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Eighteenth Session

ECONOMIC COMMITTEE

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SUMMARY RECORD OF THE ONE HUNDRED AND SIXTY-SIXTH MEETING

held at the Palais des Nations, Geneva,
on Wednesday, 28 July 1954, at 2.30 p.m.

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Present:

Chairman: Sir Douglas COPLAND (Australia)

Members:

Argentina	Mr. MORALES
Australia	Mr. JOCKEL Mr. CORKERY
Belgium	Mr. van der SCHUEREN
China	Mr. CHEN
Cuba	Mr. RIBAS
Czechoslovakia	Mr. NOVAK Mr. KAIGL
Ecuador	Mr. AVILES MOSQUERA
Egypt	Mr. EL-TANAMLI
France	Mr. ABELIN Mr. ARMENGAUD
India	Mr. BAJPAI
Norway	Mr. THAGAARD Mr. BRUN
Pakistan	Mr. ADIL
Turkey	Mr. ÖZGUREL
Union of Soviet Socialist Republics	Mr. MORDVINOV
United Kingdom of Great Britain and Northern Ireland	Sir Alec RANDALL
United States of America	Mr. HOTCHKIS Mr. STIBRAVY
Venezuela	Mr. MONTOYA
Yugoslavia	Mr. BRILEJ Mr. FLERE

Observers from member States of the United Nations:

Brazil	Mr. MACHADO
Indonesia	Miss LAILURUSAD
Mexico	Mr. MERIGO
Netherlands	Mr. BANNIER
Poland	Mr. BOGUSZ

Also present:

Mr. SCHEYVEN

Former President of the Economic and Social
CouncilRepresentatives of specialized agencies:

International Labour Organisation

Mr. DAWSON

International Bank for Reconstruction
and Development

Mr. LOPEZ-HERRARTE

Representatives of non-governmental organizations:Category A

World Federation of Trade Unions

Mr. DRINKWATER

Category B and RegisterCatholic International Union for
Social Service

Miss HERTOGHE

Chamber of Commerce of the)
United States)Inter-American Council of)
Commerce and Production)

Mr. CRUICKSHANK

International Conference of Catholic
Charities

Abbé BOUVIER

International Law Association

Mr. KOPPER

World Federation of Catholic Young
Women and Girls

Miss HERTOGHE

World Union of Catholic Women's
Organizations

Miss de LUCY FOSSARIEU

Secretariat:

Mr. Caustin

Director, Division of Economic Stability
and Development

Mr. Messing-Mierzejewski Secretary to the Committee

1. WORLD ECONOMIC SITUATION (item 2 of the Council agenda) (resumed from the 165th meeting):

(c) Removal of obstacles to international trade and means of developing international economic relations (E/2549, E/L.613/Rev.2, E/L.614, E/L.614/Corr.1(English only), E/L.622, E/AC.6/L.110, E/AC.6/L.112) (continued)

The CHAIRMAN invited the Committee to consider the second revision of the United Kingdom draft resolution on the removal of obstacles to international trade and means of developing international economic relations (E/L.613/Rev.2), to which the Belgian and French delegations had jointly submitted an amendment (E/AC.6/L.112).

Sir Alec RANDALL (United Kingdom) said that the new United Kingdom text incorporated those Pakistani amendments which had been accepted by his delegation⁽¹⁾. With reference to the joint amendment submitted at the previous meeting by the representatives of Egypt and Argentina (E/AC.6/L.110), he fully appreciated their reasons for wishing to emphasize the importance to economic development of an expanding international trade, and was therefore prepared to delete the words "economic development" from the first paragraph of the preamble and to insert the words "the economic development of under-developed countries" after the term "standards of living". He did not however feel able to accept the latter part of the amendment, particularly as the first operative paragraph of the revised text was comprehensive and covered the question of raw materials, so that it was clear that they would be considered in the proposed study. To enumerate all the aspects of the problem of international trade would throw the text out of balance and make it unduly long.

Mr. EL-TANAMLI (Egypt) expressed his pleasure at the reasonable attitude taken by the United Kingdom delegation, not only in agreeing to the insertion in the draft resolution of a reference to the under-developed countries, but also in giving an assurance that it was its intention that the question of the removal of obstacles to the sale of raw materials should be given consideration. Hence, the Egyptian delegation, in agreement with the Argentine delegation, would withdraw the joint amendment.

(1) See summary record of the 165th meeting, pages 13 and 14.

