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CONTENTS: Discussion of mobilization of financial resources for
economic development: (E/CN.1/Sub.3/W.11, E/CN.1/Sub.3/W.10,
E/CN.1/Sub.3/W.13)

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Members: Mr. GUIMARAES Brazil
Mr. LIEU China
Mr. PATEK Czechoslovakia
Mr. MOROZOV Union of Soviet Socialist
Republics
Mr. COLLADO United States of America

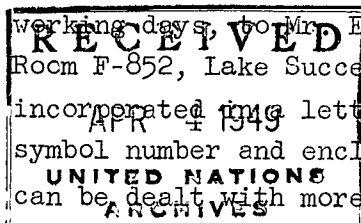
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zation (ILO)
Mr. LOPEZ-HERRARTE International Bank for Recon-
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Consultants from non-governmental organizations: (continued)

Category "A"	Mrs. E. MEAGHER	World Federation of Trade Unions (WFTU)
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DISCUSSION OF MOBILIZATION OF FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT: (E/CN.1/Sub.3/W.11, E/CN.1/Sub.3/W.10, E/CN.1/Sub.3/W.13)

The ACTING CHAIRMAN, resuming discussion on his suggestions concerning an approach to the discussion of mobilization of internal financial resources for development (E/CN.1/Sub.3/W.11) said that the points in paragraph 2 (a,b,c, and d) on page five had already been discussed by the Sub-Commission. Point (b) was part of the general policy of under-development governments. Point (c) dealt with the necessary equilibrium between national resources and foreign resources for financial development. The foreign resources should be complementary to the others.

Mr. LIEU said that point (a) suggested one procedure to be followed to channel domestic financial resources into economic development. Fiscal policy might not only absorb available capital and apply it to development purposes, but also divert it from one form of utilization to another. For instance, an unearned increment tax might drive capital away from speculative investment into productive channels.

He wondered whether point (b) would imply the constant exercise of exchange control to keep such capital at home and prevent its flight abroad. He pointed out that the Articles of Agreement of the International Monetary Fund provided for temporary control, but not for permanent control.

On point (c) he was not quite clear whether the necessary equilibrium referred to an equilibrium between property rights say in agriculture and mining, or between property rights held by nationals and those held by foreigners. He did not think there could be any general or natural ratio between domestic and foreign capital in any enterprise. Such ratios were fixed out of political considerations.

On point (d) he supported Mr. Morozov's proposal, since he felt that discussion in the Sub-Commission might be misleading in making people believe that inflation could be controlled. He himself did not think so.

/The ACTING CHAIRMAN

The ACTING CHAIRMAN, speaking of point (a) said that a progressive tax should be used to absorb incomes and balance the concentration of financial resources so as to utilize highly concentrated resources for the development of additional activities.

On point (b) he agreed that it should not mean permanent exchange control, but pointed out that temporary control was necessary in certain cases to solve short term problems. Foreign investment exercised pressure on internal resources of the investing countries and too great a strain should not be placed on the latter by encouraging unplanned foreign investment.

On point (c) he said that the policy of economic development should be such as to maintain the possibility of utilization of domestic resources at the maximum. In his own country, that was effected by the requirement that foreign investors should not hold more than 49% of the capital of any enterprise.

Mr. LIEU, referring to the latter point, stated that a similar measure had been adopted in his country, but had later been abolished. From an economic point of view, he doubted whether it was advisable to use the term "equilibrium" as it was used in connexion with demand and supply or with the balance of payments.

Mr. EVANS (International Labour Organization) said the problem of controlled inflation (point d) had been discussed at the International Labour Organization's Preparatory Asian Regional Conference and Regional Meeting for the Near and Middle East. Those meetings had both adopted resolutions in which reference was made to the subject; he quoted from the resolution concerning the economic policies designed for furthering, in the Near and Middle East, the social objectives of the International Labour Organization (E/781), paragraphs 47, 44 and 45) and the resolution concerning the economic policies necessary for the attainment in Asia of the social objectives of the International Labour Organization (E/780, paragraph 14.) Those texts stated, inter alia, that "expenditure on development works and on industrial expansion should be incurred with due regard to the necessity of avoiding inflationary pressure on prices." The term "with due regard" left the door open to a policy of carefully controlled inflation, if it were deemed that the benefits were greater than the disadvantages. Further, the fiscal aspect was also covered: "Insofar as goods cannot be supplied in quantities

/adequate for this

adequate for this purpose, every effort should be made by appropriate fiscal policies or by loans to absorb purchasing power surplus to the amount required for the consumers' essential requirements, thus preventing the demand for goods being such as to tend to an inflationary rise in prices." The other resolution referred to measures to accelerate production, prevent hoarding, speculative trading and black marketing, and to bring about a fair relationship between wages and salaries and commodity prices. Those were broad statements on the subject, but they showed unanimity on the part of the Governments of the under-developed countries concerned.

