

# REPORTS AND ENQUIRIES

## National and International Measures for Full Employment

*On 11 August 1949 the Economic and Social Council passed a resolution (No. 221 (IX) E), inviting the Secretary-General of the United Nations to appoint a small group of experts "to prepare, in the light of the current world economic situation, a report on national and international measures required to achieve full employment, to be issued on the responsibility of the expert group".<sup>1</sup> The Committee of Experts, composed of Professor John M. Clark, Mr. Nicholas Kaldor, Professor Arthur Smithies, Mr. Pierre Uri and Mr. E. Ronald Walker, submitted its report in January 1950.<sup>2</sup> The Report was debated at length in the Economic and Employment Commission in January 1950 and was discussed briefly by the Economic and Social Council at its Tenth Session in February 1950.<sup>3</sup> It was then referred to Member Governments for further consideration, with a request that they be prepared to present their full views and make appropriate recommendations on the subject at the Eleventh Session of the Council.*

*As a contribution to the discussion of the problem, the Review presents here a summary of the Report and of the debates in the Commission and the Council.<sup>4</sup>*

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<sup>1</sup> Cf. UNITED NATIONS DEPARTMENT OF ECONOMIC AFFAIRS, Document E/1545 (Lake Success, N.Y., 17 August 1949), p. 3.

<sup>2</sup> *Idem*, Document E/1584: *National and International Measures for Full Employment*. Report by a Group of Experts appointed by the Secretary-General (Lake Success, N.Y., December 1949; Sales No. 1949.II.A.3). A separate concurring statement by Professor Clark is appended to the Report.

<sup>3</sup> Cf. UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL, Documents E/CN.1/SR.93-105 for the record of the debate in the Economic and Employment Commission, and E/SR.356-358 for that in the Council.

<sup>4</sup> The object of this summary is not to present a complete digest of the Report and the debates; rather, it is to focus attention on the clash of ideas as a stimulus to further thinking and discussion. Since the Report itself has already been widely quoted and discussed, only the briefest outline of its main ideas and proposals is given. Moreover, in summarising the debates, as a general principle only the most careful statements on each particular point are presented, and no attempt is made to cite every statement on every issue.

## THE NATURE OF THE PROBLEM

The Report distinguishes three main types of unemployment. The first results from a lack of capital equipment or other complementary resources necessary to keep wage earners at work. The second arises from certain structural factors in the economy, such as seasonal fluctuations, declines in particular industries and irregularities in certain types of occupation. The third is caused by an inadequate and unstable level of effective demand. Confining its analysis and recommendations to the third type of unemployment, the Report defines full employment "as a situation in which unemployment does not exceed the minimum allowances that must be made for the effects of frictional and seasonal factors".

The key to an understanding of the problem of insufficient effective demand, "lies in the recognition of the fact that in a private enterprise economy, the decisions to save and the decisions to invest are to a considerable extent independent of each other". The rate of investment depends heavily on the extent to which existing capital equipment is utilised and on the expectations of the rate of profit that can be earned in the future with the aid of new equipment. Decisions to save, on the other hand, maintain a fairly stable relation to current income, and this relation depends on the habits of individuals and on the share of business profits ploughed back into industry. Further, while tax revenues and the level of imports vary with income, Government expenditures and the level of exports do not necessarily do so. These factors and their interactions explain why at times the community is unable to obtain full utilisation of its resources.

The Report received uniform commendation for its outstanding and original quality. A typical comment described it as one of the best working papers submitted to the Economic and Employment Commission during the past three years.

Two major criticisms of a general character were made in the discussions. First, it was suggested that the experts had concentrated unduly on the objective of full employment and had overlooked other important objectives. Before the war, employment conditions were so bad that full employment was rightly regarded as an end in itself, but the present trend, it was claimed, was to regard full employment "as a means rather than an end in itself". The Danish representative on the Economic and Social Council pointed out, on the other hand, that from a sociological point of view full employment was a goal in itself, namely, "to avoid both the human sufferings which unemployment inflicted upon workers and the political and social unrest to which it might give rise". Further queries by the Belgian and French representatives on the Commission concerning the notion of full employment caused the Chairman (the representative of Australia) to recall the full

employment pledge embodied in the United Nations Charter and to express "surprise at the traces of backsliding becoming apparent with regard to that principle".

Secondly, some members took issue with the manner in which the experts had dealt with their assignment. The French representative on the Commission believed the Report reflected "too universalist a conception of political economy, whereas the time for, and the nature of, the remedies to be applied might vary considerably from one country to another"<sup>1</sup>; the Chinese representative pointed out that the domestic measures advocated could not be applied uniformly in all countries. In a similar vein the Canadian representative maintained that the experts greatly oversimplified the problem when applied to specific countries like Canada, "where foreign trade and the rapid development of its natural resources were the dominant economic problems"; and the Indian representative contended that the experts' proposals were inapplicable in his country's economy, which was suffering from simultaneous inflation in the agricultural sector and deflation in the industrial sector.

In the opinion of some members, the experts had also unduly restricted the scope of their analysis by confining their attention to unemployment caused by an inadequate aggregate demand; they had omitted analysis of the problems of and remedies for structural unemployment and unemployment arising from a lack of capital or other complementary resources.<sup>2</sup> In the judgment of the French and Indian representatives on the Council, however, it was unfair to condemn the manner in which the experts had approached their assignment. The French representative noted further that—

According to some economists there was yet a fourth category of unemployment, sometimes called institutional unemployment, which was due to the rigidity of wages. That was a particularly difficult question to analyse and appeared to have arisen from the very interesting comments Professor J. M. Clark had submitted as his personal view of the effect of the wage-price structure on employment. Mr. Boris [the French representative] therefore mentioned that, only as a reminder and to suggest that a group of experts might some day be asked to study that very important subject.

Although general agreement was expressed with the analysis of the causes of unemployment presented by the experts, some delegates considered there were deficiencies in this respect. The most extended criticism was offered by the Danish representative on the Council, who maintained that the Keynesian analysis presented by the experts greatly oversimplified reality, and led them

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<sup>1</sup> Similar views were expressed by representatives of Australia and the United Kingdom.

<sup>2</sup> This view was expressed by representatives of Belgium, Cuba, France, India, the United Kingdom and the International Labour Office.

