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SUMMARY RECORD OF THE SIXTY-SEVENTH MEETING

Held at Lake Success, New York,
on Monday, 4 April 1949, at 3 p.m.

CONTENTS: Draft of the first part of the Report on the Mobilization of Financial Resources for Economic Development -- suggested re-drafting by the Rapporteur of the remainder of Part I, beginning with paragraph 18 (discussion continued) Progress report on industrialization and economic development in under-developed countries (item 4 A)

Chairman: Mr. RAO

Vice Chairman and Rapporteur:

Mr. BRAVO Jimenez

Members: Mr. GUIMARAES

Mr. COLIADO

Mr. MOROZOV

Mr. PATEK

Representatives of the specialized agencies:

Mr. LOPEZ-HERRARTE International Bank for Reconstruction and Development

Mr. van der VAÏK International Monetary Fund

Consultants from non-governmental organizations:

Category "A"

Mrs. FUHRMAN International Co-operative Alliance (ICA)

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Secretariat:

Mr. CAUSTIN	(For the Assistant Secretary-General)
Mr. DORFMAN	Secretary of the Sub-Commission
Mr. CAIRASSE	Division of Information from Non-Self-Governing Territories

DRAFT OF THE FIRST PART OF THE REPORT ON THE MOBILIZATION OF FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT -- SUGGESTED RE-DRAFTING BY THE RAPPORTEUR OF THE REMAINDER OF PART I, BEGINNING WITH PARAGRAPH 19 (discussion continued)

Paragraph 19 (discussion continued)

The CHAIRMAN re-opened the discussion of paragraph 19 in the wording proposed by Mr. Collado before the close of the previous meeting.

Mr. MOROZOV objected to the text, indicating that certain phrases seemed to imply that the Sub-Commission was not against making use of inflation.

The CHAIRMAN, in order to meet Mr. MOROZOV's objection, suggested that the phrases in question should be deleted.

It was so agreed.

Paragraph 20

The CHAIRMAN proposed that the whole paragraph should be deleted as superfluous.

It was so agreed.

In reply to a request by Mr. Morozov and Mr. Patek, the CHAIRMAN promised that a suitable place would be found in the report for the subject matter contained in the footnote to paragraph 20.

Paragraph 21

Mr. van der VALK (International Monetary Fund) suggested that sub-paragraphs (2) and (3) should be transposed.

It was so agreed.

/Mr. MOROZOV

Mr. MOROZOV took exception to sub-paragraph (3) on the grounds that it appeared to suggest that there was some justification for inflationary pressure.

The CHAIRMAN, while pointing out that it was difficult to avoid a certain degree of inflation in the process of economic development, appreciated Mr. Morozov's view that under no circumstances should countries have recourse to inflation in the interests of economic development. The sentence concerned did not, however, suggest that inflation should be used, but merely that fiscal measures were a proper means of combatting it, should it occur.

Mr. PATEK suggested the substitution of "eliminate" for "reduce".

The CHAIRMAN opposed Mr. Patek's suggestion for the reasons that it might be found impossible to eliminate inflation by means of fiscal measures.

Mr. MOROZOV suggested that the phrase "to counteract inflation", as proposed by the Chairman, should be substituted for the phrase "to reduce the inflationary pressure".

Mr. Morozov's suggestion was adopted.

Paragraph 22

The CHAIRMAN proposed two amendments to the paragraph:

- (1) Substitution of the phrase "under present political conditions" for the phrase "under present conditions" in line 12;
- (2) Deletion of the sentence "On the other hand, countries which decide to develop basic heavy industries, find themselves unable to implement such programmes and plans at the desired rate, because the availability of equipment and of technical and managerial skills is adversely affected by the present political conditions."

Mr. MOROZOV held the view that paragraph 22 was contradictory to the Sub-Commission's previous conclusions in regard to the importance of the role played by industrialization in the process of economic development. He took particular exception to the phrase "dangerous under present conditions" in line 12 and to the sentence beginning "even when on purely

/economic

economic grounds..." in line 6. In his opinion the paragraph as it stood made the paragraphs which preceded it valueless.

The CHAIRMAN was not prepared to accept the view that all countries must begin the process of industrialization with the establishment of heavy industries. Provided there was no threat of war, it was a perfectly possible arrangement for under-developed countries to build up consumption goods industries while still depending on the import of capital goods from abroad. He was prepared to agree to the deletion of the sentence "Such dependence is dangerous under present conditions", and to the deletion of the following sentence, but considered that the sentence beginning "Even when on purely economic grounds ..." was essential to the argument.