The ILO would be glad to assist the Sub-Commission in the consideration of points on which the co-operation of employers and trade unions would be helpful.

The ILO Metal Trades Committee had considered the problems of the difficulty of obtaining capital equipment and had referred it to the United Nations for consideration by the appropriate organ.

Mr. COLLADO said he had been struck by certain aspects of private investment which had been raised in Mr. Bravo's proposals (E/CN.1/Sub.3/W.11).

On point (c) of those proposals he felt that the appropriate ratio was very difficult to fix, and that rigidity imposed in advance was not desirable.

Mr. MOROZOV emphasized that foreign capital should always play a subordinate part in the economic development of under-developed countries, and should not prejudice national interests or sovereignty. The investor should not derive any political advantages or military bases as a consequence of his investments.

Mr. PATEK, referring to the ratio between foreign and domestic capital, also emphasized that foreign capital should not play so big a part as domestic capital because of the consequent interference with national sovereignty.

/The ACTING CHAIRMAN

The ACTING CHAIRMAN said that that point would be more fully treated later in the discussion on foreign financing. He concluded the discussion on his proposals (E/CN.1/Sub.3/W.11).

Mr. GUIMARAES, in introducing his papers (E/CN.1/Sub.3/W.13 and E/CN.1/Sub.3/W.10) said that they marked an essentially practical approach to the problem. He suggested that members of the Commission might profitably exchange their experiences in regard to the mobilization of domestic financial resources.

Although it had been decided at the first session of the Sub-Commission that subsequent sessions should devote more time to specific problems, Mr. Guimaraes nevertheless felt that, in view, for example, of the many common features in the economic situation of the countries of Latin America, it might be possible to include in the Sub-Commission's report some reference to general aspects of the problem, at least in regard to certain regions.

Mr. Guimaraes went on to comment on the five devices suggested in his paper (E/CN.1/Sub.3/W.10). In regard to the floating of stock by the Government (point 1), he explained that the internal market in Latin America was narrow but could be expanded; in the case of levies on travelling (point 2), he indicated that transport was one of the principal problems in the economic development of the countries of Latin America; in the case of export taxes on primary products (point 3), he emphasized the importance of imposing the tax on exporters and not on producers in view of the need to raise the standard of living of the latter; where the establishment of investment banks was concerned (point 4), Mr. Guimaraes considered that such banks could be established either by private or governmental initiative, but that in Latin America such a measure must be undertaken by the Government; he explained that the tax on fuel (point 5) was a means of raising funds for improvement of roads and transport facilities.

In his second paper on Domestic Private Investment (E/CN.1/Sub.3/W.13) he had put forward the view that the channeling of private domestic resources for economic development must be effected by the establishment of banking systems. The main point of his paper was to suggest that technical missions, staffed by the International Monetary Fund and the International Bank for Reconstruction and Development, might visit the underdeveloped countries and discuss banking and investment problems with the experts of those countries. He pointed out that the establishment of agricultural banks was a vital matter to the countries of Latin America.

/The ACTING

The ACTING CHAIRMAN, in summarizing the discussion, pointed out that Mr. Guimaraes considered the most important fields in economic development in the underdeveloped countries to be transport, fuel and power. He had suggested an exchange of ideas on the five devices outlined in his paper for financing development in those important fields. In his second paper he had urged the importance of establishing an efficient banking system responsive to the need for promoting economic development, and in particular to the need for agricultural credit. He had also suggested that studies of the problems involved should be undertaken by the International Monetary Fund and by the International Bank for Reconstruction and Development. The Chairman, however, understood that the International Monetary Fund was already engaged in studies in that field.

Mr. COLLADO referred to Mr. Bernstein's statement at an earlier meeting, in which he indicated that, while the Fund made factual studies of existing institutions in a number of countries, it had done little in the direction of studying the specific needs of financing of economic development. Mr. Bernstein had also pointed out that the financial arrangements required in underdeveloped countries for the purpose of directing resources into economic development was of interest both to the International Monetary Fund and to the International Bank for Reconstruction and Development. Close collaboration between the two organizations was therefore essential. It might perhaps be desirable to request the two organizations to take all possible steps to that end.

Mr. MOROZOV expressed surprise that the documents submitted by Mr. Guimaraes gave first priority to transportation and fuel in the development of the underdeveloped countries. He wished to stress the prime importance of developing heavy industry in the underdeveloped countries; without heavy industry, no country was in a position to develop transportation. It was impossible to consider the development of transportation in isolation; it must be studied in connexion with the problem of industrialization as a whole.

Mr. LIEU, while agreeing with Mr. Morozov that transportation was only one aspect of industrialization, felt it was essential to single out the more important aspects of that process. A lack of transport and power was common to all underdeveloped countries and therefore required special attention. He suggested that a special study should be made of those two aspects at some future session of the Sub-Commission.

