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SUB-COMMISSION ON ECONOMIC DEVELOPMENT
Third Session

SUMMARY RECORD OF THE FIFTY-SIXTH MEETING

Held at Lake Success, New York
on Monday, 28 March 1949, at 11 a.m.

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resources for economic development:

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Chairman:

Mr. RAO India

Members:

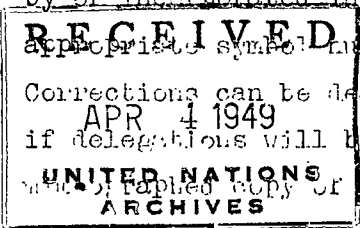
Mr. GUIMARAES	Brazil
Mr. LIEU	China
Mr. PATEK	Czechoslovakia
Mr. BRAVO-JIMENEZ	Mexico
Mr. MCROZOV	Union of Soviet Socialist Republics
Mr. COLLADO	United States of America

Representatives of Specialized Agencies:

Mr. EVANS	International Labour Organization (ILO)
Mr. LOPEZ-HERRARTE	International Bank for Reconstruction and Development

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Consultants from Non-Governmental Organizations:

Category A

Mrs. E. MEAGHER	World Federation of Trade Unions (WFTU)
Miss SENDER	American Federation of Labor (AF of L)
Mr. WOODCOCK	International Co-operative Alliance (ICA)

Secretariat:

Mr. DORFMAN Secretary of the Sub-Commission

RECOMMENDATIONS MOVED BY Mr. MOROZOV AT THE 55TH MEETING

The CHAIRMAN read the following recommendations moved by Mr. Morozov at the 55th meeting, held on Friday 25 March:

"The Secretariat should revise document E/CN.1/Sub.3/W.5 with a view to:

- (a) analyzing, on the basis of objective indications, the real price relation in the trade between developed and under-developed countries;
- (b) showing how the present character of the trade between these countries obstructs the economic development of under-developed countries, in particular the development of their domestic industries;
- (c) showing what influence is exercised upon these countries' financial and trade position by the foreign investments made in the same countries, and how the profits and interest which these foreign investments derive influence the economic development of individual under-developed countries."

He suggested that the recommendations should be discussed paragraph by paragraph. The previous discussion had shown that there was general agreement about the substance of paragraph (a).

Mr. GUIMARAES (Brazil) stressed the difficulty of analyzing the real price relations in the trade between developed and under-developed countries.

/After some

After some discussion, it was agreed that in using the term "revise" the Sub-Commission wished to indicate its desire that the suggestions made during the discussion on the subject should as far as possible be taken into account in further developing the study. In using the term "objective", the Sub-Commission wished to indicate that the report should be extended as much as possible so as to include further factual and statistical information drawn from all available reliable sources, primarily from the official statistics of all countries, making the greatest possible use of the statistics available from the under-developed countries. The following wording, suggested by Mr. Collado, was then decided upon, as paragraph (a):

"Analyzing, on the basis of all the available, objective data, the real price relations in the trade between developed and under-developed countries".

The CHAIRMAN opened discussion on paragraph (b).

Mr. GUIMARAES (Brazil) suggested a substitution for the word "obstructs".

Mr. COLLADO (United States of America) agreed that the question of price movements had some bearing upon the economic development of under-developed countries. However, he objected to the use of the word "obstructs" because it implied that the Sub-Commission had already reached its conclusions in the matter and was simply asking the Secretariat to produce facts in support of those conclusions.

Mr. DORFMAN (Secretariat) explained that document E/CN.1/Sub.3/W.5 had originally been prepared as a result of the following decision: "The Sub-Commission therefore considers it important that a careful study be made of the prices of technical goods and of the relative trends of such prices and of prices of primary products, so that it may be in a position to make appropriate recommendations concerning the problem". He pointed out that the recommendations moved by Mr. Morozov went beyond the original terms of reference given to the Secretariat and required not merely an extension of the present study, but a new study.

/The CHAIRMAN

The CHAIRMAN agreed that the adoption of the recommendations would involve enlarging the original terms of reference given to the Secretariat, but the sub-commission had considered the subject of trade and price relationships of under-developed countries in the context of the question of financing economic development and could appropriately decide to consider whether an enlarged study or a new study was desirable.

Mr. MOROZOV (Union of Soviet Socialist Republics) supported by Mr. PATEK (Czechoslovakia) considered it to be a generally recognized fact that the conditions of trade between developed and under-developed countries obstructed the economic development of the latter. He therefore urged the retention of the word "obstructs".

