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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE NINETIETH MEETING

Held at the Palais des Nations, Geneva, on Thursday, 27 July 1950, at 3 p.m.

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/Present:

Present:

Chairman: Sir Ramaswami MUDALIAR (India)

Members:

Australia	Mr. WALKER
Brazil	Mr. de ALMEIDA
Canada	Mr. ARNOLD SMITH
Chile	Mr. SCHNAKE-VERGARA
China	Mr. CHA
Denmark	Mr. IVERSEN
France	Mr. de SEYNES
India	Mr. ADARKAR
Iran	Mr. KHOSROVANI
Mexico	Mr. MARTINEZ-OSTOS
Pakistan	Mr. QURESHI
Peru	Mr. ENCINAS
United Kingdom of Great Britain and Northern Ireland	Mr. FLEMING Miss WATTS
United States of America	Mr. LUBIN

Representatives of specialized agencies:

International Labour Organisation	Mr. RICHES Mr. DAWSON
Food and Agriculture Organization	Mr. OLSEN
International Bank for Reconstruction and Development	Mr. KNAPP Mr. LOPEZ-HERRARTE
International Monetary Fund	Mr. GUTT Mr. FISHER

Representatives of non-governmental organizations:

Category A

International Co-operative Alliance	Mr. MILHAUD

/International

International Confederation of Free Trade Unions	Miss SENDER
International Federation of Christian Trade Unions	Mr. van der PLUYM
Inter-Parliamentary Union	Mr. de CLERY

Secretariat:

Mr. Weintraub	Director, Division of Economic Stability and Employment
Mr. Dorfman	Department of Economic Affairs
Mr. Messing-Mierzejewski	Secretary to the Committee

/METHODS

METHODS OF FINANCING ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES, INCLUDING CONSIDERATION OF THE REPORT OF THE SUB-COMMISSION ON ECONOMIC DEVELOPMENT (FOURTH SESSION) (item 6 of the agenda) (E/1690, E/1757, E/L.73, E/CN.1/80)

The CHAIRMAN drew the attention of the Committee to the various documents before it, especially to the report of the fourth session of the Sub-Commission on Economic Development (E/CN.1/80), and to the two draft resolutions presented by the Chilean (E/1757) and jointly by the Chilean and United States delegations (E/L.73).

He also pointed to the special recommendation of that Sub-Commission, to which the Secretary-General had called attention in his note on methods of financing economic development (E/1690), relating to the need for a companion study to the report of the group of experts on full employment, dealing with the equally important problem of unemployment and under-employment in the under-developed countries. The Secretary-General had requested the Council to consider the question of appointing a small group of experts to prepare a report on that subject. It appeared from the general discussion in the Council on full employment that the setting up of such a group of experts might be approved. Replying at an earlier meeting to the Pakistani representative, he had ventured the opinion that the Council would accept the proposal. Nothing had occurred since he had made that statement to alter the position.

He suggested that the Committee first turn to the draft resolutions submitted by the Sub-Commission, beginning on page 28 of the latter's report (E/CN.1/80).

Mr. FLEMING (United Kingdom) recalled the wish he had expressed at an earlier meeting that recommendations 8 and 9 in the United Kingdom draft resolution on full employment (E/L.67, page 5) should be considered in conjunction with item 6 of the agenda.

The CHAIRMAN thought that it would be more appropriate to consider those two recommendations when the Committee came to deal with the Sub-Commission's draft resolutions on international financing.

It was so agreed.

/The CHAIRMAN

The CHAIRMAN then drew attention to draft resolution A in Section 1 (domestic financing) on page 28 of the Sub-Commission's report, and suggested that, in view of its nature and of that of certain others, it might be desirable to request the drafting committee to examine the possibility of merging some of the draft resolutions into a single resolution to be submitted later to the Committee for consideration. Should that suggestion be accepted, the Committee should confine itself for the time being to consideration of the substance of the draft resolutions.

Mr. de SEYNES (France) was not opposed to draft resolution 1A, but did not regard it as of any value to the under-developed countries. He agreed with the Chairman that the provisions included in certain of the draft resolutions should be consolidated in a single text. But in his opinion, the substance of the recommendation in draft resolution 1A would be more appropriately placed in the preamble to a general resolution than in the operative section of an individual resolution. The same remarks applied to the provisions of draft resolutions 1B, 1C and 1D.

The CHAIRMAN agreed with the French representative, and proposed that the Committee pass to draft resolution 1B.

