

Dual Distribution for Council Members

ECONOMIC COMMITTEE

SUMMARY RECORD OF THE TWENTYFIFTH MEETING

Held at the Palais des Nations, Geneva,
Wednesday, 28 July at 10 a.m.

Present:

<u>Chairman:</u>	Mr. SANTA CRUZ (Chile)
Australia	Mr. WALKER
Brazil	Mr. MUNIZ
Byelorussian Soviet Socialist Republic	Mr. SMOLIAR
Canada	Mr. POLLOCK
Chile	Mr. VALENZUELA
China	Mr. HSIAO
Denmark	Mr. IVERSEN
France	Mr. BORIS
Lebanon	Mr. MIKAGUI
Netherlands	Mr. PATYN
New Zealand	Miss HAMPTON
Poland	Mr. RUDZINSKI
Turkey	Mr. SARPAP
Union of Soviet Socialist Republic	Mr. MOROSOV
United Kingdom	Mr. PHILLIPS
United States of America	Mr. STINEBOWER
Venezuela	Mr. d'ASCOLI

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the Summary Records please submit such corrections in
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AUG 10 1948

Representatives of Specialized Agencies:

International Labour Organization	Mr. OSMAY
Food and Agriculture Organization	Mr. McDOUGALL

Consultants from Non-Governmental Organizations:

World Federation of Trade Unions	Mr. SAILLANT
International Chamber of Commerce	Mr. VASSEUR

Secretariat:

Mr. Weintraub	Director, Division of Economic Stability and Development.
Mr. Dumontet	Secretary of the Committee.

REPORT OF THE THIRD SESSION OF THE ECONOMIC AND EMPLOYMENT
COMMISSION (document E/790, E/790/Add.1, E/AC.6/33)
(Continuation of discussion).

The CHAIRMAN, in declaring the meeting open, said the Committee would continue the discussion of the Report of the Third Session of the Economic and Employment Commission (documents E/790, E/790/Add.1, and E/AC.6/33). He called on the representative of the United States of America who had asked to speak on a point of order.

Mr. STINEBOWER (United States of America), referring to the summary record of the twentythird meeting of the Economic Committee (E/AC.6/SR.23), said that the vote recorded on page 9 of that document should refer to the whole of the United States proposal and not merely to the amendment.

The CHAIRMAN said the summary record would be amended as requested by the United States representative, and suggested that a corrigendum be submitted in writing to the Secretariat.

Mr. MOROZOV (Union of Soviet Socialist Republic) noted that although the summary record in question might not be completely correct, no change should be made retroactively in what had taken place at the preceding meeting.

The CHAIRMAN replied that the United States representative stated that the speech of the Chairman was not reported correctly and that was why he had said that it would be amended. Corrections to speeches by members of the Committee should be submitted in writing.

Replying to Mr. d'ASCOLI (Venezuela), who complained that the time allowed for the submission of corrections to summary records was insufficient, he suggested that he should take up the matter when the Economic and Social Council considered procedural matters.

Mr. HSIAO (China) did not agree with the severe criticisms made of the Report of the Third Session of the Economic and Employment Commission, although he agreed that the Commission's work had not been up to the ideal standard. He drew attention to the fact that since the setting up of the Economic and Employment Commission many changes had taken place in the organization of the United Nations, and those changes had influenced the work of the Commission. The Commission had been given too heavy a task - that of solving the problem of economic stability and full employment. In his opinion, if economic stability and full employment could be achieved most of the economic problems of the world would

be solved, and the organization which found the formula for solving that problem would be remembered for centuries to come. As the task involved was so great, too much should not be hoped for in the short period of time which had elapsed since the setting up of the Commission. The Commission had made specific recommendations to the Economic and Social Council and those recommendations should be given very careful consideration. It could not be said that the Commission had not achieved anything; even if it had so far confined itself to general principles, it had to be recognized that unless agreement were reached on such principles by the Council, there would be no basis for concrete action.

Thus, the Commission had pointed out that international co-operation was one of the most important means of achieving economic stability and full employment, and that should be a commonly accepted principle.

