

United Nations
ECONOMIC
AND
SOCIAL COUNCIL

Nations Unies
CONSEIL
ECONOMIQUE
ET SOCIAL

UNRESTRICTED

E/CN.1/SR.85
7 June 1949

ORIGINAL: ENGLISH

MASTER FILE

ECONOMIC AND EMPLOYMENT COMMISSION

Fourth Session

SUMMARY RECORD OF THE EIGHTY-FIFTH MEETING

Held at Lake Success, New York,
on Monday, 23 May 1949, at 2.30 p.m.

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Economic and Social Council Resolution 178(III) on the world economic situation

<u>Chairman:</u>	Mr. WILSON	Australia
<u>Members:</u>	Mr. Van LANGENHOVE	Belgium
	Mr. ASTAPENKO*	Byelorussian Soviet Socialist Republic
	Mr. POLLOCK*	Canada
	Mr. HO	China
	Mr. SILVERIO	Cuba
	Mr. PATEK*	Czechoslovakia
	Mr. SAKSENA	India
	Mr. BOE	Norway
	Mr. MOROZOV	Union of Soviet Socialist Republics
	Mr. FEARNLEY	United Kingdom
	Mr. LUBIN	United States of America

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Mr. EZEKIEL	Food and Agriculture Organization (FAO)
Mr. ROSENSTEIN-RODAN	International Bank for Reconstruction and Development
Mr. HORSEFIELD	International Monetary Fund

Consultants from Non-Governmental Organizations:

<u>Category A:</u>	Mrs. MEAGHER	World Federation of Trade Unions (WFTU)
	Miss SAMSON	International Chamber of Commerce (ICL)
	Mr. STOLZ	American Federation of Labor (AF of L)

Secretariat:

Mr. CAUSTIN	Secretary of the Commission
Mr. VARLEY	Assistant Secretary of the Commission

ECONOMIC STABILITY AND FULL EMPLOYMENT (INCLUDING CONSIDERATION OF THE REPORT OF THE THIRD SESSION OF THE SUB-COMMISSION ON EMPLOYMENT AND ECONOMIC STABILITY) (E/CN.1/66)

Mr. Van LANGENHOVE (Belgium) said that the Sub-Commission's Report rightly emphasized the need to examine the international aspects of the problem of full employment. The Sub-Commission had come to the conclusion that, in the event of a depression, the measures adopted by some countries might have unfavourable repercussions on the plans of other countries, and had, therefore, devoted a considerable part of its report to the problems of maintaining full employment within various countries and of balancing foreign trade.

The outlook in that field should give rise to some fears. At its previous session the Economic and Social Council had again examined the world economic situation and had found that the supply of foodstuffs and basic products had considerably increased in 1948, as compared with 1947.

Restrictions on foreign trade remained considerable and were increasing. Disequilibrium in the balance of payments had caused many countries to restrict their imports, establish strict bilateral arrangements and strengthen the control of foreign exchange rates rather than to develop multilateral arrangements.

A decrease in demand on international markets and a lowering of export prices might result in a greater tendency to restore the

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equilibrium of the balance of payments through cuts in imports. Restrictions in one country entailed restrictions in others, and their consequences would inevitably be most unfortunate for all. Such restrictions lowered the standard of living of the countries applying them, and prevented the countries which had succeeded in restoring their stability from reaping the full benefit of their efforts.

That development had now become clearer. Supply was greater than demand and prices were going down. A larger number of countries were suffering from unemployment. Nevertheless, the replies given by Governments to the questionnaire on the maintenance of full employment made it clear that, in the event of a slackening of economic activity, most of them would restrict imports so as to maintain full employment within their respective countries. Thus, as the Sub-Commission had stated, some countries would maintain full employment by "exporting unemployment" to other countries by means of import restrictions.

Such tendencies would undoubtedly spell disaster for all. It was essential that each country should examine carefully the existing situation and then refrain from inadequate and unco-ordinated reactions.

The transition from wartime to peacetime economy had led to a period of over-employment of unexpected scope and duration. Its manifestations had been particularly pronounced in countries which had embarked upon ambitious programmes for raising their standard of living and increasing investments in the form of reconstruction and re-equipment. Such a policy had prolonged the inflation engendered by the war. It entailed the need for a multitude of internal and external controls, such as rationing and import restrictions, to check inflationary pressure.

The competent authorities in Belgium were convinced that such a policy could only prolong the chronic disequilibrium of the balance of payments of most of the European countries and that the only adequate remedy was to tackle the causes and not the effects of that ill. Monetary means, namely, banknotes and accounts, should be strictly limited and prices allowed to find their own level.