"to overemphasise the need for expansive measures". In particular, he questioned whether fluctuations in investment represented the major primary cause of economic instability. "Decisions on investment depended on profit expectations, which in turn depended on the expected relationship between costs and prices." In his view, the absence of a thorough discussion of the wage-price relationship and its role in maintaining full employment was, as suggested in the concurring statement of Professor Clark, a serious omission. This was not only true in the domestic sphere, but the relationship between the prices of raw materials and of manufactured articles was also affected by international trade, particularly in a small country like Denmark. He had—

. . . the impression . . . that the experts had sometimes been less concerned with the correction of [economic] disequilibrium, of which unemployment was a symptom, than with the suppression of that symptom alone, and indeed in such a manner that a real adjustment of the underlying factors or of the structure of production was unlikely to take place.

The United States representative on the Commission also believed that the Report was based on "an oversimplification of the Keynesian theory of the investment-savings relationship and overlooked a number of factors, such as, for example, price relationships, wage-price relations, distribution of income, the existence of monopolies, etc.". In addition, he felt that the Report should have given more weight to the fact that "consumers' purchasing power had not always grown sufficiently to absorb the increased production of new plants and factories". A similar point was made by the representative of the American Federation of Labor, who emphasised that it was "essential to recognise that with constant technical progress, a steady increase of the real income of the majority of consumers must be ensured".

Furthermore, the I.L.O. representative drew attention to the importance of the inventory component of investment in the analysis of the problem, pointing out that the recent recessions in Italy, Germany and the United States had been caused to a large extent by rapid liquidation of inventories. Finally, in the discussion in the Council the representative of the World Federation of Trade Unions criticised the Keynesian theory followed by the experts, on the ground that it considered the symptoms rather than the fundamental cause of unemployment, "that is, the fundamental contradiction between the social character of production and the private nature of ownership".

With regard to the problems of theoretical analysis raised in the Report, the French representative on the Council concluded that—

. . . the impression remained that in a number of instances disagreement between the group of experts and the Commission was due to conflicting economic doctrines: the experts belonged to the Keynesian school of thought, while many members of the Commission doubtless professed

other theories. As a result, the Council, which at that stage played the part of a court of appeal before Governments themselves were individually approached, would be greatly embarrassed if it were forced to decide between the divergent theoretical arguments advanced by economists of indisputable competence. He feared that the Council might yield to the temptation to act as arbitrator in an academic quarrel.

### RECOMMENDATIONS ON DOMESTIC POLICY

The domestic measures proposed in the Report relate to the fixing of an employment target, economic stabilisation, compensatory action and the prevention of inflation.

#### *The Employment Target*

The Report recommends that each Government—

. . . should adopt and announce a full employment target which will define the meaning of full employment in the country concerned in operational terms, and constitute the standard to the attainment of which the national employment stabilisation measures will be directed.

It maintains that the fixing of a full employment target is not only essential for operational purposes but would offer evidence of each Government's intention to fulfil its full employment pledge. In industrial countries, this target may be defined, according to the circumstances of each country, as a range, *e.g.*, unemployment of 2-4 per cent. or of 3-5 per cent. of wage earners. The chief point is that the target should be expressed in terms of the smallest percentage of unemployment which the country in question can hope to maintain in the light of seasonal movements and of structural changes in the economy. The definition of unemployment should include an allowance for the full-time equivalent of time lost by workers on short time. In the industrially less developed countries, it may be desirable to define the target in terms of the volume of industrial employment rather than in terms of a percentage of unemployment.

The Australian, French, Norwegian and United Kingdom representatives on the Commission were strongly in favour of the proposal that all Governments should adopt and announce a target expressed in terms of the percentage of unemployed as the basis of full employment policy. The United Kingdom representative emphasised that such a target would have the advantage of indicating that unemployment *per se* was a social evil, and of enabling action to be taken more quickly. The Food and Agriculture Organisation (F.A.O.) representative pointed out, further, that the amount of unemployment considered by the press and Governments as bearable seemed to expand in proportion to the increase in unemployment; hence the importance of publicly stating a target in advance, to ensure the taking of essential measures. The Brazilian represen-

tative expressed agreement with the experts' proposal that the less developed countries should endeavour to define the target in terms of the volume of industrial employment rather than of a percentage of unemployment, and that the target figure should be raised year by year in accordance with the growth of industrial capacity. The Chinese representative, however, disagreed on the applicability of such a procedure in the less developed countries. The proposal that the target should be a range rather than a single figure received particular commendation.

Certain members, however, found that a full employment target expressed solely in terms of unemployment would be inadequate on technical and political grounds. Thus the Belgian representative on the Council felt that—

A distinction must be made between technical full employment and economic full employment. Technical full employment would mean the indiscriminate use of all the resources of the economy, human and material. In a dynamic economy, that would not be rational. Economic full employment meant the use of all resources the direct or indirect productivity of which warranted the capital spent.<sup>1</sup>

A reply to this concept of full employment was given by the French representative :

Whether from a political, social or economic point of view it was impossible to accept the philosophy which admitted that so-called less productive elements—that term did not apply to sick, disabled and old persons, who were non-productive—should be condemned to an indefinite period of unemployment. It was sufficient to point out that the contribution of less productive elements, from the moment they began to work—assuming, of course, that they did not take the place of other producers—added to the total mass of goods placed at the disposal of the community.

The United States representative on the Commission was perturbed by other problems of definition. The number of persons unemployed at a given moment, he suggested, was in reality "a function of the culture of the country concerned". For example, the school-leaving age and the retirement age were important factors determining the size of the labour force. Depending on these variables, one country might be at a disadvantage in relation to another country because it might, as a result of its cultural habits, have to apply the target earlier than a country which would not begin to apply it until it had more unemployment than appeared on the surface. Moreover, the Report made no provision for the self-employed.<sup>2</sup>

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<sup>1</sup> The French representative on the Commission had proposed as an alternative that full employment might be defined as "the highest possible degree of employment compatible with maintaining the equilibrium between the aggregate supply and demand of consumer goods".

<sup>2</sup> The Australian representative pointed out that the problem of the self-employed could be adjusted by statistical experts. Moreover, the United States representative, in response to a question from the French representative, stated that statistics of self-employed persons were included in the United States monthly census of the labour force.

