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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE FORTIETH MEETING

Held at Lake Success, New York,
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and Development (E/1077 and E/1077/Add.1)

Chairman: Mr. SKORCZOGATY

<u>Members:</u>	Mr. MUNRO	Australia
	Mr. WOULBROUN	Belgium
	Mr. PENTEADO	Brazil
	Mr. SMOLIAR	Byelorussian Soviet Socialist Republic
	Mr. SANTA CRUZ) Chile
	Mr. VALENZUELA	
	Mr. CHA	China
	Mr. IVERSEN	Denmark
	Mr. BORIS	France
	Mr. SAKSENA	India
	Mr. HAKIM	Lebanon
	Miss HAMPTON	New Zealand
	Mr. AREVALO	Peru
	Mr. KATZ-SUCHY	Poland
	Mr. OZGUREL	Turkey
	Mr. CHERNYSHEV	Union of Soviet Socialist Republics
	Miss FISHER	United Kingdom
	Mr. STINEBOWER	United States of America
	Mr. STOLK	Venezuela

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Representatives of Specialized Agencies:

Mr. EVANS)	International Labour Organization
Mr. McDOUGALL	}	Food and Agriculture Organization
Mr. OLSEN		
Mr. ARNALDO)	UNESCO (United Nations Educational Scientific and Cultural Organization)
Mr. McCLOY)	International Bank of Reconstruction and Development
Mr. DEMUTH		
Mr. LOPEZ-HERRARTE		
Mr. WILLIAMS)	International Monetary Fund
Dr. CALDERONE	}	World Health Organization (WHO)
Mr. HILL		

Consultants from Non-Governmental Organizations:

Category A:

Miss SENDER	}	American Federation of Labor
Mr. ROMUALDI		
Mr. STOLZ		
Miss SANSOM)	International Chamber of Commerce

Secretariat:

Mr. LIE	Secretary-General
Mr. OWEN	Assistant Secretary-General in charge of the Department of Economic Affairs
Mr. WEINTRAUB	Division of Economic Stability and Development
Mr. MESSING-MIERZEJEWSKI	Secretary of the Committee

REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(E/1077 and E/1077/Add.1)

The CHAIRMAN, opening the meeting, drew the Committee's attention to the Third Annual Report of the International Bank for Reconstruction and Development (E/1077) and to the supplementary statement of the principal activities of the Bank since 1 September 1948 (E/1077/Add.1).

At the invitation of the Chairman, Mr. McCloy, President of the International Bank for Reconstruction and Development, made a statement.

Mr. McCLOY (President of the International Bank for Reconstruction and Development) pointed out that since the issue of the supplementary statement the Bank had made a loan to Belgium amounting \$16,000,000. Since the publication of the Annual Report loans had been made to Brazil and to Mexico, and other loans were pending.

The loan made to Brazil amounted to \$75,000,000 and had been made in connexion with the provision of power in the Rio de Janeiro and Sao Paulo areas. The loan to Mexico had also been in connexion with power. The loan of \$16,000,000 to Belgium had been for industrial purposes.

The Bank was carrying on intensive work in the underdeveloped countries to which missions had been sent, and Mr. McCloy felt that it was operating in accordance with its charter.

Much had been said in the past about how far the Bank fell short of the hopes originally held out for it, but he considered that it was and could be an extremely important factor in world development. The Bank had already obtained permission from the United States to employ that Country's capital contribution for lending purposes and the permission of other countries to use portions of their capital contributions for the same purpose. It also had open to it the doors of the great investment markets of the United States. Bonds issued by the Bank were permitted to come into competition with the sale of United States Government bonds as well as with others in the markets. It was probably too early to say how much could be raised by the Bank in the United States and elsewhere, but so far it had had no lack of funds for any well-supported project put before it.

The Bank was in touch with private capital and could lend to Governments or to private enterprises. It was a vigorous institution with great potentialities and in the reconstruction and development field its influence and experience were constantly growing.

Mr. PENTEADO (Brazil) said his delegation had studied with great interest the third Annual Report of the International Bank for Reconstruction and Development and felt that the officers of the Bank should be congratulated on presenting such a modest and factual report of its activities.

The Brazilian delegation noted with satisfaction the statement on page 14 of the Report regarding the problems of underdeveloped countries which were members of the Bank and hoped that in the future such countries would continue to be of primary concern to the Bank and "receive a major

In discussing reconstruction and development it should be made clear from the beginning that one problem was not being placed against the other, and that a petty, selfish economic war between war-devastated European countries and underdeveloped Latin American or Asiatic countries was not being contemplated. In Mr. Penteado's opinion those problems were complementary and so no arbitrary scale of priorities should be set up.

