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ECONOMIC AND SOCIAL COUNCIL
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ELEVENTH SESSION, **385th MEETING**

WEDNESDAY, 12 JULY 1950, AT 10.30 A.M.

PALAIS DES NATIONS, GENEVA

CONTENTS

President : Mr. Hernán SANTA CRUZ (Chile).

Present: Representatives of the following countries:

Australia, Belgium, Brazil, Canada, Chile, China, Denmark, France, India, Iran, Mexico, Pakistan, United Kingdom of Great Britain and Northern Ireland, United States of America.

Representatives of the following specialized agencies:

International Labour Organisation, Food and Agriculture Organization, International Bank for Reconstruction and Development, International Monetary Fund, World Health Organization.

Methods of financing economic development of under-developed countries, including consideration of the report of the Sub-Commission on Economic Development (fourth session) (E/CN.1/80, E/1584,[1] E/1690, E/1729, E/1757 and E/1759) (*continued*)

1. The PRESIDENT said that the Council would continue its discussion of item 6 of the agenda, and called upon the representative of the Food and Agriculture Organization to make a statement.

2. Mr. McDOUGALL (Food and Agriculture Organization) thanked the Council for giving him the opportunity of making some comments, on behalf of the Food and Agriculture Organization, upon a subject which was of such great interest to it. During its tenth session, the Council had had before it the report *International Investment and Financing Facilities* (E/1591) which had been prepared for the FAO Conference in November 1949. Several representatives on the Council had referred to that report in commendatory terms.

3. FAO was convinced that increased food production and improved distribution would lead to better nutrition and so to better standards of living. He would have occasion to refer to that point at a later stage and would for the moment limit his comments to the relationship between the expanded programme for technical assistance and the methods of financing the economic development of under-developed countries, a point to which reference had been made by several representatives, including those of Australia, Canada and India.

4. The suggestion that technical assistance would be of little value unless supported by investment seemed to him unrealistic, since certain types of technical assistance could be carried out without any significant increase in imports. He would mention specifically such forms of assistance as could be given by means of advice on the use of better seed or the control of diseases of crops or livestock. Although, by and large, technical assistance would reveal the particular needs of certain countries for loans and would assist financial institutions in assessing priorities, as well as the country's capacity to service loans, thus serving as a pre-requisite to the financing of economic development, certain types of improvement in agriculture, forestry, fisheries, nutrition and health could be effected through technical assistance without substantial concomitant investment. On the other hand, irrigation and drainage plans, as well as the large-scale mechanization of agriculture, undoubtedly necessitated the intervention of external finance.

5. In the report on international investment and financing facilities, a rough estimate had been made of the average investment needed to finance work on certain selected problems in agriculture, forestry and fisheries. That estimate suggested an over-all investment figure of 700 million dollars per annum over the next ten years, 500 million dollars of which would have to be found from foreign sources. Small though those figures were, they implied that, if means could be found to assist the financing of agricultural—and in particular, of food—production, the effect on standards of living and on the capacity of countries to move towards broader forms of economic development would be very considerable.

6. There was yet another need involving very limited financial resources to which he would particularly draw the Council's attention. Many under-developed countries needed equipment and supplies from abroad in order to enable them to take full advantage of technical assistance under the expanded programme. FAO, as well as certain other specialized agencies, had already received a number of requests and inquiries from governments, some of

[1] *National and International Measures for Full Employment* (report by a group of experts appointed by the Secretary-General).

which asked for equipment and supplies on a scale too large for the technical assistance fund, in view of the conditions placed upon its use by Council resolution 222 (IX). The equipment sought by the under-developed countries, as well as by those which suffered from foreign-exchange difficulties, frequently did not involve substantial expenditure. He had in mind requests for the equipment of laboratories and research stations, for pumps and piping for well irrigation, for agricultural machinery and fertilizers. If means could be found to enable those countries to obtain the small credits necessary for the purchase of such equipment, the technical assistance programme would greatly gain in significance from the point of view of the receiving governments and of their peoples.

7. He hoped that the Technical Assistance Committee would consider the possibility of linking up assistance to under-developed countries with a system of relatively small loans by means of which equipment and supplies might be included within the programme.

