

## INTRODUCTION: 75 YEARS OF THE INTERNATIONAL LABOUR REVIEW, A RETROSPECTIVE

A retrospective can be a healthy reminder of the continuity of ideas, the recurrence of problems and the possibility of progress. These are among the reasons for offering our readers highlights of articles<sup>1</sup> published in the *International Labour Review* over its 75-year history.<sup>2</sup> As the 20th century draws to a close, change seems so rapid and crises so prevalent that one may be forgiven for assuming that lessons from the past are few, that new solutions must be found. Yet the design of a global project for the achievement of social justice in a world where social conflict is rampant, the analysis of options for confronting mass unemployment, the outline of social policy to maintain social cohesion, and the importance of employment for self-esteem – themes taken up many years ago on the pages of the *Review* – demand our urgent attention today. This issue brings together for easy reference a selection of published articles where these themes among others were addressed and solutions suggested.<sup>3</sup> By so doing, it also reveals something of the enduring role of the *Review* in disseminating the ideas of

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<sup>1</sup> The articles – a few in their entirety, most abridged – are reproduced as they were published. Deletions (to make possible the inclusion of a larger number of articles) are indicated by [...]. Any editorial comments or explanations are presented within square brackets.

<sup>2</sup> The *International Labour Review* and the *Revue internationale du Travail* were started in 1921, in fulfilment of the requirement of Part XIII, Article 396, of the Treaty of Peace (Versailles, 28 June 1919) that the ILO “edit and publish in French and English, and in such other languages as the Governing Body may think desirable, a periodical paper dealing with problems of industry and employment of international interest”. The *Revista Internacional del Trabajo* was started only in 1930. Since 1994 it has been *Review* policy to publish the same material in the Spanish edition as in the French and English editions. Therefore a number of the articles published here appear in Spanish for the first time (those by Albert Thomas, J. Oudegeest, John R. Commons, Ernest Mahaim, John D. Rockefeller Jr., Herbert Feis, Bertil Ohlin and Alva Myrdal).

<sup>3</sup> The reader is also referred to Vol. 134 (1994), No. 4, of the *International Labour Review* which, on the occasion of the 75th anniversary of the ILO, included an editorial with extensive excerpts from articles published over the years. The emphasis in that selection was on articles dealing with the four subjects taken up by the authors invited to contribute to that issue, namely employment, labour law, social security and industrial relations.

leading thinkers on major economic and social issues and encouraging informed debate on policy options.

### 1921

This special issue opens (as did the first issue of the *Review*) with a ringing statement of the reasons for an international labour organization, by its first Director, Albert Thomas. Why create an ILO? What is its real value? Then (as now) questions were raised as to the utility of such an international body. Its future was not assured. But visionaries seldom have an easy path: failed visions are soon forgotten, some are an eternity in coming, the struggles behind the successes lost from view. All of the articles reproduced here relate in some way to those struggles.

The context in which those struggles were first addressed by the ILO was one where, for many countries, the very social and political order was in doubt. Peaceful as against violent change was nowhere assured. At present, when some question the role of the United Nations system as a whole and the value of any other than purely technical international organizations, it is appropriate to recall the stark alternatives that many societies confronted and the vision of a world order that was beginning to take shape. At its creation in 1919 the ILO became the institutional manifestation at the global level of the commitment to social justice. The initial attacks against it are highlighted by Thomas, writing for the *Review* less than two years later.

One unusual aspect of the ILO is its tripartite structure: trade union and employer representatives participate along with governments in its governing structures and in the annual International Labour Conference where Conventions are negotiated and adopted. There was not, of course, total agreement on the respective roles of capital and labour. J. Oudegeest, Secretary of the International Federation of Trade Unions, saw the opportunities for labour in the workers' rights declared in the Treaty of Peace signed at Versailles and institutionalized in the ILO. In the article reproduced here he underlines the central importance of consultation, and pledges his organizations' support to the ILO so long as it serves labour faithfully. In another article, John R. Commons, in commenting on workers' expectations as he saw them in his inquiry into successful experiments in labour management, argues that workers essentially want security in a good job, not any role in financial management; managers have responsibility to stockholders, the workers and the community. He reports on the beginnings of capitalism's self-cure, through accident prevention and health and unemployment insurance provided by the enterprise.

John D. Rockefeller Jr. articulates what might even today be seen as an enlightened view on the role of industrial leaders. He states that "the purpose of industry is quite as much the advancement of social well-being as the production of wealth." And he underlines the fact that "organised capital

sometimes conducts itself in an unworthy manner, contrary to law and in disregard of the interest of both labour and the public [...]. Likewise it sometimes happens that organisations of labour are conducted without just regard for the rights of the employer or the public." Emphasizing the need for labour to be organized he goes on to suggest institutional mechanisms to ensure workers' representation, and the content of an employee's bill of rights and an industrial creed.

The development of a body of international labour law was already under way. Ernest Mahaim, in the article reproduced here, provides a brief history of such law prior to the creation of the ILO, and then clarifies the relationship between national and international law, between the principles of national sovereignty and the community of States. As he points out, some situations fall readily into the international domain, such as the protection of foreign workers, but international labour law under ILO auspices goes much further, "because it aims at securing to the whole of the labouring portion of mankind a certain minimum of rights." The universality of the ILO – which some see as a sign of weakness – is, he argues, of enormous importance. "The final purpose of international labour law is to place beyond attack from international competition a minimum of conquests in the world of labour, such as shall constitute a human charter."

These articles from 1921, taken together, clarify the reasons for the creation of the ILO. They set out the vision, the tensions, and the distinct perspectives of capital and labour that then, as now, circumscribe economic and social policy and define the ILO as an institution. They also take up themes that recur on the pages of the *Review*: workers' protection and security, the role of international labour law, and the pursuit of cooperative solutions.

## 1927

It is perhaps surprising to see in an article written in 1927 an explicit discussion of the pros and cons of what we would now call a social clause.<sup>4</sup> Herbert Feis addresses the impact on international competition of regulating labour conditions by means of international labour standards. Recognizing the benefits of international competition for all countries, as a means of increasing national income and improving overall working conditions and earnings, he underlines the fact that it can nevertheless have destructive effects, as countries try to undercut foreign competition by reducing working conditions and as workers in affected industries face painful and slow adjustment to competition. International regulation can help to secure gains from growth for workers and prevent a depression of working conditions, he argues, but it can also lead to economic loss by restricting competition,

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<sup>4</sup> For a very recent clarification of the issues involved in that debate, see the address of the ILO Director-General in the *perspectives* section of Vol. 135 (1996), No. 2, of the *Review*.

raising prices to consumers, and hindering the advancement of the poorest countries relying on low cost labour. The persistence of these deep tensions is part of the reason why trade policy has frequently had space on the pages of the *Review* (see, e.g. the article by Jan Tinbergen in this issue). In addition, Feis provides insights into the process of compromise among and between representatives of workers, employers, rich and poor countries negotiating the adoption of international labour standards.

### 1935

In 1935 many of the richer countries were in the depths of economic depression, experiencing mass unemployment and deflation. Sweden, however, experienced less of a decline and a more rapid recovery, and there was considerable interest at the time in the reasons for that superior performance. Bertil Ohlin, who had earlier prepared reports on the world depression and on unemployment in Sweden (and was later awarded the Nobel Prize in Economics<sup>5</sup>), here analyses the causes of recovery in Sweden. In essence, Sweden applied a Keynesian model before Keynes, partly as a result of Ohlin's own contribution to macroeconomic policy analysis.<sup>6</sup> A combination of exchange rate flexibility, monetary policy designed to lower real interest rates and encourage investment, expansionary fiscal policy with public borrowing to finance substantial deficits and productive public works, and supportive state policies for agriculture, all helped to reduce unemployment, to raise investment and to keep incomes from falling significantly.<sup>7</sup> Ohlin goes on to examine policies to deal with future problems of employment and unemployment, arguing that it is highly important for the State and municipalities to be ready with a suitable economic policy in the event of need. In addition, he examines labour policy, including wage differentials adequate to ensure the employment of workers with lower skills, geographical mobility to facilitate adjustment, and the disincentive effects of public aid (in effect, a discussion of moral hazard) – all subjects of current debate.

### 1936

The article by Abba Lerner reproduced here was “the first article . . . to make Keynes' employment theory simple and generally intelligible”.<sup>8</sup> Lerner

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<sup>5</sup> He is especially identified with developments in the theory of international trade and, in particular, what is known as the Heckscher-Ohlin theorem.

<sup>6</sup> Both Ohlin and Kalecki claimed to have anticipated Keynes' findings.

<sup>7</sup> The particular contribution of researchers on the ILO staff to economic policy in the 1920s and early 1930s is discussed in A. M. Endres and Grant Fleming: “International economic policy in the interwar years: The special contribution of ILO economists”, in *International Labour Review*, Vol. 135 (1996), No. 2.

<sup>8</sup> Tibor Scitovsky, author of the biographical profile on Abba Ptachya Lerner in *The New Palgrave: A Dictionary of Economics* (John Eatwell, Murray Milgate and Peter Newman (eds.), London, Macmillan Press, 1987, Vol. 3, p. 168).

made major contributions, in his own right, to socialist economics, trade theory and welfare economics, e.g. on the development of market pricing for a decentralized socialist economy, the symmetry of export and import taxes, factor-price equalization, and his concept of low and high full employment (which evolved into the natural rate and then non-accelerating-inflation rate of unemployment). But here he explains the nature of Keynes' influential argument. Contrasting it with the prevailing orthodoxy of the classical economists, he explains why lowering money wages would not be sufficient to achieve full employment (the absence of involuntary unemployment): costs would fall but demand would fall by more, leading to the reversal of any gain in employment, unless at the new equilibrium, the rate of interest is lower. The central contribution concerns the determinants of investment – on which the level of employment depends. It is more efficient to act directly rather than indirectly on the rate of interest and consumption. "To seek the alleviation of depression by reducing money wages, rather than by directly reducing the rate of interest or otherwise encouraging investment or consumption, is to abandon the high road for a devious, dark, difficult and unreliable path [...]" Apart from the central message, several fundamental Keynesian concepts are clearly defined, such as liquidity preference and the marginal efficiency of capital, and the fallacy of composition with respect to individual and collective thrift explained. The debate engaged then (as now) on inflexibility as against inadequate aggregate demand as the primary cause of unemployment is critical to determining the cure.

### 1939

In addition to its prescient economic policy in the early 1930s, Sweden is notable for the policy of family support that it adopted. Alva Myrdal – who was later awarded the Nobel Peace Prize – was closely associated with the development of a population policy in Sweden. In the article reproduced here, she explains the particular concerns in Sweden and the nature of policy recommended and applied. At the time (as now in some industrialized countries) there was concern with the progressive decline and ageing of the population. To design an effective family policy in a democratic society was a challenge. Overall, the policy endorsed was "a constructive synthesis [...] of Neo-Malthusianism by sanctioning rational birth control, and [...] the positive interest in population of the conservative group [...] in so far as the prevention of a cumulative decline is concerned". Given the economic burden of raising children, a key aspect of policy was the transfer of part of that burden from the family to the community. In discussing means of equalizing the cost of supporting children she addresses a number of broader issues of social policy, including arguments for benefits in kind vs. in cash, housing subsidies, education, the employment of married women and rural-urban inequalities. It is interesting to note the explicit link made between encouraging larger families and ensuring that married women had

opportunities for remunerative work, the argument underlying the practical measures adopted to harmonize women's productive and maternal roles.

### 1945

The nature of economic policy to maintain full employment was examined in the article by Michal Kalecki reproduced here. By way of background he provides a very simple exposition of national income accounts and the concept of net national product. He uses those tools to consider the appropriate fiscal policy stance in the United Kingdom and the United States, respectively, for the purpose of achieving full employment in the postwar period. By 1945 Kalecki had already established a substantial reputation through his work on business cycles, and he went on to make a significant contribution to growth theory and the operation of capitalist and socialist economies. On the question of employment, he analysed the political as well economic aspects of achieving and maintaining full employment in other writings from this period.<sup>9</sup>

### 1953

There was an explosion in the number of nation States after the Second World War as former colonies gained their independence. Policies were formulated to achieve economic development and the field of development economics emerged. One dimension receiving much attention – then as now – was the rate of population growth. Many experts and politicians argued that controlling fertility was necessary for development, postulating a simple and direct relationship between reducing fertility and raising living standards. In 1974 several authors of *Review* articles (e.g. Harvey Leibenstein, Naval H. Tata and P. P. Narayanan) discussed family planning and population policy, including the role of trade unions and employers' organizations in implementing those policies.<sup>10</sup> The subject of population and of demographic change in general is of course relevant to labour market analysis and, as such, has been a recurring theme in ILO research. The contribution to the debate reproduced here – written in 1953 by Colin Clark – reflects a different perspective, arguing that there is no simple relationship between an increase in population and improvement in living standards. Clark was a person of wide-ranging interests. A pioneer in the development of GNP (gross national product) estimates, he had turned to an analysis of the determinants of economic growth and the problems of inequality between rich and poor countries at the time he wrote for the *Review*.

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<sup>9</sup> See, for example, "Political aspects of full employment", in *The Political Quarterly* (London), Vol. 14, Oct.-Dec., 1943, which sets out succinctly many of the main arguments of labour and capital, albeit from the perspective of a progressive.

<sup>10</sup> See the "Editorial" in *International Labour Review*, Vol. 134 (1994), No. 4, pp. 442-444.

## 1955

By this time, recovery from the depression and the devastation of the Second World War was largely accomplished. Not only was the need felt for a range of social benefits, but the means were at last at hand for some countries, and the beginnings of support for the development of the less developed countries were visible. In his article reproduced here Paul Chu poses the question, "Is there any foundation for the belief that our age will be remembered chiefly as the first era in which large groups of people dared to consider making the ideal of welfare for all a practical objective instead of a Utopian dream?" In retrospect we know that the answer is partly in the affirmative. As a result of major improvements in welfare benefits (along with important gains in agricultural productivity and sanitation), life expectancy has increased enormously and many other indicators confirm astounding progress, even though the scourges of poverty and deprivation persist. But this was a time of transition. Chu addresses the contributions of employers and trade unions as well as other voluntary associations to the provision of benefits, and highlights the emergence of the Welfare State. Echoing a point heard in contemporary debate, he argues that "in an undertaking, as in the national economy, social investment is an essential part of economic development."

## 1960

This was a time when all countries seemed on the road to industrialization – "a universal society toward which all peoples are marching" – as put in the article reproduced here by Clark Kerr, Frederick Harbison, John Dunlop and Charles Myers. They summarize the basic ideas and findings of a vast inter-university project to examine industrializing societies at all stages of development. They had re-examined the issue of labour protest and turned to a focus on the emergence of "the complex 'web of rules' which binds men together in new chains of subordination and creates a network of rights, obligations, and functions of workers, technicians, and managers in the hierarchy of far-flung private and governmental organisations". The common characteristics they highlight are an advanced level of technology (dependent on research and requiring investments), a wide range of skills (dependent on a functional educational system), large-scale organization (public and private), and a consensus which entails personal responsibility on the part of both workers and managers. The scale of their enquiry – and its influence – were unprecedented.<sup>11</sup> So it is

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<sup>11</sup> The project involved research in 35 countries and had, by the time of writing, led to the publication of 14 books and 23 articles. It was the point of reference for a major review of the subject 35 years later: See Richard Locke, Thomas Kochan and Michael Piore: "Reconceptualizing comparative industrial relations: Lessons from international research", in *International Labour Review*, Vol. 134 (1995), No. 2.

perhaps not surprising that at least important elements of their predictions have been sustained. They foresaw a pluralistic industrial society "in which the struggle between uniformity and diversity continues, a society which is centralising and decentralising at the same time. . . [where] the State will not wither away". They saw two faces to this pluralistic industrialism: "industrial man the world over will probably acquire greater freedom in his personal life at the cost of greater conformity in his working life."

### 1969

This was the 50th anniversary year of the ILO, thus a time of reflection and stocktaking. In 1919 it was thought that standard-setting would be the ILO's principal means of action, though even then Albert Thomas had a broader vision of the ILO's role. In the interim the ILO had adopted the Declaration of Philadelphia and gained a broader mandate to examine economic and financial policies;<sup>12</sup> the number of member States had increased several fold. Yet the formulation of international labour standards remained a core function of the ILO. The article written on the occasion of the ILO's 50th anniversary by Nicolas Valticos and reproduced here explains in the clearest terms the nature and relevance of the ILO's standard-setting activity. He describes the purpose of international labour standards, the process of their adoption, and the means of giving them effect. As he points out, the original idea of international labour legislation is much older than the ILO, dating from the beginning of the industrial era. "The most powerful driving force behind the international regulation of labour questions is the ancient, undying instinct for justice." In parallel has been the desire to secure peace, which "is not a purely negative matter of absence of war but a positive concept requiring stable, just and balanced relationships both within and between countries". The third aim he underlines is to "ensure that competition [is] not at the workers' expense". Beyond those three aims, standards have served, he argues, to emphasize that economic policy is a means of achieving social objectives, to provide a guarantee against backsliding at the national level, and to guide governments in framing social policy. This overview of the ILO's standard-setting activity is as timely now as it was then.

### 1970

Jan Tinbergen, who was awarded the first Nobel Prize in Economics, in 1969, participated in an ILO meeting at the end of that year to provide advice on the research priorities for its newly-created World Employment

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<sup>12</sup> For the background to the Declaration and its contents, see Eddy Lee: "The Declaration of Philadelphia: Retrospect and prospect", in *International Labour Review*, Vol. 133 (1994), No. 4.



Programme.<sup>13</sup> He addressed the relationship between international trade policy and the creation of employment. Restrictive policies – particularly with respect to trade in agricultural products and textiles – as well as the bias in trade barriers against products of higher value added, ran counter to trade based on comparative advantage in line with the Heckscher-Ohlin theory, he argues. In the article reproduced here he also explains the basis for ranking industries by relative factor intensity as a guide to achieving an optimal international division of labour. The main point he makes “is that the biggest obstacle to the choice of industries for developing countries at the moment lies in the restrictive trade policies pursued by the developed countries” – though he is also critical of the obstacles created by less developed countries. His powerful arguments contributed to the progress made since in reducing trade barriers, but they are also a reminder of the gains in employment to be reaped from a less distorted trading system.

### 1971

The article by Michael Todaro on migration in Africa included here speaks to a number of current themes, including rapid urbanization despite high urban unemployment and the determinants of migration. It is also striking to note the alarm sounded concerning urban problems at a time when the largest cities in Africa were a small fraction of their present size. The policy options he discusses are still current: in the short term, reducing factor-price distortions (where they exist), tripartite agreements to stimulate employment creation, and restrictions on migration; in the medium term, comprehensive incomes policies, technologies for expanding aggregate output, and public works; and, in the longer term, population policy and reducing technological dependence. His analysis sets out many of the central elements in policy aiming to achieve economic development and an improvement in living standards.

### 1975

The subject of employment has been central to the role of the ILO since its creation. Most recently, the commitment to the pursuit of full, productive and freely chosen employment has been renewed and its feasibility persuasively argued.<sup>14</sup> Amartya Sen – a creative thinker in economics and

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<sup>13</sup> Sir W. Arthur Lewis summed up the views of the invited experts on what should be the research priorities (“Summary: the causes of unemployment in less developed countries and some research topics” in *International Labour Review*, Vol. 101 (1979), No. 5 (May), pp. 547-554).

<sup>14</sup> See ILO: *World Employment, 1996/97* (Geneva), which also contains the *Conclusions concerning the achievement of full employment in a global context: The responsibility of governments, employers and trade unions*, which were adopted by the 83rd Session of the International Labour Conference, June 1996.

philosophy – addressed the issue of employment in a seminal work for the ILO in 1975, on which the article reproduced here was based. By characterizing employment in terms of its recognition, production and income aspects he made an enduring contribution to understanding the role of employment in modern life. That distinction has since been extended in some of his more recent writings in moral philosophy<sup>15</sup> in terms of intrinsic and instrumental value, a fundamental point that contributes clarity to a wide range of policy choices and judgments. In this article he applies that distinction to an examination of alternative policies in developing countries, setting out a model for technological choice and employment policy under the (usual) conditions of partial ignorance.

1996

This special issue closes<sup>16</sup> with the reflections of Nicolas Valticos, not only on 75 years of the *International Labour Review* and its role (and 77 years of the ILO), but also on the directions in which the questions treated in the past are headed. Thus his new contribution to the *Review* constitutes a bridge to the future. It is a reminder that a clear sense of objective combined with vigilance and attention to evolving needs and exigencies constitute a recipe for progress toward social justice.

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While the articles have been presented here in chronological order there are recurrent themes, among which the central role of international labour standards in promoting respect for fundamental human and labour rights, and the critical importance of economic and financial policy for promoting full, productive and freely chosen employment and combatting unemployment. Taken together, the articles in this issue demonstrate the function of the *International Labour Review* in disseminating the results of innovative thinking, research and policies on economic and social issues and in promoting informed debate and policy formulation.

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<sup>15</sup> See, for example, *Inequality reexamined* (Cambridge, MA, Harvard University Press, 1992).

<sup>16</sup> There have been of course other significant articles published in the *International Labour Review* – in its early years and since 1975. Those of the last 20 years are more readily available than are those published earlier: See the note at the end of the table of contents. However, the full English texts of the *Review* from 1921 through 1931 (Vols. 1-24) have been reprinted by Schmidt Periodicals GMBH (Bad Feilnbach, Germany), which also has an agreement to reprint the texts through 1976 (Vols. 25-114).

# The International Labour Organisation. Its origins, development and future

Albert THOMAS \*

Originally published in *International Labour Review*, Vol. 1 (1921), No. 1 (Jan.).

A year has already passed – a year of organisation and creation – a year in which the task set by the Treaty of Peace has been in part accomplished. It has been a year of the meeting of Conferences, the establishment of Commissions – the creation of the new Administration in all its parts – a year of intense effort to make known the need for and the utility of the Organisation, to arouse in all countries and in all circles the sympathy and faith which it requires. Where are we? What future is open to the International Labour Organisation? How far will its work be effective?

The International Labour Organisation has perhaps one great advantage over the League of Nations itself. It has clear tasks. Its initial functions are well defined in extent and in scope.

Two tasks were entrusted to it by Part XIII of the Treaty of Peace. The first was to establish everywhere humane conditions of labour; to institute and apply a system of International Labour Legislation, subject to reservations imposed by the sovereignty of each State and the conditions prevailing therein. All the contracting States, inspired both by considerations of humanity and by fear of unfair competition, undertook to secure better and, as far as possible, equal conditions for all the workers of the world by the adoption of uniform Draft Conventions or Recommendations. Precise constitutional rules were established. The texts of the Draft Conventions and Recommendations are settled by the General Conference which meets at least once a year. The International Labour Office under the direction of its Governing Body prepares the Agenda for the meetings of the Conference, corresponds with Governments with regard to the ratification by each State

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\* Director, International Labour Office. [A graduate of France's Ecole normale supérieure, he was elected to the French Parliament in 1910 and subsequently held various government posts, becoming Minister of Munitions in 1916. In 1919 the ILO's Governing Body elected him Director of the Office.]

of the Conventions adopted and will eventually follow up their application. For the purpose it may organise enquiries and undertake inspection and, where necessary, may have recourse to its sanctions.

The efforts carried on during the last eighteen months for the establishment of a system of legislation on an international basis as prescribed by the Treaty of Peace have revealed the urgent need for more exact and comparable information. In what directions, and up to what precise point, can such legislation be instituted and applied? By what methods – uniform or diverse – can the same standard of life, conditions of labour equally humane, the same dignity for the wage-earner in his work, be secured at the same time in industry, in commerce, in transport and in agriculture? In what measure, to adopt the actual terms of the Treaty of Peace, is the careful consideration of “differences of climate, habits and customs, of economic opportunity, and industrial tradition” consistent with progress towards more nearly uniform conditions of labour, which is one of the chief concerns of the International Labour Organisation? The efforts being made at this moment to attain this object by the shipowners and seamen prove the difficulty of attaining such equality even in an internationalised vocation. In these negotiations food conditions, the unequal prices of raw materials, the uncertainties of exchange, the output and the cost of labour of various races and similar considerations must be taken into account. Finally, how far can international control be harmonized with national sovereignty? These questions can only be solved by thorough and constant study, and it is necessary that we should arrive at definite conclusions.

The solemn declarations of principles which serve to express the unanimity of the aspirations of humanity have immense value. The first international institutions which the treaties have created for the establishment of a common system of regulations will, it cannot be doubted, make rapid progress possible. But we are advancing into unexplored and almost unknown regions. The instruments at our disposal in these dangerous explorations are very inexact and very fragile. It is at least our duty to test their utility. Whatever the difficulties, foreseen or unforeseen, to be encountered in the sphere of international legislation, however complex this primary task, the International Labour Office has before it a definite programme, on which it has entered with resolute purpose.

The International Labour Office is besides a great clearing-house of information with regard to all labour, industrial and social movements. Its second task is “the collection and distribution of information on all subjects relating to the international adjustment of conditions of industrial life and labour”. It is accordingly its business to emphasise the unity of the economic movement of the world and to bring into comparison the experience and results in different countries in the matter of reforms. Part XIII of the Treaty of Peace has given to the International Labour Organisation a constitution, the principles and working of which have already been carefully and accurately studied. But institutions are living things. All codification is abstract. Jurists have long ceased to confine themselves to studying the

mechanical operation of institutions and laws. They seek to discover in each succeeding epoch the social reality which these embody. This method is just as applicable to newly-established institutions as to those which have ceased to be anything but a matter of history.

The International Labour Organisation might act in perfect conformity with all the articles of the Treaty; it might obtain the ratification of every Convention; it might distribute throughout the world abundant information; and nevertheless be nothing but a bureaucratic institution without real authority. Its publications would not be read; its recommendations would be treated with indifference; its life would be purely formal.

Within the framework of the same constitution, on the other hand, it may come to be regarded by public opinion as a beneficent and necessary institution. It may command the attention of governments; its advice and intervention may be sought; its operations may furnish the workers whom it protects and the employers who are anxious to secure organisation and stability with opportunities for a continuous effort. A common spirit may be created which will animate it from within. It may be the centre of a real and intense international life.

What is it in fact intending to become? In regard to the newly-created International Labour Organisation, as in regard to the League of Nations, public opinion is constantly committing a curious error of judgment. People say: "The League of Nations is created. It actually exists. Why does it not speak? Why does it not act? Why does it not apply with authority this or that Article – Article 10 for example?"

Those who reason in this way forget that a magic stroke of a pen – even a pen of gold – though affixed at the end of a Peace Treaty, is not enough to establish, once and for all, international law and international force. The texts exist, without doubt, and they had to be promulgated. But the problem still remains whether there will be in the real sense of the word a League of Nations, whether there will be an International Labour Organisation, that is to say, really living organisations. If the formula so often repeated is true – that peace must be a continual creation – it is in the sphere of international relations that it is most completely true. Not only is every event, every incident, in which the League of Nations or the International Labour Office has to intervene and act, an opportunity for ascertaining in what measure they are already alive, but it is by the action taken in each circumstance that they will really create their right to exist and their actual existence.

Nothing, indeed, is more deceptive than the capricious and fantastic play of constitutional texts and social realities. The texts often continue to exist when the reality has become something quite different. The contrast, for example, between the French Constitution of 1875, with its almost monarchical principles, and the sovereignty exercised by Parliament within the framework of that Constitution is a familiar theme to jurists and even to journalists in France.

Often, too, an institution originally modest and of limited jurisdiction, sees its authority enormously increased by the requirements of the day.

When the first Kings of France appointed certain of their clerks or secretaries, learned in the law, to deal justice in their name, did they dream for a moment that that little company of devoted and zealous servants would become the Parliament of France, capable of conquering and exercising at its appointed hour the right of remonstrance against royalty itself? Within the limits of a nation the vitality of an institution is measured by the sum of aspirations and interests of which it is the common centre, by the sum of social forces which crystallize around it, by the moral authority which it exercises.

And this is even truer in the international sphere, in which all has still to be created, in which opinions are too uncertain to furnish the solid foundation of beliefs and aspirations on which new institutions may be established, and in which interests the most akin have often but little sense of their identity.

What then, to-day, beneath the surface of its formal constitution, is the positive value, *the real and essential character* of the International Labour Organisation? From what moral forces can it draw its vitality?

## The first hopes

If the capital of a great institution consists of sympathy, hope and faith, it cannot be said that the International Labour Organisation began its task with an insufficient capital. It was born at a moment when a great stirring of hope quivered in the hearts of all those who cherished a desire for social justice.

About twenty years before the War, the pioneers of the International Association [... for the Legal Protection of Workers, established in 1900 by the Second International Congress on Labour Legislation] had commenced their endeavours with courage and determination, with the conviction that international legislation was the necessary consequence, even the indispensable condition, of national labour legislation in each State. The International Association [... for the Legal Protection of Workers] had two fatal weaknesses. First, it could secure the adoption of propositions for the betterment of working conditions only through diplomatic channels. It took years of work and struggle to effect an agreement through conferences upon a project for labour regulations. Then the regulation had to be referred to the diplomats, who usually had little knowledge or appreciation of labour matters, to juggle with, postpone, reject, or adopt, as seemed good to them. The second fatal weakness came from the nature of the organisation itself. Its Conferences never included accredited representatives of employers' or employees' organisations, or even of Governments, in the sense of representatives with authority to speak for and commit their Governments on the subjects discussed and agreed to by the Conferences. Its discussions took place in the pure, but thin, atmosphere of academic abstraction, far removed from the smoke and dust of practical politics, which may get things smudged, but gets them done. If industrial reforms are to be accomplished,

there must be an organisation of all the forces interested – Governments, employers and employees. Failure to include any of these elements is sufficient to make any organisation ineffective.

The War made labour legislation of immense importance. The War compelled Governments to enter into engagements with the workers to remove the “injustice, hardship, and privation,” from which the wage-earners in many employments suffered. The War also made the organised workers understand that labour legislation, reaching its full development in the international sphere, was essential to the realization of certain of their aspirations to equalize competitive conditions.

The Treaty of Versailles has been abundantly criticised, and eighteen months of international development have suggested many modifications in the provisions by which it sought to organise the new order of things, but its results are solid and permanent.

In the first place, it is a fact which involves far-reaching consequences, consequences which are still imperfectly realised, that workers should participate in the peace negotiations terminating a world war, and that the Treaty should include a number of principles for the protection of labour. Henceforward it will be impossible for nations to deal with economic or even political questions without taking labour interests into their conferences. The principle has at last been recognized and securely established that “no peace can be lasting which is not based upon social justice”.

Again, whatever may be the temper of employers and workers to-day, after eighteen months in which their disputes have been renewed, the period of peace negotiations was a period when the desire for justice between classes found unanimous acceptance. A powerful impulse of generous human feeling and genuine desire for social peace brought the International Labour Organisation into being. It is not surprising that from the moment of its inception all had high hopes for it, not only the labour organisations which were the most directly interested and which saw in the Treaty a victory for themselves, but also the employers’ associations and the Government delegates. To-day perhaps these hopes seem contradictory, perhaps they are so in part, but at a moment like that of which we are speaking it seemed possible to bring them into harmony.

First, the hopes of the labour world – the most novel and daring of them all. The trade union organisations were conscious of having acquired in their respective countries a credit, nay, a prestige, altogether unprecedented. They were conscious of exercising upon their governments an influence which they sometimes exaggerated, but which still was undeniable. Their leaders in the Allied countries shared – on the Commissions, at least – in the Peace negotiations. They had joined with the neutrals and even with their enemies of yesterday to reconstitute an international trade union federation, which, before the war, had never existed save in embryo, but which henceforth was to share all the influence acquired by each separate union in its own country. They had proclaimed a charter of labour [Leeds Conference, 1916], the fundamental principles of which were to guarantee to all wage-earners

freedom and well-being. And now, thanks to the experience of high officials, men of learning, and statesmen, associated with the work of the Commission on International Labour Legislation, they had secured the introduction into the actual text of the Treaty of part at least of the Charter they had proclaimed.

In their vision they beheld it applying with logical completeness the principles of protection of labour and of justice, securing by the economic co-operation of all nations greater stability in employment, a more equitable distribution of raw materials to all nations, assuring to emigrants equality of conditions in matters of labour and wages, – in a word, creating a complete labour economy, based on the right to work instead of on the pursuit of wealth, on organisation instead of anarchical competition.

It was natural that after all their bitter struggles and perils they should hope for a great social revolution, not the less complete because accomplished progressively and by pacific means.

The hopes of the employers were less ambitious. The renewal of labour disputes in the last years of the war had already created some bitterness. Big strikes had, in fact, already broken out. Even the growth of workmen's organisations caused anxiety to many of them. The spirit of national unity, so noble and impressive a feature of the early period of the war, had lost much of its strength. Besides, employers might complain that they had not been consulted in the preliminary work of organisation.

It is none the less true that many of them sincerely believed in the possibility of a regime of conciliation, an era of social peace. At first reserved and cautious, many of them accompanied their delegates in spirit to Washington, and gave their allegiance to the Draft Conventions and Recommendations [reference is made to the First Session of the International Labour Conference held at Washington in 1919, which adopted six Conventions and six Recommendations]. Those who tried to see into the future dreamed that, when the "wave of war-weariness" or "idleness" had passed, a more humane labour system, a system by which wage-earners should participate in profits and perhaps later in management, might revive that joy of production and "industrial enthusiasm" of which the St. Simonists loved to talk, and thus provide a guarantee of continuous and abundant production.

The Governments themselves could not but regard the new organisation with sympathy. On the one hand the International Labour Organisation might dissipate the ever-recurring fear of international competition which threatened the existence of various isolated attempts at reform. Some protection of this nature seemed all the more necessary because after the War, when many parts of Europe were in a state of revolution, the most daring reforms were being introduced, and many States were obliged, under irresistible pressure, to adopt laws like the Eight-hour Law, which before the War was almost universally declared impracticable, or at any rate only practicable if adopted by all important competing industrial States.



In their responsibility for public safety, their preoccupation with the difficult problems of demobilisation, the anxiety caused by the revolutionary propaganda carried out everywhere by Bolshevist Russia, the Governments could not avoid making an attempt to find for themselves some systematic scheme for settling the social disputes which the sufferings of the war had produced. They, too, in spite of the scepticism with which at times the future of the International Labour Organisation was regarded, sometimes allowed themselves to hope for results which seemed to them desirable from the International Labour Organisation.

Perhaps in many minds these feelings are no longer so prominent. Some perhaps would be disposed to disavow them altogether. No one can study the debates of the Washington Conference, analyse the psychology of the delegates, and recall the environment of hostility and indifference in which they had to perform their task, without being impressed by the daring confidence of their faith and without forming some idea of the atmosphere in which the International Labour Organisation came to birth. A spirit of youth and freshness breathed on the world of wage-earners and employers. It was a time for daring and adventure.

## Forces of opposition

Now we have left Washington and are establishing the Office; the first meeting of the Governing Body is taking place at Paris. The plan of construction seems vast. Yet misgivings are few, approval is unanimous, so strong is the feeling that the enterprise in its entirety is indispensable.

Even in its first session the Governing Body is not content with fixing the Agenda of the Seamen's Conference [the Second Session of the International Labour Conference, held at Genoa in 1920], promised at the time of the Peace negotiations. It insists on considering in addition the programme for the succeeding General Conference. It is anxious to establish the universal character of the new organisation. It wishes to lose no time in putting its new powers at the disposal of the world for the furtherment of social progress. It accepts the idea of an inquiry in Russia. In March the scheme is definitely arranged. Since that time the Governing Body has undertaken a large number of new schemes. The International Labour Office has shown its interest in every question appertaining to conditions of labour. It has endeavoured to show itself ready to assume responsibilities in any sphere where it could be expected to render useful service.

No one can reproach the International Labour Office with having neglected any of its tasks or with letting slip opportunities of proving its existence. Rather has it been criticised for its ambitions. But when everything is taken into account and the work is judged as a whole in its proper proportions, who will wish that the opposite kind of criticism should be provoked? Is it not better to be criticised for doing too much than too little? What human organisations require at their birth is a little daring and a little faith.

Almost within a year of its foundation, the International Labour Organisation has had an opportunity of learning where it must expect opposition and of watching hostility develop in various quarters. It has had to reckon with the possibility that a limit may temporarily be set to the high hopes which have been placed in it. A year has elapsed, a year of invaluable experience, in which the vision has become a reality, a living reality, struggling with other realities.

First there is a fundamental difficulty, the difficulty of creating, whether in the domain of labour or in any other, a really international life. The mechanism of national life and all the ancient traditions which enshrine it no longer allow individuals to remain isolated. The acts of the collective national existence have become the necessary and natural acts for each individual. International activity, on the other hand, still remains an artificial and voluntary matter. The tender plant can with difficulty strike root in the stony ground of the shell-swept battle fields, and, similarly, in the world at large, the ravages of war have not left soil enough for the new international organisations.

It was easy to foresee that the ratification of Draft Conventions and the application of Recommendations by means of legislative measures would be retarded and thwarted by the delays of officialism, by the inertia of public opinion, by the indifference of statesmen preoccupied with the daily party struggles or with the pressing demands of national life. Everyone with experience of Parliamentary life knows the difficulty, especially at times like this, of getting bills relating to labour introduced. It has often been necessary to wait years to obtain the passage even of bills bearing directly on the economic prosperity of the nation – mining development, building of railways, etc. Even supposing that the initial confidence had been maintained, even supposing that everyone remained loyal to the spirit of Washington, the daily task by itself was still a heavy one.

But this is not the worst. A reaction has set in, a reaction against the spirit of Versailles and of Washington, a reaction against all enthusiasm for social conciliation and generous reforms. The workers in their Conferences have denounced in a brief phrase the European “political reaction”. It is not for us here to measure the reality lying behind such a phrase. But to grasp the situation it is sufficient to follow (as is part of our function) the evolution of public opinion and Parliamentary measures in matters concerning the eight-hour day.

Certain reservations it is true have been expressed: fear of diminished production, fear of the effects of excessive leisure, fear of social indiscipline and novel experiments. But the general idea had everywhere been that means would be found of reconciling the needs of production with the advantages of the short day. At Washington all members of the Conference – Government, employers’, and workers’ delegates – except one, voted for the proposal. But for a year past the universal and it would seem irresistible movement in favour of the eight-hour day has undoubtedly suffered a check. Opponents of reform have organised public campaigns and exploited the

fear of under-production and of a strike of consumers against high prices. Bills in its favour are no longer brought forward. The ratification of the Convention [Hours of Work (Industry) Convention, 1919 (No. 1)], which seemed in certain States to be a mere formality, has been delayed. Other States, in spite of the votes of their delegates, have declared themselves opposed to ratification.

Here is an unmistakable sign of the change of temper. At the time when Part XIII was accepted, it appeared that nations were anticipating the principle inserted in its preamble which guarantees labour reforms by the adoption on the part of all nations of more humane labour systems. They were separately and spontaneously deciding to secure such a system for their citizens. They had not waited for others to take the lead in enacting, for example, the eight-hour day or the prohibition of night work for women. But to-day the dominating sentiment is once again the fear of competition.

And so, to consider merely the ratification of the Washington Conventions, difficulties have increased from day to day. Yet the only points at issue here are reforms explicitly promised by the Peace Treaty, expressly mentioned in its text as the Agenda for the first Conference, – generally by large majorities if not unanimously.

Since October the Governing Body has been directing the attention of the Governments to this situation. The Congress of the International Federation of Trade Unions, which met in London in November, expressed the impatience of its members to get the first measures of international labour legislation ratified. It will need much resolute perseverance to apply in the case of every nation the complete system of procedure provided for in the Treaty.

New objections, more fundamental and more vigorous, are being raised to the Conference of 1921. This Conference is due to take place at Geneva in October next. Its Agenda had been drawn up, almost without any objection being raised, a year ago. To-day in agricultural circles hostility is becoming manifest. Not only are the principles of the Washington Conventions in question, not only is objection made to the *adaptation* of the eight-hour principle in agriculture; not only that, but the very right of the International Organisation to deal with agricultural questions at all is questioned. Thus the very principles of the reforms whose benefits the Treaty of Peace wished to secure to the wage-earning class are put in question. In certain circles the view is growing that the Organisation should limit its work to the application of the reforms which have been proposed, that it is impossible to advance further and that it is stupid to pretend, as an eminent statesman has said, “to impose a system of international legislation every year.”

The International Labour Organisation, like every international organisation, may appear to be, even by its very existence, a danger to national sovereignty. Mr. Léon Bourgeois has taken pains to show in many speeches that the League of Nations, and even more its International Labour Office, cannot pretend to be the super-State of which people have dreamed. He has taken pains to show that the powers of the International

Organisations can rest only on the spontaneous agreement of States. Every initiative taken by a new organisation, however legitimate it may be in itself, and however far it has secured agreement in advance, runs the risk of seeming indiscreet or irritating. For the International Labour Organisation the situation is particularly delicate. The reproach has sometimes been made that those who founded the League of Nations did not place in the forefront of the Covenant [Covenant of the League of Nations, of 28 June 1919] a general declaration defining the fundamental principles of the policy of the League. Part XIII of the Peace Treaty, on the other hand, includes such a declaration. Its preamble and Article 427 determine the principles which ought to guide, in the realm of labour, the policy of the League of Nations.

In the document, the High Contracting Parties have, so to speak, engaged themselves to respect certain general rules with regard to the protection of labour; for example, the right of association, regulation of the hours of labour, an adequate living wage, and so on. The world of labour, which inspired by its claims this charter of labour, is very naturally ready to turn towards the International Labour Office to request it to secure respect for these rules, whenever it considers that they have been violated. In the view of certain workers' leaders it would seem that the Office ought to become a kind of moral power, comparable to the Papacy of the Middle Ages, able to intervene and impose peace in social conflicts, as the Papacy intervened in the struggles between Princes. Thus, from age to age, the same aspirations towards unity and peace recur.

The truth is that the Permanent Labour Organisation cannot accomplish its tasks and that it cannot acquire the moral authority which is necessary, unless it retains the support of the public opinion of the world, and unless this support becomes from day to day more complete and more considered. This is a view which Lord Robert Cecil strongly expressed in the first Assembly of the League of Nations. International action is only possible if it has the support of public opinion.

In accordance with its constitution the International Organisation is called upon to address to public opinion a kind of permanent appeal. The Labour Conference includes among its members not only the representatives of Governments but also the most representative of the employers' and workers' groups in each country. It ought, therefore, to seek their support. As has been said above in giving an account of the origins from which the Office sprung, the only satisfactory legal protection is found in the co-operation of the interested parties. To this initial co-operation are due the first successes of the International Labour Organisation.

It is impossible to overlook or to deny the disturbed and unhappy state of mind of the world of labour. Even if there is no need to dread manifestations of violence in countries with an old civilisation in which democracy rules, it must be recognised that at present, perhaps because of certain delays in reform or reconstruction, a spirit of doubt is growing. Many ask if the hope of a great peaceful transformation in the industrial sphere by the collaboration of all is still justified.

The great national organisations, and even more the International Federation of Trade Unions, after thorough discussion and with full knowledge of the facts, have affirmed their confidence in the fruitfulness of the work undertaken by the Labour Office.

For a year all these difficulties have accumulated as a natural result of life itself. An organism lives only in so far as it provokes, whether involuntarily or not, conflicts and disturbances. It is necessary to overcome these conflicts. Bureaucratic and parliamentary delays, retrogression in public opinion, hostility on the part of interests which find themselves threatened, the anxieties of Governments, the impatience of the masses; all these have to be considered.

Will the work that has been undertaken be performed in all its universality? Is there not a risk that its results will be incomplete and precarious? Is it not even exposed to sudden changes of opinion? Are not the sceptics right? Are not the most enthusiastic and the most ardent believers most subject to haunting doubts?

## The possibilities

There is no reason either to despair or to doubt. If the limitless hopes in the midst of which the Office was born are deceived by hard contact with reality, if generous and confident impulses have changed into the hostility either of interests or of ideas, there is no reason to close one's eyes to the possibilities of the future.

General Gallieni used to like to say, "great generals are pessimists". The hazards of great social experiments, like the vicissitudes of war, tend to engender pessimism.

In hours of difficulty one thing alone matters – to adopt a clear policy, a method of action clearly defined and based on full examination of the difficulties and the possibilities of the situation.

The International Labour Organisation is a necessity; a necessity of which the world has been aware for 50 years, and which the harshness of war has made fully evident. Whatever obstacle it meets, whatever resistance opposes it, it will live.

A journalist asked me the other day, "Do you think that the International Labour Office can live?" "But", I replied to his surprise, "it has already existed 20 years". The International Labour Office continues the work of the Office of Basle, of the International Association [... for the Legal Protection of Workers]. Provided with new resources, with the support of public opinion throughout the world and the possibility of recourse to sanctions, it will not only live but will attain a growth and influence we are not yet able to foresee.

The reconstruction that has come with peace, the new situations which have arisen, the relations between the various peoples, have one and all increased the necessity for knowledge. Uniform methods of observation and procedure in investigations, standardised principles and practices in

statistics, are more than ever indispensable. Every day requests for needful information stream into the International Labour Office and replies are sent out. When the Scientific Division is adequately staffed and is able to deal with these inquiries promptly and fully, it will be impossible to overthrow the new Organisation.

At the present time international labour legislation is by no means at a standstill. Certainly, ratifications of the draft Conventions come but slowly. Parliamentary procedure is tediously long. Undoubtedly, too, future attempts to promote international legislation, to make it more complete, to extend it to other fields, will meet strong opposition or will have to encounter an inertia which is the more to be feared inasmuch as it is less premeditated.

Yet, in spite of the fact that the Conventions for the time being will only be applied in a limited number of countries and will thus come short of the universality which is desirable, the practical progress thus made in the course of a single year can by no means be considered negligible.

To begin with, there are always the definite pledges made by the States which signed the Covenant. In a way they are sanctioned by the social consequences of the war. The mere placing of a draft Convention before a Government necessarily compels it to consider the question of social legislation. Under the new Organisation international legislation can neither be ignored nor smothered.

Assuming that the state of public and political opinion is not such as to cause the draft thus brought before Parliament to be embodied in the labour legislation of the country concerned; assuming that the decisions arrived at by the Conference result in tangible reforms for only a very limited number of countries; assuming that at some future time it may be necessary to follow the sound advice given by Mr. Barnes and limit Conventions to reforms that have already been adopted by most of the chief States and which would consequently obtain their votes; even then, whether considered group by group, category by category, or industry by industry, the partial results thus obtained would nevertheless make for the well-being of the workers. Moreover, if the progress which has already been made by the more advanced States is crystallised in the form of international Conventions an undoubted guarantee is given to the working classes. The submission of the eight hour day in an international Convention renders more likely its successful adoption by the national Parliaments.

The international codification of a reform which has already been adopted by some States tends to impel others to bring conditions of work in their own country up to those prevailing in States which have adhered to the general agreement. Moreover, allowance is made in the Conventions for such States, particularly those with tropical climates, so as to make the reform less sweeping in nature, while yet representing a first step in the direction of progress. Yet again, should they not wish to ratify a Convention as it stands they are nevertheless constrained to introduce legislation as some proof of their willingness to join in the general movement. For instance, a State desiring special conditions or further exceptions with regard to the

prohibition of night-work for children in certain industries might not ratify the Washington Convention, but might nevertheless pass a new law, excluding the two or three industries which for the moment it wishes to leave unaffected, but prohibiting night-work in all others. Such progress would be ascribable, indirectly, but none the less certainly, to the International Labour Organisation.

Finally, to take the worst possible case, suppose that the most moderate Conventions are not adopted. It might happen that the various States would reject in their own legislative assemblies even the very mildest type of reforms. Yet the effort towards international legislation thus begun might nevertheless result in the continuation of negotiations between the various parties and end in the adoption of a direct agreement of a conciliatory nature, which, although precarious, although concluded for a short time only, would yet be better than the bitter struggles between workers and employers which are so disastrous to social and economic well-being.

The sequel to the Seamen's Conference at Genoa is well-known, and need not be referred to again. The part taken by the Office in this matter is, most undoubtedly, one of the strongest proofs it has furnished of its influence and usefulness.