Mr. ABELIN (France) said that his delegation would like to see the United Kingdom draft resolution amended by the addition at the end of the first paragraph of the operative part of the passage: "it being understood that the Secretary-General will use in the preparation of this study the work being done by experts under the auspices of the regional economic commissions;". The words "it being understood that the Secretary-General will" should therefore be inserted at the beginning of the joint amendment submitted by his own and the Belgian delegations, and the words "and to" consequentially deleted. He was requesting the inclusion of that specific reference because of the active interest taken by the French delegation in the work of the regional commissions and of the experts who took part in the consultations held under their auspices, of which full use should be made. He realized that, even without the French amendment, the Secretary-General would have the right, indeed the duty, to bear in mind the work already accomplished in making the study requested of him in the United Kingdom proposal; but the French delegation thought it as well to make the point explicitly, and was glad that the United Kingdom representative had expressed agreement with that view.

Mr. CAFIERO (Argentina) said that he had told the United Kingdom representative informally that he would like the experience of the regional economic commissions to be taken into account, especially as the draft resolution spoke of "a study on a global basis of the problems involved in promoting the development of trade within and between all the various geographical and currency areas". His delegation therefore noted the joint amendment (E/AC.6/L.112) with interest; it was perfectly satisfactory and allayed his delegation's fears.

Mr. RIBAS (Cuba) also supported the joint amendment.

Sir Alec RANDALL (United Kingdom) said that reference had been made in his original draft resolution (E/L.613) to the valuable work done by the regional economic commissions. However, as some representatives considered that the first operative paragraph of the new text was not specific enough on that point, he would be prepared to add the following sentence:

"It is understood that the Secretary-General will, in the preparation of this analysis, make use of the valuable work which is being done by experts under the auspices of the regional economic commissions".

Mr. ABELIN (France) could see no difference between that text and his own proposal. Both brought out the essential point, namely, that the Secretary-General should make use of the very valuable research being carried out by experts on economic problems arising at regional level. The French delegation, in agreement with that of Belgium, accordingly withdrew the joint amendment.

Mr. ADIL (Pakistan) thanked the United Kingdom representative for accepting some of the Pakistani amendments, the purpose of which had been to redress the balance of the original draft resolution, which had failed to take into account the deterioration in the situation of the under-developed countries. He would withdraw his remaining amendments (E/L.622).

Mr. MORDVINOV (Union of Soviet Socialist Republics) drew attention to the fact that the revised text of the United Kingdom draft resolution had been circulated only that day, and had been further amended in the course of the meeting. His delegation, and probably others too, would require time to study the new text. He therefore requested that further discussion be deferred until the following meeting.

The CHAIRMAN, acceding to that request, expressed the hope that if any delegation wished to submit further amendments to the United Kingdom draft resolution, it would do so in time for them to be circulated by the following morning.

2. ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES (item 3 of the Council agenda)

(a) Financing of economic development:

(i) Question of establishing a special fund for grants-in-aid and for low-interest long-term loans (E/2599 and Corr.1, E/2618, E/2646 and Add.1, E/L.620, E/L.621, E/L.625, E/AC.6/L.111)

The CHAIRMAN invited the Committee to examine the Yugoslav, Pakistani and Norwegian draft resolutions (E/L.620, E/L.621, E/L.625), and the joint draft resolution presented by the delegations of Argentina, Ecuador and Venezuela. (E/AC.6/L.111), on the financing of economic development.

Mr. ADIL (Pakistan), introducing his draft resolution, said that, as explained by the Pakistani representative at the 812th meeting of the Council, his Government was in favour of the Special United Nations Fund for Economic Development (SUNFED) being set up at the earliest possible moment. The present economic

situation of the countries producing primary commodities was grievous, and if their development was to proceed on a reasonable scale without an intolerable strain being imposed on their populations, external assistance of all kinds was indispensable. Most industrially advanced countries wished to make the establishment of SUNFED conditional upon a general reduction in defence expenditure, but it should hardly be necessary to remind them yet again of the enormous disparity between such expenditure and the capital sum required to bring SUNFED into being.

Mr. ARMENGAUD (France) congratulated Mr. Scheyven both upon his report (E/2599 and Corr.1), and upon his statement to the Council on the setting up of a special fund to speed the development of under-developed countries⁽¹⁾. His delegation was also grateful to the Yugoslav and Pakistani delegations for having raised in their draft resolutions the question of setting up the fund, although the procedure of asking the players to declare their stakes, or at least their intention of taking a hand in the game, before the rules had been fixed might be open to question; nothing would be more disappointing than to lay the foundations of the scheme and then to fail to reach the objectives hoped for.

