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SUB-COMMISSION ON ECONOMIC DEVELOPMENT
Third Session
SUMMARY RECORD OF THE SIXTY-FIFTH MEETING

Held at Lake Success, New York
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Financial Resources for Economic Development

PRESENT:

Chairman: Mr. V. K. R. V. RAO

Vice Chairman and Rapporteur:

Mr. BRAVO Jimenez

Members:

Mr. J. GUIMARAES

Mr. J. PATEK

Mr. A. P. MOROZOV

Mr. E. G. COLIADO

Representatives of Specialized Agencies:

Mr. E. LOPEZ-HERRARTE International Bank for Reconstruction
and Development

Mr. C. C. LIANG International Monetary Fund

Consultants from non governmental organizations:

Miss E. SANSOM International Chamber of Commerce

Secretariat:

Mr. DOREMAN Secretary of the Sub-Commission

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DRAFT OF THE FIRST PART OF THE REPORT ON MOBILIZATION OF FINANCIAL RESOURCES
FOR ECONOMIC DEVELOPMENT

On the suggestion of the Chairman, the Sub-Commission agreed to number the paragraphs of the report and accordingly decided that the fourth paragraph on page 2, beginning with the words "The Sub-Commission" would be considered paragraph 9.

The CHAIRMAN expressed the view that paragraph 9 should be deleted, since it added no essential information to the report.

Mr. BRAVO Jimenez / ^{said that} the idea that financing was only a part of the process of economic development was essential to the report. If that idea could be included somewhere, Mr. Bravo Jimenez / ^{would not} object to the deletion of paragraph 9.

After a further exchange of views, it was decided to delete the phrase beginning with the words "The Sub-Commission" and ending "through interaction" on page 2, and to word paragraph 9 as follows:

"9. In considering the financing of economic development, it must be emphasized that, being only one aspect of economic development, it had to be viewed as an integral part of this whole process."

It was further agreed to retain sub-paragraph 2 on page 2, except for the first sentence, as a continuation of the text which had been adopted.

Paragraph 10

Paragraph 10 was adopted.

Paragraph 11

In the final sentence of paragraph 11, it was decided to insert the word "appropriately" before "channel", and the word "financial" before "resources".

The Sub-Commission also agreed to incorporate Mr. Morozov's footnote to paragraph 11 as the opening sentence of that text.

Paragraph 11 would then begin as follows:

"The development of the national industry of economically underdeveloped countries and territories should be implemented primarily through the maximum use of their own resources. Thus, as stated in the Sub-Commission's first report..."

Paragraph 11 was adopted, as amended.

/Paragraph 12

Paragraph 12

At the suggestion of Mr. BRAVO Jimenez, /^{the second} and third sentences of paragraph 12 were transposed.

Paragraph 12 was adopted, as amended.

Paragraph 13

After various comments had been made, expressing dissatisfaction with the drafting of the second sentence of paragraph 13, it was pointed out that the question of fiscal policy was fully treated on page 10 of the report.

Paragraph 13 was deleted, with the reservation that in considering the section on fiscal policy, the members of the Sub-Commission might add any statements they considered necessary.

New Paragraph 13

The CHAIRMAN suggested that the last sentence of the new paragraph 13 should be deleted.

Mr. BRAVO Jimenez /^{did not} agree with that deletion and suggested that "a more rapid increase in the real income" should be substituted for "a larger increase in purchasing power".

Mr. MOROZOV said that the paragraph contained seemingly contradictory statements. If it was proposed to retain the paragraph, he asked for an explanation of "economic relationship of cost of production" and "self-generating and cumulative".

The CHAIRMAN explained that in drafting that sentence, Mr. Bravo Jimenez /^{had meant} the economic relationship between the cost of production of light and heavy industry.

Mr. COLIADO sympathized with Mr. Morozov's objections and suggested that "by expanding its productive capacity...process of economic development progresses." should be deleted.

The CHAIRMAN supported that suggestion.

/Mr. COLIADO

Mr. COLLADO suggested that in the third sentence the word "may" should be substituted for the word "will", since governmental action was not called for in all cases.

Mr. MOROZOV asked what was meant by "undue strain on the economic structure as a whole".

Mr. BRAVO Jimenez explained that the Government of an under-developed country might follow a complete policy of inflation in order to bring about rapid development, and that that would impose a strain on the economic structure of the country.