At the last Session of the Governing Body certain of its members, disturbed by the difficulties which might arise as a consequence of the activities of the Office in various spheres, drew attention to the necessity of limiting these activities and keeping them strictly within the bounds defined by the Treaty with regard to international legislation. The advice is good. The many and varying conditions and circumstances arising day by day may well arouse the attention and interest of a new and energetic organisation. But even if the Office is able to confine itself strictly to its duty of promoting legislation, if the Conferences forbear to exercise such rights as they may possess to give it further mandates, the mere task of promoting labour legislation will necessitate the most intense and continuous activity.

The idea envisaged by the framers of the labour clauses of the Peace Treaty was immense. They had primarily in mind the conditions of labour in the great industrial countries. Nevertheless economic traditions, time-sanctioned customs, the special circumstances brought about by climatic and natural conditions, were all taken into consideration. The task they set the International Labour Organisation was that of using all means at its disposal to defend human labour throughout the world.

The world to-day is strangely troubled. The bitterness of war is not yet allayed, the misunderstanding, the differences of mentality, the suspicion and hatred, which divided one nation from another during hostilities are still rife. Yet at the same time the economic interests of nations are more than ever interdependent. France wonders with anxiety whether the reconstruction of German industry, which is indispensable if the reparations programme is to be carried out, will not some day menace her own industrial progress by renewed competition. Germany, on the other hand, is fearful at the thought that during long years her working population will be reduced to

something resembling economic slavery. America sees herself driving towards a formidable crisis in which problems of labour are closely connected with problems of finance and exportation. Never before, perhaps, in the chaos of foreign exchanges, has international competition appeared more important, and after a period of seeming hesitation, it is quite possible that many states will now demand international labour legislation more insistently than ever.

Moreover, post-war social problems no longer present themselves in the abstract simplicity which they sometimes assumed before the war. It is no longer possible to separate them from the whole economic question. This is keenly appreciated by employers, who understand to what extent reforms in labour legislation frequently affect not only profits but also production. The workers, too, realised this energetically if not so clearly, when their trade union organisations demanded an independent voice in the conduct of public affairs. It seems certain that henceforth the continuity and efficient management of labour will depend on the general administration and policy of the various governments.

The Governing Body appreciated the truth of this when it approved of an enquiry into production in connection with the 8 hour day, and decided to attempt to appreciate the various factors which affect production.

Nowadays during unemployment crises, it is not merely relief or employment that is demanded, but the whole system of organisation of industry, distribution of raw materials, and foreign exchange is called to account.

Although the Office devotes itself strictly to the task of promoting legislation along the lines and by the methods laid down by the Treaty, nevertheless by force of circumstances it must necessarily touch on the whole social and economic question. By abstaining from premature and dangerous interventions it will show the regard due to the principles written into the Peace Treaty; by international legislation, by the application of conventions, it will make these principles realities.

Besides, the work has only just begun. The first Conventions will come into force in such countries as have ratified them as from the 1st July of this year. Others will not take effect until 1922. All the problems in connection with their application – reports, inspections, inquiries, complaints, and ultimate recourse to the Permanent Court of International Justice – will then present themselves. Then alone will a system of international labour jurisprudence be established. Then alone will the labour laws of the various countries begin to resemble one another in their every-day application. Then alone will this international legislation really commence.

Who can predict what the position of the International Labour Office will then be?

Already two great “peoples” have to a certain extent recognised the large part the Office can play in conciliation and protection. First of all there are the shipowners and seamen, a truly international “people”, who are in continual communication with the Labour Organisation, and who on all



occasions are anxious to secure its presence and authority to help solve their peculiar problems. Then there is the immense "people" of emigrants, the masses who, uprooted from their homelands, ask for some measures of security and protection applicable to all countries and supervised by an international authority.

Some governments have of their own initiative asked for such intervention for the purpose of obtaining an international ruling concerning labour questions arising between ex-enemies. Article 312, by which a Commission appointed by the Office is entrusted with the task of settling questions concerning social insurance in districts transferred to new states, provides an opportunity which is not to be neglected.

Thus, the possibility, or rather the necessity, for action appears clearly in spite of all opposition. Some courses are clear and certain and cannot be disregarded.

Are these possibilities much removed from the intentions of the originators of the Organisation? At first sight it would seem so. In reality, however, it may prove otherwise. In any case there is an obvious connection. The application of the solemn principles laid down in the labour charter may yet seem far off and uncertain. As a matter of fact they are already beginning to be applied.

To those who still doubt; to those who, having hoped, now anxiously wonder whether this hope was justified; to those who are tempted to lose faith in an organisation which has been in existence for hardly a year; the questions may be put: Do you know of any other methods which have proved effective? Have you any means of realising practically the high ideal of justice laid down in the Covenant of the League of Nations?

Has Bolshevism, which exercises a powerful fascination for the masses, shown itself capable of doing anything more than organising a Jacobin dictatorship on the one hand, and of causing discontent and poverty on the other? To what constructive work can it point? Has it really secured for men, women and children the hours, wages and hygienic conditions provided for in the labour charter, or even the conditions of life which the traditions of labour legislation promise to the world?

As a result of Bolshevism the former socialist International has been broken up. Its numerous fragments spend their time in discussions of principle, while most of the various national groups of which it is composed have not sufficient influence to affect legislation or state policy.

Even if from the point of view of policy they are thinking rightly, what immediate hopes of betterment do they offer to the wage-earners?

Certainly, in spite of loss of influence, in spite of various checks, in spite of the internal dissension threatened by extremist propaganda, the great trade union federations of the industrial countries are still a living and essential force which makes for the development and application of international labour legislation.

For two years the International Federation of Trade Unions, in spite of all difficulties, in spite of all delay and opposition, has continued to declare

the necessity of an international labour organisation. In spite of hostile suggestions it has striven to obtain the maximum of activity from the existing Organisation.

Even if the International Labour Organisation should only be a scientific information service at the disposal of all employers, workers, and students, who are seeking the social justice which is the guarantee of international peace, even if the Office only registers the progress made in various countries, even then the International Labour Organisation would be an invaluable cog in the machinery of social evolution. Even then it would still be worthy to hold the attention and to utilise the activity of men who would still keep in their hearts a more daring ideal, but who, in the present confusion, see no other effective means of ameliorating poverty immediately or of hastening the advent of a juster world.

To conclude: during that unique period dating from the Berne Congress to the Washington Conference, workers, governments, and employers believed in the possibility of creating an organisation which would be able to minimise the injustice, poverty and privation suffered by the great mass of wage-earners. This thought they had in common.

The International Labour Organisation is, as it were, the outcome of that remarkable time. The spirit which should still animate it may have been dulled by the resumption of social warfare. Its powers nevertheless remain intact. Conventions embodying even a half-hearted justice are none the less possible. The first foundations remain firm.

It was during such moments of intense and unanimous faith that the communes of the Middle Ages decided to build their cathedrals. Then, often enough, the violent, bloody struggles of party against party, class against class, would recommence. Yet, slowly, through the course of centuries, the cathedrals rose stone by stone, as it were the visible witness of that first act of faith.

Similarly, on the bold plan of its first builders, the International Labour Organisation will also rise.

# The international trade union movement and the Labour Office

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As in the case of all events of world importance, it is not yet possible to draw up a balance sheet of the war which has just ended after having desolated the world for so many years. We still feel the smarting wounds produced by the scourge which has lashed humanity; ours is a generation which for scores of years will be undermined by diseases and infirmities of every kind, a humanity demoralised and an economic life thrown into disorder, without the possibility of knowing for the moment the means of remedying the situation or even of bringing the slightest relief in the near future.

What is the percentage of productive energy lost through this war?

Not only have millions and millions of men, and those the youngest and strongest, died on the field of battle, but those who have come back from the war to resume their intellectual or manual labour have lost much of their capacity for work. Men who have had to live underground like beasts for four years and a half, exposed to privations of every kind, no longer possess their full aptitude for work, with the exception of an insignificant minority endowed with superhuman strength. Those who are called upon to resume productive labour have lost a great part of their physical vigour, of their nervous resistance, and of their aptitude for reflection.

Those who have not acquired lassitude and repugnance for work, during the years in which they have been employed only in murder, are heroes such as the history of the world has never known before, and if there are any who have not suffered physically or morally their constitution must be quite exceptional. This violence has resulted in an enormous loss of the productive capacity of the world. Moreover, the world is face to face with an alarming shortage of products, owing to the fact that for years millions of men who were formerly engaged in production have been engaged in the work of destruction, while continuing to consume.

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These facts are hardly encouraging for the future. In default of extraordinary measures, the result will inevitably be an impoverishment without example in recent centuries. Some bright points, however, stand out against this background of misery.

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At the time of the foundation of the League of Nations, the Governments considered particularly the state of the working classes in the various countries; the immediate consequence was the institution of the Permanent Labour Office set up by the Treaty of Peace.

Another subject for rejoicing is the fact that the workers of the different countries have so quickly come together again, so that the Labour Office lends support to and receives support from the International Federation of Trade Unions which was re-established last year at Amsterdam.

The principles laid down in Chapter XIII of the Treaty of Peace and the measures agreed upon in the same Chapter regarding the right of the workers to more favourable conditions of work in factories and work-shops, particularly in the countries in which trade union organisation was still defective, have certainly a real importance.

Of still greater importance is the provision in virtue of which the first indication of the international organisation of nations was to be the constitution of an annual Labour Conference for discussing labour problems, which would open the way for agreement between the Governments and the producers of all classes. The most important article of Part XIII is, perhaps, that which requires the workers' and employers' delegates to the annual Conferences to be chosen from the most representative organisations of each country. The consequence of this is that the most living and energetic part of the population is called upon to collaborate in this work for the protection of those who participate in production.

From the point of view of the history of our epoch, it is undoubtedly interesting to observe that the initiative in this direction was taken by the leaders of the workers' organisations themselves. They were the first to call public attention to the necessity of taking measures on a large scale, with a view to re-establishing and, if possible, increasing the productive capacity which had been so greatly impaired by reason of the losses sustained by the working class. It was they, too, who founded the new Trade Union International, and made it in a short time a living and life-giving force in the world, just as the Governing Body of the International Labour Office has made that institution so vigorous in the course of a few months.

Formerly Governments reached their decisions without consulting the workers' organisations. The war has shown the Governments the power of these organisations, a power which, properly utilized, may cement the whole economic system and safeguard our well-being and civilization, but which, if neglected, will inevitably become a force overwhelming all others.

The Supreme Council has recognised this influence by its appeal to Labour on behalf of the reconstruction of the world, and as the Labour movement has responded to its appeal, it would be dangerous to obstruct its collaboration in that reconstruction and to force it to choose other ways, whether the obstruction comes from the Governments or employers.

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The reconstitution after the war of the International Federation of Trade Unions by the workers of the different countries is a fortunate event also from another point of view.

In addition to the support which it can give to the International Labour Office, it is capable of working in other ways for the reconstruction of the whole world by the guidance which it is able to give to the workers' organisations and by keeping a watch on the measures for the protection of Labour taken by the Labour Office.

The foundation of the International Labour Office would, perhaps, have been possible without the existence of workers' organisations. Its working, however, is possible only with the active assistance of these associations. That is to say, the introduction of good social legislation in all countries, the making of enquiries, the collection of the necessary information for the purpose of finding the right way to reconstruct the economic life of the peoples, would certainly be impossible without the support of these organisations. It is a fact that the International Federation of Trade Unions and the International Labour Office are in a great measure predestined collaborators.

It goes without saying that this collaboration will not fetter the International Federation of Trade Unions in any way. In working for social legislation in collaboration with the International Labour Office, the Federation retains the right to apply the ordinary methods of the labour movement for attaining its objects, that is to say, to endeavour to improve the position of the working class, if possible without force or coercive action, but also, if it becomes necessary, without shrinking from the most energetic measures.

In spite of the serious imperfections presented by the new institution of the League of Nations, the organised workers see in it one means for serving their interests, while they reserve the right to do all in their power to remove those imperfections.

They do not forget that the number of their Delegates at the Annual Labour Conferences and on the Governing Body of the International Labour Office is insufficient in proportion to that of the representatives of the Governments; neither do they forget that the designation by the Treaty of Peace of the countries considered of the greatest industrial importance is one-sided and has no value as a criterion of the importance which a country has in the society of peoples; neither do they forget that the system of annual Conferences and of the method of work at such Conferences is susceptible of

considerable improvement, and that the Resolutions of such Congresses should be binding on the Governments.

In spite of these imperfections, they accept this new institution, convinced that its defects can be remedied by their influence, and that the removal of those defects is the *conditio sine qua non* of the development of the International Labour Office.

We have already spoken of the danger which the Governments would incur by any departure from the road on which they have set out. This reflection is suggested to us by the obvious indolence with which more than one Government is setting to work to apply the Resolutions of the Washington Conference [i.e. the First Session of the International Labour Conference, held in 1919], which induces the belief that they are collaborating against their will with the International Labour Office.

In that case the collaboration of the International Federation of Trade Unions will be of even greater value to the Office, in view of the formidable power represented by 27 million workers united for a common end. For, though the International Office can only press the Governments for the loyal execution of the Resolutions adopted at the annual Conferences, the International Federation of Trade Unions can rally the national centres to an effective struggle for the application of the Resolutions; if the necessity should arise, the Federation will not fail to act.

So long as the International Labour Office continues to be animated by the spirit which has animated it since its foundation; so long as that Office remains under the present intelligent direction; so long as that Office continues to serve Labour faithfully, by heartily supporting the interests of the workers; so long as the Office aims at increase of production whilst safeguarding the human forces of production; so long as it shows its determination to protect the life and health of the workers, and to take all possible measures for the reconstruction of our disordered economic world, – that Office may count upon the support of the International Federation of Trade Unions.

## Industrial government

John R. COMMONS \*

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**I**n the summer of 1919 a number of students with myself visited some thirty establishments from Wisconsin to Maine. We were looking for successful experiments in labour management.

We saw that each establishment visited was experimental. Each was looking for experiments elsewhere. Nothing is settled in the field of labour, but everything is being settled every day. We naturally distinguished personality from system. But we found that even that distinction was treacherous. Gradually certain establishments began to stand out as distinctive. Each had something that was unique. Sometimes its distinction sprang from its system of organisation; sometimes from a dominating personality that seemed to override system. Yet even that personality had a system.

We tried to find something on which to hang the facts in each business concern. One of the concerns, a large men's clothing house of Chicago, stood out as a struggle for power between organized capital and organized labour; another, a department store of Boston, was just plain health and happiness for its workers; a great auto factory showed faith in people of all sorts and conditions; a large knitting mill depended upon faith in the management; another motor company was getting employees to think about the future of the business; a piano factory of Fort Wayne was co-operative speeding-up; a men's clothing factory of Cleveland was minute measurement of human motives in terms of money; a big card and tag manufacturing company was emancipation from absentee owners and government by the imaginative minds active in the business. All were trying to sell efficiency to democracy. We did not come across any scheme of Profit-Sharing, in the usual sense of that term.

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All of them, of course, had features in common, but these ruling ideas stood out rather clearly as we neared the end of our journey, when we could look back and compare them one with another.

All of them were very alive and were making great changes in short periods, both in system and personality. A manufacturing concern of Milwaukee was passing from autocracy into government by employees; a printing firm of Philadelphia from scientific management into unionism; a street railway company of Milwaukee from welfare into self-government; a clothing manufacturer of Cleveland from a political to an industrial form of government.

One interesting fact was found: the sudden or gradual moral conversion of an employer from business to humanity. Employees noted it and could not at first believe it, or were still incredulous and told us about it, and so did the employer himself. In some cases it was unionism or strikes that did it. In others it was business foresight of the labour problem. In others it was sermons by an industrial evangelist.

We noted also certain obvious contrasts. In one case output had fallen off two-thirds, wages had doubled and prices took care of both. In others efficiency had increased nearly as much as wages, so that the increased cost of living was nearly paid for by increased output per man. In some cases wages had not kept up with the cost of living; in others they had far exceeded the increased cost. In some cases labour-turnover was down at astonishingly low figures compared with the industrial world in general. In some cases seasonal industries had been stabilized so that no employee is laid off. In others a reserve army is depended on for elasticity. In others the rapid growth of the business has overcome instability of employment.

We learned not to say "Industrial Democracy". We say "Industrial Government". We find widely different things done in the name of Democracy. The main thing is that they are being done by very vigorous men and women, who are going after things, and are making things buzz. Every one of them is a live idea getting itself into action. Forms of government are adapting themselves to ideas and conditions.

Yet we were not under illusions. We looked up experts in industrial government. It is astonishing what easy marks for experts many employers had become in the summer of 1919. From all sides and several vocations these experts were coming in and setting themselves up. They got long-distance calls from employers to hurry up and come at once. They lifted the employers' pocket-book at will. One would think that the capitalistic system was crumbling, in that employers had lost the power of discipline. In some cases we found that they had actually abdicated and turned the labour end of their business over to professors. Just what it all portended was a puzzle. Certainly the temporary scarcity of labour was a leading fact, and employers began to regain their independence and reduce wages in 1920.

We do not convince ourselves that the establishments which we visited were typical of industry as a whole. They seem, indeed, to be successful, with one or two exceptions, for the present, along new lines. One of these



employers said that 25%, another that not more than 10% would be a liberal estimate of the proportion of employers in general who were alive to the modern labour situation and were meeting it in the new way which they themselves were trying.

Our conclusion, therefore, is statistical. From 10% to 25% of American employers may be said to be so far ahead of the game that trade unions cannot reach them. Conditions are better, wages are better, security is better, than unions can actually deliver to their members. The other 75% to 90% are backward, either on account of inefficiency, competition, or greed, and only the big stick of unionism or legislation can bring them up to the level of the 10% or 25%.

We see the process going on continuously, and can compare the results over a period of time. Thirty years ago two great industries, the steel industry and the newspaper industry, were working 11 to 12 hours daily, seven days a week. In the steel industry unionism was defeated at the Homestead strike of 1892. In the printing industry a strong organisation grew up, based on the "closed shop". Now, after thirty years, the steel corporation, with its "open shop" banner, works a large part of its employees 11 to 12 hours a day, seven days a week, but the printing industry with its "closed shop" works them only 44 to 48 hours a week. In the steel industry wages go up and down like the prices of commodities determined by the import and export of labour. In the printing industry wages are "standardized and stabilized" according to humane principles, and the printer earns more money (in terms of purchasing power) for eight hours than he earned for 12 hours' work. In both industries revolutionary improvements in processes of manufacture have been introduced, displacing the labourers or enlarging their product. In the steel industry the results of those improvements go only into profits for the owners and reduced prices for the consumers. In the printing industry the improvements have made newspapers cheaper and larger for consumers, have increased the profits of the owners and have shortened hours and raised wages. In the one industry only the owners and the public participate in the progress of the nation. In the other, the owners, the public *and the wage-earners* participate.

With such a contrast, it cannot candidly be said that the "closed shop", with its restrictive policies in the printing industry, has been disadvantageous to the nation, and that the "open shop", with its unfettered policies in the steel industry, has been advantageous to the nation as a whole. The steel corporation has kept ahead of the game, not by doing better than the unions can do, but by doing worse, and doing it under the name of liberty and the open shop. We did not make a point of investigating, in this trip of ours, establishments that keep out the unions by doing worse than the unions, but those that do better than the unions. The open shop may be either a cloak to hide long hours, competitive wages, and voiceless workers, or it may be freedom for the management in furnishing reasonable hours and fair wages for manly workers. We tried to find the latter and to find out how they do it.

No one can squarely defend all of the restrictive policies of unions, but if they are carefully examined, as we tried to do, they will be found to be not so

very different from the restrictive policies of employers and of non-unionists. In all cases these policies have their source in the knowledge that there is not, at all times, enough work to go around, which is but saying that there are not, at all times, enough markets to take all the work at fair wages and all the product at profitable prices. In the summer of 1919 almost every establishment in the country was bending its energies to get the workers to be more efficient and to get out more product. In less than a year they began laying off the same workers because they were getting out too much product. The workers were restricting output in 1919 in order to make more wages – then the employers were restricting the output in 1920 in order to keep up prices. In one case it seemed to be unjust – in the other it is good business. It would seem that what is needed by both is stabilization and standardization.

We do not find that “labour” wants to participate in the financial responsibilities of ownership. At one extreme we found an organization of labour in the clothing industry, strongly socialistic, which has put off its ideal indefinitely into the future, because its thousands of inexperienced members know that they are not ready. At another extreme we found the organisations in the printing industry composed of the most intelligent workers in modern industry, some of whom have been employers and failed, and they want somebody else to take the responsibility. Even the employees’ shop unions, which we found, in two or three cases, had gradually taken over a very large participation in shop management, draw the line distinctly at the point of financial responsibility.

In fact the whole history of labour organisation shows that “labour”, as such, cannot manage industry. The older unionists have learned by experience. They have seen it break down and seen it succeed, and in either case, labour, as such, has lost out. For, when their co-operatives succeeded, the members closed their doors to new members and began to hire wage-earners on the market, like other capitalists, and eventually went over to the employers’ side of the game. If they failed, labour of course lost out. If they succeeded they knew a good thing too well to let in anybody that came along. Labour, as such, is made up of young labourers and new labourers continually coming in, without experience or discipline. It is even immoral to hold to this miscellaneous labour, as a class, the hope that it can ever manage industry. Labour, as such, in control of industry breaks down on discipline, on credit, on depreciation accounts, on planning for the future, on finding managers who can shoulder responsibility. But if it seems to succeed on these points, it is because certain *individuals* succeed, and then those individuals immediately close the doors, and labour, as a class, remains where it was.

What we find that labour wants, as a class, is wages, hours, and security, without financial responsibility, but with power enough to command respect. This is seen at several points. Security in a good job is the very heart of the arbitration plan which we found at Hart, Shafner and Marx, clothing manufacturers. Suspicion of absentee owners, who seem to take no responsibility of management, yet are there when they can take off the surplus earnings in time of prosperity and lay off the workers in time of

adversity, has been largely removed in certain establishments, the White Motor, the Ford Motor, the Wayne Knitting Mills, Filenes', and the Dennison Manufacturing Companies, and this explains in part their success.

If we are right in this, that what labour wants, as a class, distinguished from what individuals want, is nothing more than security in a good job with power to command respect, then so much the greater is the opportunity and responsibility of management. Management, then, becomes responsible, not only to the stock-holder, but also to the workers and the nation.

Modern capitalism has been built up on security of investments. It is not labour, or management, or machinery that produces wealth – it is the credit system, and the credit system is nothing but confidence in the future. Without the credit system there might be production of wealth, but it would be hand-to-mouth production of individuals who dare not trust their products out of their own hands, and society would sink back into feudalism and violence.

But while capitalism is based on security of investment, it has not provided security of the job. Modern socialism is but a reply to the old theories of political economy, which assumed that everybody was employed all the time, and that the elasticity which brought this about was the rise and fall of prices and wages through demand and supply. Karl Marx replied that the elasticity of the system was not in the law of demand and supply but in "the reserve army of the unemployed". And Marx was right. But he concluded that capitalism could not cure itself, and if so, that there was nothing left but revolution and its overthrow. Socialism, anarchism, and trade unionism, all have their source in this fear of unemployment and the inability of capitalism to give security to the job as it has given security to the investment. They are wrong in so far as they conclude that by destroying security of investments they can obtain security of jobs.

They are wrong, too, in so far as they conclude that capitalism cannot cure itself. The outstanding fact of our investigation is the importance of management. Instead of capitalism moving on like a blind force of nature, as Marx thought, here we see it moving on by the will of management. It is management that attracts capital through the confidence of investors, for the bulk of investors, like the bulk of labourers, do not want [to] and cannot manage industry. It is management that attracts labourers, but, if our conclusions are true, seventy-five to ninety per cent of management attracts labour, not by confidence in the future but by fear of unemployment. And so, when "labour" has no fear of unemployment, in times of prosperity, it "lays down" on the job, and when it fears unemployment, in hard times, its so-called "efficiency" increases. This is a curious paradox. In good times, when there is a shortage of products, labour enlarges the shortage by working slow; but in hard times, when there is a surplus of products, labour enlarges the surplus by working hard. This is not good business, from any standpoint, and it is because management has not learned how to utilize hope and security for purposes of discipline in place of fear of unemployment.

That it can learn and is learning, we have found to be true. In the White Motor, the entire policy turns on getting the employees to think and plan for

the future, with the management. In the Plimpton Press, the Wayne Knitting Mills, the Dennison Manufacturing Company, the Joseph and Feiss Company, a good record has been made of balancing the sales department with the production department, so that no man is laid off in dull seasons or years. In the Milwaukee Street Railway absenteeism on account of sickness has been reduced one-half by health insurance. In other establishments which we visited, when the market slumped in 1920, the shop unions of employees were given the problem of meeting the situation and met it by laying off first those that were willing, then those without families, then shortening the hours all round for those that remained. The Dennison Manufacturing Company prepared the way in the profitable years of the war, by setting aside an "employment fund" and then left the matter to its employees, through their representatives, to dispose of that fund and to enlarge it. Others have set up old age pensions.

On the whole we have seen enough, in these establishments, to be convinced that management can provide security of the job if security is deemed important enough. It is, of course, not a simple matter to work out the details, and three-fourths to nine-tenths of employers cannot be expected to do it without pressure. That pressure was brought, in the case of unemployment through accidents, by the workmen's compensation laws. Those laws are, in effect, a tax on accidents, which can be evaded by preventing accidents. And accident-prevention has already, within ten years after the first laws, become a big feature of American capitalism, with its well-paid safety experts. They have even set about the education of the children in the schools and the education of the public on the streets, with the immediate result of greatly cutting down accidents in the factories. In fact, capitalism, in the effort to cure itself of the insecurity of accidents, is doing more than politics, trade unions, schools, and all the rest of the public together have ever been able to do, for the public at large. It is simply because management, by the pressure of a tax on accidents, has begun to feel its responsibility to the workers and the nation.

Likewise it may be expected that a tax on absenteeism through sickness, which is health insurance, and a tax on unemployment through lay-offs, which is unemployment insurance, will bring capitalism as a whole to do what the establishments we visited have done, in reducing sickness and stabilizing employment. They are showing that it can be done, and the only question is: Is it sufficiently important to require all the others to do it? If it is sufficiently important and the insurance-tax is sufficiently great and accurately imposed, then capitalism will find the way to do it. Capitalism can cure itself, for it is not the blind force that socialists supposed and not the helpless plaything of demand and supply, but it is Management. And the greatest self-cure that it needs to-day is security of the job, for it is the insecurity of jobs that is the breeder of socialism, of anarchism, of the restrictions of trade unionism, and a menace to capitalism, the nation, and even civilization. Our investigations show beginnings in this self-cure of capitalism.

# International labour law

Ernest MAHAIM \*

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It is no longer necessary to demonstrate the fact that international labour law can exist. The day has gone by when conservative jurists rejoiced in the failure of the Berlin Conference of 1890 [the first intergovernmental conference to explore the possibility of adopting international labour legislation] and hoped that things would remain “as they were”. Thanks to the Labour Organization of the League of Nations, international labour law is now in full course of development.

In order to understand the future possibilities and scope of this new branch of legislation, it is necessary to determine its sphere with exactness. I have already given a definition of the term “international labour law”: *that part of international law which regulates the mutual relations of States as touching those of their nationals who are workers*.<sup>1</sup> The term, as should be clearly understood from the outset, is used to mean not only the law of nations, but also includes private international law. It is generally agreed that labour conventions – whether conventions of several contracting parties, such as the Berne Conventions of 1906 [the world’s first two multilateral labour conventions, respectively prohibiting the use of white phosphorus in making matches and the night work of women in industry], or those between two contracting parties, such as the Franco-Italian Conventions of 30 September 1919 – form a part of international law. But it would be a serious omission not to include also the whole subject of the conditions enjoyed, whether by foreign workers in the national territory of any State, whether by the nationals of that State working in foreign territory.

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<sup>1</sup> See *Le Droit international ouvrier*, Paris, 1913, p. 23, by the author of this paper.

At first sight the questions involved might seem to be exclusively questions of internal legislation and internal right. Internal legislation, it is true, is here the deciding force, but every decision given does, in effect, apply the principles of international law. Just as questions of personal status, those relating to the marriage of foreigners, for example, form a part of international private law, so in the same way do all questions relating to the legal position of foreign workers form part of international labour law.

It is the State in fact, which is here the acting party. It is not a matter of indifference to Italy whether, or not, her citizens are allowed to go to work in the United States; whether, or not, once they are admitted, they are treated on the same footing as citizens of that country. On the other hand, it is of the first importance in the mutual relations between States to know how far a State can exclude foreign workers. For underlying all these problems there is that fundamental problem, which is undoubtedly a problem of international law: the problem of the sovereignty of States and the problem of the community of States, and of the relation of the one principle to the other. Of course we are masters in our own house; but we are less and less so from the moment we begin to be members of a community of nations. Absolute isolation [...] is the simple negation of international law.

Thus the range of international labour law is easily recognizable. In the first place it includes everything relating to the worker's right of settlement in a foreign country. This means that it includes the whole problem of emigration, in other words, of the admission of the foreign worker to the national territory of a State and of the protection extended by the State to its workers settled in foreign territory. Consequently, international labour law must deal with the position of the foreign worker in the country in which he has settled, and with the problem as to whether he shall enjoy the same privileges as the nationals of that country. This involves the question of the application to such foreign workers of factory laws, police regulations, laws on labour contracts, hours of work, hygiene, trade unions, strikes, etc., and also of social insurance legislation on accidents, health, invalidity, old age, and unemployment. The variety of principles adopted by different legislatures has brought a large crop of legal and administrative difficulties.

The chief province of international labour law, however, lies in the direction of labour conventions. These comprise treaties concluded by two States for the purpose of regulating questions involving the special interests of their own workers. Among the most recent conventions of this type are the Franco-Italian Treaty already mentioned, the Franco-Polish Treaty of 7 September 1920, and many conventions relating to social insurance. Then there are general labour treaties, such as the Berne Conventions concluded before the war, and the Washington and Genoa Conventions concluded after it [i.e. those adopted at the first (1919) and second (1920) sessions of the International Labour Conference].

The International Labour Conference, which formulates such Conventions year by year, constitutes, from the point of view of international law, an organization of an unprecedented kind. It is not an assembly of

plenipotentiaries authorized to sign on behalf of Governments, but a kind of international parliament, in which votes are individual, and in which a two-thirds majority binds the whole of the States which are members of the organization. The obligations undertaken by the members are, nevertheless, limited. They are merely bound to *submit* the draft conventions to their respective legislatures within the year. When these conventions have been ratified by such legislatures, they become conventions in the proper sense of the term, and a system of penalties guarantees their observation.

Three factors make this Conference of enormous importance from the point of view of international labour law: first of all its universal character, then its periodical repetition, and finally its constitution. The Conference includes all members of the League of Nations and even other States, for Germany is now admitted. Thus the primary condition of international labour legislation is realized: it must aim at universality, (always making due allowance for varying physical and economic conditions among the nations of the world), because it aims at securing to the whole of the labouring portion of mankind a certain minimum of rights.

Some consider the universal character of the Conference to be a source of weakness. They argue that the Conference will result in lowering States with an advanced labour legislation to the level of backward States. Such critics forget that the real source of legislative progress lies in each individual nation, and not in nations taken collectively; above all, they forget that it is a matter of first importance to all States, even to advanced States, that entirely backward States should not be allowed to exist; solidarity is here the condition of future progress. However, the treaty in virtue of which the Conference was constituted does, as a matter of fact, take into account the different levels of legislation in different States and makes provision for the concluding of conventions among a limited number of members.

Another essential feature is the periodical character of the meetings held. The members are permanently in touch with one another and do not merely hold occasional meetings; the work of the Conference is continuous, and work left undone on one occasion may be accomplished later; bad work can be amended and improved. In any case, frequent contact between authorized representatives of States is in itself good, because it permits and defines, encourages and deepens, mutual understanding.

The constitution of the Conference increases its effective power. It is no mere concourse of Government delegates; side by side with delegates from Governments, and in enjoyment of the same rights, sit delegates representative of employers' and workers' associations. There is a double advantage here; firstly, divergent points of view can be confronted one with the other; secondly, such collaboration as does take place gives weight to the decisions. Every authorized delegate is heard, and where agreement is reached, it is lasting.

This organization will create international labour law, and its future possibilities are infinite. The Conference began to lay the foundations of an international labour code at Washington, a code extending into many

different spheres, the eight hours' day, unemployment, employment of women and children, industrial hygiene. At Genoa it attempted to codify the legislations of the world on behalf of a special class of workers, the seamen. It will proceed to deal with agricultural work at any early date and will begin to study the vast problem of social insurance. Within the space of two years a wide range of problems has been opened up; too wide, it may be said, to allow of parliaments keeping pace with the Conference. The delay in ratifying the Washington Conventions is a proof and a lesson.

International labour law is capable of including the whole sphere of legislation for the protection of the worker; that is the essential point. It is, in fact, nothing more than the spirit of that legislation extended into the international sphere. States have begun to realize their duties towards the worker; they conclude conventions in order to strengthen their national laws by a process of mutual support, of co-ordination, of agreement. Just as each nation attempts to guarantee to its citizens a minimum standard of living, a standard which shall remain unaffected by economic competition, so the final purpose of international labour law is to place beyond attack from international competition a minimum of conquests in the world of labour, such as shall constitute a human charter.



## Co-operation in industry

John D. ROCKEFELLER jr. \*

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abridged.

### I

Today the world is passing through a period of reconstruction. As we address ourselves to the grave problems which confront us, problems both national and international, we may look for success in their solution just in so far as we continue to be animated by the spirit of co-operation and brotherhood. The hope of the future lies in the perpetuation of this spirit, and unless increasingly it is made the foundation of the political, social, and industrial life of the world, there will not be permanent peace and goodwill among men, either nationally or internationally.

In no one of these spheres of human relations is the spirit of co-operation more essential than in industry, since industry touches almost every department of life. Moreover, there is no problem pressing more urgently upon the attention of the world today than the industrial problem, none more important, none more difficult of solution. There are pessimists who say that there is no solution short of revolution and the overturn of the existing social order. Surely the nations which have shown themselves capable of such lofty sacrifice, which have given themselves so freely, gladly, unreservedly, during these past years of struggle, will bring to bear in the solution of this great problem powers of head and heart, not less wise and unselfish than those exhibited in dealing with the problems of the war; surely a way out of the impenetrable maze will be found.

Almost countless are the suggested solutions of the industrial problem, which have been brought forth since industry first began to be a problem. Most of these are impracticable; some are unjust; some are selfish and

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therefore unworthy; some have merit and should be carefully studied. None can be looked to as a panacea. There are those who believe that legislation is the cure-all for every political, social, and industrial ill. Much can be done by legislation to prevent injustice and encourage right tendencies, but legislation of itself will never solve the industrial problem. Its solution can be brought about only by the introduction of a new spirit into the relationship between the parties to industry – the spirit of co-operation and brotherhood.

It is this theme, *co-operation in industry*, that I desire to develop.

We must ask ourselves at the outset certain fundamental questions. First, what is the purpose of industry? Shall we cling to the conception of industry as an institution, primarily of private interest, which enables certain individuals to accumulate wealth, too often irrespective of the well-being, the health, and the happiness of those engaged in its production? Or shall we adopt the modern viewpoint and regard industry as being a form of social service, quite as much as a revenue-producing process? Is it not true that any industry, to be permanently successful, must ensure to labour adequately remunerative employment under proper working and living conditions, to capital a fair return upon the money invested, and to the community a useful service? The soundest industrial policy is that which has constantly in mind the welfare of the employees as well as the making of profits, and which, when human considerations demand it, subordinates profits to welfare. Industrial relations are essentially human relations. It is therefore the duty of everyone entrusted with industrial leadership to do all in his power to improve the conditions under which men work and live. The day has passed when the conception of industry as chiefly a revenue-producing process can be maintained. To cling to such a conception is only to arouse antagonisms and to court trouble. In the light of the present every thoughtful man must concede that the purpose of industry is quite as much the advancement of social well-being as the production of wealth. It remains none the less true, however, that to be successful industry must not only serve the community and the workers adequately, but must also realise a just return on capital invested.

Next we must ask ourselves: who are the parties to industry? The parties to industry are four in number: capital, management, labour, and the community. I am, of course, well aware of the social theories and experiments that seek to merge capital and labour, either through ownership of capital by the state or by the workers themselves. But the difficulties that confront the realisation of these plans are vast and the objection to many of them fundamental. Under our present system, capital is represented by the stockholders, and is usually regarded as embracing management. Management is, however, an entirely separate and distinct party to industry; its function is essentially administrative; it comprises the executive officers, who bring to industry technical skill and managerial experience. Labour consists of the employees. Labour, like capital, is an investor in industry, but labour's contribution, unlike that of capital, is not detachable from the one who makes it, since it is in the nature of physical effort and is a part of the workers's strength and life.

Here the list usually ends. The fourth party, namely, the community, whose interest is vital and in the last analysis controlling, is too often ignored. The community's right to representation in the control of industry and in the shaping of industrial policies is similar to that of the other parties. Were it not for the community's contribution, in maintaining law and order, in providing agencies of transportation and communication, in furnishing systems of money and credit and in rendering other services, all involving continuous outlays, the operation of capital, management, and labour would be enormously hampered, if not rendered well nigh impossible. The community, furthermore, is the consumer of the product of industry, and the money which it pays for the product re-imburses capital for its advances and ultimately provides the wages, salaries, and profits that are distributed among the other parties.

Finally we must inquire: what are the relations between the parties to industry? It is frequently maintained that the parties to industry must necessarily be hostile and antagonistic; that each must arm itself to wrest from the others its share of the product of their common toil. This is unthinkable; it is not true; the parties to industry are in reality not enemies, but partners; they have a common interest, no one can get on without the others. Labour must look to capital to supply the tools, machinery, and working capital, without which it cannot make its vital contribution to industry; and capital is equally powerless to turn a wheel in industry without labour. Management is essential to supply the directing force, while without the community as the consumer, the services of the other three parties would have no outlet. Just what the relative importance of the contribution made to the success of industry by the several factors is, and what their relative rewards should be, are debatable questions. But however views may differ on these questions, it is clear that the common interest cannot be advanced by the effort of any one party to dominate the others, arbitrarily to dictate the terms on which alone it will co-operate, to threaten to withdraw if any attempt is made to thwart the enforcement of its will. Success is dependent upon the co-operation of all four. Partnership, not enmity, is the watchword.

## II

If co-operation between the parties to industry is sound business and good social economics, why then is antagonism so often found in its stead? The answer is revealed in a survey of the development of industry. In the early days of industry, as we know, the functions of capital and management were not infrequently combined in the one individual, who was the employer. He in turn was in constant touch with his employees. Together they formed a vital part of the community. Personal relations were frequent and mutual confidence existed. When differences arose they were quickly adjusted. As industry developed, aggregations of capital larger than a single individual could provide were required. In answer to this demand, the

corporation with its many stockholders was evolved. Countless workers took the place of the handful of employees of earlier days. Plants under a single management scattered all over the country superseded the single plant in a given community. Obviously, this development rendered impossible the personal relations which had existed in industry, and lessened the spirit of common interest and understanding. Thus the door was opened to suspicion and distrust; enmity crept in; antagonisms developed. Capital not infrequently used its power to enforce long hours and low wages; labour likewise retaliated with such strength as it had, and gradually the parties to industry came to view each other as enemies instead of as friends and to think of their interests as antagonistic rather than common. Where men are strangers and have no contact, misunderstanding is apt to arise. On the other hand, where men meet frequently about a table, rub elbows, exchange views, and discuss matters of common interest, almost invariably it happens that the vast majority of their differences quickly disappear and friendly relations are established.

Several years ago I was one of a number of men who were asked two questions by a Commission, appointed by the President of the United States to deal with certain labour difficulties. The first was: "What do you regard as the underlying cause of industrial unrest?" The second: "What remedy do you suggest?" I stated that in my judgment the chief cause of industrial unrest is that capital does not strive to look at questions at issue from labour's point of view, and labour does not seek to get capital's angle of vision. My answer to the second question was that when employers put themselves in the employee's place and the employees put themselves in the employer's place, the remedy for industrial unrest will have been found. In other words, when the principle adopted by both parties in interest is: "Do as you would be done by," there will be no industrial unrest, no industrial problem.

It is to be regretted that there are capitalists who regard labour as their legitimate prey, from whom they are justified in getting all they can for as little as may be. It is equally to be deplored that on the part of labour there is often a feeling that it is justified in wresting everything possible from capital. Where such attitudes have been assumed, a gulf has been opened between capital and labour which has continually widened. Thus the two forces have come to work against each other, each seeking solely to promote its own selfish ends. As a consequence have come all too frequently the strike, the lock-out, and other incidents of industrial warfare.

A man, who recently devoted some months to studying the industrial problem and who came into contact with thousands in various industries throughout the United States, has said that it was obvious to him from the outset that the working men were seeking for something, which at first he thought to be higher wages. As his touch with them extended, he came to the conclusion, however, that not higher wages, but recognition as men, was what they really sought. What joy can there be in life, what interest can a man take in his work, what enthusiasm can he be expected to develop on behalf of his employer, when he is regarded as a number on a pay-roll, a cog in a wheel, a

mere "hand"? Who would not earnestly seek to gain recognition of his manhood and the right to be heard and treated as a human being, not as a machine?

Then, too, as industry has become increasingly specialised, the workman of today, instead of following the product through from start to finish and being stimulated by the feeling that he is the sole creator of a useful article, as was more or less the case in early days, now devotes his energies for the most part to countless repetitions of a single act or process, which is but one of perhaps a hundred operations necessary to transform the raw material into the finished product. Thus the worker loses sight of the significance of the part he plays in industry and feels himself to be merely one of many cogs in a wheel. All the more, therefore, is it necessary that he should have contact with men engaged in other processes and fulfilling other functions in industry, that he may still realise he is a part, and a necessary, though it may be an inconspicuous, part of a great enterprise. [...] The sense of isolation and detachment from the accomplishments of industry, which too often comes to the workers of today, can be overcome only by contact with the other contributing parties. In this way only can common purpose be kept alive, individual interests safeguarded, and the general welfare promoted.

While obviously under present conditions those who invest their capital in an industry, often numbered by the thousand, cannot have personal acquaintance with the thousands and tens of thousands of those who invest their labour, contact between those two parties in interest can and must be established, if not directly, then through their respective representatives. The resumption of such personal relations through frequent conferences and current meetings, held for the consideration of matters of common interest, such as terms of employment and working and living conditions, is essential in order to restore a spirit of mutual confidence, goodwill, and co-operation. Personal relations can be revived under modern conditions only through the adequate representation of the employees. Representation is a principle which is fundamentally just and vital to the successful conduct of industry. It means, broadly speaking, democracy through co-operation, as contrasted with autocracy.

It is not for me or anyone else to undertake to determine for industry at large what specific form representation shall take. Once having adopted the principle, it is obviously wise that the method to be employed should be left in each specific instance to be determined by the parties interested. If there is to be peace and goodwill between the several parties in industry, it will surely not be brought about by the enforcement upon unwilling groups of a method which in their judgment is not adapted to their peculiar needs. In this, as in all else, persuasion is an essential element in bringing about conviction. With the developments in industry what they are today, there is sure to come a progressive evolution from the autocratic single control, whether by capital, management, labour, or the community, to some form of democratic co-operative control participated in by all four. The whole movement is

evolutionary. That which is fundamental is the idea of co-operation, and that idea must find expression in those forms which will serve it best, with conditions, forces, and times what they are.

In the United States, the co-operation in war service of labour, capital, management, and Government afforded a striking and most gratifying illustration of this tendency.

After all, the basic principles governing the relations between the parties to industry are as applicable in the successful conduct of industry today as in earlier times. The question which now confronts us is how to re-establish personal relations and co-operation in spite of changed conditions. The answer is not doubtful or questionable, but absolutely clear and unmistakable: it is, through adequate representation of the four parties in the councils of industry.

### III

Various methods of representation in industry have been developed, conspicuous among which are those of labour unions and employers' associations. As regards the organisation of labour, it is just as proper and advantageous for labour to associate itself into organised groups for the advancement of its legitimate interests as for capital to combine for the same object. Such associations of labour manifest themselves in collective bargaining, in an effort to secure better working and living conditions, in providing machinery whereby grievances may easily and without prejudice to the individual be taken up with the management. Sometimes they provide benefit features, sometimes they seek to increase wages, but whatever their specific purpose, so long as it is to promote the well-being of the employees, having always due regard for the just interests of the employer and the public, leaving every worker free to associate himself with such groups or to work independently, as he may choose, they are to be encouraged.

But organisation is not without its dangers. Organised capital sometimes conducts itself in an unworthy manner, contrary to law and in disregard of the interest of both labour and the public. Such organisations cannot be too strongly condemned or too vigorously dealt with. Although they are the exception, such publicity is generally given to their unsocial acts that all organisations of capital, however rightly managed or broadly beneficent, are thereby brought under suspicion. Likewise it sometimes happens that organisations of labour are conducted without just regard for the rights of the employer or of the public; methods and practices are adopted which, because unworthy or unlawful, are deserving of public censure. Such organisations of labour bring discredit and suspicion upon other organisations which are legitimate and useful, just as is the case with improper organisations of capital and they should be similarly dealt with. We ought not, however, to allow the occasional failure in the working of the principle of the organisation of labour to prejudice us against the principle itself, for the principle is fundamentally sound.

In the further development of the organisation of labour and of large business, the public interest as well as the interest of labour and of capital will be furthest advanced by whatever stimulates every man to do the best work of which he is capable and to render useful service, by a fuller recognition of the common interests of employers and employed, and by an earnest effort to dispel distrust and hatred and to promote goodwill.

Labour unions have secured for labour in general many advantages in hours, wages, and standards of working conditions. A large proportion of the workers of the world, however, are outside of these organisations, and unless somehow represented are not in a position to bargain collectively. Therefore representation of labour to be adequate must be more comprehensive and all inclusive than anything thus far attained.

Representation on the employers' side has been developed through the establishment of trade associations, the purpose of which is to discuss matters of common interest and to act, in so far as is legally permissible and to the common advantage, along lines that are generally similar. But here also representation is inadequate. Many employers do not belong to employers' associations.

In the United States during the war, the representation of both labour and capital in common councils was brought about through the War Labor Board, composed equally of men from the ranks of labour and capital, together with representatives of the public. When differences arose in industries where there was no machinery to deal with such matters, the War Labor Board stepped in and made its findings and recommendations. In this way, relatively continuous operation was made possible and the resort to the strike and lock-out was less frequent.

In England there have been made during the past few years various important Government investigations and reports, looking toward a more complete programme of representation and co-operation on the part of labour and capital. One is the well-known Whitley Report, which owes its distinction to a single outstanding feature, namely, that it applies to the whole of industry the principle of representative government. The Whitley Plan seeks to unite the organisations of labour and capital by a bond of common interest in a common venture; it changes at a single stroke in the attitude of these powerful aggregations of class interest from one of militancy to one of social service; it establishes a new relation in industry. "Problems old and new", says the report, "will find their solution in a frank partnership of knowledge, experience, and goodwill".

Another investigation and report was made by a Commission on Industrial Unrest, appointed by the Prime Minister. This Commission made, among others, the following interesting recommendations:—

- (1) that the principle of the Whitley Report as regards industrial councils be adopted;
- (2) that each trade should have a constitution;
- (3) that labour should take part in the affairs of industry as partners rather than as employees in the narrow sense of the term;

(4) that closer contact should be set up between employers and employed.

A third report was prepared by the Ministry of Labour. This report deals with the constitution and operation of works committees in a number of industries. It is a valuable treatise on the objects, functions, and methods of procedure of joint committees.

Light has been thrown on the general questions treated by these inquiries in an able report by the Garton Foundation on *The Industrial Situation after the War*. This report is a study of the more permanent causes of industrial friction and inefficiency, and of the means by which they may be removed or their action circumscribed.