Many practical and psychological considerations were involved. It might at that stage be helpful to the Committee to have a brief account of French experience in somewhat similar circumstances, his country, like Belgium and the United Kingdom, having for long been contributing to the economic advancement of under-developed territories with which it had old and very close relations.

In French territories in Equatorial and North Africa, special agencies had made investments estimated at nearly 2 per cent of the French national income. That had been done partly in the form of public investment of a general social and economic character, and partly in that of individual investment, as an extension of the former, through a mixture of public and private capital. The funds for the first type of investment had been provided through budgetary appropriations, Treasury advances, local budget advances out of the Modernization and Equipment Fund, and subsidies from the metropolitan budget to the Investment Fund for Economic and Social Development (FIDES) and to the Investment Fund for the Economic and Social Development of Overseas Departments (FIDOM). Investment in the second

(1) See E/SR.810, paragraphs 2-32.

category had been made either through budgetary grants to certain specialized public agencies, or in the form of loans to private enterprises both in Metropolitan France and in French territories overseas.

The channel through which, in the almost total absence of local savings, the equipment of overseas territories was financed was the Central Fund of France beyond the Seas. Aid was given either in the form of outright gifts or in that of loans made through FIDES or FIDOM. Loans might be granted to private enterprises direct, or take the form of participation in private enterprises or of the provision of capital for State undertakings. It was estimated that between 1947 and 1953, no less than 737,000 million francs had been provided in that way, almost entirely out of metropolitan funds. The contribution to the equipment of French overseas territories had steadily grown during that period, so that in 1953 it had represented 17 per cent of total public investment in the French franc zone. Those figures, moreover, did not include investment in North Africa (750,000 million francs, almost half of which had come from metropolitan France, between 1947 and 1953), or private metropolitan investment in the overseas territories.

The allocation of appropriations for equipment projects between grants (advanced by FIDES) and loans (made by the Central Fund) depended in principle upon the nature of the proposed expenditure. Planning was sub-divided into a "general" section and "overseas" sections, the former taking in expenditure on scientific research and appropriations for projects affecting a number of territories. The financing of economic investment was shared equally between free grants from FIDES and loans from the Central Fund to the territories, the shares in the case of social expenditure being 66 per cent and 34 per cent respectively. Between 1946 and 1953, almost one fifth of FIDES' resources had been assigned to social expenditure (health, education, town planning, urban and rural works etc.) During the first plan, 55 per cent of total authorizations had been in the form of non-repayable subsidies.

While the system worked well on the whole, the fact should not be concealed that it had at times been difficult to draw the line between gifts and loans. The metropolitan taxpayer had not always properly appreciated the difference between the various types of overseas expenditure of the Central Fund financed out of the

metropolitan budget. He had often been led to think that the expenditure was not always sufficiently justified, and had failed to understand why the Central Fund should provide capital for private undertakings.

That experience seemed to show that a clear distinction must be made between activities calling for subsidies and those for which a loan or normal financial participation was justified. If full public support was to be won, a mere book-keeping distinction between the different forms of expenditure was not enough, no matter how successful the projects undertaken on behalf of the under-developed territories might be.

Turning to the question of the conditions for the establishment of SUNFED, he first stressed the need for winning public support. French experience showed the necessity of avoiding any overlapping of projects, though that did not mean that they should be divided into watertight compartments. From a psychological point of view, and from that of management, it would be a mistake to use the same machinery to finance both non-self-liquidating investment and that made in specific undertakings for operations capable of showing a return in the relatively short term. The taxpayer, or, to put it more generally, those who footed the bill, would very probably regard such investment either as a more or less direct subsidy to private undertakings whose possible losses would have to be borne by the community, or as a waste of public money on uneconomic activities to the detriment of shareholders in sound undertakings whose directors would have known how to run their business. That danger should be circumvented at the outset, if only in order to ensure public support. As his delegation had pointed out at the fifteenth session⁽¹⁾, the political basis for large-scale schemes would not be forthcoming so long as public opinion in all countries was not prepared to exchange certain national advantages for an extension of world economic progress. Investment in the form of outright grants had to be known, backed and understood by the public and financed out of public funds in the same way as certain immediate, uneconomic public expenditure was financed out of State revenue - mostly through taxation.

