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Sixth Session

SUMMARY RECORD OF THE HUNDRED AND EIGHTEENTH MEETING

Held at Headquarters, New York,
on Wednesday, 23 May 1951, at 10.30 a.m.

CONTENTS:

Chairman:	Mr. NUNES GUIMARAES	Brazil
Members:	Mr. BUNGE	Argentina
	Mr. BURY*	Australia
	Mr. MASOIN*	Belgium
	Mr. WOLFSON*	Canada
	Mr. SCHNAKE VERGARA	Chile
	Mr. CHA*	China

*Alternate

Members: (continued)

Mr. NOSEK*	Czechoslovakia
Mr. DAYRAS*	France
Mr. SAKSENA	India
Mr. BJERVE*	Norway
Mr. MADRIGAL	Philippines
Mr. SZYMANOWSKI	Poland
Mr. CHERNYSHEV	Union of Soviet Socialist Republics
Mr. WILSON*	United Kingdom of Great Britain and Northern Ireland
Mr. STINEBOWER	United States of America
Mr. LANG	Yugoslavia

Representatives of specialized agencies:

Mr. DAWSON) Miss BANOS)	International Labour Organisation (ILO)
Mr. LOPEZ HERRARTE	International Bank for Reconstruction and Development (Bank)
Mr. LIANG	International Monetary Fund (Fund)

Representatives of non-governmental organizations:

Category A:	Miss KAHN	World Federation of Trade Unions (WFTU)
	Mr. WOODCOCK	International Co-operative Alliance (ICA)
	Mr. BROPHY	International Confederation of Free Trade Unions (ICFTU)

Secretariat:

Mr. WEINTRAUB	Secretary of the Commission

* Alternate

/MEASURES FOR

MEASURES FOR THE ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES: REPORT OF THE GROUP OF EXPERTS APPOINTED BY THE SECRETARY-GENERAL UNDER ECONOMIC AND SOCIAL COUNCIL RESOLUTION 290 (XI) (continued)

Mr. MADRIGAL (Philippines) thought recommendation 9 might not be very effective if it did not provide for the possibility of revising the import quotas for different countries. He raised the question because his country was in a somewhat delicate situation in that respect. The quotas for the Philippines had been almost inadequate even before the war. It was true that Philippine exports had considerably diminished during the war. However, they had again increased since the end of the war, and were still increasing so that the country was in a position to export a volume of goods greater than that of the quotas assigned it. In addition, the Philippines suffered from some discrimination. Their quota of duty-free sugar exported to the United States was 1 million tons, whereas Cuba, for example, had a quota of 3 million tons. The situation was all the more disadvantageous for the Philippines because freight charges from the Philippines to the United States were higher than the charges from Cuba to the United States. Furthermore, the quotas were so determined as to create within the Philippines a privileged group of those who had the quota right. For oil, the Philippine quota was fixed at 200,000 tons, but it was provided that the quota would be reduced by 10 per cent a year, so that in twenty years the Philippines would no longer have any customs exemption for the oil it exported to the United States. That was unfavourable treatment in comparison with the treatment of oil exports from Brazil to the United States.

With regard to the export subsidies mentioned in recommendation 9, paragraph (b), it would be well to specify that both direct and indirect subsidies should be forbidden. Exports of wood from Japan to South Africa were a case in point. The exported wood was not directly subsidized, but the Government subsidized the navigation company transporting it, with the result that the exporters enjoyed a lower freight rate than normal. That was a characteristic example of the indirect subsidy which should be avoided. With regard to price fixing, he wondered whether it would not be better in the interests of all, to give the law of supply and demand free play. He wished to make it clear that his remarks were in no way to be interpreted as reproaches; they were merely intended to draw attention to some of the aspects ofthe problem which he considered important. He would submit some suggestions in writing later.

/The CHAIRMAN

The CHAIRMAN, speaking as representative of Brazil, did not think there was any competition between Philippine oil exports and Brazilian oil exports because they were different products. However, if the Philippines did indeed have less favourable treatment than Brazil, he hoped that the United States would give the Philippines the same advantages as Brazil.

Mr. MASOIN (Belgium) said he would be quite prepared to support any steps to remedy injustices of the kind. The whole system of preferential quotas would have to be studied before a decision was taken, however, and he was afraid that such a study was not within the Commission's competent. He therefore thought that the specific question just raised should be set aside.