Whether right or wrong, that view had guided Belgium's economic and monetary policy since the end of the war. Immediately after its liberation, the country had taken radical steps to eliminate the potential purchasing power accumulated during the war and had, at the

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same time, adopted an import policy calculated to increase the amount of available goods.

Having given details of the financial and monetary measures adopted by his country to reduce the volume of credit, Mr. Van Langenhove said that, in order to avoid an inflationary increase in prices and maintain demand within reasonable limits, Belgium had had to choose either restrictive regulations or limitations on credit and higher rates of interest. The country had preferred commercial freedom to cheap credit.

That policy had enabled Belgium to restore its economy with extraordinary rapidity. The standard of living of the working classes had increased still further and the Belgian social insurance system was among the most advanced in the world.

Production as a whole had largely exceeded the pre-war level. As compared with 1938 it had risen to 114.6 per cent in January 1949, 110.7 per cent in February and, according to estimates, had reached 131.3 per cent in March. There was a considerable increase in the production of capital goods and a regression in the production of consumer goods.

The exports of the Belgium-Luxembourg economic union had risen from 7,111 million Belgian francs in December 1948 to a new record of 7,577 million in March 1949, after temporarily falling to 6,138 millions in January and 6,725 millions in February.

Imports on the other hand were decreasing and the total figure for March 1949 amounted to 7,109 millions. The favourable trade balance had amounted to 468 million Belgian francs in March 1949 as compared with 222 millions in February and a deficit of 442 millions in January.

Belgium's economic policy had also had favourable repercussions in other countries as it had fostered the resumption of trade and international co-operation. Belgium had been able to contribute to the economic recovery of other countries by exporting considerable amounts of consumer and capital goods and by granting large credits already totalling 300 million dollars.

There was, however, a dark side to Belgium's economic situation, namely, unemployment which had reached a peak of 254,000 at the beginning of 1949, including those partially unemployed. It had been

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steadily decreasing since then and the figures for the week ending 23 April ^{gave} a total of 220,641, including 53,335 partially unemployed. Unemployment existed in all occupations even in those which remained particularly active as the figures included men whose qualifications were obsolete and who had actually become unemployables. The potential labour force, on the other hand, had increased by some 300,000 as compared with the pre-war period, and despite the existence of unemployment, there had been an increase of about 200,000 in the number of people at work as compared with the pre-war period.

One of the main causes of unemployment was to be found in the restrictions on Belgian exports, which were mainly due to the payment difficulties facing many countries. The Belgian franc was a hard currency in Europe and the balance of payments of many countries was in Belgium's favour. To avoid paying in gold or dollars, Belgium's customers were cutting down their imports. That situation would improve with time as monetary reforms re-established the balance of payments.

Belgian unemployment, however, was due to more general causes and was only the manifestation of a phenomenon which extended well beyond the country's frontiers. After the transition from wartime to peacetime economy, the world had experienced a period of inflation and over-employment. Although Belgium was an extremely densely populated country, it had had to import foreign manpower on a large scale, particularly for the mining industry where foreigners accounted for one-third of the total labour force.

That phase of over-employment was now nearing its end and the world was progressing towards a more normal economy. Belgium was one of the first countries to have felt the consequences of those new conditions.

The competition between buyers, which had prevailed immediately after the war, had ceased and the sellers' market had changed into a buyers' market. Sooner or later all countries would have to adapt themselves to that new economic phase. Belgium had already begun that process. Such an adaptation might be delayed in countries which still suffered from inflationary pressure and it would proceed all the smoother in countries the economies of which had avoided rigid regulations and had maintained the necessary amount of elasticity. That phase of adaptation necessarily entailed a certain amount of unemployment. In its replies to the questionnaire on economic stability

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the Belgian Government had indicated that it would try to maintain full employment by speeding up programmes of public works, building of dwellings and the rehabilitation of war damage. The policy of credit restrictions would be gradually relaxed at the same time.

It should also be noted that both within the Benelux countries and the European organization for economic co-operation, steps were being taken to achieve the greatest co-ordination possible in the economic field. Such a policy could not but have favourable repercussions on the relationship which should exist -- as the Sub-Commission had rightly stressed -- between the problems of stability and employment, on the one hand, and the balance of foreign trade on the other.

RAPPORTEUR'S DRAFT REPORT ON ITEM 5 OF THE AGENDA (E/CN.1/W.56 and E/CN.1/W.56/Add.2)(discussion continued)

Annex A

The CHAIRMAN stated that the Belgian amendment to the redraft of Annex A (E/CN.1/W.56/Add.2) which read as follows, was under consideration:

"6. (a) Requests the Secretary-General, in co-operation with the specialized agencies, to submit to the Economic and Employment Commission and to the regional economic commissions a report on arrangements necessary for international co-operation in utilizing excess productive capacity for development projects and on the practical measures necessary to implement such arrangements.

