

United Nations
ECONOMIC
AND
SOCIAL COUNCIL

Nations Unies
CONSEIL
ECONOMIQUE
ET SOCIAL

UNRESTRICTED

E/CN.1/SR.51
29 April 1948

ORIGINAL: ENGLISH

ECONOMIC AND EMPLOYMENT COMMISSION

THIRD SESSION

SUMMARY RECORD OF THE FIFTY-FIRST MEETING

Lake Success, New York
Monday, 26 April 1948, at 2.30 p.m.

Chairman: Mr. Roland WILSON

Australia

Members:

| | |
|--------------------------|--|
| *Mr. Ernest de SELLERS | Belgium |
| *Mr. Jose Garrido TORRES | Brazil |
| *Mr. V. A. BAKOUNOV | Byelorussian Soviet Socialist Republic |
| Mr. John DEUTSCH | Canada |
| Mr. Franklin HO | China |
| *Mr. Nicassio SILVERIO | Cuba |
| Mr. Rudolf BYSTRICKY | Czechoslovakia |
| Mr. Jacques RUEFF | France |
| *Mr. D. P. KARMARKAR | India |
| Mr. Gunnar BOE | Norway |
| Mr. George LUTOSLOWSKI | Poland |
| *Mr. Marcus FLEMING | United Kingdom |
| Mr. Isador LUBIN | United States of America |
| Mr. A. P. MOROZOV | Union of Soviet Socialist Republics |

Representatives of Specialized Agencies:

| | |
|----------------------|---|
| Mr. A. A. EVANS | International Labour Organization |
| Mr. D. GORDON | International Bank for Reconstruction and Development |
| Mr. A. G. B. FISCHER | International Monetary Fund |

Consultants:

| | |
|-------------------|--|
| Mrs. Lena SPIEGEL | World Federation of Trade Unions |
| Miss Tony SENDER | American Federation of Labor |
| Mr. Joseph BOTTIN | International Federation of Christian Trade Unions |

* Alternates for third session

NOTE: Any corrections of this record should be submitted in writing, in either of the working languages (English or French), and within twenty-four hours, to Mr. Delavenay, Director, Official Records Division, Room CC-119, Lake Success. Corrections should be accompanied by or incorporated in a letter, on headed notepaper, bearing the appropriate symbol number and enclosed in an envelope marked "Urgent". Corrections can be dealt with more speedily by the services concerned if delegations would be good enough also to incorporate them in a mimeographed copy of the record.

Secretariat:

Mr. Daniel WEINTRAUB

Secretary of the Commission

CONTINUATION OF THE DISCUSSION OF THE REPORT OF THE SUB-COMMISSION ON
EMPLOYMENT AND ECONOMIC DEVELOPMENT (DOCUMENT E/CN.1/55)

After associating himself with the comments on the merit of the report that had been made at the previous meeting, Mr. KAFMARKAR (India) drew the Commission's attention to two particular points.

Firstly, he referred to the distinction made in paragraph 6, page 42, between war-damaged countries and under-developed countries. To those two categories should be added a third, namely, countries which had still not reached full economic development but whose economies had suffered from the effects of the war. In some cases, the economic difficulties brought about by the war had been almost as great as war devastation itself, and some form of international loan or assistance should be considered for such countries.

Secondly, Mr. Karmarkar heartily endorse the last sentence in paragraph 12, page 44. He pointed out that the economic conditions that were an aftermath of the war could be fundamentally corrected only by means beyond the competence of the Economic and Employment Commission. Great progress towards the stabilization of the world economic situation would be made if the world were thought of as a whole, rather than as divided into different economic groups, and if international economic aid were given without regard to other factors.

Mr. MOROZOV (Union of Soviet Socialist Republics) thought that for both practical and scientific reasons, the Commission could not approve the statements contained in the report; and he pointed out some of its major weaknesses.

One of the chief causes of inflation was the race for armaments. The report, however, had not only not made that fact clear, but had even seemed to imply that there was some justification for armaments. Certainly the Sub-Commission had not recommended a decrease in military expenditures in order to combat inflation. If the Sub-Commission's position on so important a point was wrong, the whole report should be viewed with some misgivings.

Moreover, the report stated that certain political changes had been obstacles to increase production. Mr. Morozov wondered what political changes were in the minds of the authors. Political changes in some countries had proved to be the effective means by which economies had been rehabilitated in spite of the tremendous destruction of the war.

