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**ECONOMIC
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**CONSEIL
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E/CN.1/Sub.3/SR.66
11 April 1949

Original: ENGLISH

ECONOMIC AND EMPLOYMENT COMMISSION
SUB-COMMISSION ON ECONOMIC DEVELOPMENT

Third Session

SUMMARY RECORD OF THE SIXTY-SIXTH MEETING

Held at Lake Success, New York
on Monday, 4 April 1949 at 11 a.m.

CONTENTS:

Draft of the first part of the Report on Mobilization of Financial Resources for Economic Development; suggested redrafting by the Rapporteur of the remainder of Part I, beginning with Paragraph 18.

Present:

Chairman: Mr. V.K.R.V. RAO
Vice-Chairman and Rapporteur: Mr. M. BRAVO Jimenez
Members: Mr. GUIMARAES
Mr. J. PATEK
Mr. A.P. MOROZOV
Mr. E.G. COLLADO

Representatives of Specialized Agencies

Mr. E. LOPEZ HERRARTE International Bank for
Reconstruction and Development
Mr. H. van der VALK International Monetary Fund

Secretariat:

Mr. DORFMAN Secretary of the Sub-Commission
Mr. CAUSTIN (For the Assistant Secretary-
General)

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DRAFT OF THE FIRST PART OF THE REPORT ON MOBILIZATION OF FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT: SUGGESTED REDRAFTING BY THE RAPPORTEUR OF THE REMAINDER OF PART I, BEGINNING WITH PARAGRAPH 18.

Paragraph 18

The CHAIRMAN opened the discussion on the above and invited suggestions from the members of the Sub-Commission.

Mr. MOROZOV emphasized the need for an anti-inflation policy, as formulated earlier by the Chairman, and said that he would not agree to any recommendation which could be construed as justifying inflation as a method of financing economic development. In his view, if the report gave a description of the consequences of inflation, it must also indicate how inflation affects various classes of the population in capitalist countries. Inflation lowered the real income of the workers and, consequently, their standard of living, and resulted in large profits for speculators and monopolists. Those were the main characteristics of inflation. He suggested, therefore, that paragraph 18 be amended accordingly.

Mr. COLLADO did not think Mr. Morozov's suggestion provided an adequate description of the effects of inflation. Profits were made by a much wider range of people than could be included in the category of speculators and monopolists. He proposed, therefore, that the Sub-Commission should use the definition which had already been used in the report of the Economic and Employment Commission (E/790):

"... by causing a shift in the distribution of real income from wages and fixed incomes to profits and speculative gains..."

In his view such a wording would be much better understood in the United States.

The CHAIRMAN said that the task of the Sub-Commission was to examine the effects of inflation on production and economic development, and he did not think therefore that it should go into detailed descriptions of all its social consequences. He pointed out that there was logical continuity between paragraphs 18 and 19, the former emphasizing the dangers of inflation and the latter suggesting what could be done to counter inflation. Replying to a remark by Mr. Van der Valk (International Monetary Fund) he

/emphasized

emphasized that inflation finally entailed a reduction in all forms of savings whether voluntary or forced.

Mr. GUIMARAES suggested the following wording:

"... by distorting the whole structure of prices and real incomes results in the undermining of confidence, reduction of savings..."

The Sub-Commission finally adopted the following text for paragraph 18, both Mr. Collado and Mr. Guimaraes stating that they would have preferred their respective versions (Mr. Collado was also prepared to agree to the wording proposed by Mr. Guimaraes):

"The channelling of domestic finance into economic development may, if not kept under control, create inflationary pressure which involves special dangers to underdeveloped countries. While the Sub-Commission is certainly anxious to impress upon the Governments concerned the need for economic development, nevertheless it wishes to emphasize the danger that inflation, by lowering real wage rates and the real value of fixed incomes on the one hand and enriching speculators and monopolists on the other, results in the undermining of confidence, reduction of savings, and diminution of the efficiency of production -- which would obviously defeat the very process of economic development."

Mr. COLLADO entered a formal reservation on that point.

