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Sixth Session

SUMMARY RECORD OF THE HUNDRED AND TWENTY-SEVENTH MEETING

Held at Headquarters, New York
on Thursday, 31 May 1951 at 10.30 a.m.

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<u>Chairman:</u>	Mr. NUNES GUIMARAES	Brazil
<u>Members:</u>	Mr. BUNGE	Argentina
	Mr. BURY*	Australia
	Mr. WOULBROUN*	Belgium
	Mr. WOLFSON*	Canada
	Mr. CHA*	China
	Mr. NOSEK*	Czechoslovakia
	Mr. DAYRAS*	France
	Mr. SAKSENA	India
	Mr. BJERVE*	Norway
	Mr. MADRIGAL	Philippines
	Mr. KATZ-SUCHY	Poland
	Mr. WILSON*	United Kingdom of Great Britain and Northern Ireland
	Mr. CHERNYSHEV	Union of Soviet Socialist Republics
	Mr. STINEBOWER	United States of America
	Mr. LANG	Yugoslavia

* Alternates

Representatives of specialized agencies:

Mr. DAWSON	International Labour Organisation (ILO)
Mr. HASSANEIN	International Monetary Fund
Mr. EZEKIEL	Food and Agriculture Organization (FAO)
Mr. LOPEZ HERRAITE	International Bank for Reconstruction and Development (Bank)

Representatives of non-governmental organizations:

Category A: Miss KAHN

World Federation of Trade Unions (WFTU)

Mr. WOODCOCK

International Co-operative Alliance (ICA)

Mr. BROTHY

International Confederation of Free Trade Unions (ICFTU)

Category B: Mr. MANIULA

International Association of Penal Law

Secretariat: Mr. WEINTRAUB

Secretary of the Commission

REPORT OF THE COMMISSION TO THE COUNCIL (E/CN.1/L.17, E/CN.1/L.17/Add.1, E/CN.1/L.17/Add.2, E/CN.1/L.17/Add.3, E/CN.1/L.17/Add.4).

Paragraph 22 of the report

The CHAIRMAN called for a discussion on the proposed paragraph 22 of the Commission's report to the Council (E/CN.1/L.17/Add.3), which at his request was read by the Secretary to the Commission.

Mr. MADRIGAL (Philippines) wanted to make clear the position of his delegation on the draft paragraph.

Without wishing to under-estimate the importance of domestic capital formation, upon which he thought there was general agreement, he pointed out that it could only be expected to operate within reasonable limits. The low rate of annual per capita income in the under-developed countries rendered the problem of capital formation very difficult. He quoted a paragraph from page 36 of the ECAFE report on Mobilization of Domestic Capital, referring to the need to find specific means by which the financial resources for economic development in the countries with which that Commission was concerned could be increased.

/Under-developed

Under-developed countries needed to acquire increased domestic savings, which would mean expansion of export-producing capacity or creation of capital goods industries to lessen the pressure of import requirements. To expand their export-producing capacity or create capital goods industries, they must receive more foreign capital, private and public.

While it might be argued that by building up domestic savings and increasing export production a favourable climate could be created for foreign investment, there were two weak links in that chain of reasoning. Domestic capital formation required the existence of a broad economic base, in order to build up domestic savings. Where the rate of per capita income was low, as in most under-developed countries, the capital available from the domestic market was limited. He pointed out, that according to a recent social welfare study made in the Philippines by a team of United Nations experts and Philippine officials, the average Filipino family in Manila had a deficit of 74 pesos in its monthly budget. The first thing such a family would do would be to eliminate savings, a course which clearly illustrated the difficulties of mobilizing domestic resources in under-developed countries.

As he had already stated his delegation's views on the vicious circle arising in domestic savings and foreign investment, he would merely point out that domestic capital formation could be effectively utilized only within the limits of the existing degree of economic development in any given country.

He quoted from the statement made by the President of the International Chamber of Commerce at the tenth session of the Economic and Social Council, in which reference was made to the danger of placing excessive reliance upon domestic capital formation in countries with a very low per capita income.

His delegation felt some concern at the sweeping tone of the opening sentence of the draft paragraph of Recommendation 8, and, in accordance with the views expressed he wanted to propose an amendment in the second line of the paragraph, which would consist in the insertion, after the phrase "of the view that", of the words "subject to the limitation of low per capita income".