Mention of these several reports, taken at random, is made simply as indicative of the extent and variety of the study which has been given to the great problem of industrial reconstruction in England. All point toward the need of more adequate representation of labour in the conduct of industry and the importance of closer relations between labour and capital.

#### IV

A method of representation similar to the Whitley plan, though less comprehensive, and which is constructed from the bottom up, has been in operation for varying periods of time in an ever increasing number of industries in the United States. This plan of representation is worthy of serious consideration. It begins with the election of representatives in a single plant and is capable of indefinite development, to meet the complex needs of any industry, and of wide extension, so as to include all industries. Equally applicable in industries where union or non-union labour or both are employed, it seeks to provide full and fair representation to labour, capital, and management, also taking cognizance of the community. Thus far it has developed a spirit of co-operation and goodwill which commends it to both employer and employee. The outstanding features of this plan of industrial representation, varied to meet the special needs of each plant or company in which it has been adopted, are as follows.

Representatives chosen by the employees in proportion to their number, from their fellow workers in each plant, form the basis of the plan. Joint committees, composed of equal numbers of employees or their representatives and of officers of the company, are found in each plant or district. These committees deal with all matters pertaining to employment and working and living conditions, including questions of co-operation and conciliation, safety and accident, sanitation, health and housing, recreation and education. Joint conferences of representatives of employees and officers of the company are held in the various districts several times each year. There is also an annual joint conference, at which reports from all districts are received and considered. Another important feature of the plan is an officer known as the President's Industrial Representative, whose duty it is to visit the



plants currently and confer with the employees' representatives, as well as to be available always for conference at the request of the representatives.

Thus the employees, though their representatives chosen from among themselves, are in constant touch and conference with management and representatives of the stockholders in regard to matters pertaining to their common interest.

The employees' right of appeal is the third outstanding feature of the plan. Any employee with a grievance, real or imaginary, may go with it at once to his representative. The representatives not infrequently find there is no ground for the grievance and are able so to convince the employee. But if a grievance does exist, or dissatisfaction on the part of the employee continues, the matter is carried to the local boss, foreman, or superintendent, with whom in the majority of cases it is amicably and satisfactorily settled. Further appeal is open to the aggrieved employee, either in person or through his representative, to the higher officers and to the president. If satisfaction is not to be had from the company, the court of last appeal may be the Industrial Commission of the State, the State Labour Board, or a committee of arbitration.

Experience shows that the vast majority of difficulties which occur in an industry arise between the workmen and the foremen who are in daily contact with them. Foremen are sometimes arbitrary, and it is by their attitude and action that the higher officers and the stockholders are judged. Obviously the right of appeal from the decisions of foremen and superintendents is important, even if seldom availed of, because it tends of itself to modify their attitude.

A further feature of the plan is what may be termed the employee's Bill of Rights. This covers such matters as the right to caution and suspension before discharge, except for such serious offences as are posted; the right to hold meetings at appropriate places outside of working hours; the right without discrimination to membership or non-membership in any society, fraternity, or union; and the right of appeal.

Where this plan has been in operation for a considerable length of time, some of the results obtained are:-

First, more continuous operation of the plants and less interruption in the employment of the workers, resulting in larger returns for both capital and labour;

Second, improved working and living conditions;

Third, frequent and close contact between employees and officers;

Fourth, the elimination of grievances as disturbing factors;

Fifth, goodwill developed to a high degree;

Sixth, the creation of a community spirit.

Furthermore, the plan has proved an effective means of enlisting the interest of all parties to industry, of reproducing the contacts of earlier days between employer and employee, of lessening misunderstanding, distrust, and enmity, and securing co-operation and the spirit of brotherhood. Under its operation, the participants in industry are being convinced of the

soundness of the proposition that they are fundamentally friends and not enemies, that their interests are common, not opposed. Based as the plan is upon principles of justice to all, its success can be counted on so long as it is carried out in a spirit of sincerity and fair play.

Here, then, would seem to be a method of providing representation which is just, which is effective, which is applicable to all employees whether organised or unorganised, to all employers whether in associations or not, which does not interfere with existing organisations or associations, and which, while developed in a single industrial corporation as a unit, may be expanded to include all corporations in the same industry and ultimately all industries.

Just what part labour organisations and employers' associations can best take in such a plan remains to be worked out, but certain it is that some method should be devised which will profit to the fullest extent by the experience, the strength, and the leadership of these groups. While doubtless defects will appear in this plan and other methods more successfully accomplishing the same end may be developed, at least it is proving that in unity there is strength and that co-operation in industry is not only idealistically right, but practically workable.

If the points which I have endeavoured to make are sound, might not the four parties to industry subscribe to an Industrial Creed somewhat as follows:—

(1) I believe that labour and capital are partners, not enemies; that their interests are common, not opposed; and that neither can attain the fullest measure of prosperity at the expense of the other, but only in association with the other.

(2) I believe that the community is an essential party to industry and that it should have adequate representation with the other parties.

(3) I believe that the purpose of industry is quite as much to advance social well-being as material prosperity; that in the pursuit of that purpose, the interests of the community should be carefully considered, the well-being of employees fully guarded, management adequately recognised, and capital justly compensated, and that failure in any of these particulars means loss to all four parties.

(4) I believe that every man is entitled to an opportunity to earn a living, to fair wages, to reasonable hours of work and proper working conditions, to a decent home, to the opportunity to play, to learn, to worship, and to love, as well as to toil, and that the responsibility rests as heavily upon industry as upon government or society, to see that these conditions and opportunities prevail.

(5) I believe that diligence, initiative, and efficiency, wherever found, should be encouraged and adequately rewarded; that indolence, indifference, and restriction of production should be discountenanced; and that service is the only justification for the possession of power.

(6) I believe that the provision of adequate means of uncovering grievances and promptly adjusting them is of fundamental importance to the successful conduct of industry.

(7) I believe that the most potent measure in bringing about industrial harmony and prosperity is adequate representation of the parties in interest; that existing forms of representation should be carefully studied and availed of, in so far as they may be found to have merit and are adaptable to conditions peculiar to the various industries.

(8) I believe that the most effective structure of representation is that which is built from the bottom up, which includes all employees, which starts with the election of representatives and the formation of joint committees in each industrial plant, proceeds to the formation of joint district councils and annual joint conferences in a single industrial corporation, and admits of extension to all corporations in the same industry, as well as to all industries in a community, in a nation, and in the various nations.

(9) I believe that to "do unto others as you would that they should do unto you" is as sound business as it is good religion; that the application of right principles never fails to effect right relations; that "the letter killeth, but the spirit giveth life"; that forms are wholly secondary, while attitude and spirit are all important; and that only as the parties in industry are animated by the spirit of fair play, justice to all, and brotherhood, will any plan which they may mutually work out succeed.

(10) I believe that that man renders the greatest social service who so co-operates in the organisation of industry as to afford to the largest number of men the greatest opportunity for self-development and the enjoyment of those benefits which their united efforts add to the wealth of civilisation.

## VI

In these days the selfish pursuit of personal ends at the expense of the group can and will no longer be tolerated. The reign of autocracy has passed. Men are rapidly coming to see that human life is of infinitely greater value than material wealth; that the health, happiness, and well-being of the individual, however humble, is not to be sacrificed to the selfish aggrandizement of the more fortunate or more powerful. Modern thought is placing less emphasis on material considerations. It is recognising that the basis of national progress, whether industrial or social, is the health, efficiency, and spiritual development of the people. Never was there a more profound belief in human life than today. Whether men work with brain or brawn, they are human beings, and are much alike in their cravings, their aspirations, their hatreds, and their capacity for suffering and for enjoyment.

What is the attitude of the leaders in industry as they face this critical period of reconstruction? Is it that of the standpatters, who ignore the extraordinary changes which have come over the face of the civilised world and have taken place in the minds of men, who, arming themselves to the teeth, attempt stubbornly to resist the inevitable and invite open warfare with the other parties in industry, and who say: "What has been and is, must continue to be; with our backs to the wall we will fight it out along the old

lines or go down in defeat"? Those who take such an attitude are wilfully heedless of the fact that its certain outcome will be financial loss, general inconvenience and suffering, the development of bitterness and hatred, and in the end submission to far more drastic and radical conditions imposed by legislation, if not by force, than could now be amicably arrived at through mutual concession in friendly conference.

Or is their attitude one in which I myself profoundly believe, which takes cognizance of the inherent right and justice of the co-operative principle underlying the new order, which recognises that mighty changes are inevitable, many of them desirable, and which does not wait until forced to adopt new methods, but takes the lead in calling together the parties to industry for a round-table conference to be held in a spirit of justice, fair play, and brotherhood, with a view to working out some plan of co-operation, which will ensure to all those concerned adequate representation, will afford to labour a voice in the forming of industrial policy, and an opportunity to earn a fair wage under such conditions as shall leave time, not alone for food and sleep, but also for recreation and the development of the higher things of life?

Never was there such an opportunity as exists today for the industrial leader with clear vision and broad sympathy permanently to bridge the chasm that is daily gaping wider between the parties to industry, and to establish a solid foundation for industrial prosperity, social improvement, and national solidarity. Future generations will rise up and call those men blessed who have the courage of their convictions, a proper appreciation of the value of human life as contrasted with material gain, and who, imbued with the spirit of co-operation, will lay hold of the great opportunity for leadership which is open to them today.

In conclusion, let it be said that upon the heads of those leaders – it matters not to which of the four parties they belong – who refuse to re-organise their industrial households in the light of the modern spirit, will rest the responsibility for such radical and drastic measures as may later be forced upon industry, if the highest interests of all are not shortly considered and dealt with in a spirit of fairness.

Who, then, will dare to block the wheels of progress and to let pass the present opportunity of helping to usher in a new era of peace and prosperity throughout the world, brought about through co-operation in industry?

# International labour legislation in the light of economic theory

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## I

**T**he economic theories presented in the “classical” texts explain that the workers of different countries receive very different wage returns in some countries from those in others, and that the conditions in which they work and live also vary greatly. The existence of these differences of income and condition emphasised in these texts is undisputed. It is also a part of the generally accepted body of economic theory that the conditions of the work and life of the wage earners in any country depend primarily upon the real income of the country; that even making allowances for possible variations in the sharing out of the product within any country, hours of work will be long, wages low, and the conditions burdensome if the total real income of the country is low in relation to the number of inhabitants, and that the opposite conditions will prevail when the economic effort of the country is more effective. In short, economic theory presents and strives to account for a great contrast in the economic lot of the workers of different countries, and regards this contrast as in the main ineradicable.

The movement to improve conditions of labour on an international scale by international action appears in some respects to run counter to these conclusions. That movement, as represented by the work of the International Labour Organisation, is engaged in an effort to stimulate national action, in accord with international agreements, towards the achievement of a universal minimum standard of satisfactory labour conditions. [...]

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## II

This paper is written to examine a set of closely connected questions: (1) whether this difference of doctrine between widely accepted economic theory and the effort to regulate labour conditions by international action is a real or only superficial difference; (2) to explain how such difference as may be real has arisen; (3) to examine in the light of both sets of doctrines the possible economic gains and losses which may result from such action; (4) to indicate the problem by which countries possessing different conditions of labour are faced by projects of international labour regulation, and the benefits and losses they must calculate; (5) to analyse briefly the efforts of the International Labour Organisation to take into account the possible losses and difficulties that might arise from its action, and still to carry out its main purposes.

These purposes require first of all a brief restatement and reconsideration of certain relevant economic doctrines which bear upon the problem raised by international action for the purpose of improving labour conditions. The restatement will be brief, and run in accordance with the system of assumptions and ideas as presented, say, in the books of Alfred Marshall (and to be understood, therefore, as presented by him, as only an introduction to the complex actuality of contemporary society). It is limited to those points of economic theory which present themselves only when international action is under consideration, as apart from those which present themselves when the contemplated action is only on a national scale. Thus, for example, it does not touch the controversies bearing upon the value of legislation as a means of regulating labour conditions; for these arise whether action is on a national or an international scale.

The established economic doctrine holds that the productive activities of the people of each country are, under conditions of economic freedom, devoted to those industries and occupations which will yield the largest volume of valuable goods and services. This conclusion is expounded by its authors only as a rough approximation to the truth, and should not be taken as a defence of complete *laissez faire*. A grave modification arising out of the inequality of wealth and income in each country is always admitted, as well as many other qualifications arising out of special circumstances. But the main argument remains, and is, for one thing, the centre of the free trade position; advocates of economic regulation have to prove that regulation is necessary to overcome some obstacle to effective production, or that some important non-economic end must be served, as, for example, when a country subsidises its merchant marine.

This economic theory can be explained simply. There is a strong tendency for those who direct industry, who have land and capital, and employ labour, to use them in the ways which promise the greatest return. Further, in any particular use of these means of production two forms of competition must be met – internal and external. The internal competition is that of different industries and enterprises seeking the use of the limited supplies of land,

labour, and capital. The highest bid for each tends generally to prevail, and the highest bid, the doctrine runs, comes from those who can employ the desired means of production in directions yielding the largest volume of valuable goods and services. External competition tends to extend the same effect further. As a result of this competition, in the absence of tariffs and other obstacles, the economic energies of each country are used in those industries which are carried on with the "greatest comparative advantage" as compared with the same industries in other countries. Such goods (and, to a much lesser extent, services) as can be procured more cheaply abroad than at home are imported, and paid for by exports requiring smaller outlay than the goods procured. Hence it is concluded that international competition, by leading to international specialisation, increases the real income of all peoples. This is the result indicated by general economic analysis; it will therefore have to be enquired at a later point why the opposite opinion is so strongly held – the opinion that international competition is injurious to the economic life of a country and depresses labour conditions, and therefore creates a need for international regulation of those conditions.

[He explains the role of natural resources, capital, human energies and talents, organisation and techniques in determining the volume of production, according to classical theory.]

### III

Joint international action for the improvement of labour conditions is being carried on by the International Labour Organisation. This institution was created by the Treaty of Versailles and its constitution is contained in Part XIII of that Treaty. The first section of the Preamble indicates the reasons for its creation:

Whereas the League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice; And whereas conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of these conditions is urgently required: as, for example, by the regulation of the hours of work, including the establishment of a maximum working day and week, the regulation of the labour supply, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease and injury arising out of his employment, the protection of children, young persons and women, provisions for old age and injury, protection of the interests of the workers when employed in countries other than their own, recognition of the principle of freedom of association, the organisation of vocational and technical education and other measures;

Whereas also the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries;

The High Contracting Parties, moved by sentiments of justice and humanity as well as by the desire to secure the permanent peace of the world, agree to the following: ...

In pursuance of these purposes the International Labour Organisation has in the nine Sessions of the Conference of its Members brought into being 23 international Conventions and 28 Recommendations. They deal with such subjects as the following: hours of labour, workmen's compensation insurance, weekly rest in industry, minimum age of employment, etc. The process of ratification has been tardy but continuous: up to the present (1 March 1927) there have been 217 acts of ratification of the various Conventions by States Members, and wherever ratification has taken place national law has been brought into substantial conformity with the terms of the Convention ratified. In addition, even when ratification has not been given, conditions and laws have been changed in many countries in the direction of the terms of the Conventions through voluntary action or national legislation. International consciousness and activity have grown up about these Conventions; once the Conference comes to an agreement there arises pressure in each country, sometimes strong, sometimes weak, to meet its terms.

[...]

It may be observed in passing that the creation of a permanent institution to concern itself with labour conditions on an international scale was the product of experience which seemed to indicate its need, and not the product of theory. Those interested in the improvement of industrial conditions in various countries had more than once found that a desired change in labour conditions was hindered by the possibility that the same industry in some other country might secure a competitive advantage as a result of the change. This possibility is always present when the contemplated improvement involves a possible increase in production costs. The idea of resorting to joint international action is, therefore, natural in such contingencies. That is the train of thought which led to the creation of the International Labour Organisation. Its connection with the League of Nations lies in the fact that differences in conditions of labour have been in the past a source of international antagonism. We are familiar, for example, with the mingled fear and dislike invoked among the workmen of the United States and Europe by the bugaboo of the competition of the work of the Far East carried on under much poorer conditions. [...] By the workman and often by the employer international competition is usually regarded as a force depressing his conditions.

But the preceding economic reasoning indicates that this view cannot be accepted as an accurate and complete statement of the effects of international competition. The general analysis, on the contrary, tended to indicate that international competition and exchange was an important means of increasing the real income of the nations engaged in it; it emphasised the fact that international competition tended to bring it about that the economic energies of each country were turned in the directions that would yield the greatest volume of valuable goods and services. The difficulties encountered by countries arising out of changes in the international competitive situation are regarded as only transitional, and



incidental to the attainment of a new position of equilibrium by which all countries will benefit. That doctrine, when rigidly stated in the classical texts, further implies that the more advanced standards of the more productive countries cannot in the long run be affected deleteriously by the competition of countries having lower standards – the standard of each resting upon the productive effectiveness of each competing country.

Can these opinions be reconciled? I believe so. The first view is that naturally entertained by particular groups of workers and employers as producers; they see their jobs or their economic power often menaced by foreign competition. The second view is the natural one when thinking of the people of a country as consumers, to whom international competition and exchange bring goods and resources on better terms than if no such competition occurred, and thus increase their real income. In the classical doctrine it is this viewpoint which is maintained and put in the forefront. That classical analysis assumed, for the purposes of its enquiry, that the workmen and capital within a country could quickly change their occupation, quit an industry where foreign competitors were proving able to undersell, and enter another industry which possessed a greater comparative advantage – the whole benefiting by the change. The opposition to international competition, the desire to regulate by international action the labour conditions in which it takes place, arises from facts and tendencies contrary to that assumption. It is dominated by the fact that within highly industrial countries the mobility of labour and capital – their capacity to shift themselves about from one industry to others under the pressure of competition – is slow, painful, and incomplete. Whole masses of men seem either unwilling or unable to shift their occupations in the older industrial countries in which few valuable natural resources remain unexploited. Only in countries undergoing rapid industrial expansion does a great shift in the employment of the means of production occur without serious difficulty. Despite all obstacles those influences which are recognised and summarised in the “principle of greatest comparative advantages” tend to assert themselves, but only slowly, overcoming the inertia of human beings, and bringing direct suffering in their courses. [...]

[...]

It is out of these circumstances that the support, theoretical and actual, comes for the regulation of international competition by international agreement upon labour conditions. Countries find that they cannot face the misery and disorganisation that arise from an unfavourable shift in their competitive position, and the organised workers strive to combat the worsening of their conditions. A measure of stability is sought by means of international agreement. It may be argued with force that the countries should, on the contrary, strive to encourage and aid mobility of their labour and capital within their boundaries. There can be no doubt that countries in which great mobility exists are better off. But the older industrial countries and the over-populated countries find this a counsel of perfection. For them it is virtually impossible to find fresh employment quickly for the tens or even

hundreds of thousands of workers that may be engaged in a single industry. Besides, in most countries circumstances have compelled the enactment of unemployment insurance and other legislation which tends to lessen the shifting of workers, and brings a fresh problem to the budget when serious unemployment occurs.

It is in these important differences of circumstance, prevailing rather than exceptional as far as post-war Europe is concerned, that a reconciliation with the classical economic theories must be sought. Under these conditions the gains and losses from unrestricted international competition are not so simply assessed; and likewise the good and bad results of interfering with that competition by means of international labour agreements are not to be judged simply and solely in the light of the unqualified conclusion that "in the long run" unrestricted international competition leads to the production of the largest possible volume of valuable goods and services in each country. They are to be judged by weighing a more complex set of possible good and bad results.

The prevention of misery and the avoidance of industrial disorganisation, which under existing conditions in many industrial countries would not bring its own quick end in accordance with the classical theory, are the economic ends sought in international action dealing with labour conditions. This effort thus becomes, in my interpretation, above all an effort to secure some measure of stability in relative labour conditions. Some economic loss may – nay, it can be said, will – result from this regulation of international competition. This loss may be in several directions: first, many consumers may have to pay somewhat more for certain products; secondly, the workers and capitalists of certain countries where the general level of industrial effectiveness is low may find themselves unable to enter certain industries which they could carry on under unrestricted international competition and which would yield higher returns than some already in existence; thirdly, the lack of freedom to revise standards may produce unemployment in some directions and countries, while avoiding it in others. These losses may be serious. But considering the present conditions of industry the gains may sometimes outweigh them – gains in the way of protection of the higher standards already obtained in some countries, in the partial stabilisation of the conditions of competition, in the creation of the necessity of finding new means of competitive effectiveness, in the possible avoidance of industrial strife. It is to be expected that the losses would be minimised by the anxiety of each country to guard its own interests before entering any international agreement. The correctness of this opinion becomes more likely when it is reflected that in the absence of all international agreement it is possible for a temporary change in circumstances in any one country, say a temporary industrial depression, to affect seriously the standards in competing industries in other countries. The trade unions of each country, in particular, feel that the conditions which they have secured are always in danger of destruction even by the temporary difficulties experienced in other lands, even by the fluctuations in trade

union strength abroad. Hence their firm support for international action and their tendency to disregard the economic losses they may suffer as consumers – and in some cases, if the terms of the Conventions do not fall within the productive capacity of their country, as producers.

I wish to develop somewhat further the possible losses and gains – dangers and advantages – of international labour legislation. A number of possibilities, half in the realm of fact, half in the realm of policy, require consideration. First, it must be observed that if a country establishes a minimum standard of labour conditions as part of a joint agreement, it thereby becomes more difficult for any new industry to arise within that country merely because it happens that it can benefit by conditions of labour especially low even for that country. In other words, it may help to prevent “sweating”: it makes it more difficult for an industry to arise in a country merely because it can take advantage of the bargaining weakness of particular bodies of workers; it stimulates the effort to employ the same labour more advantageously and with better methods of production. In the event, however, that no adequate alternative employment exists for the groups of workers affected, the result will be unemployment.

The preceding line of thought may be carried a step further and applied to the competitive relations of different countries. If international agreements establishing minimum conditions of labour are ratified by those countries in which conditions are now very much poorer than in the more effective industrial countries, the result will be to prevent the further expansion of industry in these countries unless and until they can meet this standard. The countries where conditions are poorest have as yet relatively few industries competing in the international market. By international action terms would be created for the possible future growth of competition with those countries where higher standards have already been achieved. That, in my opinion, is an advisable step for the world, although certain immediate economic losses will result, and these losses might fall most heavily on those countries in which conditions are already poorest.

So much by way of estimating the differences of doctrine between orthodox economic theorists and advocates of international labour legislation, as regards the effects of unregulated international competition. Another point of difference between the two schools lies in their difference of emphasis upon another set of possibilities. This set of possibilities is represented by the belief that joint action through a permanent organisation such as the International Labour Organisation, in the work of which governments, workers, and employers participate, might in itself do something to create the economic conditions making an improvement of labour conditions possible. There has been the hope that continued discussion and effort carried on through the International Labour Organisation would sharpen the consciousness of labour conditions, arouse greater co-operative effort within each country to improve them, and, by improving industrial relations and encouraging thought and action, produce an increase of productive effectiveness within each country. [...] Akin to this

possibility is another which undoubtedly has figured in the thoughts of the labour supporters of international action. That is the possibility that the promotion of joint action by such a body as the annual Conference of the International Labour Organisation would give moral strength and prestige to the workers of each country in their effort to secure as large a share of the product of industry as possible; in other words, that joint action may be an aid to securing conditions really permitted by the general productivity of a country, but not established until forced by events. [...] Economic history tends to show that when the conditions of labour within a country are extremely poor, they tend to perpetuate themselves. This may be traced to a number of causes – the force of tradition, the weak bargaining power of extremely poorly paid workers, the deterioration of strength and character, the tendency towards poor management of a cheap labour supply, the extent of family labour, and the high birth rate characteristic of poorly paid industrial wage-earning groups. Joint action seeking to create a world-wide minimum standard of conditions may act as a counter force and be the beginning of an effort to overcome the self-perpetuating situation. This result is not by any means assured – but it is among the possibilities. The necessary increase in human effort and co-operation may or may not be forthcoming under compulsion. The size of the population may or may not continue to grow at so rapid a rate compared with natural resources as to defeat all effort at improvement – huge masses seeking work at any price, and habitual economic misery such as exists in the Oriental countries. But international action is one of the few available means of stimulating the effort. The main body of economic theory does not contemplate it, does not recognise it as among the basic influences which may determine standards of work and living in the long run; on the other hand, it does not completely reject the possibility.

#### IV

Some further possible consequences of international labour legislation are revealed by considering the position in which countries possessing at present different standards of labour conditions find themselves placed in the face of international action designed to establish a universal minimum standard.

The position of countries in which the conditions of labour are already better than elsewhere is a simple one (at least as regards those particular questions in which this established superiority is clear and permanent). They anticipate a protection of their relative position in international competition. They should tend, furthermore, to become the promoters of an international interest – real or presumed. That international interest is based on a humane, semi-ethical judgement that there is a standard of working conditions and welfare which is necessary in the modern world for the proper development of human character and satisfaction of basic human wants; it is defended by the conviction that wherever such a standard has been attained it should be

protected, and that where it has not been attained it should be developed. This judgment as to international interest therefore holds that those countries which have attained higher standards should not be compelled to sacrifice them to a competition which is effective merely because it is based on very poorly paid labour working under very poor conditions – as has already been stated, this result could only be temporary, but nevertheless serious. It asserts that countries where standards are poor should carry the burden of improving them before they enter into international competition, that industries and industrial activity should not be permitted to migrate to places where conditions are poorest. Naturally this reasoning tends to be congenial to trade union organisations throughout the world.

In support of this judgement the parallel of national legislation, creating minimum standard conditions throughout the whole of a national territory, is often cited. But this parallel has little force. For within any one country there are neither customs barriers nor immigration restrictions, and there is a much freer movement of goods, capital, and labour than between countries. All parts of a country may therefore be required to meet a minimum standard with less fear of economic suffering or less chance of injustice than in the case of international action. And, on the contrary, the existence of tariff and immigration laws greatly weakens the moral argument for the international observance of minimum standards. It weakens the moral duty imposed upon the countries where conditions are poorest to meet some world standard since they enter into international competition. Our general reasoning indicates that these countries may sometimes risk an economic loss to themselves if they do participate in joint action. On the other hand, such joint action may act as a moral, social, and technical spur to these countries, helping them to improve their conditions of labour.

[...]

[...T]he effort to improve conditions should be made whenever a reasonable chance of successful achievement exists – the possibilities of making industry more effective or increasing the share of the product going to the workers without doing corresponding economic harm elsewhere. These are important possibilities in this rapidly changing, complex economic world, in which we are all conscious of the fact that our technical knowledge and human talent are enough to make production so much more effective than it is at present. Yet they are often only vague and frequently turn out to be visionary. Still, it is within the domain of these possibilities that the hopes of those lie who believe it possible gradually to create by international action a general minimum standard of conditions, good enough to satisfy to some extent the aspirations embodied in Part XIII of the Peace Treaty – even in countries where conditions are now poorest. The economic limitations are to be tested. Because of them the work of the International Labour Organisation must become an educative, conciliatory influence, adding to practical knowledge, moulding human attitudes and relations – if the Organisation hopes to make any progress in its aims. If it turns into a mechanical Convention-dragging agency it will be dead.

## V

[The author comments on the process of reaching agreement on new ILO standards.]

## VI

If the preceding examination of the economic problems brought up by international action dealing with labour agreement, and of the methods by which the attempt to reach agreement is carried out, is correct, it is plain that the establishment of a uniform standard of conditions is unattainable; or rather, it is plain that the only uniform standard that might be attainable would have to be within reach of those countries where the level of production is extremely low, and such standards will never find embodiment in international agreements. It may be asked, therefore, whether the attainment of uniformity is essential to the achievement of the aims of international action, and whether that is the only just basis of agreement. A natural assumption to that effect is often made in conference discussion. There would seem to be no sound economic or ethical basis for that opinion. The economic results of such a policy have already been discussed; and (since national barriers such as tariff and immigration laws are enforced, and as long as it is generally held that a country's economic policy should be based first of all on national interests irrespective of international effects) only an extremely weak ethical duty can be assigned to those countries where the standards are lowest, except the duty of these countries towards their own workers.

Economic analysis reveals no essential need for uniformity; nor will the absence of uniformity in itself defeat the aims of joint action. Even if uniformity of minimum standards were attained, the difficult situations sometimes created by international competition would not necessarily be less than they would otherwise be. What is needed, and what may not be out of the range of achievement, is, first, a tendency towards general improvement, a tendency on the part of each country to improve conditions of labour as much as its industrial effectiveness may permit; secondly, substantial equality and stability of minimum conditions as between countries where the levels of industrial effectiveness are substantially equal; and thirdly, the gradual pressure on States where conditions are poorest to approach the standards existing elsewhere, so that industrial activity may not gradually shift into the areas where conditions are worst. In some such moderate policy as this lies the hope of avoiding some of the worst effects of international competition, while preserving most of its gains.

## VII

[...]

First, [...] serious controversy has arisen at each Session of the Conference over the precise standard of conditions to be embodied in the

proposed agreement under discussion. It was to be expected that it would often be debated whether the conditions provided should be actually or very nearly within immediate attainment on the part of countries' having comparatively poor conditions, or so decidedly above existing conditions in those countries as to make their acceptance and enforcement a considerable risk and strain, though still below the conditions prevailing in the countries of greater industrial effectiveness. The decision in many instances runs in the latter direction. But in many instances, also, the controversy has concerned itself rather with the question whether the conditions prescribed should not mark an improvement over existing conditions even in the countries of comparatively high existing conditions, such as those of Western Europe. That is due to the comparatively great strength and prestige of the trade union movements in those countries. These trade unions have been most reluctant to see standards embodied in Conventions that did not mark decided improvement over the conditions under which they, themselves, were working. These trade union movements have held the hope of procuring the ratification of their own countries, even though the countries where existing conditions were comparatively low could not be expected to ratify. In short, the labour representatives of the various countries have not often been afraid of tipping the balance of international competition against themselves. This attitude is based partly on the deeply held trade union conviction that it is virtually always possible for workers to receive a larger share of the product than they are actually receiving without doing economic harm. In short, labour representatives have wanted the Conventions to be of assistance to them in their distributive contest, and have been willing to rest on the hope that similar improvements of industrial conditions in other countries would keep the international competitive position unchanged. The economic hazards of realising this programme have already been discussed. The employers' representatives of each country have usually taken a position of opposition to the labour demands and views, and have tended to seek conditions relatively easy of establishment which also might improve their competitive position. Sometimes they have supported a small measure of improvement, sometimes declared that economic difficulties made any improvement impossible.

A tendency towards group feeling and co-operation within the Conference has probably led the employers' representatives of some countries to oppose terms which might not have caused any serious additional production expense to them, but might have that effect in other countries. Behind such action lies the hope of reciprocal support. The same tendency to group support and bargaining exists among the workers' representatives. The result of the whole process is compromise under influence of the government representatives, sometimes on terms little or no better than the existing situation in many Member States, sometimes better than those in most or all Member States. To try to describe fully and accurately the level reached would require an immense

detailed investigation. Seldom or never have the terms of agreement passed by the Conference majority (two-thirds) been pitched down to the lowest range of those existing. But no guarantee of ratifications exists, of course, and the process of ratification in many instances has made difficult progress.

Certain other features of the agreements reached by the Conference require consideration as part of the same subject. In the case of several important Conventions a special standard lower than the main standard is provided for countries which could not possibly reach the main standard. The debates of the Conference show that this arrangement was made only with reluctance. An instance of such special provisions is to be found in the Hours of Work Convention of 1919, wherein a special regime different from the general one of the Convention is specified for Japan and British India, and it is furthermore provided that "The provisions of this Convention shall not apply to China, Persia and Siam, but provisions limiting the hours of work in these countries shall be considered at a future meeting of the General Conference." Special provisions of a similar character to that of the illustration just given are to be found in the Conventions concerning the employment of women during the night, the minimum age for admission of children to industrial employment, the night work of young persons employed in industry, and the minimum age for the admission of young persons to employment as trimmers and stokers.

All the differences of regime specified in the Conventions up to the present apply only as between certain countries of the Far East and the other Member States. The general idea that all the other Member States must and can prove themselves capable of having minimum conditions equal to those of the Conventions has prevailed. Smaller differences were involved. Still, the attainment and enforcement of the general terms of these Conventions will mean a different measure of change in different countries. A real economic problem may be involved with the possibility of genuine economic loss; it will be solved only if and as the countries with the relatively poor conditions improve their productive effectiveness.

[...]

It is important to observe, however, that [...] it has often been found necessary to avoid the insertion of precise and rigid terms on many points if any real hope of ratification was to be entertained. On various points of the matters covered by the Conventions, no precise standard is defined within the Conventions. The method used is to provide that the conditions to be established as regards the point in question are to be decided in accordance with national legislation. This procedure was followed, for example, in the matter of determining the rates of compensation for industrial accidents and occupational diseases. This leaves the way open for States Members to ratify the Convention, though the conditions established in some respects or parts may differ from those maintained in other countries. It leaves these points to be decided by each country. Or in other words, when this formula is used, the States Members of the Conference virtually agree to disagree.



Lastly, it should be observed that up to the present no attempt has been made to secure international action dealing with wages. It has been tacitly recognised that the differences between the productive effectiveness and economic condition of the States Members, and the complexity of the subject, make it impossible to formulate internationally any general level – not even a low minimum. For these same reasons any future agreement reached will have to be in very general terms and weak form; for example, a recommendation to States Members to establish machinery to determine minimum wages for the poorest paid occupations.

These have been the main methods by which, up to the present, economic difficulties have been reckoned with in the effort to reach international agreements, by which the attempt is being made to limit the possible downward pressure of international competition without sacrificing its advantages. To try to measure the success of this effort is beyond the scope of this paper.

## VIII

The preceding analysis does not lead to many clear-cut conclusions. But a few tentative and general ones may be drawn.

(1) The conclusion of economic theory, that the main effect of international competition is beneficial to all countries affected by it, is sound. Its main constantly working effect is to increase the income of all countries participating in it.

(2) The general doctrine does not give proper weight to certain effects of international competition which may be destructive and serious. These arise from the fact that the basic assumptions of economic theory do not always correspond closely to some of the existing facts of economic life. Many of those industries which are most subject to international competition operate on an immense scale, have great fixed plants, and employ up to hundreds of thousands of workers who can find employment in other directions only with difficulty and when the country is in a state of industrial activity or expansion. Hence shifts in the competitive situation of different countries may produce serious depression in labour conditions, particularly in the export industries, below the standards supportable by the productivity of some or all of these countries. These effects may be of considerable duration, and indirectly may prove a serious set-back of the whole industrial situation within a country.

(3) Such agreements may be a means of securing important economic gains for all concerned:

(a) They may prevent a depression of working conditions and industrial disorganisation, especially in the export industries, from being produced by temporary circumstances and fluctuations in one country.

(b) They may prevent such depression of standards resulting from the fact that in one or several countries particular grades of labour are

“sweated”, taking into account the level of industrial effectiveness within these countries.

(c) They may prevent a drift of industry to those places where labour conditions are poorest, at the cost of great readjustments in those countries where they are better; they may lead to the establishment of certain minimum required standards in the creation of future industrial communities.

(4) On the other hand, such agreements may entail certain economic losses:

(a) By hindering certain basic changes in the conditions of competition between countries from working themselves out, they may produce higher prices than would otherwise prevail.

(b) They may make it more difficult for countries where conditions are poorest to advance industrially.

(c) The welfare of particular groups of workers and capitalists in industries in particular countries may be adversely affected by the lack of freedom to revise standards downwards so as to meet either temporary or permanent changes in their competitive situation.

(5) The soundness of international labour legislation cannot be judged solely by weighing the preceding possibilities of loss and gain. Some broader considerations must also be taken into account:

(a) The fact that there often is a genuine possibility of increasing industrial effectiveness within a country by determination, intelligence, and common effort is a sound basis for the opinion that countries have a duty to co-operate in international action in this field; it also is the basis for the further opinion that a particularly serious duty rests on those countries where conditions are unusually low to approach the more general standard.

(b) If in any country the product of industry is being shared out so that the workers are not receiving in the way of income or conditions approximately as large a part of the product as might be paid to them without doing injustice to the other participants, and without reducing future production by discouraging investment and business leadership, this tends to produce a similar result in other countries because of its effect upon comparative costs. Bargaining weakness may produce this result; international action might overcome it without a shift in the competitive conditions.

(c) The inability or unwillingness of some countries to improve labour conditions may act as a drag upon the efforts at improvement in other countries – as indicated in the preceding headings. This check can only be temporary, but is, nevertheless, of consequence.

Certain further pertinent conclusions indicated in the preceding analysis may also be summarised here.

(6) Substantial uniformity of labour conditions, even as a legal minimum, is never to be expected. Nor is there any economic reason for

believing that a condition of uniformity established by legislation will result in the greatest total economic good for all countries concerned, or avoid, to the greatest possible extent, economic misery.

(7) It is in the essential nature of the aims of the International Labour Organisation that it will for ever be faced with intricate conflicts of interests between workers and employers, and between different countries. It can do little more than achieve a delicate and constantly renewed balance of these interests on changing grounds, a reconciliation of them on the basis some improvement of labour conditions wherever the economic circumstances make improvement possible.

(8) Substantial and permanent progress towards the aims of the International Labour Organisation must come through uniting workers and employers in a common duty, in the determination to make improvement of conditions possible by making industry more productive. Its work must be, in that sense, primarily educational.



# Economic recovery and labour market problems in Sweden: II<sup>1</sup>

Bertil OHLIN \*

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abridged.

## Analysis of the causes of the recovery

It will be obvious that it is impossible to determine how much of the revival has been due to each of a number of "causes". What happens is always the outcome of everything that precedes it. Had one of the preceding circumstances been absent, the subsequent course of events would have been more or less different. If an attempt is made to estimate how much lower the Swedish national income would have been in 1934 if each of the favourable circumstances had in turn been absent, in order to form an opinion as to how much each of them contributed to the recovery, it will be found that the sum total of all the "increases" in income due to all the factors taken separately far exceeds the improvement that has actually taken place. This is not only because there have also been unfavourable factors at work, which if unhampered would have brought about a decline in economic activity; it is also due to the fact that each circumstance alone, or some two or more of them, may be *necessary* for a certain development, but only all of them together may be *sufficient* to produce it.

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<sup>1</sup> For the first part of this article, cf. *International Labour Review*, Vol. 31, No. 4, April 1935, pp. 498-511. [It is largely devoted to a description of the character of Sweden's recovery in industrial production, building activity and agriculture between 1932 and 1934 – i.e. before recovery in most other countries. Sweden's expansionary fiscal policy to counter the depression and monetary policy designed to stabilize and then gradually raise the wholesale price level attracted attention. The author noted that unreliable statistics and a high incidence of seasonal employment made it hard to assess the level of unemployment, but he concluded that it had dropped sharply in 1933-34, though it had risen overall since 1929.]

Nevertheless, an estimate of how much lower the national income would have been if, for instance, foreign demand had not increased or if the Government had not resorted to large-scale borrowing, gives some indication of the order of magnitude of the influence of the various factors.

An attempt will be made below to arrive at such estimates of the quantitative importance of the different "causes" of the recovery. As a background we must use the account given above [Part I] of the magnitude of the revival. A general indication of its importance is perhaps best obtained through a measurement of the percentage increase in the national income from 1932 to 1934. In the writer's opinion this increase was round about 20 per cent. The production of manufacturing industries increased by 25 per cent. The rise in the income of the farmers can be estimated at 15-20 per cent. Turnover in retail trade rose much less than one-fifth, but this is to be explained by the fact that a large part of the increase in income was saved. It is doubtful whether in 1932 there were any net savings at all. In 1934, on the other hand, the volume of investment in Sweden was not very much lower than during the good years. As already mentioned, the consumption of ordinary iron and steel was greater than in 1929. A very conservative estimate is that total investments – measured on a 10-15 per cent lower price level – were not less than three-fourths of the 1929 figure, or about 500 million kronor. A large part of the savings went to finance public works and building and certain amounts were used for filling up depleted stocks. On the whole, the best estimate the writer can make of the national income is that it rose from about 5,000 million kronor in 1932 to 1,000 million more in 1934. About one-half of the new income seems to have gone into the production of new capital equipment, while consumption rose by something like 10 per cent. All these estimates, which are necessarily rather rough although based on knowledge derived from the Social Science Institute's investigations into the national income during the twenties, are in terms of money. As the retail price level has been practically constant during the last three years and the wholesale prices of producers' goods have risen by about 10 per cent, not much adjustment is needed to get an idea of the quantitative changes.

The questions now to be examined are the following and others of a similar kind: How much has the Swedish national income been raised by the increase in the total value of exports? How much by public borrowing to cover budget deficits and public works? The attempt to answer them is of course subject to the qualifications mentioned above.

## **The increase in foreign demand**

The increase in the value of Swedish exports during the last two years cannot be attributed solely to a more intense foreign demand for Swedish commodities. Sweden continued to depreciate her currency, the gold value of which fell from 67 per cent of gold par during the first quarter of 1933 – the value was a little lower during the second half of the preceding year – to 56 per cent of gold par in the second half of 1934. If the gold value of all other

currencies had remained constant, a considerable rise in Swedish export prices and export values might have been expected, even if conditions of foreign demand had not changed at all. As a matter of fact, however, the average quotations in Stockholm of currencies of the so-called sterling group and of several of the Danube States did not rise. The only currencies that appreciated in Stockholm were those that were maintained at gold par – belonging to countries representing about half the Swedish imports and less than half her exports – and the value of the United States dollar fell by about 30 per cent. In view of the fact that all Sweden's most important competitors also depreciated their currencies, it is not certain to what extent the changes in the world's monetary situation from 1932 to 1934 made the conditions for Swedish exports more favourable and thus contributed to the increase in her export values. It seems certain that the improvement in business conditions abroad and the consequent shift in demand exercised a much greater influence.

[...]

## Monetary policy

Apart from its influence on exports the currency policy of the Bank of Sweden has been a favourable factor in two ways. The depreciation of the krona has stimulated the home-market industries. Furthermore, the Bank's large purchases of gold, foreign exchange, and State securities have eased the money market and contributed towards a fall in interest rates. A third, although less important, aspect should perhaps also be mentioned. The stable relation between the pound sterling and the krona, which has been "pegged" temporarily to the pound, has helped to create a feeling of stability which Swedish business men are convinced has had advantageous effects.

The transition to a paper standard in 1931 practically ended the period of deflation in Sweden. [...]

This article, however, is concerned only with the period of recovery. It is beyond dispute that the revival in the home-market industries has been to a large extent due to the depreciation of the krona, which has raised the prices of many goods imported from gold-standard countries. Some people thought that the stimulus from the depreciation would last only a few months and would then disappear. They based this opinion on the course of events in the twenties, when cost and price levels were believed to have adapted themselves to the new foreign exchange relations after a few months, in cases where no new depreciation occurred. Be this as it may, the writer is of the opinion that the adaptation at that period would have required not months but years. During a severe depression, characterised by large surplus capacity in manufacturing industries, transport, and trade, it was in any case to be expected that this adjustment of costs and prices would come about much more slowly. These expectations were fulfilled both in Sweden and elsewhere. [...] As the preparation for the production of new qualities or new goods, formerly imported from abroad, then required considerable time, the favourable effects

on Swedish production and employment were felt more in the past two years than in 1932. The general return of optimism in 1933, due probably to a multitude of circumstances, also played a certain part in this respect. Naturally, too, the new employment came not only through the substitution of home for foreign goods but also through the investment which was needed in many home-market industries to enable them to expand their production.

[...]

So far only one aspect of monetary policy has been touched on, namely, the depreciation. It is not a mere chance that the Swedish currency has fallen to 7 per cent below the pound sterling, and has remained there since the spring of 1933. It has indeed been a managed currency. In September 1931, when Sweden followed Great Britain away from the gold standard, the principle was laid down that "the purchasing power of the krona in the hands of the consumer" should be maintained. As there was at that time a certain scare of inflation, the Bank of Sweden restricted credit severely and succeeded in checking the tendency towards rising prices on the wholesale market. In the light of later developments this proved to be a mistake. For when the monetary programme was modified so as to recommend a rise in wholesale prices – but not more than should be compatible with only a small rise in the cost of living – the depression mentality had gained so much ground that for some time no rise in prices could be brought about. In a severe depression the only method of raising prices that is as a rule likely to succeed is either to depreciate the currency or to expand internal credit to such a point that it brings about a sufficient expansion of demand and production to absorb a substantial part of the surplus producing capacity.

[... T]he wholesale price level kept a surprising stability until the spring of 1933, but [...] the downward trend was clearly noticeable, even though it was insignificant in comparison with the deflation that took place in gold-standard countries. It was only when the turn of the business cycle came in the spring of 1933 that the curve began to rise. The cost of living was practically constant all the time.

This does not signify that the course of prices was unaffected by monetary policy, or even that the ambitious declarations of the Government's financial programme had no perceptible results. These declarations undoubtedly helped to create a feeling in business circles that the risk of a large reduction in the general price level had disappeared, and thus contributed towards an increase of confidence. The stable exchange rates within the sterling group had a similar influence. Furthermore, the existence of the programme prevented the Bank of Sweden from letting the krona rise to parity with the pound sterling in 1932-1933, a course which at that time would have depressed the wholesale price level. [...] Since then, [...] the money market has become extremely liquid. There can be no doubt that this glut on the money market has been one of the chief factors in bringing about the fall in the long-term rate of interest, which has come down to 3 per cent, or at least 1 per cent below the pre-war level.



The decline in interest rates [...] is all the more striking as the policy of large-scale public borrowing might well have been expected to exercise an influence in the opposite direction. The surplus of money in the commercial banks also made them more willing to extend credit and in that way made it easier for business men to finance new production. House building is a field where cheap capital has begun to exercise a considerable influence, and is likely to do so still more during 1935. As building activity was well maintained in most parts of Sweden up to the beginning of 1933, it is a striking fact that by the summer of 1934 it was already in full swing again.

On the whole, Sweden's monetary policy has been highly successful, in spite of the fact that the Board of the Bank did not at first realise the decisive importance of large open-market operations. Fortunately, their hands were forced by the surplus of foreign exchange, arising partly from the excess of credit items in trade and service transactions with other countries – an excess due no doubt largely to the depreciation of the krona – and partly from the export of large quantities of privately owned foreign bonds. The Bank's purchases of this foreign exchange made the money market liquid early in 1933. Since then the Bank's policy has been firm and consistent, and has been directed in various ways towards supporting the tendency towards a reduction in interest levels.

The goal of Swedish monetary policy is the stability and development of industry and trade. A certain rise in the wholesale price level – which would bring it into harmony with cost conditions – was therefore laid down as the immediate aim. The rise which has taken place in the last two years seems to have been almost sufficient for this purpose, to judge from the earnings of Swedish industry in 1934. The external value of the Swedish currency is, on the other hand, a secondary consideration. Stable relations with the sterling group are desirable and will no doubt be maintained as long as they are compatible with the desired price movement. But there can be little doubt that if wholesale prices in Great Britain should begin either to fall considerably or to rise quickly, the pegging of the krona to the pound would come to an end.

Finally, a lesson may be stressed which can be learnt from the experience both of Sweden and of other paper-standard countries. The surprising constancy of the cost of living and its decline in gold-standard countries demonstrates that gold in itself is no guarantee of stability, and that paper currency is not identical with violent inflation. Some of the countries which now cling to the gold standard in spite of the deflation it entails are apt to generalise from their own experience in the twenties in a way which recent developments in the sterling group of countries have shown to be unjustified. The adoption of a managed paper currency in Sweden has made it possible to re-establish a relation between costs and prices which is not far from enabling producers to reap a normal profit, when their productive capacity is utilised to a normal extent.

## Financial policy and public works

Financial traditions in Sweden are rather orthodox and strict. Borrowing was used only for productive purposes which were expected to yield the State sufficient profit to cover interest charges. Railways constructed partly for military purposes, office buildings, etc., were financed by means of taxation. During the good years 1927-1931 current revenue exceeded current expenditure – excluding productive investments – by something like 200 million kronor.