The CHAIRMAN opened the discussion of the new paragraph 19 which replaced paragraphs 20 and 21 of the old draft report.

Mr. MOROZOV felt that the Sub-Commission should confine itself to stating general principles and should not attempt to make concrete recommendations which could not be made without taking into consideration the conditions peculiar to every country concerned.

According to the draft the Sub-Commission wished to draw attention to the report submitted by the Sub-Commission of Economic Stability but there was no need to do so as that report had already been examined by the Economic and Employment Commission one year before.

In his view the draft unduly limited the listing of the ill-effects of an unequal distribution of wealth. Inequality in the distribution of

/income

income and wealth affected the general standard of living of the broad masses of the population and not merely their nutritional and health standards.

The wording of the fifth sentence was misleading -- the words "in other cases" might be construed to mean that the sentence referred only to countries where there was no inequality in the distribution of wealth. Furthermore, the wording of the draft could also be interpreted as limiting the right of underdeveloped countries to restrict imports of any commodity they wished. That right did not extend merely to semi-luxury goods.

The sixth sentence was out of place -- the Sub-Commission had not considered the measures it listed and could not, therefore, recommend them in its report. Some specific measures might have been omitted in that list and it would then convey a wrong impression.

The CHAIRMAN pointed out in his reply that if the Sub-Commission confined itself to general principles and eschewed any specific recommendations, its report would not be of much value.

He agreed with Mr. Morozov on the subject of the report of the Sub-Commission on Employment and Economic Stability and said that it could be mentioned in a footnote to the Sub-Commission's report.

The deletion of the word "some" in the fourth sentence, suggested by Mr. Morozov, would entail an unacceptable limitation of budgetary freedom as the Governments concerned would then be compelled to spend all their additional revenue on development projects alone.

The words "in other cases" might be replaced by "in some cases" to avoid any misunderstanding and instead of mentioning "semi-luxury goods" the report could refer to "defined classes of consumption goods" so as to leave no doubt regarding the right of countries to limit whatever consumption they wished.

The last sentence did not contain any recommendations and merely stated that Secretariat studies had indicated the use of various measures for the promotion of economic development.

Mr. Van der VALK emphasized that there were three methods for combating inflation: physical controls, fiscal measures and monetary controls. In his view the report should mention all three even though it dealt with fiscal measures only.

/Mr. BRAVO Jimenez

Mr. BRAVO Jimenez emphasized that the three methods were not alternatives and that they could be, and in fact were, used simultaneously.

The CHAIRMAN pointed out that the expression "monetary measures" might be misconstrued in many countries as meaning only raising the rate of interest or demonetizing notes of high denomination.

Mr. COLLADO sponsored the suggestion made by the representative of the International Monetary Fund and proposed the following wording for paragraph 19, which embodied the various suggestions made during the course of the discussion:

"With these considerations in mind, the Sub-Commission discussed, albeit in a brief manner, the various anti-inflationary policies and measures open to underdeveloped countries, including monetary measures, physical controls and fiscal policy. Monetary measures for countering inflation would of course be appropriate in all cases. In some countries, physical controls, including restriction of defined classes of consumption goods, domestic or imported, may be appropriate. The Sub-Commission wishes particularly to make a few observations on the fiscal policies that could be employed by underdeveloped countries for meeting the dangers of inflation, improving the distribution of income and wealth, and for otherwise promoting their economic development. It is the view of the Sub-Commission that internal inequalities of income distribution are detrimental to economic development insofar as they reduce the nutritional, health and general standards of the people, create an excessive demand for imported luxury consumption goods, further an excessive transfer of funds abroad, and prevent a growth of internal markets. Where such conditions exist, fiscal methods are appropriate to bring about a more equitable distribution of incomes and channel additional resources into economic development. Secretariat studies made available to the Sub-Commission indicate the widespread use of fiscal measures for the positive encouragement of economic development, including tax exemptions for new enterprises; government grants, low-interest loans or guarantees for desirable projects, capital improvement or technical training; equity participation by governments in particular enterprises; government contracts and government-guaranteed contracts; and provision directly by the government of essential services."

The meeting rose at 1:30 P.M.