According to the Annual Report of the Bank in 1948 the "per capita" income of the United States population was over \$1,300 in the United Kingdom between \$700 and \$750; in Western European countries a little over \$500 and in Latin-America \$100 or less. Europe had been greatly helped by UNRRA (to which Brazil had contributed substantially) and by the gigantic reconstruction programme now being carried out. The bumper crops of 1948 and food supplies from the United States of America had helped to avert the danger of starvation or even malnutrition. The tremendous influx of capital and capital goods from the United States of America had resulted in a remarkable European industrial "come-back".

Pointing out that Latin-American economy as well as that of other areas of the world, many thousands of miles from the war area, had suffered the same destructive effects as those felt in Europe, he emphasized the fact that Latin-American industries, shipping, railways and agriculture had for several years been deprived of help from foreign capital and of any replacement or large-scale repair work, and were thus at present in a very poor condition.

The raising of the standard of living in the undeveloped or underdeveloped areas of the world was closely related to European reconstruction and prosperity, since those areas had been in the past and could be in the future suppliers of raw material to European industries and buyers of manufactured goods from European countries. For nearly ten years the underdeveloped areas of the world had been practically cut off from any constructive help from the industrialized nations and so their standards of living had deteriorated considerably. As it had been conceded that the gigantic task of the economic reconstruction of Europe had been to all practical purposes successfully completed it was imperative and urgent that all efforts should now be devoted to the reconstruction and development of the "forgotten areas" of the world.

The Annual Report of the Bank had made a few important suggestions regarding the extent to which the Bank could participate in such work, and the Brazilian delegation welcomed the statement on page 20 that the

Mr. Penteado disagreed with the importance attached by the Bank to instability, either political or economic, in many of the underdeveloped countries, and pointed out that such instability was often the result of conditions arising from discontent generated by unemployment or low pay or some other reason which could be placed under the heading "low standard of living". The Brazilian delegation would like to see that fundamental problem carefully studied by the Bank so that the "myth of instability" would cease to be a major obstacle to productive investments needed to stabilize and vitalize the economies of underdeveloped countries. His delegation would also like to see a more aggressive attitude adopted by the Bank in connexion with the lack of "adequate planning" or "well prepared projects". Although realising the importance of careful studies and well-formulated projects as the necessary basis for financial assistance, the Brazilian delegation did not think that a lack of such studies should constitute a justification for inaction, or delayed action, on the part of the Bank.

One of the most practical ways at the Bank's disposal for assisting foreign private investments in underdeveloped countries was the guarantee of transfer of interest. The lack of such guarantee, together with double taxation of profits, constituted the major obstacle to productive investments of private capital in underdeveloped countries. Double taxation was outside the jurisdiction of the Bank, but it should devote its attention and resources to the granting of guarantees of transfer of interest. Such a policy on the part of the Bank would give a highly desirable momentum to development programmes.

In conclusion, Mr. Penteado stated that his delegation was confident that the International Bank for Reconstruction and Development would play a dynamic and constructive part in development programmes, but suggested that it should adopt a slightly less orthodox and conservative approach to development problems.

Mr. KATZ-SUCHY (Poland) said that the Annual Report of the International Bank for Reconstruction and Development and the statements made by its President should be analyzed against the background of the ideas and plans of the Bretton Woods Conference. That Conference had intended to create a strong, stable institution which would be able to cope with the problems of reconstruction of war-devastated countries, to further the economic development of the world -- especially the underdeveloped areas -- and to work towards the proper distribution of wealth and prosperity among peace-loving nations.

/Referring to

Referring to the sum of \$650,000,000 which the Bank had loaned so far, he felt that members of the Bretton Woods Conference would have protested if it had been suggested at that Conference that such an amount should represent the activities of the Bank during a period of more than two and a half years. They would have completely rejected the idea that the Bank's action should be so completely out of proportion with actual world needs. No doubt many excuses would be forthcoming for the failure of the Bank to contribute in an essential way to reconstruction, but the fact could not be changed that nations who had participated in the Bretton Woods Conference were deeply disappointed. There had been no attempt to finance reconstruction according to priority of needs, prospects of quick economic results and equality in the treatment of various countries and territories. For instance, the Bank had declined to grant a loan to Poland for coal-mining equipment, which would have helped Poland to export coal to all countries with which she had economic relations. The Bank had, however, financed deliveries of coal from the United States of America to France and the Netherlands which had cost those countries at least 50 per cent more than the cost of coal imported from Poland. Deliveries of oil products had been financed to those countries regardless of whether the oil was needed for reconstruction purposes or for use in the war against the Viet-Nam Republic or the Republic of Indonesia.