Attention was also drawn to the difficulties that would be encountered in distinguishing types of unemployment for purposes of employment policy. The Australian, Canadian, French, United Kingdom and United States representatives pointed out the difficulty of distinguishing between structural unemployment and unemployment arising from a deficiency of demand. In order to meet the difficulties in regard to structural unemployment, the United Kingdom representative proposed that Governments should be "free to include some index of the labour shortage in the target formulas they adopted. The easiest method would be to subtract unfilled vacancies from the unemployment figures and relate the target to the revised figure."

Another criticism made was that if the target were based solely on a measure of unemployment, other important economic objectives would be overlooked. The Norwegian representative maintained that some countries might prefer to define full employment "as a certain level of useful production rather than a certain level of employment". The Belgian representative believed that the element of productivity had been neglected in formulating the target.

The United States representative suggested that highly industrialised countries which receive a large part of their national income from agriculture would be justified in conceiving of targets in terms both of employment and of unemployment, since there might be an understatement of the volume of unemployment in times of depression by reason of the migration of people from the cities to the farms. From the international standpoint, the Belgian representative maintained further that unemployment statistics should not be taken as the only criterion for measuring national responsibilities; he suggested that "the conditions of its foreign trade" might be a better indication of each country's contribution to the maintenance of international equilibrium.

It was also regarded as a deficiency in the target-fixing proposed by the experts that no account was taken of the composition of the unemployed population. Unless it was known how the unemployment population was made up, an aggregate figure of such unemployment might, according to the United States representative, induce a Government to take a type of action which would not necessarily lead to a solution of the problem. Similarly, employment policy ought to take account of the duration of unemployment.

The Canadian representative stated that his Government had not defined unemployment targets quantitatively because it was "faced with special problems of seasonal unemployment and export and primary product fluctuations". If, for example, the United States took measures to maintain its effective demand, that would greatly simplify the problem of full employment in Canada.<sup>1</sup> The

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<sup>1</sup> Similar statements as to the influence of the United States were made by the Indian representative on the Commission and the Brazilian representative on the Council.

Australian representative pointed out that variability in export demand was not necessarily an argument against the appropriateness of action targets. The United Kingdom representative stated that although in the summer of 1949 exports from his country had declined by approximately 20 per cent., there had been no change in the unemployment level, since, under conditions of high internal demand, goods were diverted from the export to the home market. In the view of the Danish representative on the Council a somewhat wider range of percentages would be necessary in countries where fluctuations were largely due to external causes. It may be added that the United States representative on the Commission expressed his dislike for the use of the word "target" in connection with unemployment.

### *Economic Stabilisation*

The Report recommends that each Government—

... should announce a comprehensive programme for directing its fiscal and monetary policies, its investment and production planning, and its wage and price policies (including anti-monopoly policies) to the continuous achievement of its full-employment objective.

It emphasises that the first approach to full employment is to achieve the greatest possible degree of stabilisation in specific parts of the economy, as well as in the economic system as a whole. The greater the success of Governments in stabilising their economies on high levels of employment, the less need will there be to bring extraordinary compensatory measures (which form the subject of the third recommendation <sup>1</sup>) into actual operation. In fact, the problem of instability could be largely solved if adequate measures could be devised to stabilise the rate of investment.

Several types of action are proposed. In the first place, insufficient demand can be augmented by increased Government expenditure or reduced taxation. The policy to be selected should depend on "the social needs of the country" and "on the extent to which the ordinary expenditure programmes of the Government are capable of being accelerated or retarded, and the extent to which changes in the rates of taxation are administratively feasible". It is also desirable to incorporate into the fiscal system such features as would "automatically dampen the amplitude of economic fluctuations". Such measures as the adoption of widespread social security schemes and progressive income taxation have already tended in this direction.

Secondly, there are possibilities of stabilising private investment, for example, by bank controls through the variation of interest rates and other conditions of credit, by tax incentives such as the offering of tax concessions or subsidies to firms that are willing to

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<sup>1</sup> See below, pp. 395-396.

postpone or antedate particular investment projects, and by Government co-operation in the establishment of long-range investment programmes in such industries as the railroads and the steel industry.

Another specific area of the economy which lends itself to stabilisation policies is that of public investment. In countries where the public sector of the economy includes basic industries such as mining, steel production and public utilities, the level of investment could be substantially stabilised through a co-ordinated public investment programme. Even in countries in which ordinary public works constitute the main or only form of public investment, there are still possibilities of stabilisation, provided that the programmes at various governmental levels can be co-ordinated.

Even though stabilisation policies may achieve a high degree of success in those parts of the economy that are subject to the greatest amount of fluctuation, there is still the question of whether effective demand will be adequate to promote full employment. If investment is stabilised at its long-term trend level, which may be put somewhere between the boom level and the depression level, the total demand for goods and services generated at that level will presumably fail to ensure full employment. On the other hand, if an attempt is made to stabilise investment at levels approaching the peak periods of activity, the continued high rate of investment might lead to a growing over-capacity of plant and equipment, thus requiring more and more compensatory public investment to maintain it, which in advanced industrial countries would in turn be likely to cause an exhaustion of useful investment opportunities. In short, once the stability of investment is assured, there may be "the additional problem of adapting the structure of the economy to a higher ratio of consumption demand to investment demand which may be necessary in order to secure adequate total demand at a level of investment that is no higher than can be sustained under conditions of stability".

An expansion of consumption could be obtained by changing the incidence of taxation and lowering its level; by expanding programmes of social security and transfer payments; by raising the standards of social expenditures generally, for education, health and so on; and by means of other supports to personal consumption. Furthermore, the control of monopoly prices might serve the purpose of increasing consumer demand through the reduction of profit margins. Some countries might also wish to extend this principle further and use price control to effect a more equitable distribution of income.

A special problem of stabilisation is that of export industries, particularly in countries which are highly dependent upon foreign markets. It is suggested that when foreign demand slumps, the prices of export goods on the domestic market should be subsidised, which would have the effect of stimulating domestic demand for the products of the export industries. If such measures proved insufficient, local public works programmes might be inaugurated

to absorb the workers concerned, who would be able to return to their normal occupations when foreign demand revived.

Another important factor in full employment policy is the stabilisation of incomes of primary producers. The most suitable method of stabilising agricultural prices is through international commodity stabilisation agreements, such as the International Wheat Agreement, or through the national commodity stabilisation schemes of those countries which control a substantial part of total world trade in any particular commodity. Such measures are particularly important for underdeveloped countries in which the greater part of the population obtains its livelihood from agriculture.

