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CONTENTS: Suggestions concerning an approach to the discussion of mobilization of internal financial resources for economic development: Proposals by Mr. Bravo Jimenez (E/CN.1/Sub.3/W.11)

Chairman: Mr. RAO

Members: Mr. GUIMARAES
Mr. LIEU
Mr. PATEK
Mr. BRAVO JIMENEZ
Mr. A.P. MOROZOV
Mr. COLLADO

Representatives of specialized agencies:

Mr. EVANS	International Labour Organization (ILO)
Mr. KOHN	Food and Agriculture Organization (FAO)
Mr. LOPEZ-HERRARTE	International Bank for Reconstruction and Development
Mr. BERNSTEIN	International Monetary Fund
Mr. HILL	World Health Organization (WHO)

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Mr. DORFMAN

Secretary of the Sub-Commission

SUGGESTIONS CONCERNING AN APPROACH TO THE DISCUSSION OF MOBILIZATION
OF INTERNAL FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT: PROPOSALS
BY MR. BRAVO JIMENEZ (E/CN.1/Sub.3/W.11)

The CHAIRMAN informed members of the Sub-Commission that both Mr. Bravo Jimenez and Mr. Guimaraes had submitted suggestions concerning an approach to the discussion of the mobilization of internal financial resources for economic development -- documents E/CN.1/Sub.3/W.11 and E/CN.1/Sub.3/W.10 respectively. He wondered whether the Sub-Commission wished to discuss them jointly or separately.

Mr. GUIMARAES proposed that Mr. Bravo Jimenez's suggestions should be examined first.

The CHAIRMAN began by saying that Mr. Bravo Jimenez wished the following alterations to be made in the text of his working paper:

On page 1, to delete the words "but also of the" in line 3, to place the words "application of capital equipment and modern technology" in parentheses and to add a comma after the word "maximum" in line 4, and to delete the words "in all fields, and of" in line 5. On page 2, Mr. Bravo Jimenez wished to delete the words "and generally to" and to add the word "of" after the word "increase" in line 2 and to alter the last sentence to read as follows: "the maximum utilization of internal financial resources (equity capital) is the basic condition for implementing the social, political and economic policies that the people of the country concerned..."

/The Chairman

The Chairman congratulated Mr. Bravo Jimenez on his working paper and said that it contained some of the basic ideas which would have to be incorporated into the Sub-Commission's report. He suggested that members should confine themselves to discussing the general principles set forth in that document rather than the wording which could be considered later in drafting the report.

In his view the working paper could be divided into three parts: the first dealt with the general aspects of the financing of economic development, the second with foreign financing and the third with the mobilization of internal financial resources for economic development.

Turning to page 1 of the working paper, he said that it contained a key sentence which laid down a main principle of economic development: "The conditions for a long term growth of the economy must be based on the consideration that the maximum use must be made for utilizing available internal resources, on the one hand, and that a maximum effort must be made for operating the "national plan" with a view to constantly increasing the availability of internal resources for economic development." There was no need to dwell on the first part of that sentence as the idea it set forth was well-known and had already been accepted. Regarding the second part he said that emphasis had been laid on the need so to plan economic development that it should increase the resources available for further economic development. Countries now carrying out economic development programmes had not always paid sufficient attention to that fundamental principle, and it should be stressed in the Sub-Commission's report.

In capitalist countries, economic development was in a way self-supporting since profits derived from one industry were ploughed back into the same industry or else used to promote new industries. The United States of America provided a good illustration of that process. Wherever economic development was being carried out according to a plan, the aim should be to create more and more resources for further development in the future.

Mr. EVANS agreed that the Chairman's description was correct when applied to the United States, but wondered how far it could be generalized in respect to underdeveloped countries. Profits were

/often

often absorbed by various kinds of expenditure or else served to build up private holdings of foreign balances. It was desirable that profits should help to promote further economic development, but how often was that the case?