He disagreed with the statement that had been made in the Economic Committee that international co-operation in the form of capital movement might not be a condition for economic stability and full employment, and supported the view expressed in the Report of the Economic and Employment Commission regarding that matter. If any doubt were cast on the usefulness of capital movements as being conducive to economic stability and employment, one would have to consider whether to choose the road of international collaboration, or seek economic stabilization and employment on a purely national basis.

The same Report called attention to the fact that countries wishing to achieve economic prosperity in order

to raise their standard of living should rely principally upon their own efforts and should regard foreign aid only as a supplementary resource (Draft resolution B, paragraph (i)). That point was of great importance as certain economically under-developed countries still did not recognise that fact. But it should not be thought that all the economically under-developed countries regarded the economically developed ones as their main source of aid and were not willing to exert themselves in order to improve their economy. The Chinese Government realized that the development of its economy could only be achieved by the efforts of the Chinese people, although foreign aid was welcome and was appreciated.

The Report contained a recommendation in paragraph 3 (b), page 13 to the effect that international and national governmental and private agencies should accelerate the provision of finance, food and equipment for under-developed countries. He could not understand why that recommendation had been criticized. Arrangements for accelerating the provision of finance, food and equipment were necessary for the progress of under-developed countries and could only be made if the borrowing and the lending country reached agreement.

Referring to the criticisms made of paragraph 4 on page 9 of the Report, he considered that they were completely unfounded, and could not agree with the statement made in the Committee that the establishment of key industries not according to economic criteria in terms of comparative costs should be condemned.

He did not agree with the statement made in the Committee that safeguards for international investment had disappeared with the fall of colonial empires. In his opinion,

guarantee of a reasonable rate of interest and of return of principal did not depend at all on the existence of colonial empires. In this connection he referred to British investments in the United States during the nineteenth century. China wished to make investments as profitable as possible to the investor, but also wished to safeguard herself from the foreign political influence from which she had suffered in the past where loans were concerned. Investments made with the purpose of giving economic or political advantages to the investors would be condemned by all economically underdeveloped countries.

Quoting paragraph 5 on page 9 of the Report, he pointed out that in the Sub-Commission on Economic Development two different points of view had been expressed as to whether or not, in the case of Non-Self-Governing Territories, political dependence had been a major factor in retarding of economic development. It should be noted, however, that the Economic and Employment Commission had stated that it was of opinion that, even though political dependence might have been a major factor in certain instances, there were, nevertheless, examples to the contrary.

He agreed that the terms of reference of the Economic and Employment Commission should be reviewed and that the organization of the work of the Commission and its Sub-Commissions should be improved. He reserved his right to express further opinions regarding particular points at the time the Report and the draft resolutions were discussed in detail.

Mr. MEROZOV (Union of Soviet Socialist Republics) said he disagreed with the view expressed by several members of the Committee (who wished to alter the Commission's terms of reference) on the grounds that the Report of the Economic

and Employment Commission merely stated obvious facts, and was vague. Such criticisms would not help the Commission and a review of its terms of reference would lead it away from consideration of major economic questions with which it should deal. He said that the U.S.S.R. delegation could not approve the report because it contained a whole series of statements which were not in accordance with or even contradictory to the Charter and its aims. Nevertheless, his delegation considered it essential to proceed with a detailed examination of the Report and wished to express its views on certain sections of it.

With respect to the question of economic development of less developed countries it was quite natural that the Sub-Commission on Economic Development should have wished, early in its proceedings, to agree on certain general principles which would serve as a working basis for the achievement of the purposes stated in the Charter. Had it acted otherwise, it could have done no constructive work.

The U.S.S.R. delegation could not accept many of the statements in the Report but many others were correct. The view of the Sub-Commission on Economic Development, (as recorded in paragraph 5 of Part VII of the Report) was correct. Political dependence had done much to retard the economic development of non-self-governing territories, although some members of the Commission, and in particular the Netherlands' representative, had sought to prove that this statement was not historically correct. Before reaching its conclusion, the Sub-Commission

on Economic Development had heard a whole series of statements on the historical evolution of the economic system of such territories, including a statement on India. These showed that a system of political dependence hampered the economic development of subject countries. At the suggestion of its Brazilian member the Commission had expressed the opinion given at the end of paragraph 5, that even though the Sub-Commission's statement was true for certain countries, there were, nevertheless, examples to the contrary. Actually, no example could prove that political dependence did not hamper a country's economic development. The position adopted in the Commission's Report was an attempt to defend the colonial system and to approve the action of metropolitan countries; and meanwhile the colonial peoples were continuing the struggle against their servitude which the metropolitan countries were endeavouring to maintain, either in veiled forms or by force of arms, as the United Kingdom, France and Netherlands representatives were well aware of.

