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CONTENTS:

Report by the group of experts appointed by the Secretary-General under the terms of resolution 221 (IX) of the Economic and Social Council to study national and international measures for full employment (E/1584) (continued)

Chairman:	Mr. WILSON	Australia
Rapporteur:	Mr. DEUTSCH	Canada
Members:	Mr. GODEAUX*	Belgium
	Mr. NUNES GUIMARAES	Brazil
	Mr. HO	China
	Mr. SILVERIO	Cuba
	Mr. JEANNENEY*	France
	Mr. SAKSENA	India
	Mr. HAAVELMO*	Norway
	Mr. FLEMING	United Kingdom of Great Britain and Northern Ireland
	Mr. LUBIN	United States of America

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Representatives of specialized agencies:

Mr. EVANS	International Labour Organisation (ILO)
Mr. EZEKIEL	Food and Agriculture Organization (FAO)
Mr. FIELD	International Bank for Reconstruction and Development
Mr. HEXNER	International Monetary Fund (IMF)

Consultants from non-governmental organizations:

Miss SENDER	American Federation of Labor (AF of L)
Miss SANSOM	International Chamber of Commerce (ICC)

Secretariat:

Mr. WEINTRAUB	Secretary of the Commission
Mr. VARLEY	Assistant-Secretary of the Commission

REPORT BY THE GROUP OF EXPERTS APPOINTED BY THE SECRETARY-GENERAL UNDER THE TERMS OF RESOLUTION 221 (IX) OF THE ECONOMIC AND SOCIAL COUNCIL TO STUDY NATIONAL AND INTERNATIONAL MEASURES FOR FULL EMPLOYMENT (E/1584) (continued)

1. The CHAIRMAN called upon the Commission to continue its general discussion of part III B of the report relating to international measures. The Secretary of the Commission would reply to questions which had been raised at the preceding meeting regarding the views of the experts on loans to be granted to under-developed countries.

2. Mr. WEINTRAUB (Secretariat), replying to the representatives who had asked why the experts had made a distinction between loans granted for general development purposes and loans granted for carrying out concrete projects and why they had recommended that the International Bank should set up a department for general developmental lending pointed out that the first question was answered in paragraphs 116 and 197 (sub-paragraphs a, b, and c) of the report. He read the relevant text.

3. Referring to the second question, he stated that at the present time the Bank made loans only for concrete projects and that therefore it was essential to set up a special body to grant loans for general development.

4. Mr. NUNES GUIMARAES (Brazil) saw no way of achieving a balanced world economy without re-establishing the flow of foreign loans. Indeed, two conditions were essential to the achievement of such a balance: (1) the free flow of capital; (2) the free migration of labour.

5. As stated in paragraph 191 of the report, it was essential that, in the field of foreign investment, industrially advanced countries should adjust their policy so as to enable under-developed countries to increase their capital equipment and their real income. It was the flow of capital among nations that bridged the gaps in international trade. It was foreign capital which supplemented and stimulated the movement of domestic capital. Under-developed countries required agricultural machinery, laboratories etc. They therefore needed capital either from private sources or from international agencies.

6. It would be a grave error to underestimate the importance of private investment, notwithstanding the international difficulties which might have been encountered in that field. The flow of private capital must be encouraged rather than opposed. Moreover, countries receiving capital were more interested in obtaining private investments than funds from intergovernmental sources. Furthermore, encouragement should be given to the establishment of mixed corporations, which encouraged a spirit of enterprise in the under-developed countries, enabled them to control their industries and facilitated the transfer of capital and profits. In those corporations the immovable assets could for example represent national capital up to 50 or 60 per cent and the industrial equipment and imported raw materials could represent foreign capital to the extent of 40 to 50 per cent.

7. Nevertheless the needs of the under-developed countries in the field of public utilities, railways, hydraulic power, irrigation etc. were particularly urgent. In the long run those were the most productive forms of investment.