Mr. BRAVO JIMENEZ stated that Mr. Evans had pointed to a good reason for emphasizing the principle he had put forth.

Mr. MOROZOV reminded members that previous sessions of the Sub-Commission had accepted the principle of the paramount importance of industrialization in economic development. It should be emphasized, therefore, that the industrialization of underdeveloped countries should be carried out first of all by means of the maximum utilization of the national resources of the countries concerned. That principle should be embodied in the Sub-Commission's report.

Mr. Morozov added that although the text under discussion touched upon the problem of the part played by foreign capital, he would not discuss that question as he understood that the Sub-Commission would examine it later.

The CHAIRMAN said it was true that great emphasis had been laid on industrialization. Unfortunately, however, both the Economic and Employment Commission and the Economic and Social Council had interpreted the word "industrialization" in a very narrow sense -- hence their criticism of the Sub-Commission's findings. He was not prepared to agree with such an interpretation. Economic development was not synonymous with the development of manufacturing industries. In some countries, food was by far the most important problem. India, for instance, was spending vast sums of money on importing food and had to rely on foreign loans. When the Sub-Commission had discussed the problem of industrialization, it had interpreted the word industrialization as meaning the application of modern technology and capital equipment in order to achieve an increase in national productivity.

/He wished

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He wished once and for all to dispel any misunderstanding which might exist on that particular point. Industrialization was the main process of economic development but it did not mean just the development of manufacturing industries.

Mr. MOROZOV said that the Chairman had apparently misunderstood him. At no session of the Sub-Commission had he asserted that economic development should be interpreted to mean only the development of manufacturing industries, and he had never denied the great importance of agriculture and transport, for instance. In his view, since the Sub-Commission held that industrialization was a decisive factor of economic development it should stress the need for developing a national industry. The Sub-Commission was dealing with the development of national economies and should emphasize therefore that it had national industries in mind.

The CHAIRMAN and Mr. COLLADO asked the USSR representative to explain the exact meaning he attached to the expression "national industry".

Mr. MOROZOV said that question was not new and had already been discussed in other organs of the United Nations. By the expression "national industry" he meant an industry which belonged to the country concerned. Indeed, it was possible for some industry to be situated within the geographical confines of a given country and yet to belong to another country. That was not a national industry.

Mr. COLLADO did not think the Sub-Commission should concentrate exclusively on the development of those industries which were owned by the government or the nationals of the country of their location.

The CHAIRMAN said that such an approach to the problem would eliminate the possibility of any foreign investments. For his part, he admitted that industries might be foreign-owned but emphasized that any economic development taking place in a given country should be in conformity with the national interests of that country.

/Mr. PATEK

Mr. PATEK pointed out that profits derived from a nationally-owned undertaking remained in the country concerned while those derived from a foreign-owned undertaking might go to other countries.

Mr. BRAVO JIMENEZ said that there were two sides to the problem: the first was the existence of productive potentialities in a given country and the second was the economic, political and social processes by means of which the country concerned developed and built up its own industry. This process might rely on foreign or domestic ownership in different degrees depending upon internal and external factors operating from time to time. In Mexico, for example, oil had been a foreign interest until the expropriation act of 1938. Then it was generally referred to as nationalized, that is it came into the national assets. He would not go so far as to say no industry can be owned by foreigners.

There were two problems. 1) Developing the industry of a country, usually with help of foreign resources, and 2) the process of building the industry up as an asset rather than a liability of the country.

On the first page, he had tried to emphasize industrialization as a main problem of economic development, adding the concept of application of modern technology and equipment not only in industry but in all fields of the economy. If we take out the reference to foreign investment, for later discussion, all appeared to agree.

Mr. LIEU felt that the discussion on the meaning of "national industry" had arisen because the working paper had used the expression "national plant". The expression, however, did not raise the question of ownership.

Mr. MOROZOV agreed with the opening suggestion made by the Chairman that the Sub-Commission should not discuss the wording of the working paper and should confine itself to examining the principles and ideas it set forth. He reserved, therefore, the right to put forward suggestions regarding the wording at the appropriate time.

