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**CONSEIL
ECONOMIQUE
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UNRESTRICTED

E/CN.1/Sub.3/SR 55
1 April 1949

ORIGINAL: ENGLISH

ECONOMIC AND EMPLOYMENT COMMISSION

SUB-COMMISSION ON ECONOMIC DEVELOPMENT

Third Session

SUMMARY RECORD OF THE FIFTY-FIFTH MEETING

Held at Lake Success, New York,
on Friday, 25 March 1949, at 3 p.m.

CONTENTS: Discussion of mobilization of financial resources
for economic development: post-war price relations in
trade between under-developed and industrialized
countries (E.CN.1/Sub.3/W.5)

<u>Chairman:</u>	Mr. RAO	India
<u>Members:</u>	Mr. GUIMARAES	Brazil
	Mr. LIEU	China
	Mr. PATEK	Czechoslovakia
	Mr. BRAVO-JIMENEZ	Mexico
	Mr. MOROZOV	Union of Soviet Socialist Republics
	Mr. COLLADO	United States of America

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. Van der VALK	International Monetary Fund

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Consultants from non-governmental organizations:

Category "A":

Miss SENDER	American Federation of Labor (AF of L)
Mr. WOODCOCK	International Co-operative Alliance (ICA)

Secretariat:

Mr. DORFMAN	Secretary of the Sub-Commission
Mr. JUDD	Secretary of the Interim Co-ordinating Committee on International Commodity Arrangements

DISCUSSION OF MOBILIZATION OF FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT:
POST-WAR PRICE RELATIONS IN TRADE BETWEEN UNDERDEVELOPED AND INDUSTRIALIZED
COUNTRIES (E/CN.1/Sub.3/W.5)

The CHAIRMAN introduced Mr. JUDD, Secretary of the Interim Co-ordinating Committee on International Commodity Arrangements.

Mr. JUDD said the Interim Co-ordinating Committee on International Commodity Arrangements had been set up by the Economic and Social Council to keep informed of commodity arrangements and to facilitate inter-governmental consultation and action on commodities. The Committee had not yet given much study to the question of commodity arrangements in relation to economic development but it was aware of certain dangers. In planning an increase in the primary production from underdeveloped countries, attention must be given to market possibilities or else surpluses might arise in some commodities. Information which might be useful in assuring markets for primary products was collected and analyzed by international study groups set up under the Havana Charter. An assured market for their primary commodities would tend to stabilize the income of underdeveloped countries and thus help the development of industrial production and facilities.

His Committee annually produced the "Review of International Commodity Problems." The latest review -- that for 1948 -- was brought up-to-date by a further document, "Current Prices of Primary Commodities." Mr. Judd referred to the tables on page 2 of the latter document which showed that there had been great variations lately in prices. Cocoa was an illustration of such variations. The prices of agricultural products had been declining in the last ten months. Those of non-ferrous metals had been fairly stable but there had been a downward trend in the last few weeks.

/The CHAIRMAN

The CHAIRMAN said that certain conclusions might be drawn from the Secretariat's document on Post-War Price Relations in Trade Between Underdeveloped Countries and Industrialized Countries (E/CN.1/Sub.3/W.5); in the last two or three years covered by that document, as compared with the immediate pre-war period, the prices of foodstuffs and raw materials had risen more than those of capital goods and manufactured articles. Further, the prices of raw materials as such had not risen as much as those of foodstuffs, so that the terms of trade of underdeveloped countries exporting raw materials were not so favourable as those of underdeveloped countries exporting foodstuffs. To prevent wrong conclusions, the Secretariat had pointed out that while there had been some improvement in the terms of trade of countries depending on raw materials and foodstuffs as against those of countries depending on manufactured goods, the terms of trade of the former countries had been much more favourable before the First World War and there was still considerable progress to be made. The magnitude of the improvement in the terms of trade depended on whether 1937 or 1938 were taken as the standard pre-war year, since there had been certain recessions in 1938.