8. Thus in Brazil the railway companies had for the most part been set up with English capital, and they had been an essential factor in the economic development of that country.

9. It was nonetheless true that corporations with foreign capital which operated public utilities in under-developed countries were for the most part in a difficult position. The experts had undoubtedly had that in mind when they had made their recommendations concerning the International Bank.

/10. The fact

10. The fact that a loan was granted for general development did not remove the need for examining its soundness. If the Bank could grant loans without considering their soundness, those loans, instead of being a benefit to the borrowing country, might become a handicap because they might in the future be an obstacle to the equilibrium of their balance of payments.

11. Mr. SAKSENA (India) would have liked to hear a statement by the representative of the International Bank on the technical problems raised by the experts' recommendations.

12. The Brazilian representative had read paragraph 191 of the report, which was particularly important. Mr. Saksena, as he had already said, fully supported the principles stated in that paragraph and was glad to note that it had also been approved by the representatives of the great capitalist countries. He wondered, however, whether the measures recommended by the experts for the implementation of those principles were adequate and sufficient.

13. He gave as an example his own country, India, whose economy was peculiar in that it suffered at the same time from inflationary and deflationary pressure.

14. During the course of the last war, India had spent considerable sums on the production of war material, which had brought about an increase in monetary circulation, thereby producing an inflationary tendency. That tendency had been accentuated after the war as a result of the dearth of foodstuffs, due to the fact that Burma and Siam were no longer in a position to furnish them, and also to bad harvests.

15. The result had been an increase in the price of foodstuffs; that increase, while benefiting the agricultural population, had on the other hand forced the non-agricultural population to spend a larger proportion of its income on foodstuffs, thereby bringing about a decrease in the demand for other products.

16. Thus, the Indian economy presented a strange peculiarity; it consisted of two sectors, one of which manifested an inflationary tendency, the other a deflationary tendency. The experts had recommended national measures to combat one or the other of those tendencies; it therefore appeared difficult to apply those measures in India.

/17. So far

17. So far as its foreign trade was concerned, India, which lacked foodstuffs, was obliged to buy cereals abroad. It also imported the locomotives and machinery which were needed for the re-establishment of its economy. Moreover, its exports had a tendency to diminish. The result was that it had difficulty in assuring the equilibrium of its balance of payments. India could not solve those difficulties by means of a devaluation of its currency, a measure which could only succeed if there existed large surpluses which could be exported at reduced prices. India therefore could rely only on an increase in its production, both of primary goods and secondary products.

18. To do that, the best method was to bring about an increase in national investment. National capital, however, depended on savings, and as a result of the increase in expenditure for foodstuffs, the latter had considerably decreased in India. Thus, India must have resource to foreign capital. That capital might come from two different sources: either from private investment, or from intergovernmental loans.

19. So far as private investment was concerned, the United States representative had said that a favourable climate must be created in the borrowing countries. That was not sufficient. The lending countries must create a favourable climate in their own countries and allay the fears and apprehensions which might arise there. In particular, the fiscal policy of lending countries might facilitate or discourage foreign investments.

20. The experts had been right to distinguish between loans granted for general development and those granted for the carrying out of concrete projects. The field of activity of the International Bank was not currently wide enough, for it did not cover all forms of loans and in particular those which were vital for under-developed countries. Loans for general development were undoubtedly more risky than loans for concrete projects, but they were the most important and they should be given particular attention and encouraged to the fullest possible extent.

21. The experts had not disregarded those risks, and in paragraph 196 (e) of their report they had visualized measures designed to cover them in part.

22. He agreed with the recommendation contained in paragraph 198 of the experts' report, concerning technical assistance by the United Nations in the matter of economic development. So far as India in particular was concerned, however, technical assistance unaccompanied by capital would be of little value. In any programme for the economic development of under-developed countries, financial assistance was of major importance.

