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**ECONOMIC AND EMPLOYMENT COMMISSION  
SUB-COMMISSION ON ECONOMIC DEVELOPMENT****Third Session****SUMMARY RECORD OF THE SIXTY-NINTH MEETING**

Held at Lake Success, New York,  
on Tuesday, 5 April 1949, at 2.30 p.m.

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Programme of Work

Chairman: Mr. RAO

Members: Mr. GUTHRIE

Mr. PATEK

Mr. BRAVO Jimenez

Mr. MOROZOV

Mr. COLLADO

Representatives of Specialized Agencies:

Mr. LOPEZ-HERRERA

International Bank for Reconstruction  
and Development

Mr. Van der VALK

International Monetary Fund

Consultants from Non-Governmental Organizations:

Secretariat:

Mr. DORFMAN

Secretary of the Sub-Commission

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DRAFT REPORT (discussion continued)

Paragraph 22

Mr. MOROZOV said that some of the ideas set forth in paragraph 22 were inconsistent with the previous views of the Sub-Commission as expressed in its Report. He found it difficult to express a final opinion without a Russian translation of the text in question, and reserved the right to introduce a proposal at a later stage.

The CHAIRMAN suggested that the Sub-Commission should adopt paragraph 22 provisionally, subject to Mr. Morozov's approval later, and hoped that there would be no further discussion on the subject.

Five members of the Sub-Commission agreed accordingly.

Paragraph 27

The Sub-Commission adopted paragraph 27 with a slight drafting change.

Paragraph 28

Mr. MOROZOV thought that the ideas expressed in paragraph 28 were inconsistent with various provisions laid down in the Sub-Commission's first report.

The CHAIRMAN replied that the paragraph dealt with one specific question only -- loans of short-period maturity and high rates of interest.

The Sub-Commission adopted paragraph 28 with slight drafting changes.

Item 4-B, Paragraph 1

Mr. MOROZOV wished to recall the attitude he had taken up on that question at the second session of the Sub-Commission. He had taken an active part in the discussion of the principle of technical assistance and had always emphasized that such assistance should be objective and should correspond to the interests of the countries receiving it. He had also indicated that the United Nations was not a financing organ -- yet the paragraph in question stressed the granting of funds for technical assistance. In view of those considerations he would abstain from the vote.

Mr. PATEK said he would abstain because he was not well acquainted with the question.

/Mr. COLIADO

Mr. COLIADO said he would also abstain because he had not attended the discussion on items 4A and 4B.

Mr. BRAVO Jimenez suggested the deletion of the last sentence.  
Paragraph 1 of the report on item 4B was adopted with the above amendment.

Item 4-B, Paragraph 2

Mr. MOROZOV thought that for the sake of objectivity the report should clearly state what information the Sub-Commission had requested from the Secretariat and indicate that the Secretariat had not been able to supply concrete data on that subject.

The CHAIRMAN agreed with Mr. Morozov's suggestion and proposed the addition of the following sentence, to be inserted after the first sentence of paragraph 2: "The Sub-Commission were informed that it had not been possible for the Secretariat to give an analysis of the results achieved by such assistance, as the information received by them from the specialized agencies did not provide the necessary material."

Paragraph 2 of the report on item 4-B was adopted with the above amendment.

SUGGESTIONS BY MR. RAO ON ITEM 3 OF THE AGENDA (E/CN.1/Sub.3/W.18)

Mr. GUIMARAES said that when Mr. Rao had first expressed his views on the need for an international agency he had disagreed with him because he felt that the International Bank for Reconstruction and Development should be given additional resources and that new possibilities for raising funds should be explored. He had even suggested a kind of mortgage loan, guaranteed by specific projects, as a means for increasing the interest of private investors in the bonds floated by the Bank.

The working paper before the Sub-Commission showed quite clearly, however, that the proposed agency would not be limited to the sole task of financing economic development, however important the task might be, and would perform the role of a co-ordinating body.

