for introducing amendments had been reached.

32. Mr. BOLT (New Zealand) suggested that the Committee might go on to the next item, so that representatives could have time to work out drafting changes.

33. Mr. GOLSALA (Chad) expressed a preference for the original text; if the United Arab Republic wished to introduce amendments at that stage, the sponsors should first be consulted.

34. Mr. BERNARDO (Argentina), after thanking the representative of the United Arab Republic for his support, said that in the light of the United States representative's clarification that the wording adopted was to be given a broad interpretation, his delegation supported the draft resolution.

35. Mr. STEPHENS (Jamaica) suggested that, since the purpose of the study mentioned in operative paragraph 4 was to assist in offsetting fluctuations in commodity prices, wording to that effect might be used.

36. Mr. FINGER (United States of America) observed that, since the representatives of Argentina and the United Arab Republic had already agreed to accept the text he had proposed with the addition of the word "trade", that text should meet all the objections raised.

37. Mr. DELGADO (Senegal), supported by Mr. SOUSSAN (Morocco) and Mr. GOLSALA (Chad), suggested that the word "including" should be replaced by the word "especially".

38. Mr. FINGER (United States of America) said that he was ready to accept that suggestion on behalf of the sponsors.

39. Mr. EL BANNA (United Arab Republic) said that his delegation was satisfied with the word "including", since the first part of the amendment was the most important. However, he had no objection to substituting the word "especially".

40. Mr. FERNANDINI (Peru) remarked that paragraph 4, which at first sight seemed quite straightforward, now appeared to present a number of problems. He therefore suggested that further discussion of the item should be postponed until a written text of the amendment could be prepared for consideration.

41. Mr. VELAQUEZ (Panama) supported that suggestion.

42. Mr. FARHADI (Afghanistan) felt that it would be a pity to postpone a decision on the draft resolution as the discussion was so far advanced and especially as only three lines of amended text were involved.

43. Mr. ALMEIDA (Brazil) pointed out that the matter referred to in operative paragraph 4 would be discussed both by the Preparatory Committee of the United Nations Conference on Trade and Development and by the Conference itself. He therefore feared that the Second Committee might be attributing too much importance to what was basically a minor drafting amendment to paragraph 4, and he saw no reason for postponing the vote.

44. Mr. VELAQUEZ (Panama) said that he would not press for postponement.

45. Mr. MALINOWSKI (Secretary of the Committee) said that the first part of paragraph 4, as amended, would now read as follows:

"Urges also the Commission on International Commodity Trade and the Economic and Social Council to accelerate the study of means tending to assure solutions to the long-term trade problems of primary commodity producing countries, especially measures aimed at the long-term stabilization of prices, with the view to ..."

46. The CHAIRMAN asked the Committee to vote on the draft resolution (A/C.2/L.665/Rev.2), as amended.

The draft resolution, as amended, was adopted by 66 votes to none, with 12 abstentions.

47. Mr. NAHAPPAN (Federation of Malaya) said that his delegation had voted in favour of the draft resolution, despite certain misgivings about the efficacy of the proposed scheme for compensatory financing. Malaya did not wish to stand in the way of countries which favoured such a scheme or to prejudge the outcome of the proposed studies; however, being highly dependent on the export of a few primary commodities that were subject to price fluctuations, it could not overstress its concern for any effective international measures aimed at price stabilization. As regards the effects of compensatory financing, it might be feared that, unless such a scheme was effectively operated for the purpose in view, it might be used for current deficit accounts. If the funds found their way into non-profit areas, the purpose of the financing would be defeated and difficulties would result for the country concerned, since a repayable loan was involved. However, notwithstanding those defects, Malaya had supported the draft resolution in the hope that the proposed study would contribute towards the sustained economic growth of the developing countries.

Miss Sellers (Canada), Rapporteur, took the Chair.

48. Mr. SOUSSAN (Morocco) explained that his delegation had voted for the draft resolution in the hope that the measures proposed would prove more effective than earlier attempts to solve the problem of price fluctuations. There was no need to emphasize the importance of the matter, since the effects of fluctuations in the prices of primary commodities were very serious for the less developed countries. Indeed, the very well-being of the majority of the world's people depended on the stabilization of relative prices and it was therefore essential that studies should be undertaken on the subject. The impact of such studies might well be far-reaching and it was to be hoped that the draft resolution just adopted would be regarded not as an end in itself but as the beginning of a series of measures designed, on the one hand, to close the gap between the relative prices of primary commodities and manufactured imports and, on the other, to improve the terms of trade of countries that were dependent on the export of a small number of primary commodities. He also hoped that the draft resolution would prove a significant contribution to the preparatory work for the United Nations Conference on Trade and Development.