/Mr. WOLFSON

Mr. WOLFSON (Canada) asked if the representative of the Philippines would object to a slight change in his amendment, which might run "subject to the limitation of cases where real income is low". He wanted to avoid the expression "per capita" because he thought that in the under-developed countries some sections of the population might have a fairly high income and be able to play their part in the formation of capital.

Mr. SAKSENA (India) suggested that the clause in the first sentence concerning domestic financial resources might well be removed, and thought that the experts' recommendations needed no strengthening. He wondered if the representative of Canada would consent to a formula which would remove the implication that the under-developed countries were demanding outside assistance when they did not really need it.

Mr. WOLFSON (Canada) thought that the representative of India might find that his point would be met by the Philippine amendment. He thought that there were under-developed countries where some sections of the population could make a contribution towards the formation of capital, and that, though in such cases external financing would still be needed, there would be some value in the fact that the population itself was making an effort for the development of the country.

Mr. KATZ-SUCHY (Poland) agreed with the representative of Canada that certain sections of the population in under-developed countries would be able to contribute to the formation of capital in those countries. An examination of the position as regards the Philippines itself showed that only 25 per cent of the country's capital remained available on the internal market, and it was clear that in addition to savings, a limitation of the export of capital would be of great assistance in such cases. He thought that the amendment should include a reference to that.

Mr. CHERNYSHEV (Union of Soviet Socialist Republics) thought that there was no need to draw the attention of the Economic and Social Council to the document on Domestic Financing of Economic Development (ST/ECA/7). The Council had already dealt with that question, and he also felt that it was important not to give the impression that they had worked through it as thoroughly as they had through the report of the group of experts.

/He thought

He thought that the second part of the draft paragraph laid too much emphasis on the International Monetary Fund. The statements made in it were too vague, and in any case it was not for the Commission to remind members of the Fund to fulfil their obligations.

He did not feel that the Commission should refer to matters which lay within the jurisdiction of the Fund itself. In any case, the question of the International Monetary Fund would be on the agenda of the 13th session of the Economic and Social Council. He thought that the whole of the paragraph beginning with the word "finally" should be deleted.

Mr. STINEBOWER (United States of America) thought that the document as amended by the representatives of the Philippines and Canada was no longer very clear, and suggested that the first sentence should be shortened and made to read: "In connexion with Recommendation 8 of the Experts' Report, the Commission recognized the limitations on domestic savings, imposed by the low real income of under-developed countries. However the role which domestic financial resources must play in the economic development of any country is such that the Commission suggests ..." It was quite true that real incomes would impose a limitation on savings. He thought that the representative of the USSR was right in his objection to the Council's attention being drawn to document ST/ECA/7. He proposed that the word "Council" should be deleted.

It was so agreed.

Mr. WILSON (United Kingdom) proposed that the phrase "The Commission draws the Council's attention" on page 2 of document E/CN.1/L.17/Add.3 should be replaced by the phrase "attention is also drawn".

It was so agreed.

Mr. DAYRAS (France), while not wishing to make a formal proposal, wondered if the last two sentences of the draft paragraph were really necessary.

Mr. KATZ-SUCHY (Poland) agreed with the USSR representative that too much emphasis had been laid on the role of the International Monetary Fund. He thought that the whole of the last part of the paragraph starting from "The Council's attention is also drawn" might well be deleted, but that in view of the importance of preventing the escape of foreign exchange earnings he suggested
/that the

that the phrase "and on measures undertaken to prevent the escape of foreign exchange earnings from local control" should be inserted after the phrase "the mobilization of domestic capital". In reply to a comment from the representative of Canada, he said that he thought such an amendment would be necessary in view of the fact that mention had been made already in the paragraph concerning the limitations imposed by low income. He stressed the fact that there was a need for local control of all earnings, and he wanted to assure the representative of Canada that he intended no implications as to the possible evasion of control.

Mr. STINEBOWER (United States of America) did not like the reference to "increased foreign exchange earnings" on the second page of the document. Capital was sometimes invested in London or New York in preference to the under-developed countries themselves, and was not necessarily illegally removed. He thought that the sentence should be retained, but that the word "increased" should be deleted. In view of the fact that there were sweeping sentences in the Experts' Report which appeared to ignore the obligations of members of the International Monetary Fund, he thought there was quite a good reason for leaving the sentences in the paragraph.