"(b) Requests the regional economic commissions, after their consideration of the report of the Secretary-General, to transmit their views to the Economic and Employment Commission.

"(c) Requests the Economic and Employment Commission, after its consideration of the report of the Secretary-General and of the views expressed by the regional economic commissions, to submit its recommendations in the matter to the Economic and Social Council."

Paragraph 6 of the draft resolution contained in Annex A as redrafted by the Belgian member of the Commission was adopted, with minor drafting amendments, by 7 votes to none, with 4 abstentions.

Paragraph 19

Paragraph 19, with minor drafting amendments, was adopted by 7 votes to none, with 4 abstentions.

Paragraph 20

The CHAIRMAN announced that paragraph 20 had been adopted but that a proposal for addition to the paragraph by the Indian representative was still outstanding.

Mr. BOE (Norway) and Mr. HO (China) supported sub-paragraph 3 of the Indian proposal (see E/CN.1/SR.82 pages 8,9) redrafted as follows:

"Countries whose accumulated balances are only partially available for economic development"

The Indian proposal as amended was adopted with minor drafting amendments by 7 votes to none, with 3 abstentions.

Paragraph 21

Mr. CAUSTIN (Secretariat) suggested that it might be preferable, if the resolution referred to in paragraph 21 were drafted as a resolution of the Economic and Social Council rather than as a resolution of the Economic and Employment Commission.

The RAPPORTEUR reworded the resolution in Annex B in accordance with that suggestion.

Mr. BOE (Norway) strongly supported the draft resolution. He shared the view expressed by the United States representative that the inconclusiveness of the Sub-Commission's report was due to insufficient data and that it was necessary in the future to have available the results of the investigations suggested in the draft resolution.

Mr. Boe proposed additions to the draft resolution (E/CN.1/W.56/Add.2). To meet the objection of the United States representative that, because of the lack of data, he would prefer the possibility of covering marginal risks to be guaranteed through a subsidy and grant system rather than through an insurance company, Mr. Boe re-drafted paragraph 8 (e) as follows:

"An investigation of the possibilities of guaranteeing the marginal risks of specific development projects".

/Mr. LUBIN

Mr. LUBIN (United States of America), referring to proposed paragraph 8 (f), (E/CN.1/W.56/Add.2) said that, as the international monetary system became more stable, the interest position would change as also the International Bank's ability to grant easier terms. He therefore thought it inadvisable to recommend the investigation indicated in paragraph 8 (f).

Mr. BOE (Norway) emphasized that in proposing paragraph 8 (f) the thought uppermost in his mind had been not the burden entailed by interest payments because of a high rate of interest but rather the burden of yearly repayment if the Bank, because of the inloan position, did not feel entitled to grant loans for periods longer than twenty to twenty-five years. However, in view of the lack of support in the Commission he withdrew paragraph 8 (f).

Mr. MOROZOV (Union of Soviet Socialist Republics) stated that he would abstain on the resolution because he considered its basic aim was to disavow and discredit the principles and statements contained in the report of the Sub-Commission on Economic Development, although those principles and statements were solely in the interest of the under-developed countries.

Paragraph 3 of the draft resolution referred to the insufficiency of data. He himself thought that enough data had been available to evolve principles concerning the sources of capital for economic development. The aim of the originators of the draft resolution, as was evident from paragraph 8 (a), was to contemplate future studies on economic development from the point of view of capital exporting countries and not of under-developed countries.

Moreover, other provisions in the draft resolution, such as paragraph 8 (d), were directed against the industrialization of the under-developed countries. The basic idea of that paragraph was to justify the suggestion that development of heavy industry was not in the best interests of the under-developed countries since it would decrease the volume of savings in those countries. He could not agree with that.

Paragraph 8 (e), proposed by the representative of Norway, although it had been worded in more general terms, still referred to a commercial undertaking and was thus outside the competence of the Commission.

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For those reasons, he considered the draft resolution unacceptable and could not support it.

Mr. PATEK (Czechoslovakia) regretted the general approach of the majority of the Commission to the Report of the Sub-Commission on Economic Development due to the fact that the Sub-Commission had taken the part of the "have-nots".

The draft resolution before the Commission was an attempt to take away from the Sub-Commission the work it was entitled to do and transfer it to experts who would produce more palatable results.