Mr. JUDD answering the question of the Chairman on what difference his more recent data might make to those conclusions, said it was difficult to tell at that moment whether the downward movement in prices which he had referred to was part of a more general downward movement affecting all primary commodities or only a re-adjustment of prices within the primary commodities group.

The price relationship between primary commodities and finished products had been much discussed at the Havana Trade Conference. In practice, the price arrived at in inter-governmental commodity agreements would be a negotiated one, worked out for each individual case.

In considering the long-term price ratio, the use of 1937 or 1938 as the base year made a considerable difference. It was dangerous to base conclusions on any one year since the production of commodities might vary considerably from year to year. In the last few months negotiations had been taking place on various products, such as wheat, tin and sugar.

In answer to a question from the CHAIRMAN as to whether the prices of non-food materials had maintained the same relative proportion to those of food described in the document, Mr. JUDD said that non-food agricultural commodities had fallen in price, but not to the same extent as others.

/The indices of

The indices of the prices of non-food non-agricultural raw materials and the price of food were closer than in 1947 and that had been brought about by a movement in both directions. The major movement had been the drop of food prices but there had also been a certain rise in the prices of other products, such as wool and tin.

Mr. KOHN drew the Sub-Commission's attention to the change in the trend of prices in the second half of 1948. The change in the terms of trade had been unfavourable to exporters of food.

In answer to a question from the CHAIRMAN as to what steps might be taken to restore the position to that existing in 1913, which was taken as a standard in the Secretariat's document (E/CN.1/Sub.3/W.5) Mr. JUDD said that negotiations on commodities depended on supply and demand, and not on an ideal situation. Some products, such as wheat, were exported by industrialized countries rather than by underdeveloped countries, and, therefore, a return to the 1913 position in wheat prices would not be of particular help to the underdeveloped countries. Moreover, the price ratio in 1913 was based on the volume of production at that time. A return to the high prices of 1913 would not be possible without a similar return to its low quantities..

Mr. KOHN also pointed out the interrelation between price and quantity. In the case of coffee it was found that the quantity exchanged depended on the price.

Answering a question from the CHAIRMAN as to whether the same argument of elasticity of demand did not also apply to manufactured goods, he said that it would if there were a free price but that the price was usually controlled to a certain extent. From the studies on coffee it appeared that elasticity of demand was close to unity but coffee might be considered a luxury commodity. In basic products such as wheat and potatoes elasticity of demand was less.

The underdeveloped countries would be benefited by a change in the price ratio assuming that it could be changed, but they were primarily interested in stability rather than in an increase of prices.

Mr. LIEU said the most important conclusion to be drawn from the report was not that the terms of trade were more or less favourable to the underdeveloped countries in any specific period but that there was a greater fluctuation in the prices of primary

/products than

products than in those of finished products. The prices of primary products did not either rise or fall continuously; they fluctuated. That constituted a risk for under-developed countries and made the under-developed countries a bad risk for investors. It was therefore important to diversify the economy of under-developed countries.

From the point of view of under-developed countries, it was important to compare not the current but the future prices of primary products with the current prices of manufactured goods. The United Nations had arranged for many inter-governmental agreements on the prices of primary commodities. He had attended several sessions of the International Wheat Council and the International Wheat Conference, and so far no agreement had been reached concerning the level at which the price of wheat should be stabilized and the quantities which the importing countries should buy every year during the next five years. Although China was an importer of wheat, he believed that the principle underlying such agreements for the primary commodities was sound and that it would be of advantage to all countries concerned to stabilize the future prices of those commodities.

The CHAIRMAN mentioned two difficulties in connexion with the report (E/CN.1/Sub.3/W.5). He had the impression that food could no longer be regarded as being mainly exported by under-developed countries. Food such as wheat, corn and feedstuffs was exported by highly developed countries and many under-developed countries such as India, Ceylon, Malaya, Brazil and the Central American Republics had become large importers of food. He therefore thought the document in its consideration of terms of trade should distinguish the origin as between underdeveloped or highly developed countries of food and raw materials.