Mr. NOSEK (Czechoslovakia) agreed with the representative of the USSR that the last three sentences of the draft paragraph were unnecessary.

Mr. WOULBROUN (Belgium) saw no reason to delete the references to the International Monetary Fund, since Recommendation 8 contained proposals which might conflict with the obligation of members of the Fund.

The CHAIRMAN, speaking as the representative of Brazil, thought that references to the International Monetary Fund were inevitable.

He reminded the Commission that many under-developed countries were largely dependent on the exploitation of one or two primary products, and that they had been obliged to resort to exchange controls to avoid devaluation of their currency. He wondered if it would be permissible for the Commission to suggest to the International Monetary Fund that it might investigate the possibilities of enlarging the resources from which loans could be drawn, in order to avoid as far as possible the application of exchange controls which were only emergency measures.

/Mr. BURY

Mr. BURY (Australia) pointed out that the Fund had the possibility of adopting a more liberal attitude toward drawings and had that question under constant study.

Mr. WILSON (United Kingdom) thought that the subject was very important, but would fall more appropriately within the terms of reference of the group of experts shortly to be formed to study the relation between the prices of primary products and those of manufactured goods.

Mr. CHERNYSHEV (Union of Soviet Socialist Republics) asked that the Commission should vote on the concrete proposals made in respect of the draft paragraph.

Mr. WEINTRAUB (Secretary of the Commission) read the text of the first part of the draft paragraph with the amendments suggested by the members of the Commission.

Mr. CHERNYSHEV (Union of Soviet Socialist Republics) did not see why reference was specifically made to the Economic Commission for Latin America, while no other areas were mentioned. He suggested that the phrase "and other under-developed areas" should be inserted at that point.

It was so agreed.

The Polish proposal for the deletion of the last part of the paragraph from the words "attention is also drawn" to the end was rejected by 13 votes to 3, with no abstentions.

The USSR proposal for the deletion of the last part of the paragraph from the word "finally" was rejected by 10 votes to 4, with 1 abstention.

In reply to a question from the CHAIRMAN speaking as representative of Brazil, Mr. HASSANEIN (International Monetary Fund), stated that the Fund was studying the question of increasing its resources for drawings.

/The CHAIRMAN

The CHAIRMAN invited the representative of the International Co-operative Alliance to state the views of his organization.

Mr. WOODCOCK (International Co-operative Alliance) emphasized the usefulness of voluntary co-operative action in the under-developed countries. Co-operative action stressed the importance of an under-developed country's people, as opposed to land, forests and money, in economic development and offered a form of organization which was calculated to bring out their greatest efforts, especially in agriculture, domestic industries and small credit. The Experts' Report recognized that fact but failed to give it proper emphasis.

He welcomed paragraph A 1(g) of the United States draft resolution but felt that it should not be restricted to programmes of land reform. He hoped that special attention would be given, in connexion with the survey of the needs of each project proposed for development, to the possible value of voluntary co-operative organization in its various forms, and requested that the Commission should consider the inclusion of that point in their recommendations to the Council.

Co-operatives provided an incentive to individual and group enterprise and a basis for the accumulation of large domestic funds. They offered a means by which small farmers and others could pool their efforts for joint marketing or purchasing and a basis for education in democratic and economic action. They were a step towards the improvement of the standard of living.

Paragraph 23 (E/CN.1/L.17/Add.1)

Mr. WILSON (United Kingdom) proposed that the words "a very important element in the promotion of" in the first sentence should be replaced by the words "the greatest single contribution which the developed countries can make to". In the last sentence he suggested that the words following "underline enough" should be reworded to read "the contribution which would be made to economic development by the progressive liberalization of the exchange of goods and of capital movement and the restoration of commercial financial and monetary security."

/Mr. BUNGE

Mr. BUNGE (Argentina) said that while the maintenance of full employment in the developed countries was a highly important factor in the economic development of the under-developed countries, the maintenance of an expanding economy in the under-developed countries was also a most important contribution to full employment in the developed countries. The report should stress the interdependence of the two processes. He therefore proposed that the first sentence should be amended to refer to the achievement of an expanded and balanced world economy in accordance with Economic and Social Council resolution 290 (XI).