Mr. SAKSENA (India) said that the experts' recommendations should be approached from a general and impersonal viewpoint. He warned the Commission against the tendency to neglect or reject a recommendation on the pretext that it might not be fully applicable in a given country or in certain special cases. It would be regrettable if some were to interpret the recommendations as being directed against specific countries. It was therefore essential to examine them objectively, and decide to what extent they were applicable in practice. He saw no objection to some recommendations being amended in order to make them more acceptable.

There could be no doubt as to the merits of paragraph (a) of recommendation 9. Import price ceilings were unquestionably liable to harm the economic development of the exporting countries. The decision to fix prices might be taken in two ways: (a) when a country deliberately took measures to cause a drop in the prices of an exporting country; if the Commission adopted the recommendation, it could always be invoked against a country which took such measures; and (b) when an importing country wished to protect its own economy. In that connexion, India, as a member of the sterling bloc, had decided to devalue its currency as a result of the devaluation of the pound sterling. Pakistan, on the other hand, had not devalued its currency, so that the price of the goods India bought from Pakistan had increased by 40 per cent

/overnight.

overnight. Such a situation was liable to disorganize India's economy. That was why ceiling prices had been fixed for some raw materials, and in addition for some articles manufactured in India, in order to give compensatory advantages. He therefore recommended that the Commission should accept recommendation 9 (a), subject to the stipulation that price ceilings would be admissible if provision was made for some compensatory advantages for the exporting countries. In that connexion, there was a particular difficulty: the under-developed countries' exports generally consisted of one or two products, whereas they imported a large variety of articles. Moreover, if the prices within a country were not in accordance with export prices, many products intended for export were liable to be diverted to the domestic market at the expense of the countries which counted on the exports. In solving the problem there were three major considerations: (a) price ceilings were undesirable because it was better to give the law of supply and demand full play; (b) a country should only impose price ceilings if it could show that failure to do so would harm its economy appreciably; and (c) if there had to be price ceilings, the countries to which they applied should be offered compensatory advantages through bilateral agreements.

In the matter of recommendation 9, paragraph (b), on export subsidies, the developed countries should defer to the interests of the under-developed countries. The Commission should therefore accept the paragraph. The under-developed countries were in general producers of raw materials, and there was an ever more marked tendency for the developed countries to use substitute products for products formerly imported. India in particular had suffered greatly from that trend, and without wishing to check the progress of science, he wondered whether it would not in some cases be better to direct research towards improving the exploitation of existing products. In many cases, research for substitute products was due to the need to economize foreign exchange or to the desire to be self-sufficient.

Referring to recommendation 10, Mr. Saksena recalled that regret had been expressed at the experts' express mention of the United States Export-Import Bank, but in his view there were valid reasons for that. The history of the Bank showed how its operations had continuously developed as a result of the expiry of

lend-lease agreements and of the needs of post-war reconstruction, for which the Bank had granted loans. At that time, it had been the only body of its kind able to offer such services and the experts could not have given a better example.

In connexion with recommendation 11, the United States representative had stated that his country had tried to have treaties accepted. But such treaties were concluded between developed and under-developed countries, that is, between economically strong and economically weak countries, and the under-developed countries sought above all to avoid making their economies dependent on those of other countries. The under-developed countries should have a say in their economic development, and the developed countries should make an effort to understand the under-developed countries' special difficulties. That aspect of the question had always made negotiations delicate. Treaty terms should not impose a burden on the under-developed countries, and the initiative in that matter should be taken by the developed countries.

With regard to paragraph (b) of recommendation 11, the Indian Government had taken many steps to grant foreign capitalists all possible facilities. Thus, persons who invested capital in the installation of new enterprises were exempted from income tax for five years. Similarly, exemptions from, or considerable reductions of, customs duties had been granted for imports of machinery and equipment. The Indian Government further facilitated the repatriation of capital and the transfer of income from it. In spite of all those provisions in favour of foreign investments, the volume of American capital invested in India remained very low. There were two reasons for that: first, the volume of capital exports from a given country naturally depended on investment conditions abroad, but also and above all it depended on circumstances in the exporting country; secondly, the international political situation played an important part. The problem therefore consisted to a great extent in creating conditions favourable to foreign investment in the capital exporting countries. He thought that a guarantee against non-commercial risks should be added to the paragraph.

/With reference

With reference to paragraph (c) of recommendation 11, Mr. Saksena recalled that reciprocity had been advocated in the measures to be taken with regard to double taxation. In that connexion, he confined himself to quoting some passages from a United Nations publication on "The Effects of Taxation on Foreign Trade and Investments". That study stated that the importance of tax revenue from foreign trade and investments was not the same for each country; nevertheless, such revenue was acknowledged as vital to the under-developed countries. The Governments of such countries would therefore be reluctant to grant tax concessions in that sphere to foreign traders and investors unless clear and powerful reasons showed that the financial sacrifice was more than compensated by a real benefit to economic development. Those remarks accurately reflected the views of the under-developed countries. In that connexion, the Indian Government had taken some steps which showed that it had recourse to the system of fiscal deduction rather than to that of exemption.