There were some further examples which his delegation wished to adduce in support of the contention of the Sub-Commission on Economic Development. For example, as stated by the Indonesian representative at the ITO conference, the Indonesian exports amounted to 13,000 milliards dollars during the twenty years, whereas the import figure had been only 8,000 milliards; this showed an export surplus of 5,000 milliards dollars or on the average 250 million a year. Furthermore, the export surplus figure for 1938 was about

300 million dollars of which only 38 million had gone to the native population and 262 million to the remainder of the population who represented only 2% of the total population. In 1922 the average daily wage for a native family of five was 16 cents a day in Indonesia; in 1933 it was only 5 cents a day or one cent per person. These figures were not propaganda, but based on the official Netherlands documents and showed large export surpluses and a decline in living standards.

The United Kingdom Government's Report on Tanganyika submitted to the Trusteeship Council stated (page 92) that in that country of 5½ million inhabitants there were few industries in the true sense of the word, that it produced principally raw materials and that secondary industries had not been sufficiently developed to be worthy of mention. The Report showed that the territory's production was in no sense in competition with its importing firms. It showed that the metropolitan country not only delayed but prevented industrialization.

The report to the General Assembly on non-self-governing territories (A/319) contained many examples to the effect that imports did not help industrialization. He cited several examples where imports of equipment either were not even mentioned or were equal to imports of alcohol, wine and spices.

So the policy which consisted in keeping under-developed territories as a reserve of natural resources for the home country was being pursued. Without industrial equipment these territories could not create their own industry. Besides, to initiate action in this direction, education and training would have to be made more generally accessible to

the inhabitants so that they might form a national skeleton body of technicians. That was certainly the meaning of Article 73 of the Charter. Now in Tanganyika, for example, the educational budget corresponded to 21 cents per year per person. In the presence of these facts how could it be denied that political dependence hindered economic development. Political independence was therefore necessary to ensure economic development. Now political independence only became real when a country was endowed with a national industry strong enough to ensure it. The Sub-Commission had adopted this point of view by having stated that industrialization was a decisive factor in economic development. The Commission seemed to agree with this view in spite of the interventions of the representatives of the United States, the United Kingdom and France, but at the suggestion of these latter, several declarations had been adopted which watered down this principle by declaring that the economic development of each country should be carried out within the framework of world economy. He felt that the role of internal resources in economic development should be stressed.

The U.S.S.R. delegation had some observations to make on the question of loans and investments. Paragraph 9 of the 8th Section enunciated a correct principle. The U.S.S.R. delegation thought that the Council owed it to itself to approve and confirm the meaning of a declaration which was more important to-day than ever, as advocated by the Debate concerning the Marshall Plan and the speech made by the U.S.S.R. representative in the Council.

The Sub-Commission's Report (Paragraphs 11 and 12 of Part VI, E/CN.4/47) drew attention to the danger of direct

investment of foreign capital inasmuch as the foreign investor was led to pay more attention to ensuring a non-interrupted return of profits than to the conservation and utilization of the resources of the country. The Report also spoke of another possible consequence of direct investments, that of the power acquired by the foreign investors over the whole of the country's economy. The Commission did not approve, but the Council should approve these conclusions of the Sub-Commission. To indicate their value it would be sufficient to quote the example of the Republic of Haiti. According to the reports made available by the Secretariat to the members to the Sub-Commission, the foreign trade of this Republic could not be directed by its own people seeing that since the treaty concluded in 1933 with the United States and in consequence of the investment of American capital the United States exercised control over the whole banking system of the country including the Central Bank of Haiti and no independent policy was conceivable without control of the budget, which was under foreign control. It went without saying that this state of affairs was contrary to the U.N. Charter.