Mr. COLLADO (United States of America) did not agree with the USSR representative's premise. In his opinion, there might be advantages and disadvantages for the under-developed countries in the existing conditions of trade. He therefore felt that the paragraph should avoid any conclusions in directing the study.

Mr. BRAVO JIMINEZ (Mexico) agreed with Mr. Morozov that the existing conditions of trade obstructed the economic development of under-developed countries. However, he felt, like Mr. Collado that the paragraph should not present any conclusions.

The CHAIRMAN suggested that the word "obstructs" should be replaced by the word "affects". He felt that, if the original wording was retained, it could afterwards be alleged that the study had not been impartial and doubts would be raised about the validity of its conclusions. If that were to happen it would not serve the interests of the under-developed countries.

Mr. MOROZOV (Union of Soviet Socialist Republics) maintained it was already clear that the conditions of trade did obstruct economic development. The paragraph called for a study of the conditions of trade that obstructed economic development. In the past the Sub-commission had asked for studies of obstacles to economic development. What was requested now was a study of obstacles to development which actually existed. The discussion did not seem fruitful and he suggested a vote.

The CHAIRMAN said there was a difference between asking for a study of "obstacles" and to "show how the trade obstructs".

/The majority

The majority of the Sub-Commission decided to replace the word "obstructs" by the word "affects", Mr. Morozov and Mr. Patek being in favour of the original wording.

The CHAIRMAN said that it would be more appropriate to consider paragraph (c) when the Secretariat document on International Capital Movements during the Inter-War Period (E/CN.1/Sub.3/W 9) came up for discussion.

He suggested that it would be wiser if the Secretariat were to refrain from putting document E/CN.1/Sub.3/W.5 into general circulation until it had been improved on the basis of the suggestions that were made in the Sub-Commission. Circulation in its existing form would be misleading and might give rise to criticism.

After some discussion on that point, the Chairman agreed there was no need to give any specific instructions in the matter, since it was the responsibility of the Secretariat which was cognizant of the criticism and the discussion on this matter.

SUGGESTIONS CONCERNING AN APPROACH TO THE DISCUSSION OF MOBILIZATION OF INTERNAL FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT: PROPOSALS BY Mr. BRAVO JIMENEZ (E/CN.1/Sub.3 W.11) (discussion continued)

The CHAIRMAN re-opened the discussion on the proposals contained in pages 4 and 5 of the document submitted by Mr. BRAVO JIMENEZ.

Mr. BRAVO JIMENEZ (Mexico) explained that the last part of his paper dealt with two important aspects of the problem of internal organization or resources for financing, namely, the creation of capital as a result of the process of economic development, and the utilization of domestic resources both existing and to be created in the future. He suggested that the Sub-Commission should first discuss the former point. In that connexion, he had expressed four main ideas in his paper. The first was that the creation of capital within the country should not bring about a high concentration of wealth in the hands of a few people. The second was that in the development of heavy industries, which required large scale

/investment,

investment, a disequilibrium in the rest of the national economy might result by imposing costs on light industries before the former industries became **self-supporting**; the Government must take care to prevent an undue burden of such costs thwarting light industries. The third point was that the only sound basis for industrialization was an increase in agricultural productivity, and the fourth that the peoples themselves should elaborate programmes of development, with the advice and help, if necessary, of foreign technicians.

Mr. LIEU (China), referring to the second point mentioned by the Mexican representative, agreed that the Governments of under-developed countries should not over-emphasize the importance of the heavy industries, since that might upset the cost structure of the economy and increase the cost of production in the light industries. In preferring light industries, he wished to emphasize the fact that these would increase the supply of consumers' goods without which a mere increase in employment and purchasing power would not raise the standard of living of the people.

Mr. BRAVO JIMENEZ (Mexico) emphasized the fact that he was not opposed to the development of heavy industries. He had simply wished to point out that they required a great deal of initial outlay and Governments must therefore assume the responsibility of safeguarding the balance of industries so as not to have adverse economic impact on the light industries, thus upsetting the national economy. That was particularly important during the period of "infant industry" development; that is, if government subsidies were employed, they should not be such as to make the costs of light industries uneconomical.

The CHAIRMAN said that the working paper dealt with two different, though inter-related problems: the first concerned the kind of economic development which would be desired and the second concerned methods to promote capital formation in under-developed countries. Point 1. referred to the first question. Indeed the working paper stated that:

"1. The creation of capital within the country must be based on the theory that no sound development is accomplished when the process of industrialization is conducted to the

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detriment of the masses of population, or in other words when instead of creating widespread purchasing power, a high concentration of wealth is created."