The Indian delegation attached great importance to recommendation 12. India was a country which was both developed and under-developed. It produced raw materials, but some sectors of its economy were industrialized. The industry required imported raw materials, such as sulphur and non-ferrous metals, for its production. It was therefore essential for India to be able to rely on adequate supplies to ensure the progress of its industry in case of scarcity. In addition, India had to import machines and equipment. He therefore supported recommendation 12.

In conclusion, he stressed the fact that the recommendations at issue were general and should be adopted by the Commission.

Mr. BJERVE (Norway) stated that section B should express, apart from the recommendations, the idea that the most important contribution the developed countries could make to the economic development of under-developed countries was to maintain a steady and high level of employment in their own territories. That idea might serve as a preamble to section B, which, unlike section A, had none.

/He agreed

He agreed with some of the preceding speakers that the subject of recommendation 9 had been dealt with in other instruments. The Rapporteur might mention the fact in his report. Paragraph (b) of the recommendation was too categorical. It should be so drafted that countries which felt obliged for security or other important reasons to subsidize national production of certain products might continue to do so.

He agreed with the general criticisms of recommendation 10 made by other representatives. The recommendation might be incorporated in recommendation 11 by deleting the word "private" before the word "investment" in the latter recommendation and adding a paragraph (d) which might read as follows: "With a view to facilitating private investment, the developed countries should consider setting up special financial institutions or using existing institutions".

He agreed with the Indian representative's remarks about paragraph (a) of recommendation 11.

Mr. LANG (Yugoslavia) thought that the principles expressed in recommendations 9 and 12 might be very useful to the development of the economy of under-developed countries. With regard to recommendation 10, he agreed with preceding speakers that each country should choose for itself the type of establishment it thought best suited to the end in view; the recommendation as it stood was unacceptable.

With regard to recommendation 11, he recalled that before the war his country had had some unfortunate experiences with private investment, and his remarks would be based on those experiences. As it stood, the recommendation was very unilateral and would in no way protect the interests of the under-developed countries, as Article 55 of the Charter required.

Mr. CHA (China) stated that, in view of the fact that his country was not a party to the General Agreement on Tariffs and Trade, the question dealt with in recommendation 9 should be included in some form in the Commission's recommendation to the Economic and Social Council. The general principle seemed to him quite acceptable.

Lastly, with respect to verification of the use of the funds received by countries, a management contract arrangement might be worked out with the International Bank. That idea might bear further examination.

Regarding the general policies governing the distribution of the funds, paragraphs 275, 276 and 277 of the Experts' report outlined the beginnings of a proposal. The proposal was, however, rather rudimentary, and would have to be elaborated considerably. The purposes for which the funds allocated by the authority should be used need not be so strictly limited. Moreover, each government should be asked to agree to carry out certain basic economic policies on such matters as land tenure and distribution, taxation and measures designed to reduce inflationary pressure. The authority should also ask for certain safeguards to prevent the funds issued by it being used for the benefit of certain classes of the community only. Recipient countries should permit representatives of the authority to observe on the spot the manner in which allocated funds were being administered.

After those prior conditions had been met, principles should be worked out for the operation of the executive body (or the Economic and Social Council, as the case might be) so that under-developed countries with a yearly <u>per capita</u> income of, say, 200 dollars -- the committee would have to decide the exact amount -- would be entitled to assistance.

Further consideration should be given to co-ordinating the activities of the proposed authority with those of related international organizations, provided that the economic developement of the under-developed countries was given absolute priority. The proposed authority's activities should not be hampered by the slowness with which the operations of existing bodies or current programmes were being put into effect. It would be for the other international organs to see to it that they did not lag behind. Only if those conditions were met could the necessary co-ordination be ensured. He fully agreed in that connexion with representatives who had emphasized the need for maximum utilization of the services available from bodies created by the United Nations. It was, however, sometimes necessary to set up new machinery when the work to be done went beyond the competence or possibilities of existing organs. That was precisely why the Philippine delegation unreservedly supported the experts' recommendation for the establishment of an international development authority.

/With reference

In connexion with recommendation 10, he also agreed that each country should be free to decide what kind of institution it would set up or designate to perform the function in question.