The CHAIRMAN pointed out that if, undue strain was to be avoided, everything depended on the correct direction and timing of capital outlay.

Mr. MOROZOV abstained on the whole paragraph.

Mr. COLLADO said that if, in the last sentence, real income meant real income available for consumption, the sentence was not technically correct economics. It would be possible, though not desirable from a social point of view, to accelerate economic development by keeping real income available for consumption constant, and applying all the increment to economic development.

The CHAIRMAN agreed and suggested that the last two sentences should be deleted.

Mr. MOROZOV observed that the paragraph might create the impression that a warning was being issued against too rapid industrialization.

Mr. COLLADO believed that the advantages of self-generating and cumulative finance were not adequately treated elsewhere in the draft report.

Mr. GUIMARAES suggested that in the first sentence after "national economy" the rest of the sentence should be deleted and "in such a way as not to impair the balance of the economy as a whole" should be substituted.

/The CHAIRMAN

The CHAIRMAN suggested that in that sentence "without upsetting its balance" should be placed after "national economy" and that the next sentence should end at "available resources".

Mr. COLLADO proposed that the first sentence should read "In connexion with the problem of increasing the domestic financial resources available for investment or re-investment, the Sub-Commission wishes to emphasize that such an accumulation calls for investment policies designed to expand in a balanced fashion the productive equipment of the country and to increase the rate of productivity of the national economy, promoting concurrently an appropriate cost relationship among different sectors of the economy."

Mr. BRAVO Jiménez accepted that draft.

The CHAIRMAN said that in sentence 2 the words "and avoid undue strain on the economic structure as a whole", the deletion of which he had previously proposed, might now be retained.

Mr. COLLADO, returning to the last sentence, thought that the social objectives implied in it outweighed the economic objections which might be made to it. He therefore preferred to leave the sentence as it stood.

Paragraph 13 was finally adopted in the following form:

"In connexion with the problem of increasing the domestic financial resources available for investment or re-investment, the Sub-Commission wishes to emphasize that such an accumulation calls for investment policies designed to expand in a balanced fashion the productive equipment of the country and to increase the rate of productivity of the national economy, promoting concurrently an appropriate cost relationship among different sectors of the economy. Such policies alone can make economic development self-generating and cumulative, although it is advisable they keep pace, as much as possible, with the available resources and avoid undue strain on the economic structure as a whole. To assure the proper

/direction and

direction and timing of capital outlays a large measure of government action may be called for.^{1/}

"Particular attention should be given to those activities that, according to the economic structure of the country and its stage of economic development, are conducive to a more rapid increase in the real income of the population, as a basic condition for further development."

Mr. PATEK did not approve of the paragraph and Mr. MOROZOV abstained on it.

Mr. COLIADO proposed that full consideration of the footnote should be reserved until the Sub-Commission had finished the paragraph in the draft report dealing with foreign investment.

The CHAIRMAN called for comments on the paragraph beginning: "The second problem..."

Following drafting proposals by Mr. GUIMARAES, Mr. COLIADO and the CHAIRMAN, it was decided that the first sentence should begin: "The problem of mobilizing domestic finance arises from the fact that savings in under-developed countries do not always take the forms...". The first words of the third sentence as far as the word "ownership" would be deleted and the words "for example" substituted, thus combining it with the second sentence. The words "of cattle" would be deleted.

/Mr. MOROZOV

^{1/} "While the Sub-Commission does not express any opinion on the merits or demerits of private or public and state enterprise, it feels that economic development on the scale required in the underdeveloped and least developed countries is not likely to be secured without a significant part being played by national governments. Modern technology requires capital and technical skills, which call for government aid in many cases and in some even for governmental enterprise. Moreover, underdeveloped countries are usually confronted with a scarcity of currently available resources for economic development, necessitating their strict husbanding and regulated use, which in turn involves special action by their governments." (Report, First Session) (E/CN.1/47, Page 14).

Mr. MOROZOV abstained.

The CHAIRMAN asked for observations on the paragraph beginning: "In its first report...".

Mr. MOROZOV proposed the deletion of that paragraph; he had explained his views on the substance at the first session of the Sub-Commission.

The CHAIRMAN observed that a later paragraph dealing with specialized studies (page 7, paragraph 2) covered virtually the same ground.

The paragraph was deleted.

