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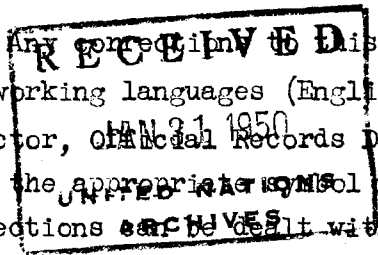
Held at Lake Success, New York,
on Tuesday, 24 January 1950, at 11 a.m.

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<u>Chairman:</u>	Mr. WILSON	Australia
<u>Rapporteur:</u>	Mr. DEUTSCH	Canada
<u>Members:</u>	Mr. GODEAUX *	Belgium
	Mr. NUNES GUIMARAES	Brazil
	Mr. HO	China
	Mr. SILVERIO	Cuba
	Mr. JEANNENEY *	France
	Mr. SAKSENA	India
	Mr. HAAVELMO *	Norway
	Mr. FLEMING	United Kingdom of Great Britain and Northern Ireland
	Mr. LUBIN	United States of America

* Alternate



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Representatives of specialized agencies:

Mr. EVANS	International Labour Organisation (ILO)
Mr. EZEKIEL	Food and Agriculture Organization (FAO)
Mr. KING	International Bank for Reconstruction and Development
Mr. HEXNER	International Monetary Fund

Consultant from a non-governmental organization:

Miss SENDER	American Federation of Labor (AF of L)
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Secretariat:

Mr. WEINTRAUB	Secretary of the Commission
Mr. VARLEY	Assistant Secretary of the Commission

NATIONAL AND INTERNATIONAL MEASURES FOR FULL EMPLOYMENT: REPORT OF A GROUP OF EXPERTS APPOINTED BY THE SECRETARY-GENERAL (E/1584) (continued)

1. The CHAIRMAN suggested that the Commission should discuss section 2, International Measures, of part III of the experts' report (E/1584).
2. Mr. SILVERIO (Cuba) said that the attempt to create a balance in international trade was welcomed by all nations, and Cuba would co-operate in such a task if it proved feasible.
3. Many of the recommendations made by the experts were already being put into effect in Cuba, where the administrative organization of production had been greatly improved. The volume of exports and imports had reached the figure of more than 1,000 million dollars, which for a small country of 5 million inhabitants, was a very high one. Cuba's balances of payments were covered, and approximately 232 million dollars had been set aside in the national budget for education, health and public works. High wages were paid to Cuban farmers and workmen, free medical treatment was available through "community chests" and primary and secondary education were available to all. Electricity had been installed all over the island, and many of the poorest homes had radios and refrigerators.

/4. He felt

4. He felt that the policy followed by Cuban industries might be adopted by other countries of similar economic structure, especially those which depended on one or two primary products or those which had only one or two basic industries. The sugar factories had agreed with the Cuban Government to give the small farmer and workmen an equitable share in the proceeds of the sugar produced, and had established a scale of wages which varied with the average price of sugar on the United States market. Sugar factories were obliged to pay producers a guaranteed price even if the price of sugar fell. The originality of the Cuban wage policy arose from what was known as the "sugar differential" which functioned automatically as a system. When sugar was sold at higher prices than anticipated, the difference in the price paid went to the workers who had taken part in the production of the sugar and to the small producers, the remainder of the money being used by the Cuban Government to improve adult education. In no case did the extra profit on the sugar go to the large producers. As the Cuban sugar industry had ceased to be a monopoly industry and had become an industry in which the profits were shared by the workers, the interest of the people in the maintenance of a large demand for sugar could easily be understood. As the population of Cuba was rapidly increasing, there would soon be a surplus of workers who would be unable to find work in the sugar industry. Other industries would therefore have to be developed to absorb the surplus of workers.

5. It was necessary for the stabilization of world trade that all countries should follow a policy of higher wages. He considered, therefore, that all workers, particularly those of Latin America, should take part in profit-sharing schemes which would improve the low wages they currently earned.

6. Mr. GODEAUX (Belgium) said that the international measures required to achieve full employment which the experts had suggested had as their objective the prevention of the international spread of fluctuations in effective demand. That was an essential goal for countries with economies

such as Belgium's, and that point had been emphasized many times. It was important to note that the domestic measures required to achieve full employment, which had been studied by the Commission, applied to large industrial countries, and if the corrective measures were qualified, they might prove sufficient to ensure in such countries a high level of effective demand. The measures suggested would, however, be difficult to apply in small countries with open economies because the immediate effect on balances of payments might be serious and might restrict government action.