In the discussion on this part of the Report there was general agreement that Governments should take such action as was possible in order to stabilise the economy at a high level of production and employment. The United Kingdom representative on the Commission, however, had little confidence in the ability of Governments to stabilise the economy at a high level of employment without undertaking basic changes in the structure of the economy. In his judgment, the more hopeful approach was—

... to "squeeze" the investment sector of the economy and expand consumption demands and exports, so that there would be a greater tendency for private investment to stabilise itself, rather than to allow private investment to fluctuate wildly. If the public investment programme was large, and consumption was also large, so that private investment was to some extent "squeezed", the tendency would be for it to become more stable.

A number of statements were made on specific measures which the experts had proposed as a means of stabilising the economy. There was general agreement on the desirability of schemes to stabilise the income of primary producers, particularly among members from the less developed countries.<sup>1</sup> The United States representative agreed that the elimination of monopolies would help to expand private investment. The Canadian representative opposed the adoption of such measures as loan guarantees to stimulate private investment, on the ground that they might introduce a disastrous rigidity into national economies. He proposed instead that favourable conditions should be created to stimulate investment. The United Kingdom representative, although expressing doubts as to the possibility of maintaining private investment at a high level by such means, nevertheless believed that the Report was "a little pessimistic on the subject of the use of the old-fashioned technique of banking credit policy and interest rates as a method of controlling private investment".

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<sup>1</sup> Reference may be made to the statements of the representatives of Brazil, Cuba and India on the Commission and of Chile and Pakistan on the Council.

*Compensatory Action*

The Report recommends that each Government—

. . . should adopt and announce an appropriate system of compensatory measures designed to expand effective demand which would be prepared in advance for automatic application in case its general programme for maintaining full employment, indicated above, fails to prevent unemployment from exceeding the limit prescribed by the full employment target by a predetermined amount for three successive months.

The reason why full employment measures should be established on an automatic basis is given in the following terms :

If the nature and timing of counter-measures is left entirely to the discretion of the executive organs of the Government, there is a serious danger that the uncertainties of the future will generally weigh the scales in favour of inaction rather than action, and the adoption of positive counter-measures will be delayed until a downward movement of production and employment is well under way.

However, executive organs should have power to waive obligations with respect to automatic compensatory measures when there is clear evidence that a rise in unemployment is due to causes other than a fall in effective demand and cannot be cured by a stimulation of effective demand.

Counter-measures should be designed so that their operation should in no case be delayed more than three months after unemployment has exceeded the target level, since this can be regarded "as unambiguous evidence that the general employment stabilisation programme is proving ineffective whether as a result of imperfections in the programme or of unforeseen developments". Automatic compensatory measures should embody the following basic features :

First, they should be capable of raising effective demand promptly and throughout the economy ; secondly, they should be of a quantitative nature so that their effect on demand and employment could be estimated with a fair degree of reliability ; thirdly, their quantitative magnitude should be sufficient to reduce the level of unemployment (taking into account both primary and secondary effects) to the mean percentage of the full employment range.

The most appropriate compensatory measure in industrially advanced countries would be to make advance legislative provision for alternative schedules for income taxes, social security contributions or sales and purchase taxes. If fluctuations in personal income taxes and social security contributions do not offer adequate scope for raising purchasing power, Governments might reverse the ordinary social security contribution and replace it by "periodic payments to both employers and employees on a predetermined basis". In some countries, compulsory war savings and compensa-

tion for war damage might also be released on a compensatory basis. Although many countries rely heavily on a counter-cyclical public works programme as a part of their anti-depression policy, and although the Report recommends that appropriate changes in public works should be a highly important part of a Government's general and continuing stabilisation programme, the opinion is expressed that "in general . . . public works cannot . . . be varied rapidly enough to fulfil the necessary criteria for such a scheme [an automatic compensatory scheme] by themselves".

Although the Commission agreed with the experts' recommendations concerning the importance of compensatory action to supplement stabilisation measures, both technical and political objections were raised to their stressing of automaticity. The Canadian and United Kingdom representatives maintained that automatic measures were unsuitable in economies that were highly dependent upon the foreign market. Similarly, the Belgian representative, pointing out that one third of his country's production was destined for export, stated that it "would obviously be impossible to find sufficient outlets on the home market to absorb any output of the Belgian iron and steel industry over and above that which could be exported". The Danish representative on the Council was also of the opinion that it was not possible to give full compensation to fluctuations in exports without detrimental effects on the initiative to work, and that only partial compensation could be achieved by the expansion of other expenditures than subventions and doles.

Another major objection to automatic action put forward was that it carried simplification too far and tended towards an over-mechanical operation of economic policies.<sup>1</sup> The United States representative maintained that "every economic crisis had its own characteristics. It was therefore impossible automatically to apply uniform compensatory measures, without taking those characteristics into account." He wondered whether "a permanent thermostat should be installed to regularise inflationary and deflationary tendencies" and suggested that it might be better to proceed "on an experimental basis". It was not known, beforehand, he said, to what extent a reduction in taxation was necessary to ward off the effects of growing unemployment, or what would be the result of such a measure on consumption, investment and unemployment; only experience could be a guide in that field. Moreover, he pointed out, an increase in purchasing power did not automatically result in an increase in consumption, since the fear of a crisis might prevent consumers from increasing their expenditure.

The United Kingdom representative maintained also that the automatic measures proposed could only reduce the difficulties, but could not solve them. Similarly, the United States representative

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<sup>1</sup> This point was made by the representatives of Belgium, Canada, India and the United States, and also by the Australian and United Kingdom representatives on the Council.

criticised the proposals as placing "too much dependence on fiscal measures, which might be insufficient in a complex economy".

The Danish representative on the Council believed that the experts had passed "somewhat lightly" over the difficulties inherent in compensatory fiscal policy. In his view fiscal policy should be confined mainly to stabilising employment, whereas the level of employment must be regulated by other means "designed to maintain such a relation between prices and costs that private business was sufficiently remunerative to absorb all who applied for work". Moreover, he thought that automatic compensatory measures should aim "only at combating secondary unemployment"<sup>1</sup>, for if they were carried too far or used indiscriminately, they might do more harm than good. The representatives of France both on the Commission and on the Council pointed out that certain Governments would meet with constitutional difficulties if they sought to introduce automatic compensatory policies.