It was obvious that economic development should be in the interest of the masses of the population of the country concerned, that it should promote higher standards of living and that it should not accentuate any existing inequalities in the distribution of income and wealth.

He then turned to the second problem, namely, the ways in which capital could be created in an under-developed country. Two courses could be followed in that field. Capital could be formed directly by utilizing the resources of the under-developed country concerned for building up means of production. The government of the country could create capital directly by undertaking or stimulating activities which led to the creation of capital goods. In addition to heavy industry, transport and power played an essential part in that field.

The alternative was indirect, beginning by raising the standard of living throughout the country by increasing the supply of consumer goods available to the population. The income of the population and hence its savings would increase and that would provide the necessary capital to finance the building of capital goods.

In his view, those were the two methods available in existing circumstances: capital could be created either directly or else indirectly through the building up of the bases necessary for its creation.

The first method, namely, the utilization of the country's resources for the creation of means of production inevitably led to inflation since there was an increase in the income of the population without a corresponding increase in the supply of consumer goods.

There was much to be said theoretically for the indirect method which would be the most rational were it not for two very important obstacles. The first was the general feeling of insecurity prevailing throughout the world. Capital goods industries were unfortunately linked up with armaments industries as they could be easily converted for the production of armaments and vice versa. Owing to the existing

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feeling of insecurity in international relations even under-developed countries wanted to be as strong as possible and considerable resources were being diverted to armament industries.

The Chairman wished to emphasize that the economic development of under-developed countries was being most adversely affected by the bad relations existing between the great Powers. Indeed, understanding between those Powers might accelerate economic development more than anything else.

The second obstacle to the method of indirect capital formation was the difficulty in obtaining the necessary capital equipment. Light industries, for instance, could be built up only through imports of such equipment; that laid the importing country open to pressure on the part of the exporting country. As an illustration, he said that he had opposed the mechanization of agriculture in India, not because he was against such mechanization in principle, but merely because it would make India dependent on imports of special tractor fuel and consequently lay her open to pressure on the part of the exporting country. Indeed, in his view the principle of equal and free access to capital equipment and goods was just as important as that of free and equal access to raw materials.

The Sub-Commission was not in a position to make any recommendations to under-developed countries on that score, as much depended on circumstances peculiar to every country concerned. All it could do was to define the problem and outline the choice between the indirect and direct methods of capital formation for economic development.

The Vice-Chairman, Mr. Bravo Jimenez, took the Chair.

Mr. COLLADO (United States of America) said the Chairman had dwelt on the fact of diversion of various factors of production from employments which would be of optimum productivity to the social and economic well-being of the population to other less profitable types of activity, to wit armaments production or the creation of industries connected with strategic requirements. That was indeed, a great tragedy, and it affected the economic development of all countries alike. He understood that the question had ^{already} been

/discussed

discussed by the Economic and Social Council at great length and he wondered whether it would be within the Sub-Commission's terms of reference to examine it again. He wished, however, to stress that the economic development of all countries, whether large or small, highly developed or under-developed, was considerably retarded by policies which other aspects of national interest seemed to dictate. The Chairman's remarks were most pertinent but they did not apply to under-developed countries only.

Mr. MOROZOV (Union of Soviet Socialist Republics) referred to the working paper and said he would confine himself to the reference to inflation as a method of financing economic development. He expressed agreement with the views put forward that under-developed countries should take all possible measures to guard against and counteract inflation. He did not agree, however, that inflation was an inevitable element of economic development. It was necessary to take into consideration the social repercussions of inflation and particularly the fact that in capitalist countries speculators and monopolies profited by inflation; that led to a lowering of the real wages of the masses and consequently of their standard of living. In those circumstances, the Sub-Commission could not adopt any resolution which would justify inflation in any way. It was well known that budgetary deficit was the main cause of inflation. Government financing of economic development or of any branch of a country's economy did not necessarily bring about inflation and its causes had to be sought in the structure of the budget as a whole. In existing circumstances, inflation in capitalist countries was caused by the race of armaments fostered by the monopolies which derived most profit from such armaments. Consequently, inflation was not connected with the economic development of under-developed countries.

Regarding the question of the development of heavy and light industries, he emphasized that the aim of economic development was to strengthen the economic and political independence of all under-developed countries. Hence the need for the development of heavy industries since it was impossible to envisage industrialization without heavy industry. Only the development of heavy industries, and of machine tool industries in particular, could ensure and strengthen the economic independence of under-developed countries.