Mr. ARNOLD SMITH (Canada) said that his delegation favoured almost all the measures listed in draft resolution 1B. However, it had some doubts about the advisability of commending to governments the encouragement of lotteries (sub-paragraph (d)). In some countries the public did not approve of lotteries, and it seemed unnecessary to force an issue on that question in connexion with such a resolution. He would therefore like to see the words "lottery features" deleted from sub-paragraph (d).

Mr. QURESHI (Pakistan) supported the Canadian representative.

Mr. ADARKAR (India) said that his delegation was on principle opposed to the ideas set forth in sub-paragraphs (d), (e), and (f), for it considered

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that they would give rise to many difficulties, some of them emotional. It would not, however, be necessary to take strong exception to the resolution, for it merely proposed that the Council should commend certain measures to the attention of the governments concerned. "Commend" being the key word, governments could adopt the measures in toto, in part, or not at all, as best suited their interests.

Mr. de SEYNES (France) drew the Committee's attention to the fact that most of the measures suggested in draft resolution 1 B were drawn from the report on methods of increasing domestic savings and of ensuring their most advantageous use for the purpose of economic development (E/1562), submitted to the tenth session of the Council, which had been drafted as the outcome of the meeting of experts (seminar) held at Lake Success in October and November, 1949. It might therefore be more convenient to refer to the work of that seminar, rather than to enumerate the various measures proposed by it.

Mr. SCHNAKE-VERGARA (Chile) supported the French representative, and felt he could add something to his suggestion. The measures suggested in the draft resolution were very comprehensive, and in his view it was scarcely for the Council to examine their every point in detail. That applied equally to other of the Sub-Commission's draft resolutions. The adoption of the measures proposed depended on local circumstances, among them legislation, general policy, degree of industrial development etc. It would therefore be preferable to recommend merely that the governments concerned should bear in mind the various studies that had been carried out by the relevant organs of the United Nations, which contained many detailed recommendations. If the Council were to make hard and fast recommendations on such matters, there would be a risk of their being misinterpreted.

Mr. WALKER (Australia) was in full agreement with the observations of the two previous speakers. He believed that the Sub-Commission's draft resolutions represented an attempt to boil down the many considerations brought out in the voluminous document which constituted the report of the seminar, and felt

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that such a procedure was always attended by a certain amount of risk. As for the draft resolutions themselves, he felt that they were, perhaps, not of the type that should be adopted by the Council, partly because they dealt with topics of relatively minor importance. It was also evident, from a perusal of the report of the seminar, that the draft resolutions were in some instances more categorical than the discussions of the experts had been. To illustrate that point, he quoted from the report the sections dealing with lottery features and the issue of gold certificates. In his view, it would be preferable in the present instance to adopt a form of resolution in which the points brought out in the experts' report were relegated to an annex.

Miss WATTS (United Kingdom) supported the Australian representative. There would be no objection to mentioning the measures, and the attention of governments could be drawn to the advantages which might be derived from adopting them. She doubted, however, the likelihood of any one government's needing to adopt them all. Consequently, the measures need not be commended to the governments concerned, but the latter's attention could be drawn to them with the suggestion that in the light of their general economic and social policies they should consider the desirability of adopting some or all of them. The same remarks would apply to draft resolution 1 C.

Mr. ARNOLD SMITH (Canada) agreed with the United Kingdom representative that the opening phrase of the draft resolution should be made more flexible. He believed that that point could well be left to the drafting committee.

Replying to the CHAIRMAN, he confirmed that his idea was that the measures should still be listed.

Mr. SCHNAKE-VERGARA (Chile) believed that it would be useful to have a resolution which referred to the report of the meeting of experts referred to by the French representative (E/1562), and summarized thereafter the main points commended in draft resolutions 1 B and 1 C. However, he could not agree to the measures set out in sub-paragraph (a) of resolution 1 B. He might agree to a separate resolution to the effect that such facilities be provided as an incentive

/to saving

to saving, and to ensure the security of savings, but he could not agree to commend to the attention of the governments concerned the suggestion that they should set up private enterprises to that end. In his country, the encouragement and control of savings was considered a function of the State.

The CHAIRMAN requested the Committee to pass to draft resolution 1 C.

Mr. ARNOLD SMITH (Canada) said his delegation supported draft resolution 1 C, but felt that it should be pointed out that administrative measures to encourage non-governmental lending were unlikely to prove adequate in themselves. Public confidence in such measures was essential if they were to be effective; that confidence in turn depended on the policies of the governments concerned. He suggested, therefore, that at the drafting stage consideration should be given to the inclusion of an invitation to governments to pay particular attention to the question of promoting and retaining public confidence in their general economic and fiscal policies.