7. Referring to the doubts which had been expressed regarding the advisability of convening a conference to check and co-ordinate national balance of payments programmes, and to the statement that such a conference would prove useless because it would duplicate the work of other organizations, he felt that a conference of that type would be of great educational value, as public opinion in the various countries would be informed as to the nature and extent of the problem. It was important to note that the responsibility for the lack of equilibrium in world trade rested both with debtor and creditor countries.

8. The value of the experts' report lay in its educational work, but there was no doubt that many of the measures suggested could only be applied if they were modified.

9. Referring to paragraph 188 of the experts' report, where it was stated that the main obligation of deficit countries was to pursue policies aimed at reducing any internal inflationary pressures which might compromise their ability to export, he pointed out that in Belgium unemployment had been due to restrictions applied by countries where inflationary pressures prevailed. He felt that the experts had not given enough importance to the problem of inflation.

10. Mr. NUNES GUIMARAES (Brazil), quoting paragraph 98 of the experts' report, said that the report emphasized that international measures should be aimed at achieving a workable system of international trade for a stable and expanding world economy. He felt that the Havana Charter and the Geneva tariff agreements provided a framework for expanding world economy, and for the restoration of more free and less discriminatory trade conditions. It was unnecessary to convene a conference for the sole purpose of establishing a new /programme.

programme. Countries were unable to reap the benefits of the Geneva tariff agreements because world economy had not recovered as soon as had been hoped. The Director of the Economic Commission for Europe had warned Governments against too much reliance on a rapid recovery of international economic relations, and in spite of the work carried out by the various specialized agencies which had been set up, Mr. Myrdal's warning had proved correct. The disturbance in world economy caused by the defeat of Germany and of Japan had not been taken into consideration in the planning of a quick recovery of international trade. Political difficulties had retarded Germany's economic recovery and consequently that of Europe and of the world. Countries were so economically dependent upon each other that the collapse of one nation affected all the others especially when such a nation had as large a foreign trade as Germany had. Western European economy was recovering slowly, and it was to be hoped that trade barriers would be removed in proportion to that recovery. Economic recovery in the under-developed areas would be speeded up by the implementation of Point 4 of President Truman's programme, and would certainly give further impulse to the re-establishment of foreign trade at a high level.

11. As regards the statements in paragraph 187 of the experts' report, he felt that the proposed scheme that both deficit and surplus countries should set targets for the main constituent items of their balances of payments was almost unworkable. The deficit countries might be inclined to exaggerate their need for exports and also reduce their listing of import requirements. Surplus countries might not wish to reduce their exports although they might agree to increase their imports. It would be difficult for any administration to reduce basic exports. The necessary changes to be effected in important fields of domestic production as a result of the curtailment of vital and long-standing exports should be borne in mind.

12. The second sentence of paragraph 188 of the experts' report contained a recommendation which should be emphasized, even though the members of the Commission might not agree with the suggestions made in part A as a whole. That recommendation was closely linked with paragraph 176 and had a special bearing on the policy to be followed in under-developed areas.

As a result of the low productivity of labour in the under-developed areas there was a natural tendency to meet the rise in the cost of living by an increase in wages instead of a rise in the level of productivity. Such a tendency could be understood if it were remembered that under-developed areas needed capital in order to increase their level of productivity, and as the representative of India had rightly emphasized, Governments might be compelled to increase money incomes and not real incomes. The Commission should not agree to such a hand-to-mouth policy which would prevent producers of primary commodities from exporting such goods unless they adjusted their exchange rates. Such a policy reduced the rate of the growth of domestic capital, as Mr. Clark had pointed out in his note at the end of the experts' report.

13. While the problem of inflationary pressure was very important for highly developed countries, it was much more so for those which were under-developed. The lack of capital in the latter countries accounted to a certain degree for the disguised unemployment referred to in paragraph 20 of the experts' report.