49. Mr. BUTTI (Iraq) said that his delegation had voted in favour of the draft resolution after having heard the explanations and comments of the delegations of Argentina, New Zealand, the United Arab Republic and Brazil, as well as the replies of the United States delegation.

50. Mr. MALHOTRA (Nepal) said that the importance of the subject for the primary-producing countries needed no emphasis. The draft resolution just adopted had acquired added significance now that the United Nations Conference on Trade and Development was to be held in 1963. The problem had two basic aspects. On the one hand, there was the falling demand on world markets and the corresponding drop in prices and, on the other hand, the rising prices of manufactured goods, which resulted in unfavourable terms of trade. The proposed study should therefore be of considerable help to the Preparatory Committee of the Conference.

51. His delegation had welcomed the amendments to operative paragraph 4 of the draft resolution, but agreed with the representative of Brazil that the main purpose of the paragraph was to accelerate the proposed study and had voted for the resolution as a whole.

AGENDA ITEMS 12 AND 35

Report of the Economic and Social Council (chapters I to III, V and VI) (A/5203, A/C.2/L.663/Rev.2) (continued)

Economic development of under-developed countries (A/5220, A/C.2/L.663/Rev.2) (continued)

CONSIDERATION OF THE DRAFT RESOLUTION CONCERNING INFLATION AND ECONOMIC DEVELOPMENT (A/C.2/L.663/REV.2) (concluded)*

52. Mr. ALMEIDA (Brazil), introducing the second revised version of the draft resolution (A/C.2/L.663/Rev.2), explained that the amendments suggested by Chile, Ecuador, Italy and India, all of which had been added to the list of sponsors, had been incorporated. It was also felt that, for the most part, the substance

*Resumed from the 863rd meeting.

of the amendments submitted by Israel, the United Arab Republic and the United Kingdom had been included in the new text. The sponsors, although in sympathy with the spirit of the second and third amendments of the United Arab Republic (A/C.2/L.706), had been unable to fit them into the revised text as they were in substance reflected in the preamble and in operative paragraph 2.

53. In the second preambular paragraph, the words *inter alia* had been shifted to the end of the introductory phrase to make it clear that the list which followed was not exhaustive. The reasons for the addition of the words "and real savings" in subparagraph (iv) and the deletion of the word "indefinitely" in the third preambular paragraph required no explanation. The first part of the new fourth preambular paragraph incorporated the suggestion of the United Arab Republic. The rather awkward original wording of the sixth preambular paragraph had been revised and shortened. In operative paragraph 1, the sponsors had taken into account the misgivings expressed by the United Arab Republic and other delegations by deleting the words "of inflationary pressures in the developing countries" after the words "to prepare a study" and rewording the remainder of the paragraph. Also, the inclusion of the words "the studies by" in the first part of that paragraph took into account one of the amendments submitted by Italy (A/C.2/L.707). The Italian amendment proposing that in paragraph 2, the words "the final study" and "as soon as possible" should be replaced by "a progress report" and "not later than at its thirty-eighth session", respectively, had been accepted and it was accordingly the understanding of the sponsors that, when that time came, the Council would take a decision concerning the studies and the target date for their completion.

Mr. Allana (Pakistan), Vice-Chairman, resumed the Chair.

54. Mr. TARDOS (Hungary) confirmed that, following the acceptance by the sponsors of the suggestions made by his delegation, the Hungarian amendments (A/C.2/L.688) had now been withdrawn.

55. Mr. FRANZI (Italy) declared that, for the same reasons, his delegation's amendments (A/C.2/L.707) had been withdrawn.

56. Mrs. GINOR (Israel) observed that one of the most difficult problems of developing countries was that of the inflationary pressures which usually accompanied rapid development. There had been some argument among economists as to whether a rapid rate of growth was possible without inflation. The Brazilian representative, in introducing the original text of the draft resolution (861st meeting), had said that traditional theories of inflation were not strictly relevant to under-developed countries and did not provide sufficient explanation for the peculiarities of inflation experienced by countries with accelerated growth and low income levels. Her delegation agreed that there was a need for further studies on the process of inflation in developing countries, though it might well be found that what was required was simply further development of existing theories and their application to special cases.

57. Inflationary pressures in developing countries were mainly a result of their development requirements. As inflation developed when over-all demand exceeded supply, the attempt to increase investments above the supplies available for that purpose neces-

sarily led to price increases. That process of demand inflation often developed into cost inflation and set off a wage-price spiral, a process which was reflected in monetary expansion, since, as a result of a low income level, savings were inadequate to finance total investment demand and bank credit was greatly expanded. At the same time, a deficit in the government budget might aggravate inflation when subsidies to prevent price increases raised government expenditure and revenue could not be increased to the same extent.