8. In conclusion, he would recall the significant statement made in chapter I of the Secretary-General's report entitled *Technical Assistance for Economic Development* (E/1327/Add.1, page 6), which had served as a telling quotation in the statement made by the Indian representative at the Technical Assistance Conference held in June 1950 at Lake Success.[2] The text read as follows:

> " The rate of economic development must be fast enough not only to keep up with population growth, but to exceed it by a substantial margin. For a little development may sometimes be a dangerous thing, if it provides only a temporary palliative for starvation and misery without bringing about a continuing, balanced rise in welfare and productivity. Such limited, partial development may serve in the long run, as it has in the past, only to increase social tensions and permit a more reckless waste of both human and natural resources."

9. Mr. KNAPP (International Bank for Reconstruction and Development) said that it was a great privilege for him to participate in the Council's debate in view of the Bank's particular competence and experience in the problem of economic development, which offered the world a serious challenge. The current discussion had already fully revealed the complexity of the issues involved. The Bank had studied them closely and had achieved some successes, modest as they might be. He had carefully studied the two reports before the Council, but before going into detail had to record that it was scarcely possible to make pronouncements on many matters of policy, since the Bank was an organization composed of member governments to whom it had to look for guidance. He would therefore simply comment on the general principles of economic development evolved by the Bank from its practical experience, as well as endeavour to elucidate certain procedures which had been referred to by members of the Council. The Bank's policy was formulated by what he would describe as a collective mind and was carried out in terms of concrete action.

[2] See document E/Conf.10/PV.3.

10. Taking first the question of loans for general development, in regard to which proposals had been put forward by the group of experts, he submitted that much misunderstanding could arise from a confusion of concepts. The Bank doubted the wisdom of making loans for undefined purposes. The experts themselves had suggested that the Bank should investigate the programmes and follow up their execution, and a general development programme was merely the aggregate of several projects. The Bank, like the borrower, was interested in elaborating sound concrete programmes and in securing the best possible use for the funds available. Moreover, a serious loss of interest would be involved on money lent while the borrower worked out the application of a vague programme. If, however, the concept were interpreted as meaning the financing of a group of specific projects, not only would the Bank have no objection, but it would, on the contrary, favour such a procedure, since it would lead to better co-ordination. One of the Bank's main difficulties was that programmes were not submitted to it at that stage of analysis, and the Bank was too often obliged to consider isolated and limited projects. Certainly the Bank aimed at selecting the most urgent and most productive schemes.

11. The problem could also be viewed in terms of the scope of the Bank's contribution. Should it only finance direct costs, or should it also be financially responsible for the indirect impact of the development programme on the balance-of-payments position of the receiving country ? Such an indirect impact would necessarily be felt, owing to the variation in a country's import-export balance and the inevitable changes in the labour market and in consumption levels caused by economic development projects. The logical extension of that problem was the problem of financing in terms of local currency. In that connexion, he would point out that a local-currency loan did not mean a loan made by the Bank from its holdings of a certain currency. Such a method would rarely, if ever, be of advantage to the borrower. A local-currency loan meant advancing cash in foreign exchange convertible into local currency, that procedure being generally equivalent to a loan advanced to meet the indirect impact on the balance-of-payments position.

12. In terms of financial technique, the Bank could apply either the procedure envisaged in the Chilean draft resolution (E/1759)—namely, one similar to that used for the European Recovery Programme—or, alternatively, the procedure envisaged by the Sub-Commission in its report (E/CN.1/80), whereby the Bank would finance some portion of the local-currency expenditure, leaving the borrower to devote the " foreign-exchange counterpart " to meet the indirect impact on his balance-of-payments position. From the economic point of view, both procedures implied the provision of outside additional resources by the Bank. In real terms, that contribution was equivalent to additional imports. In financial terms, it provided a source of local-currency finance and might therefore be described as a supplement to local savings, although, in his view, that conception was somewhat misleading. He preferred to define the contribution from outside as a supplement to a country's

real resources; for lack of savings merely reflected excessive consumption in relation to output, or, as in the case of most under-developed countries, a lack of productivity and too narrow a margin of production over consumption.