Mr. COLLADO, before withdrawing from the meeting, requested that a reference should be made in paragraph 22 to domestic unsettlement, which had a similar effect on economic development to that of international unsettlement.

The CHAIRMAN suggested that the phrase "both global and regional" should be inserted after the words "political unsettlement" in line 17.

It was so agreed.

The CHAIRMAN, in reply to further comments by Mr. Morozov, expressed the view that the idea contained in paragraph 22 was fundamental to the financing of economic development. He thought it was essential to draw the attention of the great Powers to the fact that their rivalries did not affect them alone but were resulting in a distortion of economic development throughout the world.

Mr. MOROZOV said that his principal objection to paragraph 22 lay in its implication that the establishment of those branches of industry, which ensured economic independence, were temporary factors resulting from present unsettled conditions.

The CHAIRMAN pointed out that the main purpose of paragraph 22 was to indicate that unsettled conditions represented an additional obstacle to economic development. If political conditions improved, economic development would be accelerated and would assume a more normal form.

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It was in no way intended to suggest that a country should concentrate on the development of light industry. It was merely a question of timing. Concentration on the development of heavy industry from the very start of the process of industrialization imposed a heavy strain on the population, which could be avoided by different timing. He considered it preferable to avoid the imposition of such a strain, but unsettled conditions made it difficult to do so. In India, for example, the strain of economic development would be considerably relieved by the extensive development of light industry.

He suggested that, in view of the objections raised to paragraph 22, a footnote should be inserted to the effect that some members of the Sub-Commission felt that the paragraph might be interpreted to mean that light industry should take precedence over heavy industry, whereas in fact they held the opposite view that economic development must in all cases start with the development of heavy industry.

Mr. BRAVO-Jimenez considered that paragraph 22 dealt with an issue of great internal practical importance to the under-developed countries. Since in many under-developed countries no further depression of the standard of living could be contemplated, it was difficult to secure the operation of heavy industry on an economic basis. On the other hand, governments should be prepared to give full consideration to those conditions that could make possible the operation of heavy industries.

Mr. GUIMARAES pointed out that while certain of the under-developed countries possessed the necessary resources for the establishment of heavy industries, others did not possess the necessary resources. The earlier part of the report had stressed the principle that economic development should follow balanced lines and had laid less emphasis on the development of heavy industry.

The CHAIRMAN said that paragraph 22 was concerned with those countries, which were in a position to choose between the development of light or heavy industry. The specific problem with which the paragraph dealt was the relevance of unsettled political conditions to the problems of economic development. He considered that the way out of the difficulty did not lie in the deletion of the paragraph, as Mr. Guimaraes had suggested, but in amending it to make it apply to all types of under-developed countries.

/Mr. MOROZOV

Mr. MOROZOV wished to emphasize that, as the Sub-Commission had agreed at the beginning of its session, it was dealing with the general principles of economic development. It had also been agreed that one of the main factors in promoting economic development was industrialization on the basis of the establishment of heavy industry. Paragraph 22, however, contained a formula, which was contrary to that conclusion. He took particular exception to such phrases as "a different degree of emphasis on the growth of the capital goods industries" and "even when on purely economic grounds, some countries would desire to give special attention to the development of light and consumption goods industries ..."

The CHAIRMAN stated that, in view of the divergent opinions on heavy industry, it had been suggested that the paragraph should be redrafted to highlight the important fact that unsettled world political conditions presented an obstacle to the economic development of under-developed countries, and, regardless of the character of the type of development contemplated, distorted and delayed economic progress. All reference to the controversial topic of heavy industries or light industries would be omitted from the redraft.

The Sub-Commission agreed that paragraph 22 should be redrafted and considered at a subsequent meeting.

Paragraph 23

The CHAIRMAN recalled that the Secretariat had fulfilled the original request of the Sub-Commission for a study of relative price trends of primary commodities and manufactured goods and stated that lines 9, 10 and 11 of paragraph 23 should be amended to read: "It is necessary to broaden the scope of the study into that of the terms of trade between under-developed and industrialized countries including prices, costs and quantities traded and in extending it to cover the most recent movements in these fields."

Mr. DOREMAN (Secretariat) pointed out that while it was possible to distinguish between prices and costs theoretically, that distinction would be difficult statistically.

Mr. MOROZOV said that he would abstain on paragraph 23. He recalled his previous statement that the essential point was to show what under-developed countries received from their trade with industrialized

/countries. The

countries. The relationship between developed and under-developed countries in their mutual trade, not the question of costs and prices, was primary.