Mr. WILSON (United Kingdom) agreed that it was important to refer to the need for an expanded and stable world economy but felt that the Argentine amendment could more appropriately be included in the section of the report dealing with international action.

Mr. BURY (Australia) opposed the United Kingdom amendment regarding full employment. Although full employment was important to the under-developed countries since it raised the demand for and the prices of their products, there were a number of offsetting factors. Full employment tended to lead to some degree of inflation and reduced the resources which could be spared for the development of the under-developed areas. It also tended to bar capital movements from the country concerned. It could be argued for instance that if the United Kingdom had less full employment it might be able to move towards the convertibility of sterling and to resume the export of capital.

Mr. WILSON (United Kingdom) remarked that the expression "full employment" was always ambiguous and suggested that it might usefully be replaced by the words "a high and stable level of economic activity."

Mr. BURY (Australia) said that with that change he could support the United Kingdom amendment.

/MR. WILSON

Mr. WOLFSON (Canada) suggested that the points raised by the Argentine and United Kingdom representatives might be met if the words "in order to achieve an expanded and balanced world economy" were introduced in the fourth line of the first sentence. The maintenance of a high level of economic activity in the developed countries was important to the under-developed countries only if it was used to initiate development activities in those countries.

Mr. BUNGE (Argentina) agreed that full employment was not necessarily a contribution to the development of the under-developed countries. The general concept of the inter-dependence of all regions in an expanded and balanced world economy should be stated in the preamble. He thought that it should be indicated in general terms that economic progress and development were indivisible and that full employment was one important factor among many.

Mr. MADRIGAL (Philippines) proposed that the last sentence of paragraph 23 should be amended as follows: "Many members of the Commission also thought that the experts did not underline enough the need for economic development to take place within the framework of expanded multilateral trade and of freer movement of capital and the need for restoration of commercial, financial and monetary security. While agreeing that foreign loans have an important role to play in the restoration of convertibility, they expressed the view that these loans should be made part of a comprehensive programme leading to the gradual elimination of exchange controls and the fostering of multilateral trade. Such loans would rarely, if ever, be made by private capital; the adoption, however, of a more extended programme of loans by the International Bank may pave the way for the increase in the scale of private capital movements to the under-developed countries. Parallel to such an extended programme of loans by the International Bank, it was suggested that barter agreements between developed and under-developed countries should be encouraged as a means of obviating exchange difficulties in the interest of fostering international trade."

Mr. WILSON (United Kingdom) doubted whether the Philippine amendment could suitably be included in paragraph 23 which was in the nature of a preamble and merely referred to the general framework within which more detailed measures might be assumed to be operating.

Mr. MADRIGAL (Philippines) accepted that view and noted that the only aim of his amendment was to promote the liberalization of foreign exchange control. He hoped that further studies would be made of the possibility of bilateral agreements between the developed and the under-developed countries.

The CHAIRMAN, speaking as the representative of Brazil, suggested that it should be possible to incorporate the underlying intention of the Philippine amendment in paragraph 23. The report should stress the importance of liberal trade policies to economic development. He felt that barter agreements should be encouraged only as a first step in the expansion of international trade.

Mr. WILSON (United Kingdom) suggested that the important point made by the Philippine amendment might be covered if the words "of systems of payments" were added after the words "the liberalization of the exchange of goods" in the last sentence.

Mr. CHERNYSHEV (Union of Soviet Socialist Republics) recalled that the USSR had clearly stated its attitude in the general debate. It did not object to Recommendations 9 and 12 but had expressed its objection to Recommendations 10 and 11.

He considered that the wording of the first sentence was unfortunate since the Commission was called upon to state its own position regarding the Recommendations and was not competent to discuss the Council's attitude.

In the last sentence the expression "liberalization of the exchange of goods" was too vague and should be made more explicit.

In reply to Mr. STINEBOWER (United States of America), Mr. WOLFSON (Canada) explained that the word "security" in the last sentence was to be understood as meaning "confidence".

/ Mr. NOSEK

Mr. NOSEK (Czechoslovakia) proposed the deletion of the words "in accordance with the Council's resolution 290 (XI)" in the first sentence. Full employment had been discussed by several organs and dealt with in a number of resolutions. There was therefore no need to refer specifically to the Economic and Social Council resolution.

The meeting rose at 1 p.m.