There being no further comments on draft resolution 1 C, the CHAIRMAN suggested that the Committee should pass to draft resolution 1 D.

Mr. ARNOLD SMITH (Canada) confirmed his delegation's support for draft resolution 1 D, but suggested that, in order to make its intention clearer, the words "for development purposes" should be inserted after the world "reinvestment" in sub-paragraph (a) of the operative section.

Mr. SCHNAKE-VERGARA (Chile) submitted that the Canadian representative's amendment failed to take account of the true position in the smaller countries.

The purpose of draft resolution 1 D was to ensure the reinvestment of local capital in undertakings vital to economic development. It was clear, however, that that object could not be achieved by legislation, involving as that would the virtual re-education of capitalists. The International Bank for Reconstruction and Development had drawn up a list of private undertakings in the Latin American countries, and had noted that a large number of them yielded profits ranging up to 17 per cent or more. It was not easy, in those circumstances, to

/divert

divert capital towards less profitable investments. Hence the inclusion of the words suggested by the Canadian representative would add nothing to the draft resolution. It was a difficult proposition, in fact, to endeavour to obtain a larger measure of investment in the under-developed countries and at the same time to direct that investment towards undertakings essential to sound progress in the field of economic development.

Mr. LUBIN (United States of America) desired, in the light of the Committee's discussion on the question of the effect of the policies of certain governments on the trade of other countries, to comment on sub-paragraph (b) of the operative section of draft resolution I D. There could be no objection to control of consumption as a means of stimulating saving, but the record should show that the application of such controls might conceivably affect other countries, and that the manner in which those controls were put into effect would determine whether the repercussions in other countries would be undesirable.

The CHAIRMAN assumed that the remarks of the United States representative applied in some measure to sub-paragraph (a) also, in that the enactment of legislation favouring reinvestment would affect both domestic and foreign concerns in a particular country in the matter of distribution of profits.

Mr. LUBIN (United States of America) believed that the manner in which such legislation was enacted and implemented would determine whether or not foreign capital was attracted to the country concerned. For instance, the favouring of reinvestment by the application of a penalty tax on distributed profits might conceivably discourage new foreign investment.

The CHAIRMAN wondered how far restrictions on the distribution of profits would affect the flow of foreign capital, which was rightly considered a most important element in the development of under-developed countries.

Mr. LUBIN (United States of America) submitted that much would depend on the type of legislation enacted to deal with the taxation of profits, which might be either encouraging or the reverse.

Mr. MARTINEZ-OSTOS (Mexico) said that each country would undoubtedly try to ensure that its legislation encouraged foreign investment. For example, in his country, there was an excess profits tax on net annual profits exceeding 15 per cent of the paid-up capital, but that tax was waived when such profits were reinvested. In the light of past experience, such legislative measures were no deterrent to investors.

The CHAIRMAN asked the Committee to pass to draft resolution 2 (Domestic banking for attracting foreign capital).

Mr. ADARKAR (India) believed that, as it was again a question of "commending" certain measures to the attention of governments, the element of compulsion was absent, and that the draft resolution was therefore relatively innocuous, the more especially so as the representative of the International Bank had stated that a similar procedure adopted in Turkey had facilitated investment by the Bank for development purposes.

The CHAIRMAN suggested that, if there were no further comments on draft resolution 2, the Committee should pass to draft resolution 3 (External financing of local currency costs of economic development), and recalled that the Chilean delegation had submitted a draft resolution (E/1757) which was intended to replace the Sub-Commission's draft resolution.

Mr. SCHNAKE-VERGARA (Chile) announced that, having pondered his own proposals and those of the Sub-Commission, he had come to the conclusion that the latter deserved to be retained. He would therefore submit his own text as an independent draft resolution.

The CHAIRMAN said that in that case the Chilean draft resolution would be taken up at a later stage.

Mr. ARNOLD SMITH (Canada) said the Canadian delegation supported the Sub-Commission's draft resolution. He would, however, suggest the insertion of the word "any" after the word "make" in the first line of the second recommendation (sub-paragraph (b) of the operative section); otherwise, it might be thought

/that the

that the Council was recommending the International Bank to adopt a particular policy on a particular loan application.

Mr. KNAPP (International Bank for Reconstruction and Development) said that the Bank had given the draft resolution in question careful study; he believed he had expressed at length its views on making loans as recommended therein. The draft resolution reflected the concern of Member countries that the Bank should pay particular attention to the problem. He had, therefore no negative comments to make, and the Bank would give the matter its fullest consideration. It seemed to him that the word "tolerable" in the phrase "the smallest tolerable burden" in sub-paragraph (b) of the operative section was out of context; he could imagine the largest tolerable burden, but not the smallest tolerable burden; the word "tolerable" might therefore well be replaced by "feasible" or "practical".