/Turning

Turning to the point under discussion, he said that the majority of members would agree that the development of national industries was the basis for national economic development. It would not be a normal situation if the basic branches of a country's economy were in foreign hands. Such a situation might lead to the economic and political subjugation of the country to interests which had nothing in common with those of its people. Mr. Collade for instance, would not think it normal if all the steel industry of his country were in the hands of a foreign concern.

It would be wrong, however, to assume that he excluded the possibility of foreign capital helping in the development of industry in a particular country. The direction of such industry should, however, be in the hands of the country itself and it should be national in character.

Mr. RAO agreed.

Mr. GUIMARAES pointed out that many people interpreted the word "industrialization" as meaning only the development of manufacturing industries and said it was imperative for the Sub-Commission to emphasize the broad meaning of that word so as to avoid any further misunderstanding.

In that connexion he wished to recall that what he had said on that problem at the second session of the Economic and Employment Commission (E/CN.1/Sub.3/10):

"economic development may be defined as an increase in the total production of a country or region, as the case may be, at decreasing costs and in the long run, provided the whole gainful population is occupied. An accurate estimate of the national income is the best way to measure it, on the condition that the estimate is well elaborated.

"Consequently, I continued, economic development means better industrial equipment, increased use of fertilizers, raising of the general level of education and skilled labour, the introduction of modern methods of forestry, cattle breeding, and so on, as appropriate to each country individually and in a historical period.

/"For our

"For our less-developed countries, economic development is a synonym of diversified economy; that is to say, escape from dependence on the exportation of only two or three primary products. It also means expansion of foreign trade on behalf of the domestic market, and not the contrary. It is obvious that industrialization is the cornerstone of economic diversification. Notwithstanding, if we do wish to have something done, we must begin with the basic problem of increasing the real income of the agricultural population of our several regions, since about fifty per cent of their employed population make a living from this activity."

He was glad to note that Mr. Bravo Jimenez had incorporated those ideas on page 5 of his working paper, which stated that:

"3. No creation of capital can be considered as sound in the under-developed countries unless agriculture (generally occupying the largest portion of the gainfully employed population) is given the maximum consideration with a view to increasing its productivity."

Mr. COLLADO expressed full agreement with all the ideas outlined on the first page of the working paper and also with the statement made by the USSR representative. It was clear that it was in the interest of every nation to develop to the maximum the social and economic well-being of its people; when discussing the question of foreign investments the Sub-Commission will examine measures by which they could help in attaining that aim.

The CHAIRMAN turned to page 2 of the working paper and expressed full agreement with the principles it laid down. In his view, it was self-evident that the purpose of implementing the social, political and economic policies desired by the people of a country were yet another reason for relying on internal financial resources to the maximum.

Mr. MOROZOV said that he would discuss later, at the appropriate time, the specific wording with reference to "industrialization" and "increase of capital equipment".

/The CHAIRMAN

The CHAIRMAN turned to page 3 of Mr. Bravo Jimenez's document, where the fact that the utilization of internal and external financing was an interdependent process was emphasized. That was simply a statement of fact which should not lead to any discussion.

Mr. MOROZOV said that the idea expressed on page 3 of Mr. Bravo Jimenez's paper was perfectly clear, but he reserved the right to discuss the wording at a later stage. It was obvious that the introduction of foreign capital might be connected with redistribution of domestic resources, but the nature of that effect would depend in each case upon the circumstances under which the foreign capital was introduced. In some cases, there could be introduction of foreign capital which did not increase the economy of the country.

There was a reference to mutual agreements governing the introduction of foreign capital in Mr. Bravo Jimenez's ^{paper}. In that ~~connection~~, Mr. Morozov referred to a document concerning Haiti which showed quite clearly that, although the transactions might be carried out through mutual agreements, that would not necessarily prevent one country from placing all its industries (monetary resources) in the hands of another. Thus, the statement that there should be mutual agreements would not be sufficient to prevent the economic subjugation of one country to another.