/He had

He had already emphasized the need for such a body at the first session of the Economic and Employment Commission. In his opinion the function of co-ordination was as important as that of obtaining international resources for economic development. Consideration had to be given not only to measures of technical assistance, such as surveys, statistical analyses, economic considerations, but also to the financial measures which could be taken jointly with the International Bank, the Monetary Fund and other agencies.

Another very important point emphasized by Mr. Rao was that many schemes of economic development could not be financed out of domestic resources or foreign finance granted on strict business principles.

The first session of the Sub-Commission had discussed the need of long-term capital and in that connexion he had submitted a memorandum stating that: "Industrialization plans must take into consideration which industries are to afford the maximum productivity, since the loans are to be repayable, for the most part through the channel of international trade. Industrialization must consequently foster the export industries, directly or indirectly. However, the public utilities, railways, hydraulic power, irrigation, etc. are the most urgent need of the economically backward areas. In the long range, it seems to me that these are the most productive forms of investment. The great difficulty to be surmounted in this kind of investment grows out of the fact that public utilities have a high degree of 'capital intensity' and the present situation of many foreign-owned public utilities in the less-developed countries is extremely bad."

In his view no one could raise any objection to the principle of co-ordination suggested by Mr. Rao. The Sub-Commission should examine the working paper most carefully and send it to the Economic and Employment Commission with its general support as an annex to the Sub-Commission's report.

Mr. PATEK said the Sub-Commission was well aware of all the disadvantages of foreign investments. Mr. Rao thought that they could be overcome by a new United Nations agency. He had certain misgivings on that point in view of the past experience with another international

/agency,

agency, to wit the International Bank, which had not been quite objective in its decisions. Furthermore, the proposed agency would have to negotiate with the administering authorities of any non-self-governing territory needing assistance for technical development and there was a danger that Metropolitan countries would profit by the help given to the under-developed countries under their control. Loans of hard currencies for instance might be absorbed by the Metropolitan countries without much regard for the needs of the territories they administered.

Mr. COLIADO emphasized his appreciation of Mr. Rao's sincerity and idealism. He felt however that other means of financing economic development, such as private investments, might be adequate and that there was no need for a new international agency in that field. Furthermore he was convinced that the International Bank could do much more in that field in the future.

Mr. MOROZOV said the proposals deserved very careful consideration. However, he was not clear on the following three points: 1) the source of the funds which would be required by the new agency; 2) the countries which would receive assistance; and 3) the conditions on which that assistance would be granted. Consequently, he would abstain from taking any decision on that proposal.

Mr. BRAVO-Jimenez summarized his attitude on the subject as follows: In his view, 1) the International Bank could meet the requirements of economic development in underdeveloped countries; 2) its policies so far had not been adequate to meet such requirements; and 3) the possibility of establishing a new organization to deal with aspects of economic development which were not covered by the Bank was interesting, but its implications and methods should be carefully examined by the Sub-Commission.

He felt that the task of implementing economic development plans in underdeveloped countries should not be entrusted to a central organization. Economic conditions changed from one country to another and it was necessary to bear in mind such factors as geography, history, traditions, etc. The problems involved therefore had to be considered on a regional rather than a world-wide basis and the best solution would be provided by setting up regional banks for economic development.

/The CHAIRMAN

The CHAIRMAN asked whether the representative of the International Bank wished to express any views on his proposal for a new international organization to provide finance for the development of underdeveloped countries.

Mr. LOPEZ-HERRARTE (International Bank) dissented from the disagreement that had been expressed in the Sub-Commission with the statement by the President of the Bank, on the presentation of its Third Annual Report, that the Bank had enough funds in hand to finance reasonable development projects. He also pointed out that the Bank did not lend money for a particular project because of the returns it hoped to get from it; it took into account the extent to which any project would benefit a particular country and favour its economic development as a whole. He noted that the Bank had sufficient funds to send out technical missions to examine such projects before deciding to finance them, and said it was trying to ensure that the experts sent were familiar with the area in which the project was planned and could give a considered estimate of its merits.