14. He considered that the experts' recommendations regarding a continuous flow of foreign investment in the less developed areas and provisions for implementing inter-governmental commodity agreements to prevent too great a decline in prices of agricultural products, were two perfectly workable measures. The restoration of international lending to a reasonable basis, and the attainment of an equilibrium in world trade in primary products were the first steps towards the achievement of an expanding and balanced world-economy. He felt that the International Monetary Fund, the Food and Agriculture Organization and the International Trade Organization were in a position to carry out the measures recommended.

15. Mr. HAAVELMO (Norway), referring to sub-paragraph (i) of paragraph 183, said that at first sight it might be wondered why reference to the elimination of undue trade barriers and the restoration of the convertibility of currencies had not been made in the paragraphs relating to the action to be taken by Governments. He felt he was right in assuming that what the experts had in mind in so drafting those paragraphs was that it was useless to recommend any haphazard **elimination** of trade barriers or any action regarding currencies unless **conditions** made that type of action natural.

/16. The suggestions

16. The suggestions contained in the various paragraphs of part A should be considered in the light of the fact that it was important to create conditions which would make trade barriers and currency restrictions unnecessary.

17. Mr. JEANNENEY (France) said that part A of the experts' report contained two important suggestions -- the first was that Governments should co-operate in the establishment of their economic policies in the international field, and the second was that countries with deficit balances of payments should do everything possible to struggle against inflationary trends and to restore a lasting equilibrium of international economic relations. The difficulty of carrying out such suggestions should, however, be borne in mind. As regards the efforts to be made by deficit countries, it should be remembered that the machinery suggested for restoring equilibrium in international economic relations, namely that such countries should be granted assistance, might make those countries feel that they could dispense with their own domestic efforts to achieve equilibrium.

18. Regarding the suggestion that countries should co-operate in framing international economic policies, the difficulties entailed in drawing up such a programme should be remembered. Among the measures suggested by the experts for the restoration of lasting equilibrium in balances of payments was the devaluation of foreign exchange. Recent experience had shown, however, how difficult it was to know in advance what the effect of a change in the rates of exchange would be.

19. Mr. FLEMING (United Kingdom) considered that international arrangements drawn up after the war were somewhat weak as regards the re-establishment of new fundamental equilibria in world trade. They were mainly designed to make it possible for the world to live as well as it could in a state of disequilibrium. It was significant that the principal measures in the direction of equilibrium which had been taken since the war, namely the control of inflation and devaluation, had been carried out outside the framework of international organization in the formal sense. He felt, as he had said previously, that the basic idea of countries formulating quantitative balances of payments targets for several years in advance and even of making those targets known, would probably be a good thing. It would be useful, as an act of self-discipline, for Member States to do so because it would ensure that they confronted their own peoples with the problem of how to bring their balances of payments into balance. Surplus countries would then find
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it more difficult to advocate measures which increased their exports without increasing imports. Deficit countries would be under similar pressure although the policies which they would have to adopt would be the opposite to those appropriate for surplus countries.

20. He supported the French representative's remarks regarding the suggestion in paragraph 187 of the experts' report that both the deficit and surplus countries should not only set targets for the main constituent items of their balances of payments, but should indicate the adjustments by means of which they hoped to restore their overall financial equilibrium within an agreed period.

21. Referring to paragraph 188, he felt that it would frequently be impossible for Governments to state in advance the nature of the adjustments and the policies by means of which they hoped to restore financial equilibrium.

22. As regards the suggestion that the targets submitted by countries should be analysed and compared in order to bring to light any inconsistency, he feared that a very considerable degree of delay in forecasting would be required in order to permit any inconsistencies in the policies and aspirations of different countries to be revealed. It would be necessary for each balance of payments target to be sub-divided in a very deliberate way. In order to bring out any inconsistencies in the expectations regarding export markets, or with respect to demand for particular raw materials, it would be necessary to include detail concerning regions, countries and also as regards particular commodities. That kind of detail was of doubtful value and would, he felt, be inaccurate. The experts had really suggested a sort of international planning and, technically speaking, he felt that such planning could only be carried out by a central staff which would forecast patterns of international payments.

23. He agreed with the remarks of the representative of Brazil that it would probably not be worth while to convene a conference. It was necessary to ensure that the International Trade Organization and the International Monetary Fund carried out their methods of dealing with fundamental disequilibria. It would be more effective, therefore, to try to operate through those organizations in bringing about an international study and consultation on the balance of payments disequilibria.