In reply to a previous intervention from the Netherlands representative who envisaged a new era of profitable investment of capital, the U.S.S.R. representative asked how these hopes could be reconciled with those of the subject peoples who were seeking to organize their own economy under a regime of political independence.

The U.S.S.R. delegation regarded the proposal to change the terms of reference of the Economic and Employment Commission so as to convert it into a purely technical agency as yet another sign of the tendency to alter some

United Nations agencies in such a way as to diminish their importance.

The Economic and Employment Commission was called upon to deal with questions covered by Article 55, of vital concern to millions of human beings. That Article was in no way merely technical; it had a far wider scope. The Commission could not carry out its terms of reference if it devoted itself to the study of specific and purely technical questions. Some members of the Committee had expressed the opinion that the Commission's work on the problems of employment and unemployment was not indispensable at this time. Surely such a statement was unfounded when, at this very time, millions of human beings were unemployed and unemployment tended to increase. Accordingly his delegation could not see the need to revise the Commission's terms of reference. The Council had drawn up those terms of reference in the course of three consecutive sessions. Now it was proposed to divert its attention from the questions of substance which had arisen and of which the Charter demanded a solution, and to re-open the question of terms of reference.

The USSR delegation opposed this and reserved also the right to comment on the various points of the Report as and when they came up for consideration.

Mr. POLLOCK (Canada) observed that most of what needed to be said about the Commission's report had already been said. However, as the Canadian delegation had taken part in the Commission's work and had definite views as to the contribution it could usefully make in the future, he would offer some brief remarks.

The Canadian delegation fully supported the principles

set forth in Draft Resolution A on technical assistance, and hoped that the Council would approve it quickly and without contention. On Draft Resolution B the Canadian delegation's views were similar to those of the United States delegation. The Canadian delegation would support the resolution if only for the reason that there was little in it to oppose. At the same time it would say now, as it had said in the Commission, that resolutions formulated in vague and innocuous terms merely increased the number of documents in circulation without contributing much to the solution of the problems involved. He agreed with the Chinese representative in endorsing acceptable principles, but doubted the need to formulate them in resolutions from the Committee to the Council.

There had been many criticisms of the Commission and also some constructive suggestions for its future work. In that connection the Danish delegation's views were very similar to those of the Canadian delegation. Nevertheless, the Committee had already heard one statement on the previous day and another statement to-day which clearly indicated the obstacles limiting the achievements of the Commission to date. The Council and the Committee were not entirely free from the same obstacles and should not entirely ignore those basic difficulties. It would be useful if for the future delegations, which attempted to use the Commission as a vehicle for political propaganda, should reconsider their position lest their enthusiasm destroy the institution which had given them an opportunity of expressing their views.

The Canadian delegation was aware that the Commission was not achieving the high purposes which were in everybody's mind when it was first established. There was too much intransigence, too much inflexibility and too little willingness to make the minor concessions necessary if there was to be any real achievement. Most of those difficulties, it was true, were not of the Commission's own making, but were rather a reflection of the wide disagreement in aims which had hindered progress in the post-war world.

There was little doubt that certain changes were required in the terms of reference and organizational structure of the Commission and its Sub-Commissions. But so long as the Commission - or any United Nations organization - was a vehicle for political propaganda, the possibilities for substantial progress were limited.

In the Canadian delegation's opinion it would be desirable to make any necessary changes with a minimum of discussion in both the Council and the Commission. The Commission itself had already recognized its own deficiencies and created a Committee on Organization to report to its next session on future organization and terms of reference. That was a sensible first step, and although the Council must retain the ultimate responsibility, it might come to more useful conclusions if it waited upon the Commission's own review of its functions.

While, therefore, the Canadian delegation had no objection to the resolution submitted by the Australian delegation, it would like to see pushed further into the

future the time when discussion of the Commission's functions should be held. To that end it had prepared, and would propose, some small amendments to the Australian resolution given in document E/AC.6/33. They were as follows:-

2nd paragraph: Substitute the word "necessity" for the word "urgency";

3rd paragraph: Substitute the words "at a future session" for the words "at the next session";
and

last paragraph: Substitute for the words "as early as possible before the next session" the words "and to the Committee on Organization of the Economic and Employment Commission for consideration before the ninth session of the Council".