He said that co-ordination of the different organs of the United Nations was essential to economic development as a whole. That co-ordination was being carried out in accordance with resolutions of the Economic and Social Council and it was to the interest of the specialized agencies to co-operate with each other. The Bank itself was in constant touch with the International Monetary Fund, the International Labour Organization and the Food and Agriculture Organization. More than 80% of the Bank's staff was at present concerned with problems of economic development.

While recognizing that there was much merit in the Chairman's suggestion, he felt that existing organizations were adequate to carry out the work and pointed out that economic development was a slow process which could not be rushed.

The CHAIRMAN said that one of the reasons he had given in support of his suggestion was that the Bank's funds were inadequate for financing the projects for economic development which underdeveloped countries might reasonably wish to undertake. There could obviously be different views on the subject but he was impressed by the fact that the non-dollar funds of the Bank were not available for lending purposes in the same way as its dollar funds. The amount now at the disposal

/of the Bank

of the Bank from its own capital funds was from about six hundred million to six hundred and fifty million dollars. Part of that would be spent in Europe so that, for some time, probably not more than from four hundred million to four hundred and fifty million dollars, plus an undetermined amount which the Bank might be able to raise from private investors in the United States, would be available for development purposes. Although economic development was a slow process, spread over a long period, he did not think that that amount would be sufficient to finance it adequately.

He pointed out that if there had been no E.R.P. or E.C.A., the Bank would never have considered it an economical proposition to spend seventeen billion dollars in Western Europe. The fact that concrete programmes for the expenditure of such a large amount were forthcoming when the money was available went to prove that the amount of money which could be usefully spent on economic development by the underdeveloped countries would be much larger than the amount that the Bank could raise. He thought it time the Bank recognized its limitations, and said it should not stand in the way of new projects because of prestige considerations. The most important question was not the adequacy or inadequacy of funds, but their nature and the nature of the rules which the Bank would have to follow in spending them.

That led him to a second consideration which was that, apart from the 20% guarantee fund, the Bank raised its funds from loans on the money market, on which it had to pay interest. That meant that the Bank incurred certain obligations, which it must fulfil if it did not wish to raise suspicion among investors. It was therefore difficult for the Bank to spend money on social enterprises, such as the eradication of malaria or certain projects in the fields of health and education. The economic development of underdeveloped countries would, however, eventually depend on the undertaking of those projects, although they were not the type of project for which it was easy for a government to raise even a domestic loan, and the Bank could not be expected to go farther than governments in that respect, since it must not lose the confidence of the private investors. It was for that reason that he had felt there was a need for some organization which might finance such projects, and that was why he had specified that it would not raise its money from private investors. He was suggesting a complement to the

/Bank,

Bank, not a rival or a substitute. He urged the members of the Sub-Commission to regard the suggestion from that point of view and approve of the broad principle that there was a need for such an international body to assume the strain which at present fell on individual governments.

Answering objections raised by members of the Sub-Commission, the Chairman said that Mr. Bravo-Jimenez's objection that such an organization would be too big and that regional banks would be preferable was not incompatible with the broad principle of the organization.

Mr. Patek had asked whether the new organization would be objective. The Chairman pointed out that in the Bank and the Fund, voting power depended on the quota subscribed by each government. The new organization would follow the principle, common to most of the United Nations bodies, of each nation being entitled to one vote, which would make it as objective as a majority decision could be. Mr. Patek had also raised the question of non-self-governing territories. The Chairman felt that the organization he had in mind would be of particular assistance to them since the presence of non-Colonial powers in the organization would make it more likely that the interests of non-self-governing territories would be given due attention. Mr. Morozov had not been clear as to the source of the funds of the new organization. The Chairman said that they would come from members' contributions, following the system of the United Nations, UNRRA and similar bodies. The countries which were to receive assistance would be decided by the organization. Help would be given under the conditions laid down in Paragraph 27 of the Sub-Commission's Draft Report. He thanked Mr. Cuimaraes for his support of the suggestion.

He recognized the Sub-Commission's difficulty in accepting his proposal because of the complex nature of the problem, but he urged them to approve the general principle and insert a reference to it in the Report, as well as a note that there was room for international action in the co-ordination of technical assistance.