13. According to the terms of its Articles of Agreement, the Bank was entitled to undertake operations of that type only in " exceptional circumstances ". That provision was a necessary safeguard, since the borrowing capacity of any country was limited and so were the total resources of the Bank. Consequently, its funds should, as far as possible, be used to meet the inescapable and inherent costs of development programmes, internal expenditure and the indirect financial impact being met by the country's domestic measures. That was largely a matter for internal fiscal policy expressed in terms of counter-inflation measures, sound taxation policy and governmental control of expenditure. Indeed, a deficit balance-of-payments position should not be conceived as a pre-ordained and inescapable evil. It was a consequence of domestic policy, and no amount of help from outside could put right unsound domestic administration. The Bank frequently had occasion to give advice on broad policies of economic development, and was very clearly aware of the necessity of resolute action and sound monetary policy on the part of governments. The alternative to such policy was inflation, on the harmful effects of which he need not dwell.

14. The Bank wished to assist countries in creating and utilizing local capital for investment. That, indeed, was one of the most important ways in which it could assist in furthering their general economic development. The precise methods were bound, of course, to vary from country to country. He would specifically refer to two recent cases. The first was that of a hydro-electric project in El Salvador, where the external contribution of 12 million dollars had been amplified by an internal contribution equivalent to 6 million dollars collected through the issue of bonds. That method of finding local capital was wholly new to El Salvador and had met with success. In the case of Turkey, the Bank had assisted in finding a solution to the problem of furthering industrial development by private enterprise. As the result of preliminary study made on the spot by the Bank's experts, it had been decided that the best means of developing a capital market would be by setting up a new industrial development bank under private management with private and central bank funds at its disposal. The Bank had agreed to enter into negotiations with that body in order to supplement its local currency resources with foreign loans. The latter's function was to assist small industrial enterprise. It would have a competent technical advisory staff. The whole operation was carried out as an experiment, which the Bank had followed with the closest interest and attention from the start. He noted that the Sub-Commission rightly attached great importance to such methods of using domestic resources.

15. Cases might, however, occur where it would not be appropriate for the Bank to provide foreign exchange to cover part of the local-currency costs of a project, thus also in part covering the indirect impact on the country's balance of payments. The Bank was not precluded from engaging in such operations, but would do so only if the borrowing country could fulfil certain conditions—namely, if it were sufficiently credit-worthy to be able to undertake a foreign-exchange obligation in order to finance costs in local currency; if the proposed project were of such urgency as to make it advisable for the country to undertake foreign borrowing for its sake; if the local-currency costs of the project could not be reasonably met by available domestic resources, and, finally, if it were clearly demonstrated that the execution of the project involved indirect foreign-exchange requirements, arising from the loss of exports or from the need for increased imports in raw materials or in essential consumption goods for the purpose of preventing investment from having inflationary effects on the country's economy. Furthermore, the Bank would expect the borrowing country to find, out of its own resources, some part of the funds required to cover the domestic share of its investment expenditure.

16. He would again note that the Bank would not regard such operations as the usual and normal procedure. Not only did the Bank's Charter restrict that activity to " exceptional circumstances ", but also, as explained previously, that restriction was considered to be sound and reasonable.

17. In general, he would point out that the Bank took a broad view of what was meant by a " project ". The latter need not necessarily be a large, single and monumental work. The Bank had, for instance, assisted the Indian Government in acquiring additional rolling-stock for the railway system and the Colombian Government in purchasing agricultural machinery for use throughout the country. What was most important from the Bank's point of view was the economic justification for a project.

18. The Sub-Commission on Economic Development had in its report (E/CN.1/80) stressed the fact that projects should not necessarily be judged from the purely commercial standpoint, but also from their social usefulness and from their direct or indirect effects on a country's economy. The Bank had already expressed its agreement with that view. It considered that operations of a commercial nature should be carried out on commercial lines and that organizations set up to carry out any given project must be efficient, but that did not mean that it wished to limit its financial assistance solely to " self-liquidating " projects or programmes, in the ordinary commercial sense.

19. He would like to comment on the three main categories of projects defined by the Sub-Commission in its report. With regard to general privately financed industrial projects, the Bank felt that in appropriate cases it could share the burden with private enterprise. In dealing with economic overhead projects, the Sub-Commission had expressed the view that such projects would not be suited to the kind of services the Bank could render. Certainly, the Bank accepted the premise that basic resource projects should be assessed in long-range terms and with reference to secondary economic development. Within that framework, the financing of such projects was, in fact, one of the Bank's principal activities.