58. She reviewed briefly the unfavourable effects of sizable and continuous inflation on developing economies and observed that an increase in capital inflow used for expanding imports could alleviate inflation by increasing available supplies. Internal measures to offset inflation, such as credit restrictions, were difficult to apply in countries intent on development.

59. Israel, having had long experience of inflationary pressures, was aware of their damaging impact and of the difficulties encountered in combating inflation. Her delegation had accordingly studied the draft resolution with great care and thanked the sponsors for accepting its suggestions, particularly those concerning the unfavourable effects of inflation on voluntary savings and on the balance of payments. Inflationary price rises tended to reduce incentives to save and thus to increase consumption at the expense of investments. The rise in domestic prices, moreover, increased the tendency to import, since it resulted in a decline in the relative price of imports. Exports, on the other hand, tended to decline, since pressing local demand made it more profitable to sell on the local market than to export. Furthermore, the mounting costs of production raised the prices of export goods and made them less competitive on world markets. The measures taken in such cases—subsidies for exports and restrictions on imports—aggravated inflationary pressures by adding to government expenditure and by favouring the local production of high-cost products. The unfavourable effect inflation had on exports had been strikingly indicated in the study on inflation and exports in primary producing countries, published by the International Monetary Fund in March 1962.^{1/} Naturally, an unfavourable change in the terms of trade, such as a decline in world prices of export products and a rise in the prices of import goods, might increase inflationary pressures in a developing economy.

60. Her delegation agreed that it would be most useful to study the peculiarities of inflation in developing countries and would therefore support the draft resolution.

61. Mr. ANJARIA (India) said that, although his delegation had originally been critical of a number of provisions in the draft resolution, it now found the text acceptable as a result of efforts made by the sponsors and other delegations. Accordingly, India had decided to join the sponsors of the second revised version. The purpose of the draft resolution was not to propose just one more study of inflation in general. There was already plentiful literature on that important subject. Nor did it contemplate a study of inflation in the under-developed countries as such. Instead, the purpose was to study a particular aspect of the problem that had not been sufficiently explored, namely, the differences

^{1/} See International Monetary Fund, *Staff Papers*, vol. IX, No. 1, p. 37.

in the course and manifestations of, and in the possible approaches to inflation.

62. Many studies on inflation were based on assumptions concerning human behaviour and institutional functions derived by economists from their knowledge of the highly industrialized countries. It could not be assumed at the present stage that a new theory was required to show that the laws of economics or the principles of analysis which applied to those countries did not similarly apply to the less developed countries. The draft resolution was based on no such hypothesis. Nor was it concerned with any particular results of the proposed study. It did, however, take account of the role of existing institutions, such as IMF, and placed responsibility for the study on the Secretary-General in co-operation with the relevant specialized bodies. His delegation was glad to see that the role of IMF was emphasized in the draft, since it was uniquely qualified to undertake such studies. As for the progress report requested in operative paragraph 2, what was required was not so much a voluminous document as a concise answer to the problem. Moreover, the study should not be limited to inflation in the less developed countries, since inflation had affected all countries to a greater or lesser extent. Instead, it should relate to the assumptions regarding human behaviour and the working of institutions on which the analysis of inflation had so far been built and the extent to which those basic assumptions or postulates would need to be changed when studying the peculiar features of inflation in developing economies.

Mr. Lewandowski (Poland) took the Chair.

63. Mr. SERAFIMOV (Bulgaria) said that the draft resolution was both timely and necessary for, although many developing countries had been suffering from the effects of inflation for years, the question had not previously been discussed in the General Assembly as an economic phenomenon. The draft resolution was in keeping with the spirit of United Nations activities in that field, including its technical assistance programmes and the current discussion on the establishment of a capital development fund. The problem was of particular interest to the developing countries, where inflation had certain characteristics not shared by inflation in highly developed countries. The second preambular paragraph drew attention to the harmful consequences of inflation on the development of the developing countries, and the third rightly noted that there was no inherent conflict between financial stability and economic development. That had been proved by the experience of the socialist countries, which had very high rates of economic development and, at the same time, enjoyed financial and economic stability. There was no reason why the same situation should not prevail in the developing countries. Inflation was, of course, a complex process influenced by a number of political, social and economic factors, one of the most important of which was the exploitation of the developing countries by foreign monopolies which exported their enormous profits. A striking example was that of Iraq in the years before the establishment of the present régime. In 1956, one fifth of Iraq's national income had been exported in the form of profits. It was Iraq, in fact, which had proposed the inclusion in General Assembly resolution 1710 (XVI) of a paragraph concerning the need to pursue policies designed to ensure to the developing countries an equitable share of earnings from the extraction and

marketing of their natural resources by foreign capital.

