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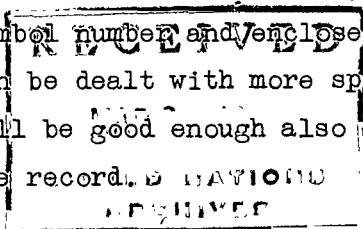
Held at Lake Success, New York,
on Wednesday, 23 March 1949, at 11 a.m.

CONTENTS: Discussion of central problems of economic development with special emphasis on mobilization of financial resources for economic development (E/CN.1/Sub.3/25, E/CN.1/Sub.3/W.6, E/CN.1/Sub.3/W.5, E/CN.1/Sub.3/W.8, E/CN.1/Sub.3/W.9, E/CN.1/Sub.3/W.7)

Chairman: Mr. V. K. R. V. RAO

Members: Mr. J. N. GUIMARAES
Mr. D. K. LIEU
Mr. J. PATEK
Mr. M. BRAVO JIMENEZ
Mr. A. P. MOROZOV
Mr. E. G. COLLADO

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Representatives of specialized agencies:

Mr. A. A. EVANS	International Labour Organization (ILO)
Mr. M. EZEKIEL	Food and Agriculture Organization (FAO)
Mr. S. ARNALDO	United Nations Educational, Scientific and Cultural Organization (UNESCO)
Mr. E. LOPEZ-HERRARTE	International Bank for Reconstruction and Development
Mr. H. Van der VALK	International Monetary Fund (IMF)
Mr. G. HILL	World Health Organization (WHO)

Consultants from non-governmental organizations:

Category A:

Miss T. SENDER	American Federation of Labor (AF of L)
Miss E. SANSOM	International Chamber of Commerce (ICC)

Secretariat:

Mr. A. DORFMAN	Secretary of the Sub-Commission
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DISCUSSION OF CENTRAL PROBLEMS OF ECONOMIC DEVELOPMENT WITH SPECIAL EMPHASIS ON MOBILIZATION OF FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT (E/CN.1/Sub.3/25, E/CN.1/Sub.3/W.6, E/CN.1/Sub.3/W.5, E/CN.1/Sub.3/W.8, E/CN.1/Sub.3/W.9, E/CN.1/Sub.3/W.7)

The CHAIRMAN opened the discussion and said it would be useful for the Sub-Commission to decide on the order in which it should examine the various questions involved. He added that documents had been made available to the Sub-Commission for a discussion of the major aspects of the mobilization of financial resources for economic development.

Financial resources could be obtained from two major sources -- one domestic and the other foreign. In connexion with domestic financial resources, the Sub-Commission could refer to three documents prepared by the International Monetary Fund on banking and financial institutions and their role in the mobilization of financial resources for economic development in Chile, Egypt and Mexico. In connexion with financial resources arising out of foreign trade -- which was a borderline case between domestic and foreign financial resources -- members could

/refer to

refer to an analysis of the price factor in foreign trade which had been prepared by the Secretariat in a report on Post-War Price Relations in Trade between Underdeveloped and Industrialized Countries, and also the United Nations publication, "Review of International Commodity Problems, 1948". Two sets of documents were available regarding foreign financing: one surveyed the international capital movements during the inter-war period and the post-war period, while the other included reports on foreign investments in Brazil, China and Mexico.

He wished members to state whether they wanted to have a general discussion first, followed by an examination of domestic financial resources, foreign trade and foreign financing. The aim of a general discussion would be to survey the entire problem of financing economic development, the questions it raised and the part which should be played by domestic and foreign investments respectively.

Mr. PATEK pointed out that the report on International Capital Movements During the Inter-war Period referred to Czechoslovakia as a semi-developed country. He felt that it would be better to speak of "under-industrialized" rather than "underdeveloped" countries, since the latter were often very advanced culturally, artistically, and otherwise. Furthermore, he could not gather from the survey what bearing the movement of capital had had on the industrial development of the so-called underdeveloped countries.

The CHAIRMAN made it clear that the term "under-developed" applied mainly to the industrial field so that it really meant "under-industrialized". This matter had been clarified during the first session of the Sub-Commission.

Mr. BRAVO JIMENEZ said that the purpose of the general discussion should be to determine the scope and limits of the problem of financing, considering that it was not an independent or isolated element in the process of economic development.

Mr. MOROZOV said that as the problem of the mobilization of financial resources for economic development was the most important question on the agenda of the current session it would be useful to have a general discussion on item 3 first, after which the Sub-Commission could examine the various documents available. The Secretariat had

/succeeded in

succeeded in providing more documents, and documents providing concrete facts, for the present session.