Mr. LUBIN (United States of America) said his delegation also felt that the draft resolution merited the serious consideration of the International Bank. In exercising the powers conferred on it, the Bank should seek the widest participation of governments in their projects, and the governments themselves should adopt appropriate policies.

In so far as the creation of new demands for imported goods, referred to in the third considerandum, included the creation of new demands for consumer goods the point had been dealt with in draft resolution 1 D, in which the question of control of the consumption of luxuries was discussed. New demands for consumer goods would depend to some extent on how the consumption of luxuries was controlled.

Mr. FLEMING (United Kingdom) wished to couple recommendation 9 proposed in the United Kingdom draft resolution on full employment (E/L.67) with draft resolution 3, for, although the wording of that recommendation differed from that of the Sub-Commission's draft resolution, the underlying train of thought was the same. He would not, therefore, withdraw the United Kingdom suggestion, but would suggest that the drafting committee might consider it in conjunction with draft resolution 3.

/It was

It was clear from the excellent statements made by the representative of the International Bank that little or no complaint could be made of the Bank's approach to the problem, so far as its attitude to the direct or indirect remunerative character of projects was concerned. One of the reasons why general developmental lending had been advocated, was the fear that the International Bank might require that each individual project should be remunerative. He had thought, however, that the examples given, and the general knowledge of the Bank's policy, had disposed of that particular objection to its project approach. On the other hand, he found its attitude towards financing local currency costs somewhat less satisfactory, for it was considered that only in exceptional circumstances should the Bank meet external costs indirectly arising out of a particular project. He agreed with the experts that the amount of foreign exchange a country required for its investment programme should be arrived at by subtracting its domestic savings from the total desirable size of its investment programme, and he accordingly felt that in considering any particular project the amount of foreign exchange required should be calculated by subtracting from the total cost of investment any additional domestic saving likely to be achieved as the result of the project undertaken. As the draft resolution pointed out, however, any such additional domestic saving was likely to be small by comparison with the total cost of the project. Domestic expenditure arising out of a project was spent on home resources; that meant a reduction of what would otherwise have been exported, or of industrial production that would otherwise have saved imports, and so constituted a burden on the balance of foreign trade.

The representative of the International Bank had mentioned one or two factors that should be taken into account; first, that a borrowing country might neglect opportunities of saving; secondly, that it might neglect to reduce the less essential types of domestic investment; and, thirdly, that it might have unutilized physical resources. There was no doubt that in certain circumstances the Bank should make its lending subject to the condition that the borrowing country should do its utmost to eliminate unemployment and to squeeze out any extra savings, so as to provide more domestic finance; but he agreed with the draft resolution when it said that there was no direct logical connection between the immediate

/expenditures

expenditures in local and foreign currency on the one hand, and the desirable proportion of foreign and domestic financing on the other hand.

He took the view that it would be much easier to arrive at a rational idea of the external financing required in a particular case if the Bank had full knowledge of the country's investment programme and resources. Unfortunately, although the Bank paid considerable attention to that point, it was not always in a position to secure that knowledge, since some countries had no definite investment programme and their governments disposed of little or no details of private investment.

He felt that the Bank tended to concentrate a little too much on individual projects, and that there was the risk that some of them although well worth financing, were projects which the governments concerned would have undertaken in any event without any assistance from the Bank. He therefore wished to emphasize the global aspect of the matter.

Mr. SCHNAKE-VERGARA (Chile) said that the financing of local currency costs actually had two distinct aspects, which the Sub-Commission should not perhaps have dealt with in one and the same draft resolution. There was first of all the question of financing local currency requirements arising from the implementation of definite development programmes launched with the help of foreign capital and producing an increased demand for consumer goods; secondly, there was the necessity for meeting local currency costs for basic facilities such as sanitation, land improvement etc. - in other words for general development schemes.

The first of those problems had been discussed by various United Nations bodies; and he would like to refer to some of the statements on the subject by the representatives of Belgium, France and the United States of America at the tenth session of the Council. Those statements showed that the flow of private capital was quite inadequate for economic development; that in many instances governments had had to intervene to meet local currency requirements; and that a more flexible method of financing such requirements must be found. He thought that to solve the problem, loans carrying a very low rate of interest must be considered - as indeed the Sub-Commission had suggested in its report.