24. The experts had been unduly pessimistic in the last sentence of paragraph 190 of their report. There was a reasonable prospect of getting out of the existing structural disequilibria in a much shorter period of time than the authors seemed to think.

25. Mr. LUBIN (United States of America) said he had nothing to add to what he had said in the general discussion concerning the paragraphs under discussion. The Commission should emphasize certain aspects of the problems referred to in those paragraphs, especially in view of the fact that it intended to ask the Economic and Social Council to obtain the comments of Member States. The energies of the entire world were devoted to trying to reach the goal of equilibrium and no one would deny the fact that convertibility of currencies, multilateral trade and the elimination of artificial trade barriers were basic to the attainment of that end.

26. He was not quite clear as to what the experts had in mind in paragraph 187. If the statement made in the seventh sentence of that paragraph meant that the experts were suggesting a web of bilateral trading or commodity agreements negotiated by Governments, such a policy would be contrary to the one followed by the United States Government. His Government did not feel that that was the way to eliminate the difficulties which faced nations in their efforts to reach world trade equilibrium. If the statement meant that countries would get together and express willingness to negotiate tariff reductions or customs unions, or to accede to the most-favoured-nation clause, then he agreed with the statements made by the representatives of Brazil and of the United Kingdom, namely that the International Trade Organization had been set up for that purpose and efforts should be made to make the ITO a living reality rather than to establish new organizations.

27. One of the questions on which Governments should be asked to comment was what effect commitments with respect to balance of payments trade items would have on such aspects of economy as the efficient use of reserves and adaptability to change and demand. He considered that it would be much more difficult to put into effect the recommendations in paragraph 188 than the reader of the expert's report might suppose.

28. Mr. WEINTRAUB (Secretariat), in answer to the United States representative's question concerning the reference to consultation and negotiation between Governments, in paragraph 187 of the experts' report, stated that it was clear from the opening statement of the paragraph that no bilateral agreements were contemplated. The programme would involve extensive consultation and exchange of information among Governments, leading to the formulation of national policies and possibly international agreements. It would call for a procedure whereby countries would make known to one another the character of the economic policies they intend to pursue, and would consult together concerning the means of harmonizing such policies. The procedure suggested was similar to that described by the FAO representative, though he could not say whether it would preclude conferences leading to bilateral agreements.

29. Mr. EZEKIEL (Food and Agriculture Organization), with reference to paragraph 187 of the experts' report, thought that the proposed mechanism for consultation proposed therein was important as it laid the groundwork for the system of international payments suggested subsequently in part C. He wished to draw attention, in that connexion, to the advance planning carried on by member countries of FAO in the field of agriculture.

30. The 1947 Geneva Conference of FAO had approved the recommendation of the Preparatory Commission on World Food Proposals that a council of the FAO should meet from time to time to review the world food and agriculture situation and stimulate Government co-operation. It had also been decided that future agricultural programmes, including national agricultural production and international trade in agricultural products should be reviewed at an annual World Review of Food and Agriculture at each FAO conference with a view to co-ordinating the different national programmes. While the arrangement did not cover such matters as balances of payments, it constituted an effort to carry out advance planning on an international level. Mr. Ezekiel thought that the experience gained in the course of the operation of that mechanism which was confined to the agricultural field, had shown some of the difficulties and the methods which might be adopted to overcome them, and which might be useful in the implementation of the experts' proposal for advance planning on a larger scale.

31. At the 1948 Washington Conference of FAO, it had not, unfortunately, been possible to have a thorough discussion of future Government programmes for agricultural production and trade, as only a limited number of government reports

reports had been presented, but it had been decided to recommend that before being considered at world conferences, Government reports should be discussed at regional conferences with special regard to difficulties common to the entire region. During 1949, an effort had been made to obtain reports from Governments on export and import targets for agricultural and primary products which constituted a considerable part of international trade which had been considered at the regional conferences for the Far East, the Near East, Latin America and Europe. Mr. Ezekiel, who had attended the Far Eastern and European regional conferences said that attention had been drawn to the difficulties arising from existing Government commodity programmes, in most countries greater weight being attached to exports rather than imports. Unfortunately the question of reconciling those difficulties had not been discussed at the Washington Conference of 1949, although a recommendation to that effect had been made by the regional conferences, and the solution of the problem had been postponed for one year. At the same time, certain under-developed countries had found themselves unable to report on their advance programmes for exports and imports since they lacked the technical means to forecast. Judging by the experience of FAO in the matter, implementation of the recommendations outlined in paragraph 187 of the experts' report would entail a long and gradual process, including the establishment of international statistical and economic planning services. Even after the initial difficulties had been overcome, it would be necessary to develop among the Governments the habit of international consultations on future international problems.