Mr. EZEKIEL wanted to outline what FAO was doing under the instructions of the 1948 Conference. For the FAO, the present discussion of the Sub-Commission was very timely, and if the Report of the S/C in its present session had been available a month earlier, the FAO could have examined its own Report in the light of the views of the Sub-Commission. The 1948 session of the FAO Conference had called attention to the recommendations of the **Preparatory Commission on World Food Proposals** which read as follows:

"...That the progress of development be kept under continuous review so that if at any time a development project or program of significance to agriculture justified on other grounds has been unable to go forward for lack of adequate international financial facilities, the Director-General of FAO and the Board of Executive Directors of the International Bank should forthwith report the circumstances to their respective governments and to the Economic and Social Council with recommendations for any appropriate action."

In order to ascertain how far there might be such a lack and to enable the following session of the conference to consider possible lines of action, the Conference had adopted a resolution requesting

"the Director-General to invite the assistance of the United Nations, the Bank, and other appropriate United Nations agencies in preparing for consideration by the Council a fact-finding statement, concerning all financing facilities, the use being made of them, and the nature of the demand for them"

and requesting

"the Council to prepare a report thereon for the next session of the Conference."

The Council was meeting in Paris in June and was expecting the report to be ready by May. Furthermore FAO had received much information and material from various specialized agencies such as the International Bank for Reconstruction and Development. FAO was now analyzing all the material and information thus received.

/Its own .

Its own report would contain four main sections: (1) a survey of the magnitude of needs for investments; the survey would cover both domestic and foreign financial requirements, with special emphasis on the needs of agriculture and agricultural development but would also provide overall figures. It would be divided into three main parts, the first based on figures as shown in various national economic plans; the second devoting special attention to agricultural development projected under such plans, and also indicating the finance required for those agricultural development plans which in the opinion of FAO experts were ripe for execution in the next five years; the third part of this section would analyze the applications actually submitted for international loans, both agricultural and non-agricultural during the 1945-1948 period. It was however difficult at times to decide what exactly constituted an application for an international loan, since preliminary enquiries, for instance, regarding the possibility of such a loan would not be considered as an application. (2) International funds and investments as a whole; that section would give a comprehensive survey of the past flow of investments and of the amounts which had been invested in agriculture; but it had been found extremely difficult to provide estimates of domestic investment for the underdeveloped countries concerned; (3) factors influencing availability of investment capital, internal and external; (4) summary of the factual situation and of additional steps which might possibly be taken in that field.

It had been suggested that the above FAO study should be consolidated with the report now being prepared by the Secretary-General of the United Nations, under the Economic and Social Council resolution of 4 March 1949 concerning the economic development of underdeveloped countries. That would hardly be feasible as FAO's report would cover a much wider field than that of the Secretary-General's report, and also in view of the fact that the FAO report had to be presented while the Secretary-General's report was still being prepared for the ninth session of the Economic and Social Council.

Regarding definite figures, he could only state that three quarters of the total flow of public funds for foreign investment during the 1946-1948 period had gone to highly developed countries, while only one quarter had been used to meet the need of underdeveloped areas.

/The CHAIRMAN

The CHAIRMAN said that he was surprised that as much as one-quarter had gone to underdeveloped countries, and he assumed that a wide definition had been used of what constituted "underdeveloped countries".

Mr. EZEKIEL agreed that a wide definition had been used. He added that in the so-called underdeveloped category, Latin American countries had received quite substantial amounts. Asian countries had received very little. Africa, by way of colonial development grants, had received more than Asia.

Mr. LIEU said that the Secretariat study of capital movements showed that highly developed countries invested very little in the development of manufacturing industries in underdeveloped countries. Large-scale public utility projects, such as electrification for instance, succeeded in raising sufficient capital but the same could not be said of manufacturing industries. This gap corresponded to that previously existing in the field of technical assistance which had been pointed out by the Sub-Commission in the report on its second session. In his view, there could be no economic development of a given country without the development of its manufacturing industries, and the reasons for the existence of the gap which he had pointed out should be further studied and discussed.

He also wished to point out that although it was reasonable to say that an underdeveloped country should supply its own financial resources and not depend on foreign aid, that was a most difficult if not altogether impossible undertaking for countries with a low national income. Furthermore, their financial institutions were not adapted for that kind of activity. This was at the same time a cause and effect of a lack of economic development.