Mr. DOREMAN said that at several points, for example, in Section 5, the document indicated that the composition of exports and imports of underdeveloped countries were not in exact accordance with the classical pattern which presumed an exchange of primary commodities for manufactures. The document (E/CN.1/Sub.3/W.5/Add.1) showed that in 1938 underdeveloped countries had taken 6.4% of their imports from the United States of America in food but that the

/proportion

proportion had more than doubled in 1947. The increase in food prices therefore adversely affected them. As was pointed out in the document, even when the terms of trade were favourable to underdeveloped countries, it did not mean that the total available volume of foreign exchange would improve. As was pointed out in the document, the comparison with the 1913 position did not imply that prices should be fixed at the 1913 level. It had merely been used for illustrative purposes. One of the most important things for underdeveloped countries was stability of prices and also of the price relation between exports and imports. The Secretariat's study was merely statistical and indicated the changing price relationship in foreign trade between underdeveloped and industrialized countries.

The CHAIRMAN assured Mr. Dorfman that the Sub-Commission appreciated the work the Secretariat had done in preparing the document. He pointed out, however, that the question of terms of trade was primarily affected by whether food was a major item of importation of underdeveloped or industrialized countries and that that point was not given due emphasis in the document.

The fact that a fall in the price of wheat and corn would definitely improve the terms of trade of underdeveloped countries was very relevant to the discussion.

He agreed with Mr. Lieu that a given rise in the price of capital goods meant something quite different from a rise in the prices of raw materials and food. If a country was now receiving a higher price for its raw materials, it might be able to afford more capital equipment, but it would not be an economic proposition to buy that capital equipment unless it knew what the price of raw materials would be in several years' time. That was a major point which should be emphasized in the document.

He also pointed out the important part played by textile prices in reducing the capacity of underdeveloped countries to finance their own development. The prices of textiles had risen more than those of any other goods. Textiles were necessities and were largely purchased by underdeveloped countries. The rise in textile prices had therefore decreased the availability of funds for the development of

/underdeveloped

underdeveloped countries. He thought that from the point of view of facilitating their economic development, it was urgent to do something to increase textile production and lower the prices of textiles.

Mr. COLLADO said that a detailed study of textiles, as of food, might show that the textile trade did not fit in with the traditionally defined pattern of trade of underdeveloped countries.

Mr. MOROZOV observed that the main conclusion reached in the Secretariat's study was that the existing price relationship was more favourable to the underdeveloped countries than had been the case before the war. He strongly disagreed with that conclusion, which he considered to be biased in favour of the industrially developed countries. The assertion was in fact disproved by data included in the study itself, for example on page 92, where it was shown that out of 44 areas studied, in 18 the position was worse than it had been in 1938 and in another 6 was there no change. That fact alone was enough to show that the report reached controversial conclusions which did not correspond to the facts.

The study had taken as a basis the crisis year of 1938, when the price relationship was especially unfavourable to the underdeveloped countries. If the figures for 1937 were taken, it would be clearly seen that the present conditions were even worse than they had been for those countries. That fact was mentioned, moreover, on page 6 of the study.

In order to come to the conclusion that price relations in the post-war period were favourable to the underdeveloped countries, the authors of the study had taken the total of exports/imports, which gave a distorted picture, since exports from underdeveloped countries were largely monopolized by the colonial Powers and the profits went to those Powers and not to the underdeveloped countries themselves. The United Kingdom, for example, derived enormous profits from its monopoly of the export of cocoa from the Gold Coast, in view of the world increase in prices, while continuing to pay low prices to the local producers; and the United States oil monopolies sold oil produced in Saudi Arabia at prices six or seven times higher than the cost of production.