The CHAIRMAN pointed out that paragraph 24 covered Mr. Morozov's objection partially.

The Sub-Commission agreed to the deletion of the word "costs" from the redraft of lines 9 through 11.

Paragraph 23 was adopted as amended.

Paragraph 24

Paragraph 24 was adopted subject to the reservation previously recorded by Mr. Patek.

Paragraph 25

Mr. BRAVO-Jimenez suggested that the reference to Chapter VI of the Havana Charter should be deleted. Accordingly the second sentence of paragraph 25 would end after the word "agreements" in line 10.

Mr. MOROZOV suggested the deletion of the word "extreme" in the first line of paragraph 25. In line 8, the words "appropriate agencies" should be changed to "the Secretariat". He supported Mr. Bravo-Jimenez's suggestion to delete the reference to the Havana Charter and further proposed that the word "accelerate" in line 9 should be replaced by the word "undertake".

Mr. DOREMAN (Secretary of the Sub-Commission) explained that the expression "appropriate agencies" had been intended to include the work of the Interim Co-ordinating Committee on Inter-governmental Commodity Arrangements, a section of the Secretariat of the United Nations which had been set up by the Economic and Social Council to carry on studies in that field. Duplication might be involved unless the work of that Committee was taken into account.

Mr. MOROZOV maintained that the word "Secretariat" should be used. Obviously the Sub-Commission had no objection to co-operation by the Secretariat with other agencies but he felt that the Sub-Commission's agenda should contain a report from the Secretariat.

/The Sub-Commission

The Sub-Commission agreed to the deletion of the word "extreme" in the first line of paragraph 25.

The proposal of Mr. Bravo Jimenez to delete the reference to the Havana Charter from the second sentence was adopted.

After further discussion, the third sentence was amended to read: "The Sub-Commission is aware that attention is being paid to the study of the international commodity situation but desires that appropriate bodies in the Secretariat should undertake the study of international commodity agreements".

The Sub-Commission decided to delete the final sentence of paragraph 25.

Paragraph 25 was adopted as amended.

Paragraph 26

The Sub-Commission decided to delete paragraph 26.

Paragraph 27

The CHAIRMAN proposed that the final sentence of paragraph 27 should be amended to read: "It is of course for the under-developed countries to decide as a matter of domestic policy how far they are willing to go in mobilizing such available assets."

Mr. GUIMARAES said that in many cases under-developed countries had disposable assets which they were unable to use because currency and balance of payment difficulties might face them in the future. He suggested that the report should refer to that situation and request the International Monetary Fund to adopt a more liberal policy.

On the suggestion of the CHAIRMAN, the following sentence was added at the end of paragraph 27: "It must be pointed out, however, that their ability to use these assets for developmental purposes depends to a certain extent upon the effectiveness with which the International Monetary Fund helps them to maintain the stability of their exchanges."

Mr. PATEK stated that he preferred the original wording of the paragraph and would abstain.

Mr. MOROZOV expressed the view that the amended text constituted a limitation on the domestic policy of individual under-developed countries

/He would

He would therefore abstain on paragraph 27.

Paragraph 27 was adopted as amended.

The meeting recessed at 5.30 p.m. and was resumed at 5.40 p.m.

PROGRESS REPORT ON INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT IN UNDER-DEVELOPED COUNTRIES (item 4A)

The CHAIRMAN said the Sub-Commission would take up Item 4 (a), on the Industrialization and Economic Development of Under-developed Countries, with special reference to Non-Self-Governing Territories. Certain statistics on resources and production in under-developed areas had been circulated by the Secretariat and also a document on the Economic Development of Non-Self-Governing Territories.

He wondered whether any document was available giving a general idea of the state of industrialization of under-developed countries and showing in which under-developed countries such basic industries as machine tools, locomotives, and ship building existed.

Mr. DORFMAN (Secretary of the Sub-Commission) said it had been the Secretariat's intention to provide an up-to-date analysis of the situation in under-developed countries, but this had not proved feasible at the moment because of the lack of information that would give a clear indication of trends. The Secretariat had only begun to receive relevant information from the regional economic Commissions. He was hopeful that the Secretariat would be in a position within a few months to follow up the trends of changes in the economic structure of those countries.