/He was not

He was not quite clear as to the concrete methods suggested by the Chairman who in his view had mixed the questions of the natural means of development with that of the methods of financing economic development. The latter question had to be settled by each country in the light of its own circumstances and the Sub-Commission could not make any concrete recommendations on that score to all under-developed countries in general.

The ^{ACTING}CHAIRMAN said he had not advocated inflation as a means of financing economic development. On the contrary, he had pointed out that, given the general environment in which economic development is carried out with budget deficits, government financing of various projects in separate sectors held the danger of inflation that could upset economic development as a whole. Hence the need for what he had described as "controlled inflation", conducive to the results desired and avoiding upset any disturbance of the economy.

Regarding the question of heavy and light industries, he said it was a very important problem for under-developed countries. He agreed that industrialization meant first of all the creation of machine tools, iron and steel industries. It was essential to achieve a balanced and sound development of the whole economy of a country and the development of heavy industry could not therefore be allowed to proceed without a comprehensive plan which took into consideration its impact on the economic structure of the country as a whole and on its price structure in particular. Indeed, private capital often takes care of the light industries, but the development of heavy industry was the field in which the government of a given country bore the responsibility because of the large fixed investment required. But for this very reason, the government must also assume responsibility, to safeguard against adverse inflationary effects.

Mr. LOPEZ-HERRARTE (International Bank for Reconstruction and Development) referred to the Chairman's statement that the two main obstacles to the indirect method of capital formation were the general feeling of insecurity and the difficulty of obtaining capital equipment. In his view there was no real difference between the two since the second was a direct consequence of the first so that in fact there was only one obstacle, namely, the feeling of insecurity in international relations.

/The Sub-Commission

The Sub-Commission had been discussing the problem of capital formation in countries which had already reached a certain stage of economic development. Other countries, at a much lower level, had no means of creating the capital necessary for economic development. Various factors came into play, one of them being the influence of politics in the economic field and the other the export of any available capital because of the prevailing feeling of insecurity. Such countries^{often} had no comprehensive plan for economic development because the various classes of their population could not agree on what was most desirable. The International Bank had devoted much attention to the problem and had done its utmost to persuade all classes of the populations concerned of the need to co-ordinate their efforts for a common goal.

Mr. PATEK (Czechoslovakia) said he fully agreed that politics should not interfere with economic affairs. It was a point which the Bank itself should bear in mind for it had shown considerable discrimination against the peoples' democracies. In his view, the problem of economic development could be approached in two different ways: socialist countries thought in terms of real life while capitalist countries thought of the problem exclusively in terms of money. Capital for instance was invested solely for the purpose of earning the largest profits possible without any regard to the ultimate usefulness of such investments to the economic development and well being of the country concerned. Rational planning of economic development was possible only in a socialist economy and it had always started with the development of heavy industries. He could not agree with the view that industrialization inevitably led to inflation for that meant that it could only be achieved at the expense of the working masses of the country. In his view, the Chairman had mixed the notions of capital as a means of production and capital as a source of financing.

Mr. MOROZOV (Union of Soviet Socialist Republics) said that the conclusions which could be drawn from the latest statement made by Mr. Bravo Jiminez ^{somewhat} were/ different from those which emerged from his working paper. The Sub-Commission therefore would have to word its report most carefully so as not to convey the impression that it wished to warn the under-developed countries against so-called excessive industrialization. On the contrary, it should emphasize the need for building up a national industry, including heavy industries. He was in full agreement
/with the

with the previous decisions of the Sub-Commission emphasizing the responsibilities of Governments in the field of economic development so that such development should proceed according to a balanced and comprehensive plan. This also applied to the development of heavy industry.

He could not agree with Mr. Lieu that light industries should be developed before heavy industries. There were many concrete instances to show that such a course led to complete economic and consequently also political dependence on other countries. In his view, the development of heavy industry was the essential prerequisite of economic independence.

Mr. LIEU (China) emphasized that the specific course of a country's development programme was something for each country to decide; not for the Sub-Commission to recommend. His personal opinion was that it might be desirable and advisable to promote light industry in order to raise living standards.

The ACTING CHAIRMAN, in reply to Mr. Morozov, said that the views expressed during the discussion on his working paper would be embodied in the draft report for consideration of the Sub-Commission.

The meeting rose at 1.35 p.m.