/Turning

Turning to the necessity for financing basic facilities, he said it was impossible to raise private capital for the purpose, and that as the schemes were non-commercial, the governments concerned did not even approach the international lending institutions, which were not in a position to finance such projects.

The problem was an entirely new one, and he felt that the only institutions which could help in the financing of such requirements were "foundations" of the type that existed in the United States of America, and made public utility schemes possible.

On those two essential points, the Sub-Commission's draft resolution was unsatisfactory. Its recommendations, like the report itself, were not sufficiently definite.

Yet the two problems were most serious, for the following reasons: it was physically impossible for the under-developed countries to provide for the financing of their local currency requirements, since even if they succeeded in perfecting their fiscal policies and taking steps to mobilize and direct savings, they could hardly cover more than 20 per cent of those requirements; and total savings in those countries amounted to only 10 per cent of the national income, whereas, for effective economic development, at least 25 per cent would have to be earmarked for investment. It must further be taken into account that in such countries, where the standard of living was extremely low, white-collar and manual workers were hardly in a position to save. The bulk of the national savings was made up of the resources of industrial, mining and agricultural firms, which tended to plough back their profits either into their own businesses or into related fields of activity. The legislative steps taken by the various countries to encourage re-investment aggravated that tendency. Hence there was practically no capital left for financing economic development schemes and the attendant local currency requirements.

To conclude his criticisms of draft resolution 3, he felt that, in spite of its faults, it had the virtue of stating the two essential problems he had referred to; and it must be hoped that they would be studied more fully.

/With regard

With regard to the Chilean draft resolution, its object was to circumvent inflationary tendencies which might arise from the implementation of certain development schemes.

Mr. ADARKAR (India) felt that draft resolution 3 overlapped with the Chilean draft resolution. He had tried to grasp the precise implications of the Sub-Commission's draft resolution from the point of view of government policy, and from the point of view of the policy of the International Bank for Reconstruction and Development. He was not clear whether the local currency costs mentioned in the resolution necessarily involved the transfer of local currencies to governments by the International Bank or other credit institutions.

It appeared that in allotting loans to governments, the costs of any project were first assessed, and then divided into two categories - local currency costs, and costs to be met out of the loan to be granted by the International Bank. That did not necessarily mean that such local currency costs would involve local currency expenditure. That point had been mentioned in the Sub-Commission's resolution, which quoted from the report of the meeting of experts on methods of increasing domestic savings and of ensuring their most advantageous use for the purpose of economic development (E/1562).

In describing the way in which loans were made to meet local currency costs of development, the representative of the International Bank had said that that would mean the purchase of local currency in the first instance, and that such purchase would be made in terms of foreign exchange. That would in turn mean the import of foreign goods for the purpose of financing any particular project. There would thus be an increase in a country's imports to meet the costs of a development project. If that were so, he felt that, if the Sub-Commission's draft resolution were adopted, the granting of external loans for local currency costs of economic development would in effect mean that the International Bank would be purchasing, with foreign currency, local currency from the country concerned.

The Chilean draft resolution recognized that the borrowing capacity of any country was very limited; and as the Australian representative had pointed out, many borrowing countries were not in a position to raise sufficient funds internally, because their domestic capacity for saving was limited. That was probably why it was proposed that in future a greater proportion of local currency costs should be borne by the International Bank than hitherto.

Referring to the statement of the representative of the International Bank to the effect that the Bank would lend to any country according to its borrowing capacity, which in practical terms meant its capacity to repay, he felt that such a statement meant that an under-developed country whose borrowing capacity was naturally limited would receive less, so that its borrowing capacity would remain as low as ever. That was a vicious circle which the Sub-Commission's resolution tried to break.

He felt that the proposal made in recommendation 9 of the United Kingdom draft resolution on full employment (E/L.67) should be supported. It recognized that the borrowing capacity of certain countries might be limited, and drew attention to the fact that more emphasis should be placed on the borrowing country's investment programme as a whole, rather than on specific projects.

Mr. de SEYNES (France) wished to thank the representative of the International Bank for his last statement, which, in his opinion, removed the doubts left by his (Mr. Knapp's) previous remarks.

The representative of the Bank had previously enumerated the technical conditions on which the Bank had agreed to finance local currency costs, but had immediately added a general reservation drawn from the Bank's Articles of Agreement, which spoke of "exceptional circumstances", so that it might be inferred from his statement that even if all the technical conditions laid down by the Bank were fulfilled, it would still not consider itself obligated to finance local currency costs except very rarely.