With the advent of the severe depression in 1931 the situation changed. The budget for the financial year July 1931 to June 1932 was balanced in less orthodox fashion; the year ended with a deficit, and not less than 70 million kronor in all had to be financed otherwise than out of current revenue. For the sake of simplicity such operations will be described below as “financed by borrowing”. In addition to this 70 million a similar sum was borrowed for productive investments, which in Sweden are entered under the heading “expenditure for the increase of capital”.

In the next budget (1932-1933), which covered the period of the depth of the depression, borrowing for productive investments was – curiously enough – reduced to 50 million, apart from a sum of money that was used simply to strengthen the financial position of the iron ore company, in which the State holds a large interest. However, the deficit in the rest of the budget rose to a sum total of about 110 million, including amounts taken from various funds. Hence borrowing for total real expenditure was about 160 million, or somewhat higher than the preceding year.

The budget for 1933-1934 was based by the new Socialist Government on new principles. To finance unemployment relief during a period of depression by means of loans was declared to be sound, as this would help to maintain purchasing power, provided that the borrowing was so effected as not to restrict the credit given to private industry. Only through such a policy would it be possible to escape not only the cutting down of desirable expenditure but also an increase in taxation that would weigh heavily on industry and trade. It would however be prudent to provide for the amortisation of such temporary borrowing over a short period of years by setting aside the income from certain taxation – an increased inheritance tax – for this purpose. In the long run, the financial position of the State would not be weakened; the heavy financial burden of the depression would merely be spread over a certain number of years.

According to this new budget, borrowing for productive public works – which had always been financed in this way – would be increased to 100 million kronor. Owing to delay in starting these works only 65 million was actually spent before the financial year ended in June 1934, to which sum should be added about 15 million remaining from the previous budget. As regards expenditure which would normally have been financed out of current revenue, it was proposed to borrow 168 million for unemployment relief – relief works, cash allowances, etc. – and for certain building purposes.

Furthermore, certain kinds of "savings" which meant a hidden deficit were made; these, however, were covered by the surplus which the budget ultimately gave owing to an under-estimate of certain items of revenue. Of the proposed extraordinary loan expenditure of 168 million, which was accepted by the Riksdag, only 98 million was actually spent. In addition, extraordinary amortisation amounted to 24 million, so that the sum total of expenditure financed by borrowing must have amounted to about 155 million. This sum was about the same as the corresponding sum for the preceding year, 1932-33. As more than half the money was spent in the first half of 1934, there was certainly no increase – perhaps even a small reduction – in the rate of loan expenditure in the second half of 1933 as compared with the preceding budget, which had in theory been based on the old financial principles. On the other hand, 1934 saw a decided speeding-up of loan expenditure for public works, in particular after the end in February of the labour dispute in the building trades in the towns. As some of the State money was used as subsidies to municipalities to cover a part of the cost of public works and some more was used as subsidies for the improvement of private houses in country districts, it seems certain that the total loan expenditure due to State action during the first half of 1934 much exceeded the sums borrowed by the State; it is probable that it was not far short of twice the corresponding expenditure in the first half of the preceding year.

[...]

It should be added that Sweden's financial position has not been seriously damaged by the borrowings of the last four years. This is perhaps most clearly seen from a comparison of the interest payments on the State debt, which will be less than 100 million during the next budget year, with the expected revenue from productive investments and funds, which amounts to over 130 million. Thus no taxation is required for the interest service.

While it seems to be beyond dispute that the policy of budget surpluses during good years and deficits during the depression had a stabilising influence on economic conditions, it is also evident that the concentration of the loan expenditure in 1934, when industry and trade were well on their way out of the depression, was unfortunate. The new policy should have been begun two years earlier and preparations made for it in advance. In 1934 the time was ripe for a gradual reduction in public works rather than for an increase.

In any case the influence of the new financial policy on economic conditions in 1934 must have been considerable. State and municipal loan expenditure must have been somewhere between 150 and 200 million kronor more than it would have been under the old policy, and was at least 100 million kronor higher than it was in 1932; the national income was therefore increased by more than this amount. While these are important sums, they are far below the increase in the value of Swedish exports, which reached almost 350 million; it is probably safe to conclude, therefore, that the increased borrowing was a much less important factor in promoting the general recovery. There is also no reason for assuming that the secondary

demand arising from income due to the new financial policy was relatively greater than that brought about through export revival. On the contrary, the influence of the latter on the balance of payments and the purchases of foreign exchange by the Bank of Sweden, and thereby and in other ways on the capital market, has no parallel among the indirect effects of the new financial policy.

The amount of employment given by public works is of course partly dependent on the level of the wages paid. Before 1933 the practice in Sweden was that wages paid for relief work – road construction, forest clearing, etc. – were about 15 per cent lower than the open-market wages of unskilled labour in the district concerned. No unemployed worker, skilled or unskilled, obtained help of any kind unless he was willing to accept work on that condition. In 1933 two fundamental changes were made in this policy. A large part of the public works that were started to reduce unemployment was to be handled in the same way as ordinary productive works, and thus naturally paid at regular tariff wage rates; on relief works proper, on the other hand, the wage was to be equal to the open-market wage of unskilled labour in the district. Some people feared that this would cause a flow of labour from agriculture, where wages are lower than the lowest unskilled wage in many manufacturing regions. Up to the end of 1934, however, these tendencies seem to have been insignificant, and agriculture has on the whole not had serious difficulties in getting sufficient labour. The Unemployment Commission, which organises the State relief works and supervises the municipal relief works which receive State subsidies, naturally has its attention on these and similar difficulties,<sup>2</sup> and tries to restrict employment on relief works when dangers of this kind arise. It is still too early to say whether the new system has given rise to any serious disadvantages. Against such possible disadvantages must be set the gain that the relief works are now not so unpopular as they used to be.

The employment directly created on these various public works during 1934 reached very great proportions. During the second half of the year the number employed on the new “regular” public works – not ordinary productive investments in electrification of railways, etc., and not relief works – and in private building activity dependent upon official subsidies was estimated at 34,000. This is a considerable part of the total reduction of 70,000 in the number of applicants for unemployment assistance that took place from the second half of 1933 to the same period in 1934. Almost certainly, however, some of the 34,000 were not among those receiving assistance in 1933. Relief works, for their part, employed almost 40,000 persons, or about half the number seeking unemployment assistance. (It should be noted that workers on relief jobs are counted as unemployed.) Apart from the number who are without work but fail to report as unemployed, the total number of workers with no jobs of any kind was

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<sup>2</sup> The case of seasonal work in agriculture and forestry is also referred to below.

therefore not more than 40,000 in the autumn of 1934. The winter of 1934-35 brought with it a seasonal increase of about 20,000.

[...]

Nothing in Swedish experience – either with regard to production or with regard to interest rates – contradicts the opinion that in financially strong countries it is sound and practicable to resort to large-scale borrowing during periods of depression. The idea that the budget must be balanced *each year*, and that otherwise inflation is bound to ensue, is one of those popular maxims which are true in certain circumstances but not in others. The fact that they have been preached as a general gospel without qualifications, especially by bankers, has done much harm. For if an economic policy is believed to be unsound the practice of it cannot fail to call forth certain unfavourable “confidence reactions”. In Sweden, fortunately, influences of this kind have been very slight. It is time to learn the lesson of recent experience that intelligent and sound public finance does not require the budget to be balanced each year but only over a number of years, including both good and bad business conditions.

## Agricultural policy and good crops

[The author devotes two pages to the improvement in the agricultural situation. The main factors were a succession of good crops and regulation of the milk and butter market. Farmers’ incomes had also been raised by the State’s undertaking to buy each summer all wheat and rye of the previous year’s crop at a fixed price.]

These measures, combined with the effect of unusually large crops of bread cereals and good crops in general in the autumn of 1932, 1933, and 1934, have brought about the substantial increase in farmers’ incomes referred to above. A very large part of this extra income, however, has been at the expense of the consumer, who has had to pay increased prices for butter and some other products and therefore, presumably, has bought less of other goods. To what extent such a change in the direction of demand contributes to a general economic recovery is an open question, the answer to which would seem to depend on the special circumstances in each case; closer analysis is beyond the scope of this article. The transfer of money from one group of producers to another group can lead to a rise in the total volume of purchases over a certain period of time on two conditions: (1) if the people receiving the money so transferred spend a larger part of it on consumption during the period or if the individuals selling to these people do so; (2) if the improved profitability of production and the greater credit available to the producers receiving the transferred money leads to an increase in investment which is greater than the reduction suffered by the other producers. In view of the fact that the financial position of many Swedish farmers was very weak in 1932 and that this had unfavourable reactions on business sentiment and turnover in the country districts, it is not improbable that the rise in the prices of farm products to some extent satisfied these conditions.

However, a considerable part of the new income accruing to the farming community was derived, not from higher prices paid by the Swedish consumer, but from increased production and consumption of animal foodstuffs in Sweden. One-third of the new farm income was obtained at the expense of other countries by reduced purchases from them and larger sales to them. In 1934, smaller imports of bread cereals, sugar, and maize and a higher export price for bacon gave the Swedish farmer about 40 million kronor more than in 1932. Reduced imports of oats and a small rise in the export value of butter – the quantity exported rose from 13 million kg. in 1932 to 23 million kg. in 1934 – and a dumping export of cereals to reduce surplus stocks together gave more than 10 million kronor. On the whole, the increase in farmers' incomes from changes in imports and exports from 1932 to 1934 amounted to more than 50 million kronor. Finally, the semi-official purchases of wheat and rye for 35 million kronor of borrowed money, of which only a minor part was recovered through the dumping exports and through domestic sales for feeding purposes, produced a corresponding increase in incomes. The total increase in farm incomes due to borrowing and changes in imports and exports, and not arising from sales at increased prices to other sections of the population, was evidently considerable in 1934, although decidedly smaller than the figures for income increases due to the revival in export industries.

[...]

## Reinvestment demand

After [...] some years of depression a feeling that the fall in prices has come to an end may be sufficient to release a demand of the former sort that has until then been dormant, and a strong recovery movement may set in quite independently of favourable changes either abroad or in domestic economic policy.

The Swedish recovery has not been of this type. During 1930 and 1931 investment activity was well maintained, although on a slightly lower level than during the boom years. Sweden experienced only twelve months of serious depression in manufacturing industries and trade – the period from April 1932 when the Kreuger concern broke down to the spring of the following year – before the revival started. This period was too short for a large reinvestment need to accumulate. Most industrial firms had a strong financial position, so that debt liquidation did not force them to restrict investment.

It will be evident that the stimulus to expansion of output from such accumulated reinvestment need, when optimism began to return, could not be expected to come so quickly or to be so strong as in some other countries which had suffered from a longer and more severe depression. This expectation was fulfilled by actual events. The considerable increase in reinvestment came much later than the psychological change, which, to judge from the stock exchange, can be placed in February 1933. The index of share quotations fell during the second half of 1932 – it had been especially low

immediately after the breakdown of the Kreuger concern – and up to February 1933, when it reached 78. It then rose to 92 in May, only to remain constant until October, and it was not until January 1934 that the real upward movement began. It is worth noting that the psychological change in the spring seems to have had little influence on investment activity. During 1933, therefore, the recovery movement must have been carried chiefly by the other factors discussed above: the expansion of exports, the home market revival due to the depreciation of the currency, and the improvement in agriculture due to crisis measures and good crops. Financial policy did not affect the movement more than in the previous year, although it was all the time a favourable influence. These three factors may be called *primary* forces in the recovery, while reinvestment – called forth by them, i.e. by the improvement they had caused – was a secondary tendency which gathered strength only in 1934. In that year these three primary forces, to which financial policy should now be added, were also strengthened.

Some light is thrown on the relative importance of the four factors, other than reinvestment tendencies, not only by the preceding quantitative estimates of the size of their direct effects on income but also by the following considerations. The expansion of exports during 1933 can have had only a slight influence on home-market industries in that year. There is always a considerable time-lag before the secondary reactions take place. Hence the recovery in these industries during 1933 must have been due chiefly to the other primary factors, and probably most of all to the depreciation of the currency. Yet it would not be justifiable to describe the course of events in Sweden as fundamentally an “isolation revival”, due chiefly to the stimulus given by the cutting off of international economic relations. Both the value and the volume of imports – raw materials excluded – were in fact higher in 1934 than in 1932.

As no significant changes were made in wages during the period of recovery, it has not seemed necessary to discuss this aspect of economic policy here. It may not, however, be out of place to mention that the great stability of the situation of the home market all through the depression had something to do with the wage policy pursued. Wage reductions in 1931 and 1932 brought nominal rates down by something like 5 per cent. As the cost of living fell by 10 per cent, real wages per hour were increased. When the policy of raising the wholesale price level had been accepted, the time for any considerable wage reductions was obviously over. Such reductions would have caused an expectation of lower prices in the future and have led to a decline in consumers' demand. In the situation ruling in 1932 it would have been useless to wait for an increase in investment demand to follow a fall in wage costs. It was an important circumstance that the tendencies towards deflation, which lasted, although in a weakened form, until the spring of 1933, did not get the support of large wage reductions. It is probably more than mere chance that home-market industries were able to maintain production relatively well in Sweden as compared, e.g., with Finland, where considerable wage cuts took place.

These brief observations are not meant to indicate that rigidity of wage rates always makes for economic stability. This is by no means always the case, as the effect of different kinds of wage policy depends on the character of the situation in which they are applied. A study of economic developments in various countries during "the great depression" will presumably lead to a more relativistic view of the effects of economic policy on business conditions and the standard of life.

## Present and future labour market problems

Looking back at the development of Swedish economic conditions during the last two years one cannot but feel that the recovery has been remarkable. It has not been accompanied, and still less been caused, by any elements of an inflationary character which would lead one to expect a sudden reversal of the movement. On the contrary, the adjustment of selling prices and costs to one another since the currency left the gold standard has come about as much through cost reductions as through the rise in wholesale prices. In spite of the fact that the latter are still about 20 per cent lower than they were before the depression, whereas nominal wage rates have fallen by less than half this figure, improvements in technique and organisation have made profitable production possible in most industries.

While unemployment is still somewhat greater than in the prosperous years before the depression, the difference is less significant than in most other countries. Additional unemployment of between 20,000 and 50,000 persons does not weigh heavily on an industrialised country with more than 6 million inhabitants. The quantity of resources lying idle is certainly not of such proportions as to call for any considerable and general restrictions on their use in the present situation – e.g. through a compulsory and permanent reduction of the working week.

This, however, does not mean that there are no serious problems of employment and unemployment to face, especially if attention is directed towards the future. A new depression of a more or less typical business cycle character may come any year. It is highly important that the State and the municipalities should prepare beforehand for such an eventuality, so as to be ready in time with a suitable economic policy. This will probably have to be of much the same kind as the one applied in the last few years, the chief defect of which was that it began a couple of years too late.

Perhaps not less important is the question of the so-called "permanent" unemployment, and its relation to the social policy adopted to assist the unemployed. As the problems connected with this are similar in a great many countries, it may be worth while to make them the subject of a brief analysis.

## Possible dangers of social policy

At the end of September 1934, before seasonal unemployment had begun, the number of people reporting to the Unemployment Commission



and applying for assistance was 79,000. Of this number 43,000 were employed on relief works and 1,000 young people on voluntary labour service. Of the rest, 10,000 obtained cash allowances, while 25,000 were considered to be not in need of assistance. It seems certain that a considerable proportion of these 79,000 represented a type of labour on which a large amount of unemployment is ordinarily concentrated. Investigations into the quality of labour employed on relief works in certain cities have shown that it was to a large extent what may be described as second quality. There is reason to suppose that the problem of how to find employment for such labour is growing more and more important.

It is of course obvious that some individuals have always fallen below the standard of quality expected of ordinary labour, usually because they lack the intelligence, energy, or health that is necessary. It seems certain, however, that the requirements of the ordinary standard have a tendency to rise. With the growing use of machinery, often of a complicated character, and with the increasing speed of production the demands made on the workers are rising and a growing percentage of them are not able to meet these demands. This is so not only in the manufacturing industries; in recent years the same tendency has gathered strength in agriculture as well, where formerly much second-quality labour was used. The rationalisation of farming, e.g. the increasing use of machinery, seems to be proceeding more rapidly than ever, with this change in the nature of the demand for labour as a consequence.

Another factor which makes the problem of second-quality labour more serious than it was a decade or two ago is the more complete organisation of the labour market. If labour of this kind is to be paid the same wage rates as ordinary labour, it will not get much employment, except during real boom periods. The organisation of the labour market means a certain rigidity of wages and incomplete differentiation of wage rates, thus making it more difficult to adapt the rates for the second-quality labour to its real usefulness.

Before the depression workers of this kind found odd jobs here and there, but they were not well paid and, owing to intermittent periods of unemployment with little or no help from the community, they led a precarious existence. As the social policy of recent years has made it much easier to obtain unemployment assistance, the stimulus to seek new jobs has been weakened. The total amount of unemployment among workers of this kind cannot fail to show an upward tendency.

The fuller utilisation of this labour power, both for the sake of the contribution it can make to the national income and – still more – to save the individuals concerned from the burden of long idleness, is indeed a serious problem, which seems unlikely to be solved without specific measures on the part of official institutions. The experiments in the employment of the disabled, e.g. in the Ford factories, have however shown that much can be done to find opportunities for the employment of labour that is below the ordinary standard of general usefulness, or useful only under certain conditions. Due consideration must be given to this problem in the construction of future social policy.

A similar problem is raised by the existence of individuals who are reluctant or unwilling to work. The possibility of obtaining public assistance inevitably makes it easier for them to remain idle. Although the cash allowances paid in Sweden are relatively low – a maximum of 3 kronor a day for man and wife, 2 kronor for a single person, and 60 öre for each child – some people prefer to accept them rather than work. To counteract such tendencies some municipalities require two days of work per week from persons receiving assistance; if they refuse to work, all unemployment assistance is withdrawn. As far as possible, however, the unemployed are offered not cash allowances but jobs on relief works. Here again refusal to accept the work offered means the end of all help from the unemployment authorities. Some municipal unemployment committees use relief works to test the willingness to work of everyone applying for assistance; others give work to those who apply for it, while the remainder get cash allowances. The question of how to test the willingness to work without causing undue hardship to the ordinary unemployed worker obviously gives rise to difficult problems.

Seasonal employment is another case in which, failing special precautions, social policy may tend to cause or prolong unemployment. The seasonal character of Swedish industries is very marked, chiefly for climatic reasons. In the northern part of the country small farmers and farm labourers work in agriculture during the brief summer, and during the winter in the forests cutting and transporting timber. Timber floating is done in the summer half-year. It is the normal system to pass from one to another of these occupations in the course of the year, often with one or two months of unemployment in the spring and autumn. In spite of the seasonal character of the jobs, daily earnings in them are not higher than in other more regular employments in the country districts, chiefly on account of the severe competition of the very cheap labour in the Finnish and Russian timber industries, and the standard of living of this group of workers is thus relatively low. Not unnaturally, their anxiety to find jobs in private industry is reduced by the possibility of obtaining cash allowances, and still more by the relief works on which they can earn as much as on their ordinary work, and which often give longer and more secure employment.

[...]

## The local adaptation of labour

In a large and scantily populated country like Sweden the problem of the geographical mobility of labour has always been important, and has become even more so during the present period of great changes in the structure of world economy and of Swedish industry. In some parts of the country employment is almost exclusively dependent on the stone quarries, whose output seems to have been permanently reduced to a fraction of the pre-war volume. In some regions in the North the supply of timber is so small that the local timber industry will in the future be much restricted. In these

and other similar cases, how is the working population to be transferred to other parts of the country and employed there?

In the nineteenth century the pressure of hardship, sometimes even of starvation, made people migrate either to other districts or – more commonly – to the United States. Nowadays, fortunately, the community intervenes with aid, but sometimes with the undesirable result of reducing the mobility of labour. The same effect is sometimes produced by the form of local protection practised by many municipalities and districts, which reserve jobs as far as possible for their own inhabitants and put difficulties in the way of people coming from outside. The difficulties are increased by the efforts of trade unions to give their own unemployed members the preference over non-members coming from other districts.

Such circumstances make it important that the community should make every effort to increase the geographical mobility of labour, when this can be done without causing any serious inconvenience in other respects. Among general measures to this effect may be mentioned the improvement of the system of employment exchanges and official subsidies to cover travelling expenses. In Sweden both these methods are at present being applied. It is also of course important that the attention of the trade unions should be directed to the important question of mobility. Special measures to organise the transfer of labour in particular cases can also be useful. In Sweden unemployed from the more seriously affected districts are given relief work in other parts of the country, where the state of the free labour market is relatively favourable, with the result that after a time some of them find regular employment there in private industry. Another measure that has been tried on a small scale and with good results is to select youths from the overpopulated districts for official training courses, e.g. in mechanical work; after training, they have been almost eagerly demanded by mechanical firms all over the country.

It is needless to say that a policy of this kind should be based on careful study of the tendencies and trends in industry by means of regular surveys. In this respect, however, much remains to be done in Sweden.

On the basis of such investigations it may also be possible to attack the problem from the opposite angle. Instead of transferring surplus labour to other regions, new industries may be found that can with advantage be established in the districts where there seems to be a permanent surplus of labour. The depreciation of the Swedish currency has opened up possibilities of manufacturing many goods within the country that were formerly imported. A Government committee is at present enquiring into the possibilities of bringing about the desired establishment of such new trades.

## **The need for expansion**

While unemployment is not at present a very serious problem in Sweden, there is reason to fear that the problem of employment may shortly become very difficult, owing to the rapid increase in the number of persons of

working age, from 18 to 65 years. The increase during the next decade may be estimated at almost 150,000 men and a similar number of women. Where are all these people to find employment?

It is at least clear that it will not be in agriculture. Swedish exports of foodstuffs are more likely to meet growing difficulties on the foreign markets than the reverse, and there is little prospect of larger sales on the domestic market. The best that can be hoped for is that the general increase in the Swedish demand for animal foodstuffs should keep pace with the rapid rise in output per farmer. If the standard of living continues to rise in the future as it has done in the past, this will result in a larger percentage of the productive resources of the country being used to produce goods and services for the satisfaction of secondary needs.

Obviously, it is to manufacturing industries, including building, and the service industries that we must look for the greater part of the necessary expansion of employment. Public opinion in Sweden is reluctant to accept the pessimistic view that it will become impossible to create sufficient employment, and that a permanent shortening of the working week will therefore be required. History offers no evidence in support of the view that – except during special depressions – it is not possible to use the growing productive capacity of a country to satisfy the many pressing needs of a population which is still far from a desired standard of living. (It is true that when a certain standard has been reached, a shorter working day may be preferred to a higher income, but this is quite another matter.)

On the other hand, experience seems to show that during the last hundred years rapid economic progress and expansion have been connected with a large volume of new real investment. [... P]resent conditions seem to indicate house building on a large scale as a natural form of investment during the next decade, and one which might in turn stimulate a general industrial expansion. A further reason is that the standard of housing is lower in Sweden than in some other north-western European countries, where the standard of living is not higher in other respects. The low and falling birth rate also calls for measures to check its decline, and better housing accommodation may possibly have some effect in this respect. Last but not least, the interest level of 3 per cent makes it possible to provide housing more cheaply than was possible some years ago. As, however, there is no certainty of a sufficient automatic increase in building activity, it has been proposed to subsidise house building to meet the needs of poor families with more than two children. There seems to be a growing conviction in Sweden that official measures to stimulate the production of houses is a natural way of contributing towards a general economic expansion, and a necessary item in the solution of the employment problem.

[... T]he volume of employment will also depend on the level of remuneration asked for by the trade unions. Expansion in private industry depends on the possibility of making a satisfactory profit; a wage policy that prevented this would accordingly counteract the tendencies towards the desired growth in manufacturing industries and elsewhere. The goal both of

the unions and of the State must be to pursue such a general policy that the standard of living of *all* classes – or at least such as are not wealthy – can be raised. This implies, first, an expansion sufficient to avoid any increase in unemployment, and, secondly, such increase in wages – an increase *all round*, and not only in certain fields – as is compatible with this rise in employment.



## Mr. Keynes' "General Theory of Employment, Interest and Money"

A. P. LERNER \*

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The object of this article is to provide as simple as possible an account of the most important line of argument that runs through Mr. J. M. Keynes' book *The General Theory of Employment, Interest and Money*, so that, except perhaps in some details of presentation, it contains nothing original. [...]

Keynes wishes sharply to distinguish his own system from what he calls the "classical" economics. By that he means the orthodox body of doctrine, first conceived in fairly complete outline by Ricardo, and developed by almost all economists of repute from that time on, both in England and elsewhere, which finds its present culmination in the works of Pigou. [...]

The last sentence in Keynes' preface reads: "The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds." I would like to underline that sentence.

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Keynes is concerned with the problem of unemployment. The classical view is that in the absence of State interference or other rigidities, the existence of any unemployment will have the effect of lowering wages.

This follows immediately from the definition of unemployment, for any man who is not in employment but who does not try to get work at a lower wage is no more considered to be unemployed than the man who refuses to

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Prior to its original publication, this article was read and approved by J. M. Keynes]

work overtime or on Sundays. At the current wage he prefers leisure to employment. He may be idle but he is not unemployed – at any rate he is not involuntarily unemployed. If he really wanted to work, if he were really unemployed, he would offer himself at a lower wage and this would reduce the level of wages. Unemployment is incompatible with equilibrium.

The reduction of wages, the argument goes on, will make industrial activity more profitable so that business men will employ more people. As long as there is any unemployment wages will fall, and as long as wages fall profits rise, and as profits rise employment increases until all the unemployed are absorbed in industry and we have equilibrium and no more unemployment.

Unemployment can therefore persist only if the State, or the Trade Unions, or some other institution prevents the unemployed from offering their services at lower wages and so from setting in motion the automatic mechanism which leads to equilibrium and full employment. What is necessary, therefore, is simply to remove the rigidity and allow the unemployment to liquidate itself by reducing wages.

Keynes accepts neither the definition nor the argument. Like the classical economists he is concerned only with *involuntary* unemployment, but he defines as *involuntarily* unemployed a man who would be willing to work at a lower *real* wage than the current real wage, whether or not he is willing to accept a lower *money* wage. If a man is not willing to accept a lower *real* wage, then he is *voluntarily* unemployed, and Keynes does not worry about him at all. But there are millions of people who on Keynes' definition are unemployed but who fall outside of the classical definition of unemployed, and these provide one of the most pressing of modern social problems. These are willing to work for less than the current real wage – they would be willing to work for the current money wage even if the cost of living were to go up a little – yet they cannot find jobs. What determines the number of people in a society who find themselves in this position? Or to put the question the other way round, what determines the number of people who do find employment? The object of Mr. Keynes' book is to indicate the road leading to the answer to this question.

The classical refusal to consider these men as really involuntarily unemployed resolves itself into a recipe for finding them employment. They have only to agree to accept lower wages and they will find work. Keynes objects to this procedure of economists on two separate grounds. His first objection is on the practical ground of the uselessness of tendering advice that one knows will not be accepted, even if it is sound advice. It is time for economists who wish to give statesmen practical advice to realise that money wages are sticky – that workers will, in fact, refuse to reduce money wages.

But Keynes' main objection consists of a denial of the theory which is put forward as an excuse for the treatment. If money wages are reduced it does not follow that there will be any increase in employment. A general reduction of wages will reduce marginal costs, and competition between producers will reduce prices of products. Equilibrium will be reached only



when prices have fallen as much as wages, and it will not pay to employ more men than in the beginning. The workers, who are able to make agreements with their employers about their *money* wage, cannot adjust their *real* wage. If they could reduce their real wage more would be employed, but they can only attempt to reduce their real wage by reducing their money wage at the existing price level. This, however, only brings about a proportionate fall in prices so that they are in fact not able to vary their *real* wage. That is why their unemployment is *involuntary* even if they refuse to accept a lower money wage. For that would not have the desired effect of reducing the real wage and increasing employment – it would merely remove a certain stability of prices.

It has hardly been disputed that a cut in money wages, by reducing costs, will have some tendency to reduce prices, but it remains to be shown why prices should fall *proportionately* to the reduction in money wages so that there is *no* fall in the real wage and so *no* increase in employment in the manufacture of consumption goods. (Employment in investment industry depends on other factors considered below. For the time being this is taken as given.)

Whether this will be the case or not cannot be decided at all by looking merely at the effect of the wage cut upon *costs*. It is necessary also to consider the effect of the wage cut upon *demand*; whether directly or whether indirectly through the change in employment that might be initiated by the first impact of the wage cut.

[...]

The essence of the analysis whereby Keynes obtains the result that there will be no change in employment [from cutting wages] comes from a consideration of demand conditions. If there is initially an increase in employment – and, since employers very often think that a wage cut is a good thing, this impact effect is very likely – the demand conditions will be such as to bring about losses which tend to induce the entrepreneurs to curtail employment until the previous equilibrium level of employment is restored. Similarly, if the impact effect is to reduce employment, this will bring about profits which induce entrepreneurs to raise employment to the previous level.

The losses that accompany an increase in employment in the manufacture of consumption goods are due to the tendency of people, whose income is increased, to increase their expenditure by *less* than the increase in their incomes. This means that the increase in revenue from the sale of the larger output of consumption goods is less than the increase in the outlay on their production so that there emerges a net loss. This loss may be mitigated, but not entirely escaped, by the withholding of stocks with the intention of selling them at a more propitious moment, but this procedure, while diminishing losses, has the effect of building up superfluous stocks. The losses and the accumulation of stocks both tend to reduce employment, and these forces must persist and accumulate as long as employment remains above the equilibrium level. The whole of this phenomenon is reserved for the case where the initial effect of the wage cut is to diminish employment.

We must now consider how all this works if items other than wages enter into marginal costs. Where this is the case these other items are payments for the use of productive resources which, in the short period, are fixed in supply. This is because they accept whatever they can get, their reward falling relatively to wages until all those that are of any use whatever are employed.

If, then, wages are reduced, the attempt to substitute labour for these other productive resources will increase employment and may reduce the earnings of these resources. As long as these earnings have not fallen in the same proportion as wages, costs and prices will not have fallen as much as wages but will have fallen more than the rewards of the other productive resources. Real wages will be lower while the real reward to the other productive factors will be greater. More men will be employed, and the total real income will be greater; since with more men employed on the given resources a greater real product is forthcoming. The aggregate real income of the other productive resources is increased, since the quantity employed is unchanged and the real rate of reward is increased. The aggregate real income of labour may be greater or less than in the beginning, according as the increase in employment is greater or less than the reduction in the real wage.

As long as this situation remains, prices have not fallen as much as wages have been reduced; and the workers have been able to reduce their real wages by reducing their money wages and thus to increase employment. Such a position cannot be expected to persist, but contains within itself forces which will still further reduce the rewards of the factors other than labour until costs and prices have fallen proportionately to wages, and real wages and employment are back again at the original level.

In the situation we have just described total real income is greater than in the initial position, because more men applied to the same equipment produce more goods. There is an increase in the total real costs of the consumption entrepreneurs [producers of consumption goods] exactly equal to this increase in real income (since the incomes of the factors of production are the costs of the entrepreneurs). Out of this extra income some will be saved, so that the total receipts of consumption entrepreneurs increase (in real terms) less than their outgoings. Entrepreneurs make losses which cause them to restrict their (output and) demand for productive resources. This goes on as long as more men are employed than in the initial equilibrium and as long as the real reward of the productive resources other than labour is greater than in the initial position. These two phenomena disappear at the same time, since the tendency to substitute labour for other productive resources, which led to the increase in employment in the first place, disappears just at the point where the real reward to the other productive factors has fallen in the same proportion as prices and wages. A new equilibrium is reached only when employment has gone back to its original level and the reward of the other resources has fallen to their old *real* level. This will only be when their prices have fallen in the same proportion as wages. As long as these have fallen only in a smaller proportion than wages, prices will be higher than before relatively to wages and lower than before

relatively to the reward of the other productive resources, and the disequilibrium described will continue.

In a longer period it will be possible to increase or decrease the supply of productive resources other than labour by varying the application of current factors of production to their manufacture, so that the above argument, which rests on the fixity of supply of productive resources other than labour, would not apply. But there will be no inducement to vary their supply since their price, determined in the longer period by their cost of production, will have varied in just the same proportion as wages. There is therefore no point in departing – except as a temporary mistake – from the initial level of employment.

This does not mean that a reduction of money wages may not have all sorts of indirect influences which ultimately react on the level of employment. There will be effects on the demand for money, on the rate of interest, on entrepreneurs' expectations of future prices or rather of the relation of these future prices to present costs, on the distribution of wealth and spending – all these and other influences will have an effect on the number of people that entrepreneurs consider it profitable to employ – but these work in divergent directions and some of them only after a considerable interval, so that nothing can be said as to the effect of the sum of these influences on employment as a result of a reduction in wages until a complete set of assumptions have been provided as to the form and strength of these influences. Before we have all this information we must either assume them to cancel out and say that there is no effect on employment, or else, if we wish to be more realistic, we must say that what happens to employment if money wages are reduced will depend upon other conditions, so that employment might go either up or down. Anything might happen. There is no simple rule such as the classical economists envisage relating the level of employment to the money wage.

If the level of employment is not affected in any simple way by the money wage, what is it that does determine the amount of employment? Before answering this question it is useful to contemplate some very simple equations.

The income of the whole society is earned by the members of the society in producing either consumption goods or other kinds of goods. We call these other goods investment goods. This gives us our first equation. The total income of society ( $Y$ ) is made up of the income earned in making consumption goods ( $C$ ) and the income earned in making investment goods ( $I$ ).  $Y = C + I$ .

Now  $C$ , which stands for income earned in making consumption goods, must also stand for the amount spent on buying consumption goods, since these two are in fact the same thing. (Similarly  $I$  stands also for the amount of money spent on investment goods.) The aggregate amount of saving in any period ( $S$ ) is defined as the excess of aggregate income in the period over the expenditure on consumption goods. This, the almost universal definition of Saving, gives us our second equation  $S = Y - C$  (Definition).

From these two equations it follows that saving must always be equal to investment.  $S = I$ .

This appears rather peculiar to many people when they first meet it, since there is obviously no mechanism whereby any individual's decision to save causes somebody to invest an exactly equal amount. Mr. Keynes has ineradicably impressed that upon the mind of everyone who has read his *Treatise on Money*. And of course Keynes was right in this. Yet there is no paradox.

It is perfectly possible for any individual to save more without investing more himself. The proposition applies only to *aggregate* saving and investment. Neither is it necessary that aggregate investment should increase whenever any individual decides to increase the amount that he saves. This would be so if an increase in an individual's saving left unchanged the amount saved by all other individuals together, so that it always meant an increase in aggregate saving. But we cannot assume that, because the individual must decrease his expenditure on consumption goods to the extent that he increases his saving. This diminution in  $C$  (if others have not changed their expenditure on consumption goods) diminishes  $Y$  (by diminishing the income of those who sell consumption goods) and therefore leaves  $(Y - C)$ , which by definition is  $S$ , the same as before. Others have saved as much less as he has saved more, so that aggregate saving is unchanged and equal to the unchanged  $I$ . If there is no change in  $I$  there can be no change in  $S$ .

Individuals deciding how much to spend out of their incomes seem to be able to decide how much to save, and if we consider one individual in a large society, this has sense, because the effect on his own income of an individual's expenditure on consumption goods can be neglected. But if we take society altogether and neglect the effect of changes in expenditure on total incomes, we naturally get into trouble, for we are then making the contradictory assumptions (*a*) that when people save more they spend less on consumption goods and (*b*) that the people who sell consumption goods do not receive any less. And nobody expects to get sensible results by deduction from contradictory assumptions, not even those who are most scornful of the canons of "bourgeois" logic.

[...] We always get back to this really very obvious if not very informative bit of arithmetic. It only appears strange or suspicious because of the habit of looking at the saving from the point of view of the individual who has got his income and is wondering whether to save it or not. He is naturally unable to see the whole social process. Our suspicions should vanish when we realise that all that the proposition says is that the excess of total income over income earned in making consumption goods is equal to the income earned in other ways.

[...] It is only saying the same thing in other words to show that an attempt by people to save more than they invest will diminish consumption and incomes and employment, etc., but will never succeed in making saving greater than investment.

[...] Although there is no mechanism whereby decisions about saving bring about an equal value of investment, which is what makes the equation suspicious, because of the long-standing habit of expecting the influences to work *from saving to investment*, *there is* a mechanism whereby decisions to invest bring about an equal amount of saving, which is what makes the equation true.  $I = S$ .

From the expenditure on consumption at this level of income we can derive the number of men employed in making consumption goods – for there is a functional relation between this number of men and expenditure on their product. Similarly, from the expenditure on investment goods we can derive the number of people at work in making the investment goods. This gives us the total number of men employed. This number is determined by the amount of investment and the propensity to save (or its complement: the propensity to consume, which is the relationship between income and consumption). The propensity to consume may also depend upon other things, such as the rate of interest. These can be brought in and they fit quite well into the theory, but it is a reasonable simplification to assume that small changes in the rate of interest will affect different people in opposite directions; and the net effect may here be neglected.

There remains to be considered what determines the rate of investment. It is in the analysis of this that some of the more subtle and more valuable innovations in the theory are made by Keynes. Investment consists in the application of productive resources to the manufacture of capital goods. Capital goods are goods which are valuable on account of services they are expected to yield in the future. The efficiency of a capital good, or the rate of return over cost, as Irving Fisher calls this, is the rate of yield of the capital good, i.e. it is that rate of discounting the expected future yields of the capital good which makes the sum of the discounted yields equal to the cost of making it. [...] The *marginal* efficiency of any particular type of capital good is the efficiency of the marginal item of that type of capital good, in the use where its installation would show the greatest possible efficiency. The marginal efficiency of capital in general is the highest of the marginal efficiencies of all capital goods that still remain to be made.

It should be noted that the marginal efficiency of any capital good is described in the same way (has the same dimensions) as the rate of interest, so that it can be measured against it. It is a percentage of so much per annum. But it must on no account be confused with the rate of interest. The rate of interest is the rate at which money has to be paid for the privilege of borrowing money; or, from the point of view of the lender, it is the rate at which one is remunerated in money for the service of lending money.

There is, however, a certain relationship between the rate of interest and the marginal efficiency of capital. For it will pay entrepreneurs to borrow money in order to increase the rate of construction of capital goods – which is the rate of investment – as long as the rate of interest is less than the marginal efficiency of capital. As the rate of investment increases the best opportunities for investment are used up, and the marginal efficiency of

capital diminishes. This happens in two ways. As the amount of capital increases, the expected values of the services of new capital goods fall as these have to compete with a larger supply of existing capital goods. This will be a very slow process since the rate at which capital is increased – the output in a short period – is small relatively to the existing stock of capital goods. But the other way in which the marginal efficiency falls is operative in the short period. As the rate of investment increases, the marginal cost of making capital goods increases, and this immediately tends to reduce the marginal efficiency of capital to the rate of interest. For each rate of interest there is a corresponding rate of investment. This relationship is the schedule of the marginal efficiency of capital.

The schedule of the marginal efficiency of capital is sometimes called the demand curve for savings because the entrepreneurs, who undertake the investment and have to obtain the funds to finance it, are conceived to obtain them from the savings of individuals which when summed constitute the “supply” of savings. This is important in so far as it is brought in to explain the amount of investment that takes place, and upon the amount of investment depends – as we have seen – the amount of employment which is the *quaesitum* of the whole book.

It is clear that the amount of investment undertaken by entrepreneurs in any given position, given the marginal efficiency schedule of capital, will be determined by the rate of interest. The crux of the matter lies then in the theory of the determination of the rate of interest.

According to the classical theory, the rate of interest is given by the supply and demand schedules for savings. The rate of interest is the price of savings and that amount of saving and investment comes about that is indicated by the intersection of these demand and supply schedules. If the supply of savings is greater than the rate of investment the rate of interest will fall so as to bring them into equilibrium and *vice versa*. Savings and investment are brought into equality with each other in an equilibrium by the movement of the rate of interest.

This line of reasoning is not merely wrong – it is meaningless. The equations [given above] [...] show that savings can never be different from investment whatever the rate of interest, so that it is nonsense to say that the rate of interest brings them to equality with each other. This can be shown in another way. The supply schedule of savings in this scheme is supposed to be independent of the demand curve for saving (which is the marginal efficiency schedule of capital). This means that, given the rate of interest, the amount of saving is independent of the amount of investment and also of the size of people’s incomes. In fact of course it is ridiculous to assume that this is so, for what happens is that if there is an increase in investment, incomes increase immediately so that saving is increased by exactly the amount that investment is increased. The supply curve does not keep still. Whatever the point one takes on the demand curve the supply curve moves to the right or to the left so that it intersects the demand curve at the point taken.

[...]

There remains unexplained what it is that determines the rate of interest. The explanation of this is given by Keynes, who derives it from the inadequate theories of the Mercantilists by an easy development of a line of thought that had been shut out of economic theory for over a century. This line of thought has only recently been coming back into respectable economics under very heavy disguise in the writings associated with such esoteric concepts as the "natural rate of interest" and "neutral money".

The rate of interest is what people pay for borrowing money. It is what people who have money – cash – obtain for lending it to other people instead of holding it themselves. It is not payment for saving, for one can save without lending the money saved; and in that case one does not get any interest payments. On the other hand one can lend money out of what one previously held; and in that case one gets interest payments without saving. The relevant demand is then the demand to *hold* money. The supply is simply the total amount of money that there exists. This demand schedule Keynes called *Liquidity Preference*, and it is the intersection between the liquidity preference schedule and the supply of money (which is a perpendicular line if the amount of money is fixed) that gives the rate of interest upon which the whole thing depends. The higher the rate of interest the greater the cost – in terms of interest forgone – of holding money and the smaller the amount of money people will want to hold. Conversely, if there is an increase in the amount of money the rate of interest will fall until people want to hold the larger amount of money. They are induced to want to hold more money by the fall in the rate of interest, for then, to some people, the convenience and feeling of security of holding cash can be satisfied to a greater extent because the cost is less.

Our conclusion is that the amount of employment can be governed by policy directed towards affecting the amount of investment. This may be done either by lowering the rate of interest or by direct investment by the authorities. There may be difficulties for institutional or psychological reasons in reducing the rate of interest to sufficiently low a level to bring about that rate of investment which, with the existing propensity to consume, is necessary in order to bring about full employment. It is because of such difficulties that Keynes thinks that public works are necessary, and may become more and more necessary as the wealth and capital equipment of the community increase. For this means that on the one hand people wish to save more out of the larger income corresponding to full employment while on the other hand the accumulation of capital lowers the marginal efficiency schedule of capital. Equilibrium with full employment is then possible only at lower interest rates than are practicable unless either (a) investment is increased by State production of capital goods whose efficiency is less than the rate of interest or which for any other reason would not be manufactured by private entrepreneurs, or (b) the propensity to save is diminished – consumption increased – by State expenditure on social services or by redistribution of income from the rich to the poor, or by any other means.

[...]

Keynes' conclusion that the amount of employment has to be governed by operating on the amount of consumption and investment, *via* the rate of interest or otherwise, may seem at first sight to be a very small mouse to emerge from the labour of mountains. Everybody has known that cheaper money is good for business, and so is any increase in net investment or expenditure. But except for occasional lapses from scientific purity to momentary commonsense, the pundits of economic science have been declaring that people should practice more thrift. There has been a weakening of this attitude recently – I am not clear to what extent this is due to the cyclical fluctuation in the attitude of economists and how much to the influence of Keynes' ideas and some parallel development by J. R. Hicks and the Swedish writers. But we must not forget that it is not so very long ago that we had Professor Robbins and Mr. Keynes on the wireless respectively advising the world to save more and to spend more. And there is still in Milan a World Institute for the Encouragement of Thrift. It will be a long time before the view that thrift "since it enriches the individual can hardly fail to benefit the community" is seen to be an important example of the common logical error of composition. What Keynes has done is to show that what the ordinary man has often felt in his bones can be justified by a keener analysis than has so far been applied to the problem. He has shown further that it is *only* by working indirectly on these same determinants that any other remedies can ever work. Thus, even in the case when a reduction of money wages increases employment it does so only in so far as it indirectly reduces the rate of interest. The direct effect is merely to reduce both prices and money incomes, leaving the *real* situation as before. At the lower price level people find that they need less money to carry on their business, so that if there is no change in the amount of money its supply is greater than the demand to hold it, and the attempt of money holders to lend the spare money to others, or to buy other assets for money, raises the value of the other assets and reduces the rate of interest. The reduction of the rate of interest does the trick by making a larger rate of investment profitable. Incomes then increase, in accordance with the propensity to consume, until a level of income and employment is reached which induces people to save at a rate equal to the greater rate of investment. From this it follows that any objections that may be raised against the dangers inherent in lowering the rate of interest in an attempt to increase employment apply just as much or as little to the policy of increasing employment by lowering wages, since that works only *via* lowering the interest rate. It is not denied that there are any dangers, but such as they are, they are inherent in *any* successful attempt to increase employment. To run away from these is to refuse to be cured because that will make it possible to become sick again.

To seek the alleviation of depression by reducing money wages, rather than by directly reducing the rate of interest or otherwise encouraging investment or consumption, is to abandon the high road for a devious, dark, difficult and unreliable path, for no better reason than that the dangers that await one at the common destination are more clearly seen when it is approached by the broad highway.



## A programme for family security in Sweden

Alva MYRDAL \*

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abridged.

Widely different experiments in population policy have been tried in Europe since the war of 1914-1918. Those of the Soviet Union and the totalitarian countries have dominated the field of interest. Recently, however, Sweden has set about the task of formulating a democratic population policy. This is not due to any desire for ideological competition. It so happened that the population problem assumed calamitous proportions in this period, and the different forms of government have given their answers to it in typically divergent ways.

The mere fact that Sweden has managed to enunciate a democratic population policy side by side with those of the Communist and the Fascist States has been found worthy of note, however, especially in view of the fact that it was necessary to break away completely from the traditional opinions on the subject of population, which, until the winter of 1934, prevailed in Sweden as in many other countries. Since about the eighties [1880s], views on population in Sweden have been divided into two characteristic groups: the conservative and the reformist. The conservatives were traditionally interested in maintaining or rather increasing the size of the population, seeking to achieve this end primarily by curtailing the spread of birth control. More often than not, they were also adverse to honesty in sexual matters. The other, Neo-Malthusian, group was reformist as far as private family regulation through birth control was concerned, and negative as to total population trend. In fact,

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\* [After several years at the head of the United Nations Department of Social Sciences and, later, in Sweden's diplomatic service, she was elected to the Swedish Parliament in 1962. She became Sweden's representative to the United Nations Committee on Disarmament (1962-73) and, as Minister for Disarmament and Church Affairs, played a major part in the international peace movement. She was awarded the Albert Einstein Peace Prize in 1980 and – jointly with Alfonso García Robles – the Nobel Peace Prize in 1982.]

this group usually idealised the social and economic effects of population decrease.

The new population programme of Sweden may be described as a constructive synthesis of parts of both views. It wholeheartedly accepts Neo-Malthusianism by sanctioning rational birth control, and at the same time endorses the positive interest in population of the conservative group, though only in so far as the prevention of a cumulative decline is concerned. This decline is to be checked, not by keeping people in ignorance of birth control, and not by letting the poorer classes carry the main burden of regeneration, but by educational and social measures aimed at stimulating voluntary parenthood. A new and realistic importance is thus added to the programme by the consideration of population measures chiefly from the point of view of the interests of the masses, and by the desire to improve the quality of the population through providing better social conditions for families with children.

The terms of reference and the work of the Population Commission followed these general lines. The Commission was appointed by the Government in May 1935 at the request of Parliament and included representatives of different political parties and experts in economics, statistics, medicine, and genetics. The Commission completed its work at the end of 1938, having published seventeen reports covering practically all the branches of social legislation which affect the family. [The author was closely associated with the work of the Population Commission of which she writes, as a member of one of its subcommittees and also as principal secretary to the Royal Commission on Women's Work, the proceedings of which necessarily involved collaboration with the Population Commission. The reader is referred to the original article for references to the particular reports of the Population Commission to which the author referred.][...]