The French representative on the Commission, referring to the emphasis which the experts had placed on the need for automatic compensatory action because of the danger that without such provision Governments might remain inactive and delay taking essential measures until it was too late, considered that this was not a good argument in favour of automaticity since unemployment prompted trade union action, which in turn induced the State to act.<sup>2</sup> On the other hand, the Danish representative on the Council, while agreeing that on the administrative level counter-measures might be taken too late if not placed on some type of automatic basis, suggested that on the political level there was more danger that action would be taken too late to curb an expansion.

Finally, several objections were raised concerning the application of the compensatory principle in the field of social security. In the first place, the I.L.O. representative pointed out that, in a contributory system, fluctuating employee contribution rates might confuse insured persons as to their role in financing the scheme and lessen the psychological and other advantages of the contributory approach. And the United Kingdom and French representatives suggested that, once the contribution rate had been lowered, a subsequent increase in the rate might encounter political resistance. Secondly, the I.L.O. representative explained, although decreased employer contributions might lessen the decline in the volume of employment by improving the operating position of marginal enterprises, it was doubtful whether a temporary reduction of employer contribution rates would exert much influence on consumer demand in the short run either through reduced prices or increased payments of dividends or wages. Variable employer contribution

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<sup>1</sup> This view had previously been expressed by the United Kingdom representative on the Commission.

<sup>2</sup> The United Kingdom representative expressed agreement with the French representative on this point.

rates might also seriously affect the cost calculations of businessmen and in particular impose difficulties on firms engaged in the export trade.

Thirdly, social security schemes were not generally concerned with general consumer subsidies spread over the whole population or even over all the workers, but provided special payments only to individuals suffering from defined risks, *e.g.*, maternity, sickness, employment injury, widowhood, loss of parent, funeral expenses, invalidity, unemployment, old age or parenthood. Hence, the experts' proposal to reverse completely the flow of employer and employee contributions, by paying back sums from the social security fund to all contributing employers and insured persons, would not seem to have any direct connection with social security principles.<sup>1</sup>

Fourthly, the French representative on the Council believed that, although his country's social security system had resulted in a redistribution of about 10 per cent. of national income, it did not, in its current stage of development and in the present political conditions in France, possess the necessary flexibility to act as an automatic stabiliser. The United Kingdom representative on the Committee also doubted whether measures capable of affecting purchasing power, such as the automatic variation of social security contributions, could be applied on a sufficient scale to offset fluctuations in demand.

Lastly, the I.L.O. representative observed that although the experts had not suggested the automatic variation of social security benefits, such a policy must be considered subject to even greater doubts. Since benefits were payable only when defined contingencies occurred, the number of recipients depended on the incidence of each particular risk and could not be arbitrarily expanded or contracted. Benefit amounts were usually carefully adjusted to individual wage loss and family responsibilities through complex formulas, and they could not be easily and quickly varied independent of these factors without serious technical and administrative difficulties. Moreover, beneficiaries would find it difficult to adjust their standard of living to their benefits if the latter were alternately raised and lowered on the basis of external factors.

### *Anti-Inflation Measures*

The Report recommends that each Government—

. . . should announce the nature of the policies which it will adopt in order to maintain the stability of the price level and to combat inflationary tendencies in a manner consistent with the maintenance of its full employment target.

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<sup>1</sup> This proposal was also queried by the Canadian and United States representatives.

The maintenance of price stability is considered important on two main grounds. First, it is generally believed that a healthy economic system is one which is free from inflationary and deflationary tendencies and as such will minimise the necessity for emergency counter-measures. Secondly, if persistent price inflations do occur, Governments may be tempted to abandon their full employment obligation.

The Report distinguishes carefully between three different types of inflation. First, inflation will arise if the stimulation of effective demand to maintain full employment is carried to excess. To cope with this problem Governments may resort to general measures to curb excessive demand.

Secondly, it is possible for sectional inflationary pressures to develop as a result of "bottlenecks" in the supply of specific commodities. Such bottlenecks are, however, likely to arise only in times of large-scale rapid changes in the structure of demand, such as occur in connection with the conversion of an economy from peace to war or from war to peace. Counteracting measures may take the form of qualitative or quantitative credit controls, direct controls over inventories and selective controls over prices.

Thirdly, an inflationary price spiral might occur if trade unions, farmers' groups, trade associations, cartels or business monopolies press for increased earnings in such a way as to produce a continuous upward pressure on prices. This is a much more difficult type of inflation to control. In the case of a general upward pressure of money wages leading to offsetting price increases, it "requires such action by the Government, jointly with organised labour and employers' associations, as would ensure that any wage increases that may be granted will not result in general price inflation".

The Report emphasises further that, in view of these differences in the types of inflation, it would not be appropriate to employ automatic compensatory measures. Governments must be free to adapt their counter-measures to the needs of each situation.

Finally, the Report recommends that each Government—

. . . should adapt its legislative procedures, its administrative organisation and its statistical services to the implementation of its full employment programme.

The recommendation concerning measures to deal with inflation encountered many objections in the Commission. The representatives of Canada, the United Kingdom and the United States considered the handling of this question the weakest part of the Report. The Australian representative also expressed disappointment with the experts' discussion of inflation, since it gave "no vital remedies or suggestions as to how the achievement of full employment was to be reconciled realistically with the absence of inflation".<sup>1</sup> The

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<sup>1</sup> Similar objections were raised by the Belgian and French representatives.

Norwegian representative suggested that the idea that excessive demand or inflationary pressure was in some sense the opposite of unemployment might lead to some misunderstanding. If the former was in itself an evil, it was of the same kind as unemployment, namely, the waste of resources. If this fact were borne in mind, the measures to control inflation might be quite different from those required to expand effective demand.

More particularly, the United States representative objected to the proposed anti-inflation measures on the ground that they were essentially restrictive controls which the people of a free country would not willingly accept in peacetime, and the United Kingdom representative criticised them as consisting of a system of subsidies which, while possibly avoiding one type of inflation, might create inflation of another type. He thought the idea that inflation "could be curbed without an increase in unemployment showed a lack of realism with regard to any economy other than a planned one". It might be "necessary continuously to maintain in some parts of the economy a state which had been referred to as one of excess demand or slight inflationary pressure", in order to ensure a continuous level of real high employment.

Finally, the American Federation of Labor representative expressed regret that the experts had considered it beyond their competence to study the problem of wage policy, since a well-conceived wage policy could help to prevent a depression.