The Report of the Sub-Commission constituted a criticism of the new policies of capitalist countries announced in point four of President Truman's programme. Paragraph 34 of the Sub-Commission's Report (E/CN.1/65) disapproved of the establishment of bilateral treaties on foreign investments since, under those treaties, the weaker and less economically developed countries usually came off worst. The United States, however, had already negotiated with Uruguay a treaty for friendship, economic development and navigation, and a similar bilateral treaty with Brazil. Article four of the treaty with Uruguay dealt with guarantees for United States investors in the event of nationalization of Uruguayan industries, and the United States press had commented that, before any expropriation, there should be previous agreement on the amount of compensation. A similar treaty was contemplated with Mexico, which was already in difficulties over the peso exchange rates.

He agreed with the USSR representative that paragraph 8(d) was directed against the industrialization of under-developed countries mentioning, as an example, that under the treaty with Uruguay only agriculture and the food processing industries were to be developed.

He was, therefore, unable to support the draft resolution because he felt that it ran counter to the report of the Sub-Commission on Economic Development.

The draft resolution contained in Annex B, as amended, was adopted by 8 votes to 3, with no abstentions.

Paragraph 21, with minor drafting amendments, was adopted by 8 votes to 3, with no abstentions.

The CHAIRMAN said the Commission had before it the following proposal by the USSR representative for addition to the draft report on item 5 of the agenda:

"Members of the Commission for the Byelorussian SSR, Czechoslovakia and USSR consider that, besides paragraph 15 of part IV of the report of the third session of the Sub-Commission, which had been supported by the Commission, the following statements and recommendations prepared by the third session of the Sub-Commission should be supported and submitted to the Economic and Social Council for its consideration:

"(Paragraphs 4, 5, 6 and 26 of part IV of the report of the Sub-Commission to be inserted in full)."

Mr. MOROZOV (Union of Soviet Socialist Republics) proposed the deletion of the last sentence of paragraph 10, of the whole of paragraph 12 and of the second sentence of paragraph 14, of the draft report, and the insertion of his proposal as a new paragraph 12.

Mr. LUBIN (United States of America) thought the Commission should not create the precedent of incorporating whole paragraphs from the Sub-Commission's report in its report, but should merely refer to them, giving the number of the document, since the Sub-Commission's report was already available to the Economic and Social Council.

Mr. MOROZOV (Union of Soviet Socialist Republics), supported by the representatives of the Byelorussian SSR and Czechoslovakia, thought that the minority had a legal right to express its opinion in the form it desired in the report. He did not consider that a violation of existing procedure, and felt that discrimination was being exercised since the minority opinions put forward by some other representatives had been incorporated in the report.

Mr. POLLOCK (Canada), supported by the representative of Belgium, said he quite agreed that the minority had the right to express its point of view, but that it should not do so at a length which would alter the form of the report to such an extent that the Commission's main intention might be misunderstood. He would support an indication of the paragraphs in the USSR proposal but was opposed to their being quoted in full.

Mr. BOE (Norway) suggested the possibility of including a synopsis of the contents of the paragraphs referred to, instead of quoting them in full or merely indicating them by number.

After further discussion on the subject, the CHAIRMAN put to the vote the USSR proposal for the inclusion of the whole text of certain paragraphs from the Sub-Commission's Report.

The proposal was rejected by 7 votes to 3, with 1 abstention.

Mr. MOROZOV (Union of Soviet Socialist Republics) requested that further consideration of the USSR proposal should be deferred until the second reading of the draft report.

It was so agreed.

It was agreed to delete the last sentence of paragraph 10, the whole of paragraph 12 and the second sentence of paragraph 14.

Mr. BOE (Norway) said that, during the discussion of the draft resolution on the problem of using excess capacity for anti-cyclical purposes, he had understood that it was connected with both items 5 and 6 on the Commission's agenda, and expressed the hope that the report would make clear that his proposal was concerned with both highly developed and less developed countries.

The CHAIRMAN said that that would be done.

ECONOMIC AND SOCIAL COUNCIL RESOLUTION 178(III) ON THE WORLD ECONOMIC SITUATION

Mr. FEARNLEY (United Kingdom) said his Government's views had been given by Mr. Hall during the discussion of the question of economic stability, and he thought the Commission could merely take note of the Economic and Social Council resolution.

Mr. BOE (Norway) concurred.

Mr. MOROZOV (Union of Soviet Socialist Republics) stated that his delegation's point of view concerning the survey of economic trends by the Economic and Social Council had been fully expressed by the USSR

/representative

representative on the Council. He would abstain on the Commission's decision to take note of the resolution.

The CHAIRMAN said the Rapporteur's report would mention that the Commission had taken note of the resolution.

The meeting rose at 5.50 p.m.