Support would depend upon the extent to which the public was satisfied that there was no confusion between such expenditure and direct investment yielding a normal return. The latter was usually linked to certain well-defined activities, possibly limited to a specified area, and should be financed by other means. Loans

(1) See E/SR.695, paragraphs 33-43.

from the International Bank for Reconstruction and Development, the provision of capital and issue of shares by ordinary financial institutions or banks, or by new ones of a more specialized character or better adapted to their purpose, seemed the most appropriate means of financing such operations. That division of tasks would make it easier for the general public to grasp their scope. Obviously, that would not absolve those responsible for administering the Fund and other financing agencies - or the members of the Council either, for that matter - from the need to bring creative imagination to bear. One must get out of the rut; and in that connexion he would mention by way of example, in addition to FIDES and FIDOM, the British Development Corporations for various areas and British Charter Companies, and the export insurance machinery for providing a collective guarantee for operations considered to be hazardous, a system which could be extended on the international plane to cover investment in under-developed territories. He also mentioned the international taxation practised by the European Coal and Steel Community to provide guarantees for those who put up its capital, as well as the Bons-kilomètres of the French National Railways, and the loans, payable in "coal and steel", floated by the Charbonnages de France.

It should be possible, on similar lines, to devise the necessary machinery for satisfying the duly justified needs of SUNFED for expenditure which might be described as "pre-investment", or even for the setting-up of a partial-guarantee fund to finance certain types of investment half-way between that which would probably show a direct return and that the return from which would be indirect and spread over the community as a whole. In the latter case, one would have to move prudently and within narrow limits, in order to avoid a surfeit of requests for funds for schemes for which there was little justification.

The second point he wished to stress was the limited scope of SUNFED. Works of general public interest financed out of SUNFED could have no far-reaching effect unless followed up by productive investment, to the successful outcome of which the savings of the developed countries and those, still being built up, of the under-developed countries both had their contribution to make. That postulated two preliminary conditions: first, the under-developed countries must create a favourable savings climate and inculcate in their nationals a desire to invest; secondly, conditions would have to be such as to reassure private foreign investors, without, however, tying the hands of governments. His delegation had dealt with that

matter at length, in the Economic Committee, at the seventeenth session. It was convinced that a large fund for the development of under-developed areas could not reach its full stature unless the position of the private investor, on whom the success of the fund would so largely depend, was satisfactorily safeguarded. SUNFED should be considered as a pump-primer, whose action, though slow, would in the long run be manifestly beneficial and justify the efforts put forth.

Thirdly, the French delegation felt it very important to co-ordinate the tasks of existing institutions with those of SUNFED. If public opinion was to agree to its creation, it must be fully informed and convinced of the Fund's usefulness. Priorities in international needs must be clearly laid down; and the moneys paid into the Special Fund should not be allocated in equal shares, for that would have three disadvantages: in the first place, none of the recipients would be satisfied, as the amount each received would be small; secondly, projects would be slowed up to such an extent that they would cost appreciably more; and thirdly, the countries that put up the money would see no results from their contributions and would complain of the meagre results obtained.

His delegation believed that as it was a question of profoundly changing the economic and social structure of the under-developed countries, one must think in terms of years, not weeks or months. Moreover, it was better to do a good job in only a few places at one time than a bad or indifferent one in many places. A choice had therefore to be made, as the French delegation had already remarked at the fifteenth session⁽¹⁾.

In the matter of priorities, the French delegation endorsed the statement made in the report on the World Economic Situation, 1952-53 (E/2560) that food production must be expanded both in the densely populated, under-developed countries and in those where industrialization was limited by the low ratio of population to cultivable area and by the fact that much of their territory was desert.

In his opinion, the irrigation of arid zones was one of the basic jobs to be done. The results obtained in the United States of America, Morocco, Tunisia, Israel and the Soviet Union should provide encouragement. Next came control of endemic diseases and epidemics, the building of houses, hospitals and schools, communications and the food and timber industries. In a word, the whole problem of integrated development was involved.

(1) Loc.cit.

However, none of the expenditure incurred in those fields - with the exception of that in industry - would be self-liquidating. If products such as grain and food plants were marketed on commercial lines their prices could not be increased.

His delegation therefore believed that the primary function of SUNFED would be to enable the traditional financing machinery to provide the initial funds needed to raise living standards appreciably: for building model farms and silos, co-operative or other, for providing agricultural machinery and setting up small rural repair and maintenance workshops. It would then be for the International Bank and the ordinary credit houses to finance the transformation of the potential wealth created by SUNFED into wealth which could be turned to good account and made to show a return. Thus the essential thing was to apportion the tasks among the banking institutions; any overlapping would be harmful.