#### RECOMMENDATIONS ON INTERNATIONAL POLICY

In the realm of international measures the Report recommends that Governments should take action along three main lines: the establishment of world trade programmes; and the stabilisation of international investment and of the flow of international trade through enlargement of the powers of the International Bank for Reconstruction and Development and of the International Monetary Fund, respectively.

##### *Establishment of World Trade Programmes*

In the first place, Governments are recommended to—

... establish a programme, through consultation among Governments under the auspices of the Economic and Social Council, to eliminate the present structural disequilibrium in world trade.

Such a programme, it is affirmed, would involve extensive consultation and exchange of information among Governments, leading to the formulation of national policies and possible international agreements. This would require as a first step that both deficit and surplus countries should set targets for the main constituent items in their balances of payments, indicating the adjustments by

means of which they hope to restore over-all financial equilibrium within the agreed period. An analysis and comparison of these targets would then reveal the nature of any inconsistencies in the policies and aspirations of the different countries and would provide a means for an adjustment of these policies through consultation and negotiation.

After the initial programme has been established, the interested Governments should continue to meet at frequent intervals in order to adjust their targets on a continuing basis in the light of the actual progress made. The main obligation of deficit countries in this connection would be to pursue policies aimed at reducing any internal inflationary pressures which may jeopardise their ability to export and increase their need to import. They should also be prepared to adjust their exchange rates where their currencies are overvalued, and to adjust their production structures in line with potential markets. The main obligation of surplus countries, on the other hand, would be to take the necessary internal measures to ensure that any decrease in their exports or rise in their imports does not involve a reduction in their internal production and income and thereby generate again export surpluses in their own balances of payments. In particular, surplus countries should refrain from giving any direct or indirect encouragement to exports through governmental policies. They should take steps to facilitate increased trade by reducing or removing restrictions on imports.

The Belgian and United Kingdom representatives on the Commission supported the idea that each country should announce its targets in the sphere of international trade, particularly in view of the great educational value that would be derived from such an undertaking. The F.A.O. representative thought that F.A.O. experience with a similar procedure in the field of agriculture might be useful in implementing the experts' proposals, although he believed that the proposed International Trade Organisation was the appropriate organisation to fulfil that function in fields other than agricultural.

However, the proposal met with considerable criticism. The Brazilian representative considered it unnecessary to call a conference as proposed, since the Havana Charter of the International Trade Organisation and the General Agreement on Tariffs and Trade provided a framework for restoring multilateral trade relationships among nations. Moreover, he believed that the setting of targets was not a very practicable idea since deficit countries might be inclined to exaggerate their export needs and to reduce their import requirements, while, on the other hand, surplus countries might not wish to reduce their exports although they might agree to increase their imports. Similar views were expressed by the Canadian, Indian and United States representatives, the last named suggesting, further, that the proposal was "a retrogression from the multilateral procedure laid down in the Havana Charter" and that efforts should be made

"to make the International Trade Organisation a living reality rather than to establish new organisations".

Although expressing general approval of the idea of publicly announced targets, the United Kingdom representative questioned the value of the experts' proposal that the targets should be analysed and compared. Such an examination would call for a great deal of detailed information according to regions and countries, which would be of doubtful accuracy. He believed that the experts really had in mind a sort of international planning, but such planning could only be carried out by a central staff which would forecast patterns of international payments.<sup>1</sup>

### *Enlargement of the Powers of the International Bank*

The Report recommends Governments to—

... create a stable flow of international investment at a level appropriate to the needs of the underdeveloped areas of the world and to the capacity of the lending countries.

It points out that a more conscious direction of policy in the industrially advanced countries is needed than has yet been attempted, if an adequate and stable flow of international capital is to be achieved. Moreover, it is necessary, in order to satisfy both the legitimate desires of the borrowing countries to limit the extent of foreign influence in their territories and the legitimate requirements of the lending Governments to obtain adequate security and a reasonable return on their loans, that the bulk of international investment should be channelled through an appropriate international organisation, in this case, the International Bank for Reconstruction and Development.

In the first place, lending countries are accordingly recommended to fix annual targets for long-term international investment for five-year periods, and to make the necessary legislative and institutional arrangements to enable them to stabilise the total flow of lending at the planned level. Thus in any particular year the lending Governments would put at the disposal of the International Bank at six-monthly intervals an amount equal to the total foreign investment planned for the period less the amount expected to be lent through private investors or national public bodies, including the International Bank issues on national markets, or through other channels. Governmental loans to the Bank would therefore consist of two parts: a predetermined amount depending on long-run lending programmes; and a smaller, fluctuating amount that would offset fluctuations in private investment.

Secondly, the Report proposes that a new department for general developmental lending should be organised under the Bank. With

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<sup>1</sup> Reference may also be made to the United States representative's statement that "those targets might well be mere unrealistic estimates".

no capital of its own, the new department would rely entirely on funds borrowed by the Bank from lending Governments on a long-term basis on the same terms as those on which the Governments themselves borrow on their own markets. The chief purpose of the new department would be to make developmental loans to Governments in the less developed countries, distinct from the restricted type of loans which the Bank now makes on a specific project basis. The general criterion for deciding whether to make a developmental loan should be that the borrowing country's current balance of payments will improve sufficiently as a result of the loan to permit interest and amortisation payments to be made upon it. Borrowing Governments would furthermore be required to set up separate capital budgets for their development programmes which would show in detail all disbursements thereunder. The technical assistance programme of the United Nations should, moreover, be developed and applied energetically to help underdeveloped countries in framing and operating their general development programmes.

The plan to enlarge the powers of the International Bank met with unanimous approval among the representatives of the less developed countries. Those of the more highly developed countries did not give it an equally favourable reception, although there was general agreement on the need for greater stability in international capital movements.

First of all, the experts' definition of developmental loans was criticised.<sup>1</sup> The United States representative on the Commission thought there was no inherent difference or distinction between general development programme loans and loans for specific projects, "inasmuch as general development programmes consisted of integrated projects which might result in net capital formation and increase the productivity of a given country". Furthermore he held that loans should be granted only for specific projects and not for general purposes; thus Governments should put funds at the Bank's disposal, not on a semi-annual basis, but on the basis of individual applications for loans to finance specific and useful projects.