The CHAIRMAN invited comments on the paragraph beginning: "It has been represented to the Sub-Commission...". He suggested the insertion of the word "historically" after the words "savers' preferences as have" in line 3. Under-developed countries, under the erroneous impression that to use historically-based preferences of savers was reactionary, had often attempted unsound novel methods; the recommendation had proved useful in previous instances.

Mr. MOROZOV thought it unnecessary to stress that idea. Moreover, he saw no great value in the whole paragraph and therefore proposed its deletion.

Mr. COLLADO and Mr. PATEK supported Mr. MOROZOV.

Mr. BRAVO Jiminez abstained.

Mr. GUIMARAES favoured retention of the paragraph, but with the deletion of the last phrase following the words "elicit savings".

That paragraph was deleted.

The CHAIRMAN asked for the Sub-Commission's views on the paragraph beginning: "no less important..." and the footnote appended.

/Mr. BRAVO Jiminez

Mr. BRAVO Jiminez thought that the paragraph should be moved to a position where it would receive more emphasis; it would serve as an appropriate introduction to the section on positive banking operations.

Mr. MOROZOV suggested that the footnote should be incorporated as the second sentence. It had been accepted by the Sub-Commission without objection. With regard to suggested drafting changes, it was essential that the sense of that footnote should not be weakened.

Following drafting suggestions by Mr. COLLADO, the CHAIRMAN proposed that the following sentence should be substituted for the first sentence of the original text: "The mobilization of domestic savings in under-developed countries depends to a considerable extent upon the development of agriculture." The footnote should be inserted at that point. To meet Mr. Morozov's wishes, the third sentence should read: "Governments must take the lead in ensuring the introduction of such measures." With the exception of the final sentence, the remainder of that paragraph should be deleted.

Following a suggestion by Mr. MOROZOV, the Chairman proposed that an additional sentence should be placed at the end of the paragraph endorsing the resolution submitted by the International Co-operative Alliance (E/C.2/183).

It was so decided.

Mr. COLLADO concurred in the acceptance of the resolution on the understanding that the Sub-Commission was supporting the excellent general purposes of the cooperative movement, especially in the fields of agriculture and agricultural credit, but not necessarily approving of all activities and proposals of the ICA and its constituent organizations, which the Sub-Commission had not the opportunity to study.

The CHAIRMAN called for comments on the paragraph beginning: "This field of improving savings...".

Mr. MOROZOV proposed the deletion of the last two sentences, from the words "the type of institutions...". They raised once more the vexed question of the relation between heavy and light industry. Moreover, the entire report could be simplified if a statement were placed at the beginning making it clear that the reference throughout was to under-developed countries.

Mr. Morozov's two proposals were adopted.

/Mr. LIANG

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Mr. LIANG (International Monetary Fund) assured the Sub-Commission that the International Monetary Fund was anxious to cooperate in making studies of the banking problems of under developed countries; an earnest of that interest had been the three papers which it had produced. He hoped, however, that the Fund would be given greater scope in executing such studies and that arrangements for its participation in technical missions would be expressed in more general terms than it had been in previous resolutions, in view of the Fund's other commitments. If Member Governments requested the United Nations or the specialized agencies, or both, to send technical missions on development, members of the Fund's staff could be particularly helpful in regard to the financial and banking problems involved.

Mr. LOPEZ-HERRARTE (International Bank for Reconstruction and Development) concurred. Although Mr. Bernstein had pointed out at a previous meeting that certain problems fell outside the scope of the Bank and the Fund, those institutions were most anxious to cooperate for the benefit of under developed countries.

The CHAIRMAN proposed that a sentence should be added to the effect that the Sub-Commission urged the Secretary-General, the Fund and the Bank to continue such studies and felt that members of the staff of those agencies could be particularly helpful in that connexion.

Mr. MOROZOV and Mr. PATEK said that they would abstain.

The Chairman's proposal was adopted, with 2 abstentions.

The CHAIRMAN called for observations on the paragraph beginning: "Thirdly, apart from the problem...".

Following a discussion, the Sub-Commission decided that the word "thirdly" in line 1 of that paragraph and the words "by a process similar to the plowing back of profits by private firms" in lines 11 and 12 should be deleted.

Mr. MOROZOV and Mr. PATEK abstained.

The meeting rose at 6.40p.m.