



# STATEMENTS AND SPEECHES

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METHODS OF FINANCING THE ECONOMIC DEVELOPMENT  
OF UNDER-DEVELOPED COUNTRIES

Statement made by Mr. Alphonse Fournier, Minister of Public Works, Canadian Representative to the Eleventh Session of the Economic and Social Council, in Geneva, on July 11, 1950.

I must begin, like other Delegates, by offering my compliments and congratulations to the members of the Sub-Commission on Economic Development. It was their task to review the obstacles which prevent increased investment in under-developed countries. Their work was indeed complex; many factors had to be considered. Some of the obstacles exist in the under-developed countries themselves; others in the capital exporting countries; and still others in the relations between the two. Not only was the task complex - it was also delicate. Their report is at once realistic and at the same time clear and tactful.

The Canadian Delegation can in general accept the recommendations of the Sub-Commission, with the possible exception of Recommendation No. 7 in regard to which the Sub-Commission itself was divided. When their report is referred to the Economic Committee of this Council, we shall have a number of detailed comments and criticisms to put forward. At present, however, when we are considering the report broadly, we have no objection to raise.

The first group of recommendations relate to the money that under-developed countries can raise internally from their own resources to finance their own development. I am glad to see that the members of the Sub-Commission emphasize the diversity of the problem; some things must be done by governments, some must be left to private initiative.

In this field we in Canada have had a good deal of experience. Not so very long ago, in the early years of this century, our own country would have been classed as under-developed; indeed there are large parts of it that should still be described in this way. In our country, which has come so far in the past fifty years, we have all sorts of financial institutions. Some of them are local - close to the soil and close to the people. I have in mind the Caisses Populaires in my own Province of Quebec. These are co-operative organizations. They gather the savings of thrifty farmers and townfolk and make them available to local commerce and agriculture. The people in charge know local conditions; they also know local people. At the other extreme we have our great commercial banks with a system of branches extending in many cases all across the 3,000 miles of our country from sea to sea. These banks gather savings from millions of depositors. They move money from one section to another, thereby helping to develop under-developed areas. In addition, we have our stock markets and bond markets and life insurance companies, providing outlets for savings, and indeed encouraging savings. These also provide sources of capital for industry, commerce and agriculture, for urban development and for other governmental needs. All of these institutions that I have mentioned are privately owned and operated, although they work under government legislation and general supervision for the protection of the public.

In addition, the Canadian Government has taken positive steps, where necessary, to create central machinery. A central bank, the Bank of Canada, has been set up to give general guidance and leadership in financial matters.

Even more recently an Industrial Development Bank has been set up to fill a gap in the private lending system - i.e. the provision of medium-term capital for firms that are not yet strong enough to be able to satisfy their needs from other sources.

I mention these things to emphasize two fundamental points that emerge from the recommendations of the Sub-Commission in regard to domestic financing. First, domestic financing in a rapidly developing country must take many different forms in order to meet many different needs; second, both governments and private enterprise have to work together towards the same goal.

The rest of the recommendations of the Sub-Commission relate in one way or another to the difficulties experienced by under-developed countries in getting capital from abroad. In this regard I wish to express particular thanks to the members of the Sub-Commission. They have faced the difficulties squarely. They have not pretended that there were easy ways out; they have not put forward simple panaceas; they have not been afraid to state truths which to some, at any rate, must seem disappointing.

We, in Canada, have depended very heavily throughout our history on capital from abroad to finance our development. This is still going on. Indeed we have probably never gone through an era of more rapid expansion and development than the present. Our towns and cities are growing, agriculture is improving its equipment, industry is expanding, and our natural resources are being opened up at an unparalleled rate. Great new oil fields are being tapped; new railways and port facilities are being pushed forward to exploit a vast deposit of iron ore; a mountain of titanium ore has recently been discovered close to the St. Lawrence River; and so forth. Capital from abroad is sharing with Canadian capital in developing these resources. I know that there are many special difficulties nowadays in the way of private international investment. Some of these have been referred to by other speakers. But our experience shows, I think, that private capital is, indeed, available from abroad to finance development if the conditions are right.

In this connection, I would emphasize, above all, the importance of what the Sub-Commission calls the "climate for investment" in an under-developed country. Investment that has come into Canada from abroad has never been based on any sort of treaty or declaration or inter-governmental arrangement. It has flowed in because investors abroad have been confident that there would neither be undue interference in their affairs nor any special discrimination against them.