In that connexion, his delegation wished to make a suggestion that fitted in with Mr. Scheyven's remarks in the Council. It felt it would be possible to seek the advice of the Technical Assistance Board (TAB) when setting up SUNFED, and allocating the task between existing financial institutions and those yet to be set up. He wondered whether TAB ought not to form the first nucleus of a big team of international consulting engineers who would draw up the general plan of the measures to be taken in a given territory. It would also be TAB's job to allocate expenditure between SUNFED, the International Bank, the International Monetary Fund and the local banks.

If only TAB's experts included bankers whose mentality was not that of the pawnbroker, insurance brokers who were both actuary and economist, and engineers who were passionately interested in the most up-to-date technical methods and their economic consequences, the outline of a progressive economic integration, in which the comparatively small resources available would be put to the best possible use, would emerge.

Fourthly, there was the question of how to give and how to receive. The French delegation considered that, once SUNFED had been established, a dual effort would have to be made, by contributing countries and by receiving countries respectively. The former would have to concern themselves with the way in which the funds were utilized, although without actively intervening. The latter would have to ensure that the best possible use was made of the money received and that no part of it was wasted.

His delegation endorsed the oft-repeated slogan that in time, once the process had been primed by outside assistance, it would be for the under-developed countries themselves to make the effort necessary for their development.

That premise led him to another, namely, that it was impossible to consider establishing SUNFED without thinking anew about the structure of international trade, about the desirability of ensuring relative stability in the prices of raw materials, about the limits which could reasonably be set to competition and about the interdependence of the labour market in the various countries.

The East-European countries had largely understood that no one country could ensure its development by its own unaided efforts, but to achieve their purpose had had recourse to methods which were alien to the West. Now it was for the Western Powers to realize the same truth.

In the fifth place, he would draw attention to the limited effect which a reduction in armaments would have upon the financing of the Fund. It would be a mistake to believe that such a reduction would make it possible to solve the problems entailed in the financing of SUNFED. In all countries armaments expenditure had been met mainly by taxation, which governments everywhere were now planning to reduce, under pressure from public opinion. Moreover, in some quarters fiscal relief was regarded as a means of increasing employment by directing individual purchasing power towards consumer goods. The stoppage or slowing-down of armaments manufacture therefore raised the problem of reconversion, and such reconversion would have to be financed. Since, thanks to the investments made from SUNFED, the receiving countries would be employing mainly their own manpower, and not that of the countries which had made the largest contribution and which had had to carry the heaviest armaments burden, no exaggerated hopes should be entertained of rapid reconversion of the armaments industry to work for economic development.

The French delegation did not regard that as sufficient reason for not proceeding in the way suggested by Mr. Scheyven, but it did wish to stress that it would not be honest to say that amounts corresponding to the decrease in expenditure on armaments could automatically be invested in the under-developed territories.

In conclusion, the French delegation declared that the establishment of a special fund was a serious task calling for the utmost objectivity, and for that reason it deplored the propaganda tone of the statements made by certain industrialized countries. In its view, the problem of economic development was one of those which should provoke no controversy.

His delegation considered that the rules governing the establishment and operation of SUNFED should first be clearly fixed; only then would governments be in a position to take their decisions. For its part, it hoped that, in drawing up those rules, account would be taken of the special situation of those States which were already responsible for the development of vast under-developed territories.

Finally, he recalled that, in accordance with the statements made by Mr. Mendès-France and the reply submitted by the French Government, his country had expressed its readiness to give the most favourable consideration, in due course, and in the light of the circumstances prevailing at the time, to the question of the extent of its contribution to SUNFED.

Mr. HOTCHKIS (United States of America) understood that informal discussions were taking place with the object of producing a generally acceptable text. He therefore suggested that the Committee might defer further discussion until agreement had been reached.

Mr. BRILEJ (Yugoslavia), speaking as the author of one of the draft resolutions before the Committee, supported the United States representative's suggestion, provided it was acceptable to the other delegations which had submitted draft resolutions.

Mr. ADIL (Pakistan) also welcomed the United States representative's suggestion. He had himself always stressed the need for securing the greatest possible measure of agreement on the Council resolution concerning SUNFED.

Mr. THAGAARD (Norway) and Mr. CAFIERO (Argentina) also supported the United States suggestion.

The CHAIRMAN suggested that a small working party might be set up consisting first and foremost of those delegations which had submitted draft resolutions plus any other members who might wish to attend. As the Yugoslav draft resolution had been submitted first, perhaps Mr. Brilej would agree to act as Chairman.

Mr. BRILEJ (Yugoslavia) thanked the Chairman for his invitation but suggested that the Chairman himself should preside over the working party.

After some discussion,

it was agreed that the Committee should adjourn and that the Working Party should meet immediately.

The meeting rose at 4.55 p.m.