By viewing the Sub-Commission's resolution favourably, the representative of the Bank had removed that ambiguity.

He (Mr. de SEYNES) believed, moreover, that if the Bank were henceforth to adopt a flexible policy with regard to the financing of local currency costs, it would inevitably be led to consider co-ordinated series of schemes rather than individual ones. By ceasing to put its trust in mathematical formulae, the Bank would in the normal course of events come to adopt as its criteria the overall available resources of an under-developed country, its general balance of payments prospects, the state of its public finances and the credit of its Government. By so doing, the Bank would be bound to become reconciled with the points of view which had been expressed in the Committee and would, in all probability, find it possible to finance more frequently groups of schemes some of which, taken individually, would not necessarily be remunerative.

The statement of the representative of the Bank dispelled his qualms about discussing the texts proposed by the United Kingdom and Chilean delegations.

Mr. IVERSEN (Denmark), referring to his remarks made at a plenary meeting of the Council, stated that his delegation attached considerable importance to the problem dealt with in draft resolution 3. The Danish delegation fully supported the suggestions made in the report on methods of increasing domestic savings and of ensuring their most advantageous use for the purpose of economic development, a quotation from which appeared in that resolution. It therefore welcomed recommendations to the effect that more flexible policies should be adopted by the Bank.

He supported the proposals made in recommendation 9 of the United Kingdom draft resolution on full employment, which covered two important problems, namely: general projects versus specific projects, and local currency costs versus foreign expenditure. He ventured to suggest that if the words "direct foreign costs of" were inserted before the words "selected projects", United Kingdom recommendation 9 would cover the recommendation made in the Chilean draft resolution.

/Mr. SCHNAKE-VERGARA

Mr. SCHNAKE-VERGARA (Chile) said that the Chilean draft resolution was intended to supplement draft resolution 3 of the Sub-Commission and the United Kingdom draft resolution on full employment.

The Chilean delegation considered that the methods so far adopted for financing economic development were hardly satisfactory. Indeed, the development projects financed by international credit institutions, including the International Bank for Reconstruction and Development and the Export-Import Bank, had been the immediate cause of inflationary movements in the beneficiary countries.

That effect was very easily explained. Most of the programmes put into effect consisted of isolated long-term projects requiring the investment of large sums in national currency by the countries concerned, which had therefore been obliged to introduce forced savings in order to raise the necessary local currency. Moreover, the execution of those programmes had increased the purchasing power of the population without any proportional increase in the production of consumer goods, with the consequence that inflationary pressure had developed.

The problem to be solved was therefore the following: the policy of economic development must be prevented, at all costs, from bringing about a disparity between purchasing power and the amount of consumer goods on the market. If, however, the present method of financing special development programmes alone were persisted in, it would become more and more difficult to increase the production of consumer goods.

That situation was due to the fact that in the under-developed countries the level of savings was very low. After a large volume of savings had been mobilized for the execution of a given development project, very little remained for the development of private industries. Although steps had been taken to stimulate the development of private industries, their own resources were hardly sufficient to enable them to increase their production to the required extent.

/The aim

The aim of the Chilean draft resolution, which was based on those considerations, was to ensure that different types of programmes were combined in an organic whole, in order to escape the inflationary trends to which he had referred. If, for instance, agricultural machinery were made available to the governments concerned, they could sell it to private firms, and apply the proceeds to the implementation of development plans in the true sense of the term. That method would also have the advantage of increasing agricultural production and thus making it possible to meet increased consumer demand.

In that connexion, he wished to point out that his draft resolution contained nothing new, since it was precisely on that principle that the Marshall Plan, which had already proved its worth in Europe, was based.

The system contemplated in the Chilean draft resolution was intended to enable the governments affected to increase available resources for economic development, and to avoid inflationary tendencies. It would be desirable for international credit institutions to change their methods, in order to permit the execution of more harmonious development projects.

Mr. ADARKAR (India) agreed with the substance of the Chilean draft resolution, but felt that it overlapped draft resolution 3 proposed by the Sub-Commission on Economic Development. He considered, therefore, that the two resolutions might be combined with recommendation 9 of the United Kingdom draft resolution, which also recommended that the Bank should make loans for the purpose of general economic development. He suggested that the matter be referred to the drafting committee.

He could not agree with the statement by the Chilean representative that foreign investment usually gave rise to inflation. He considered, on the contrary, that inflationary trends were halted rather than accentuated when foreign capital was invested in a country.