With these things in mind, I want to say a word about the Sub-Commission's last recommendation - Recommendation No. 7. This relates to stimulating private foreign investment. The Canadian Delegation, from Canadian experience, leans toward the view of the minority of the Sub-Commission expressed in a footnote to that Recommendation. The minority emphasizes the matter of climate. The majority, on the other hand, is perhaps too much concerned with treaties, declarations and international agreements. These are not likely to do any harm, although, as the Delegate from Mexico has pointed out, they may encounter special difficulties in some countries; on the other hand, we question whether they will do much good. In any case, we must be careful not to think that the climate is fair merely because a particular government, seeking funds from abroad, promises fine weather. The weather depends on more than promises.

The Canadian Delegation is glad to note those parts of the report referring to the International Bank for Reconstruction and Development. No institution is perfect, but some of the critics of the Bank in the past seem to have misunderstood its purposes and the nature of its operations. These necessarily limit the amount and types of its loans. An institution such as the Bank is properly cautious in its early years. Apparently it is now feeling its way along lines which the Sub-Commission supports and which the Canadian Government supports also. We would, in particular, agree with the Delegate of the United Kingdom that it would be a great mistake to try to set up what

the Sub-Commission calls a "bargain basement" in the Bank. In other words we would not want to add to the Bank a new department which would receive money on terms quite different from those applying to all the rest of the money available to it and which would lend that money out on different terms from the rest, and for different purposes.

I am sure we all feel grateful to the Delegate from Australia who set forth so clearly and so helpfully the points at which the report of the Sub-Commission agrees with the Experts' Report on Full Employment and the points at which they disagree. They are agreed, apparently, that private lending is not going to fill all the needs, particularly the need for financing the "social overhead" of under-developed countries; but the experts differ as to how these needs might best be filled. The Australian Delegate called our attention to three possibilities. First, as the Full Employment Report suggests, a new department might be added to the International Bank; as I have said already, the Canadian delegation could not support such a proposal. Second, the Sub-Commission's report revives the idea of a new and separate international institution; on this point I would agree with the feeling expressed by the Australian Delegate that there are, perhaps, enough international institutions already. Third, he suggested action by individual governments. He did not comment on this proposal but it seems to me that if we are not going to accept either of his first two proposals we may be led to accept the last.

What, then, is the problem that may confront individual governments? Private investment, together with the International Bank, should be able to meet those requirements for capital that show some reasonable prospect of return on a commercial basis; but we are left with loans to under-developed countries involving, in the words of the Sub-Commission, "an element of grant". This is where we run into difficulties. And the difficulties are quite natural, especially in democratic countries. I have already spoken about the economic development that is taking place in my country. This development is going ahead "on its own steam"; the Canadian Government is not subsidizing it; there is no "element of grant" involved. People in my country will naturally ask why, if their own development is not subsidized, they should be asked to subsidize development in countries where, perhaps, the "climate for investment" has not been so favourable. Now I would not say that it is impossible, for my country or any other, to make international grants through an international agency in some great emergency; we, like others around this table, gladly contributed our share to the UNRRA. But I think, in retrospect, we will agree that this was an unusual sort of operation and an unusual sort of international organization. I think it is true to say that, in the past, when democratic countries have from time to time been willing to make loans involving an element of grant, they have preferred to do so directly. Loans involving grants have been made from the individual countries supplying the funds to the individual countries, or groups of countries, receiving them on terms mutually acceptable to givers and receivers. I believe that, if we cast our minds back over financial events since the war, and perhaps over earlier periods as well, we shall agree that this has been the general pattern of international finance in the past and that it is likely to continue in the future.

I have said enough, Mr. President, to indicate the general approval which the Canadian Delegation gives to the report of the Sub-Commission. There is much more work to be done in exploring the problems of investment in under-developed countries. We shall have to decide at a later point in our agenda how this work should be carried on; whether by the Sub-Commission or by other bodies. Our Delegation leans towards special studies by specialized groups, and we feel strongly that there are limits to the usefulness of broad generalized studies purporting to cover all types of conditions in all under-developed countries. Each under-developed country differs from every other under-developed country that needs capital from abroad. Thus our Delegation welcomes intensive studies of the

conditions and needs of individual countries. Some studies of this sort are being carried on under the Technical Assistance Programme; many more will be carried on under the expanded programme. This is a really useful way to lay a sound foundation for international investment. But whatever is done and however the work is carried forward, I would like to close as I began, with words of warm praise and sincere thanks to all members of the Sub-Commission and to their many assistants for their most useful report.

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