Although the report seemed in general to treat inflation as an evil, there was considerable evidence, especially in paragraphs 2 and 3 of section B of Part V, that the Sub-Commission wished at the same time to try to justify and defend it. Yet the fact was that inflation was always a burden on the masses, as it meant a lowering of their real wages and consequently a worsening of their economic situation. Any possible benefit from inflation would be felt only by the capitalists.

The report had made generalizations regarding planned economies including in them countries in which the means of production were privately controlled. He felt that such measures as rationalization or controls as existed in the latter countries which did not control did not qualify them to be included in the category of planned economies.

The report was also wrong in emphasizing in the section on the struggle against inflation the need for decrease demand rather than for increase production as a means of combating inflation.

Mr. Morozov could not agree with the provision which had already been criticized by many Commission members regarding investment returns. The Sub-Commission's suggestion that an increased rate of interest might aid in the struggle against inflation could only increase the income of the banking capitalistic classes. Higher interest rates would inevitably lead to higher prices and the burden would therefore fall on the consumers. It was scarcely fitting for a report by an organ of the United Nations to suggest a measure which could be helpful to only a small part of the population.

In dealing with the question of taxation, the Sub-Commission had pointed out that too high direct and progressive taxation might weaken the incentive for individual efficiency and discourage business. Such an argument would be applicable only to countries which believed in increasing the profits of the capitalistic monopolies. Furthermore, it was clear that failure to use direct and progressive taxation would mean the increase of indirect taxation which was a burden to the large masses of consumers.

On page 35, paragraph 27, sub-paragraph 1, mention was made of the withdrawal or exchange of all or part of the notes in circulation as a method for absorbing or neutralizing surplus liquid assets and so of combatting inflation. Mr. Morozov could not agree with that method, since the Sub-Commission had seemed to recommend its use not just as an extreme measure but under normal, peaceful conditions.

It had been recognized during the debate that there were such economic and social differences among countries that it was hard to draw a general picture, however the specific national problems were beyond the competence of the Sub-Commission. The Sub-Commission should have dwelt chiefly on the international aspect of inflation; yet the paragraphs dealing with that aspect were at the very end, and seemed rather

an after-thought. In considering the international effects of inflation it meant primarily the United States and it had been entirely too timid and had failed to state clearly that the rise in prices in the United States coupled with its position as the leading export country was one of the basic reasons for the foreign currency reserve difficulties of other countries. If the Sub-Commission had carefully analysed that point, it would have reached conclusions different from those contained in the report.

In several places economic aid in the form of loans or grants to needy countries had been mentioned and approved. The value of such aid could be judged, however, only in the light of the conditions under which it was granted. Assistance such as had been rendered by UNRRA, for example, was useful; but the report had not made clear to what kinds of assistance it referred.

Mr. Morozov concluded that the Economic and Employment Commission should not approve the report of the Sub-Commission on Employment and Economic Stability either for submission to the Economic and Social Council or for publication.

Mr. RUEFF (France) approved the general thesis of the report and associated himself with the views that had been expressed at the previous meeting by the representative of the United Kingdom, with, however, some technical reservations.

In Part V, section A, the Sub-Commission had linked inflation with shortage of supply. While it was generally desirable to increase supply in order to raise standards of living, increased production would not necessarily drain off all surplus income and was not in itself a sure remedy for inflation.

As regards a method of dealing with the report, Mr. Rueff suggested that the Commission should follow the procedure that it had adopted in connection with the report of the Sub-Commission on Economic Development. The present report was a technical study which had scientific interest but was not suitable for transmission to the Economic and Social Council. The Commission should take note of its instructive value and attempt to use it as a basis for formulating some positive, practical recommendations to be presented to the Council. A small sub-committee should therefore be appointed for that purpose.

The CHAIRMAN agreed with Mr. Rueff (France) on the desirability of appointing a small sub-committee to draft positive recommendations.

As the representative of Australia he had himself already prepared some general recommendations based on the report and suggestions made by members, which he would circulate to the Commission (Document E/Corr.1/W.30).

Mr. TORRES (Brazil) wished to thank the members of the Commission for the election of Mr. Bravo-Jimenez (Mexico), whom he had nominated, to membership of the Sub-Commission on Economic Development.

The report of the Sub-Commission on Employment and Economic Stability was a rather academic document which, although it was scientific lacked the practical approach that was the major concern of most countries. The study should have attempted to make more concrete suggestions. Points which were of direct interest to him were missing in the report.

He agreed with the United Kingdom representative that the section on the "International Repercussions of Inflation in 'Deficit' Countries" was particularly disappointing. When considering the situation of Brazil, he found it difficult to fit it into the context of that section. The causes of inflation were not adequately mentioned and the classification did not seem exhaustive.