20. As for the so-called social overhead projects, the Bank would not necessarily reject consideration of them, provided that they were demonstrably productive and linked to projects of an economic nature. Furthermore, if the Bank made a contribution to the first two types of project, it might well be that the country would itself be able to meet the cost of social overhead projects.

21. It had to be clearly emphasized that the Bank was bound to give credit to governments or under government guarantee, so that national credit was always pledged in any transaction between the Bank and a government. The Bank had had to meet certain criticisms because it had several times suggested that projects should be put on a " self-liquidating " basis. For instance, when requested to finance the improvement of port facilities, the Bank might express its preference for the establishment of an efficient port authority rather than for administration by a mixed ministerial committee. The advantage of setting up a port authority with financial autonomy was that authority's power to levy fees, by means of which a much-needed new source of revenue could accrue to the borrowing country. But such practical proposals were not in any way governed by a pre-conception limiting the Bank to " self-liquidating " projects only.

22. In judging the external-payments capacity of countries, the Bank had to consider a country's balance-of-payments position as a whole in order to estimate its ability to service an external debt. The Sub-Commission claimed that, if a country's balance-of-payments position was basically satisfactory, development projects need not be put on a " self-liquidating " basis. Unfortunately, the converse was also true. If a country's position was basically unsatisfactory, the Bank might have to conclude that the country was not credit-worthy, even though the particular project would yield exports in an amount sufficient to service the loan.

23. The explicit provision that the Bank should lend to governments, or on a government guarantee, facilitated the consideration of priorities and co-ordination of various projects. It should be kept in mind that though a great many projects might seem sound enough in terms of local currency, the country concerned might still not be in a position to service foreign debts on all of them. Consequently, priorities had to be established on the basis of economic productivity, and a general pattern of development projects had to be worked out which was consistent and well integrated. For example, it would not be economically sound to finance an irrigation project without also providing means of transport for the produce. What was required was an integrated investment programme timed over a period of years in accordance with available resources. Such a programme could not be carried out all at once, but, if a good start were made in building up national production, the economic position of each country concerned would be so improved as to be able to sustain further development.

24. The task of building up an integrated programme was indeed challenging, and the Bank was prepared to assist in a number of different ways. Whenever it received an application, it studied the situation on the spot and endeavoured to discover what stage had been reached in the general economic development of the country. Unfortunately, it had been the Bank's experience hitherto that insufficient attention had been paid to general aspects. He would, in that connexion, recall that the Bank had sent an important technical assistance mission to Colombia a year previously. That mission had been composed of a number of experts, who had studied the situation for six months and had spent a further six months writing a report, which would shortly be published and which would prove of interest to members of the Council.

25. All the endeavours made under the United Nations expanded programme of technical assistance would prove to be in vain, however, if they were not closely linked to vigorous national organization able to heed advice and apply it. That kind of approach had often been lacking in the past. One of the major obstacles to the Bank's work was that programmes were submitted in inadequate form. Borrowers should not express surprise because the Bank, instead of passing judgment at once on a particular project, showed interest in the country's general economic problems and general economic situation. He had, therefore, in the light of the Bank's experience, been gratified to note that the Council deemed it advisable that problems should be viewed within their general context. That did not mean that the Bank would wish to demand five-year blue-prints. Had it done so, it would never yet have advanced any money. But it must have a reasonably specific idea of what it was financing and how that fitted into the country's general development programme.

26. Another of the Bank's difficulties was to obtain an adequate supply of soft currencies for lending purposes. The ever-increasing supply of goods in Western Europe and the competition of those goods in world markets since devaluation meant that the under-developed countries could absorb an increasing flow of them. Part of it could be financed in terms of dollars, thus enabling Western suppliers to find additional dollar-earning sources. The disadvantage of that procedure, however, was that it imposed a dollar obligation on the borrowing country to finance procurement in soft-currency areas. Consequently, borrowers tended to seek soft-currency financing for such procurement, reserving borrowing capacity in dollars for purchases in the United States. As long as currencies remained inconvertible, countries which had exhausted their credit in dollars might have soft-currency earnings which would justify an application for loans in that kind of currency.