The loans made by the Bank were not reconstruction loans in the proper sense, but were mainly to facilitate the delivery of consumption goods and perishable production goods such as fuel and raw materials. The Bank had thus become a partner in the economic warfare now being conducted against Eastern Europe. It had refused to grant loans to Eastern European countries and had adopted a policy of political partisanship rather than a sound economic policy.

In the field of development there was a discrepancy between the Bretton Woods plan and the activities of the Bank. The latter had not financed any overall development schemes but had financed so-called specific projects of limited scope and importance. He considered that when the Bank granted a loan in connexion with a specific project as, for instance, the loans for the development of the Netherlands merchant marine and Belgian steel mills, it was promoting the development of countries already sufficiently developed and the funds for such operations would yield less economic advantages than if used for investment in less developed areas as required by the Charter of the Bank.

The loan to Brazil had been given for power plants and telephones and a foreign company operating in the most developed part of Brazil had profited. He felt that such loans would be of greater value to Brazilian economy if they were used for opening new sources in under-developed areas of that country which could not be financed by private capital looking for security and immediate returns.

In the preparation of new loans for under-developed areas the Bank was following a policy dictated by the political aims of one of its members. The Bank and its activities in the field of development and reconstruction were being influenced by elements contrary to international co-operation. The Bank had violated the principles of its own charter, of the Charter of the United Nations and of the Bretton Woods Conference. It was doubtful whether without impartiality in decisions and the strict observance of the independent and international character of its work, the International Bank for Reconstruction and Development would be able to maintain the position assigned to it by the Final Act of the Bretton Woods Conference.

Mr. WOULEROUN (Belgium) said that his country had contributed to the Bank's original capital and had recently benefited by a loan of \$16,000,000 granted for the development of existing industries, which had thereby been enabled to reach a higher level of production than before the war. The help given to the Belgian metallurgical and electrical industries showed that the industrialized countries also required the Bank's assistance. His country was very grateful for the Bank's co-operation and had, in its turn, allowed the Bank to place its securities up to the amount of \$10,000,000 on the Belgian market, as had been stated by Mr. van Langenhove at one of the recent meetings of the Council. Thus the people of Belgium would help to provide resources for the Bank.

The Belgian metallurgical industry, which had recently benefited by a loan, had always contributed to the economic development of other countries by means of its exports. The loan would therefore have a beneficial influence even beyond Belgium's frontiers.

While recognizing the needs of the under-developed countries, he felt that the Bank should be an independent and impartial institution, granting loans simply on the basis of the risk involved, without any preconceived list of priorities.

With reference to the remarks made by the representative of Poland, he pointed out that the progress achieved by the Bank in reconstruction and development would necessarily have to be slow and that it could not be expected to solve all the problems immediately. The representative of Poland had stated that the Bank was influenced by political considerations. The Belgian delegation considered, however, that the Bank had only been able to achieve results by remaining free from political considerations and that its effectiveness in the future would depend upon its remaining free from such considerations.

Mr. McCLOY (President of the International Bank for Reconstruction and Development), replying to the representative of Brazil, agreed that the Bank should not wait until the situation had become so perfect that there was no need to grant a loan, before taking any action. The Bank did not demand perfection as a prerequisite for granting loans and all it asked was a little co-operation from the borrower.

The Brazilian representative had also raised the question of granting guarantees of the transfer of interest. That problem was much more involved than it appeared at first sight and was under consideration.

Replying to the representative of Poland, he explained that the organization of the Bank had taken a great deal of time but that stage had now been completed and the Bank should be able to proceed with its work more rapidly in the future. The representative of Poland had complained about the Bank's failure to finance any overall economic development programmes. The reason for that was because no such programmes had been submitted. The Bank was fully prepared to study any programmes submitted to it and, in the meantime, it considered that the loans it had granted had been of significance to the economic development of the countries concerned.

He did not consider it opportune to discuss the merits of the Polish application for a loan at the present meeting. He deeply regretted the fact that the Bank had not been in a position to help Poland when the request had been made. The Bank was fully aware of Poland's importance in the development of trade between Eastern and Western Europe and hoped to have the opportunity of assisting that country in the future.