The third point he wished to raise was that of the lack of capital equipment. Such equipment had to be imported from abroad by underdeveloped countries and they were not always capable of exporting enough to pay for such imports. Consequently, they needed loans to pay for imports of capital equipment. In his view, the Sub-Commission should emphasize in its report this aspect of the financing problem.

/Mr. Van der Valk

Mr. Van der VALK said that the question of financing manufacturing industries in underdeveloped countries should be examined in a broader aspect. Manufacturing industries usually required a large capital and it was also a more risky type of investment than public utilities etc. They were, therefore, too costly for domestic resources and too risky for private foreign investments. In some countries, such as Chile for instance, the task of developing public utilities, transport, etc. was assumed by the governments concerned with the help of foreign finance, while the development of manufacturing industries was carried out by means of domestic financing through floating industrial securities on domestic security markets developed for this purpose.

Mr. LIEU replied that some countries would find it difficult to float industrial securities. The system had certain disadvantages and he understood that it had already led to considerable inflation in Chile.

Mr. BRAVO JIMENEZ said that in considering the problem of financing from the angle of its relation to the economic development of underdeveloped countries as a whole, an underdeveloped country could usefully be compared to an enterprise. In financial terms, an enterprise was sound when the proportion of its risk or equity capital to total liabilities was such as to guarantee the development of the enterprise as a unit. The financial capital structure varied from one industry to another corresponding to variations in the technical and economic requirements. On the other hand, investments in some industries were made in the form of fixed assets and in others in the form of liquid assets.

An underdeveloped country was like an enterprise with very limited possibilities for building up its own equity or risk capital and had to rely on external sources of finance. The extent to which its liabilities could grow was limited because it was dependent on the economic capacity of the country. That economic capacity also limited the amount of foreign credit which the national enterprise could absorb.

/An under-developed

An under-developed country was characterized by lack of risk capital and a great need for establishing fixed assets which could be developed. One aspect of the problem was represented by the factors limiting a country's possibilities for developing its own resources for capitalization and subsequent investment. It was essential to foster the formation of internal capital in those countries. In the process of economic development, such a country could build up its own financial resources, but there was a danger that its own economic policy would prove an obstacle to such a building up. Indeed, the country's economic policy might be based on the establishment of a particular industry without regard to that industry's place in the economic structure of the country as a whole. For instance, some under-developed countries might have developed low-cost light industries which could have provided a source for savings and hence subsequent investments. Instead, they may start building up high-cost heavy industries and in so doing subject the country to fixed charges and raise the cost of production in the light industries. Thus the high-cost heavy industries would interfere with the growth of low-cost light industries, total income would consequently fall and as a result the building up of available risk capital would dwindle.

It was also essential to see that available savings were not used for purely banking purposes without any regard to the needs of economic development.

The CHAIRMAN asked Mr. Bravo if his remarks implied that foreign loans should be made mainly in the form of risk capital.

Mr. BRAVO said that in a business unit the returns on risk capital depended on the final result of the business; the owners of the capital were not guaranteed a certain return. In some cases a specific return was guaranteed for other forms of capital, which then formed a fixed charge on the business. Similarly, in an under-developed country which had a limited amount of risk capital, the amount of capital representing a fixed charge had to be increased.

The CHAIRMAN said it seemed to him to follow from Mr. Bravo's analysis that in an under-developed country direct investment from foreign sources was more important than so-called "portfolio" investment.

/Mr. BRAVO

Mr. BRAVO said the point which he had had in mind was the desirability of arranging fixed-interest commitments through the governments of underdeveloped countries, so as to allocate such funds through the national enterprise and also to know what the total fixed commitments are.

Mr. PATEK, referring to the report on International Capital Movements During the Inter-War Period, said he would like an explanation as to the relation of those investments to the needs of under-developed countries. It appeared to him that in the Secretariat study the international movement of capital was approached from the point of view of the investing countries, whereas the borrower's interests were those which should really be considered by the Sub-Commission.

The CHAIRMAN said Mr. Patek's question was implicitly answered in the document he had mentioned, from which he himself inferred that movements of foreign capital had not in the past been particularly conducive to the economic development of under-developed countries. They had developed either raw materials for exports or constituted branches operating abroad of concerns in the capital-exporting countries. Obviously investments had been made with the motive of self-interest of the investors; but that was inevitable in a capitalist economy. Private investments had been made for profits, while public investments were made largely from political motives. That was a dilemma which capital-importing economies faced in the capitalist world. One of the Sub-Commission's tasks was to find methods of foreign financing which would be free from both those defects.