27. He must emphasize that that situation was due to the attitude of the borrowers and not of the Bank, which, in accordance with the terms of its Articles of Agreement, was not allowed to tie loans to specific currencies. The Bank depended for its supply of lendable soft currencies on capital subscriptions or funds borrowed in financial markets. Either operation required the consent of the country concerned, but consent had been given reluctantly because countries were apprehensive about their balance-of-payments position. Some progress had, however, been made recently, and the Bank hoped

to extend progressively the international character of its obligations.

28. The Bank had to take a risk in promoting the general international flow of capital. In view of existing circumstances, improved access to soft currencies might prove to be an important factor in extending the scale of the Bank's activities.

29. Both on the basis of its Articles of Agreement and on its experience, the Bank believed in the importance of ensuring continuity in international investment and wholly agreed with the group of experts that serious fluctuations in investment were not desirable. The loans granted so far were only a first step in the Bank's relations with its members, and it was to be hoped that those relations would develop as economic development and internal productivity, the capacity to absorb foreign assistance, and the prospects of achieving a better international equilibrium improved.

30. Continuity, however, should not be interpreted as being synonymous with stability or rigidity. Foreign needs varied in the capital-importing countries in accordance with their development trends, variation in the prices of their main export products, adaptation to market conditions and changes in over-all resources. It would scarcely be feasible to conduct foreign lending according to rigid pre-determined quotas and yet maintain sound lending standards. It was implied in the group of experts' report that repayment capacity would increase proportionately to investment, but that would not necessarily be so if investment were based on the existing international disequilibrium. To be useful, investment must be so directed as to bring about structural changes in production so that both internal productivity and the external balance of countries might be improved. Nor could the Bank agree with the suggestion that its resources were inadequate. Its recent borrowing operations had encouraged it to believe that it could mobilize such funds as were needed.

31. Finally, on behalf of the Bank, he had to express a certain reluctance to discuss the proposals made by the group of experts with regard to the organization of its work. Such proposals would have to be discussed by the Bank's member governments. In principle, neither the Bank's organization nor its activities were unduly limited in scope, and he had indicated earlier the concrete obstacles which the Bank had met in performing the tasks allotted to it. It was to be hoped that the technical assistance programme would help to remove those obstacles. The fundamental aim of the Bank was to lend money for such projects as would make the most effective contribution to economic development.

32. Mr. SCHNAKE VERGARA (Chile) considered that the statements by the representatives of FAO and the Bank gave grounds for hope that an agreement might be reached.

33. The latter's statement, in his view, covered every aspect of the problem under discussion and showed that the Bank had not disregarded any of them. When he had spoken at the 383rd meeting, what he had had in mind was not the indefinite types of programme or the basic development programmes relating to, say, education or public health, but what the representative of the Bank had very correctly described as " integrated programmes ".

34. The Chilean delegation, in referring to such programmes, had noted the appearance of inflationary tendencies in most of the countries where development programmes were being carried out. It would be wise, in his opinion, to take account of that phenomenon in order to prevent its recurrence. He agreed with the representative of the Bank that the shortcomings which were evident when the economic development plans were being implemented in individual countries could not be ascribed solely to the international credit institutions, but were due also, on occasion, to the lack of initiative shown by the countries themselves.

35. The representative of the Bank had clearly specified the type of loan which should be recommended to governments and to banking establishments operating in the field of economic development. It was also obvious that there could be no study of a project in isolation, with no account taken of the general requirements of parallel or auxiliary industries.

36. The essence of the problem involved in meeting the inflationary tendency appearing in the underdeveloped countries at the first stage of implementation of a development programme was how to provide the government of that country with the new resources needed by it to develop its domestic production and obtain from outside sources the necessary material to enable it to meet its increased domestic consumption demands. That problem could be solved by apprising governments of the methods to be adopted for tapping national monetary resources—namely, increased taxation or the issue of bonds for executing the development programme. A point that should not be forgotten, however, was that new countries often experienced difficulty in increasing taxation to any marked degree and in tightening up their fiscal policy. Those countries might also have no experience in issuing bonds.