/According

According to the Statistical Appendix to the Economist, 63 British rubber companies had earned £2,068,000 in 1948, compared with £752,000 in 1947, whereas in 1938 eighty-two rubber companies had earned £853,000. The inclusion in the total of imports into underdeveloped countries of equipment imported for the use of enterprises which were controlled by the concerns which exploited it gave a distorted picture. The study was based on United Kingdom and United States official statistics, and had not used data supplied by the underdeveloped countries. The authors of the study had not taken sufficiently into consideration the role of transport, insurance, and other expenses which in fact flowed into the treasury of the monopolies. They had deliberately ignored the discrepancy between the official export and import prices of the United States and the United Kingdom and the prices obtained by the producer in the underdeveloped countries from the foreign capitalist monopolies.

In that connexion he referred to another Secretariat document, the Study of the Economic Development of Non-Self-Governing Territories, page 6 of which stated that "generally speaking the price of consumer goods imported for sale to natives had risen more than the prices paid to indigenous producers." That statement alone refuted the conclusions of the study of post-war price relations and enforced the conclusion that the change in price relations had not been favourable to the underdeveloped countries, and that the unfavourable situation was one of the principal reasons for the impoverishment of the peoples and the lack of substantial economic progress in those territories. He would give some examples from United Nations documents.

The report of the Visiting Mission to Ruanda-Urundi indicated that the mining industry of the Territory was entirely controlled by Europeans and that the wages paid to local labour were very low.

The report of the Secretariat to the Economic Commission for Asia and the Far East also indicated that, although nominal wages had increased, inflationary tendencies in the area had increased the cost of living, so that real wages were lower than before.

He referred to the discussion in the Economic and Social Council on the world economic situation, and the Statistical Bulletin of the Secretariat, which gave facts showing that industrial production in many underdeveloped countries manifested a downward rather than an upward trend.

/The annual

The annual report of the Administering Authority on Togoland stated that it was not envisaged that the industrial development of the Territory would be furthered in the near future.

A correct analysis of the changes in price relations and trade between under-developed countries and industrially developed ones should be made taking into consideration the advantages which monopolies obtained from the importing of equipment for their enterprises in the under-developed countries and Territories. If that were done the conclusion would inevitably be reached that the price relationship was even more unfavourable to the under-developed countries than it had been before the war. The prices of imported goods, including textiles, had considerably increased, whereas the prices of raw materials had increased very little, if at all. The main reason for that was that both the prices of raw materials on the one hand and the prices of imports on the other were dictated by monopolies in the industrially developed countries. Thus the discrepancy in prices tended to increase, as shown in the Secretariat study, which stated (on page 6) that on the eve of the second world war the under-developed countries were receiving only 60 per cent of the amount of manufactured goods in exchange for commodities exported which they would have obtained at the end of the nineteenth century. That situation had since worsened.

The Secretariat study distorted the real situation in the interest of the industrially developed countries, particularly the United States and the United Kingdom, and reaching conclusions detrimental to the under-developed countries. In view of that fact he proposed that the Secretariat should re-write the document with a view to:

(a) analyzing, on the basis of objective indications, the real price relation in the trade between developed and under-developed countries;

(b) showing how the present character of the trade between these countries obstructs the economic development of under-developed countries, in particular the development of their domestic industries;

(c) showing what influence is exercised upon these countries' financial and trade position by the foreign investments made in the same countries, and how the profits and interest which these foreign investments derive influence the economic development of individual under-developed countries.

/The CHAIRMAN

The CHAIRMAN protested against the implication contained in Mr. Morozov's remarks that the Secretariat had shown deliberate bias in writing the document in favour of certain industrial countries. He pointed out that as international civil servants the Secretariat had no bias in favour of any of the Member States; their only objective was the fulfilment of the principles of the Charter. Mr. Morozov's criticisms had been drawn from data supplied in the same document, which nowhere stated that there had been an enormous improvement in the terms of the under-developed countries as compared with the pre-war position. The document was not a general study of the terms of trade between under-developed countries and industrialized countries; its primary purpose was to find out the ratios between prices of primary goods and prices of manufactured goods and machinery. He drew attention to a number of passages in which the figures for 1937 as well as those for 1938 had been given for purposes of comparison and emphasized that if it had been intended that incorrect conclusions should be drawn the figures for 1937 could easily have been omitted.