Mr. BRAVO JIMENEZ said that if it was agreed that the main source of capital formation should be in the country itself, difficulties hindering the formation of capital must be analyzed and elements conducive to an increase in capital formation considered.

The CHAIRMAN said that question would be considered along with Mr. Lieu's statement that reliance on domestic finance would not bring about speedy economic development, but that the Sub-Commission should first complete its general discussion.

Mr. EVANS

Mr. EVANS welcomed the discussion because the International Labour Organization realized that the general social policies it was pursuing would be difficult to implement unless means were found to raise the standard of living in under-developed countries. That consideration had led the ILO to pass certain general resolutions on the problem under discussion. He mentioned in particular the resolution of the Preparatory Asian Regional Conference (E/780, paragraphs 15 (a) and 21 (a) and (b), and the resolution of the Regional Meetings) for the Near and Middle East.

He suggested that it would be useful to have a document containing a general indication of the principles and methods most conducive to the increase in savings and to their proper channelling into economic development. Such a document might indicate the amounts that could be saved in different countries, the institutions which could assist in that, how the savings might best be employed, etc.

On the question of how the best use could be made of the limited amount of capital available, he said that in the Preparatory Asian Regional Conference great emphasis had been laid on small industries and co-operative programmes. Small industries might attract savings because of the direct relationship between the industry and the investor, which could make it easier to find the required capital.

The CHAIRMAN said that the idea of small industries had been propounded for many years but the idea that this would increase local savings available was new and he had seen no documents setting out a concrete scheme, or giving the actual experience of countries which had established and financed small industries on a planned basis.

He said the Sub-commission might note this question as a possible item for the agenda of its next session.

Mr. EZEKIEL said that documentation, which might be of illustrative value, was available on small industries in the less developed parts of the United States of America, for example, in the Tennessee Valley Authority scheme and the Rural Electrification Administration.

/Mr. DORFMAN

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Mr. DORFMAN said the Secretariat was aware of the importance of the question and some work in that field had already been started.

Mr. BRAVO JIMENEZ said the technical aspects of the process of industrialization were important, since techniques obsolete in industrialized countries might be used with advantage in others. The problem of the optimum plant also arose.

The CHAIRMAN said that if an unlimited supply of capital was available the question became purely technical, but if not, it was also a problem of maximizing the use of available capital; and from that point of view, small industries involving a smaller rate of capital investment deserved to be studied.

Mr. EZEKIEL mentioned the fact that some work had been done on that problem by UNRRA.

There was a frequent tendency for technicians from the more developed countries to assume that highly developed techniques would be equally advantageous in underdeveloped countries. This also applied to the technicians of the underdeveloped countries themselves. Though labour might not be so cheap as formerly in the underdeveloped countries, the ratio of labour cost to capital cost still was much lower there than in highly developed countries.

Mr. COLIADO said it was found that the rates of return at which foreign companies operated in underdeveloped countries were often not attractive to local investors. Rates of interest in underdeveloped countries varied widely, but generally they were very high; 6-8% for commercial paper of 3-6 months' duration was not unusual. In reply to a question by the Chairman, he said that a recent survey indicated that the rate of dividend of all securities listed on the New York Stock Exchange, which paid any dividend at all, had averaged in 1948 about 7 per cent of the market quotations of such securities. That statistic was of course of limited significance.

The CHAIRMAN said that rates of interest everywhere varied within the same country but that in underdeveloped countries there was a greater range of variation.

/Mr. COLIADO

Mr. COLLADO said that in certain underdeveloped countries, for example some of the Latin-American countries, where there was a well-organised financial market, rates of interest for certain types of financing in limited volume were low.

It would be interesting to analyze the returns of United States corporations to show that the returns necessary to induce new equity investment were often higher than was generally believed. He also mentioned the large ratio of profits ploughed back into capital which was usual in the United States of America and in American direct investments abroad. It would probably be found that investors in foreign enterprises ^{had} brought home no greater profits than investors in domestic enterprises.

Mr. GUIMARAES understood that domestic and foreign investments must, to a certain extent, be examined as a whole since it was very difficult to separate them. If an attempt were made, however, to separate them, he would suggest as a method of work that the Sub-Commission should first consider domestic investments both private and governmental. It could then analyze foreign investments by private and international agencies from the point of view of public utilities, agriculture and industry, and consider private foreign investments intended to supply the industry of the investor country with raw materials, and those intended to supply it with consumer goods. Subsequently the problems of diversification and of the terms of trade should be considered which were of pivotal importance.

The meeting rose at 1.10 p. m.