Mr. COLIADO saw no reason why it should not be possible to incorporate the Chairman's document on the proposed new international body for financing economic development as an annex to the Sub-Commission's draft report, while emphasizing that it would have to be viewed in the context of an approach along the lines laid down in his own alternative draft which he had proposed since the morning meeting.

/Referring

Referring to the difficult problem of raising funds, he pointed out that one of the advantages of the formula incorporated in the Articles of Agreement of the International Bank was that it made it possible to increase the amount of funds available for financing development without imposing a direct burden on the member countries.

He still felt that loans for programmes of the type mentioned by the Chairman would be consistent with the Bank's lending ability within the effective limitations of amount and time if sound and well-planned development was to result. He also pointed out that, on occasion, private enterprise found it desirable to spend large sums on health and educational projects.

Mr. GUIMARAES thought that to explain the Chairman's idea the latter's whole document should be inserted as an annex to the draft report.

Mr. BRAVO-Jimenez thought the document might be included without committing the Sub-Commission to its details.

Mr. PATEK abstained on the suggestion.

Mr. MOROZOV had already indicated that the main point was not the form of the organization, but the conditions under which it had to work. Even an international form did not ensure the application of the principles of the United Nations, and the questions he had raised were therefore still valid. He abstained on the suggestion.

Paragraph 29

Mr. COLLADO, returning to the drafting of the Sub-Commission's draft report, said the new suggestions he had produced were intended to be a preliminary version of the framework of the whole remaining part of the draft report. He had tried to recognize the fact that there were several different points of view in the Sub-Commission. He wished to emphasize <sup>that</sup> the second sentence in his proposed paragraph 29 set the approach to the remainder of the report. In his opinion the whole discussion centred on two issues: (a) the adequacy of the several forms of foreign financing and (b) their suitability to the needs, institutions, desires and aims of the underdeveloped countries. He had suggested the statement that the Commission had discussed those two main issues. He moved the introduction of paragraph 29 and 30 of his draft before paragraph 29 of the original draft.

/ The Chairman

The CHAIRMAN suggested that paragraph 29 in the original draft should be deleted, and that paragraphs 29 and 30 in his draft should be inserted in its place, as a basis for discussion.

Mr. GUIMARAES supported Mr. Collado's proposal.

Mr. BRAVO-Jimenez, Mr. PATEK and Mr. MOROZOV supported the Chairman's proposal.

The Chairman's proposal was adopted.

Mr. COLLADO emphasized that the Sub-Commission was discussing the principle of the organization of the report. He felt that in practice the decision just taken meant that an attempt would be made to produce a single draft purporting to give the opinion of all the members. He did not believe that possible. He would therefore abstain from the remainder of the report and would add a statement of his own views to it.

Mr. GUIMARAES stated that while he did not object to any part of paragraph 29 of the Chairman's draft he would have preferred Mr. Collado's formulation of paragraphs 29 and 30.

Mr. MOROZOV said that, while he could accept the Chairman's draft as a basis for discussion, he reserved the right to suggest changes in the wording in the final consideration of the text.

Mr. PATEK also reserved the right to suggest changes in the final draft.

Mr. MOROZOV expressed the view that it would be preferable to defer further consideration of the remainder of the report until the Russian translation was available. He could then discuss concrete suggestions for changes in the wording of each paragraph. Thus, the final stage of the Sub-Commission's work would be considerably shortened and actually in the last analysis time would be saved.

Mr. DORFMAN (Secretary of the Sub-Commission) stated that the Secretariat, by special arrangement, would have the Russian translation available that very evening. Mr. Morozov could therefore study it and it still would be possible for the Sub-Commission to discuss the remainder of the report the following day.

/ The Sub-Commission

The Sub-Commission agreed to defer further consideration of the report until its subsequent meeting.