Mr. GUIMARAES congratulated the Secretariat on its admirable study. The problem of terms of trade was a difficult theoretical question to which so far no solution had been found. The difficulty arose mainly from the circumstance that it was almost impossible to reach conclusions in so short a period as the post-war years. The disturbances caused by the war in the economic structure of all countries had been so great that it was no exaggeration to say that the whole world economy had been upset.

He agreed with Mr. Lieu and the Chairman that what was most important was to have stability in the terms of trade between primary products and manufactured goods, in order to avoid violent fluctuations in the prices of the former, upon which the under-developed countries depended not only to carry out programmes of economic development but even to maintain their already low standard of living. The Committee on Commodity Arrangements had been set up with a view to avoiding those fluctuations, and the only way to improve the price relationship between manufactured goods and primary products was to support that institution.

He hoped the Secretariat would continue its work, while endeavouring to improve its methods of investigation. He recommended the method adopted by Ernst Wagemann, of the Institut für Konjunkturforschung, in Berlin.

/Mr. COLLADO

Mr. COLIADO remarked that the question was a very complicated one, and that any attempt at generalization led to over-simplification. He thought the discussion had shown a certain tendency to leap to conclusions which seemed to have a direct bearing on the progress of economic development but which had no real reference to the simple price analysis which had been put forward. The question was more complicated than that of relative prices. He had not derived any very useful conclusions with regard to the Sub-Commission's work, which he understood to be to make suggestions how to proceed with the problem of developing certain countries of the world.

One conclusion which emerged from the Secretariat study was that it was clear that prices of raw materials and foodstuffs, for a variety of reasons, had in the past tended to be subject to greater fluctuations than the prices of certain types of manufactured goods.

Mr. MOROZOV, in reply to the Chairman, emphasized that he had not intended to speak of the Secretariat as such, but of the document presented to the Sub-Commission. Any member of a committee was entitled to express his views on a document.

The study ignored the fact that a great part of the price of raw materials exported went to the Metropolitan Powers.

Furthermore, the study did not show separately among imports equipment and other materials for the use of branches of the enterprises that imported them into the territories.

There was a discrepancy between the facts and figures given in the study and the conclusions drawn.

He had also referred to other documents prepared by the Secretariat in which the opposite evaluation had been made in the same matter, including the question of prices.

He felt that a frank evaluation of the analysis presented to the Sub-Commission would be of assistance to the Secretariat in the preparation of future documents.

/The CHAIRMAN

The CHAIRMAN concurred in the last statement of Mr. Morozov and agreed that every member had the right to express his opinion on a document. He had protested against what he had understood to be an imputation of bias on the part of the Secretariat but if that had not been Mr. Morozov's intention the matter could be left there.

Mr. BRAVO considered that the document contained valuable and interesting information. He did not regard it as a final document.

Mr. Morozov had made a valuable contribution to the discussion: he had pointed out that behind many difficulties lay economic phenomena that should be taken into account in the analysis of a situation.

Documents such as the one before the Sub-Commission should be considered as a first approach to the analysis of the problem and subject to constant review and improvement.

Mr. PATEK said, in connexion with Mr. Judd's statement, that it might be dangerous to promote the production of certain primary commodities and foodstuffs; a careful study should be made of sales. Otherwise there might be excess production and surpluses which might not find an outlet. He drew attention to a resolution passed by the FAO Conference of the previous November which stated that there could not be over-production of primary commodities. Increased production of such commodities would doubtless find an outlet on condition that the countries which needed them could increase their purchasing power.

The CHAIRMAN stated that the Sub-Commission would discuss the motion proposed by Mr. Morozov at its next meeting.

The meeting rose at 5.50 p.m.