37. The representative of the Bank had stated that it would be able to assist newly developed countries in implementing all the projects coming under the category of " integrated programmes ". Accordingly, the Council should recommend the governments of the borrower countries to attach greater importance to the question of " integrated programmes " rather than to favour the implementation of particular projects relating to a specific economic sector.

38. He added that, while he understood the Bank's caution, he hoped it would act with greater rapidity.

39. To sum up, he trusted that the discussion in the Council would bring out the reasons why the underdeveloped countries had not yet derived all the help they had expected from technical assistance, and would emphasize the need for expediting the rate of economic development.

40. The PRESIDENT, having ascertained that no representative wished, at that stage of the discussion, to put any questions to Mr. Kaldor, a member of the group of experts which produced the report *National and*

International Measures for Full Employment (E/1584), invited him to make a statement.

41. Mr. KALDOR said that he greatly welcomed the opportunity to comment on the report of the Sub-Commission on Economic Development (E/CN.1/80), on the recommendations made in the report (E/1584) of the group of experts of which he had been a member, and on the constructive statement just made by the representative of the International Bank for Reconstruction and Development. He would speak as an individual and not on behalf of the group of experts, which had been an *ad hoc* body for the preparation of a particular report and had no longer any corporate existence, and the other members of which he had not been able to consult on what he was about to say.

42. The governing consideration of the group of experts in regard to the problem under discussion had been to put forward proposals capable of securing a satisfactory volume of international lending and at the same time ensuring the stability of lending. When discussing the question of what constituted a satisfactory volume of lending, the group had had in mind both the need to accelerate the process of development in under-developed areas of the world and the parallel need to create a flow of international capital which would ease the international balance-of-payments problem sufficiently to promote the restoration of free and non-discriminatory trading conditions and the general convertibility of currencies. As a secondary principle it had considered that as far as possible the problem should be solved within the framework of existing institutions.

43. Although the group of experts had not been asked to estimate the amount of lending that would be necessary to satisfy either or both of the needs he had mentioned, he believed that none of its members or any other experts would take violent exception if he suggested that a satisfactory volume of international investment, under existing conditions, could not be estimated at less than 2,000 million dollars a year.

44. Whether the problem was considered from the point of view of the probable surplus in the balance of payments of the United States of America, the main creditor nation, and of the need to finance that balance in order to avoid restrictions and discrimination in international trade, or whether it was considered from the viewpoint of the needs of the under-developed areas, that amount of lending was certainly required to make a satisfactory contribution towards an expanding world economy and balanced economic progress. Even on the assumption that international finance would make possible domestically financed investments of twice that amount, thereby bringing the figure of total investment in economic development to 6,000 million dollars a year, international investment of 2,000 million dollars a year would still only provide for the investment of 6 dollars per head in the areas requiring economic development. That figure should be contrasted with the annual investment of approximately 200 dollars per head in the most highly developed areas of the world.

45. The International Bank for Reconstruction and Development was lending between 100 and 150 million dollars a year; if it lent at the rate required for economic development, its current resources would be exhausted in little more than a year. The difference between the sum of 150 million dollars and the minimum of 2,000 million dollars which was necessary each year for a satisfactory solution of the problem before the Council indicated the size of that problem.

46. The group of experts had recommended, in essence, that the Bank should be re-formed in such a way as to convert it from an international public institution relying mainly on private lending into an international public institution relying on public lending; from an institution which, in the view of the Sub-Commission on Economic Development, should follow sound banking principles as its main consideration, into one that could take a broader view of the needs both of the under-developed nations and of the world as a whole than it was able to take as it was then constituted.

47. The group of experts had suggested that governments should place funds directly at the disposal of the Bank at a specific annual rate and that the Bank should lend directly to governments on a general basis, to finance that proportion of the costs of general development programmes which represented the excess of the borrowing country's requirements over its existing and potential savings. It had suggested that the Bank should rely, for the repayment of its loans, on a general increase in the taxable capacity of the borrowing country and on an improvement in its general balance-of-payments position rather than on the profits to be made on the projects financed; and it had recommended that the size of the Bank's contribution should be governed by the balance-of-payments requirements of the general development planned, rather than by the cost of imports of capital goods financed by foreign investment.