64. A second major factor contributing to inflation in the developing countries was the imbalance in their terms of trade, a problem which had been underlined in paragraph 1 of section II of General Assembly resolution 1421 (XIV). That problem had been the subject of the amendment proposed by his delegation, the acceptance of which had considerably improved the draft resolution. In his opinion, General Assembly resolutions 1421 (XIV) and 1710 (XVI) should both be mentioned in the draft resolution under discussion.

65. His delegation preferred the original wording of operative paragraph 1, which would have enabled the Secretary-General to assign the study of the problem to a group of experts. That would have ensured not only a qualified examination of the problem but also an opportunity for the submission of differing opinions, including those of experts from the socialist countries. He therefore supported the view originally expressed by the Brazilian representative in that connexion.

66. His delegation considered that the amendments proposed by the United Arab Republic (A/C.2/L.706) and by Italy (A/C.2/L.707) were not acceptable.

67. Mr. UNWIN (United Kingdom) said that his delegation fully agreed that more should be known about the problem of inflation. The developing countries in particular needed to know how the problem might arise in the course of development and to understand the relationship between their own circumstances and the situation prevailing in the industrialized countries. So far, there had been no general study of inflation in all its aspects, and there had certainly been none of its regional aspects. An up-to-date study based on existing data could therefore be extremely useful, and his delegation agreed with the views expressed by the representative of India on the subject. Although the original text of the draft had been somewhat lacking in concision, the changes incorporated in the second revised version had been very welcome. Since the draft resolution was acceptable in its present form, the United Kingdom delegation would vote in favour of it, even though it would have been willing to vote for the amendments submitted by the United Arab Republic.

68. The representative of Bulgaria had suggested that, in undertaking the proposed study, the Secretary-General should appoint a group of experts on a territorial basis. However, at the present stage, it was hardly appropriate for the Committee to indicate to the Secretary-General how he should proceed with the study. A number of experienced economists were available in the Secretariat and in the various agencies. If, at a later stage, after the progress report had been submitted, it appeared desirable that such a group be appointed, the Secretary-General would no doubt inform the Assembly.

69. Lastly, it would be of some interest, before voting on the draft resolution, to know what the financial and staff implications would be.

70. Mr. AMADOR (Mexico) thanked the sponsors of the draft resolution for having accepted the informal suggestions put forward by his delegation. His delegation was somewhat uncertain, however, as to what was meant by the phrase "a study clarifying the inter-relationships involved" in operative paragraph 1. He wondered if he was correct in interpreting that phrase

to mean a study that would clarify the interrelationships of the factors involved in inflationary processes.

71. Mr. CARANICAS (Greece) noted that the representative of Israel had spoken of the effects of inflation on exports. That point might well have been mentioned in the second preambular paragraph which, as the representative of Brazil had explained, was intended to be illustrative. The matter was very important, especially for the less developed countries, since by raising domestic demand and prices, inflation tended to hamper the expansion of exports and retard their diversification. As a result of competition, goods became diverted from the export to the domestic market and, as inflation progressed, the economy became structurally directed towards meeting domestic demand. Speculative investment in building and the development of high-cost industries were familiar phenomena in countries with protracted inflation.

72. He feared that it was an under-statement to use the word "may" in the second preambular paragraph and hoped that it would be omitted. He also had some doubts concerning the wording of the third preambular paragraph, which might be construed to mean that there could be no adequate growth without creeping inflation. As for operative paragraph 1, his delegation was glad to see reference made to the International Monetary Fund, which was the agency best qualified to undertake the appropriate studies.

73. As for the amendments submitted by the United Arab Republic, his delegation was very much in favour of adding a new operative paragraph urging that the developing countries should maintain financial and monetary stability. However, with regard to the amendment to the first preambular paragraph, he doubted whether it was timely to speak of inflation in the industrialized countries and thought that it would be better to concentrate on the problems of the less developed countries.