With regard to recommendation 11, his country had constantly tried to facilitate the free transfer of foreign investments and of the revenue from them, and to eliminate the difficulties caused by double taxation.

His Government attached great importance to the principles stated in recommendation 12. The developed countries now understood that they could no longer remain prosperous while they were surrounded by under-developed countries which were still exploited and poor. Although he understood the difficulties of the developed countries in troubled times like the present, he hoped that they would continue to promote the development of the under-developed countries, if only in the interest of their common defence.

Mr. STINEBOWER (United States of America) thought that the Philippine representative's remarks showed that it was impossible to deal adequately with the complex problems raised in recommendation 9 in a few words. He did not think that the Commission was competent to deal in detail with the questions Mr. Madrigal had raised, because they came more properly within the scope of the General Agreement on Tariffs and Trade. Although he fully understood the Philippine representative's anxiety, he would like to dispel any misapprehension to which is statement on United States quota policy might have given rise. It was clear even from Mr. Madrigal's statement that the United States quota policy in regard to the Philippines was a consequence of the radical change in political relations between the two countries. The purpose of that policy was to render easier the transition to independence of the economies of the two countries and the quotas were preferential and not restrictive.

It could be definitely stated that, within the framework of the General Agreement on Tariffs and Trade, the United States was making, and would continue to make, every effort to conduct its commercial policy in accordance with the principles of most-favoured-nation treatment and of non-discrimination.

/With regard

With regard to the Indian representative's remarks on recommendation 9, he said that the United States would much prefer prices of goods to be freely determined by market conditions rather than subject to arbitrary control. On the other hand the experts' report itself charged that it was often the developed countries which were responsible for the inflationary pressures throughout the world. At any rate, the Indian representative's statement clearly showed that the recommendation must be examined in its widest aspects.

Mr. Saksena had said that the under-developed countries often hesitated to conclude treaties with the developed countries lest such agreements prevent them from deciding orders of priority in their economic development programmes for themselves. In the light of his experience as commercial adviser in the United States Government, Mr. Stinebower affirmed that there was no clause in the treaties the United States had proposed to other countries which would hamper them in that way. It would still be open to under-developed countries to deny the entry of foreign capital into the lip-stick industry, while admitting it for the manufacture of shoes. The United States would, however, object to the under-developed countries establishing a different and less favourable order of priority for United States investment capital than for capital from other countries. Such problems could and should be settled by bilateral negotiations. The reason why the under-developed countries hesitated to conclude trade treaties with the more developed countries were much more diverse and complicated. One of the chief reasons was that the under-developed countries were not anxious to make commitment under which they would be undertaking to apply, in a more or less distant and uncertain future, practices which could appropriately be applied under existing conditions. That was not intended to be a criticism, but merely a statement of fact. While he had wished to make those few remarks in reply to the statements of some representatives, he felt sure that his views did not differ greatly from theirs.

Mr. BURY (Australia), speaking from his country's experience, endorsed the United States representative's remarks about the difficulties of concluding trade treaties between the under-developed and the developed countries.

/The CHAIRMAN

The CHAIRMAN closed the general debate on the recommendations in Section B, and invited representatives to submit any proposals they had to make on those recommendations directly to the Rapporteur, in writing.

He opened discussion of the recommendations in Section C.

Mr. MADRIGAL (Philippines) submitted a working draft on recommendation 14 which might later be used as a basis for discussion. He would like to hear the views of members of the Commission on some suggestions in the draft, which would be circulated shortly. For the time being, he would simply explain it in general terms.

Establishment of the international developement authority proposed in the experts' recommendation 14 raised a number of questions, which fell into four groups: (1) the manner in which the funds to be controlled by the authority were to be collected, and their magnitude; (2) the organization and administration of the authority; (3) policies which should govern the distribution of the funds; and (4) co-ordination of the activities of the authority with those of other international bodies concerned with the financing of economic development.

On the first point, that is, the manner in which the capital was to be obtained, some formula should be devised under which all Members of the United Nations would contribute, with due regard to their respective degrees of economic development. A formula which took account of the national income of the Member countries would be appropriate. Each country's contribution might be made in its national currency, and countries might be asked to make as large a portion as possible of their contribution convertible into another currency. Finally, they might be permitted to attach conditions to the use of their contributions, provided the conditions were not political and did not unduly hamper the authority's activities.