## The problem of declining population

The new problem faced is clearly one of declining population. So forcefully had the recent propaganda of the Neo-Malthusian group stressed the dangers of "overpopulation", and so commonly had statisticians and economists fallen into the habit of describing the demographic effects of the decline in fertility in the euphemistic terms of approaching "stabilisation", that it has taken some years of education to bring the general public to acknowledge the fact that no increase, and not even constancy, but a rapid decline in the stock of population is facing European countries to-day. The focal point of interest in the qualitative aspect of the population problem was also new, in that preponderant importance was attached not to biological deterioration but to the neglected possibilities of raising quality by improving environment.

The Swedish birth rate began to fall in the eighties and has shown a more conspicuous drop since 1910. The replacement limit was passed in 1925, when the net reproductivity fell below 1,000. [ ... The] figures indicate a loss

of about a quarter of the population stock in each generation – a rate of change which is likely to produce tremendous effects on the whole economic and social structure.

[...]

The present anxiety is focused not on the size of the Swedish people but on the process of incessant decline. It has finally become apparent even to those with little technical knowledge of demographic questions that the population problem is not – as was believed throughout the Neo-Malthusian era – that of reduction to a stationary condition on a higher or lower level, but that of a cumulative self-perpetuating decline, in which the population progressively liquidates itself.

As the present birth rate of Sweden falls about 40 per cent short of maintaining any size of population constant, it has been considered futile to regard any given stationary size as desirable or undesirable. If constancy of population could be achieved, there is reason to suppose that Sweden could adjust itself to various magnitudes of population. In a country with plenty of natural resources the quantity of population cannot in itself, within relevant limits, be perceived to have any important effects on the general welfare or the standard of living of the people. Therefore no calculations of optimum size have been attempted. The crucial factors of population are direction and rate of change rather than optimum size. [See table.] [...]

Table: Age structure of the Swedish people

Age group	Actual percentages		Forecast percentages	
	1910	1935	1985 [hypothesis I]	1985 [hypothesis II]
0-20	41	31	15	24
20-35	22	26	16	19
35-50	16	20	20	21
50-65	12	14	25	18
65 and over	9 <sup>21</sup>	9 <sup>23</sup>	24 <sup>49</sup>	18 <sup>36</sup>

[In *Hypothesis I*, fertility among married and unmarried women combined is extrapolated from the previous trend as first continuing to fall, though at a decreasing rate, and then finally reaching stabilisation on a lower level; and in *Hypothesis II*, marital fertility is assumed to remain the same as in 1933, but extra-marital fertility is assumed to decline at a uniform rate to 50 per cent in 1956, and nuptiality is stabilised from 1936 onward at 150 per cent of the earlier level. In all cases the mortality rate in different age groups is assumed to remain the same as the actual rate in 1933.]

The economic, social and psychological effects of such an aging of society must be considerable.

Even apart from the changes in age structure, however, a decline in population has hampering effects on economic progress, employment, and general welfare; these effects are due to influences on the relative volume and direction of consumption, production, and particularly investment. It may once more be stressed that these features of an economy in contraction

are not primarily related to quantity of population but to rate of change, not to "underpopulation" but to the dynamics of decline. The "optimum population" theory has no place for these dynamic effects, and is therefore, in an industrial society, a misleading statement of the economic aspects of the population problem.

The Swedish population policy had to have a quantitative goal determined by reference to these considerations of effects as a rational basis, and with due regard to the prevalent social values of the people. This desideratum has been formulated as the attainment, if possible, of the replacement level, and at least retardation of the rapid decline in population. No increase above reproductive equilibrium has been thought desirable or even possible.

## Requirements of a constant population

When this abstract goal is translated into actual demands in the matter of child-bearing, its conflict with the private interests of individual parents and generally accepted family patterns immediately springs to the foreground. A dilemma between public and private interests is created and has to be faced; the democratic structure of Swedish society, its rationalistic bent, and its reliance on free discussion, would prevent any attempt to conceal this conflict.

The number of children born annually would have to increase from about 90,000 to 120,000 in order to maintain the population at a constant size in the long run. This in itself must seem a rather unconscionable demand on individual families, since many children even now suffer from the inadequacy of family income. It appears still more so in view of the admitted fact that even the present number must include many undesired children, who would not be born if birth control were democratically available.

[...]

Another factor pointing to a greater reduction of fertility than optimistic forecasts have taken into consideration is the continued existence of very large differences between regional and social groups. [...]

These circumstances taken together indicate how unreliable the source of future generations will be when families tend to be planned rationally.

It is theoretically possible to measure the number of children required for a constant population in terms of different family sizes and so to provide a norm with which the share of individual families in the reproduction of the people may be compared. When the required distribution of children among married couples is not taken merely as an indiscriminate average for all marriages, but allows for varying degrees of sterility in a certain number of them, this becomes one of the most interesting problems of constructive population analysis.

Such a study was made under the auspices of the Population Commission. The distribution of family size in the first phases of family regulation had given a well-known picture in which oversized and

underprivileged families accounted for a disproportionately large share of total reproduction. Some enlightening statistics may be compiled from this transitional era. A percentage calculation of the actual distribution of families according to size in 1930, counting all cases where the wife was living and the marriage "completed" (the wife being between 45 and 50 years of age), shows the marks of this closed era of rapidly changing family patterns. More than 50 per cent of the families were childless or did not have more than two children, but almost 15 per cent had seven or more children. [...]

## Size of family and standard of living

This ideal of obtaining more medium-sized families was, however, a challenge to a democracy where birth control had to be taken for granted and where the rearing of children at undesirably low levels of hygiene and culture could not be endorsed.

Studies were directed towards the relation between size of family and standard of living. The most vital question was not the "general" standard of living in different occupational and income classes – an abstraction which has too frequently fossilised the discussions of recent years – but the standard of living as a function of both family type and income. More concretely stated the problem was this: how much is the cost of maintaining the standard increased, or rather the standard lowered, upon the arrival of each new child? This question not only corresponds to the economic motive for family limitation; it also brings to the forefront the fact that in the most numerous social classes a normal and desirable family size endangers the health and welfare of the children.

It may have been known earlier in a vague way, but it has rarely been so evident as in the new studies of the standard of living in Sweden – the data being computed to show budgetary changes following family changes – that in an industrial society children tend to become the greatest cause of poverty of individual families, instead of being an economic asset as they were in the old agricultural economy. The result is disastrous – either for the birth of children or for the welfare of children born. When general hygienic and cultural standards are being enhanced, the differential cost of children will also be increased and the economic motive for family limitation strengthened.

Here is revealed one of the most interesting and explosive paradoxes of modern systems of industrial economy. Unproductive ages are on the whole not included in the system of human maintenance based on capitalistic remuneration according to production. The unproductive period at the end of the life span has, in most of the industrial nations, begun to be covered by special economic devices. But children simply fall into the empty and widening gap between supporters' income and growing needs as the family increases in size.

[...]

## Basic principles of population policy

It thus became apparent that if children were to continue to be born, in a country on its way to democratic equalisation, some important modifications had to be made in the social system and the structure of social reforms. The aim of these changes must be to allot to children a greater share in the resources of the nation. Part of the economic burden of bringing up children had to be transferred from the responsibility of the individual family to that of the community.

The basic principles underlying the programme for a democratic population policy in Sweden may be summarised briefly [...]. These principles can be condensed into three statements containing cumulative postulates which are elsewhere generally presented as alternatives.

(1) Individual liberty and public interest must be reconciled. Voluntary parenthood should be ensured for all families by making birth-control information universally available. Only children who are welcomed by their parents should be desired by the nation. But the resources of the community should be utilised to remodel social conditions so that more children can be welcomed.

(2) Harmony should be established between the qualitative and quantitative goals of population policy. The quantitative goal of a population constant in the long run should be pursued only by measures that simultaneously improve the health and welfare of children and thus enhance the quality of the next generation. Such considerations necessitate as a general rule the repudiation of cash premiums for parents in favour of goods and services in kind furnished directly to children; this principle, however, is subject to some modifications, as will be explained later. In case of conflict between quantitative and qualitative effects the latter should be given priority. Quantity should never be bought by sacrificing quality, but quality and welfare of children might have to be attained at the expense of numerical results.

(3) Educational influences and economic reforms should be co-ordinated. A more positive attitude towards family values and a greater capacity for handling family relationships must be achieved through educational propaganda, utilising both the public school system and voluntary adult education. On the other hand, social reforms must be effected involving a redistribution of income in favour of families with children. Propaganda without the support of economic reform would be futile and socially wrong if directed to the masses. And economic reform would not be politically feasible in a democracy without some change of values and attitudes through education, since citizens without children constitute a strong majority in the electorate, and the fate of the whole economic programme depends on the votes of those who have personally nothing to gain by it.

[...]

## **Educational measures**

Education for family life and parenthood calls for attention in different aspects. It is partly general, directed towards everyone and consisting of an educational preparation which helps to determine attitudes, and partly individual, arranged to give instruction regarding family regulation as the need arises. The first stage will be effected through public education of both children and adults; the second mainly through personal consultation.

[In this section, the author specifies two useful educational measures. The first would involve broadening the school curriculum to include a knowledge of sexual hygiene, information about family limitation and instruction in contraceptive technique. This recommendation had strong support from the three large organizations of housewives, wage-earning women and women teachers. The second measure concerned personal consultation on birth control with doctors, nurses and midwives. Special clinics should be restricted to large towns, since elsewhere people were shy of attending them. It was "not proposed to limit the accessibility of [advice] to married persons".]

## **Changes in the laws on sexual matters**

[In this section the author discusses recommendations of the Commission with respect to contraceptives, abortion and sterilization.]

## **Equalisation of income**

The main principle of the Swedish Population Commission has been equal distribution of the cost of supporting children. It should not be possible for those who have no children to avoid contributing to the necessary investment in the future generation. This far-reaching demand – together with humane legislation on sexual matters and a more practical education for family life – constitutes the very foundation of the actual population programme. The Commission was not inclined, however, to favour equalisation by direct transfer of cash to large families, but preferred provision in kind for the consumption of children.

This support of children in kind rather than in cash is not copied from old forms of charity and individual relief. It follows instead the pattern of a co-operative economy in which large schemes for providing free goods and services for children are maintained by the community on the grounds of rational organisation, expediency, and social equity. Probably the best example of such schemes in existing public activities is offered by public school systems.

There are several reasons for adopting this principle. In the first place, when help is given in kind there are better guarantees that the benefits will actually go to the children and not be engulfed in the general family budget. Offering a larger apartment at a lower rent as the family grows is more apt to

raise housing standards than paying the corresponding amount in cash to parents and relying on their willingness and ability to find the larger apartment in the open market. Thus the improvement of environment which is essential from the point of view of the quality of the population will be prompted more effectively.

In the second place, direct economic advantages are to be secured through large-scale public administration of certain types of consumption. Public housing schemes for families, with their special needs as to appliances, can be carried out at less cost than similar private housing. These schemes may further be timed to fit into public works plans, permitting the release of forces to counteract the business cycle at suitable moments. In the third place, support in kind may exert a considerable educational influence generally in favour of more rational consumption habits. Community housing schemes arouse a demand for good dwelling conditions in general. Only if adequate housing facilities can be offered to those unable to pay for them will the authorities be in a position to enforce rules fixing minimum standards of quality and size of apartments for those families who have means of their own. Finally, provision in the national budget for adequate cash pensions for children would involve a sum so large as to be practically prohibitive. A very small individual pension (such as 15 kr. a month) would soon run to a quarter of the total budget.

For these reasons, the Population Commission adopted an unfavourable attitude towards a general scheme of State family allowances of the kind frequently recommended in theoretical discussion but applied only to a small degree in certain countries. This attitude, however, was not inflexible. When practical considerations make it expedient – as is often the case, especially in regard to incidental costs at childbirth – cash benefits may be permitted. An exception was also made in one other main respect – in regard to the indirect cash equalisation to be achieved through differential taxation.

In one of its earliest reports the Commission suggested a method of appreciable levelling through the system of exemptions from municipal and State taxes on incomes and wealth. The exemption for a single person should be lowered, the exemption for the wife and for the first two children raised in each case to the same level as the exemption for single persons, and the exemption for additional children doubled. It was also suggested that the age limit for exemption in respect of children should be raised from sixteen to eighteen years.

[...]

## Maternity expenses

[The author outlines other benefits recommended by the Commission with respect to attendance at delivery, health centres for mothers and infants, maternity bonuses and assistance.]

The maternity assistance thus established has turned out to be a particularly interesting social institution, not only because it is without a



counterpart in other capitalist countries, but also because it has revealed a drab, silent and seldom-acknowledged poverty in large sections of the population stretching far above the poor-relief stratum. In this group any foreseen expenditure may be enough to upset completely the strained economy of the family. The advent of children often has this effect. The tragic fact that children are frequently the chief cause of poverty was perhaps not fully realised before the inauguration of maternity assistance.

[The original article contains sections with the following headings: "Economic security of orphans etc." (children's pensions, alimony and allowances), "Housing schemes for families with children", "Nutrition", "Health supervision and reduced medical costs for children", "Education", and "Pre-school institutions and recreational facilities".]

## Employment of married women

In this general context it must be mentioned that the prevalent zeal in Sweden for reinforcing the family as an institution and providing greater welfare resources for children has not meant a restrictive attitude towards married women's work outside the home, but has had decidedly the opposite effect. Unless women have open opportunities and consequently free choice in the matter of remunerative work after marriage, there will most certainly be fewer marriages and also fewer children. Several reports of the Population Commission as well as the report of the special Committee on Women's Work have not only stressed the necessity for adjusting attitudes and opinions to new social conditions and new family structures, but have also proposed practical measures to restore a greater harmony between the productive activity of women and their function as mothers.

Public opinion during the last four years has largely followed the same evolution to a more liberal understanding of the changing position of married women in the world of to-day.

## Adaptation of the reforms to urban and rural conditions

With due realisation of the vast regional differences in conditions of family life, the entire programme of family security has been elaborated in somewhat different detail for rural and for urban conditions.

The Population Commission made repeated efforts to elucidate these inequalities and as far as possible to create a balance by devising different forms of assistance. Thus, in the matter of delivery care, account has been taken of the different conditions of rural and urban districts. The Commission tried to create opportunities for rural women to enjoy hospital care with its advantages in difficult deliveries and in obtaining anaesthetics. The Commission also rendered more feasible the plans for small delivery

homes in rural districts, and encouraged the establishment of delivery rooms in midwives' homes and also of waiting homes for expectant mothers from distant places.

A similar line was followed in the proposals relating to nutrition, in which rural districts, where children have longer distances to go to school, were given a decided preference in the competition for State grants. In the matter of pre-school care, in which various institutions provide considerable relief for urban housewives, the Commission likewise sought to discover means whereby corresponding needs in rural districts could be met: local "summer kindergartens" for the country districts, day nurseries in connection with adult education centres and girls' schools, etc. Special attention was paid also to the need for enabling over-worked rural mothers to get away for a rest for some length of time by having a so-called "home help" to replace them for the duration of the holiday.

An analysis of the entire problem of urbanisation was attempted in a special report by the Population Commission. A definite distinction was drawn between the abandonment of agricultural occupations, which was considered an economic necessity, and the general movement from the country to the towns, which was regarded as undesirable.

## Conclusion

In looking back over the diversified structure of these reforms both principles and practice have to be evaluated. Unfortunately they are not identical. The principles call for such a revolutionary change that practice must be admitted to have lagged behind. The main guiding principle was equalisation of consumption. In achieving that object a general levelling of incomes might be helpful but could not suffice, since inequalities between families of different sizes would still remain. Once this fact was acknowledged, nothing less than a new economic basis for family maintenance had to be sought. As a redistribution of cash was repudiated, the demand was for a "socialised" or rather "democratised" consumption by children of essential goods and services, administered by the community on a co-operative basis. Availability of all advantages to children of all social classes must be a vital part of this new policy of child support; the middle-class family should be relieved of the cost of children just as much as the working-class family. No entanglement of population policy with poor relief should be permitted. No social stigma should be attached to those who need assistance from the community in contributing to its continued existence. It must, however, be admitted that parliamentary alterations have practically always meant restrictions, some motivated by the necessity of introducing a programme gradually, but some probably because the population argument has not been forceful enough to break down the poor-relief limitations of social vision.

Since most of the practice is of very recent date, the time has not yet arrived to judge it, and no attempt will be made here to forecast its

effectiveness. The results will be especially difficult to evaluate with reference to the objective of checking the rapid decline of the birth rate, since during a period of transition they must run in two opposite directions. In the long run these social reforms are intended to reduce the economic and provident motives for extreme family limitation. In the immediate future, however, new social and regional groups will be reached by the liberation of birth-control propaganda. This stage has to be passed in order to arrive at one where voluntary parenthood is taken for granted in all social groups; only then will it be possible to build up a rational system of family support for the whole country. During the next decade, as during the last few years, some social groups will in all probability be induced to have more children as a result of the reforms and of their planning and discussion; other groups will be affected, and rightly, in the opposite way. No simple observation of movements of fertility curves will ever permit interpretation of the total effect, both because the reforms will act in two opposite directions and, more generally, because comparison would have to be made with the purely imaginary development which would have occurred if the family security policy had not been inaugurated.

Without doubt, however, there will be a considerable decline in the number of undesired and undesirable children, and there will be positive gains in the quality of the next generation. The expenditure on the reforms is ultimately justified on these grounds: that nothing is being wasted, that the structure of the reforms calls for costs largely to be transferred from one social segment to another, that the children's share in the wealth of the nation is increased, and that health and living conditions are being improved for those who need it most.

A groundwork has also been constructed for the far more radical population programme that will certainly one day have to be applied, when the deferred full effect of decreasing fertility on population and the economic and social consequences are unambiguously visible, and when panic might otherwise overrule both wisdom and personal liberty.



# The maintenance of full employment after the transition period: A comparison of the problem in the United States and United Kingdom

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abridged.

A number of enquiries have recently been made into the conditions necessary for maintaining full employment in the United States and the United Kingdom after the transition period. They all point to the fact that the problem of post-transitional employment is likely to be much more formidable in the former country. With rates of taxation roughly speaking midway between pre-war and wartime levels, the loan-financed Government expenditure required to maintain full employment will be much higher in relation to the national income in the United States than in the United Kingdom. The purpose of this article is to examine the factors which account for this difference. It will be convenient to compare, first, the employment situation in the United States and the United Kingdom before the war, and then to pass to an analysis of the prospective position in the two countries after the transition period. But before the examination of the relevant data (or estimates), it will be necessary to discuss briefly a few points of a general character.

## Expenditure, income and employment

In order to put the problem of employment into a proper perspective, we shall have first to draw up a "national balance sheet" of income and

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expenditure. The expenditure on goods and services in a given country may be subdivided into four components: (1) personal expenditure on consumption; (2) gross private expenditure on investment, *i.e.*, expenditure on new fixed capital (plant, machinery, buildings, etc., inclusive of dwelling houses), whether for the replacement or for the extension of fixed capital, plus the increase in working capital and stocks; (3) public expenditure on goods and services; (4) expenditure of foreigners, *i.e.*, exports. Now the price of any goods or services bought for personal consumption, for private investment, or by public authorities is accounted for fully by: (1) wages, salaries, rent, interest and profits; (2) depreciation; (3) indirect taxes, if any; and (4) the cost of imported commodities used in the production of the goods considered. For instance, the price of cigarettes in Great Britain is accounted for fully by: (1) wages, salaries, rent, interest and profits earned from the manufacture and distribution of cigarettes; (2) depreciation of machinery and buildings; (3) tobacco duties;<sup>1</sup> (4) cost of imported raw tobacco.

It follows directly that the aggregate expenditure on goods and services in a given year is equal to the sum of the following items taken for the same year: (1) aggregate wages, salaries, rent, interest and profits, which is, in fact, the national income; (2) depreciation; (3) indirect taxes; (4) value of imports. We thus have:

Personal consumption	National income
Gross private investment	Depreciation
Public expenditure on goods and services	Indirect taxes
Exports	Imports
Aggregate expenditure	Aggregate expenditure

Let us now deduct from both sides depreciation and imports. The remaining part of aggregate expenditure may be called the "net national product": *net*, because we deduct depreciation, namely, that part of investment which serves to make good wear and tear and obsolescence; *national product*, because we deduct that part of expenditure on goods and services which is covered by imports. If we denote by net investment the excess of gross investment over depreciation, we obtain:

Personal consumption	National income
Net private investment	Indirect taxes
Public expenditure on goods and services	
Exports minus imports	
Net national product	Net national product

<sup>1</sup> Plus, strictly speaking, employers' contributions to social insurance.

The national income is the sum of wages, salaries, rent, interest and profits *before* direct taxation. On the other hand, a part of the expenditure of public authorities is devoted, not to goods and services, but to so-called transfers, that is, pensions, benefits and allowances, etc. It follows that the right-hand side of the balance sheet may be represented as income net of tax (inclusive of transfers) plus direct and indirect taxes minus transfers. Taking into consideration that the item "taxes minus transfers" represents the part of tax revenue available for public expenditure on goods and services, and that a part of income net of tax is consumed and the rest saved, we can write the final result as follows:

Personal consumption	Income net of tax { Personal consumption Savings
Net private investment	
Exports minus imports	Taxes available for public expenditure on goods and services
Public expenditure on goods and services	
Net national product	Net national product

It should be added by way of explanation that exports and imports are meant here to include not only goods but services as well. In particular, exports include interest and dividends on capital invested abroad, and imports include interest and dividends on foreign capital invested in the country considered. Moreover, savings cover both personal savings and undistributed company profits.

The table arrived at above, which permits us to look at the national product from two different angles, provides a good starting point for the discussion of the problem of employment. On both sides of our balance sheet we see personal consumption. If the public expenditure on goods and services is equal to the revenue available for its financing, that is to say, if the combined budget of all public authorities is balanced, savings are equal to net private investment plus export surplus. It is now clear that with a balanced budget, a given level of employment can be maintained only if savings at that level are in fact "offset" by investment plus export surplus.

If, at the existing level of employment, savings are "too high", this results in the first instance in an increase in the stocks of consumption goods. This will be included in our balance sheet in private investment; the offset to "excess savings" will thus be provided automatically. However, the accumulation of stocks will continue over a short period; firms will soon start to cut employment, which will fall to the level where savings will be fully offset by investment (which no longer includes the accumulation of unsold goods) and export surplus.

More generally, an analysis of the type of investment forthcoming in a given period and of the export surplus (if there is an export deficit, this, of course, exerts a *negative* influence upon employment) can shed light on the

question of what chance there is that the existing high level of employment will continue. If, for instance, a large part of investment consists of an increase in stocks of a speculative character, while there is not much chance of an increase in investment in fixed capital or in export surplus,<sup>2</sup> a fall in employment may be expected in the near future. The same is true if the level of investment in fixed capital is so high that the existing productive capacity increases quickly while the national product tends to be stationary; or when the export surplus is due to some special factor which is not likely to last long.

So far it has been assumed that the combined budget of public authorities is balanced. It will be seen at a glance from our balance sheet that, if the public expenditure on goods and services exceeds the revenue available to finance it, savings are equal to private investment plus export surplus plus the excess of public expenditure over revenue, *i.e.*, plus the budget deficit. Thus the budget deficit is an offset against savings also. The gap between what persons and firms choose to save at a given level of employment, on the one hand, and the offsets of private investment and export surplus, on the other, can thus be filled by a public expenditure on goods and services which has no counterpart in revenue. In other words, a given level of employment can be maintained even though private investment plus export surplus falls short of savings, provided that the difference is made up by a budget deficit.

This brief theoretical discussion provides us with a framework for a comparison between the employment situation in the United States and in the United Kingdom.

## Comparison of the pre-war situation

We choose for the comparison of the employment situation the last pre-war year in the United Kingdom, namely, 1938, and 1940 in the United States. The reason for the latter choice is that, although the United States was not at war until the end of 1941, the rearmament in that year was already on a considerable scale. Moreover, just like 1938 in the United Kingdom, 1940 in the United States was a year of moderately high employment as compared with the employment levels of the late 'thirties. However, the percentage of unemployment was greater in the United States in 1940 than it was in the United Kingdom in 1938. Indeed if people engaged on public emergency projects in the former country are counted as unemployed (as is done in the Bureau of Census statistics published since 1940), the percentage of unemployed in relation to the total available labour force in 1940 was about 14 per cent. In the United Kingdom the proportion of registered wholly unemployed<sup>3</sup> to the number of workers insured against

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<sup>2</sup> It should be noted that a country can maintain an excess of exports of goods and services over its imports only if other countries are willing to deplete their stocks of gold and of the currency (or securities) of that country, or if that country, by foreign lending, provides the means for purchase of its products.

<sup>3</sup> The "temporarily stopped" are left out of consideration because a roughly corresponding category is excluded from the U.S. statistics of unemployment.



unemployment was in 1938 about 9 per cent; there is no doubt that the unemployment percentage for the whole of the available labour force was lower. It follows that the British unemployment percentage in 1938 was substantially lower than the American figure of 14 per cent for 1940. It should be remembered here that the normal working hours were 40 per week in the United States and 48 in the United Kingdom. The actual average working hours in manufacturing were somewhat shorter: 38.5 per week in the United States in 1940; and 46.5 in the United Kingdom in 1938.

We shall show that not only was employment in the United States in 1940 lower in relation to the available labour force than it was in the United Kingdom in 1938, but that in addition its basis was more precarious. To maintain the level in the longer run would require a higher budget deficit in relation to national product than to maintain the 1938 employment level in the latter country. [...]

[Using the categories he established earlier, the author compares the net national product of the United States in 1940 and that of the United Kingdom in 1938.]

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The main difference in the structure of the national product in the United States and the United Kingdom is seen to be the higher percentage of income saved in the former country at the same level of employment. This percentage was substantially higher in the United States in 1940 than in the United Kingdom in 1938, although the level of employment was lower in relation to the available labour force. If employment were as high as in the United Kingdom, the discrepancy in the percentage of income saved would be even greater, since this percentage increases with the level of employment. Roughly speaking, the problem of employment is more difficult in the United States than in the United Kingdom because the percentage of income saved at the same degree of employment of the available labour force is substantially higher; and because this percentage is not normally offset by a correspondingly higher ratio of private investment plus export surplus to incomes. This situation prevailed [...] in the pre-war years; [...] this discrepancy is likely to be even greater in [the post-transition] period.

## Comparison of the post-transition situation

[The author calculates post-transition net national product for the two countries on the assumption of full employment of the anticipated labour force (an estimated 3 per cent unemployment) and pre-war working hours as a basis for judging the fiscal policy stance appropriate to full employment in each country.]

[... T]he divergence between the savings ratios results in a much higher budget deficit at full employment in the United States than in the United

Kingdom. The difference between public expenditure on goods and services and the tax revenue available for such expenditure is 8.6 per cent of the aggregate income net of tax in the former country, and only 2.6 per cent in the latter. It should be added that the budget deficit in the United Kingdom is due almost entirely to the expected participation of the public authorities in residential building. In the source we use, where this type of investment is included under the heading of private investment (because it is undertaken on a more or less commercial basis), the budget of public authorities is approximately balanced.

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We see thus that the solution of the problem of employment after the transition will require a much more unorthodox policy in public finance in the United States than in the United Kingdom. The latter country will certainly experience serious difficulties in the sphere of foreign trade, because it will have to increase its volume of exports considerably over the pre-war level in order to obtain means for paying for the necessary imports (mainly because of the loss of foreign investments). However, the financial problems involved in securing a national expenditure adequate to maintain full employment is likely to be of a much smaller order than in the United States.

It is true that the budget deficit necessary for the maintenance of full employment in the United States may be diminished by a variety of factors. Working time may be reduced somewhat below 40 hours per week; the system of taxation may be shaped in the future in such a way that it will redistribute income from the higher to the lower income groups to a greater extent than is done in the system assumed above, and thus will tend to increase personal consumption beyond the anticipated level; finally, a vigorous policy of foreign lending may provide a higher export surplus. But it seems unlikely that all these factors would enable the United States to maintain full employment after the transition period without a substantial budget deficit.<sup>4</sup>

As long as the resulting rate of increase in the interest on public debt is not higher than the rate of increase in the national income, no rise in the "burden of the debt" would take place; and there is no reason why a development of this type should be in any way harmful to the economy. If the budget deficit is so high that the burden of the debt does increase, the problem is more complicated but by no means insoluble.<sup>5</sup> [...]

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<sup>4</sup> The "gap" cannot be filled by stimulation of private investment. For if investment is above the level at which productive capacity increases *pari passu* with the expansion of full-employment output that results from increasing population and higher productivity of labour, it creates over-capacity. This tends to depress investment in the longer run; and thus stimulation of private investment above a certain level will eventually prove a self-defeating measure.

<sup>5</sup> See, for instance, M. Kalecki: "Three ways to full employment", in *The economics of full employment*. Six Studies in Applied Economics prepared at the Oxford University Institute of Statistics (Oxford, Basil Blackwell, 1945), p. 45.

It should finally be added that a substantial budget deficit need not necessarily be associated with a very high level of public expenditure on goods and services; for the Government can increase its expenditure on transfers, such as old-age pensions, family allowances, etc. In our tables this will be reflected in a reduction of the item "taxes available for public expenditure on goods and services" (because this item represents the total tax revenue minus transfers). If the transfers benefit mainly people with low incomes, any addition made to them will very largely be spent on consumption, and in this way the budget deficit will contribute to the increase in national expenditure without a rise in public expenditure on goods and services.



## Population growth and living standards

Colin CLARK \*

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abridged.

The first and most important fact on this subject that we must take into account is that most religions (using the word religion in its broad sense, to include all the codes of belief and conduct by which men feel themselves bound, so that in this sense of the word all but a minority of mankind has a religion) welcome and encourage the birth of a child. This is as much or more the case with Confucianism, Hinduism or Buddhism as it is with Christianity, Judaism or Islam. It is true that ideas and codes of conduct concerning family life differ somewhat and are subject to qualification between different religions and in different times and places, but the general statement remains true.

The next fact that must be recorded is that many people approach this subject with strong materialistic preconceptions. A basic aversion to religious belief is the essence of their position (glad though they are to receive support, from time to time, from various minority groups within the different religions). Their object of devotion, which takes the place of religion for them, is economic and material welfare. Such welfare is thought of, not only as an object good in itself (a proposition with which all sensible men would agree), but as an objective of such transcendent importance that any belief which conflicts with it has to go by the board. [...]

[...]

The *International Labour Review* is not, however, the place to discuss disputed points of religion or moral philosophy, though every prudent man

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\* [A graduate in chemistry from Oxford University, he was a lecturer in statistics at Cambridge University and subsequently occupied government posts in Australia and academic posts at the Universities of Melbourne, Chicago and the Oxford Institute of Agricultural Economics.]

should know when his political or economic proposals are likely to involve him in controversy on these subjects.

Subject to these qualifications, we can now discuss the relationship between population increase and economic and material welfare.

It seems to come as a surprise to many people to learn that there are a great many industries – probably the majority of industries in the modern community – which are quite specifically benefited by increasing population. These are the industries that work under the law of increasing returns rather than the law of diminishing returns. This is one of the simplest but at the same time most important propositions in economics. Many modern students of economics have their heads so filled with new but comparatively unimportant formulae that they do not give adequate attention to these important truths. The law of increasing returns prevails in any industry where, as a consequence of an increased scale of output, we can expect to obtain increasing returns per unit of labour or other economic resources employed.

What category of businesses can be more economically run on a large scale? The list includes most forms of large-scale manufacture, transport, postal communications, banking, insurance and the like. In fact most of the economic operations of a modern community are carried out in such a way that, if there were an increase in the population and the size of the market, organisation would become more economical and productivity per head would increase, not decrease. Without the large and densely settled population of North America and Western Europe, most modern industries would be working under great difficulties and at very high costs – it is doubtful, indeed, whether they could have come into existence at all.

Industries working under the law of diminishing returns are agriculture, mining, forestry and fishing, and some others which are dependent upon the use of scarce materials. Certain other industries, such as building, where the limiting economic factor appears to be shortage of men of the right kind of skill and organising ability, probably work under constant returns, i.e., intermediate between increasing and diminishing returns. On the other hand, some of the most highly mechanised branches of agriculture – production of sugar cane is probably the most interesting example – show every sign of working under increasing returns. That is to say, a district organised for producing sugar cane on a large scale, with its crushing mill and haulage systems laid out accordingly, probably enjoys a higher return per unit of labour than a smaller scale system.

At the time when Malthus wrote – or for that matter Ricardo – the law of diminishing returns was supposed to be universal. Although the businessman must have understood, in his own way, the advantages of production on a large scale, it was not until much later in the nineteenth century, at the time of Marshall and his contemporaries, that the law of increasing returns in industry was more clearly formulated. It is now, of course, fully understood and statistically measurable. (Dr. Verdoorn, the Netherlands statistician, has assembled a good deal of evidence to show that

something like a definite mathematical law governs the extent to which product per man can rise as the scale of industry is increased.) But at the moment, for various reasons, it seems to receive inadequate attention in economic teaching and practically none in popular writings on economics.

The law of diminishing returns does not in the least mean what most people believe it to mean. It certainly does not mean that the returns from agriculture, or any other economic activity, diminish from year to year. The law has no reference to any supposed diminution in time. What the law of diminishing returns says, or at any rate the form of it which is applicable to our present discussion, is that if you put an increasing number of men to farm a limited area of land, then the returns per man will diminish (though the total returns from the land will increase).

But even stated in this way the law is only valid under certain conditions. A man's experience must be very limited if he does not know of some examples of densely populated farm areas producing more per head than less densely populated areas. The law of diminishing returns can only be said to be, in any sense of the word, a law if two further conditions are fulfilled: first, that the inhabitants of the more densely settled area do not use any different farming methods from those of the less densely settled area, and secondly, that they do not employ any more capital per head.

These two further conditions make the law of very limited application indeed. For the use of improved farming methods and greater quantities of capital per man are precisely the steps taken by progressive countries when they find their population increasing and their area of agricultural land limited. If the law has much validity in practice, the statistician should be able to detect its operation by preparing a diagram in which one coordinate measures the number of men engaged in agricultural work per square kilometre of cultivable land and the other coordinate measures the real product obtained per man. Anyone who draws a diagram of this sort will soon see that the exceptions are more numerous than the cases in which the rule applies. It is interesting to see, however, that the rule holds moderately well when we are comparing the different provinces or regions within one country – for farming methods and skill and the amount of capital available per head do not differ very much between one region of the country and another.

[The original then presents sections on “Agricultural production and population”, using data on a variety of countries; “The fertility of the human race”; and “Capital resources”.]

## Conclusion

We can bring it all down in the end then to a single conclusion. Any foreseeable rate of population increase, in any part of the world, can be economically provided for at a satisfactory and indeed rising standard of real income, subject to three conditions. The first, which is of comparatively minor importance, is that free emigration should be facilitated from a few

isolated overcrowded areas. Here the numbers involved are small. Emigration is not a necessary economic solution for the problems of the larger countries, whatever may be the rights and wrongs of it in general.

The next condition is that for large and densely populated countries, such as India, which have reached the stage where industrialisation is obviously their only suitable prospect of economic advancement, the rest of the world, even if it cannot offer direct help for such industrialisation, should at least cooperate by leaving markets open for these countries to sell their goods and not place tariff and quota restrictions upon their trade. Japan was treated with gross unfairness by the Western powers in the 1930s, and this played a considerable part in forming her determination to go to war.

Countries which have already reached the size and stage of development of India and Brazil, for instance, will probably be able to proceed with industrialisation using their own resources only, though it will be much slower than would be possible if they received external assistance. In the smaller, weaker countries the receipt of external assistance is a necessary condition without which further development will not be possible. How this should be organised, and how the responsibilities should be shared among the different lending countries, cannot now be discussed.

It may well be that many of those who advocate population limitation in the oriental countries do so precisely because they do not like the idea either of emigration or of leaving markets open to oriental goods, or of giving any capital assistance to weaker countries. If there are any such it is time that their uncharitable motives were exposed.



# The modern approach to industrial welfare

Paul CHU \*

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abridged.

The world we live in is full of sharply contrasting methods of industrial organisation and levels of economic development. The jet plane has reduced the distance between the assembly line in Detroit and the family workshop in Bangkok to a matter of hours, but decades separate the two in terms of technology. The peoples of ancient lands, living in their desert tents and jungle villages, have been brought into abrupt contact with the twentieth century by the oil prospector and the modern facilities he has brought with him. Some of our contemporaries have within their lifetimes witnessed an evolution from the technology of the wheelbarrow to the current miracles of electronics and atomic energy. Industrial advances and changes in social structures have in some cases so disrupted traditional values that the process can only be described as a collision of cultures. So many violent contrasts between old and new are to be found in life today that we can truthfully say that our planet is made up of many worlds.

The working and living conditions of industrial workers form a part of this pattern of variety and change. In view of the diversity of industrial development and social progress in various parts of the world today, it is not surprising that there are different concepts of industrial welfare. What are these concepts and what are their aims and objectives? What kinds of facilities and services do they cover? What are the differences between these concepts, and can they be related to the special problems of industrially advanced countries and less developed areas, or to different structures of society? Are there any elements common to some or all of them, and can we trace a broad pattern of industrial welfare having significance for all countries? Is there any foundation for the belief that our age will be remembered chiefly as the first era in which large groups of people dared to

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\* International Labour Office.

consider making the ideal of welfare for all a practical objective instead of a Utopian dream?

## The notion of welfare

In a world where ideas are weapons and diverse forces seek to win the minds of men, "welfare" is at times a fighting word, glorified by some, abused or misunderstood by others. Stripped of emotional bias and semantic camouflage, it is an innocent word describing a condition of well-being, happiness and satisfaction. As applied to society it concerns the conservation and development of human resources and relates to notions of abundance and progress. In a narrower context industrial welfare refers to measures for promoting the physical and general well-being of people working in factories and other undertakings of industrial life.

The apparent simplicity of these definitions is deceptive, for profound issues lurk behind the veil of semantics. It has often been said that the welfare of a group of persons comprises action devoted to "the greatest good of the greatest number". It involves the "satisfaction" of human needs. On the other hand, the degree of satisfaction over a given subject may vary enormously between two persons, and it is difficult to compare one man's satisfaction with another's. Since satisfactions cannot be added together quantitatively, problems of interpersonal comparisons and the measurement of group satisfactions have long plagued the efforts of welfare economists and other social scientists. In practice, however, welfare measures are chosen by majority rule or by other methods of group decision, often on the basis of ethical premises, such as social justice through the balancing of individual advantages and general interests. For practical purposes it suffices to assume that certain welfare measures are of a nature to satisfy human needs and do in fact contribute to the satisfaction of such needs in one way or another.

## The social concept of industrial welfare

Broadly speaking, all concepts of welfare imply that the purpose of welfare services is to serve man, to alleviate the burdens of his struggle for existence and to reduce the hardships of life.

Industrial welfare covers a narrower field than social welfare, but it must fall within the general structure of social services. In industry the basic aim of welfare services is to improve living conditions and to adjust the changing demands of industrial society to the needs of the worker and his family. This means that welfare services must also offer the worker and his family opportunities to understand the part they have to play in the social and economic life of modern society and to fill it more adequately. This might be called the "social" concept of industrial welfare.

The concept is not a new one; it can be traced to the processes of industrialisation themselves, which have created many situations that cannot be met adequately by the worker alone. The worker on the land may not

always be free to enjoy all the fruits of his labour, but he is at least close to physical resources and can see a direct relation between his work and his basic needs. While recognising that the occupational hazards of the independent rural worker before the advent of industrialisation were far from slight, it can be shown that his position still differs from that of the modern wage earner in the factory, who must obtain the means to pay for the food, clothing, shelter, medical care, education and other things he needs for himself and his family.

This hiatus between industrial work and the needs of the worker is widened by the specialisation of labour and the complexities of industrial organisation, which, in the case of housing, for instance, make it difficult for an average worker to build a house himself or to have one built with his money wages alone. The factory system involves the co-ordinated efforts of many people, all doing work at the time and place chosen for them, and makes it specially difficult for the worker to realise the significance of his contribution to the final product and the relation of his work to life as a whole. Industrialisation has made possible higher standards of living, but it has also brought with it the germ of material and psychological insecurity. This can be particularly acute when a vacuum is created by the disintegration of older forms of group security, such as craft guilds and family systems of mutual aid, which in some countries have traditionally alleviated the hardships of sickness, disablement and old age. Thus a social concept of industrial welfare should include some or most of the measures designed to help the worker and his family to achieve material and psychological security, to enjoy decent working conditions and to solve problems of mutual adjustment between personality and environment.

[...]

## **The paternalistic concept of industrial welfare**

Welfare services developed as the resultant of diverse social forces and the work of many men from different walks of life. The beginning of welfare services can be traced back to the period immediately following the first phase of the Industrial Revolution, when the voice of the workers was weak and when the public had not yet fully realised either the power of the new technology or the way in which it was exploited, and to the reaction of humanitarian employers against the shocking conditions of work which then prevailed. Many factories were then operated under the close supervision of the owners themselves or members of their families; such employers were perhaps in the best position to appreciate the plight of the workers and give concrete expression to their sympathy by improving the working and living conditions of their employees. This humanitarian motive was strongly tinged with charity and a philanthropic sense of responsibility for the social and moral character of the employee. Even Robert Owen's concept of industrial welfare involved reforming the worker's character, which he believed could be improved by better environment. In the United Kingdom men of high

purpose like Owen and Titus Salt, the wool manufacturer who created the town of Saltaire, established model undertakings and even model communities; this tradition was continued in such centres as the Bournville of Cadbury and the Port Sunlight of Lever Brothers. Interesting experiments in industrial welfare also occurred in France, the United States and other countries as industrialisation began to take root.

These early experiments did not seriously influence the social structure, partly owing to their limited scope and nature, but also because the workers were not organised, the public was unprepared, and a minority of isolated pioneers were not strong enough to break up the general inertia. On the whole, they represented essentially a historical stage of development having some bearing on the emergence of more popular concepts of welfare service.

The paternalistic concept of industrial welfare still exists in certain undertakings, industries and areas today. In general, however, it has been outstripped by modern developments arising from the needs of workers in an industrialised society. The growth of the notion of self-help, the practice of democratic participation of workers in welfare administration, the concept of welfare as a right rather than a charity and such institutional changes as the growth of highly complex industrial corporations and the rise of trade unions have all made it difficult for the employer to offer welfare facilities in a paternalistic spirit and for the worker to accept them in that spirit.

## **The efficiency concept of industrial welfare**

Since the two world wars the development of techniques of work organisation and personnel management have drawn more and more attention to the concept of industrial welfare as a means of increasing the efficiency, output and well-being of the workers. In its crudest form this concept is based on the recognition that from the purely economic standpoint welfare services may facilitate material progress by raising productivity and improving the worker's co-operation in production. Motives of moral and humanitarian concern may also be present, but the main thesis of this school of thought lies in the "enlightened self-interest" of the employer, since by better welfare measures higher production is to be achieved.

The economic reasons underlying this concept were particularly evident during war periods, when the need for maximum production stimulated efforts to ascertain the impact of working conditions on output. Rest pauses, refreshments and other facilities, for example, were found to be useful in bringing relaxation to workers obliged to work intensively for long hours in the interests of war production. Canteens, transport and other arrangements helped to overcome the problems of night work and continuous shift schedules. Group housing facilities met the urgent needs of large groups of workers moved to war factories established in remote places because of the fear of bombing. There was some evidence that absenteeism and excessive labour turnover were due not only to arduous hours of work but also to the

disruption of normal ways of life, which could be offset partly by appropriate measures of industrial welfare. Though statistics on these matters are fragmentary and inconclusive, there is little doubt that the objective of maximum production could not have been fully achieved without the help of certain welfare measures.

While many wartime innovations became unnecessary as the situation returned to normal, some measures have proved their worth and have been retained in the form of either statutory requirements or voluntary efforts. They brought home the lesson that activities to protect the health, safety and well-being of workers are justifiable not only as economic propositions but also because they serve the public interest. [...]

[...]

## Scope of industrial welfare services

While industrial welfare cannot be confined to facilities within or near the undertaking, neither can it be considered to be so comprehensive as to embrace the whole range of social welfare or social services. The line of demarcation cannot be precise in all cases, but a useful test is to see whether a welfare measure closely affects the working and living conditions of a worker and his family. [...]

Since the aim of welfare services is to meet the real needs of workers, one basic principle underlying all of them is that a careful examination should be made of the nature and extent of these needs so as to determine the measures needed. This is obviously important, yet many welfare schemes have failed because of insufficient knowledge of the actual needs of the workers concerned or because the measures were ill-suited to their purpose.

The location and size of the undertaking, the nature of work processes, the composition of the labour force and many other factors influence the type of welfare services needed. For example, the housing needs of an undertaking located far from population centres include a network of sanitary and auxiliary services as well as the construction of workers' houses. On the other hand, a plant located in a teeming city with a shortage of low-cost housing may also find it necessary to construct houses or rent apartments for its workers. An undertaking situated far from public transport lines may have to provide supplementary transport for its workers and take other measures to meet special needs, such as those of night-shift workers. To give a concrete example, welfare services for dockworkers in Amsterdam, where port facilities are scattered all round a large harbour, will inevitably be different in some ways from those in a port like Dunkirk, where port facilities are concentrated in a relatively small area.

Certain facilities for women workers are required by law in many countries, but even where statutory provisions do not exist amenities such as crèches, rest rooms, sanitary facilities and special seating arrangements are often provided in undertakings where large numbers of women are employed. Housing accommodation for foreign or migrant labour is another

instance of the provision of welfare facilities specially adapted to the composition of the labour force.

[...]

Another basic principle is that the tastes, customs and traditions of the workers concerned must be respected as far as practicable if a welfare measure is to be fully effective. This is particularly important in view of the diversity of national and local customs and tastes, though it must be remembered that even these can and do change. [...]

A third fundamental principle is that workers should have absolute freedom to use or not to use the welfare services placed at their disposal. This is particularly true of such amenities as recreational facilities. Workers have a natural desire to live their lives in freedom and independence and they resent any outside interference in their private affairs. Thus, in the case of facilities designed to encourage the use of leisure time, it is essential to avoid making the worker feel that he is under any pressure – direct or indirect – to use any amenity.

A corollary to this principle is that workers should participate in the administration of welfare services. Since the object of these services is to promote the well-being of the workers, their administrative participation helps to ensure that the facilities correspond to actual needs. It also removes any stigma of paternalism that might exist and encourages workers to co-operate in the solution of their own problems. Machinery for this participation varies in different countries; in Austria, France, the Federal Republic of Germany and Yugoslavia, for example, this is done through works councils or joint committees established by law.

The cost of welfare services lies at the root of many controversies and brings forth another basic consideration. If welfare schemes are to succeed their resources should, at least in the long run, be commensurate with the needs of the workers concerned. On the one hand, there is an obvious upper limit to welfare expenditure in the undertaking's capacity to pay and in the total resources available in the community. On the other hand, this limit must not be calculated on a short-term basis but should take into consideration the benefits that welfare services can bring in the long run. By protecting the health, safety and well-being of increasing numbers of persons it is often possible to raise the national product. Thus, for a community as a whole, an adequate proportion of the national product has to be devoted to the construction or improvement of the physical equipment necessary for social progress. In the case of an undertaking, investment in welfare facilities must be assessed in terms of the reduction in absences due to illness or accidents and the improvement in morale and output over an appreciable period of time. In an undertaking, as in the national economy, social investment is an essential part of economic development.

## Industrial welfare and social structure

[...]

### The role of the public authorities

The role of the public authorities in providing welfare facilities is considerable even in countries where voluntary action has pride of place. Factory or similar legislation contains provisions for the protection of the health and well-being of the workers, especially in such matters as ventilation, lighting and cleanliness in workplaces, medical and sanitary facilities and, in some cases, minimum standards in canteens and other services. Tradition in some countries places the primary responsibility for certain welfare measures on provincial or local governments, and their development may vary according to the diverse concepts of welfare existing at the different levels of administration. Labour ministries and departments, factory inspectorates and other public authorities supervise the application of these provisions, and their enforcement is often the acid test of the real effectiveness of such measures.