23. In paragraph 193 the experts had recommended machinery for the granting of loans to foreign countries. He did not consider himself qualified to judge whether those proposals were of a practical nature. They should be studied by technicians from the point of view of their feasibility and the security they offered.

24. Mr. FLEMING (United Kingdom) recalled that in his general statement he had emphasized the importance which, for several reasons, he attached to a stable and continuous flow of investment from the industrially advanced to the under-developed countries; firstly, because it was desirable to increase productivity and raise standards of living in the under-developed countries; secondly, because it was difficult to find a rapid solution for balance of payments difficulties unless capital was made to circulate from countries having a surplus towards deficit areas; finally, because such a flow of capital would enable the demand for goods and services in the industrially advanced countries to be raised to a level higher than it would otherwise reach.

25. He entirely agreed with the United States representative as to the necessity for bringing about a climate in capital importing countries which would encourage private investment. That, however, was not sufficient to ensure a regular circulation of capital. Before the First World War and during the years from 1920 to 1930, the flow of investment had been greater than it now was, but it had not been regular. That lack of stability had not, however, had serious consequences, for there had not at that time been the balance of payments difficulties which now existed. It had perhaps become more difficult to overcome those difficulties than the lack of capital.

/26. The experts

26. The experts had therefore been right in seeking to ensure greater regularity in the international movement of capital, and Governments should carefully examine their recommendations on that point. The technique they proposed did not exclude the maintenance of a large volume of private international investment. Their aim was, by means of the system of loans they had worked out, to get Governments to make up the difference between what the volume of investments should be and what it actually was.

27. It was clear that the experts had been somewhat rash in their desire to achieve absolute stability of investment. Such stability depended above all on the stability of balances of payments. The present instability of the latter made it impossible for any country to give a guarantee as to the amount of capital it should export. If a country did not succeed in obtaining a surplus in its balance of payments corresponding to the amount of capital it should export, it would have to reduce its capital exports. The representative of Canada had stated that he did not think that Governments would undertake to furnish fixed amounts of capital; the representative of the United States of America had said that the amount thus guaranteed would be so small as to be ineffectual. Nevertheless, Governments should study that aspect of the problem.

28. If the fact of having to act through international organs would prevent Governments from accepting obligations of that nature, it would be preferable to attempt to stabilize the flow of capital exports by national measures. Governments might prefer to retain the administration of capital in their own hands. However that might be, the main difficulties in a system of that kind arose in connexion with demand. The United States representative had said that, so far as the International Bank was concerned, the shortage of funds would not restrict the export of capital which the Bank might finance, since that shortage might be only a temporary one. Loans rather than subsidies were involved, and it was likely that, because the loans would have to be repaid in the currency of the lending countries, the amount of capital borrowed would be limited by the borrowing countries themselves. That amount might even be less than the lending country would have liked to export in the light of its own employment policy.

29. He therefore concluded that if it was considered that a programme of loans for general development administered by the Bank would restrict the amount of available capital, programmes on a wider basis should be contemplated.

30. It was true that, in the last analysis, any programme of development was actually a programme of concrete projects; but it was not certain that a thorough study of the probable effects of each concrete project would be of great value, as it was difficult to prove that the capital had really been employed to carry out the project for which it had been intended, or that the project in question would have suffered more than another for want of that capital.

31. The only considerations by which the Bank or a lending Government should be influenced were whether the borrowing country was able or willing to repay the loan, whether its fiscal policy was satisfactory and whether its general policy did not include undesirable elements.

32. Subject to those reservations, Mr. Fleming approved the recommendations of the experts concerning loans granted for purposes of general development. Like certain other representatives, however, he thought that the experts' demands upon the landing countries were too high. Governments should be asked whether they had any better plans to propose.

33. Mr. EZEKIEL (Food and Agriculture Organization) stated that at several of its conferences FAO had examined the question of funds to be furnished to under-developed countries for investment purposes. The number of loans granted for that purpose to such countries was negligible; one reason for that was that the Governments concerned had not submitted detailed plans to financing organs.