With respect to the organization and administration of the proposed authority, he felt that it should be completely autonomous as regards the allocation of the funds, that it should be set up by the General Assembly and that its day-to-day activities should be supervised by an executive organ such an international committee appointed by the General Assembly. The committee's decisions should be taken by a majority of two-thirds of the members and should be subject to modification by a vote of the General Assembly, also by a two-thirds majority. The administrative activities related to the allocation of funds should be carried out by a small staff operating under the Secretary-General of the United Nations.

/Lastly

With reference to recommendation 13, he did not wish at the present stage to discuss how much the bank should set aside for loans to the under-developed countries. It was, however, important that the Bank's activities should permit an increasing flow of capital to the under-developed areas.

During the debates in the Economic and Social Council, the Philippine delegation had already had occasion to point out that the inhabitants of Africa should have an opportunity to participate in the preparation of economic development programmes. For that reason it unreservedly supported the Experts' recommendation 15. It was important that a regional economic commission for Africa, with an international secretariat, should be set up as soon as possible.

He likewise supported recommendation 16 that the United Nations should explore the possibility of establishing an international finance corporation to make equity investments and to lend to private undertakings operating in the under-developed countries. The recommendation should be examined in detail; for the time being he would make no concrete proposals for its implementation.

Mr. WOLFSON (Canada) asked whether the Philippine representative's proposal could not be circulated in writing to the members of the Commission.

Mr. BURY (Australia) said that he would study the Philippine representative's proposal with great interest. He wondered, however, whether immediate consideration of the proposal would not be contrary to the Commission's procedure; it had been decided not to discuss definite proposals until the general debate on Sections A, B and C of the Experts' report had been completed. He asked the Chairman for clarification on that point.

The CHAIRMAN explained that the Philippine representative had made a general statement, not a definite proposal.

Mr. SCHNAKE VERGARA (Chile) declared that the chapter the Commission was discussing was as important as the preceding ones inasmuch as it dealt with measures for obtaining the capital necessary to carry out programmes of economic development.

/The first

The first question was whether much capital was needed to finance economic development. He thought that it was. All those who shared his concept of economic development, all those who understood and approved the work of the United Nations in that field, and all those who realized the importance of development would agree with him that considerable funds must be allocated to the task.

He had no intention of analysing the paragraphs of the report giving the Experts' estimates. They alone would be in a position to explain how they had arrived at them. Incidentally, those were not the only estimates of the kind; other bodies, such as FAO, had recently made similar estimates.

According to the estimates, the required investment capital would run into thousands of millions of dollars. The most important paragraph of Chapter XI was paragraph 247, in which the experts emphasized the fact that the magnitude of the required capital was well in excess of what was generally believed, and added that, when Members of the United Nations spoke about rapidly increasing the standard of livings of the under-developed world as rapidly as possible, they should realize that that would involve a transfer of several thousands of millions of dollars a year.

Regardless of how the problem was approached, any development programme must necessarily take account of the social aspect of development. It often happened that, when reference was made to development, the funds considered for that purpose were much smaller than those required to complete such a gigantic undertaking. There could be no doubt that the capital required to develop agriculture, raise the standard of living and promote industry was far in excess of the sums considered for that purpose, even in the present day. He did not wish to say that all the efforts made so far had been in vain; they had borne and would still bear fruit. He simply wished to emphasize that the volume of both public and private capital set aside for economic development was inadequate That was not a tentative view, based on temporary emergencies. On the contrary, it was a permanent aspect of the problem of economic development. It was precisely when the problem was examined as a whole that the conclusion was reached that complete utilization of available resources was essential.

/The Experts'

The Experts' report considered three ways of increasing the volume of capital for development: (1) private capital investment; (2) government loans; and (3) subsidies or grants.

The part played by private capital investment was made clear in paragraphs 250-261 of the Experts' report. He had already stated his view on that question, and he agreed with the Indian representative's clear and very important statement. Nevertheless, it must be emphasized that the main provision regarding private capital investment was recommendation 16, that the United Nations should explore the possibility of establishing an international finance corporation to make equity investments and to lend to private undertakings operating in under-developed countries. The recommendation was based on an idea previously expressed in the Rockefeller Report to the International Development Advisory Board. That report stated that a corporation should be set up, independent of the Bank or as a branch of it, which could provide for under-developed countries, without government guarantee, capital which could be used together with national capital and have a sort of catalytic effect. The idea merited the Economic and Social Council's attention. Perhaps the only way in which that source of capital could be put to use was to channel it into the under-developed countries through the corporation. The corporation would thus stimulate the flow of private foreign capital into the under-developed countries and introduce the shares of enterprises in which it was a partner on the market of those countries.

The meeting rose at 1 p.m.

5/6 p.m.