In addition to legal standards, there are often indirect forms of state help, such as grants-in-aid for education or government reinsurance of private health insurance schemes. Even where the role of the public authorities is reduced to a minimum, the function of the State usually entails action to ensure equality of opportunity, to alleviate suffering and hardships, to aid in emergencies and to assist the worker and his family in meeting major social problems. Behind the sound and fury of doctrinaire arguments there seems to be a large measure of underlying agreement on the necessity of some form of government action in such cases.

In some countries public action extends over such a wide range that one can with some truth say that a "Welfare State" exists. The comprehensive coverage given by various measures administered by the public sector may obviate the need for many private efforts in insurance or assistance, even though contributory elements are retained. The hardships of life that may befall a worker are considered less as his personal misfortune than as a burden which society must help him to carry. It is also argued that the benefits from some welfare measures accrue not only to the working people.

The growth of state participation in welfare services raises several questions, not the least of which is the fiscal burden of welfare expenditure on national budgets and its effects on the distribution of income. The opponents of the "Welfare State" claim that excessive government expenditure and taxation redistribute incomes until a limit is reached where additional taxes can only come from those low-income groups who are supposed to be receiving the benefit of the redistribution. It is also argued that excessive concentration of power, particularly in a central government, breeds an unwieldy bureaucracy and encourages too much force and compulsion through government action, thereby smothering incentive and interfering with individual liberty and the working of a market economy.

If this is an accurate description of the charges levelled at the "Welfare State" it pales beside the criticism directed against planned economies, where the role of the State is even more far-reaching. Advocates of the latter argue, however, that their system is based on the philosophy of a State in which all means of production and material wealth belong to the people; the workers work for themselves and are masters of their society; and the whole national income is used in the interests of the people, either to satisfy their material and cultural requirements or to expand production as a basis for further advances in living standards.

Without entering the great debate on social systems it is still possible to sketch the framework in which welfare measures are undertaken in planned economies. The line of demarcation between welfare measures initiated in an establishment and those undertaken by the State often becomes indistinguishable, since the State owns most enterprises. Where welfare measures are financed through the earnings of state industries, the taxes paid by them and through other funds under government control, expenditure on welfare measures becomes mainly a state expenditure; hence the large items on welfare measures in state budgets, whereas in countries where private efforts predominate the welfare items in government budgets tell only a part of the story. Impartial observers have noted many welfare facilities, particularly in large undertakings; for example, the automobile and textile factories in the Moscow region provide their workers with sanatoria and rest homes, crèches, medical services, educational and training facilities, recreational and cultural facilities, as well as general benefits in case of sickness, disability, maternity and old age. In the utilisation of workers' leisure time there are many group activities organised in accordance with the basic philosophy of such systems.

## The role of employers and their organisations

As indicated earlier, some employers began to promote industrial welfare at the beginning of the Industrial Revolution. The pioneer work of Leclaire, Robert, Lowell, Appleton, Owen and Salt stimulated later efforts by such men as Cadbury, Fry, Cash, Colman, Reckitt and Rowntree and companies like the Zeiss optical works, Godin's Familistère at Guise, Dennison, Proctor and Gamble, and a host of others. Some of the early welfare activities were clearly paternalistic, but they seem to have answered a need at a time when social legislation was insufficiently developed.

The first responsibility of the modern employer is to see that legislative requirements concerning measures to protect the health, safety and well-being of workers are observed. However, many employers in many lands offer to their employees a variety of services over and above those required by law, such as supplementary benefits in pensions and sickness and accident compensation. Non-wage benefits, including many welfare facilities as well as employers' contributions to social security and pay for time not worked, have increased rapidly in recent years and assume a substantial proportion of



payroll costs. Even in the industrially less developed countries undertakings like the Tata and Birla mills in India provide many facilities which go beyond the standards prescribed by law.

Whether welfare benefits are introduced by legislation, collective agreement or private initiative, in most cases the employer bears the main financial burden (either through payment of taxes or through direct contributions) of the facilities in his undertaking. However, the realisation that these facilities are in a sense sound investments because of the tangible results and the atmosphere of industrial harmony that such expenditure can bring may make the employer more willing to accept this burden.

[...]

## The role of workers and their organisations

The earliest organisations of industrial workers in some of the technologically advanced countries were essentially mutual-aid associations (such as loan, sickness benefit or burial societies) and were financed by the workers themselves. For many years the workers were somewhat chary of welfare measures provided by the employer. It was thought that the good wages and decent working conditions which the trade unions could obtain by collective bargaining would enable the workers to solve by themselves their problems of living standards. It was feared that the employer might be trying to interfere in the private lives of the workers; there was also a suspicion that welfare work was not always aimed at promoting the workers' interests but at increasing output. In addition, there was in some cases a fear that welfare measures might disguise bad working conditions and that welfare facilities could be used as a lever to reduce the strength of trade unions or even to put an end to the need for them.

As trade unions grew stronger and gained confidence it was increasingly realised that welfare measures constituted no threat to sound industrial relations. In some countries the demands of workers to extend the area of collective bargaining to welfare measures were encouraged by the public authorities and accepted by the employers. As trade unions took a more active interest in industrial welfare and began to participate in joint schemes or even operate some of their own it became clear that such schemes could be a source of strength to unions. A worker who joined a union with a flourishing welfare programme would remain a member even in slack periods, since by remaining a member he ensured protection for himself against illness, unemployment, accident or other risks.

[...]

## The role of voluntary services

Employers' associations and trade unions rank among the most important sources of voluntary action, but there are numerous other voluntary services which form part of the very fabric of social life catering for

many of the interests of the worker and his family. Industrial welfare work can draw on the experience of thousands of independent voluntary agencies for assisting the handicapped, visiting the sick, giving counsel and legal advice; social work settlements, women's and youth organisations, community centres, church groups, friendly societies and co-operatives, adult and workers' educational bodies, as well as technical and academic organisations of all kinds, also enter into the picture.

It has been argued that voluntary organisations often do not have the financial resources or the administrative machinery to deal effectively with the problems of workers and their families. In some cases, however, voluntary organisations have the advantage of being more spontaneous and adaptable, more willing to experiment and more responsive to those needs of workers which can best be met on the community level. Voluntary agencies can play a very useful part in certain fields of industrial welfare, e.g. recreation and workers' education (including classes for young workers released by industry for specified periods for educational purposes). [...]

[...]

## Problems of underdeveloped areas

Low productivity, population pressure, limited capital formation and depressed living standards seriously affect the development of welfare facilities in the industrially less developed areas. In these areas the need for welfare services and the problems they raise are often more acute than in industrially advanced countries.

[The rest of this section provides examples of particular measures and cultural and other practical obstacles.]

## Conclusions

Welfare services are certainly no panacea for many or even some of the problems of industrial life. Yet if they are applied as a part of a pattern of social advancement, they can be of service not only to the workers who benefit from them but also to the employer and indirectly to society as a whole. While industrial welfare is designed primarily to help the worker and his family, it cannot be isolated from community action and the social framework. The social concept of industrial welfare seems to be the strongest and most rapidly developing of the various concepts existing today.

As indicated earlier, the type of welfare facilities needed depends on the location and size of the undertaking, the composition of the labour force, the nature of work processes and many other factors. Consequently the scope of welfare services varies in different undertakings, industries and countries (except for certain minimum measures protecting the workers' health and safety). It is important that workers should be free to use or not to use welfare facilities; the tastes, customs and traditions of the persons concerned must be respected as far as possible. The democratic participation of workers

in the administration of welfare facilities helps to ensure that these services match the workers' needs and also encourages co-operation within the undertaking.

The respective roles of the public authorities, the employers and their associations, the workers and their organisations and other voluntary agencies vary with the stage of economic development and social environment reached. Differences between various concepts of welfare seem to be mainly of method, though in some cases there are differences of principle also.

It has been shown that the problems raised by welfare services and the need for such services are often more acute in the industrially less developed areas. If these needs are met adequately the obstacles to social progress and industrial peace in these areas may to some extent be reduced.

The evolution of current practices and concepts of industrial welfare may have lagged behind rapid developments in technological innovations, but they too have changed the face of modern industry. Suspicion and antagonism towards welfare measures have not yet disappeared entirely, but they are steadily giving way to increasing understanding and active support on the part of all concerned. On the whole there does seem to be some justification for the belief that our age will be remembered best for making the ideal of welfare for all a practical objective instead of a Utopian dream. Further efforts in this direction will certainly advance the cause of lasting peace through social justice.



# Industrialism and industrial man

Clark KERR, Frederick H. HARBISON, John T. DUNLOP  
and Charles A. MYERS \*

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abridged.

## The logic of industrialism

**I**ndustrialisation has been abroad in the world for only about two centuries. One hundred years ago only England had crossed the great divide on the road toward the industrial society. Today, in the middle of the twentieth century, perhaps a third of the world's population lives in countries which are at least partially industrialised. The remaining two-thirds of the world's peoples, spurred by the revolution of rising aspirations, are in the throes of initiating the march toward industrialism. Probably by the middle of the twenty-first century industrialisation will have swept away most pre-industrial forms of society, except possibly for a few odd backwaters. This is

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Charles Myers was a Professor of Industrial Relations at MIT from 1939, then Sloan Fellows Professor of Management as well as holding successive government posts including on the National War Labour Board (1944-45).

All four were members of the coordinating board of an inter-university project on labour problems in economic development, investigating the relationships between industrialization, management and labour – financed largely by the Ford Foundation and involving, in particular, scholars at Harvard University, Princeton University, the University of California at Berkeley and the Massachusetts Institute of Technology. In their introduction to this article they refer to a range of publications that emerged from that project and to a prior article in the *Review* which explained the approach ("The labour problem in economic development: A framework for reappraisal", Vol. 71 (1955), No. 3 (Mar.).]

the great transformation in the history of mankind on this planet – more basic, more rapid, and more universal than anything that has gone before. The industrial society knows no national boundaries; it is destined to be a world-wide society.

What then are the common characteristics and imperatives which are inherent in this universal society toward which all peoples are marching? First, the industrial society is associated with a level of technology far in advance of that of earlier societies. The science and technology of industrialism is based upon research organisations: universities, research institutions, laboratories and specialised departments of enterprise. In this society it is axiomatic that the frontiers of knowledge are limitless. Industrial society is also characterised by vast investments in plant, equipment and machinery which demand the accumulation of capital on a massive scale.

Secondly, the industrial system demands in its labour force a wide range of professions and skills. Indeed, the creation of high-level manpower is one of the major problems encountered in the transition to industrialism. And, since science and technology generate continuous change, new skills and occupations are constantly replacing the old. Thus, industrialism requires an educational system functionally related to the skills and professions imperative to its technology. The variety of skills, responsibilities and employment conditions at the work place creates a new ordering or structuring of society. There are successive levels of authority of managers and the managed as well as extensive specialisation of functions at various levels in the industrial hierarchy. And, as part of this structuring process, the working forces are governed by a web of rules which prescribes such things as hiring, compensation, layoffs, promotions, shift changes, transfers, retirements, and discipline in the work place.

Thirdly, industrialism is associated with sizeable organisations. It is mainly an urban society. It is necessarily characterised by large governmental organisations. And the production of goods and services becomes ever more concentrated in the hands of large enterprises, whether they be private or public. In other words, industrial society is “the organisation society”.

Fourthly, the industrial society, in order to survive, must develop a “consensus” which relates individuals and groups to each other and provides a common body of ideas, beliefs and value judgments. The working force, for example, must be dedicated to hard work, and its individuals must assume responsibility for performance of assigned tasks and norms. Regardless of how this is achieved the industrial society must secure a pace of work and a personal responsibility exercised by individual workers and managers unknown in economic activity in traditional societies.

These, in brief, are the common features of the industrial society. Every case of industrialisation, however, may not be expected to be identical. There are different roads to industrialism, and the choice of these roads is made by an elite minority which in effect organises and leads the march toward the new society.

For purposes of analysis we have delineated five ideal types of elite which may under varying circumstances and depending upon the pre-industrial society assume leadership in the industrialisation process. Each of these elites has a strategy by which it seeks to order the surrounding society in a consistent manner.

The dynastic elite is drawn from the old military or landed aristocracy, and it is held together by a common allegiance to the established order. It cherishes the virtues and the institutions of the past – the family, the national State, private property and the notion that people born into one class are sentenced by predestination to remain there. It organises a paternal industrial society, with a paternalistic State, paternalistic employers, and the idea of dependent workers, who are loyal to their superiors and beholden to them for their welfare and leadership. This elite, though in some cases moving slowly along the road, often organises a relatively smooth passage from the traditional to the industrial society. It was prominent in the industrialisation of Japan and in the early stages of industrial development in Germany.

The members of the second elite are drawn from a rising middle class. Its ideology is economically individualistic and politically egalitarian. Its creed is opportunity for the individual, *laissez-faire* as a policy of government, with decentralisation of decision-making power. This elite takes progress for granted, relying on the free interplay of market forces to promote the common good. It can perhaps best be identified with capitalism in the early stages of the Industrial Revolution in England and its subsequent spread to the United States.

The third elite may be characterised as the revolutionary intellectuals. It sweeps aside both the dynastic elite and the rising middle class. The revolutionary intellectuals, self-identified for the task of leadership by their support of what they claim to be a scientific and superior theory of history, set out to pour new wine into entirely new bottles. Their principal new bottle is the monolithic, centralised State. The prime movers of this society demand a rapid forced march toward industrialism, and they mould education, art, literature and labour organisations to their single-minded purpose.

Next are the colonial administrators who have been, in the past at least, the originators of industrialisation in some of the underdeveloped countries of the world. Their concern, however, is less with the countries they rule and more with the interests and the requirements of the home countries. For this reason they face an almost impossible task. They are not only exponents of a new system of production; they are also members of an external or alien society. Inevitably, with the march of time, they are dislodged peacefully or overthrown violently.

The fifth elite is composed of the new nationalist leaders and their followers in the emerging nations of the world. They may be drawn from the leadership of prior independence movements, military leaders, or persons who were sent abroad to be educated. The members of this group are in a hurry – to deliver and to deliver fast. They are sparked by nationalism, but in

itself nationalism is more of a sentiment than a rational system of thought. They are prone to seize upon any or all means to build rapidly the political and economic structures of their countries. They have no single philosophy of economic progress; but they have before them the choice of different roads – that travelled by the middle class, that of the dynastic elite, and that of the revolutionary intellectuals. As late starters on the march towards industrialism they can pick and choose both technology and organisational arrangements to effect the transition. The drive of these new nationalist leaders is well illustrated by these words of Gamal Abdel Nasser: “We shall march forward as one people who have vowed to proceed on a holy march of industrialising.”

[...]

In summary, the imperatives of industrialisation cause the industrialising elites to overcome certain constraints and to achieve certain objectives which are the same in all societies undergoing transformation. The approaches which they take to these constraints and objectives explain in large measure the diversity among industrialising economies. Using this system of thought, or logic of industrialism, an examination will now be made of the extent and nature of the labour problems which are likely to arise during the development process.

## The managers and the managed

The labour problems of industrialising societies have their origin in the structuring of relationships between the managers and the managed. They both give rise to and emanate from the web of rules which links men together in the new society. They are related to the power, position and policies of the managers of enterprises whether public or private; to the development of the industrial working forces; to the impact of industrialisation on the worker and his response thereto; and to the making of the rules by workers, managers, and the State. Each of these aspects will now be examined briefly.

## The managers of enterprise

The managers of enterprises, public and private, and their technical and professional subordinates are part of every industrialising elite. Management is a hierarchy of functions and people. It includes entrepreneurs, managers, administrators, engineers, and professional specialists who hold the top positions in enterprises. So defined, management is crucial to the success of any industrialisation effort. It may be viewed from three perspectives: as an economic resource, as a class and as a system of authority within the enterprise.

As an economic resource, management becomes more important with the advance of industrialisation. The number of persons in the managerial ranks increases both absolutely and relatively in the economy. This is the inevitable consequence of larger capital outlays, the pace of innovation, the



use of more modern machinery, the growth of markets, and the increasing complexity of advancing industrial societies. The accumulation of managerial resources, moreover, requires ever-increasing outlays for technical and managerial education, and forces educational institutions to become more functionally oriented to the training of skilled technicians, engineers, scientists and administrators.

As a class, management becomes more of a profession as industrialisation progresses. In the early stages of development, where enterprises may be new or very small, access to the managerial ranks may be largely dependent on family relationships in some societies, or political connections in others. But as the managerial class must inevitably grow larger it becomes less arbitrarily exclusive. As industrial society lays ever more stress upon scientific discovery, technological innovation and economic progress, patrimonial and political managers are swept aside by the professionals.

As a system of authority, management becomes less dictatorial in its labour policies. In all societies, of course, management cherishes the prerogatives of a rule maker. But others, such as the State and the labour unions, also seek and gain a voice in the rule-making process. As industrialisation advances, they tend to limit, to regulate or sometimes even to displace the unilateral authority of management over the labour force. As a consequence, dictatorial or paternalistic direction gives way to a kind of constitutional management in which the rules of employment are based upon laws, decisions of governments, collective contracts, or agreements. In a few situations employer-employee relationships within the firm may develop along democratic lines with joint participation.

The differences in management are related to the stage of industrial development and also to the elites which assume leadership in the society. The dynastic elite, for example, tends to perpetuate a family-oriented and paternalistic managerial system, whereas the middle-class elite introduces a professionalised managerial class more quickly. The revolutionary intellectuals try to prolong the life of political management, while the new nationalist leaders may encourage the development of any or all kinds of management as the occasion demands.

Yet, despite the fact that the ranks of professional management are destined to expand in all industrialising societies, the managerial class has neither the capacity nor the will to become the dominant ruling group. The managers are characteristically the agents of stockholders, of state bureaucracies, or in some cases of workers' councils. Since they are preoccupied with the internal affairs of enterprise, which become ever more complex, the members of the managerial class are prone to become conformists rather than leaders in the larger affairs of society.[...]

## The development of the industrial labour force

Most countries have human resources which are available for industrial employment, but no country is endowed with persons possessing the habits, skills, and "know-how" necessary for industrial development. Thus, the industrialising elites, and particularly the managers of enterprises, are required to build a large and diversified industrial labour force. This involves four interrelated processes: recruitment, commitment, upgrading, and security.

Recruitment is the first step in development of the industrial labour force. It is the process of selecting, hiring, and assigning persons to jobs. Commitment is a longer and more intricate process. It consists of achieving the workers' permanent attachment to and acceptance of industrial employment as a way of life. Upgrading is the process of building the skills, the work habits, and the incentives for productive employment. It involves the training and the energising of the working force. Security includes the various facilities which may be necessary to provide worker security both on and off the job.

From our studies and those of others we have concluded that recruitment, commitment, and upgrading of labour forces can be achieved reasonably well in any industrialising society. Industrial man is a product not of a particular climate or ancestry but rather of persistent effort and investment. Despite the allegations to the contrary, man everywhere is adaptable to the industrial system.

The more difficult and persistent problem is that would-be workers are more often pounding on the gates to be let inside the factory system. Surplus labour and chronic redundancy is the more common problem of most of the underdeveloped countries, even in the early stages of industrialisation. Population keeps expanding more rapidly than industrial employment; urban areas become overcrowded; underemployment persists in the rural areas even as industrialisation advances. The rate of population increase tends to fall only after living standards have risen substantially, and this takes time even in those countries making a rapid march toward industrialism. The newly industrialising countries, therefore, are faced with a dilemma – where and how to hold surplus labour. If held on the land, disguised unemployment mounts; if held within the factories, productive efficiency is impaired; if held outside the factories in overcrowded urban areas, the strain on community resources becomes intolerable. Only employment on massive, labour-intensive public works, roads or irrigation systems seems to offer an answer. Certainly, in the face of mounting pressures of population, industrialisation on its own offers no cure.

Here again the elites adopt somewhat different strategies in developing and managing industrial labour forces. The dynastic elite will rely more heavily on paternalistic devices to commit the worker to industrial enterprise; the middle class will depend upon the labour market; the revolutionary intellectuals will get commitment by ideological appeals,

direction of employment, and differential incentives. The dynastic elite is likely to require the employers to provide jobs for all permanent members of the industrial working force, but is unconcerned with employment problems outside the factory gates. The middle-class elite relies upon the forces of the product market to provide jobs in the long run. The revolutionary intellectuals either refuse to admit the existence of mass unemployment or mobilise a redundant labour force on public works projects. And the nationalist leaders tend to adopt any or all means which appear to offer the most satisfactory solution for the time being.

## The response of the worker to industrialisation

Industrialisation redesigns and restructures its human raw materials, whatever the source. Thus, the development of an industrial work force necessarily involves the destruction of old ways of life and the acceptance of the new imperatives of the industrial work community. While the worker is in the end malleable, his metamorphosis gives rise to many forms of protest.

Characteristically, the partially committed labour force may express protest through excessive absenteeism, turnover, theft, sabotage, and spontaneous or sporadic work stoppages. The committed labour force is more likely to organise industry-wide strikes and formal political activity, while day-to-day grievances are presented through disputes machinery or labour courts, largely without stoppages. Marx saw the intensity of protest increasing in the course of capitalist development. We hold a contrary view. Our studies reveal that protest tends to reach its peak relatively early in the transformation and to decline in its overt manifestations as industrialisation reaches the more advanced stages. Incipient protest is moderated, channelled, and redirected in the advanced industrial society.

The elites, of course, must cope with the problem of worker protest, and here again they adopt different policies toward the formation of labour organisations which possess potential economic and political power. And in each society the emerging labour organisations adapt themselves rather distinctively to the prevailing environment. The labour organisations in the dynastic society remain "foreign" to the elite; in the middle-class society, they tend to conform to the product market structure. The revolutionary intellectuals regard labour organisations as instruments of and subservient to the State. The colonial administrators find labour organisations always in opposition, forever pressing relentlessly for national independence. And the labour organisations under the new nationalist leaders are often beset with conflicting and divided loyalties, sometimes conforming to and on other occasions bringing pressure against the new régime.

Most labour organisations, and particularly those in the newly industrialising countries, pose thorny issues for the elites. First, they lay claim to higher wages, while the elites may be preoccupied with capital formation. Secondly, they may strike at a time when work stoppages will be detrimental to production. Thirdly they of necessity demand redress of worker grievances

and complaints, while the nationalist leaders, in particular, may be intent upon achieving better discipline, a faster rate of work, and more output. Finally, labour organisations are prone to seek independence and freedom as institutions, while the elites are more concerned with making them politically subservient or insuring that they will be politically neutral or powerless.

Labour organisations, in summary, are essentially reflections of the societies in which they develop. The universal responses of workers to industrialisation, and the nature of expressions of their protest, are increasingly moulded to conform and contribute to the strategy of the industrialising elites. Though the leaders of labour seldom rise to dominating positions in a society, they are persons who always warrant recognition.

## The rule makers and the rules

Industrialisation creates industrial workers, managers, and government agencies. All three are necessarily involved in industrial relations. And, just as industrialisation brings about different economic systems, so does it necessarily develop different "industrial relations systems". Again, according to the nature of the elites and to the stage of development, every industrial relations system fulfils at least three major functions. First, it defines the relative rights and responsibilities of workers, managers, and the State, and establishes the power relationships between them. Secondly, it channels and controls the responses of workers and managers to the dislocations, frustrations, and insecurities inherent in the industrialising process. And thirdly, it establishes the network of rules, both substantive and procedural, which govern the work place and the work community. Industrial relations systems reflect the persistent themes of uniformity and diversity which have been referred to in this analysis.

[...]

In effect, therefore, the industrial relations system provides the structure and the machinery for the functional relationship between the managers and the managed in any industrialising society. As a system it is related to the economic system with which it operates. Industrial relations systems, therefore, can be logically analysed and usefully compared. They are not unique, isolated institutional arrangements with particular significance only to a particular country. It is thus manifestly possible and desirable to compare labour problems in one country with those in another, and our analytical framework, we feel, offers a method for doing this.

## The road ahead

As industrialisation advances, the forces making for uniformity among different societies become stronger than those perpetuating diversity. With the passage of time, each developing nation moves further from its pre-industrial stage and from its original industrial leaders. As they bring in new

recruits from different strata, the various elites become less distinct. The ideological differences tend to fade; the cultural patterns of the world intermingle and merge. The once vast ideological differences between capitalism and communism give way to more pragmatic considerations in the operation of industrial society. Increasingly, the elites all appear in the same light.

The trend toward greater uniformity is attributable to a variety of pressures. Technology in itself is a unifying force. The thrust of progress also serves the cause of uniformity, and gradually there is less difference between the various categories of workers and industries in each country. Education brings about a new equality with the elimination of illiteracy and the development of skills.

The State everywhere becomes ever larger and more important. Larger-scale enterprises are common hallmarks of all advanced industrial societies. Finally, the compulsion to compare helps to achieve uniformity. The pressures for progress and participation in a new economic order are enhanced by the world-wide character of industrialisation, by international trade, by travel, by modern means of communication, and by global exchange of ideas.

The road ahead leads to what we call "pluralistic industrialism". The fully developed industrial society in our view will be one in which the struggle between uniformity and diversity continues, a society which is centralising and decentralising at the same time, a dynamic society which, while marked by complex and conflicting pressures, develops a common cultural consensus.

In this pluralistic industrial society the State will not wither away. It will handle the conflict among the differing power elements in the society; it will control collusion by producers against consumers; and it will establish the relationship between members and their organisations. The managers of enterprise, whether public or private, will be professionals, technically trained and carefully selected for their tasks. They will be bureaucratic managers, if private, and managerial bureaucrats, if public. The distinction between managers will be based more upon the size and scope of their enterprises than upon the ownership of the means of production. Occupational and professional associations will range alongside the State and large-scale enterprise as centres of power and influence. And uniting the State, the enterprises and the occupational associations will be a great web of rules established by all three entities, but particularly by the first.

In this society conflict will persist, but it will take the form of bureaucratic skirmishes rather than class war. Groups will jockey for position over the setting of jurisdictions, the authority to make decisions, the forming of alliances, and the granting or withdrawal of support or effort. The great battles of conflicting parties will be replaced by a myriad of minor contests over comparative details. Labour organisations will cease to be parts of class movements urging programmes of total reform, and become more purely pressure groups representing the occupational interests of their members.

In this emerging world-wide society industrial man will be subject to great pressures of conformity imposed not alone by enterprise management but also by the State and by his occupational association. For most people any true scope for the independent spirit on the job will be missing. But, outside his working life, industrial man may enjoy more freedom than in most earlier forms of society. Politically he can have influence. He will enjoy higher living standards, greater leisure, and more education. And, along with the bureaucratic conservatism of economic life, there may be a new Bohemianism in other aspects of man's existence which can give rise to a new search for individuality and a new meaning to liberty.

Technology need not, as Marx thought, reach into every corner of society. Indeed, the conformity to technology may bring a new dedication to individuality. This is the two-sided face of pluralistic industrialism that makes it a split personality looking in two directions at the same time. Utopia, of course, never arrives, but industrial man the world over will probably acquire greater freedom in his personal life at the cost of greater conformity in his working life. Industrialism can and will bring about for him a better existence.

## Fifty years of standard-setting activities by the International Labour Organisation

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abridged by the author.

When the ILO was founded in 1919 it was thought that it would have to rely mainly on the setting of international standards in order to achieve its objectives. Since then, its methods have in fact been diversified considerably, though standard setting remains at the core of its work. An International Labour Code comprising 130 Conventions and 134 Recommendations has been progressively built up. This Code is neither rigid nor immutable. It is not rigid because, when drafting its standards, great pains are taken to make them adaptable. And it is not immutable because it is a living, constantly developing creation, open to new ideas and techniques.

Nor is the Code an academic exercise. Its purpose is to promote effective social progress, and its success can be gauged by the extent to which States have accepted its standards and the effect that the latter have had at the national level.

So the fact that international labour Conventions have received several thousand ratifications and that ratifications are still coming in is already of cardinal importance.

In addition, these standards also translate into effective action at country level partly because of the existence of a vigilant system of supervision, and partly through the more general influence of standards as a source of guidance. While the balance is thus favourable, however, there are also serious flaws in the picture as regards both the ratification and the application of certain key Conventions.

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What in fact will be the importance of standard setting in the future work of the ILO?

Since standards are mainly designed to achieve social justice, is international action in this field really as necessary in our day as it was in 1919? For many reasons the answer should be yes.

First, although "injustice, hardship and privation" – to quote the ILO's Constitution – have been gradually reduced in the industrialised countries, the needs of the greater part of the world are as urgent as ever. Secondly, whereas material conditions have often improved, the fundamental freedoms which are essential to the exercise of certain basic human rights such as freedom of association are still seriously impaired. Thirdly, social justice is not a static concept. With the growth of a stronger sense of justice, equality and human dignity, people have become more aware of certain wrongs, and the underprivileged groups or classes are no longer willing to submit to the conditions that have been theirs for so long. Fourthly – and more generally – the international drive for social justice is no longer confined to the traditional "protection of the weak" and to purely humanitarian action. With the Declaration of Philadelphia, the concept of social justice took on a very broad meaning, since its aim is that "all human beings, irrespective of race, creed or sex, [should] have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity". Fifthly, international standards have a number of other functions, such as assisting in the formulation of consistent social policies and balanced economic and social development plans, and dealing with technical problems. Lastly, and more broadly speaking, in a world of growing interdependence the need for international action is increasingly obvious.

However, the question may be asked whether international action in social matters should continue to be based on the adoption of instruments involving international commitments, rather than on operational activities. In effect, to imagine that the Organisation has to choose between standard setting and operational activities would amount to posing a false dilemma. In actual fact, operational and standard-setting activities are mutually complementary. Indeed, operational activities can only produce meaningful results if they are based on clearly defined standards.

Another point is that legislation is increasingly becoming a major instrument of social policy in every country. This means that international standards are increasingly needed to give guidance in the drafting of national legislation. Finally, while the effect of international standards as a source of guidance should not be underestimated, the international commitments undertaken by States which ratify the Conventions provide the surest foundation for energetic action to translate those standards into fact. Thus, both in themselves and as a starting point for the ILO's other activities, international standards seem to have lost none of their value.

It is none the less appropriate, on the occasion of the fiftieth anniversary of the Organisation to take stock of its standard-setting work.



## I. The purpose of international labour standards

The ILO's first international labour Conventions were adopted in 1919, but the movement in favour of international labour legislation is far older, dating back to the beginning of the industrial era in the first part of the nineteenth century. Over the years, the reasons put forward in favour of international labour legislation have varied in importance. One of them, however, has proved to be the most powerful driving force behind the international regulation of labour questions. This is the ancient, undying instinct for justice,<sup>1</sup> which, in the face of the conditions created by industrialisation, led public opinion to demand intervention by the international community. This is in fact what prompted the founder States of the ILO to proclaim in the Preamble to its Constitution that they were "moved by sentiments of justice and humanity as well as by the desire to secure the permanent peace of the world". It was this very concern with justice which led the ILO to adopt Conventions on such subjects as child labour, forced labour, the living conditions of indigenous and tribal peoples and discrimination in employment.

Side by side with this fundamental aim of the Organisation, there is another, which also featured prominently at the time of its establishment in 1919, namely, the contribution that the international regulation of labour could make to the maintenance of peace. The argument is based on the belief that social injustice endangers peace throughout the world and that the ILO serves the cause of peace by combating that injustice. This idea must be interpreted in a broader and more indirect way.<sup>2</sup> The following points have been made in particular: social justice helps to strengthen democratic governments, and democracy is essential to peace; by contributing to social peace it abolishes a cause of tension or the danger of military adventures being used as a diversion from domestic difficulties; peace is not a purely negative matter of absence of war but a positive concept requiring stable, just and balanced relationships both within and between countries; and, lastly, the setting of rules to better the lot of mankind develops a sense of international solidarity and fosters a general climate of co-operation and understanding.

However, it must not be forgotten that, historically, international regulation of labour was also put forward as a counter-argument to those who opposed the introduction of protective measures in their own countries on the ground that such measures would handicap them on the international market by increasing their costs relative to other countries. It was therefore argued that international agreements to set labour standards would ensure that competition was not at the workers' expense and would

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<sup>1</sup> See G. Scelle: *L'Organisation internationale du Travail et le BIT* (Paris, Editions Rivière, 1930), p. 32.

<sup>2</sup> See, for example, Albert Thomas: "Justice sociale et paix universelle", in *La revue de Paris*, 31st year, No. 6, 15 Mar. 1924, pp. 241-261; Edward Phelan: "The contribution of the ILO to peace", in *International Labour Review*, Vol. LIX, No. 6, June 1949, pp. 607-632.

in fact amount to a kind of code of fair competition between employers and countries. This argument was in fact embodied in the Preamble to the Constitution of the ILO, which states that "the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries". Although economists have warned against generalisation of this argument,<sup>3</sup> the fact remains that the notion of equal or rather equivalent burdens still carries some weight, since common standards of social policy can help to reduce the opportunities for unfair competition and (more generally) facilitate economic integration and freedom of movement for capital, goods and manpower. At all events, this argument did have the merit of emphasising that the human factor cannot be regarded as a flexible cost item in international trade and that, to quote the 1944 Declaration of Philadelphia, "labour is not a commodity".

In addition to these three aims, it became possible to perceive certain other functions that international labour standards can perform. Thus – given the close interdependence of economic and social factors – standards help to emphasise, as President Franklin Roosevelt told the International Labour Conference in 1941,<sup>4</sup> that economic policy cannot be "an end in itself" but "merely a means for achieving social objectives". "The social factor must take precedence over the economic factor", wrote Albert Thomas in 1931 in a work marking the ILO's tenth anniversary.<sup>5</sup> And is it not significant that this theme should have been taken up again by Pope Paul VI when he addressed the International Labour Conference on 10 June 1969 and emphasised the importance of creating a genuine international labour law?<sup>6</sup> Standards, in short, contribute towards the concerted policy of economic and social development the ILO has striven after, the need for which was specifically confirmed by the Declaration of Philadelphia in 1944.

International labour Conventions have another function as well, which at first sight might seem to be distinctly academic but has in fact proved its importance more than once in practice: this is to enhance the stability of national legislation and to provide a guarantee against backsliding. It is believed to be largely because of this "safety lock"<sup>7</sup> effect that during the

<sup>3</sup> See Herbert Feis: "International labour legislation in the light of economic theory", in *International Labour Review*, Vol. XV, No. 4, Apr. 1927, pp. 491-518; and, more recently, "Labour cost as a factor in international trade", *ibid.*, Vol. LXXXIX, No. 5, May 1964, pp. 425-446.

<sup>4</sup> ILO: *Record of proceedings*, Conference of the International Labour Organisation, New York and Washington, DC, 1941 (Montreal, 1941), p. 158.

<sup>5</sup> *Idem*: *The International Labour Organisation. The first decade*, prefaced by Albert Thomas (London, George Allen & Unwin, 1931), p. 12.

<sup>6</sup> *Idem*: *Provisional Record*, International Labour Conference, 53rd Session, Geneva, 1969, No. 11, p. 77.

<sup>7</sup> See, for example, L.-E. Troclet and E. Vögel-Polsky: "The influence of international labour Conventions on Belgian labour legislation", in *International Labour Review*, Vol. 98, No. 5, Nov. 1968, p. 402.

slump of the 1930s, when social standards declined in a number of respects, the eight-hour day was hardly tampered with at all.<sup>8</sup>

Finally, international labour standards have great value as examples. Being based on the experience and ambitions of a very wide range of countries and adopted by an assembly consisting of the representatives of governments, employers and workers of all the countries of the world, they constitute an important source of guidance to governments in framing social policies, while providing workers with a sound basis for making demands. These standards have become a kind of international common law in labour matters. This is particularly valuable at a time when new States are busily drafting modern social and labour legislation, and older-established States are often finding it necessary to amend their legislation to cope with present needs.

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Thus the purpose and functions of the international regulation of labour are extremely varied. Some that were given a good deal of prominence in the early days had all the force of simple ideas of the kind that carry conviction, but in our day they have to be judged with greater discrimination. Other more specific functions developed as the Organisation's activities expanded. But even though some of the reasons advanced may be open to question, cumulatively they still appear to be as valid as ever. Just as the philosopher proved the existence of movement by walking, so international labour standards have proved that they correspond to a genuine need by the mere fact of spreading.

Let us now take a look at some of the standards adopted during the past fifty years.

## II. The adoption of international labour standards

The Constitution of the ILO specifically provides for the adoption of Conventions and Recommendations. Based on this solid foundation, the ILO's legislative activity was considerable in the years that followed its establishment.

Of course, during its earliest years the Organisation's competence to deal with certain questions and certain classes of persons was challenged. As early as 1922, the Permanent Court of International Justice was called upon to give a number of decisions concerning the extent of the ILO's competence and found in favour of the most comprehensive definition. Within a few years of the ILO's establishment, one writer concluded that its competence

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<sup>8</sup> See Evert Kupers, former Chairman of the Netherlands Trade Union Federation (NVV): "De Internationale Arbeidsorganisatie en de vakbeweging", in *Sociaal Maandblad* (Alphen aan den Rijn), 4th year, No. 11, 1 Nov. 1949, p. 354.

extended to "all labour problems",<sup>9</sup> while another affirmed that the Organisation itself was a "continuous creation".<sup>10</sup> The Organisation thus seemed on the way to becoming the "chief co-ordinator of social policy throughout the world".<sup>11</sup> The Declaration of Philadelphia in 1944 broadened the Organisation's competence and constitutional basis in two ways: *ratione materiae*, it was to emphasise that this competence was not confined to conditions of work alone, and *ratione personae*, it was to extend this competence from workers in the strict sense of the word to all human beings.

It is within the framework of this extensive competence that the ILO's standard-setting activities have developed. This process has consisted in adopting a succession of separate instruments – having regard to the urgency and suitability of the subjects covered – each of them dealing with a specific question, rather than general instruments covering a wide range of different subjects. These would inevitably have been less precise; they would have found it harder to attract sufficiently widespread support and, because of difficulties arising out of one or other of their clauses, would have been ratified by a smaller number of countries.

The standards adopted in this way over the years have slowly come to form a coherent whole, which is often called the "International Labour Code".

## The international regulation of labour in outline

Because of the Second World War, standard setting by the ILO came to a halt between 1940 and 1943, and this gap divides the Organisation's legislative activity into two periods.

### 1. Standards adopted between 1919 and 1939

During the first period, from 1919 to 1939, the standards adopted by the ILO were mainly concerned with immediate problems of conditions of work and employment. For example, at the First Session of the Conference, held in Washington in 1919, the first Convention to be adopted concerned a long-standing demand by the workers – the eight-hour day and forty-eight-hour week in industry. The other Conventions adopted at that session dealt with unemployment, night work by women, night work by young persons, the minimum age for industrial employment, and the employment of women before and after confinement. A few months later, in June-July 1920, the

<sup>9</sup> Scelle, *op. cit.*, p. 76.

<sup>10</sup> Jean Morellet: "The competence of the International Labour Organisation: a further decision of the Permanent Court of International Justice", in *International Labour Review*, Vol. XIV, No. 4, Oct. 1926, p. 475.

<sup>11</sup> C. Wilfred Jenks: "La compétence de l'Organisation internationale du Travail. Examen de quatre avis consultatifs rendus par la Cour permanente de Justice internationale" (Part 2), in *Revue de droit international et de législation comparée* (Brussels), Third Series, Vol. XVIII, No. 3, 1937, p. 622.

Second Session, held in Genoa to deal with maritime employment, was not able, for lack of the fraction of a vote, to obtain the two-thirds majority needed to adopt a Convention limiting hours of work on board ship. But it did adopt three Conventions and four Recommendations dealing with various aspects of maritime employment. A year later, in October-November 1921, in Geneva the Third Session of the Conference adopted seven Conventions and eight Recommendations dealing, *inter alia*, with weekly rest in industry, various aspects of employment in agriculture, the employment of young persons at sea and the use of white lead in painting.

Thus in two years 34 international instruments – 16 Conventions and 18 Recommendations – were adopted. It was impossible to keep up this pace and the need for a pause became apparent. The adoption of standards continued at a slower pace. In 1922, 1923 and 1924 only one Recommendation was adopted at each of the sessions of the Conference.

From 1925 onwards the pace quickened once more and between then and 1931, 15 Conventions and 18 Recommendations were adopted. These included the first Conventions on social insurance, methods of fixing minimum wages and a number of Conventions on industrial safety. In 1930, after sometimes stormy debates, came the adoption of a major Convention on forced labour, which had far-reaching effects, especially in the colonial territories. However, an attempt in 1927 to adopt a Convention on freedom of association proved unsuccessful. It was another twenty years before a Convention on this subject was finally adopted.

However, from 1930 onwards the social effects of the great slump were making themselves felt. Successive attempts during these years to regulate hours of work through the 1935 Convention introducing the principle of the forty-hour week, coupled with Conventions dealing with the operation of this principle in various branches of the economy, were disappointing in their effects.

Nevertheless, the work of setting international standards went on, and in 1933 a series of major instruments were adopted on social insurance with respect to old age, invalidity and death. In 1936 came a Convention, considered to be a pioneering measure at the time, regulating holidays with pay. A large number of other instruments specified the protection to be given to special categories of workers (seafarers, indigenous workers, migrants). Side by side with the adoption of these new instruments a start was made, from 1932 onwards, on the revision of a number of earlier Conventions.

In all, between 1919 and 1939, the International Labour Conference adopted 67 Conventions and 66 Recommendations in a number of steadily widening fields.

## 2. Standards adopted between 1944 and 1969

After an interruption of four years owing to the war, the adoption of international standards was resumed in 1944 and has gone on steadily ever since. Compared with the instruments adopted during the preceding period, those dating from 1944 onwards, while continuing the Organisation's work

during its first twenty years, also mark a new departure in three respects: the extension of their scope and coverage, a broader approach to the subjects dealt with and greater flexibility in the formulation of the standards.

To start with, the standards adopted since 1944, while continuing previous efforts, have extended the coverage of international protection to new subjects and new categories of persons. The Conference has thus adopted new instruments on such subjects as hours of work, holidays with pay, weekly rest, and wages. It has also continued the work begun before the war in the field of social security but along more comprehensive lines. In addition, it has adopted new standards on occupational safety and health, with special reference since 1960 to protection against radiation. In manpower matters it has not only revised the pre-war instruments, but in 1948 it adopted a Convention, supplemented by a Recommendation, on employment services and in 1964 a Convention and a Recommendation on employment policy.

Some of the instruments adopted during this second period dealt with categories of persons who to some extent had already been covered by earlier instruments, e.g. women, young persons, seafarers and migrants, while other categories were included in Conventions or Recommendations for the first time, e.g. plantation workers (in 1958), fishermen (in 1959 and 1966) and other groups not coming under the heading of wage earners, such as indigenous and tribal populations (in 1957) and tenants and share-croppers (in 1968).

This extension of social protection was by no means confined to improving the physical conditions of labour, employment or, indeed, life. The standards adopted during this second period placed increasing emphasis on the promotion and protection of certain fundamental rights designed to safeguard the values of freedom, equality and dignity. Attempts that miscarried before the war were successful at last, for example with regard to freedom of association, on which basic Conventions were adopted in 1948 and 1949. On the subject of the abolition of forced labour a Convention was adopted in 1957 to supplement, from a different angle, the 1930 instrument. Lastly, after a Convention and a Recommendation in 1951 on equality of remuneration as between men and women workers, another Convention and Recommendation were adopted in 1958 to promote equality of treatment in respect of employment and occupation and the elimination of discrimination on the basis of race, colour, sex, religion, political opinion, national extraction or social origin. The Secretary-General of the United Nations, U Thant, was referring to these three groups of Conventions when he declared that the ILO had been in the vanguard of the efforts made to define certain fundamental rights, that it had incorporated these freedoms in Conventions which had been widely ratified and that it had devised new procedures to protect fundamental human rights.<sup>12</sup>

<sup>12</sup> ILO: *Provisional Record*, International Labour Conference, 53rd Session (solemn sitting of 18 June 1969), Geneva, 1969, No. 22, p. 288.

The protection of freedom of association and collective bargaining was followed from 1951 onwards by a series of Recommendations covering the main aspects of industrial relations: collective agreements, voluntary conciliation and arbitration, industry-level and national consultation, the termination of employment, communications within the undertaking, protection of workers' representatives in the undertaking, etc.

Side by side with these instruments laying down basic standards, others are concerned with the establishment of institutions and machinery without which social and labour policy and legislation are liable to be ineffective: labour inspection, organisation of national employment services, minimum wage fixing machinery in industry and agriculture, and the role of co-operatives in developing countries.

The instruments adopted since 1944 not only cover an ever widening range of subjects but also display a broader approach to each subject. This change was foreshadowed in the general spirit of the 1944 Declaration of Philadelphia and made itself felt in several areas. As regards manpower, for example, whereas the earliest instruments of the ILO addressed the immediate problem of unemployment, those of 1948 were concerned with the establishment of national employment services and the 1964 instruments on employment policy provided for the establishment of "an active policy designed to promote full, productive and freely chosen employment". Similarly, during the first phase, between 1919 and 1935, the social insurance Conventions confined themselves to setting standards to protect specified categories of workers against particular hazards, but the second phase, beginning in 1944, was imbued with a broader concept of social security aimed at giving a basic income together with comprehensive medical care to all in need of protection. More generally, Conventions on social policy as a whole were adopted in 1947 for the non-metropolitan territories and in 1962 as a guide in defining the basic aims and standards of the newly independent countries. Lastly, some instruments have dealt with the general living conditions of the categories of people covered; this was the case with the Convention and Recommendation on indigenous, tribal and semi-tribal populations adopted in 1957 with the collaboration of the United Nations and the specialised agencies concerned. The same applies to the Recommendation adopted in 1968 on the improvement of living and working conditions for tenant farmers, share-croppers and similar categories of agricultural workers.

Finally, the technique employed in formulating standards reflects the growing emphasis on flexibility in instruments catering for countries with widely differing social and economic conditions and legal systems.

In all, between 1944 and 1969, 63 Conventions and 68 Recommendations were adopted, making a total of 130 Conventions and 134 Recommendations adopted by the Conference at the 53 sessions held between 1919 and 1969.

## Problems encountered in formulating standards

In formulating standards on such a broad range of subjects for countries at widely varying stages of development, problems naturally arose. These include the level at which standards should be set, the effect of the passage of time, and the form that standards should take.

### 1. The level of international labour standards

#### *Finding the right level*

International labour standards are designed to apply in countries whose conditions and systems vary widely. The first problem encountered in formulating them is therefore the question of the level at which they should be set. Since their aim is to promote overall progress, the decision as to the appropriate level should steer clear of the following two pitfalls: on the one hand, if the aim is to set a standard which can be accepted at once by the greatest possible number of countries, the search for a kind of common denominator is apt to result in a standard that is too low to bring about progress on a significant scale;<sup>13</sup> but on the other, to aim too high is liable to result in standards that are not practicable for most countries.<sup>14</sup> International labour standards are not, it has sometimes been said, a blue-print for Utopia but must be related to time and place. While for certain questions involving fundamental human rights the purpose is primarily to safeguard these rights, the usual aim in each instrument is to strike a balance – often a difficult one – “between the ideal and average existing practice”.<sup>15</sup>

#### *Flexibility*

To take account of national circumstances great efforts have been made to ensure that Conventions are sufficiently flexible, without of course going so far as to make them meaningless. The clauses in the earliest Conventions that made special provision for certain countries have been replaced by more sophisticated formulas. Sometimes, a Convention gives fairly considerable latitude to governments either in the scope of a standard or in the methods of application. Certain Conventions give States an option between obligations of varying strictness or the right to accept only some Parts or to take advantage of temporary exceptions. Sometimes the flexibility is achieved

<sup>13</sup> To quote the words of the Conference Delegation on Constitutional Questions in 1946, “a standard which represents no substantial advance upon average existing practice is also of very limited utility”. See ILO: *Constitutional Questions. Part I: Reports of the Conference Delegation on Constitutional Questions* (hereafter cited as *Constitutional Questions*), Report II (1), International Labour Conference, 29th Session, Montreal, 1946 (Montreal, 1946), p. 63.