On the other hand, the Brazilian and Canadian representatives agreed that the underdeveloped countries should receive more loans for development purposes than in the past, but the Bank must first make sure of the soundness of each loan. The latter cited the experience of Canada during the last forty years, in which a large amount of capital investment had been made for development purposes, part of which had not turned out to be productive investment. The Indian representative agreed that loans granted for general development were undoubtedly more risky than those for carrying out concrete

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<sup>1</sup> The representative of the International Bank suggested to the Commission that an exact definition of the term "general development" should be given before the question of programmes of general development could be usefully discussed.

projects, but he pointed out that development loans were the most important and should be encouraged to the fullest possible extent. The United Kingdom representative went further and suggested that, in view of the difficulty of proving that the capital borrowed had really been employed to carry out the project for which it had been intended, the criteria for granting loans should be whether the borrowing country was able or willing to repay the loan, whether its fiscal policy was satisfactory and whether its general policy did not include undesirable elements.

A second criticism was made by the United States representative. While agreeing that stability was in general desirable, he maintained that the normal procedure of lending countries and investment banks ensured a stable flow of investment. Additional measures to stabilise the level of international lending included the creation of proper conditions to attract foreign investments through treaties safeguarding the rights and interests of investors and borrowers alike and the provision of essential technical assistance to underdeveloped countries to enable them to draw up the general development programmes necessary to attract foreign capital. The United Kingdom representative pointed out, however, that the normal procedure had not resulted in a stable flow of investment before the first world war or between 1920 and 1930, and he suggested that if some Governments were reluctant to stabilise the flow of capital exports through the international mechanism proposed by the experts, it would be preferable to aim at doing so through national measures.

A third point, put by the United Kingdom representative, was the question whether there would be a sufficient demand for capital which would have to be repaid in the currency of the lending country.

Fourthly, considerable criticism was registered against the automatic features of the experts' plan. The Canadian representative believed it to be "impractical, even impossible, for lending countries to undertake rigid guarantees". The United States representative also objected to the automatic provision, on the ground that "borrowing countries might lack incentive to provide a suitable internal climate to attract private capital".<sup>1</sup> In his view an international flow of capital through the Bank was hampered at present by the limited number of well-prepared applications for loans. Consequently the main problem was to provide measures to assist underdeveloped areas in making use of the available funds.

The Indian representative emphasised the corresponding responsibility of the creditor countries for stimulating the flow of international capital. They needed to create a favourable climate at home and to allay the fears and apprehensions which might arise there. Thus they should adopt appropriate fiscal and financial measures which would facilitate foreign investments and they should guarantee foreign capital against non-commercial risks. Furthermore,

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<sup>1</sup> The Pakistan representative on the Council, referring to this criticism, stated that such misapprehensions were completely unjustified.

technical assistance unaccompanied by capital would be of little value to the underdeveloped countries. Finally, the F.A.O. representative pointed out that the less developed countries hesitated to incur expense in drawing up plans so long as they were not certain of obtaining the loans they required.

*Enlargement of the Powers of the International Monetary Fund*

The Report recommends Governments to—

... stabilise international trade by maintaining external disbursements on current account in the face of internal fluctuations of effective demand.

The only way of preventing a cumulative process of contraction in world trade and of enabling countries to maintain their imports and their real income in the face of fluctuations in foreign demand is for "each country to stabilise its own external currency disbursements on current account in the event of a decline in its own demand for foreign goods and services". This can be achieved by two different methods.

One consists in the adoption of special measures to maintain imports, such as Government purchases of imported goods for stockpiling purposes. Secondly, each Government might "accept the responsibility, within a permanent and systematic international scheme, of replenishing the monetary reserves of other countries concurrently with, and to the extent of, the depletion of those reserves which results from an increase in its own reserves induced by a fall in its demand for imported goods and services, in so far as this fall is caused by a general decline in effective demand within its own country". Proposals are put forward for such a scheme, to be operated by the International Monetary Fund, which would be given increased functions for the purpose.

If in a given year the value of imports of goods and services by a particular country falls as a result of a fall in effective demand within the country, and if this fall is not fully offset by a decline in the value of its current exports of goods and services, that country should make a deposit in its own currency with the Fund of an amount equal to the fall in its imports less the fall in its exports in the given year as compared with a reference year. The reference year should normally be defined as the year previous to the given year or as the last year in which the full employment target was achieved for a period of more than nine months. In cases where the fall in external currency disbursements on current account is due in whole or in part to other factors, the Fund should have the right to waive deposit requirements.

The Fund should be empowered to sell the currency of the depositor country against the currencies of any country wishing to purchase it. The purchasing countries would be entitled to

buy the currency of a depositor country in an amount not exceeding the fall in the value of their exports to, less than the fall in the value of their exports from, the depositor country, as compared with the reference year. The currencies of purchasing countries so received by the Fund should be deposited to the credit of the depositor country concerned and should be freely available for the financing of that country's current transactions in any subsequent period, to the extent to which its own monetary reserves are diminishing.

The adoption of such a scheme would in the experts' judgment be "the most important single contribution that could be made in the international sphere towards protecting the world economy against the spread of recurring deflationary influences".

The Commission expressed general approval of the objectives contained in the experts' plan to expand the functions of the International Monetary Fund. In particular, the United Kingdom representative supported the idea that a country which was suffering from a depression should supply the rest of the world with financial resources so that the level of world trade could be maintained.<sup>1</sup> But again, many reservations were made concerning the details of the plan.

The Brazilian representative held that creditor countries would not be able to make the required deposits for some time to come.

The French and United Kingdom representatives questioned whether debtor countries would always want to use the credits made available to them under the plan. If large exporting countries suffered a decline in their export trade, it was doubtful if they would want to continue buying capital equipment or raw materials used in the production of export goods. The United States representative also expressed doubts concerning the willingness of the debtor countries to spend the sums they received in the countries which had supplied the currency.

If, on the other hand, the full employment countries did use the credits, the French representative pointed out that this might have ill effects on their economies. If the credits were used to purchase raw materials in the same quantity as before and the goods previously exported were diverted to the home market, the result would be perpetual indebtedness without provision for repayment. A second, even less likely, hypothesis was that the full employment country would use the credits to finance further imports for the home market. When these goods were added to the internal market, which was already flooded with export goods that could not be sold abroad, prices might fall and unemployment might rise. This was in fact a description of the French economy during the years 1929-1933, when, in spite of a decline in exports, imports were maintained by an influx of capital, much to the later distress

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<sup>1</sup> Reference may also be made to the comments of the Australian representative.

of the economy. The error in the experts' proposal, in short, lay in two fallacies. The first was the confusion between the economic effects of loans and of grants. The second was the contention that a lack of international demand, rather than a propagation of a drop in prices, was the real cause of depressions.