34. FAO therefore felt that deficit countries should be invited to submit concrete programmes of development which would enable them to ask for long-term and short-term loans. It was further necessary to establish a plan of technical assistance in order to facilitate the preparation of such programmes.

35. Mr. Ezekiel observed in that connexion that FAO had already opened a school in Pakistan for the training of personnel required for the preparation of programmes of that nature. He called upon Member States and specialized agencies to follow that example.

36. The Governments of under-developed countries were not solely responsible for the existing situation. The preparation of detailed and well-documented projects involved considerable expense; Governments hesitated to incur such expense so long as they were not certain of obtaining the loans they required.

37. Thus, the problem had two different aspects: on the one hand, there was need to stimulate effective demand for loans; the recommendations of the experts on that point corresponded on the whole to the measures taken by FAO. On the other hand, it was necessary to increase the amount of available funds by extending the capacity of inter-governmental financing organs and attracting private capital into that field, thus inducing Governments to undertake the required work.

38. Mr. FIELD (International Bank for Reconstruction and Development) thought that an exact definition of the term "general development" should be given before the question of programmes of general development could be usefully discussed.

C. Plan for stabilizing the flow of international trade. Addition to the functions of the International Monetary Fund

39. Mr. LUBIN (United States of America) wondered whether the proposals of the experts in that field would not have unfavourable repercussions. The granting of loans to deficit countries with a non-convertible currency might, he thought be liable to retard the return of those countries to convertibility.

40. Mr. HEFNER (International Monetary Fund) stated that the Fund was eager to participate in the consideration of the report of the Group of Experts and in drawing up the measures to be taken in that connexion. He did not think, however, that at the present stage, before the Commission itself had taken a decision, the Commission would expect the Fund to give its views on the value of the recommendations and directives proposed by the experts.

41. The experts admittedly recognized the importance of the Fund in connexion with the establishment of a stable equilibrium for international payments, and they realized the necessity of increasing its resources and disposable funds. He wondered, however, whether the scepticism the experts evinced regarding the Fund in paragraph 121 of the report

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was really justified. The Fund would have to study that question. Furthermore, it wished to study more closely certain statements of the experts in paragraph 120, concerning the right recognized in the Articles of Agreement of the Fund and in the Charter of the ITO to introduce restrictive and discriminatory measures in cases where balance of payment difficulties resulting from deflationary pressure from abroad were encountered. He quoted chapter VI of the Charter of the ITO to illustrate that protective measures could be taken also in the case of inflationary pressure. He wished to assure the Commission that for its part the Fund adhered as strictly as possible to the principle of non-discrimination.

42. With regard to the proposal of the experts that the Articles of Agreement of the Fund should be amended, he did not know whether such an amendment was necessary and whether it was advisable to discuss it at that stage of the discussion. He could see no objection to the suggestion of the experts that the Fund should approach non-member States, in view of the fact that the Fund was an organ which was becoming universal. He did not think it was necessary to increase the number of institutions dealing with international monetary problems.

43. In conclusion, he stated that the Fund was deeply interested in the problem of the return to the convertibility of currency. He was not, however, in a position to envisage the technical aspect of that problem at that stage of the discussion.

44. Mr. DEUTSCH (Canada) wondered whether the system proposed by the experts would have proved effective if it had been put into operation between 1920 and 1930, for example. He was inclined to think not.

45. Mr. FLEMING (United Kingdom), supported by the CHAIRMAN, did not think that such a question was relevant. Past experience had shown that a country which was suffering a decline in its exports tended to reduce its imports, but it was possible that such a country would have reacted differently if it had had currency at its disposal, as the report proposed.

/46. In proposing

46. In proposing that system, the experts had embarked upon an excellent course. Each country should, of course, strive to ensure full employment within its frontiers. It was possible, however, that it would not succeed and in that case the effects would be felt by the rest of the world. If unemployment occurred in a large country, the repercussions of that blow would be all the more serious and would to a certain extent be of a cumulative character.