48. The representative of the Bank had rightly said that he could not comment on those of the group of experts' recommendations which required major policy decisions by the member governments. However, Mr. Kaldor had noted with pleasure that the representative of the Bank had agreed that it should lend sums for carrying out integrated programmes for development over periods of years, and had indicated that the Bank was also in favour of extending its activities beyond the narrow limitations of the provision in the Articles of Agreement that it should not grant loans exceeding the value of certain imported capital goods required for a development project.

49. There was no provision in the Articles of Agreement more open to criticism than that one, since it made it impossible under existing conditions for under-developed countries to obtain help from the Bank on a sufficiently large scale. The principle of that provision had never been followed in the nineteenth century by private investors in foreign countries. If British investors had limited their investments in Argentine or British Dominions' railway projects to the value of the equipment required for building the railways, the projects would have remained dead letters. That provision played havoc with the Bank's activities. The really sound banking principle was to cover as much expenditure as

required. The borrowing country must be prepared to make sacrifices, but not so great as would defeat its aim.

50. He fully approved the correct provision in the Articles of Agreement that foreign and domestic finance should be combined and that private and public investments should be co-ordinated. In his view the only correct rule which should replace the provision to which he objected was that the proportion of international investment to domestic investment should depend on the domestic saving capacity of the borrowing country, and the borrowing country should finance the plans for its economic development to the extent that they could be financed by its existing savings and by its potential savings resulting from investment in the plans; the remaining finance required for carrying out acceptable plans should be provided from abroad. Since under-developed countries obviously could not finance their economic development beyond their capacity, the provision to which he had objected limited the Bank's activities to small projects.

51. The two main themes—which, in his opinion, contradicted each other—in the comments of the Sub-Commission on Economic Development (E/CN.1/80) on the group of experts' recommendations were, first, that the experts' recommendations did not imply any departure from the lending practices of the Bank, since the Bank's statutes and practices already provided for loans and conditions for granting loans which were not less liberal than those recommended by the group of experts; and, secondly, that the new activities proposed for the Bank by the group of experts would create a kind of " bargain basement " where loans could be obtained on easier terms than those usually laid down by the Bank and that consequently the normal lending activities of the Bank would suffer.

52. The representative of the Bank had appeared to support the first theme, since he had argued that there was a difference only in degree between the activities recommended for the Bank by the group of experts and its current activities. The group of experts thought that the difference was so great in degree that it became a difference in kind, and that the activities recommended could therefore be called new activities. However, in substance, the views of the Sub-Commission were closer to those of the group of experts than might appear from a cursory examination of the Sub-Commission's report, since the two bodies agreed on the main issue—namely, that the Bank should greatly increase its lending operations and that it should extend them to the integrated programmes of development recommended by the representative of the Bank, as opposed to small-scale development projects. The views of the representative of the Bank appeared to be even closer to those of the group of experts than were the views of the Sub-Commission.

53. The Sub-Commission had suggested that there were two kinds of international investment—first, the kind which consisted of investments following sound banking practices and which, in the Sub-Commission's view, was adequately taken care of by the current practices of the Bank; and, secondly, investment in " social and economic overheads " which required the creation of a new international financial institution. That rigid separation of sound banking projects and social overheads was, in his personal opinion, economically unsound, and it was not likely to lead to a technically satisfactory solution of the problem of economic development.

54. A general development plan, to be effective, required that the problem of capital investment, whether by governments or by private enterprise, should be considered as a whole and that its effects on productivity, on taxable capacity and on the balance of payments of the country concerned should also be considered as a whole. There were innumerable projects in the industrial, agricultural and other fields which were not " sound " as banking propositions when considered separately, but which were sound, however, when considered as part of an integrated programme.

55. He did not agree with the Sub-Commission that there was necessarily an element of a grant in loans which were not on sound commercial principles; the Sub-Commission's statement that investments in social and economic overheads must be subsidized was likely to confuse the issue. He had noted with pleasure that the representative of the Bank apparently agreed with him on that point. The distinction which should be drawn was not between social overheads and sound commercial projects, but between integrated development programmes and the individual projects which might together make up such a programme. An integrated development programme could not be carried out successfully unless it provided that the annual income and taxable capacity of the country concerned would rise sufficiently to give enough security for the programme as a whole, even though the individual projects which went to make it up did not pass the tests of sound commercial banking principles when considered separately. It was with those considerations in view that the group of experts had recommended that the Bank, which was the main institution created for the purpose of international investment, should be given greater responsibility rather than that responsibility for international finance should be divided between the Bank and some newly created agency, as the Sub-Commission had suggested.