32. The efforts made by FAO in the field did not involve planning by a central international staff, but co-ordination of Government planning, with the aid of international staff, to encourage Government collaboration in the field.

33. In conclusion, while agreeing with the experts' opinion that the co-ordination of Government policies should be entrusted to some competent agency, Mr. Ezekiel thought that the appropriate organ to fulfil that function in fields other than that of agriculture was the International Trade Organization. He thought that FAO's experience in setting "targets" might be of some use even in those other fields.

/34. In reply

34. In reply to a question by Mr. LUBIN (United States of America) he said that the hope expressed by the experts at the end of part A, that the implementation of the programme advocated by the experts would remove the current structural disequilibrium in international trade within a few years, was rather optimistic.

35. As regards the question of bilateral agreements raised earlier by the United States representative, he said that the purpose of the consultation carried on under the auspices of the FAO had been to give Governments an indication of the world situation in which their programmes might have to operate, and to enable them to readjust their own targets in the light of what other Governments planned to do. There had been no tendency to force Governments into bilateral agreements in that connexion.

36. Mr. JEANNENEY (France) thought that Mr. Ezekiel's interesting statement had shown that whenever a problem proved too difficult of solution on the international plane, action on a regional plane might be effective. He thought, therefore, that the problems of world trade in general and the balance of payments in particular might be easier to solve on a regional basis, as had been attempted in the case of exports and imports of agricultural products. Consequently, the experts' recommendations, in that regard should encourage those wishing to take similar action on a regional plane.

37. Mr. EZEKIEL (Food and Agriculture Organization) indicated that there had been only few cases in the Food and Agriculture Organization where full harmony had been achieved on a regional plane. Some of the regional conferences had reached the conclusion that a number of the problems discussed were pertinent to the world as a whole and required international consideration and solution.

38. The CHAIRMAN invited the Commission to proceed to part B of the recommendations for international measures.

39. Mr. LUBIN (United States of America) recalled that he had already explained in his general statement his Government's view on that part of the report. The United States Government attached considerable importance to an increasing and continuous flow of international investment in order to accelerate the rate of development of under-developed countries and to promote the establishment of a workable system of international trade and of a stable and expanding world economy. Although it placed greater reliance on private foreign investment than the experts had done, it was fully aware of the importance of the part to be played by the International Bank in the international flow of funds for investment purposes.

40. With regard to the experts' recommendations on the methods of lending to be followed by the Bank, he thought that there was no inherent difference or distinction between general development programme loans and project loans inasmuch as general development programmes consisted of integrated projects which might result in net capital formation and increase the productivity of a given country. Thus the International Bank had authorized loans for the purchase of farm implements for distribution to farmers in order to promote the agricultural productivity of a certain country. Before financing any important programme the International Bank must consider its nature and final objective as well as its likelihood to increase the borrowing country's productivity so as to permit amortization of the loan. Moreover, a project loan need not necessarily be used for capital equipment or machinery, but could also be applied to the purchase of consumer goods if, under the development programme, that was necessary to permit the borrowing country in question to utilize its domestic resources for more productive purposes.

41. The experts' recommendations seemed to be based on the assumption that the Bank would be unable to make further loans for lack of further funds. Mr. Lubin recalled, in that connexion, the statement made by the Bank's representative at the Commission's preceding session to the effect that the Bank did have sufficient funds available. As a matter of fact, the current problem was that the Bank had received only a limited number of well prepared applications for loans; even if that number should grow to a point where all the Bank's funds would be exhausted, the procedure recommended by the

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experts need not be followed because the Bank could always increase its capital considerably from private loans which it had not done so far. Consequently, the main point was to provide measures to assist under-developed areas in making effective use of the borrowed funds. He stressed the importance, in that connexion, of Point 4 of President Truman's programme for technical assistance which would make it possible for under-developed countries to utilize borrowed funds for their economic advancement.