/With regard

With regard to the loan granted to Brazil, it was not for the Bank to criticize the fact that the Brazilian Government had considered it useful to support a request made by a private company. The Bank's officers had considered the question thoroughly and had decided that the loan should be granted as it would promote the development of electric power which was desperately needed in Brazil. The Bank was always very careful not to undertake any project which could be privately financed and it had never granted any loan to be used for the purposes of war.

Mr. KATZ-SUCHY (Poland) thanked Mr. McCloy for his explanations. In his opinion, those explanations reinforced his own theory about the Bank's policy and showed that, in spite of the opinions of the officers, the Bank had been forced by some outside influences to refuse to grant Poland's request for a loan.

Mr. PENTEADO (Brazil), referring to the remarks made by the Polish representative in connexion with the Brazilian loan, explained that his Government had not actually requested the loan but had approved the request and given its guarantee after a detailed study of the situation. The Brazilian Traction, Light and Power Company had been of great assistance in the development of the country's hydro-electric power; it contented itself with limited profits and, by its activity, it freed Brazilian domestic capital for other purposes. Those were the reasons why the Brazilian Government had agreed to guarantee the loan.

Miss FISHER (United Kingdom) congratulated the Bank on its work and proposed that the Committee should adopt a resolution taking note of the Bank's report.

Mr. VALENZUELA (Chile) said that the Bank's policy had already been discussed during the Council's seventh session and at the recent session of the General Assembly. He hoped that political considerations would be avoided in the present discussion, since the Bank was one of the few institutions which carried out a practical and useful task without being influenced by political considerations.

His country was very grateful for the valuable technical co-operation of the Bank and for the understanding shown about the problems

purchase of machinery and raw materials have brought to light a new problem facing underdeveloped countries. It had become apparent that they would need greater resources than could be obtained through international credit. The modernization of agriculture and the development of irrigation were pressing needs in the underdeveloped countries requiring a great deal of international investment.

The distinction drawn between the reconstruction of war-devastated countries and the development of underdeveloped areas was of no practical importance. The Bank should consider the problem as a whole and give aid wherever it was needed.

In conclusion, he congratulated the Bank on the positive action it had already taken and on its plans for the future and he suggested that it should send a representative to the forthcoming session of the Economic Commission for Latin America.

Mr. BORIS (France) said that the Bank's report covered so many problems of general importance that the discussion might overlap with those being held in plenary meetings on such subjects as economic development and the world economic situation. His delegation did not wish to enter into any discussion as to the rival merits of reconstruction and development. Reconstruction was fortunately only a temporary task, but it was a necessary element of development, which would be the Bank's chief long-term task.

The representative of Poland had complained that the loan granted to France had been used chiefly for the purchase of consumer goods. In reply, he drew attention to the statement on the use of loan proceeds, given on page 24 of the Bank's report. It was shown there that the loan had been used chiefly for the purchase of equipment and, although some raw materials had been purchased, they had been essential to the country's reconstruction.

It was clearly shown in the report that the Bank was paying a great deal of attention to development and, in many countries, studies were being carried out in preparation for loans to underdeveloped countries. With regard to the plans for the future, he was particularly interested in the project for the financing of timber production in Eastern Europe, for export to Western Europe (E/1077/Add.1 page 7).

The Bank was working in a completely new field and it had great

would successfully carry out the task entrusted to it and he supported the proposal made by the United Kingdom representative that the Committee should take note of the Bank's report.

At the request of Mr. KATZ-SUCHY (Poland) Miss FISHER (United Kingdom) agreed to include in her proposal a request to the Secretary-General to transmit the records of the Committee's discussion to the Bank.

The COMMITTEE SECRETARY read the following draft resolution:

"THE ECONOMIC AND SOCIAL COUNCIL

"TAKES NOTE of the report submitted by the International Bank for Reconstruction and Development, and

"REQUESTS the Secretary-General to transmit to the Bank the record of the discussions which took place at the eighth session of the Council on the report."

Mr. CHERNYSHEV (Union of Soviet Socialist Republics) and Mr. SMOLIAR (Byelorussian Soviet Socialist Republic) explained that they would abstain from voting because they considered that the Bank had carried out a policy of discrimination against the popular democracies of Eastern Europe, a policy which was contrary to the United Nations' Charter and the Bank's Constitution.

There being no objection, the above draft resolution was adopted for submission to the Council.

Mr. STINEBOWER (United States of America) wished to place on record his delegation's satisfaction with the Bank's activities, especially those undertaken during the past year.

He was particularly pleased by the Bank's increased effectiveness in the field of development, which was shown by the loans granted, and by the technical assistance it had provided.

The meeting rose at 4:45 p.m.