His delegation, however, agreed with the statement in the Chilean draft resolution that the practice of international organizations, of financing isolated long-term development programmes alone, was liable to initiate or intensify

/inflationary

inflationary tendencies if the bulk of the funds required was provided locally by the governments in question.

Referring to the fourth and fifth paragraphs of the Chilean draft resolution, he assumed that what the Chilean delegation had in view was an increased supply of consumer goods.

Referring to sub-paragraphs 1-3 of the sixth paragraph, he felt that the International Bank had already made loans for the development of the projects enumerated therein.

Mr. KNAPP (International Bank for Reconstruction and Development) wished to refer to the three draft resolutions before the Committee and to the various problems which had arisen in connexion with them.

Referring to local currency financing as referred to in draft resolution 3 of the Sub-Commission on Economic Development, he pointed out that two or three representatives had called attention to the view, supported in that resolution, that "there is no direct logical connection between the immediate expenditures in local and foreign currencies on the one hand and the desirable proportion of foreign and domestic financing on the other hand". As he had explained in a previous statement, there was a reasonable pragmatic connexion, which could be expressed, not in arithmetical terms, but in general terms, although the Bank would not disagree with the statement in its strict sense, namely, that there was no "direct logical" connexion between the two concepts.

He felt that one way of stating the issue before the Committee was: was there, on the other hand, as had been suggested in some quarters, a direct and logical connexion between the total expenditures on a project and the amount of external finance necessary to carry it out? He thought there had been a suggestion that when a new project was undertaken, it followed as a matter of course that the balance of payments deficit would be increased if the foreign exchange impact was considered, or that domestic savings would have to be supplemented if the local currency expenditure side of the picture was considere and that therefore the total amount of money required should be obtained from

/foreign

foreign sources. That type of view seemed to him as open to challenge as the view that there was a direct logical connexion between foreign exchange expenditure and the amount of desirable foreign financing.

As he had said before, it would be a great mistake to think of balance of payments deficits induced by development programmes as something pre-ordained, against which it was not within the power of a country to defend itself. Equally, in the case of local currency expenditure, it would be a mistake to think that the amount of domestic savings available was something outside the control of the country concerned. That was particularly true if one was thinking, not only of private but also of public savings.

He emphasized that the Bank felt that it was in the interests of its member countries to make the maximum effort to utilize their own resources to deal with those impacts, whether on the balances of payments or on the domestic balance between savings and investment, and to conserve their foreign exchange borrowing capacity (in other words, their repayment capacity) for the direct and inescapable costs of their development programme. The Bank did not wish to find itself faced with a situation in which a country had exhausted its borrowing capacity in covering those indirect expenses by foreign loans, at a time when it could have raised the necessary funds by domestic measures. Such a situation would mean that its level of development would of necessity be more limited than might otherwise have been the case.

The Chilean representative had stated that the Bank's operations stimulated inflationary tendencies in member countries, and had quoted a very high authority for that statement. He felt, however, that that statement was somewhat unfair, since, as the Indian representative had reminded the Committee, the Bank, by assisting in financing development had assisted in the expansion of production, and it was generally recognized that the best way to combat an inflationary tendency was to increase production. Moreover, if one took the case of a project which would have been carried out by the country concerned alone had the Bank not intervened, the Bank's intervention would quite clearly be deflationary.

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The one case in which the Chilean representative's argument might apply was that of a country which undertook a development programme with the Bank's help which it would not otherwise have undertaken, only to find that the Bank's contribution failed to meet the total expenditure involved, so that the country would be left with a domestic problem to deal with. He would concede that, in that limited sense, it might be justifiable to speak of the Bank's operations stimulating an inflationary tendency in a member country.

One of the devices for combating inflationary tendencies was for a country to import more, and, if it was necessary to secure credit in order to do so, to import on credit. But that was only one device, and there were a number of alternative procedures, none of which involved the cost to which he had referred, namely, that of using up scarce resources which might be badly needed at a future date for financing inescapable foreign exchange costs.

As to the relation between the subject matter of the Chilean draft resolution and that of draft resolution 3 of the Sub-Commission, he repeated what he had said in the Council, namely, that there were two financial techniques for handling the indirect impact problem. There was the technique which underlay the Sub-Commission's draft - to look at the problem in terms of financing local currency expenditures. Employing that technique, the Bank acquired the local currencies with foreign exchange and financed part of the local currency expenditure in the project. In that way, the foreign exchange was made available to the monetary authorities of the countries concerned to import the consumer or other goods required to combat inflationary tendencies. The Chilean draft resolution was based upon the alternative technique, by which foreign exchange was provided to meet part of the indirect impact on a country's balance of payments and the <u>local currency counterpart</u> utilized on the development project; under the first arrangement local currency expenditure was financed and the <u>foreign exchange counterpart</u> used to meet the indirect impact.