Mr. BRAVO JIMENEZ replied that he fully realized the need to prevent interference in the internal affairs of a country through the introduction of foreign capital and his statement had qualifying conditions as to the nature of mutual agreements.

Mr. MOROZOV said that the same difficulty arose about terminology whenever the introduction of foreign capital was discussed. He would discuss that later when foreign financing was taken up.

The CHAIRMAN said that drafting question would be dealt with when the Sub-Commission came to the discussion of its report.

/Turning to

Turning to pages 4 and 5 of Mr. Bravo Jimenez's ^{document,} he said that they set forth the basic problem. The next few pages had been mainly introductory and had contained general statements of a non-controversial nature, but pages 4 and 5 contained many ideas which could profitably be discussed by the Sub-Commission.

There was one very important idea contained in the first paragraph of page 4, namely that any attempt to speed up the process of economic development would necessarily be accompanied by a measure of inflation, for the development would require greater expenditure than could be covered by the normal rate of saving. It must be assumed that economic development was usually planned at a rate higher than savers' present willingness to finance such development. However, now that the idea of deficit financing had been popularized, in the pre-war and war periods, the need for caution should be emphasized. There were various ways in which a Government could keep a check on the inflation which was a by-product of its accelerated economic development. That was the meat of domestic economic policy; and in that **connexion**, various controls had been mentioned, such as price-fixing, rationing, double markets, turnover taxes. He would like a discussion of these controls. He characterized the big problem as: the anti-inflationary policy to be followed by government to counteract inflation which is the by-product of the process of financing economic development from internal sources.

The Chairman further wondered why agricultural credits were listed as an example of inflationary possibilities, and thought it may be useful for Mr. Bravo Jimenez to illustrate concretely how each of his examples might contribute to inflation.

Mr. LIEU agreed that economic development, especially when carried out by the maximum utilization of internal resources, would lead to inflation and that some check should be kept upon the inflation. However, he did not agree with the use of the term "controlled inflation" as it might give the impression that there really was a way of controlling inflation. Once a Government started to use methods of deficit financing it was extremely difficult for it to stop. There was a bureaucratic tendency to extend deficit financing to additional enterprises and to extend controls beyond reasonable bounds. This was, at least, his experience in a capitalistic country, he did not know about it in a socialist country.

/The CHAIRMAN

The CHAIRMAN agreed that capitalism practiced by the State was worse than that practiced by private individuals and was one of the greatest menaces to individual liberty and the free development of the country. For example, he understood that in the United States it was impossible to make foreign investments without a Permit from the State Department. In his opinion, such a strict system of control was extremely undesirable.

Mr. COLLADO explained that there was no actual control in the United States of the investment of funds abroad, but the export of capital goods required to implement such investments was at the present time subject to transitional controls. He had no detailed information on the subject of controls but he understood that the situation had recently been made easier. It had recently been announced that the controls on the export of iron and steel products had been abolished. Information on foreign investments was requested by the government for statistical purposes, but there were no controls on investment of funds.

The CHAIRMAN thought it would be useful to have some information about existing controls on exports in the United States.

Mr. DOREFMAN (Secretariat) said that in accordance with the request of the Sub-Commission the Secretariat had started a study of this subject but the report was not yet ready.

The CHAIRMAN expressed the opinion that if the existing controls had prevailed in the United States between the years 1920 and 1929 economic development in the U.S.S.R. in that period would have followed a different pattern. When discussing foreign financing, he wanted the Sub-Commission to consider the case for unfettered private enterprise, since the exercise of controls was always influenced by the Government's political policy.

Mr. COLLADO said that it could be seen from the Secretariat's report on movements of capital in the inter-war period that some element of control had prevailed in the United States in the years 1920 to 1934. At that time it had been the practice for the sponsors of bond issues to ask the State Department's views before making the issues, but that practice had been abandoned since the year 1934.