It would be noted that those amendments were not far removed from the resolution proposed by the French delegation. They would give the Economic and Employment Commission, which was meeting between the eighth and ninth sessions of the Council, time to report their views before any action was taken. That was not too long to wait. Three years had been too short a time in which to pass judgment on the Commission and make recommendations as to its future activity. As experience on the Council had shown, there could be a danger in moving too quickly.

Mr. VALLENZUELA (Chile) considered that the Draft Resolutions had a number of defects which cast doubt on their practical and theoretical importance. He believed that Resolution A should be adopted by the Committee, but not Resolution B.

Paragraph (1) of Resolution B propounded three ideas which in fact were one generality. It was impossible to separate one idea from the others. The paragraph referred to all countries without paying any attention to differences in standards of living, stages of civilization and so on. Finally, it said that foreign aid could only be a supplementary resource, without saying what bodies should decide which countries deserved foreign aid.

One might ask if the International Bank would be the competent authority, or if the Commission had intended that private investors would decide. To some extent this matter was elucidated by Paragraph (2) which recognized both public and private investments.

In Paragraph (3), sub-paragraph (a) made a general call for industrialization without taking geographical and other factors into account, while sub-paragraph (b) spoke of "under-developed countries" without offering any yardstick to establish which were under-developed countries. Sub-paragraph (c) was not clear. The Commission had not stated what was "adequate" productive capacity. Was it to be measured by domestic consumption or by international demand for a country's products? The Commission had also failed to state what was meant by "dislocated" economies, "sound development", "permanent recovery" and "bottlenecks".

Perhaps, as the Brazilian representative had said, these difficulties would have been more obvious if the Commission had included more technicians and fewer politicians, or if, as the Australian representative had said, it had had to deal with more concrete items. The Chilean Delegation was convinced that only objective technical discussions could be really useful.

Part VIII of the Commission's Report also contained some vague and not easily-understandable statements and some often-repeated generalizations, while Paragraph 9 of that Part was an entirely political declaration.

In that connection, Mr. VALENZUELA recalled that the Byelorussian Soviet Socialist representative had referred to Chile in his speech the previous day. It was easy to place a group of countries, as it were, in the witness-box. But it must be remembered that there was no relation between the information which the Secretariat of the United Nations received from those countries and the information received from the USSR and the countries of Eastern Europe. He was a great respecter of national sovereignty but would like that point to be noted, as it produced unfortunate results.

One of those results was that the Latin-American countries had been represented in the Committee as small nations, crushed by monopoly capital. That idea might be acceptable at certain cultural levels but should not be too often repeated. It would not change the Latin-American countries' own point of view.

Foreign investments were indispensable to the life of the Latin-American countries. They neither could nor would sacrifice their peoples' demands for consumers goods in order

to carry out plans which might be useful in a hundred or two hundred years. They preferred to turn to neighbouring and foreign countries. Their national sovereignty and the extent of their civic development, however, made it essential that foreign investments should be controlled.

The Byelorussian representative appeared to be unaware of a number of the facts about recent industrial development in Chile. Between 1939 and 1947, for example, five new hydro-electric turbines had been set up, which now provided a total of 1,200,000 horse-power; the last of those turbines had been put into operation in the presence of the USSR Ambassador to Chile. With the help of the Export and Import Bank at Washington the Chilean steel industry had been developed and in eight years cement production had been raised from 400,000 to 1,400,000 tons. The Export and Import Bank had also financed oil surveys, with which the Standard Oil Company had been in no way concerned. Plans for the exploitation of oil in Chile were due to the sovereign desires of Chile alone.

With regard to the Chilean merchant marine, which had increased appreciably, Mr. VALENZUELA had personally asked the USSR to send ships to Chile. The USSR, however, had replied that it would be in no condition to provide such assistance until after 1952, and Chile could not wait so long. In that connection, it must also be pointed out that it was very difficult to buy or sell or conduct credit negotiations with countries in which all information on financial subjects was a State secret, the revelation of which was punishable by long terms of imprisonment.

The Chilean Delegation had no fear of stating its position on foreign investments, but it could not have that

position distorted for purposes of political propaganda.