42. He was opposed to the automatic functions of the Banks as envisaged by the experts, pointing out that the proposal was impractical and unrealistic. The Bank should disburse funds only for projects and development plans sufficiently mature to justify their financing. Consequently, the lending Government should put funds at the Bank's disposal, not on a semi-annual basis, but on the basis of individual applications for loans to finance specific and useful projects. If all resources of the world were to be developed, the Bank must lend funds where they would most usefully contribute to the expansion of the economic activity of the world.

43. The CHAIRMAN, speaking as the representative of Australia, asked Mr. Lubin whether the Bank was able to authorize loans for the purchase of consumer goods if that would enable the country concerned to use its own resources toward increasing its productivity. He also wished to know, with reference to the question of utilizing public funds to supplement private investments, whether the United States representative did not see advantage in a system under which, irrespective of its technical aspects, greater stability in the level of international lending could be ensured.

44. Mr. LUBIN (United States of America) thought that the Bank could finance the purchase of consumer goods if the development programme of a country required the use of its domestic resources for capital development. The United States Government saw no legal obstacles to such loans.

45. Concerning the Chairman's second question, he explained that in the United States the relevant Government authorities would consult the private investors concerned on the amount of foreign investments which the latter

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expected to make during a given year, and that the amount it would commit itself to make available for foreign investment would be less than the amount planned by private investors. In that manner, it would make sure that the amount of private investment would not fall short of the amount to which it had originally committed itself, and consequently there would be no question of supplementing insufficient private investment by public investments through the International Bank. It was a policy followed by all lending countries and investment banks.

46. The level of international lending could be rendered more stable and induced to expand by creating the proper conditions to attract foreign investments by such means as negotiation and conclusion of treaties, safeguarding the rights and interests of investors and borrowers alike, and providing the necessary technical assistance to under-developed countries to enable them to draw up the general development programmes necessary to attract foreign capital.

47. Mr. KING (International Bank for Reconstruction and Development), with regard to the question of the Bank's power to finance the import of consumer goods, thought that in exceptional circumstances the Bank might be permitted to authorize such loans.

48. Mr. HO (China) recalled that he had already indicated his agreement with the experts' recommendations in the paragraphs in question. In view of the United States representative's statement, however, he wished to add some further remarks.

49. With reference to the question of international lending for the purpose of achieving world stability, he felt it necessary for lending countries to change their attitude and to make sure that their action would promote the ability of under-developed countries to receive further aid for development projects. Thus, the project for a hydro-electric plant in the Yangtse Gores, prepared by Mr. Savage, was not, in the Chinese representative's view, the most appropriate for his country which was in greater need of such general development projects in the field of agriculture as land consolidation, land tenure, and marketing.

50. With regard to the question of currency reforms, he thought that they should be used for the purpose of promoting the ability of under-developed countries to receive further aid.

51. Those were some of the problems of under-developed countries which should be taken into consideration in connexion with the question of specific projects and general development programmes.

52. Mr. DEUTSCH (Canada) agreed that in order to meet the problem of providing sufficient international investment, under-developed countries must receive more loans for development purposes than they had in the past. As the Chinese representative had correctly pointed out, excessive rigidity in project loans should be avoided. The rapid development of certain countries, including Canada, during the past forty years had been possible only through loans made by their Governments for specific projects and general development purposes. On the other hand, by facilitating Government borrowing, as suggested in the experts' report, Governments might be encouraged to use loans to finance budget deficits which they should have overcome by proper fiscal policies. Moreover, in the 1920's large funds had been lent to Governments for general development purposes, a large part of which had remained unproductive and been wasted both from the creditor's and the borrower's point of view. Consequently, while more general purpose lending was necessary, the Bank must first make sure of the soundness of each loan before granting it.

53. In view of those considerations Mr. Deutsch was opposed to the automatic lending operations proposed by the group of experts. It would be impractical, even impossible, for lending countries to undertake rigid guarantees, however useful that might be to promote greater stability in international investments. Nevertheless, it was necessary for the International Bank as well as for the lending and borrowing countries to realize that capital must be made available to under-developed countries for general development purposes on a much larger scale than in the past, if an adequate system of international trade was to be guaranteed.

The meeting rose at 1 p.m.