The shortcomings had probably arisen due to a tendency to treat a very complex problem in a simplified manner. He believed that the Secretariat's "Survey of Current Inflationary and Deflationary Tendencies" had presented a much better analysis of the problems confronting Brazil. The report under consideration was silent on the causes of inflation, and no attempt had been made to analyse them.

Among the causes, dislocation of production, disruption of transportation, the demand for agricultural exports, foreign expenditures and the necessity of paying exporters by issuing currency should be mentioned. Those were not problems of a domestic nature. They had arisen because Brazil had to play an important role during and after the war.

Mr. Torres considered that his random observations served to illustrate that the report was faulty in certain respects. A much clearer and more pointed analysis would have to be made with the inclusion of problems of countries like Brazil. The remedies to the problems of the under-developed areas might be two-fold, supplying expert assistance on methods of dealing with them and by suggesting international action to provide commodities in short supply and to alleviate inflation. Under the circumstances, he disagreed with the representative of the United Kingdom that the report should be published. He was rather inclined to follow the suggestion of the representative of France that a small drafting sub-committee should draft recommendations, taking into consideration the various criticisms and suggestions that had been made during the debate.

Mr. DEUTSCH (Canada) felt that the Sub-Commission had approached its task with a high degree of objectivity and its report gave a highly academic explanation of the problems involved, but lacked concrete suggestions needed by countries to surmount their difficulties. He agreed with the representative of France that monetary factors were important, but feared

that not much could be done in that field on an international basis. Inflation was a national problem of the individual states. As a consequence of the war, they were obliged to inflate their currencies. It was for the national governments to determine their monetary policy, and therefore, there did not seem to be much scope for organized international action.

Mr. Deutsch stressed that shortages of supply of food stuffs and basic materials had also played an important role and exercised pressure on the price structure. He regretted that the report did not examine these problems more concretely. He felt that the Sub-Commission might have arrived at more concrete conclusions if it had studied the work done by other agencies concerned with economic problems, such as the Economic Commission for Europe, the Economic Commission for the Far East, FAO, and the International Bank as well as the national programmes for foreign aid. Thus the Sub-Commission would have been able to point to gaps that needed to be filled and suggest priorities and concrete action that should be taken.

In its present form the report seemed inadequate. The best way of dealing with it was that suggested by the representative of France.

Mr. LUTOSLOWSKI (Poland) shared the view that the report was a scholarly treatise on inflation. Practically every statement in it was filled with reservations and inconsistencies were abundant. He discovered many omissions and lack of proper emphasis.

He agreed with the United Kingdom representative on his formulation of the two aspects of inflation, but felt that it was necessary to examine more thoroughly the material background of the inter-relation of prices and wages and the reasons for their discrepancy. One of the obvious reasons was low productivity per capita; another, that prices were calculated wrongly. Although increasing per capita production was the only way of

improving the situation, the report devoted only 2 per cent of its attention to that question.

It should be borne in mind that the utilization of human effort was one of the major reasons for the economic progress that the various countries had been able to achieve. When human effort was improperly used there was an insufficient supply of commodities, low wages or excessively high prices. There were three or four major factors causing low production which had a bearing on balance of payment difficulties. They included inadequate product or process design; worn out, improper or unbalanced equipment; inadequate utilization of available equipment; irregular and insufficient supply of materials; and bottle-necks in semi-fabricated commodity production. In addition, improper specifications by the buyers and forced sales on the part of sellers resulted in inefficiency and waste.

The important question was what could be done on an international scale to increase production per unit of worker. Most useful would be technical assistance and some specialized agencies as, for instance, UNESCO could be helpful in bringing the necessary information to the attention of those concerned.

In its present form the report seemed to give advice to governments on how to solve some of their domestic problems. It was difficult to see how such advice could be helpful to the governments. It would be more advisable to provide information on the measures which were being taken in other countries to solve comparable problems. Conceived in such a way, the report would contribute to international co-operation which was absolutely necessary.

The CHAIRMAN suggested the representatives from the following countries for membership in the sub-committee to deal with the report on employment and economic stability: China, Belgium, Union of Soviet Socialist Republics and the United States of America.

Mr. LUBIN (United States of America) proposed that the representative of Australia should be added to the list.

Mr. TORRES (Brazil) suggested the addition of the representative from India.

It was decided that the drafting sub-committee should be composed of the members who had been nominated.

The meeting rose at 4.15 pm.