47. The best solution, therefore, was to ask a country which was suffering from a depression to supply the rest of the world with financial resources, so that the level of world trade could be maintained. It was necessary, however, to make sure that the disequilibrium was due to a temporary depression and was not of an organic nature.

48. The International Monetary Fund itself had recognized that it was not in a position to finance the deficit which might affect the balance of payments after a depression. That situation had occurred during the previous year and might recur the following year. The financial resources of the Fund could, of course, be increased within the framework of normal procedure. The plan of the experts, however, had the advantage that instead of increasing those resources to a fixed amount, it recommended a continuous contribution of capital as long as the crisis lasted. That was equivalent to granting to the countries concerned unlimited conditional loans for specific and numerically defined purposes.

49. Mr. Fleming proceeded to refer to certain criticisms made by Mr. Lubin. According to the United States representative, there was reason to fear that the borrowing countries might use the funds placed at their disposal for other purposes than the purchase of products from the depositing countries. Mr. Lubin had also expressed doubts with regard to the possibilities of reimbursement of the loans granted under the plan of the experts. Mr. Fleming thought that the criteria governing the loans would be such as to overcome Mr. Lubin's objections completely.

50. Mr. Lubin thought that the measures proposed by the experts created the least favourable conditions for a return to convertibility. It was true that a debtor country which was to increase its indebtedness might see its reserves diminish and, as a result, delay the return to convertibility of its

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currency. When the various alternatives were considered, however, it might be thought that the price of a return to convertibility would be very high if, for that reason, raw materials were to be refused to countries which needed them to keep their workers in employment. The system proposed, on the contrary, would enable those countries to maintain their imports without fear of exhausting their currency reserves.

51. Apart from that, the system proposed by the experts presented several serious difficulties.

52. It would impose specific obligations on countries suffering from a depression, without giving a precise definition of the conditions in which those obligations must be fulfilled. It was therefore necessary to fix the limits of what was understood by "employment target" and clarify the meaning of the expression "reference year". Means must be found to ascertain to what extent variations in the balance of payments were due to variations in employment. Finally, the experts appeared to base their reasoning on the idea that the stabilization of capital exports had already been achieved.

53. He wondered whether it would not be wiser not to attempt to judge how far balance of payments difficulties were due to a depression, and simply to recognize that it might be necessary to establish a system permitting the maintenance of foreign exchange reserves in the case of balance of payments difficulties due to a depression or to other temporary causes.

54. He could not suggest any technique which would enable a distinction to be made between those various causes, but he approved of the principle that countries suffering from a depression should undertake to compensate for the inadequacy of their demand for imported goods either by placing funds at the disposal of an international body or by furnishing them directly to the exporting countries.

55. Mr. WEINTRAUB (Secretariat) reverted to the question of convertibility raised by Mr. Lubin. He thought Mr. Fleming had given a clear and definite reply to that question; in addition, he drew the attention of the United States representative to paragraphs 127 and 135 of the experts' report, which provided

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additional information on the subject. They said, in effect, that the aim of the measures proposed by the experts was to ensure that the situation should not continue to deteriorate, and that they should limit the crisis. The experts therefore proposed to impose a limit on the loans to be made by the Fund. That limit, defined in paragraph 127, would obviate the danger referred to by Mr. Lubin.

56. Mr. HAAVELMO (Norway) thought the measures proposed in part C were insufficient to ensure the stability of international trade. A simultaneous reduction in imports and exports would be liable to render those measures inoperative. To solve the problem of world trade, the multilateral measures described in part A should be co-ordinated with those set forth in part C, which concerned the particular situation in each country.

57. The problems dealt with in part A, however, could not be settled once and for all. An attempt must be made both to attain a high level of prosperity in world trade and to maintain its financial equilibrium by methods of a multilateral nature.

The meeting rose at 5.15 p.m.