/Mr. GUIMARAES

Mr. GUIMARAES pointed out that the problems of transportation and industrialization were interrelated. Without adequate transport facilities there could be no markets for manufactures and without markets, there could be no manufactures. Moreover, the high prices of manufactures resulting from poor transport facilities made it impossible to raise the standard of living in the underdeveloped countries.

Mr. MOROZOV pointed out that the discussion reflected a fundamental difference of opinion on the method to be adopted in developing the underdeveloped countries. The problem of transportation could only be solved where the branches of industry producing engines, rails and other essential equipment were in operation. The importance of transportation was stressed in cases where the underdeveloped countries were regarded as sources of raw materials. Such a conception was unacceptable because it was based on the desire to regard the underdeveloped countries as mere appendages of the more highly developed countries. There were no grounds for giving priority to the development of transportation for the purpose of raising the standard of living; the standard of living could only be raised by the development of heavy industry.

Mr. PATEK pointed out that the Sub-Commission had already endorsed the view that the only way of developing the underdeveloped countries was by means of general industrialization, and that it could not give separate consideration to such specific branches of industrialization as transportation.

The ACTING CHAIRMAN stated that the emphasis placed by Mr. Guimaraes on the development of transportation and the supply of fuel and energy was undoubtedly justified by his experiences in that part of Latin America. He did not see, however, how special reference to those two particular aspects of the problem of industrialization and suggestions for their financing could be made in an analysis of financing economic development. The questions of raw materials, the supply of labour, and internal and external markets were of equal importance. The only distinction that could be made was between the direct elements, such as raw materials and labour, and the general services for industrial development, such as transportation, fuel and energy. As general services, the latter could be given special treatment, but the Commission could not adopt a specific attitude towards them beyond the lines on which it had conducted its discussion on the financing of economic development.

/His suggestion

His suggestion would therefore be that the Sub-Commission should confine itself in the report to the general aspects of the problem of financing economic development, with special reference to industrialization.

Mr. GUIMARAES explained that in his paper he had drawn attention to the questions of transportation and fuel and energy merely as examples.

Mr. COLLADO thought that the Sub-Commission was generally agreed that the process of economic development had to be a balanced process. That idea had been expressed in the papers of Mr. Bravo and Mr. Guimaraes, it had been mentioned by Mr. Lieu and had been summed up at an earlier meeting by Mr. Rao. There was therefore no need for further discussion of the point.

If, however, he was correct in understanding that Mr. Morozov considered there could be no economic development without a development of such heavy industry as, for example, the iron and steel industries, he could not agree. Such an idea was not borned out by the history of the United States or, indeed, that of any other country. If the Secretariat could prepare statistics with regard to the existence of coal and iron ore in underdeveloped countries, and the existence of transportation in the same countries, it would be seen that railways did exist in countries where there were no iron or steel industries. Moreover, there were small countries whose entire need for machine tools to support a vigorous industrialization could be supplied by one machine tool factory in a few weeks.

Mr. MOROZOV explained that it was impossible to present specific ratios for the development of the various branches of industry in the different countries. What the Sub-Commission was trying to do was to formulate the basic principles of economic development, and it had agreed that the main factor was industrialization.

The history of economically developed countries showed that the economic development of those countries had been characterized by the development of heavy industry. It was only right, therefore, to stress the importance of industrialization and the priority that should be accorded to it in the economic development of under-developed countries. The development of heavy industry was not a privilege to be limited to certain countries; it was only on the basis of industrialization that countries could achieve economic independence.

/The ACTING

The ACTING CHAIRMAN proposed that, with regard to Mr. Guimaraes' paper (E/CN.1/Sub.3/W.10), the Sub-Commission should refer in its report to the need for subordinating the different aspects of industry, such as transportation etc., to the needs of industrialization in the country concerned.

With regard to his other paper (E/CN.1/Sub.3/W.13), in which he had emphasized the need to develop banking systems, the two main points of that paper had been included in essence in all the Sub-Commission's discussions and would appear in the report.

Mr. EVANS (International Labour Organization) hoped that in mentioning the different methods of financing under-developed countries, the report would make adequate reference to agricultural credit institutions.

The ACTING CHAIRMAN drew attention to the communication received from the International Co-operative Alliance (E/C.2/183) with regard to the different techniques of co-operative organization of the people of under-developed areas. He asked whether members were prepared to discuss it.

Mr. MOROZOV stated that as the Sub-Commission had not been informed that the document would be before it at that meeting, he had not yet considered it and would therefore be unable to take part in the discussion.

The ACTING CHAIRMAN decided that the document would be discussed on Thursday, 31 March, when the first part of the draft report was to be considered. The two intervening days would be devoted to the discussion of foreign financing, when documents E/CN.1/Sub.3/W.7, 8, 9 and 12 would be considered.

The meeting rose at 4:55 p.m.