Mr. MUNIZ (Brazil) recalled that the Byelorussian representative had also referred to his country. He appreciated his generous solicitude to save the Latin American countries from economic exploitation. It must be understood, however, that those countries were not giving anybody a proxy for the defence of their interests. They were quite capable of denouncing exploitation when they saw it. The Byelorussian representative had expatiated, as many times before, on the so-called exploitative character of foreign investment, and had chosen American capital in its relations to Latin America as the object of attack.

Now foreign investment, like anything else under the sun, had both positive and negative aspects. At certain periods of history and in certain parts of the world, the negative aspect might have been paramount. But on the whole the positive aspect, the positive help given by foreign investment to economic development, had far surpassed the negative. That was certainly true of Brazil, where foreign investments had played an important role in the development of railways, electric power and public utilities, agriculture, and timber and chemical industries. That foreign investments could result in great advances in the standard of living and in industrial development was evident from the examples, among others, of the United States and Canada, both of which countries had developed with the help of foreign capital and neither of which showed any scars of exploitation.

Furthermore, the psychology of international investment had undergone considerable changes in modern times, and there seemed to be a general agreement between lenders and

borrowers that an enlightened and social-minded investment policy was in the long run the one that yielded better profits and more stable results. It would be interesting to investigate what possible alternative to foreign investment there could be for the development of the resources of countries that lacked domestic savings of sufficient magnitude and which could not restrict consumption needs.

The Byelorussian representative would probably suggest the method of Sovrancombines, such as the Rumanian Sovpetrol. All the evidence indicated, however, that that particular form of investment was one which was far more effective than the usual form of capitalist investment in subjecting the economic needs of the country part of the Sovrancombine to the interests of the lender. They lead, in fact, not to economic cooperation, but to direct economic control and domination.

The Byelorussian representative had singled out American investments in Brazil for attack. He had quoted an estimate from a Communist newspaper which had won a reputation both for its ability to distort facts and for the naivete of its economic reasoning. It was not clear whether the reference was to portfolio or to direct investment. He presumed that it was to direct private investment, since portfolio investment in the form of loans to governments appeared to be much less objectionable to the Byelorussian representative. The figure of 750 million dollars for direct American investment that he had quoted was indeed optimistic, and Brazil would indeed be glad to have than much direct dollar capital invested. The estimated figure was about half of the figure quoted.

The United States would be glad to know that it was transferring, according to the Byelorussian representative, not less than 150 million dollars of profits annually from Brazil. The truth was that since the start of the dollar crisis Brazilian exchange control had placed rigid limits on the transfer of dividends. The Bank of Brazil, which controlled exchange remittances, would be glad to know that the country's balance of payments had been strong enough to withstand a drain of 150 million dollars a year.

The bulk of American investment in Brazil was concentrated on public utilities, which were, as was well-known, a very stable but rather low-yield type of investment. Only recently, and with Brazil's consent, and indeed because of her desire for a broad participation of foreign capital in industrial development, had American investments assumed a more diversified pattern.

When the level of domestic savings - as in all underdeveloped countries - was low and when consumption standards could not be restricted, foreign investment was the only practical means to expedite economic development. That, of course, was not a substitute for, but rather a supplement to, the countries' own efforts to utilise their domestic possibilities to the maximum.

Foreign investment was by no means a system of exploitation, as it had been called by the Byelorussian representative. Rather it had worked, and could work, to the mutual advantage of lenders and borrowers. So far as Brazil was concerned American investment had not been exploitative; on the contrary, it had permitted the development of Brazil at a faster pace than would otherwise have been the case, just as foreign investment had expedited the development of

the United States, Canada and other countries.

Countries should always try to develop their own resources to the maximum either by an increase in the rate of savings for investment or by restriction of standards of consumption as well as by organizational measures. If, however, that were not sufficient - and that was usually the case in the under-developed countries - two alternatives were left; to refuse foreign investment and stagnate economically, or to accept foreign investment on reasonable terms in order to expedite development. Against those alternatives no amount of dialectic would avail.

The CHAIRMAN announced that now the Committee had before it the Australian draft resolution, the amendments to it suggested by the Canadian representative, and two draft resolutions - one by the French and one by the United States representatives. The amendments would be circulated in time for the next meeting of the Committee.

The meeting rose at 1 p.m.