74. In conclusion, he said that the Greek delegation would vote in favour of the draft resolution.

75. Mr. ARKADYEV (Union of Soviet Socialist Republics) said that the question of inflation in the less developed countries, raised by the Brazilian representative, was one of vital importance because of the serious and complex economic and industrial problems that it brought in its train. He was in agreement with many of the provisions of the draft resolution; in particular he shared the opinion of the sponsors that inflation impeded economic development and created an inequitable social situation by transferring income from low-income to high-income groups. Thus it operated to the detriment of the labouring masses. The detrimental effects of inflation were particularly evident in Latin America. They were especially serious for the less developed countries because whereas their earnings from exports tended to decrease, they had to pay rising prices for imported goods and equipment, with the result that their industrial development was retarded, resulting in scarcities and mounting inflationary pressure, to which factors such as the search for additional investment funds and military expenditure also contributed.

76. He did not propose to dwell on all the various factors involved, which had already been ably analysed by the representatives of Brazil and Bulgaria. Nor was it for the Committee, at that stage, to devote exhaustive consideration to the problem; the draft resolution before it made provision for the necessary

study. However, he wished to emphasize again that the evils of inflation were fraught with far-reaching economic and social consequences. The United Nations had not devoted sufficient attention hitherto to consideration of the causes of that phenomenon and of possible remedies. His delegation would therefore vote in favour of the revised draft resolution, which represented a great improvement over the original.

77. Mr. HILL (Secretariat), replying to the United Kingdom representative, said that he did not foresee that the revised draft resolution would have any repercussions on the United Nations budget. When new studies were requested, it made a considerable difference if adequate measures and flexibility were allowed as regards the manner of their execution and the time-limits involved. As originally worded, the resolution would have given rise to some difficulties in both those respects. The crux of the problem was that the United Nations staff engaged in the study was exactly the same as that which had worked on the World Economic Survey, 1957,2/ which was concerned particularly with inflation, and which would have to prepare for the United Nations Conference on Trade and Development. But the revised text no longer implied any exhaustive treatment and set no time-limit for submission of studies.

78. The Secretary-General did not contemplate any recourse to outside experts beyond the bodies mentioned. The matter might however be reviewed at a later stage when the progress report had been submitted. Subject to that understanding, if the General Assembly wished the study to be undertaken, the Secretariat should be able to do so without additional staff or outlay.

79. Mr. EL BANNA (United Arab Republic) said that, in order to speed up the work of the Committee, his delegation had decided to withdraw its amendments (A/C.2/L.706), since the sponsors of the draft resolution had incorporated most of the salient features of those amendments in their revised text.

80. The wording of the preamble of the draft had now been clarified; the requirement that the studies should not involve any projects that might place a heavy burden on the Secretariat had been met by the stipulation in operative paragraph 1 that available data would be utilized to the fullest extent; also, a new preambular paragraph recognizing that inflation in industrialized countries might have serious repercussions on the developing countries had been included. The amendment concerning operative paragraph 1 had been covered by the inclusion of a reference to IMF and other agencies. No steps had been taken regarding the inclusion, as suggested, of a paragraph stressing the importance for the developing countries of pursuing a sound financial policy, but the Brazilian representative had explained that that aspect could be taken into account in the course of the study. The same consideration also applied to the second new operative paragraph proposed by his delegation, urging industrial countries to combat the tendency to inflationary increases in the prices of goods and equipment exported to developing countries, which might otherwise suffer thereby. As the Indian representative had said, that aspect was already implicit in the preamble. His delegation was therefore happy to support the draft resolution as it stood.

2/ United Nations publication, Sales No.: 58.II.C.1.

81. Mr. ALMEIDA (Brazil) recalled that the Mexican representative had suggested that "interrelationships" in operative paragraph 1 should be understood as meaning interrelationships of the factors involved. That was indeed the case, for the study would go into the whole mechanics of the inflationary process in an endeavour to gain an insight into it and explore ways and means of dealing with it effectively. He felt that that clarification should be sufficient and that no amendment to the text was necessary.

82. For the benefit of the representative of Greece, who had mentioned the need to refer in the second preambular paragraph, to the effects of inflation on exports, he pointed out that sub-paragraph (v) of that paragraph referred to the unfavourable effects of inflation on the balance of payments; that expression covered the questions of exports and imports. The same representative had queried the expression "acce-

lerated inflation" in the third preambular paragraph, because it seemed to suggest that growth was possible in conditions of creeping inflation, and had said that it should be stressed that growth was incompatible with inflation in any form. He wished to point out, however, that it would be going too far to assert that no growth was possible under conditions of mild inflation, for ample statistical evidence was available to the contrary.

83. The CHAIRMAN said that, if there was no objections, the words "those countries" at the end of operative paragraph 1 would be amended to read "the developing countries".

It was so agreed.

The draft resolution (A/C.2/L.663/Rev.2), as amended, was adopted unanimously.

The meeting rose at 11.55 p.m.