The CHAIRMAN thought that if the position were analyzed it would probably be found that (a) there were practically no heavy or capital goods industries in the under-developed countries; (b) some of the under-developed countries had light industries; (c) probably the only part of the world in which under-developed countries had made progress in the development of heavy industries was Eastern Europe. He pointed out that in his own country in the last two or three years there had been a considerable decline in industrial production, namely of iron and steel, cement, paper and other goods.

/Mr. DORFMAN

Mr. DORFMAN (Secretary of the Sub-Commission) said the statistical material submitted by the Secretariat indicated a general drop from wartime levels of industrial production in under-developed countries. He did not feel that the information available was sufficient to give a complete picture of the situation and suggested that the Secretariat could produce a more satisfactory and comprehensive document.

The CHAIRMAN thought that in the absence of such information the Sub-Commission should not express an opinion on the progress that might have taken place in those countries. He therefore suggested that the Secretariat undertake a further study of the subject and present documentation at the Sub-Commission's next session which would enable it to see how far industrialization of under-developed countries had progressed and how far that development was consistent with the recommendations of the various United Nations bodies.

Mr. MOROZOV taking up the question of the economic development of non-self-governing territories, said that he saw nothing in the document presented by the Secretariat to show whether there had been an increase or a diminution in the role of foreign capital in non-self-governing territories. He wished to know further what changes had taken place in the imports to non-self-governing territories which were likely to assist in their industrialization. Referring to page 44 (h) of the Secretariat's document, he asked why "lack of initiative" was listed as an obstacle to industrialization.

Mr. CAPRASSE (Secretariat) said very little information was available on foreign capital in non-self-governing territories, except for the amounts provided by the metropolitan countries. On the question of imports some statistics were available on post-war imports but very little on pre-war imports because information supplied under Article 73 (e) of the Charter only covered the past two or three years. He pointed out that in certain cases the lack of initiative either of the Metropolitan country or of the territory itself was the reason why the economic development of the territory had not proceeded as quickly as it might have done.

Mr. EVANS (International Labour Organization) who was unable to be present, submitted a statement saying that he would be grateful if the Sub-Commission could bear in mind, in its discussion of the paper

/on Economic Development

on Economic Development of Non-Self-Governing Territories, the following points:

(1) The ILO recommendation concerning Minimum Standards of Social Policy in Dependent Territories, 1944, esp. Annex, Articles, 1, 2, 3, 4, 35, (1,2), 37 (1,2) 45 (Text in First Report of the ILO to the United Nations, Vol.II, pp. 101-118, and in part in E/CN.1/44).

(2) Social Policy (Non-Metropolitan Territories) Convention, 1947; (extracts in E/CN.1/44/Add.1):

(3) It would be desirable that a report such as that which had been circulated should be printed, but if so it should be completed by information drawn also from other official sources, including reports to the Trusteeship Council.

Mr. GUIMARAES congratulated the Secretariat on the excellent reports presented by it on terms of trade and foreign investment and on Economic Development of Non-Self Governing Territories on which he was going to present some remarks. He said that those reports were of great help to the Sub-Commission's work.

With regard to non-self-governing territories, the point which impressed him most was that concerning conservation of natural resources, he also noted the problem of man-power in Africa, with particular reference to the plans for the development of Liberia, and said that a higher official of the Portuguese Government had been struck by the same problem in connexion with the Portuguese colonies in Africa. Another most important problem was the lack of water and the question of sub-soil water, which was of particular interest in tropical regions. In that connexion, he pointed out the importance of the United Nations Conference on the Conservation of Natural Resources, shortly to be held.

He pointed out the similarities between the situation in Africa and Brazil, even in regard to geological formation. The same soil formation was encountered in South Africa and Southern Brazil and the same problems of erosion and of the formation of laterite soil had to be faced.

He suggested that the Sub-Commission might indicate to the Economic and Employment Commission its view of the importance of the problem and the desirability of giving it further careful study.

/The CHAIRMAN

The CHAIRMAN associated himself with Mr. Guimaraes's thanks to the Secretariat for its documentation. Part 1 of the document on the Economic Development of Non-Self-Governing Territories provided a very useful analysis of the problems; he felt, however, that Part 2, relating to development plans, was somewhat unrealistic and he hoped that the Secretariat's next study would relate to what had actually happened rather than to plans for the future.

He wished to know whether the Metropolitan Powers were adopting an economic policy in line with the principles of economic development defined by the Sub-Commission and how far their action was leading to the economic independence of non-self-governing territories. He pointed out that, if non-self-governing territories produced only one or two primary products, markets for which were found in the Metropolitan countries, any subsequent granting of political independence would be a mere mockery.