<sup>14</sup> As the same Delegation pointed out, if a standard is obviously impracticable, or can be attained only by a very limited number of countries, it will not serve as an immediate target for national action, though it may come to be regarded as a distant or ultimate objective (*ibid.*).

<sup>15</sup> *Ibid.*



through the general wording employed. One method often used is to include only the statements of principle in a Convention, which is supplemented by more precise standards in a Recommendation.

Through these different formulas the present tendency<sup>16</sup> is to keep Conventions sufficiently flexible to make them applicable despite the variety of national conditions, but without going so far in this direction that Conventions lose their practical value and fail to act as a stimulus.

It has in fact been noted<sup>17</sup> that with the exception of certain instruments on fundamental human rights, almost all the Conventions adopted since 1946 contain flexible formulas of one kind or another.

Although the results have not invariably been what could have been hoped for, the number of ratifications of Conventions by countries with very different economic or social conditions and ensuing improvements show that, by and large, these formulas have achieved their objective.<sup>18</sup>

### *Universal standards and regional standards*

The question is sometimes asked whether the differences in economic and social conditions between various parts of the world do not call for regional rather than universal standards. On this point, there is one fundamental reason why the ILO has adhered to the general principle of universal standards. This is that in a world becoming increasingly interdependent, regional standards would have sharpened rather than reduced the differences between various parts of the world and might have implied that certain regions would have had "sub-standards" for "subhumans", which the African Advisory Committee declared to be unacceptable.<sup>19</sup> The ILO's concept of its mission has therefore made it pin its faith on universal standards despite the greater difficulties involved.

## **2. Keeping the standards up to date**

With international labour standards having been adopted over a half-century, the question must of course be asked whether they are adapted to present needs. It is only common sense to adjust the standards in the light of new conditions or, more simply, the experience gained from their application. It was around 1930 that the present system of revision of

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<sup>16</sup> See ILO: *Report of the Director-General: Programme and structure of the ILO*, Report 1, International Labour Conference, 47th Session, Geneva, 1963 (Geneva, 1963), p. 170.

<sup>17</sup> J. F. McMahon: "The legislative techniques of the International Labour Organisation", in *The British Year Book of International Law, 1965-66* (London, Royal Institute of International Affairs, Oxford University Press, 1968), p. 67 and, more generally, pp. 31-68.

<sup>18</sup> See, for example, the various studies on the influence of Conventions published in the *International Labour Review*.

<sup>19</sup> Report of the African Advisory Committee on its Third Session (Dakar, October 1967), in ILO: *Minutes of the 170th Session of the Governing Body*, Appendix VII, p. 85, para. 39.

Conventions was devised. At the time, this gave rise to sharp legal controversy. The formula adopted was to include clauses in Conventions stating that the adoption of a revised Convention would not entail the cancellation of the original Convention or of the obligations assumed thereunder, but that the original Convention would no longer be open to ratification after the entry into force of the new one and that ratification of the latter by a State would entail denunciation by it of the original Convention.

Of course, in addition to these legal problems, the revision process raises the question of the opportuneness of revision itself. On the one hand, any regulations must be able to adapt to changes in social conditions and techniques; but on the other, regulations designed to serve as legal rules must have a minimum of stability. They cannot be constantly brought up for amendment and become, as one author put it, a sort of labour of Penelope.<sup>20</sup> This is why safeguards have been built into the revision procedure to prevent over-hasty action.

A fairly substantial amount of revision has taken place. Sometimes revision involved making the original Conventions more flexible in view of the difficulties encountered (for example over night work by women), whereas in other cases it was designed to raise the earlier standard (for example the minimum age of admission to employment). In all, of the 130 Conventions so far adopted, some 25 represent an attempt to adapt older Conventions to take account of the passage of time.

### 3. Conventions or Recommendations?

Since international labour standards may take the form of either Conventions or Recommendations, the question of the most suitable instruments for dealing with certain subjects has often been hotly debated.

The difference between these two types of instruments will be recalled: whereas a Convention, when ratified, involves binding international commitments, a Recommendation does not create any international obligations but is designed to provide guidance to governments.

Yet, while the Convention is clearly the "model" type of international regulation, does this mean – as has often been suggested – that the Recommendation is a sort of poor relation of the Convention?

On this point, the Constitution of the ILO gives general guidance by stating that the Conference, when adopting an instrument, must decide whether it should take the form of a Recommendation if "the subject, or aspect of it, dealt with is not considered suitable or appropriate at that time for a Convention" (Article 19, para. 1). On this basis, three functions of Recommendations have progressively emerged.

In the first place, the form of the Recommendation has been found most suitable whenever a subject is not yet ripe for the adoption of a Convention.

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<sup>20</sup> Scelle, *op. cit.*, p. 221.

In such a case the Recommendation helps to pave the way for the subsequent adoption of a Convention.<sup>21</sup>

A second function of Recommendations is to supplement Conventions. Nearly half the Conventions adopted contain basic rules or principles and are supplemented by Recommendations which provide for more precise application procedures.

In the third type of case a Recommendation may have a certain intrinsic value when it is impossible for the subject dealt with to be covered by a Convention. This applies where the standards considered are technical or detailed, and may often require adaptation to national circumstances. The same goes for certain subjects such as vocational training or industrial relations, where circumstances and practices vary widely from one country to another.

Thus, while a Recommendation is far from having the same legal effectiveness as a Convention, there can be no doubt that it fulfils a number of useful functions.

In practical terms, it should also be borne in mind that, given the nature of the questions covered by Recommendations, the real choice is not always between a Recommendation and a Convention, but between a Recommendation and either no international standard at all or a Convention which would receive so few ratifications as to have no real influence. Besides, some Recommendations – like the Termination of Employment Recommendation, 1963 – have clearly exercised considerable influence in a number of countries.

It is when the time comes to adopt each instrument that the Conference must decide on the most appropriate form, having regard to the subject, the extent to which the situation has matured and the degree of detail in the proposed regulations.

### III. The effect given to international labour standards

However, the adoption of international standards is only the first stage in the Organisation's standard-setting work, the ultimate objective being that these standards should be embodied in the law and practice of member countries. The implementation of standards is facilitated by the rule that they must be submitted to the competent authorities of each State. The effect of the standards largely depends on the ratification of international labour Conventions. In order to ensure the application of standards, the Organisation has built up a diversified system of supervision.

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<sup>21</sup> This is what happened in the case of labour inspection, social insurance and security and the minimum age of admission to underground work.

## Submission of Conventions and Recommendations to the competent national authorities<sup>22</sup>

Although, from the start, the aim was to give international labour Conventions more force than traditional diplomatic treaties, the opinions of the representatives of States diverged in 1919 on the type of system required. A compromise was reached in Article 19 of the Constitution, which states that Conventions and Recommendations adopted by the Conference must be submitted within a year, or, in exceptional cases, eighteen months, to the authorities "within whose competence the matter lies, for the enactment of legislation or other action". In 1946, this rule was supplemented by a clause stipulating that information on compliance with this obligation must be communicated to the Director-General of the ILO. Special clauses were also included to deal with the case of federal States.

Admittedly, since the introduction of this rule about the submission of Conventions and Recommendations to the competent authorities, many difficulties have been encountered. Because of the novelty of this rule under international law, its application got off to a fairly slow start. During the earliest years of the Organisation, Albert Thomas constantly insisted on the importance of not weakening this provision, which was "of capital importance to the working and the future" of the ILO.<sup>23</sup> After the Second World War the efforts of the supervisory bodies led to a slow but steady improvement in the situation and a better understanding of the implications of the rule.

As a result, it is now accepted that the authority to which Conventions and Recommendations must be submitted is normally the authority in which legislative power is vested.<sup>24</sup>

Another point which has often been stressed is that the purpose of submission is to give parliaments an opportunity to decide what action should be taken on Conventions and Recommendations and to pave the way for a decision. But submission to parliament without specific accompanying proposals would, as one author has said, be simply indulging in "make-believe".<sup>25</sup> A number of States accordingly effect submission in parliamentary documents together with a statement or proposals on the action to be taken on Conventions or Recommendations. It goes without

<sup>22</sup> See Nicolas Valticos: "The International Labour Organisation and national parliaments", in *Inter-parliamentary Bulletin* (Geneva), 49th year, 1969, No. 1, pp. 16-31.

<sup>23</sup> League of Nations: *Report of the Director*, International Labour Conference, Eighth Session, Geneva, 1926 (Geneva, 1926), First Part, para. 50, p. 115, and *ibid.*, 12th Session, Geneva, 1929 (Geneva, 1929), First Part, para. 95, p. 117.

<sup>24</sup> See, in particular, the letter from Albert Thomas, the Director of the International Labour Office, to the Secretary-General of the League of Nations dated 4 October 1920 (*Official Bulletin* (Geneva), Vol. 11, No. 10, 10 Nov. 1920, pp. 9-13); the Memorandum by the ILO's Legal Adviser in 1944 (ILO: *Future policy, programme and status of the International Labour Organisation*, Report I, International Labour Conference, 26th Session, Philadelphia, 1944 (Montreal, 1944), Appendix, pp. 169-183); and ILO: *Constitutional Questions*, op. cit., pp. 36, 40 et seq., and 194.

<sup>25</sup> Scelle, op. cit., p. 174, footnote 2.

saying that in submitting Conventions to parliament a government is at liberty to propose that they should not be ratified, the essential thing being that the question should be brought to the notice of parliament and, through it, of public opinion.

By and large, as pointed out above, observance of this rule was at first unsatisfactory. But the ILO's supervisory bodies set about the laborious task of elucidating the position, and the situation slowly improved. Nearly half the total number of member States now usually comply with their obligation to submit instruments within the prescribed time limits. In addition, a large number of States fulfil their obligation a short time after the expiry of the time limit of twelve or eighteen months. In federal States the systems of consultation provided for by the Constitution of the ILO have enabled States such as Australia and Canada to ratify Conventions not within the exclusive jurisdiction of their federal Governments.

It is difficult to evaluate precisely how far the rule concerning submission to the competent authorities has contributed – as the Conference Delegation on Constitutional Questions hoped – “to the general ratification of Conventions and the effective implementation of both Conventions and Recommendations”<sup>26</sup> and ensured that they were not “rejected or shelved without due consideration”.<sup>27</sup> While it would be a mistake to overlook the difficulties and misunderstanding that the rule has encountered and the many shortcomings in its operation even now, the fact remains that this novel rule – which prompted the question whether it might not be used more widely in international affairs, especially in the case of Conventions adopted under the auspices of the United Nations – is now generally observed, and has had the result that “ratifications of international labour Conventions by member States have been secured in greater numbers and less time”.<sup>28</sup>

## Ratification of Conventions

If Conventions are to achieve their object, they must also be formally accepted and effectively applied on the widest possible scale. Of course, the effect of Conventions cannot be assessed solely in terms of the formal undertaking to apply them involved in their ratification. Nevertheless, the extent to which they are ratified is still one of the key factors in their effectiveness.

There was a good deal of argument during the early years of the Organisation about the number of ratifications received, which was sometimes compared with the total number theoretically possible. But the comparison was quickly seen to be misleading, because it is unrealistic to

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<sup>26</sup> ILO: *Constitutional Questions*, op. cit., p. 36.

<sup>27</sup> Roberto Ago: “La codification du droit international et les problèmes de sa réalisation”, in *Recueil d'études de droit international en hommage à Paul Guggenheim* (Geneva, Graduate Institute for International Studies, 1968), p. 118.

<sup>28</sup> *Ibid.*, p. 118.

expect all the Conventions to be quickly ratified by most of the Members. Since the whole purpose of these instruments is to improve working conditions, many States are bound to be unable to reach the necessary standards immediately. Other factors have also tended to restrict the number of ratifications: the fact that some Conventions deal with questions that do not affect all countries; the fear that by ratifying a Convention a State will be handicapped unless its main competitors ratify it too; the constitutional difficulties encountered by federal States; and finally the slowness and hesitation of several governments.

Sometimes the difficulties are due to the over-stringent character of the standards set by some Conventions, such as the 1919 Convention concerning night work by women, which had to be revised and made more flexible.

Despite these obstacles, the number of ratifications steadily increased. It totalled 200 by 1926 (when the number of Conventions adopted was 20) and exceeded 800 (for 67 Conventions adopted) by September 1939.

After a slow-down during the war, the number of ratifications continued its upward course at an increasing rate as the number of Conventions and member States went on rising. It totalled 1,000 in July 1949, 2,000 in June 1960 and 3,000 in January 1965. By September 1969 it totalled 3,500 for the 130 Conventions adopted by that date and the membership of 121 States. This represents an average of 29 ratifications per member State and 27 ratifications per Convention.

However, the number of ratifications varies widely according to the country and the Convention. For example 25 countries have each ratified at least 40 Conventions, 16 countries at least 50 and 8 countries over 60, while 15 countries have ratified fewer than 10 Conventions. The average number of ratifications is 45 for the west European countries, 39 for the east European countries, 31 for the American countries, 23 for the African countries, 19 for the Middle Eastern countries, 16 for the other countries of Asia and 36 for Oceania (Australia and New Zealand).

Similarly, the number of ratifications varies according to the Convention. Thirty-two Conventions have received at least 40 ratifications, 23 at least 50 and 13 at least 60. The six Conventions which are regarded as being more directly concerned with fundamental human rights and cover such matters as freedom of association, forced labour and discrimination have received on average 85 ratifications and one of them has even passed the hundred mark.

In addition to these ratifications, international labour Conventions have been the subject of a large number of declarations regarding their application to non-metropolitan territories. As the latter have become independent and joined the ILO themselves, they have as a rule confirmed that they remained bound by the obligations previously accepted on their behalf by the State responsible for their international relations. The same has been true where States have broken up. A total of 655 ratifications on behalf of 45 States have been registered in this way by virtue of the principle of state succession.

Important though the ratification of Conventions may be because of the international obligations arising out of them, it is obviously not enough to ensure the effective application of ratified Conventions. This is why supervisory machinery was set up from the very inception of the ILO.

## **Supervision of the application of international labour standards**

The system of supervision built up by the ILO in 1919 – and repeatedly supplemented since – remains one of the most advanced of its kind at the international level. It is possible to distinguish several stages in its development.

### **1. Provisions made in the Constitution of the ILO**

The question of the supervision of the application of international labour Conventions has always been closely bound up with the whole principle of the international regulation of labour matters. When the ILO was established in 1919 its Constitution already contained detailed clauses dealing with the supervision of the application of Conventions. These clauses made it compulsory for States to supply annual reports on the application of ratified Conventions. They also made provision for the employers' and workers' organisations to make representations and for any State to submit a formal complaint about the failure of any other State to implement a Convention that both had ratified. Lastly, the Constitution stipulated that in the event of such a complaint, a commission of inquiry could be set up to look into the matter. Decisions by these commissions are binding, but the parties are entitled to appeal to the International Court of Justice.

Of these two procedures, it was the first, based on the submission of annual reports, which became the more widely used, whereas only seven representations and one complaint were submitted during the Organisation's first twenty years.

Nevertheless, the submission of reports by governments is not enough in itself. It is only when the reports are subjected to scrutiny that it is possible to talk of supervision.

### **2. Establishment of supervisory bodies to examine reports**

In order to ensure that the reports on the application of ratified Conventions were properly examined, the Organisation set up two special bodies in 1927.

The first of these is a committee of independent experts, all of them prominent persons who are appointed by the Governing Body of the ILO on the recommendation of the Director-General. The Committee's functions consist in pointing out "in a spirit of complete independence and entire objectivity" the extent to which the position in each country is in conformity

with the obligations the latter has assumed. The Committee of Experts reports any discrepancies it has detected in each State's application of the Conventions it has ratified, and in its compliance with the obligation to submit Conventions and Recommendations to the competent authorities.

The second of these bodies is a tripartite Committee set up each year at the International Labour Conference, which discusses these discrepancies with the representatives of the governments concerned. The arguments can be sharp, but the Committee's 1968 Worker Vice-Chairman emphasised the importance of objectivity, understanding, impartiality and frank dialogue.

Of course, this procedure has not led to the ironing out of all the discrepancies. Some of them have survived despite repeated observations. By and large, however, the procedure has proved effective.<sup>29</sup> For example, over the past six years alone, more than 450 discrepancies have been eliminated. A more general assessment of the effectiveness of the procedure<sup>30</sup> showed that in three-quarters of all cases no discrepancy was found to exist and that, among the remaining cases, the proportion of those in which governments took action to eliminate the discrepancies observed exceeded 60 per cent.

Since the original procedure only applied to the application of ratified Conventions, it was felt necessary to set up a system to monitor the effect given to unratified Conventions and to Recommendations as well. This was done through amendments to the ILO's Constitution in 1946.

### 3. The constitutional amendments of 1946

The constitutional amendments of 1946 enlarged the scope of the supervision by placing an obligation on member States of the ILO to supply reports at the request of the Governing Body on Conventions they have not ratified and on Recommendations. Accordingly, every year the Governing Body selects a number of Conventions of topical importance to that end. This procedure, which enables the Committee of Experts to make a comprehensive survey of the position in the field selected, has given an opportunity of calling governments' attention to the Conventions they have not ratified and in a number of cases has led to ratification or at least action to give effect to some of their provisions.

In addition, the 1946 amendments required States to supply information about the submission of Conventions and Recommendations to the competent authorities. Lastly, they also supplement the procedure for submitting reports on Conventions by stipulating that governments should

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<sup>29</sup> See J.-J. Oechslin: "Le Code international du travail", in *Revue française des affaires sociales* (Paris), 23rd year, No. 2, Apr.-June 1969 (Special issue: "Cinquantenaire de l'Organisation internationale du Travail", 1919-1969), pp. 67 ff., and Jean Morellet: "Les conventions internationales du travail et leur incidence sur les législations nationales", *ibid.*, pp. 73 ff.

<sup>30</sup> E. A. Landy: *The effectiveness of international supervision. Thirty years of ILO experience* (London, New York, Stevens & Sons Ltd., 1966).



also forward copies of these reports to the representative national organisations of employers and workers. These organisations are thus afforded an opportunity to make observations on the application of the instruments in question.

#### 4. The establishment of machinery for the protection of freedom of association in 1950

Alongside the development of these general supervisory procedures for the application of international labour standards, a special procedure was introduced in 1950 to deal with cases involving freedom of association.<sup>31</sup> This procedure is based on the examination of complaints submitted either by governments or by employers' and workers' organisations and may be directed even against States that have not ratified the Conventions on freedom of association. The underlying machinery comprises two bodies.

The *Committee on Freedom of Association*, appointed by the Governing Body, comprises nine members (three Government, three Employers' and three Workers'). Originally set up to make a preliminary examination of complaints, this Committee gradually went on to examine the substance of complaints. Since it was appointed, the Committee has dealt with hundreds of cases. In its proceedings it has been guided by the provisions of the Conventions on freedom of association, but it has also had to build up a considerable body of case law.

The Committee's recommendations have had an effect in a significant number of cases, and this procedure has also had a broader influence in that it has made all States accountable for their actions in this particularly important sphere, even if they have not ratified the relevant Conventions.

While the Committee on Freedom of Association was thus extending its activities, the second body set up under this procedure – namely, the *Fact-Finding and Conciliation Commission on Freedom of Association*, whose operation was made subject to the consent of the government concerned – also made a start in 1964, when the Japanese Government gave its consent for an important case to be referred to the Commission. The Commission was composed of three independent members. It assembled information, heard the parties and various witnesses and went to Japan, where it held talks with representatives of the organisations concerned and of the Government. It submitted its conclusions, together with a series of recommendations, in its final report, which the representatives of the Government and the complainant trade union organisation accepted as a basis for the settlement of the points at issue.

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<sup>31</sup> C. Wilfred Jenks: *The international protection of trade union freedom* (London, Stevens & Sons Ltd., 1957); N. Valticos: "La Commission d'investigation et de conciliation en matière de liberté syndicale et le mécanisme de protection internationale des droits syndicaux", in *Annuaire français de droit international*, 1967 (Paris, Centre national de la recherche scientifique), pp. 445-468.

## **5. Simplification of the reports examination procedure from 1955 onwards**

As the years went by and the number of ratifications steadily increased, the workload on the supervisory bodies, as well as on governments, became heavier and it was found necessary to introduce measures simplifying the system of supervision.

Some of these measures involved lengthening the intervals between the reports. Thus it was decided in 1959 to introduce a more flexible formula instead of the automatic requirement that governments should report every year. Thus, governments need supply detailed reports on ratified Conventions only every two years, but the obligation to send in annual reports continues in cases where the supervisory bodies consider that there are serious discrepancies. As the number of reports due went up sharply during the following ten years, a proposal was made to the Conference Committee in 1968 that the interval between the reports should be lengthened still further to three years. This was opposed by the Workers' and several Government members of the Committee on the ground that it would lead to a slackening of the supervisory procedure, and it was withdrawn.

Further simplifications relate to the examination of the reports by the supervisory bodies. Since 1957 the Committee of Experts has made its comments in two forms. In the most important cases its observations appear in its printed report submitted to the Conference, while in other cases it makes direct requests to governments for further information. In 1968 its observations totalled a little over 400 and its direct requests a little over 800.

The Conference Committee, for its part, has made a selection since 1955 from among the observations of the Committee of Experts and concentrates on the most important. For example in 1968 it selected 150 of the 400-odd observations submitted to it. In addition, the Committee has followed the practice since 1957 of pointing out the most serious cases in its general report.

These measures mean that the initially automatic form of supervision has been replaced by a certain selectivity, but the overriding concern has been to ensure that the effectiveness of supervision is not seriously impaired.

## **6. Establishment of commissions of inquiry under article 26 of the Constitution from 1961 onwards**

While the procedure based on examination of governments' reports was thus being developed, the formal complaints procedure provided for by Article 26 of the Constitution was virtually unused during the first 40 years of the Organisation's existence. A new stage was reached in 1961 when two separate complaints were submitted, each by one State against another, concerning the application of the Conventions on forced labour. These complaints were submitted to quasi-judicial commissions of inquiry composed of three prominent persons appointed by the Governing Body on the recommendation of the Director-General. The commissions heard the parties and witnesses, and in one case a commission made an on-the-spot

visit. Their final recommendations were made and various measures were taken by the governments concerned. Furthermore, the Committee of Experts was given responsibility for following up the action taken on these recommendations.

Subsequently, other commissions of inquiry were appointed to examine similar complaints.

## 7. Appointment of a study group in 1968

A further development occurred in 1968 when, at the Spanish Government's request, the Governing Body appointed a study group composed of independent figures, to examine the labour and trade union situation in that country. This group interviewed representatives of the Government and of the three main international trade union organisations and also visited the country to study the situation on the spot. It conducted its business in the manner of a commission of inquiry.

## 8. Introduction in 1968 of a procedure for more direct contacts with governments

As the regular procedure for examining ratified Conventions developed, it became clear that there were cases where discrepancies continued and led to protracted disputes. In the hope of breaking these deadlocks, a procedure was introduced in 1968 which enabled a more fruitful dialogue with governments to occur. Under this procedure, there are direct contacts between a representative of the ILO and the government concerned, so as to give the latter a chance of putting its case in detail and to enable the supervisory bodies to weigh up all the facts of the case. The procedure has attracted a great deal of attention.

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This continuous progress in supervisory procedures has led to an enlargement in two respects. In the first place, the scope of the supervision has been extended; and, secondly, the methods have been diversified. However, the procedures do have certain characteristics in common: for one thing, the fact that the procedures are accompanied by safeguards results in objective, impartial assessments and ensures the general confidence which is essential. Another is the fact that the employers' and workers' organisations take part in the supervision procedure at appropriate stages. Furthermore, all the procedures are based on detailed research. And finally, there is the combination of the discretion required by the investigation and conciliation stages with the publicity needed to keep the public informed.

These distinctive features, however, can be fully effective only because of the general spirit imbuing the supervisory bodies, now a well-established tradition in the ILO and whose leading features are firmness on the

principles and obligations involved, intellectual honesty, a sense of measure, and emphasis on a constructive approach leading to a settlement.

Using these techniques and in this spirit, the ILO's supervisory machinery has done much to make international labour standards a reality. In a wider sense, it has also helped to inspire the supervisory procedures established more recently by other international organisations. Indeed, its pioneering work is taking on a much more general significance.

## Conclusion

International labour standards, as has been stated, seem to be as relevant as ever. The same conclusion was reached in March 1969 by the Committee of Experts on the Application of Conventions and Recommendations who took the view that the action taken by various States in these fields "testified to the continued viability of the Organisation's standard-setting activities" and are tangible evidence that "ILO standards will continue to guide and influence the social policy of many countries in the years ahead".<sup>32</sup>

The story goes that one of the founders of the Organisation had a dream during its early years. He dreamed that the ILO had adopted Conventions on all the subjects within its field and did not know what to do next. This dream, in fact, was misleading in two ways.

No body of law, whether national or international, is perfect or immutable. Shortcomings persist, new needs arise, old regulations become obsolete and existing standards must often be supplemented or overhauled as the years go by. Furthermore, no piece of legislation achieves its objective merely by virtue of being adopted. It only does so when it is enforced, and this is even truer of international standards, since they can only be translated into fact through national law and practice.

In other words, there can be no end to the standard-setting activities of the ILO. On the occasion of its fiftieth anniversary, the Organisation is entitled to look back with some pride on the ground that has been covered. But it can never allow itself to lose sight of the immense task still to be accomplished.

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<sup>32</sup> ILO: *Report of the Committee of Experts on the Application of Conventions and Recommendations*, Report III (Part IV), International Labour Conference, 53rd Session, Geneva, 1969, p. 257, para. 325 and 327.

# Trade policy and employment growth

J. TINBERGEN \*

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There is an unknown but considerable degree of underutilisation of the labour force in developing countries. Apart from being bad for its own sake, this contributes to the very unequal income distribution apparent in these countries and leads to non-optimal use of their resources.

Several reasons can be given for this underutilisation of the labour force. One is the shortage of qualified persons needed to organise and supervise the work of the unqualified or less qualified. Another is the low level of technological knowledge that may help to raise employment once it has been obtained (for example, the use of the new wheat and rice varieties is expected to raise the use of manpower). A third reason may be said to be lack of capital: building activity might contribute considerably to employment, as well as to various other social objectives, but massive building programmes require capital not now available to the developing countries. A fourth reason for lack of employment is the restrictive trade policies not only of developed countries but also of developing countries among themselves.

It is to the fourth cause of the low rate of employment growth in developing countries that this paper will be mainly addressed.

Let me first recall the various types of restrictive trade policies applied by developed countries. First of all, there is the high degree of protection of agriculture in a number of these countries. I confess that from this point of view I am sorry to be a citizen of the Common Market, which has been among the worst sinners in this respect; for although I am definitely in favour of having the Common Market, I am as definitely against having it as protective as it is. In the report of the fourth and fifth sessions of the United

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Nations Committee for Development Planning,<sup>1</sup> it has been suggested that for most commodities it should be possible to eliminate impediments to imports from developing countries during the next ten years. This will mean an enormous internal upheaval in the Common Market and in several other developed countries as well: a figure of, say, 50 per cent of the world market price in the form of protection is not exceptional. But I think it would be reasonable, and that it is one of the most important contributions that developed countries could make and therefore *should* make.

Protection of agriculture is by no means the whole story. Various industries are also protected in the developed countries. Perhaps the best-known case is that of the so-called long-term arrangement by GATT for textiles. This is only one example, but a very important one. Under this arrangement the door of the markets of developed countries is being opened for some types of textile products, but only very, very slowly. I think it should be opened at a much faster pace. To be sure, this will require structural changes in the developed countries. Like the agricultural problem, it is not an easy problem to solve; but I am convinced that it can be solved if the will to do so is there.

Finally there is the well-known anti-processing structure of import duties generally. It is a well-known fact that semi-finished products are protected by higher import duties than raw materials, which are very often free of import duty, and that finished products again are protected at a higher rate than semi-finished products. In both cases, these duties make it very difficult for developing countries to process the raw materials they produce. The processing of vegetable oil raw materials, cocoa, and timber are among the best-known examples. In all these cases, industries that it would be quite natural for the developing countries to have, and that would create considerable employment, are blocked for lack of opportunities to export their products.

Now I come to what I feel is the theoretical background to all this. A very long time ago, two Swedish economists formulated what is now generally known as the Ohlin-Heckscher principle of the optimal division of labour, or the optimal dispersion of industry among countries. Very briefly formulated, it states that countries should have those industries and other activities whose factor requirements correspond as closely as possible with the factor endowment of the countries. Or to put it in more everyday language, the capital intensity (whether in terms of physical or of human capital) of the industries chosen should correspond as closely as possible to the capital endowment, both physical and human, of the country concerned.

I had the pleasure recently to join a group of experts asked by the Economic Commission for Asia and the Far East (ECAFE) to check and comment on sector projections of the ECAFE region. We commented, too,

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<sup>1</sup> United Nations, Economic and Social Council: *Official records: Forty-seventh Session. Committee for Development Planning: Report on the Fourth and Fifth Sessions (17-21 March 1969 and 7-16 May 1969)* (New York, 1969).

on a number of calculations prepared by the ECAFE secretariat, as well as on the plans of most of the countries of the region, and our main conclusion<sup>2</sup> was that in many cases the countries of the region have been forced to choose industries that are too capital-intensive for the development of their countries in the coming decade or in the coming five years, simply because the expansion of the more labour-intensive industries that would be more suitable in view of their factor endowment is blocked in the way I indicated.

Here I should like to elaborate a little on a piece of work of a very provisional and crude character that has been done in the Netherlands Economic Institute, along the following lines. We felt that when most of the choice of industries in every country is made either by private initiative or, under the country's plans, by national individuals or national planners, these decisions may well in certain ways be inconsistent with each other. It stands to reason that, if there is no co-ordination of that sort of activity, inconsistencies may well result. We felt it would be of some use, therefore, if the suggestions made by planners could be checked against an optimal division of labour, showing what industries would be best established in what countries.

Now unfortunately the statistics needed to make a worthwhile exercise of this sort simply do not exist. So we regarded our paper as one, not for publication, but to be submitted to a number of colleagues – and especially to the United Nations Industrial Development Organisation (UNIDO), as well as a few other specialised agencies, perhaps including the ILO – for comment, for better elaboration, and so on. But I should like to explain what we did; for, though I have to acknowledge that the crudity of the material leads to almost ridiculous consequences in some cases, yet it is the first attempt of its kind and I feel that a few of the indications derived are of use.

What we did was to use the only statistics we could lay hands on: the Swedish production statistics covering a number of international industries, that is industries producing goods that can be traded on international markets. The number of industries covered by the Swedish statistics is about eighty-eight, which is considerable. Moreover, the statistics enabled us to estimate not only payments that can reasonably be supposed to be payments to capital but also payments to two types of labour – the more skilled and the less skilled. In this respect I think the Swedish statistics are unique, and they permitted us to obtain at least a very crude idea of the capital intensity of the various industries in accordance with two criteria: first in terms of physical capital used per less qualified worker, and second in terms of the human capital per less qualified worker. If it is assumed that the payments made to these factors represent their shares in production (a lot could be said about that), then it is possible to establish a certain ranking of industries from least capital intensive, in both senses, to most capital intensive. The countries of

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<sup>2</sup> See *Sectoral output and employment projections for the Second Development Decade*, Report of the Seventh Group of Experts on Programming Techniques (Bangkok, ECAFE, 1969).

the world can be ranked in the same way, using mainly some very crude indications of the capital stock of these countries and of their stock of skills, concerning which the basic data are published regularly by the International Labour Office in its *Year Book of Labour Statistics*.

What we tried to do, then, was to establish some sort of a correspondence between these two rankings. In order to do so, we had also to know the size of industries and the size of countries. In fact, statistically speaking, what it all comes to is a sort of frequency distribution from the lowest capital intensity to the highest of both countries and industries. As indicators of the size of countries we simply took the number of less qualified people available for international industries; as indicators of the size of industries we took a measure of the demand for their products. Again, demand pattern could only be based on Swedish demand, which may well of course raise serious doubts as to its representativeness, since Sweden is certainly not a country of average income. All this has to be improved, as we have indicated in our paper. Yet I feel that some of the conclusions may be of interest, if only as a starting point, and in order to stimulate constructive criticism leading to improvement.

For the ranking of countries and international industries we actually carried out three exercises; that is, in addition to ranking them separately according to the concepts of physical and human capital as already mentioned, we also ranked them according to the concept of total capital (the sum of physical and human capital). The ranking of countries according to the first two concepts, though they did not exactly coincide, showed a very high correlation and there was no need to rank countries according to each of these concepts separately. So as the criterion of ranking countries we took total capital per less qualified worker in all the international industries in the country in question, and arranged the countries in ten groups from lowest to highest. In the lowest there were some of the most important developing countries; the highest was the United States, the next highest were Western and Eastern Europe, and so on. For the ranking of international industries the three rankings according to the three criteria for measuring capital intensity, though also not very different, were retained in order to ascertain, *inter alia*, the different quantitative requirements of qualified manpower, physical capital and total capital for developing industries selected under each criterion in the developing countries. Under each criterion international industries were arranged into some ten groups or clusters in increasing order of capital intensity. It may be asked why only ten groups were chosen. This was because we wanted to introduce the element of diversification, but only up to a certain point. Though some diversification is necessary, we consider that diversification should not be exaggerated; if it is taken to the extreme the result is complete autarky and this, of course, can never be the highest wisdom in finding the best international division of labour.

The three exercises, then, took the industries according to, first, their physical capital intensity, then their human capital intensity, and finally a combination of the two. Using only the results common to the three



exercises, we found that a number of industries – textiles, shoes, leather, glass, wooden furniture and a few metal industries – would typically be suitable for developing countries, ideally serving almost the whole world; which would mean, of course, an enormous increase in the demand for the products of these industries established in the developing countries.

I would like to add right away that we are aware of the fact that capital intensity, especially when measured in such a crude way, is not the only element for determining the optimal division of labour. Another element is that sometimes you may reap the advantages of large-scale production by establishing complexes of industrial production, preferably in co-operation between a number of neighbouring countries (unless, of course, the country is very large, when there is no need for such co-operation). These centres of industrial production offer considerable economies of scale, and it may well be that such a combination or industrial complex would show comparative advantages for developing countries too. But again, among the industries offering important economies of scale, it would be my suggestion that the relatively more labour-intensive ones should be the first to be tackled, whereas the relatively capital-intensive ones should be tackled later. Examples of the first could be the automobile industry and all the various component parts of it, and the machine-tool industries, which are relatively labour-intensive; on the other hand, steel and heavy chemicals, for example, should perhaps be tackled only later. So again in this group of industries, where the economies of scale are very considerable, there would be some logical order.

Turning to another point, it would be erroneous to think that labour-intensive industries should be rejected for development on the grounds that their profits are modest. What matters is not the profits, but the total income earned in them. Future development, being dependent on investments, can be enhanced most if present factors are used so as to maximise total income now; this admits of the maximum of consumption plus investment. It is only in a private enterprise economy that profits are the only source of investment. In a mixed economy, not to speak of a state-guided economy, there is another source of savings, namely government savings, which can just as well be used for investment purposes. What matters really is the total national income and not the profits, and the total national income has to be maximised even now if we want to have the highest possible rate of growth, in order to have the highest possible income ten years from now, or five years from now. Of course, this presupposes that the government is capable of raising the necessary taxes. But I think such investments can even be financed by indirect taxation, which all developing countries are capable of organising; besides, there are some types of direct taxation they are perfectly capable of organising, namely taxation on big companies and also, although this is not for the moment a very strong element, a progressive tax on land, that is one taxing large landowners much more than small landowners. If I may add a personal note, I have decided to undertake a piece of investigation on precisely this point: the contribution that a progressive land tax can make

both to higher tax revenues and to better social conditions. But that is by the way.

My next point is so well known that I hardly need stress it. It is that neighbouring developing countries of smaller size would be wise to combine their markets, at least for new products that they have not so far produced or have started to produce only recently. In this way, they could also profit from certain economies of scale.

Finally, the main point I would like to make – which is also the main conclusion that we drew in the expert group in Bangkok, and to which I have already referred – is that the biggest obstacle to the choice of the best industries for developing countries at the moment lies in the restrictive trade policies pursued by the developed countries. This is why in the proposals of the Committee for Development Planning we laid so much stress on this aspect of the contribution that developed countries would have to make. If they would abandon most of their protective policies within five years, a huge increase would be possible in employment in the more labour-intensive industries in which the developing countries already enjoy comparative advantages. And even though I admit that the bulk of employment will have to be created in agriculture and construction, I still believe that the contribution from manufacturing could be considerably larger than it has been so far.

## Income expectations, rural-urban migration and employment in Africa

Michael P. TODARO \*

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abridged.

**I**n the few short years since independence, the nations of tropical Africa have experienced an unprecedented increase in the size of their urban populations. From Abidjan to Brazzaville to Nairobi, recorded urban population growth rates of 7 to 10 per cent per annum are a common phenomenon (see table I). Part of this growth is due to the rather rapid rates of over-all population increase in Africa, rates typically around 3 per cent per annum.<sup>1</sup> However, by far the most important contributing factor has been the massive increase in the number of migrants arriving from surrounding rural areas. Numerous factors, both economic and non-economic, underlie the decision of peasant farmers and educated youths to seek the "better life" in the rapidly growing urban centres. In this article I shall examine the relationship between migration, expected income differentials, and urban employment in tropical Africa. I shall begin by briefly presenting a theoretical model of rural-urban migration which places primary emphasis on the economic motivations for migration. This analytical framework, where appropriate, will then be used in the main body of the article, which is devoted to an examination and evaluation of alternative short- and long-run policies designed to curtail the massive influx of rural migrants and to alleviate the concomitant growing unemployment problem in urban Africa.

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<sup>1</sup> For a useful review of African demographic data, see R. K. Som: "Some demographic indicators for Africa", in John C. Caldwell and Chukuka Okonjo (eds.): *The population of tropical Africa* (London, Longmans, Green & Co., 1968), pp. 187-189.

Table I. Sub-Saharan Africa: Urban population growth

City	Year	Population ('000)	Year	Population ('000)		Annual growth (%)	
				City proper	Urban agglomeration	City proper	Urban agglomeration
Salisbury [Harare]	1946	69	1966	—	330	—	8.1
Dar-es-Salaam	1948	69	1967	273	—	7.5	—
Brazzaville	1955	76	1961-62	—	136	—	8.7
Dakar	1945	132	1961	—	375	—	6.7
Accra	1948	136	1963	616	758	7.8	8.1
Nairobi	1948	119	1968	—	479	—	7.2
Abidjan	1955	127	1964	—	282	—	9.3
Monrovia	1956	41	1962	81	—	11.9	—
Fort Lamy	1955	29	1964	—	99	—	13.6
Cotonou	1945	26	1965	111	—	7.5	—
Mombasa	1948	85	1968	—	234	—	5.2
Bamako	1945	37	1965	—	165	—	7.8
Bulawayo	1946	53	1966	—	240	—	7.8
Lusaka	1950	26	1966	—	152	—	11.7
Yaoundé	1955	38	1965	101	—	10.3	—
Douala	1954	118	1965	—	200	—	4.9
Addis Ababa	1951	400	1967	644	—	3.0	—
Khartoum-Omdurman	1948	210	1967	390	—	3.3	—
Luanda	1950	150	1960	—	225	—	4.1
Léopoldville (Kinshasa)	1946	110	1966	508	—	8.0	—
Elisabethville (Lubumbashi)	1950	103	1966	233	—	5.2	—
Kumasi	1955	75	1968	282	340	10.7	12.3
Lourenço-Marques	1950	94	1960	—	179	—	6.7

Sources: United Nations: *Demographic yearbook* (New York), various issues; and William A. Hance: *The geography of modern Africa* (New York, Columbia University Press, 1964), p. 54.

## Urban unemployment: A major dilemma

Before turning to a theoretical examination of the economics of rural-urban migration, it should be pointed out that rural-urban migration is by no means an undesirable phenomenon. In fact most of the theories of economic development, which are based largely on the historical experience of Western industrialised nations, emphasise the transformation of an economy from a rural agrarian base to one with an industrial, urban-oriented focus. This process is made possible by the gradual but continuous absorption of "redundant" or "surplus" rural labourers into the growing industrial economy. Under ideal circumstances, the rate of growth of modern sector

industries then provides a sufficient number of newly created employment opportunities to bring about a more productive and efficient allocation of human resources in the economy as a whole. Unfortunately, real world conditions do not always conform to the hypothetical framework of the economist's development scenario.

In tropical Africa the magnitude of rural-urban migration has greatly exceeded the capacity of the modern industrial sector to absorb the persons concerned, so that it can only employ productively a small proportion of them. Part of the problem relates to the nature of the African industrialisation process itself, a process which has typically failed to produce a growth of job opportunities at anything near the rate of output growth. If

Table II. Non-agricultural employment indices in selected African countries, 1955-64 (1958 = 100)

Year	Cameroon	Ghana <sup>1</sup>	Kenya	Malawi	Nigeria
1955	102	82	107	88	n.a.
1956	104	91	105	95	95
1957	100	95	105	98	100
<b>1958</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
1959	95	106	100	99	99
1960	91	111	102	96	106
1961	94	122	98	93	89
1962	72	128	97	87	113
1963	91	132	91	87	94
1964	92	n.a.	101	n.a.	n.a.
Rate of growth (%)	-1.0	6.3	-0.5	-0.7	0.1

  

Year	Sierra Leone	Southern Rhodesia	Tanzania	Uganda	Zambia
1955	87	86	97	94	92
1956	87	92	104	93	100
1957	92	98	101	99	100
<b>1958</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
1959	98	100	96	99	95
1960	101	101	98	99	93
1961	108	98	104	98	90
1962	112	95	101	93	88
1963	119	91	91	89	86
1964	125	90	95	89	91
Rate of growth (%)	0.2	3.0	-0.4	-0.1	-0.9

<sup>1</sup> Note that the relatively high rate of Ghanaian employment growth in the late 1950s and early 1960s was due primarily to the rapid increase in public employment as a result of Nkrumah's "make-work" policy. In the years since 1964, employment growth in Ghana has been negligible since the "make-work" policy could not be sustained for long without undue fiscal strain.

Source: Charles R. Frank, Jr.: *Urban unemployment and economic growth in Africa*, Economic Growth Center Paper No. 120 (New Haven (Connecticut), 1968), p. 254.

one uses the standard criterion of output growth as the measuring rod for the success of the industrial development effort, many African economies with output growth rates of 5 to 8 per cent per annum have not done that poorly under the circumstances. However, as table II reveals, the growth rate of non-agricultural employment has typically been negligible and, in many cases, negative.

It is in this context of slowly growing urban employment opportunities accompanied by a disproportionately high rate of rural-urban migration that the chronic urban unemployment and underemployment problem has emerged in tropical Africa. Although there are few hard data on the magnitude of African urban unemployment, owing both to conceptual difficulties in defining unemployment and, more importantly, to the fact that very few studies have been directed to the problem, the limited evidence available provides ample empirical confirmation of what any informed observer already knows – namely that urban unemployment is an extremely serious problem (see table III for a summary of available data on urban unemployment rates in African cities). However, in spite of these rising levels of overt unemployment and even higher levels of underemployment, the rate of rural-urban migration shows no sign of deceleration. To the extent that many newly arrived migrants are likely to join the growing pools of unemployed and highly underemployed workers, and to the extent that an increasingly large proportion of these migrants represent the more educated segments of society whose productive potential is largely being dissipated,

Table III. Urban unemployment rates in Africa (%)

Country (urban centres)	Unemployment rate	Country (urban centres)	Unemployment rate
Algeria (1966)	26.6	Kenya (1969)	
Cameroon (1966)		Eight urban areas	17.4
Douala	13.0	Morocco (1960)	20.5
Yaoundé	17.0	Nigeria (1963)	
Congo (1958)		Lagos	15.5
Léopoldville (Kinshasa)	15.0	Ife	19.7
Ghana (1960)		Onitsha	26.3
Large towns	11.6	Kaduna	30.8
Ivory Coast (1963)		Abeokuta	34.6
Abidjan	20.0	Tanzania (1965)	12.6

Sources: Algeria, Ghana, Morocco and Tanzania – D. Turnham: *The employment problem in less developed countries: a review of evidence* (Paris, OECD Development Centre, 1970), pp.193-195. Cameroon and Ivory Coast – Remi Clignet: "Preliminary notes of a study of unemployment in modern African urban centers", in *Manpower and unemployment research in Africa*, Vol. 2, Apr. 1969. Nigeria – Peter C. W. Gutkind: "The energy of despair: social organisation of the unemployed in two African cities: Lagos and Nairobi", in *Civilisations* (Brussels), Vol. XVII, 1967, No. 3, pp. 186-211, and No. 4, pp. 380-402. Congo – P. Raymachers: *Etude par sondage de la main-d'œuvre à Léopoldville* (Ministère du Plan et de la coopération économique, 1958). Kenya – H. Rempel and M. P. Todaro: "Rural-urban labour migration in Kenya: some preliminary findings of a large-scale survey", in S. Ominde (ed.): *Population growth and economic development* (to be published).

the process of continued rural-urban migration at present levels can no longer be said to represent a desirable economic phenomenon. Until something positive is done to relieve this problem, the African development effort will be only partially successful.

## A theoretical framework for analysing the economics of rural-urban migration in Africa

In this section I would like to set forth briefly a theoretical framework which yields some important insights into the causes and mechanisms of rural-urban migration in tropical Africa. No attempt will be made to describe this model in any great detail since that has been done elsewhere.<sup>2</sup> I believe that the model can usefully serve two purposes: first, to demonstrate why the continued existence of rural-urban migration in the face of rising levels of urban unemployment often represents a rational economic decision from the point of view of the private individual; and second, to demonstrate how such a theoretical framework can be used in an analysis and evaluation of alternative public policies to alleviate the growing urban unemployment problem.

### The individual decision to migrate: some behavioural assumptions

The basic behavioural assumption of the model is that each potential migrant decides whether or not to move to the city on the basis of an implicit, "expected" income maximisation objective. There are two principal economic factors involved in this decision to migrate. The first relates to the existing urban-rural real wage differential that prevails for different skill and educational categories of workers. The existence of large disparities between wages paid to urban workers and those paid to comparably skilled rural labourers has long been recognised as a crucial factor in the decision to migrate.<sup>3</sup> The increasing divergence between urban and rural incomes has

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<sup>2</sup> A more detailed description and development of the over-all features of the model can be found in Michael P. Todaro: "The urban employment problem in less developed countries: an analysis of demand and supply", in *Yale Economic Essays*, Vol. VIII, Fall 1968, pp. 331-402; idem: "A model of labor migration and urban unemployment in less developed countries", in *American Economic Review* (Menasha (Wisconsin)), Vol. LIX, No. 1, Mar. 1969, pp. 138-148; and John R. Harris and Michael P. Todaro: "Migration, unemployment and development: a two-sector analysis", *ibid.*, Vol. LX, No. 1, Mar. 1970, pp. 126-142.