ARRANGEMENTS FOR THE FOURTH SESSION OF THE SUB-COMMISSION

Date and place

Mr. DORFMAN (Secretary of the Sub-Commission) stated that in view of the heavy schedule of meetings for March--April 1950 at Lake Success, the Secretariat of the Economic and Social Council would like the Sub-Commission to hold its fourth session in January. He explained that there was a tight budget under which the Sub-Commission had to function and that the session could be held outside of Headquarters on condition that any expenses in excess of the budgetary allocation for the session would be defrayed by the inviting government and that it would not interfere with other activities. If the Sub-Commission decided to meet at Lake Success, its session would probably have to be held in January, although he would make an effort to have the date moved to meet the wishes of the Sub-Commission.

The CHAIRMAN and Mr. MOROZOV recalled the experience of the third session of the Sub-Commission and stated that, in order to afford members of the Sub-Commission adequate time to study the documentation prepared by the Secretariat, all documents must be posted no later than eight weeks before the opening of the session.

Mr. DORFMAN (Secretary of the Sub-Commission) pointed out that the Secretariat was willing to comply with the Sub-Commission's request, but that, if the fourth session were held in January and if all documentation had to be posted eight weeks in advance, the Secretariat's time would be greatly shortened and the completeness of its documentation would necessarily suffer.

The Sub-Commission was in favour of holding its fourth session outside of Lake Success and a majority of the members expressed preference for the meeting to take place in April 1950.

Programme of work

The CHAIRMAN stated that in the light of past experience the Sub-Commission could not satisfactorily discuss more than one subject at one session. While the scope of the topic to be undertaken should not be too vast, the Sub-Commission should not limit itself to a mere

/historical review

historical review. The Sub-Commission's study and discussion should be completed by constructive recommendations made on the basis of its findings.

Mr. GUIMARAES suggested that the fourth session of the Sub-Commission might consider the co-operative approach to the problem of economic development in underdeveloped countries, including agricultural and industrial production, marketing, credit, foreign trade and consumption.

Mr. BRAVO-Jimenez stated that experience had shown that the co-operative approach was not adequate for economic development, especially for industrialization. He therefore could not favour the suggestion of Mr. Guimaraes.

As an alternative, he proposed that the Sub-Commission consider problems of planning the economic development of underdeveloped countries. That topic would include the organization of programmes of economic development, the obstacles to industrialization and agricultural development, and the principles and general ideas to be followed. In his opinion, there was a decisive need for an economic theory for the economic development of underdeveloped countries.

Mr. GUIMARAES indicated that the study would have to be limited to general principles and rules, since economic planning in each country would present specific individual problems.

Mr. PATEK stated that both suggestions were interesting and also recalled that the Sub-Commission had requested the Secretariat to study the terms of trade and obstacles to industrialization.

Mr. MOROZOV felt that the studies which the Secretariat had been requested to undertake in the field of terms of trade and obstacles to industrialization should be the basic questions on the agenda of the fourth session.

If the problems of planning economic development were discussed separately, Mr. Morozov feared the Sub-Commission might become engaged in purely theoretical discussions. Mr. Bravo-Jimenez might perhaps introduce his topic in connexion with one of the two Secretariat studies. He had no objection to the study of co-operatives.

/ The CHAIRMAN

The CHAIRMAN expressed the view that the studies to be prepared by the Secretariat at the request of the Sub-Commission might not enable the Sub-Commission to make a constructive contribution consisting of definite recommendations. Admittedly, the Secretariat studies would be considered and commented upon, but some specific positive subject was needed in addition.

The Chairman expressed interest in the subject of co-operatives for consideration at the fourth session.

Mr. COLLADO agreed that a specific topic was necessary, but felt that the subject of co-operatives might not be broad enough for discussion during an entire session.

Problems of planning the economic development of underdeveloped countries was an interesting and challenging subject which, however, was elusive and would not easily lend itself to the drafting approach.

The CHAIRMAN pointed out that Mr. Bravo-Jimenez's suggestion on the planning of economic development would present difficulties as to documentation by the Secretariat.

Mr. COLLADO suggested that Mr. Bravo-Jimenez might prepare a study to serve as <sup>the</sup> basis for discussion.

The Sub-Commission agreed to defer further consideration of the time, the place and the programme of work of its fourth session.

The meeting rose at 7.30 p.m.