/The CHAIRMAN

The CHAIRMAN said that the question of controls was a very important one, since it sometimes meant that underdeveloped countries were unable to import the machinery needed for their economic development, even though they were prepared to pay for it. The situation had been further complicated by the introduction of the Marshall Plan and, if events continued to develop along those lines, it would mean that a country would have to belong to one political group or another in order to obtain the equipment it needed, regardless of the fact that it was prepared to pay for it.

Mr. PATEK said that the system of controls on exports had been introduced during the war and it had recently been extended until 1951. Export licences had often been refused for no apparent reason for goods intended to help in the economic reconstruction of Czechoslovakia. Various banks had also refused to grant credit to Czechoslovakia, although at first they had agreed to do so. He did not wish to infer that political pressure had been brought to bear upon those banks but he emphasized the need to do away with export controls as soon as possible.

With regard to loans, his country had applied to the International Bank for Reconstruction and Development for a loan of \$300,000,000. That request had first been cut to \$150,000,000 and then to \$35,000,000, but so far Czechoslovakia had not received any loan at all.

Answering a question put by the CHAIRMAN, Mr. PATEK said that his country had recently exported capital goods requested by Brazil.

The CHAIRMAN was concerned that war-time controls for war and balance of payments purposes are now used for entirely different purposes.

Returning to the question of inflation arising out of the acceleration of economic development, he asked Mr. Bravo Jimenez why he had stated on page 4 of his document that the provision of cheap credit for agricultural activities would have an inflationary effect.

Mr. BRAVO JIMENEZ explained that he had been thinking of a specific case which had occurred in Mexico and he had not meant his statement to be taken as a general principle.

/With regard

With regard to the point raised earlier by the representative of China, he said that he did not insist on using the term "controlled inflation". He simply wished to emphasize the fact that something should be done to counteract the inflation which was a necessary by-product of the acceleration of economic development. The methods used to keep inflation within bounds would vary from country to country so the Sub-Commission should confine itself to establishing the general principle that some check should be kept upon inflation and each country could put that principle into practice in the way which suited it best.

Mr. KOHN (Food and Agriculture Organization) regretted that the example of cheap credits granted to agricultural activities had been used in the paper. It was true that the granting of cheap credits to any one sector of the national economy might be inflationary, but credits granted to agriculture usually gave the most rapid returns in increased production. It was therefore an unfortunate example to have chosen for a paper setting forth general principles.

Mr. van der VALK asked whether the term "controlled inflation" used in the paper was intended to refer to the control of rates of exchange. The International Monetary Fund was deeply concerned with that question and it trusted that the control of exchange rates would only be a temporary measure, as had originally been stipulated.

In his opinion, some explanation should be given as to the meaning of "controlled inflation" in connexion with the standard of living of the population. The aim of economic development was to raise the standard of living, but the population might not be content to support a programme which would only raise the standard of living after twenty years.

Mr. BRAVO JIMENEZ explained that what he had intended to convey in his paper was that the monetary authorities should take the question of inflationary trends into account, when establishing the overall programme for economic development. He was not advocating any particular method of control but he simply wished to stress that the question should be taken into account.

/Mr. van der VALK

Mr. van der VALK agreed with the general principle, but thought that the word "controls" should be avoided, since it implied the control of prices and rates of exchange.

Mr. MOROZOV raised the question of records. He did not wish in any way to criticize the technical services of the Secretariat but he felt it should be emphasized that it was essential for the Sub-Commission to have its summary records in English. If English precis-writers could not be supplied to service two meetings a day the Sub-Commission would have to confine itself to meeting once a day.

Mr. DORFMAN (Secretariat) reported that strengthened by the Sub-Commission's request he had already repeatedly raised that question and would do so again.

The CHAIRMAN agreed with the USSR representative and expressed the Sub-Commission's unanimous opinion that it would be unable to meet more than once a day if English records could not be supplied for its second meeting.

The meeting rose at 1:15 p.m.