56. The Sub-Commission had observed that " as long as the Bank relies in the main on private investors and has to operate on banking standards, there can be no question of its having a bargain basement ". The group of experts had been aware that the Bank could not fulfil the function which the group and also the founders of the Bank believed it should perform, so long as it had to rely for finance mainly on private investors. The group of experts had recommended a fundamental change in the manner in which the Bank obtained its resources. He himself did not share the Sub-Commission's view that such a change would harm that part of the Bank's operations which, whether the group of experts' recommendations were adopted or not, would continue to depend on private investors. But, even if the Sub-Commission were right, those operations did not deserve undue consideration; they appeared very

modest when compared with the problem of economic development, or with the activities recommended for the Bank by the group of experts. The extension of the Bank's activities proposed by the group of experts was no more capable of harming those operations than was the establishment of the new international agency suggested by the Sub-Commission.

57. All the comments that he had so far made on the Sub-Commission's report related to technical matters. He wished to make it clear that there was a very large measure of agreement amongst the experts who were members of the group and the experts who had served on the Sub-Commission; and, for that matter, practically all experts on the problem before the Council, on the fundamental principle—namely, the need for greatly expanding the flow of capital to under-developed areas. Once that principle had been accepted, he did not doubt that a qualified committee would be able to work out the best technical method of applying it. In fact, the question confronting the Council was not so much one of principle as one of organization and of creating the machinery and the appropriate technical conditions for an adequate flow of capital to under-developed countries. The volume of unexploited investment possibilities was practically unlimited.

58. The Council's general discussion of the problem of financing economic development had made him more hopeful that a satisfactory solution of it would he found than he had been at any time since the group of experts had adopted its report. He had noted with pleasure that the representative of the Bank believed that its activities would and should be extended gradually. He had also noted with pleasure the statement made by the representative of the United States of America at the preceding meeting that the United States Government would consider enlarging the Bank's resources when its existing resources had been exhausted. If governments followed the group of experts' recommendations, and in particular its key recommendation that the Bank should be permitted to arrange that part of the financing of sound economic development projects which could not be borne by the existing or potential savings of the country concerned, it would not be long before the existing resources of the Bank were exhausted; and then it would need a steady supply of resources to carry out the group of experts' recommendations.

59. The work of financing economic development needed more drive. If the Bank or some other body could set a target, by indicating the amonnt which it wanted to be invested in economic development, that target would doubtless provide an incentive to economic development of under-developed areas of the world.

60. Mr. MENDES VIANA (Brazil) said he would be glad if the representative of the Bank could give some explanations regarding the financing of immigration.

61. Mr. KNAPP (International Bank for Reconstruction and Development) said that he would willingly discuss the subject mentioned by the representative of Brazil either at a plenary meeting or in committee as the Council might see fit. A representative of the Bank had made a statement on the subject at the International Labour Organisation's Preliminary Conference on Migration, and he could make written copies of that statement available if desired.

62. The PRESIDENT pointed out that the subject might be discussed by the Council when it took up item 18: " Report of the Population Commission " (fifth session), or item 14: " Annual report of the Economic Commission for Latin America ", since it was mentioned in both those reports.

63. Mr. LUBIN (United States of America) inquired whether Mr. Kaldor had suggested the sum of 2,000 million dollars as the gross sum required for international investment in economic development each year, or as the net sum after subtraction of the amount which was being made available by governments or private enterprises for economic development.

64. Mr. KALDOR said that he had put forward the sum as his estimate of the required net volume of international lending in excess of the current flow of repayment and amortization of current loans, but not in excess of current lending, except for unilateral lending. He had not suggested the figure as the amount of net United States lending, although United States net lending did happen to amount to approximately that figure.

65. The PRESIDENT, declaring the preliminary general discussion on item 6 of the agenda closed, suggested that, in accordance with the general agreement reached earlier, the Council should refer the item to the Economic Committee, with the request that the Committee should submit a report on the item after it had discussed item 3 of the agenda: " Full employment ".

It was so agreed.

The meeting rose at 1 p.m.