Referring to the suggestions made in the Chilean draft resolution, he could conceive a case in which it would be perfectly appropriate for the Bank to finance imports with the borrowing country using local currency proceeds for

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another investment, although such a case scarcely needed to be made the subject of a resolution. For example, if an under-developed country wished to import agricultural machinery which was to be sold to farmers, and would yield a local currency counterpart, and another project such as a power project, totally divorced from the first was being carried out at the same time, there was no reason why the Bank should not finance the external costs of the power project at the same time as it financed independently the import of agricultural machinery for stimulating agricultural production. And if the Bank did those two things at the same time, the country might well use the local currency counterpart from the sale of the agricultural machinery to finance some of the local currency costs of the power project. But that would be entirely for the country in question itself to decide. Apart from that rather special case, the Bank did not see any merit in the approach suggested in the Chilean draft resolution. The Bank would prefer as a matter of financial technique to handle the problem in the way suggested in the Sub-Commission's resolution.

Referring to the sixth paragraph of the Chilean draft resolution, he emphasized that projects of the type enumerated in sub-paragraphs 1 - 3 were already being financed by the Bank. It had made several loans to help to modernize and expand agricultural production, and had also made loans for the purchase of machinery, for power projects, and for flood control. A loan had recently been made to the Netherlands to finance investment in consumer goods industries. He was unable to cite an example in which the Bank had advanced a loan in connexion with technical training institutions, but the amounts involved were relatively small, and countries were accustomed to handling such projects out of their own resources. If, however, it was demonstrated that investments in connexion with such institutions were wise, and among the most productive investments, the Bank would not exclude that type of operation.

Referring to paragraph 9 of the United Kingdom draft resolution on full employment (E/L.67), he felt that it might have been drafted at a time when there had been less understanding of what kind of considerations the Bank applied when looking into its loan projects, and at a country's investment programmes. He

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suggested that the Bank's present policies and practices made such a recommendation unnecessary.

He then referred to the statement made by the representative of France, in which the latter had implied that the Bank had abandoned the "exceptional circumstances" proviso. The French representative had asked specifically whether a country which complied with the list of qualifications contained in the statement on local currency loans made by the Bank's representative before the Council might nevertheless be refused a loan by the Bank on grounds of "exceptional circumstances". That was a hypothetical question, but it was the Bank's opinion that the list of qualifications could certainly not be met generally and universally, and that a loan which would fit that definition would come up for consideration only exceptionally. Only if that were not true would the Bank encounter difficulties arising out of its Articles of Agreement.

Referring to the remarks of the Indian representative, he did not think that any of the draft resolutions before the Committee asked the Bank to depart from its present standards of making sure that there was every reasonable prospect of each loan it made being repaid.

The CHAIRMAN, referring to the sixth paragraph of the Chilean draft resolution, felt that there was some misunderstanding about sub-paragraphs 1 to 3. The Chilean representative had endeavoured to link those items with general long-term projects, and would explain why he had done so.

Mr. SCHNAKE-VERGARA (Chile) said that he certainly realised that the Bank had taken important steps for the financing of economic development, and that for some time past it had even been extending its activities in that field. Nevertheless, he considered that it should change its methods and deal with the problem of economic development as a whole. That comment was addressed both to the International Bank and to the governments concerned.

The problem would not be solved by providing the countries concerned with the capital required for the execution of a single project only. Under-developed

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countries must be able to combine several different projects, in order to make sure that their development was balanced.

He had not charged the Bank with following an inflationary policy, but had simply stated that its partial, long-term projects frequently had inflationary consequences.

After repeating the views he had expressed in his previous statement, he explained that sub-paragraphs 1 - 3 of the sixth paragraph of the Chilean draft resolution were in no way intended as a directive to the Bank; the text was only meant to draw the Bank's attention to the need for considering the total requirements of under-developed countries. The Bank should not confine itself to the functions of a mere commercial bank. It must go further, and endeavour to understand the problems as a whole, and to analyse the effect of the schemes submitted to it. The Bank must take the initiative in helping member governments to formulate useful projects, and not confine itself simply to accepting or rejecting projects actually submitted to it. Obviously, foreign credits granted to an under-developed country should not be used to secure national currency, but such credits were necessary to enable the governments concerned to apply available national currency to the projects that were most advantageous from the point of view of their overall economic development.

The meeting rose at 6.10 p.m.