He also wished to know how far the problem of economic development was being solved on the basis of training the local population for technical and managerial posts.

He emphasized that the Secretariat's document was based exclusively on information received from the Governments of non-self-governing territories and not from the people themselves, and suggested that the scope of secretariat studies be broadened so as to draw on other reliable sources of information as well.

Mr. PATEK said the Secretariat document had certain defects, but also some merits in indicating the backwardness of the economies of the non-self-governing territories, which was traceable to the failure of the Metropolitan Powers to live up to their obligations; he referred, in particular, to the statement that "In many territories the inventory of resources has hardly been begun." (pp. 3 and 4 of the document); to the indication that prices of consumer goods had risen more than the prices received for indigenous products; to the problem of equipment (page 8); to the problem of financial resources (page 9); to paragraph 5, page 10, which said that "the standard of living of the indigenous population has dropped rather than risen;" to the control by the metropolitan territories of the uses of foreign exchange (page 14, paragraph 11); to the statement that "the metropolitan countries normally expect from their investments in the

/non-self-governing

non-self-governing territories a proportion of the profit to be derived from them;" (page 14) to the reference to inflationary effects of foreign capital (pages 17-18); to the indication (paragraph 4, page 20) of the ill effects of railway construction by private companies; to the problem of soil erosion mentioned by Mr. Guimaraes (paragraph 6, page 45); to the "hostility of industrial circles in the parent States to the development of the processing industries in non-self-governing territories", (paragraph 6, page 45); and to the "hesitation apparent on the part of industrial countries 'to supply equipment to territories which might cease to be customers and even one day become competitors", (paragraph 7, page 46). That, he felt, was the core of the problem.

Summing up, he said that the Secretariat document further strengthened his conviction that only industrialization, based primarily on the development of the heavy industries, was favourable to the economic development of under-developed countries, and that political dependence had proved harmful to the economic development of non-self-governing territories.

Mr. MOROZOV said that page 2 of the document submitted to the Sub-Commission on the subject of economic development in the non-self-governing territories made it clear that industrialization was generally absent in those territories. It was also clear that agriculture was at an extremely low level of development. It was, for example, stated that the system of land tenure was an obstacle to the development of agriculture, that the majority of African farmers had no other implement than the hoe, and also that the yield they obtained was one-tenth or one-twentieth of the yields obtainable with normal agricultural methods. The low standard of living prevalent in non-self-governing territories was shown by the report to be linked with the maintenance of high prices for imported goods by the Metropolitan Powers.

What was the cause of the economic plight of the non-self-governing territories? The only possible answer was that the main obstacle to the economic development of those territories lay in their political and economic dependence on the Metropolitan Powers, which pursued a policy of impeding economic development and industrialization.

The document submitted to the Sub-Commission gave a different answer to the question, giving a list of obstacles to economic development, such

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as lack of capital, insufficient return on capital, lack of foreign markets, of skilled labour and so on. However, those were derivative factors, flowing from the basic cause of backwardness, namely, dependence on the Metropolitan Powers. The position was clearly stated in the report of the first session of the Sub-Commission: - "In the case of non-self-governing territories, political dependence has been a major factor in the retardation of economic development."

The inclusion of lack of initiative in the list of factors causing the backwardness of non-self-governing territories might be interpreted as a justification of the policy adopted by the Metropolitan Powers towards such territories.

In addition to the analysis of the economic situation, the document contained an account of the plans of the Metropolitan Powers for their colonial territories. Those of the French Government were clearly not intended to promote independence, but rather to increase the economic dependence of the colonies and to confirm their status as appendages of the colonial Powers. The plans of the French Government were mainly concentrated on extending exports of raw materials to satisfy the needs of the French monopolies. The plans of the United Kingdom were similarly based on the principle of using the colonies as sources of cheap raw materials and labour.

Mr. MOROZOV proposed that the Secretariat should be asked to study the problem from the point of view of the fulfilment by the Metropolitan Powers of the obligations they had assumed under Chapter XI of the Charter.

The CHAIRMAN, thought it would be best, rather than mention Chapter XI, to request the Secretariat to compile information related to that subject, along lines which he had suggested earlier in the discussion.

On Mr. DORFMAN (Secretary of the Sub-Commission) inquiring whether the Sub-Commission would expect the Secretariat to pass judgment on policies of Member Governments, the CHAIRMAN made it clear that such would not be the expectation. The Secretariat would be only expected to supply the information that would enable the Sub-Commission to form a judgment.

The meeting rose at 7:30 p.m.