He regarded the automatic assurance of funds to finance continued imports as undesirable on the ground that it might make deficit countries "feel that they could dispense with their own domestic efforts to achieve equilibrium".

The Danish representative on the Council also believed such provision was ill-conceived, since it might "easily open the way for inflationary influences", which were now being kept in check "chiefly by the fact that a country which raised its export prices was likely to see its trade balance deteriorate". Further, he feared that the plan was based on a too narrow bilateral point of view. For example, in the case of a depression in the United States, his country would experience not so much a fall in its exports to the United States as a decline in exports to the United Kingdom and other industrial countries hit by the American depression. So long as convertibility was not re-established, the dollars which the plan put at the disposal of those countries would hardly be passed on to Denmark.

The United States representative on the Commission further suggested that loans from the International Monetary Fund would "freeze inefficiency" and would "merely prolong the period of ineffective demand", rather than serve as a stimulus to necessary readjustments. He held that there should be no more interference than necessary with the continuous structural changes needed in the world economy. In opposition to this view, the United Kingdom representative pointed out that the experts' plan provided a specific safeguard against interference with structural changes: if a depression country could show that the decrease in its imports was due to such changes, the Fund might agree to a reduction in the amount of the currency made available.

The United States representative also thought that the granting of loans to deficit countries with a non-convertible currency might retard the return of these countries to convertibility, in reply to which the United Kingdom representative suggested that, even though this possibility existed, it might be placing too high a price on the return to convertibility if, for that reason, raw materials were to be refused to countries which needed them to keep their workers in employment. The proposed system would, on the contrary, enable such countries to maintain their imports without fear of exhausting their currency reserves.

On the other hand, the United Kingdom representative objected that the plan would impose specific obligations on countries suffering from a depression, without giving a precise definition of the conditions in which those obligations must be fulfilled. It was therefore necessary to fix the limits of what was understood by

"employment target" and clarify the meaning of the expression "reference year".

A further question raised by the United Kingdom representative concerned the extent to which variations in the balance of payments were due to variations in employment. In this connection the F.A.O. representative put forward another proposal, namely, for the maintenance and stabilisation of the flow of world trade directly—for example, through stockpiling schemes—rather than of the balance of payments itself. The United Kingdom representative recognised that the F.A.O. suggestion had much to commend it, but pointed out that even greater practical difficulties might be encountered in its application than those involved in the experts' plan.

The Norwegian representative noted that a simultaneous reduction in imports and exports would be likely to render the measures proposed by the experts inoperative. The F.A.O. representative also pointed out that if the United States had applied the plan in 1949, taking 1948 as the reference year, and had simultaneously reduced the grants to other countries by which its exports were maintained, the result would have been to avoid any balance of payments difficulties, but the total volume and value of world trade would have decreased.

A last observation, made by the United Kingdom representative, was that the success of the plan to maintain the volume of world trade through the Fund presupposed the prior stabilisation of international capital movements.

To put the international problem of full employment into perspective, the F.A.O. representative reminded the Commission that the alternative to the recommendations in the Report was the prevailing ineffective and destructive policy in world trade:

Current Government full employment programmes in the international field, he suggested, were generally mutually destructive, since they either represented reciprocal efforts to defend one economy at the expense of others, or involved the redirection of foreign trade and production in order to secure products from sources which were less advantageous but had softer currencies, while hard currency countries restricted their output to make up for vanishing exports.

#### CONCURRING STATEMENT BY PROFESSOR CLARK

In a separate concurring statement Professor Clark points out some issues that he considers need further study. He calls for an "understanding of what is required to give us a type of economy which may spontaneously tend to maintain a high average rate of operation, and thus minimise the burden imposed on devices of fiscal policy". His chief concern is with the wage-price structure and its effect on aggregate demand and employment. As a general proposition he suggests that the optimum adjustment between

wages and prices "comes when the net increase in consumer-spending, resulting from a high fraction going to wage earners, fails to offset the effect of narrowing profit margins in reducing incentives to autonomous investment". But the specific implementation of this general principle requires further research and investigation.

Other structural features of the economy which merit further study include the following:

- the character and structure of the tax system as affecting the distribution of disposable income and incentive to investment, especially equity investment;

- institutions making equity investments suitable and attractive to the great new class of small savers;

- the character of the permanent financing of social security as affecting the balance of saving and investment;

- attempts to bring about counter-cyclical timing of private business investment.

Professor Clark reaches the following important conclusion:

We are probably taking some chances if we try to do too much with fiscal policy. But we are also taking chances if we do too little to stabilise income and employment at a high level. In terms of fluctuations, the United States might be inclined to accept a moderate amount of irregularity, and rely on its social security system to provide for the resulting unemployment. But the impact of our fluctuations on other countries will not allow us, as good citizens of an interdependent world, to decide the question in the same terms that might govern us if we were isolated.

#### FURTHER ACTION

At the conclusion of the debate on the experts' Report, the Economic and Social Council passed a resolution which commended the Report to Member Governments, the interested specialised agencies and non-governmental organisations for their serious consideration and detailed examination; invited its own members to be prepared at the Eleventh Session of the Council to express their considered views on the proposals and to submit any alternative proposals they may have for solving the problems with which the Report is concerned; and requested the Secretary-General to obtain the views of the interested and competent non-governmental organisations in writing in time for circulation to the members of the Council before its Eleventh Session.<sup>1</sup> It also adopted a resolution drawing the attention of Governments to the resolution of the Sixth International Conference of Labour Statisticians on employment, unemployment and labour force statistics.<sup>2</sup>

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<sup>1</sup> UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL, Document E/1639 (Lake Success, N.Y., 9 March 1950).

<sup>2</sup> Cf. INTERNATIONAL LABOUR OFFICE, Studies and Reports, New Series, No. 7, Part 1: *Employment, Unemployment and Labour Force Statistics: A Study of Methods* (Geneva, 1948); and Part 4: *The Sixth International Conference of Labour Statisticians*, Montreal, 4 to 12 August 1948 (Geneva, 1948), pp. 9-25 and Appendix I.