<sup>3</sup> Some of the more recent studies identifying economic forces as principal factors affecting the decision to migrate include Ralph E. Beals, Mildred B. Levy and Leon N. Moses: "Rationality and migration in Ghana", in *Review of Economics and Statistics* (Cambridge (Massachusetts)), Vol. XLIX, No. 4, Nov. 1967, pp. 480-486; John C. Caldwell: *African rural-urban migration. The movement to Ghana's towns* (New York, Columbia University Press, 1969); Lowell E. Gallaway: "Industry variations in geographic labor mobility patterns", in

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arisen both as a result of the relative stagnation of agricultural earnings (partly as a direct outgrowth of post-war bias toward industrialisation at the expense of agricultural expansion) and the concomitant phenomenon of rapidly rising urban wage rates for unskilled workers. For example, in Nigeria Arthur Lewis noted that "urban wages" are typically at levels twice as high as average farm incomes. Between 1950 and 1963 prices received by farmers through marketing boards in southern Nigeria fell by 25 per cent while at the same time the minimum wage scales of the Federal Government increased by 200 per cent.<sup>4</sup>

In Kenya average earnings of African employees in the non-agricultural sector rose from £97 in 1960 to £180 in 1966, a growth rate of nearly 11 per cent per annum. During the same period the small farm sector of Kenya experienced a growth of estimated family income of only 5 per cent per annum, rising from £57 in 1960 to £77 in 1966. Consequently, urban wages rose more than twice as fast as agricultural incomes in Kenya so that in 1966 average wages in the urban sector were approximately two-and-a-half times as high as average farm family incomes.<sup>5</sup> Moreover, the urban-rural income differential in Kenya in 1968 varied considerably by level of educational attainment. For example, whereas farm income was approximately K£85 in 1968, individuals with zero to four years of primary education in urban areas earned on the average K£102, those with five to eight years of primary education earned K£156, while migrants who had completed from one to six years of secondary education earned on the average K£290 per annum in 1968.<sup>6</sup>

A final example of the growing disparity between urban and rural incomes can be gleaned from Uganda data. During the period 1954 to 1964 agricultural incomes remained essentially unchanged while minimum wages in government employment in Kampala rose by almost 200 per cent from £31 to £90 per annum.<sup>7</sup> It should be noted that in Uganda as in most other

(continued from page 425)

*Journal of Human Resources* (Madison (Wisconsin)), Vol. II, No. 4, Fall 1967, pp. 461-474; J. Gugler: "On the theory of rural-urban migration: the case of sub-Saharan Africa", in J. A. Jackson (ed.): *Sociological studies Two: migration* (Cambridge, University Press, 1969), pp. 134-155; John R. Harris and Michael P. Todaro: "Urban unemployment in East Africa: an economic analysis of policy alternatives", in *East African Economic Review* (Nairobi), Vol. 4 (New Series), No. 2, Dec. 1968, pp. 17-36; and H. Rempel: "Labor migration into urban centers and urban unemployment in Kenya" (unpublished PhD dissertation, University of Wisconsin, 1970). See also C. R. Frank, Jr.: "The problem of urban unemployment in Africa", Research Program in Economic Development, Discussion Paper No. 16, Princeton University, Nov. 1970, for a useful review of the literature on urban unemployment in Africa.

<sup>4</sup> W. Arthur Lewis: *Reflections on Nigeria's economic growth* (Paris, OECD Development Centre, 1967), p. 42.

<sup>5</sup> Dharam P. Ghai: "Incomes policy in Kenya: need, criteria and machinery", in *East African Economic Review*, op. cit., Vol. 4 (New Series), June 1968, p. 20.

<sup>6</sup> For an analysis of the relationship between education and migration in Africa, see Michael P. Todaro: "Education and rural-urban migration: theoretical constructs and empirical evidence from Kenya", paper prepared for the Conference on Urban Unemployment in Africa, Institute for Development Studies, University of Sussex, Sep. 1971, especially pp. 16-30.

<sup>7</sup> J. B. Knight: "The determination of wages and salaries in Uganda", in *Bulletin of the Oxford University Institute of Economics and Statistics*, Vol. 29, No. 3, Aug. 1967, pp. 233-264.



African nations the minimum wage often acts as the effective rate which determines the level at which more than 50 per cent of urban unskilled workers are paid. It is also the key weight in the overall wage structure since when the minimum wage changes, the entire wage structure tends to move with it.<sup>8</sup>

The second crucial element, which for the most part has not been formally included in other models of rural-urban migration, relates to the degree of probability that a migrant will be successful in securing an urban job. Without introducing the probability variable it would be extremely difficult to explain the continued and often accelerated rate of migration in the face of sizeable and growing pools of urban unemployed. Arguments about the irrationality of rural peasants who unwittingly migrate to urban areas permeated by widespread unemployment are as ill-conceived and culture-bound as earlier assertions that peasant subsistence farmers were unresponsive to price incentives. The key, in my opinion, to an understanding of the seemingly paradoxical phenomenon of continued migration to centres of high unemployment lies in viewing the migration process from an "expected" or permanent income approach where expected income relates not only to the actual wage paid to an urban worker, but also to the probability that he will be successful in securing wage employment in any given period of time. It is the combination and interaction of these two variables – the urban-rural real income differential and the probability of securing an urban job – which I believe determine the rate and magnitude of rural-urban migration in tropical Africa.

Consider the following illustration. Suppose the average unskilled or semi-skilled rural worker has a choice between being a farm labourer (or working his own land) for an annual average real income of, say, 50 units, or migrating to the city where a worker with his skill or educational background can obtain wage employment yielding an annual real income of 100 units. The more commonly used economic models of migration, which place exclusive emphasis on the income differential factor as the determinant of the decision to migrate, would indicate a clear choice in this situation. The worker should seek the higher-paying urban job. It is important to recognise, however, that these migration models were developed largely in the context of advanced industrial economies and, as such, implicitly assume the existence of full employment or near-full employment. In a full employment environment the decision to migrate can in fact be predicated solely on securing the highest-paying job wherever it becomes available. Simple economic theory would then indicate that such migration should lead to a reduction in wage differentials through the interaction of the forces of supply and demand, both in areas of out-migration and in points of in-migration.

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<sup>8</sup> For a useful discussion of the relationship between wages and employment in Africa, see Elliot J. Berg: "Wage policy and employment in less developed countries", paper prepared for the Overseas Study Committee Conference "Prospects for Employment Opportunities in the Nineteen-Seventies", University of Cambridge, 1970.

Unfortunately, such an analysis is not very realistic in the context of the institutional and economic framework of most of the nations of tropical Africa. First of all, these countries are beset by a chronic and serious unemployment problem with the result that a typical migrant cannot expect to secure a high-paying urban job immediately. In fact, it is much more likely that upon entering the urban labour market the migrant will either become totally unemployed or will seek casual and part-time employment in the urban traditional sector. Consequently, in his decision to migrate the individual in effect must balance the probabilities and risks of being unemployed or underemployed for a considerable period of time against the positive urban-rural real income differential. The fact that a typical migrant can expect to earn twice the annual real income in an urban area that he can in a rural environment may be of little consequence if his actual probability of securing the higher-paying job within, say, a one-year period is one chance in five. In such a situation we could say that his actual probability of being successful in securing the higher-paying urban job is 20 per cent, so that his "expected" urban income for the one-year period is in fact 20 units and not the 100 units that the fully employed urban worker receives. Thus, with a one-period time horizon and a probability of success of 20 per cent it would be irrational for this migrant to seek an urban job even though the differential between urban and rural earnings capacity is 100 per cent. On the other hand, if the probability of success were, say, 60 per cent, so that the expected urban income is 60 units, then it would be entirely rational for our migrant with his one-period time horizon to try his luck in the urban area even though urban unemployment may be extremely high.

If we now approach the situation more realistically by assuming a considerably longer time horizon, especially in view of the fact that the vast majority of migrants are between the ages of 15 and 23 years, then the decision to migrate should be represented on the basis of a longer-term, more permanent income calculation. If the migrant anticipates a relatively low probability of finding regular wage employment in the initial period but expects this probability to increase over time as he is able to broaden his urban contacts, then it would still be rational for him to migrate even though expected urban income during the initial period or periods might be lower than expected rural income. As long as the present value of the net stream of expected urban income over the migrant's planning horizon exceeds that of the expected rural income, the decision to migrate is justified.

The mathematical details of our model of rural-urban migration are set forth in the Appendix to this article [not reproduced here]. For our present purposes, suffice it to say that the model attempts to demonstrate the conditions under which the urban-rural "expected" income differential can act to exacerbate the urban *unemployment* situation even though urban *employment* might expand as a direct result of government policy. It all depends on the relationship between migration flows and the expected income differential as expressed in an "elasticity of migration response" term developed in the Appendix.

Since the elasticity of response will itself be directly related to the probability of finding a job and the size of the urban-rural real income differential, the model illustrates the paradox of a completely urban solution to the urban unemployment problem. Policies which operate solely on urban labour demand are not likely to be of much assistance in reducing urban unemployment since, in accordance with our expected income hypothesis, the growth of urban employment *ceteris paribus* also increases the rate of rural-urban migration. If the increase in the growth of the urban labour force caused by migration exceeds the increase in the growth of employment, the level of unemployment in absolute numbers will increase and the unemployment rate itself might also increase. This result will be accentuated if, for any increase in job creation, the urban real wage is permitted to expand at a greater rate than rural real income. A reduction or at least a slow growth in urban wages, therefore, has a dual beneficial effect in that it tends to reduce the rate of rural-urban migration and increase the demand for labour.

A second implication of the above model is that traditional methods of estimating the "shadow" price of rural labour to the urban sector will tend to have a downward bias if the migration response parameter is not taken into account. Typically, this shadow price has been expressed in terms of the marginal product of the rural worker who migrates to the city to secure the additional urban job. However, if for every additional urban job that is created more than one rural worker is induced to migrate, then the opportunity cost will reflect the combined loss of agricultural production of all those induced to migrate, not just the one who is fortunate enough to secure the urban position. It also follows that whenever there are sizeable pools of urban unemployed, traditional estimates of the shadow price of urban labour will reflect an upward bias.

## Policies to alleviate urban unemployment and regulate the flow of rural-urban migration

Let us turn now to an examination of alternative policies which might be adopted to relieve the serious urban unemployment problem in tropical African nations. Throughout this examination I shall attempt wherever possible to utilise the analytical framework mentioned in the previous section and developed in the Appendix. Since the urban unemployment problem has short, intermediate and long-range dimensions and since there is a wide range of policies available, some of which can have a more immediate impact than others, I shall attempt to distinguish policies that are likely to have quicker results from those whose effects may be more of an intermediate or long-term nature.

## Short-run policies

There are a whole series of possible policy options that can have a relatively short-run impact on both employment and unemployment. Of these, the most significant include (1) the elimination of present factor-price distortions, (2) the establishment of a "dual" wage structure through the use of wage subsidies in some combination with a policy of wage restraint, (3) the immediate creation of new types of employment opportunities through various voluntary agreements, and (4) the restriction of excess migration through the use of moral exhortation to return to the land, the adoption of forced controls on the movement of people, or the establishment of urban labour exchanges to regulate and control the process of job placement. Let us briefly examine each of these policies in turn.

### 1. Eliminating factor-price distortions

With the benefit of hindsight, it is now becoming painfully apparent how the conventional wisdom of economic development theory which placed top priority on the rapid accumulation of capital as the key to successful economic progress in the 1950s and early 1960s has led to the serious employment predicament of the 1970s. Typically, a spectrum of policy devices ranging from overvalued exchange rates to accelerated capital depreciation allowances, tax rebates, licensing agreements, and negative effective rates of protection for imported capital goods was instituted, which effectively pushed the price of capital well below its real opportunity cost. On the other hand, in their natural and understandable desire to raise the standard of living of their working populations, African governments acquiesced to pressure both from trade unions and from civil servants in setting urban wage rates at levels considerably in excess of rural average incomes and the over-all opportunity cost of urban labour.

This combination of underpriced capital and overpriced labour has no doubt been a factor in retarding the expansion of urban employment opportunities by encouraging capital-labour substitution in the production process. Moreover, this implicit bias towards relatively capital-intensive methods of production has been aided and abetted by the policies of national aid agencies which continue to insist on tying considerable proportions of their aid to the importation of their own nation's capital equipment. The impact of this distorted factor-price structure is felt not only in urban areas where sophisticated modern equipment is being installed in almost all newly established industries, but also in rural agricultural areas where premature tractor mechanisation is being encouraged by similar policies relating to the importation of farm machinery.

The widespread existence of undervalued capital prices and wages in excess of labour's opportunity cost has also contributed to the influx of rural migrants in spite of the relatively slow growth of urban job openings. By mechanising their production efforts, employers in the modern sector are

able to offer relatively high wages for their limited number of employees and unions are able to justify these high wages on the basis of rising levels of labour productivity even though this higher productivity is due not so much to the skills of the workers as to the equipment they are using.

It follows that one of the most immediate and pressing short-run policies that needs to be given serious consideration by governments in tropical Africa is one which attempts to "clear the decks" by eliminating factor-price distortions that inhibit increased labour absorption. In fact, given the pressing need for more employment creation from a political as well as from an economic standpoint, one might even argue that governments should consider the advisability of even distorting factor prices in the opposite direction. This could be achieved by discouraging the further importation of highly capital-intensive equipment by forcing the price of capital above its real opportunity cost, and reducing the effective labour price to producers through, for example, some system of wage subsidies. In any case, governments should at least think seriously about eliminating the current factor-price distortions.

## 2. Wage subsidies and wage restraint

One of the principal mechanisms for the partial elimination of factor-price distortions and the encouragement of more labour-intensive practices is the establishment of some form of "dual" wage structure that incorporates wage subsidies as part of an over-all employment-generating strategy. The establishment of a dual price structure has long been advocated and practised in other areas of economic activity like trade and agriculture through the use of multiple exchange rates and farm price supports. *On a priori* grounds there is no reason to assume that such a dual price structure would be less suitable for employment generation. Subsidies which lower the effective level of compensation that employers must pay their employees should have a stimulating employment effect so long as the wage elasticity of demand for labour is reasonably positive. A number of recent studies have confirmed the existence of such a positive elasticity.<sup>9</sup> For example, in a study of wages, employment and productivity in Kenya it was estimated that in the manufacturing sector of Kenyan industry the wage elasticity of demand for labour was approximately 0.76.<sup>10</sup> This would indicate that a 10 per cent reduction in wage costs for employers will stimulate a 7½ per cent increase in employment opportunities. Since a good proportion of the subsidy payments will be returned to the government in the form of higher taxation, both

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<sup>9</sup> See, for example, Lloyd G. Reynolds: "Wages and employment in a labor-surplus economy", in *American Economic Review*, op. cit., Vol. LV, No. 1, Mar. 1965, pp. 19-39; and John R. Harris and Michael P. Todaro: "Wages, industrial employment and labour productivity: the Kenyan experience", in *Eastern Africa Economic Review* (Nairobi), June 1969, pp. 29-46.

<sup>10</sup> Harris and Todaro: "Wages, industrial employment . . .", op. cit., p. 36.

corporate and personal, it is reasonable to expect that a system of wage subsidies can operate somewhat in the manner of the traditional wages fund.

Unfortunately, one of the problems associated with any system of wage subsidies, especially when such subsidies are not part of a larger policy package, is that the actual wage paid to the employee will still be in excess of labour's opportunity cost. The result is that the higher wage is now being paid to a larger proportion of the urban workforce, a fact which in turn increases the probability that a typical migrant will be successful in securing a job. Using the model of rural-urban migration, I demonstrated earlier how such a situation could then lead to a worsening of the urban *unemployment* problem through increased migration even though more urban *employment* might be created.

It is essential, therefore, that any wage subsidy programme be accompanied by a general policy of wage restraint. Otherwise, the total effect of the subsidy might be negated by rising levels of over-all wages. From a strictly economic viewpoint, what is probably needed is a general reduction in over-all wages, but the political realities of developing nations usually preclude such a possibility. Nevertheless, as pointed out earlier, a policy of wage restraint can have a dual beneficial effect on the urban labour situation. A restraint on urban wage increases will tend to reduce the rate of rural-urban migration *and* increase the demand for employment [labour]. Without wage restraint, efforts to stimulate employment by reducing the capital-labour ratio through the elimination of some of the factor-price distortions referred to above can only have a limited success in reducing urban unemployment.

### 3. Employment creation by voluntary agreement

Another policy of a short-term nature which has attracted considerable interest was the effort on the part of the Government of Kenya in 1964 to stimulate immediate employment creation through the establishment of a Tripartite Agreement between itself, employers, and the trade unions. Under this Agreement, the Government and the employers were to increase their total employment by 15 per cent and 10 per cent respectively, while the trade unions, for their part, agreed to hold the line on all wage demands for a twelve-month period. Upon expiry the Agreement was extended for an additional three months. While no detailed study of this most interesting experiment has been undertaken, it is widely believed that the Tripartite Agreement did not have any lasting long-term effect on employment generation. For example, Professor Dharam Ghai of the Institute for Development Studies in Nairobi made the following observations on the 1964 Tripartite Agreement:

Owing to financial stringency, the Government found itself unable to carry out its pledge. In all, 34,000 jobs were found for persons who were either landless or previously unemployed. But it is doubtful whether these represented a net increase in employment; for while many of the private firms adhered to the

letter of the agreement by taking on more employees, they violated its intent by not hiring new employees to make good the loss caused by normal attrition of the labour force. Furthermore, even if the agreement was successful in creating some new jobs, it did not make any particular impact on the level of urban unemployment, for prospects of wage employment stimulated an additional flow of migrants from the rural areas. It is clear that policies of this nature can create additional employment only in the very short-run period.<sup>11</sup>

Once again, our model of rural-urban migration can shed some interesting light on policies such as the Tripartite Agreement which are intended to eliminate or alleviate urban unemployment through a mechanism which attempts essentially to circumvent economic forces. The Tripartite Agreement provides an excellent example of the crucial importance of the probability factor in the decision to migrate. By requiring employers to increase the number of job openings by a certain percentage and blocking any increases in urban wage rates for a fifteen-month period, the Agreement effectively increased the probability that a migrant would successfully secure a job while ensuring that the wage differential would be held constant. Our model tells us that in such a situation there should be an accelerated flow of rural-urban migration resulting from the widening of the "expected" income differential even though the actual differential remains unchanged. This is in fact what actually happened in Kenya immediately following the announcement of the Agreement, when there was a massive influx from the rural areas of job seekers who had learned of the move to increase employment opportunities. The result of the entire process as pointed out by Ghai,<sup>12</sup> Harbison<sup>13</sup> and others was that actual levels of urban unemployment probably increased whereas the over-all level of employment did not change substantially.

It is interesting to note that in June 1970 the Government of Kenya announced another Tripartite Agreement under which both it and private firms were required to increase their employment rolls by 10 per cent. Early reports indicated once again that the net impact of this second attempt at instant employment creation was a further increase in the level of urban unemployment.

The above observations are not meant to belittle the potential importance of voluntary agreements such as those initiated by the Kenyan Government but rather to emphasise the point that when short-run policies are not accompanied by more basic long-run structural changes in the economic system they can have very limited lasting effects.

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<sup>11</sup> Dharam P. Ghai: "Employment performance, prospects and policies in Kenya", paper prepared for the Overseas Study Committee Conference "Prospects for Employment Opportunities in the Nineteen-Seventies", University of Cambridge, 1970, p. 11.

<sup>12</sup> *ibid.*

<sup>13</sup> Frederick H. Harbison: "The generation of employment in newly developing countries", in James R. Sheffield (ed.): *Education, employment and rural development* (Nairobi, East African Publishing House, 1967), pp. 173-193.

#### 4. Restrictions on migration

Short-run attempts to ease the urban unemployment problem can also take the form of efforts to restrict the accelerated influx of rural migrants whose chances of securing an urban job are minimal. These policies can range from simple "moral exhortations" to return to the land, as has been intermittently practised by the Kenyan Government, to enforced back-to-the-land movements such as that practised for some time in Tanzania, and the establishment of labour exchanges to control the flow of migration in accordance with job openings, a policy which has been suggested recently by a number of observers.

Exhortations that individuals should return to the land to seek opportunities in agriculture rather than migrating to the cities in a vain search for jobs have been heard repeatedly in speeches by political leaders in East Africa. While these pleas are admirable and economically sound, their ultimate success is highly doubtful. If our model correctly describes the economics of migration it is in the self-interest of individuals to seek urban employment even though the probability of actually finding it is low. Throughout history, policies of moral suasion have met with limited success in persuading individuals to abandon their self-interest. When the social and the private interest do not coincide it is rare that private calculations do not prevail.

A more direct effort to regulate the flow of rural-urban migration, one which forces the urban unemployed to return to their rural areas, has been instituted by the Government of Tanzania, though the policy has not been carried out with exceptional vigour. Individuals in urban areas of Tanzania are required to hold cards stamped to show that they are presently employed. If they cannot produce one they are liable to be returned either to their home area in the countryside or to some other rural location if they are landless. Clearly, if the urban unemployed are individuals who have productive opportunities available to them in rural areas, as most do in the case of Tanzania, the successful repatriation of the unemployed can result in a net increase in national output and thus be socially productive. But, as in the case of moral suasion, it is extremely difficult to convince individuals acting in their own private interests that both the net national interest and the social benefit would be best served by their returning to the rural areas. Along these lines, it is interesting to note that Tanzania is already experiencing difficulties in keeping the repatriated urban unemployed on farm settlements. This is not too surprising given the substantial expected real earnings differential, even though Tanzania has attempted to hold the line on urban wage increases. Moreover, there has been no real attempt to compensate the repatriated workers. In summary, while Tanzania's policy of enforced repatriation represents a promising approach to the problem of urban unemployment, its probable success is at best very limited.

Gugler has recently suggested an interesting alternative short-run approach to restrict migration in countries that have rural opportunities for



their urban unemployed.<sup>14</sup> Recognising the importance of the probability variable in the decision to migrate and the fact that most migrants are prepared to risk being unemployed for a considerable period of time, Gugler suggests that, instead of letting individual migrants gamble in the hope of being selected, the government should play the lottery for them through the institution of urban labour exchanges. His idea is that if all employment openings were to be channelled through government labour exchanges, these exchanges would be able to give definitive answers to new migrants on whether or not they will be successful in obtaining a job. Those unsuccessful, having been told that there is no employment for them at that time and that they will not be reconsidered at a later time could thus be persuaded, in Gugler's opinion, to return to their rural homes after a short stay in town. To be successful such a programme would need the full co-operation of employers and a high standard of record keeping at the labour exchanges so that it would be possible to recognise and refuse the man who applied for a second time even though he might change his name.

While I agree that this is an intriguing idea and probably a better approach than simple moral suasion, I am extremely doubtful of its feasibility as an actual policy. In addition to the severe resource and book-keeping problems that would be involved, especially since one would need to have much more than the mere names of rejected migrants, there is the additional and obvious problem of bureaucratic corruption, tribal preferences, and the relinquishment of the individual employer's right to decide who he will hire and who he will not hire. Consequently, of the three short-run approaches to migration restriction, the Tanzanian plan of forced repatriation is probably the most feasible though it too can give rise to serious administrative and political difficulties.

## Intermediate-term policies

In addition to the four policy options outlined above, all of which are intended to have more immediate effects on employment generation, there are a number of policies whose impact on job creation can be more lasting and significant although perhaps not as immediately visible as the short-run measures. Three of the most important intermediate term strategies include (1) the establishment of a comprehensive incomes policy, (2) the acceleration of rates of industrial and urban output growth, and (3) the intensification of efforts to stimulate agricultural and rural development.

### 1. A comprehensive incomes policy

Any serious attempt to tackle the dual problem of massive rural-urban migration and rising unemployment must have as its primary objective the

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<sup>14</sup> Gugler, *op. cit.*

gradual elimination of the substantial and economically unwarranted differential between urban and rural real earnings capacity. In the absence of effective migration control, any policy which attempts to stimulate job creation in the urban areas without at the same time attempting to redress the serious imbalance between urban and rural income levels can only result in ultimate frustration, since any increase in jobs created is likely to be offset by a more rapid increase in new job seekers. Consequently, there is an important need gradually to align urban wage incomes more closely with average incomes in the agricultural sector.

The need for a comprehensive national income and wages policy in efforts to generate more employment opportunities, as well as to remove some of the inequities in the distribution of income, has been a subject of considerable recent discussion. As was pointed out earlier, wages affect the employment problem in two ways. First, rapidly rising urban wage rates tend to reduce the level of employment or to limit its expansion in a growing economy by exerting financial pressure on employers to economise on the use of labour. In the case of Kenya, recent empirical studies have indicated that a decline in annual increases in urban wage rates from, say, 6 per cent to 2 per cent would generate approximately 15,000 additional jobs per year. Second, by increasing the gap which already exists between rural and urban real incomes, rising wages may accentuate the urban unemployment problem by stimulating additional rural-urban migration. It is because of this doubly deleterious effect of rapidly rising wage rates that a programme of wage restraint has to be part of an over-all incomes policy.

Since the vast majority of the population of tropical Africa is agrarian-based, it makes considerable economic sense, as well as being more equitable, to attempt to relate minimum wage rates of unskilled workers in paid employment to the average level of agricultural incomes. This is because the minimum wage rate tends to be the most strategic single rate in most African wage structures.<sup>15</sup> The moral case for equity in income distribution is obvious. The economic rationality of such a wage policy is also clear. By eliminating the artificial incentive for disproportionate migration (which may be privately rational but is also socially costly), an effective policy of urban wage realignment can have an important and positive intermediate-term impact on the national output by improving the distribution of income arising from that national output and generating employment opportunities in both rural and urban areas.

A second aspect of a comprehensive incomes policy directed at the creation of more job opportunities might focus on the use of the tax structure to complement policies of wage restraint in reducing the rural-urban real income differential. Tax concessions can be used to provide incentives to employers to accelerate the marginal rate of labour absorption within their firms as output expands. It is well known that many of the tax structures in

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<sup>15</sup> See, for example, Ghai: "Incomes policy in Kenya . . .", *op. cit.*; and Berg, *op. cit.*

contemporary African nations are both regressive in their over-all structure and biased against the agricultural sector in particular. In the absence of a policy of wage restraint or in combination with a policy of gradual wage increases, governments can use their tax powers to reduce the level of effective income differentials. A disproportionately high tax on urban wages, for example, can act as a disincentive to further rural-urban migration in the same way as an actual reduction in money wages. Moreover, if the revenue generated from such taxes, as well as from comparable taxes on urban business profits, were to be redirected towards the rural sector in the form of direct transfer payments or rural development projects, then it could be a powerful mechanism for removing some of the present artificial distortions between urban and rural economic opportunities.

Finally, instead of using the tax structure as an incentive for rapid capital accumulation through depreciation guidelines and tax rebates, governments can contribute to the growth of new employment opportunities by instead providing incentives for additional employment creation through these very same tax powers. In any case, the effective formulation and implementation of a well-planned incomes policy can be a powerful potential weapon in the fight against unemployment in urban Africa. It will be most interesting to follow the progress of the comprehensive incomes policy recently instituted by the Government of Kenya, which includes a determined attempt to restrain urban wage increases.

## **2. Accelerating industrial output growth**

A panacea often prescribed by economists for almost all the ills of developing nations is rapid industrial modernisation. In fact, the dilemma which many of the African nations face today regarding their employment problem can be said to have arisen partially as a result of a mistaken impression about the primacy of industrial development and import substitution at the expense of agricultural progress and export promotion in the over-all growth process. Many treatises on economic development define the success of various programmes in terms of the ability of the country to reallocate a majority of its labour force from agriculture to industry. Implicit in the assumption of almost all these development models is the belief that industrial output growth will be accompanied by comparable employment growth so that the employment problem will be indirectly solved by the expansion of aggregate output.

Unfortunately, most cross-sectional and time series evidence on the relationship between industrial growth and employment generation in less developed countries provides a uniformly consistent picture of a significant employment lag. It is well known, for example, that in the three East African countries this employment lag has not only been significant but for quite a prolonged period (the late 1950s and early 1960s) there was in fact a negative relationship – i.e. employment in manufacturing actually declined absolutely while output expanded. Numerous reasons can be cited

to account for this phenomenon, including the rapid rise in urban wages, the increased mechanisation of production, and the improved efficiency of those already employed as a result of learning-by-doing and on-the-job training programmes. The crucial point to be made in this context, however, is that even though rapid industrial output growth, if successfully achieved, might indeed create more employment opportunities, it will also accentuate the influx of rural migrants unless simultaneous steps are taken to reduce rural-urban real differentials. Consequently, as demonstrated earlier, the net result of increased industrial growth might be not only an increase in urban employment but also a concomitant increase in urban unemployment.

Our intention here is not to denigrate policies designed to expand industrial output as a means of creating more employment opportunities, but rather to counter some of the unfortunate euphoric assertions made about the ability of a nation to solve its growing unemployment problem merely by expanding its aggregate level of total output. Clearly, output expansion is a necessary prerequisite for employment creation. But the type of production technology utilised in achieving it as well as the industrial composition of the aggregate expansion can have considerably more impact on the success of employment generation than the mere achievement of the output growth target. More labour-intensive output growth is what is needed in conjunction with a package of policies to increase the economic attractions of rural life concurrently with the expansion of urban job opportunities.

### 3. Intensive agricultural and rural development

Policies which operate on the demand side of the urban employment picture such as wage subsidies, direct government hiring, elimination of factor-price distortions, and employer tax incentives are probably considerably less effective in the long run in alleviating the *unemployment* problem than are policies designed directly to regulate the supply of labour to urban areas. Policies of rural development are crucial in this regard. Close and informed observers of the African scene such as Lewis, Harbison, Eicher,<sup>16</sup> Frank and Hunter all agree on the central importance of rural and agricultural development if the urban unemployment problem is to be effectively solved. The ultimate objective of almost all proposals for rural development as a means of improving the unemployment situation is the restoration of a proper balance between rural and urban incomes and the elimination of ill-conceived government policies which greatly bias development programmes towards the urban industrial sector.

A plethora of proposals designed to increase rural real incomes and amenity levels have been advanced in recent years. Some of the more basic ones have been concerned with the provision of needed amenities such as

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<sup>16</sup> C. Eicher et al.: *Employment generation in African agriculture*, Institute of International Agriculture, Research Report No. 9, Michigan State University, July 1970.

electricity, piped water, clinics, cinemas, etc., in rural areas so as to reduce the relative attraction of urban centres, particularly for school leavers. Other proposals have included rural settlement schemes, extension services, and training centres. Still others have stressed the importance of locating industry in rural areas so as to spread non-agricultural employment opportunities. Finally, one of the most common suggestions for creating rural employment opportunities is the creation of extensive schemes for labour-intensive rural works. We may note that all the above proposals essentially have one common denominator – they attempt to reduce the urban-rural disparities in *real* income (where real income includes the effects of amenities) and thus the magnet effect of the city.

While the provision of resettlement, extension services, training schemes, rural amenities, and rural-based industries are likely to be effective in increasing rural incomes and therefore to work towards a reduction of the urban-rural differential, the proposals for extensive rural works programmes are particularly interesting. Such works programmes would very likely reduce urban-rural real wage gaps in a number of direct ways. First, individuals could be employed on such projects during non-peak periods in agriculture. They would thus sacrifice less agricultural income in accepting employment of this sort than in migrating to urban areas. Furthermore, the effect of the feeder roads, irrigation schemes, dams, etc., built through such programmes would be to raise agricultural productivity – thus further reducing real income differentials. However, programmes of this type do require inputs of scarce organisational resources if they are to be successful and they also place substantial burdens on the fiscal system or on external aid sources for their finance.

Extensive rural works programmes appear to have been carried out successfully in a number of countries including Tunisia and East Pakistan. In the case of a country such as Kenya, with its considerable experience of successful self-help efforts that have resulted in the creation of hundreds of new schools, health centres and community halls in rural areas, rural works programmes can be built upon the existing foundation of vigour and initiative of voluntary effort at the local level. With appropriate planning on the part of local authorities and the necessary financial commitment on the part of the central government and external aid agencies, it should not be difficult to mount large-scale labour-intensive rural works programmes, thus providing not only immediate employment and income opportunities for rural workers but also the infrastructure required for the longer-run development of rural areas.

Our discussion of rural development has concerned itself exclusively up to this point with non-agricultural aspects of economic progress. However, there also exists considerable scope for output expansion directly within the agricultural sector itself. For example, in their carefully documented and stimulating analysis of employment prospects in African agriculture, Eicher and his colleagues have observed that "Africa's smallholder land tenure system is remarkably labour absorptive provided incentives are available at

the farm level".<sup>17</sup> They argue that as long as African governments avoid premature tractor mechanisation, anti-export agricultural policies, autarkic food policies, and an over-emphasis on government capital-intensive direct production schemes, there is considerable potential for significant increases in labour absorption in the agricultural sector itself. Moreover, they note that it is only a matter of time before the new high-yielding varieties of maize and wheat (and possibly of other food crops), with their dramatic potential for increases in output and income, become widely available and adopted in African nations. With careful planning, these new technologies of food production can be made directly applicable to small as well as to large farmers. Considerable research along these lines is currently being conducted at the International Institute of Tropical Agriculture in Nigeria.

Clearly, the adoption and utilisation of the new high-yielding varieties offer the potential for immediate increases in employment through the emergence of possibilities for multiple cropping and the increased need for farm labour. The longer-run employment effects of the new technology can be equally significant if effective measures are taken to prevent unwarranted and premature mechanisation of farm production techniques through artificial incentives to import capital equipment.

## Long-run policies for employment expansion

In the previous two sections I have explored various short- and intermediate-term policy options available to African governments intent upon expanding over-all employment opportunities and curtailing the disproportionate influx of rural migrants to urban areas. In this final section I shall examine two long-run objectives whose achievement is, in my opinion, a necessary part of any general programme for successful economic development with significant labour participation. The first, and more obvious, of these policies relates to the establishment and maintenance of an effective programme to limit rapid population growth. The second, less obvious but no less important, long-run policy concerns the necessity for less developed African nations ultimately to free themselves from their current technological dependence on the importation of machinery and equipment designed in advanced countries in accordance with the latter's needs. Long-run efforts need to be initiated to plan for the eventual development of their own labour-intensive capital goods industry whose production can be directly responsive to the resource needs and requirements of the African countries themselves.

### 1. Limiting population growth

Although most nations of tropical Africa are not at this time faced with the severe population pressures that are currently being experienced by

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<sup>17</sup> Eicher et al., *op. cit.*, p. 57.

many countries of south and south-east Asia, the rate of population growth in Africa is currently the highest in the world. Population growth rates in excess of 3 per cent per annum are common south of the Sahara. At such rates of growth, it is only a matter of time before the awful spectre of overpopulation becomes clearly visible.

A successful programme of population control can make a significant contribution over the long run not only to the achievement of the major social and economic objectives of development plans, but more specifically to the ultimate elimination of the problem of unemployment. For example, in Kenya the current rate of population growth is adding 126,000 persons to the labour force every year; the annual increment in the labour force associated with a 2.5 per cent, 1.5 per cent, and a 1 per cent increase would be 95,000, 57,000, and 38,000 additional people respectively. These figures illustrate quite clearly how even small reductions in over-all rates of population growth can significantly affect prospects for reducing or eliminating urban and rural unemployment. While it is true that for the immediate and intermediate period, i.e. the next fifteen to twenty years, the population size and distribution has been fixed by past levels of births and deaths so that population control will have a limited immediate impact on unemployment, it should not be forgotten that a large number of children can represent a severe drain on a family's financial resources and thus be a deterrent to savings and investment. Recent empirical evidence has shown that savings rates are strongly influenced by dependency ratios which in turn are determined by the rates of over-all population growth.<sup>18</sup> Moreover, a country with a lower rate of population growth has less need to invest its scarce resources in schools, hospitals and other elements of the economic infrastructure, and can divert them to more directly productive projects with lower capital-output ratios and higher rates of per unit labour utilisation. Thus we see that even though a declining rate of population growth will have its major labour force impact only in the long run, it can have some immediate and significant effects on employment creation indirectly through its impact on the aggregate level of savings and the allocation of public and private resources.

## 2. Generating domestic labour-intensive technological capabilities

One of the principal inhibiting factors to the success of any long-run programme of labour absorption both in the urban industrial as well as in the rural agricultural sector is the complete technological dependence of contemporary African nations on machinery and equipment developed in the advanced industrial nations. In essence, the developing nations of Africa have no choice but to use the capital-intensive technology which has been developed in, by and for the richer industrial countries and must be imported

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<sup>18</sup> Nathaniel H. Leff: "Dependency rates and savings rates", in *American Economic Review* (Menasha (Wisconsin)), Vol. LIX, No. 5, Dec. 1969, pp. 886-896.

from them. Moreover, since almost 98 per cent of all research and development on new technologies originates in advanced industrial societies, the less developed countries will remain technologically dependent for years to come if nothing is done about the problem. With most available technology being relatively capital intensive in design, the scope for utilising relatively labour-intensive equipment is limited for the most part to the importation of the used and discarded technology of a previous historical period.

When choosing among the available alternatives, less developed nations should make every effort to find and select those parts of modern technology which are of direct value to themselves and which do not inhibit employment creation. Many of the efforts to find and utilise "intermediate" technologies have this aim. The only other alternative is to attempt to adapt imported technology to local needs. As the history of Japanese development and the contemporary records of Korea and Taiwan indicate, there is considerable scope for indigenous capital-stretching through the more intensive utilisation of existing machinery, the handling, transporting and packaging of materials within the plant by human instead of mechanical means, and by the training of skilled personnel to repair and replace damaged machinery parts.

In addition to the actual equipment, there is a range of complementary factors which together give imported technology a capital-intensive rather than a labour-intensive twist. Private foreign investors, as well as aid donors, have tended to emphasise the supply of imported capital equipment of the most sophisticated nature for their own pet projects; and technicians, planners, advisers, contractors and consultants are typically imported from abroad or trained abroad or even when trained at home they still tend to be acquainted with the most modern technologies available and are very unfamiliar with alternative possibilities. Finally, the planners, politicians and even the people themselves in developing countries take a natural pride in big and expensive capital structures which are often looked upon as being synonymous with economic development and modernisation.

Since both the mechanism and the dynamics of technology transfer are such that less developed countries have little or no influence on either the production technique they use today or the technique it would be most desirable to use in the future, the task of effectively absorbing large increments of the labour force into an over-all framework of industrial and agricultural progress is made that much more difficult.

The question then arises as to what are the alternatives. I have recently argued that the only real and viable long-run alternative is for the developing countries themselves, either singly or preferably in co-operation, to begin the task of generating their own technology through the creation of a capital goods industry that will be responsive to the unique needs of labour-surplus societies.<sup>19</sup> The creation of indigenous capital goods industries will require

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<sup>19</sup> Michael P. Todaro: "Some thoughts on the transfer of technology from developed to less developed nations", in *Eastern Africa Economic Review*, op. cit., June 1970, pp. 53-64.



for the most part the training of engineers and scientists with creative as well as technological capabilities. It will be a long-run process and will of necessity require the co-operation and the technical and financial aid of advanced societies. One possible way of overcoming the initial administrative, financial and skill requirements of such an enterprise might be through the creation of a series of Regional Institutes for the Development of Labour-Intensive Technologies along the lines of the very successful programmes sponsored by the Rockefeller and Ford Foundations establishing research institutes for the development of new high-yielding food varieties. If such institutes had links both with the government and private industries so as to identify important potential growth areas with significant capacity for labour absorption, and if the necessary training component were built into the over-all operation, then the direct income and employment benefits could begin to accrue relatively soon. Just as the operations and research within the international agricultural institutes have gradually been taken over by indigenous personnel, so too the ultimate technological capacities within these regional research institutes might be assumed by indigenous scientists and engineers. Clearly, serious thought needs to be given immediately to the feasibility and possibility of the creation of such technological institutes. The alternative of continued technological dependence is, to say the least, very grim.

## Conclusions

I have attempted in this article to set forth the economic basis for rural-urban migration in tropical Africa and have tried to explain the reasons for the continued influx of rural migrants in spite of rising levels of urban unemployment. My examination of alternative short-, intermediate- and long-run policies for relieving the urban unemployment problem had as its common focus and theme the gradual elimination of the wide disparities between "expected" urban and rural real incomes.

Clearly, what is needed if any real impact is to be made on the unemployment problem is not a single policy but a "package" of policies including those whose effects are more immediate, as well as those whose impact will be felt in the longer run. If I were asked to identify and put together such a package of policies, my inclination would be to argue for the immediate elimination of factor-price distortions, especially with regard to the price of capital, a comprehensive incomes policy in which urban wage restraint is an important element, a redirection of present development priorities towards concentrated and comprehensive programmes of rural development including efforts to repatriate and resettle unemployed urban migrants, and a major effort on a regional basis focused on the establishment of indigenous capital goods industries capable of designing and developing labour-intensive technologies for both agriculture and industry. Finally, some programme for controlling excessive population growth is necessary even though this is unlikely to be welcomed by all African governments at the present time. Without such a package of policies, the ubiquitous problem

of growing urban unemployment in Africa promises to become economically more severe and politically more explosive in the coming years.

[The Appendix presenting “A mathematical model of rural-urban migration” is not reproduced here.]

# Employment, institutions and technology: Some policy issues

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This note, based on a monograph prepared by the author for the World Employment Programme of the ILO,<sup>1</sup> comments on some of the important issues involved in using technological choice as an instrument of employment policy in developing countries. It will not, of course, be possible in this short paper to go into a thorough analysis of each of the issues, or to illustrate them with concrete examples, for both of which the reader is referred to the monograph,<sup>2</sup> but it is possible to discuss the direction in which answers to these questions may be sought and also to outline some features of a general approach for tackling the problems involved.

## 1. The concept of employment

At the risk of oversimplification we can distinguish between three different aspects of employment—

- (i) the *income* aspect: employment gives an income to the employed;
- (ii) the *production* aspect: employment yields an output;
- (iii) the *recognition* aspect: employment gives a person the recognition of being engaged in something worth while.

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<sup>1</sup> *Employment policy and technological choice*, referred to below as Sen (1973). Now published by the Clarendon Press, Oxford, under the title *Employment, technology and development*. References are listed at the end of the article.

<sup>2</sup> Most of the detailed illustrations come from India, though empirical materials are drawn from other countries as well.

It may look as if we have listed them in order of increasing complexity and this probably is the case.

Consider the recognition aspect first. Employment can be a factor in self-esteem and indeed in esteem by others. Much, of course, depends on the class one comes from. To a member of "the leisured class" the fact that one does not work for one's living may be, in fact, a source of pride, but for those who have to work for a living, lack of "employment" is not only a denial of income, it can also be a source of shame. In the same way, if a person is forced by unemployment to take a job that he thinks is not appropriate for him, or not commensurate with his training, he may continue to feel unfulfilled and indeed may not even regard himself as "employed". The phenomenon of people having a job but nevertheless regarding themselves as "unemployed" is a common one and has been observed in different countries. In assessing whether a person is employed or not, clearly his own views on the subject have to be given some weight since it is a question of having not only a gainful occupation but also one which satisfies some of the minimal expectations of the jobseeker.

The question is of a certain amount of practical interest. The ILO Mission to Sri Lanka (then Ceylon) discussed cases "where people said they were 'unemployed' when they meant that they did not have a regular job offering security and some sort of steady income".<sup>3</sup> The Mission went on, legitimately, to conclude: "To the extent that respondents thought in these terms and interviewers did not probe very deeply, the data on the numbers shown as openly unemployed may be somewhat overstated."<sup>3</sup> On the other hand, the question remains whether joblessness is the best way of viewing unemployment, and through its emphasis on "matching employment opportunities and expectations" the Mission was, in fact, forced to view employment in a wider perspective.

The question of recognition can influence one's choice of jobs, if such a choice should arise. For example, a marked preference for working for oneself rather than for others may partly relate to this problem of recognition both in terms of status as well as in terms of one's reaction to being ordered around. M. I. Finley has argued that the absence of wage employment in ancient Greece was related to this question: "What we rarely find is the free wage labourer, for such a man was 'under the restraint of another', in Aristotle's phrase, and even the poorest Greek avoided that position if he possibly could."<sup>4</sup> Marxian discussions of "alienation" also relate closely to this question. So do the recent discussions on the "dualism" of the labour market in the developing countries – in particular the reluctance of peasants to accept wage employment elsewhere unless the wages are relatively high.<sup>5</sup>

A specific aspect of this question is the position of women. While women have not always followed Benjamin Franklin's advice to Catherine

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<sup>3</sup> ILO (1971), p. 26.

<sup>4</sup> Finley (1959).

<sup>5</sup> See, for example, Visaria (1970).

Ray: "Go constantly to Meeting – or church – till you get a good Husband – then stay at home, and nurse the Children, and live like a Christian",<sup>6</sup> women's ability – and indeed their inclination – to accept outside employment have usually been severely constrained. On the other hand, the jobs done by women within the home have typically not been regarded as "employment" at all, and the story of the man marrying his cook and thereby reducing both the national income as well as the employed workforce has rarely been viewed as an economic scandal.

In contrast with the recognition aspect, the production aspect of employment is less psychological and deals with the output produced. The theory of "disguised unemployment" has been concerned with the number of people who can be removed from the traditional sector (usually peasant agriculture) without affecting the output level there. Consider the following example, involving a peasant family of four working members with a small plot of land – providing enough productive work for two full-time workers but no more. Each of the four working members works half time (or with half the "intensity" of effort), and when one of them leaves for the town, the others work that much harder leaving the total labour effort and total output unchanged.<sup>7</sup> Was this man "unemployed"? He was certainly working and earning something, and conceivably he also valued being in the family enterprise. Clearly he was *not* "unemployed" in every sense, but this is thought to be a case of "disguised unemployment" in the sense of the family output being unaffected by his departure.

The income aspect of employment, in contrast, can be altogether divorced from the production aspect, though usually the two are related. If a government wants to increase the income of a certain group of people, or of a certain region, one of the most effective means is by expanding employment. Keynes thought of paying people to dig holes and fill them up in order to expand effective demand in a situation of unemployment, and similar policies may also be relevant for redistributing income between regions or communities even when the total output is unresponsive to an expansion of effective demand.<sup>8</sup> Employment has often been thought of as an effective means of income distribution. While the same function can be served simply by paying doles or subsidies, the political difficulties involved may well be considerable.

The income aspect of employment is concerned with that part of one's income which is received on condition that one works. If one enjoys a share of the joint family income whether one works or not, then that share is, obviously, not covered by the income aspect of employment. The focus of the income aspect of employment should, therefore, be on this

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<sup>6</sup> *The autobiography of Benjamin Franklin*, selected and arranged by C. van Doren (New York, Pocket Books, 1940), p. 254.

<sup>7</sup> For the assumptions necessary and sufficient for this to happen, see Sen (1966) and (1973), Ch. 4.

<sup>8</sup> See Chopra (1972).

question of conditionality, and not just on whether the income level is high or low.<sup>9</sup>

In the case of self-employment, the income aspect is not easy to separate from the production aspect. A family farm's income comes from its production and contributing to the latter expands the former as well. But what about the individual? Or the nuclear family as it breaks away from a joint family in the process of migrating to the town? The identification no longer holds. Even though the nuclear family might not have been making any net contribution to the joint family output, as in the example discussed earlier in this section, it was receiving a share of the joint family income and was in fact living on it. While the contribution to net output might have been zero or very small, the amount of income enjoyed was more than that.

It could, however, be asked whether the income enjoyed was related in any way to the work done rather than being a "social" requirement for a joint family. There would typically be a clear relation. One would usually have precious little chance of enjoying a share of the joint family income if one refused to take part in the family work. Thus, even though the departure of this man (or this nuclear family) might leave the total joint family output unchanged, so that from the production point of view he (or it) would have been in "disguised unemployment", nevertheless from the income point of view the man (or the working members in the nuclear family) might have been "employed".<sup>10</sup>

To avoid possible confusion I should comment on the distinction between the income approach to unemployment as developed here and the view that "an adequate level of employment must be defined in terms of its capacity to provide minimum living to the populations".<sup>11</sup> The ILO Mission to Kenya took an approach to unemployment similar to the latter, and indeed put "the greatest emphasis on . . . the poverty level of returns from work".<sup>12</sup> This criterion of unemployment – essentially as a matter of inadequate income – has cropped up in other works as well.<sup>13</sup>

As a criterion for the existence of a social problem, inadequate income is of obvious relevance. The question is whether it is best viewed as a criterion of *unemployment* as such. There is a good case for keeping the concepts of poverty and unemployment distinct, without of course assuming them to be independent of each other. Employment is an important means of generating and distributing income, but a person can be rich yet unemployed

<sup>9</sup> Contrast ILO (1972), p. 1.

<sup>10</sup> This has some relation to the discrepancy between the low estimates of unemployment in rural India according to the standard measures (see Government of India (1970)) and the high estimates obtained by using the production approach, e.g. by Mehra (1966). See Sen (1973), Appendix A.

<sup>11</sup> Dandekar and Rath (1971).

<sup>12</sup> ILO (1972), p. 1.

<sup>13</sup> See Raj Krishna's (1973) illuminating study of the alternative approaches to the estimation of unemployment in India. Contrast, however, the "income approach" to unemployment presented here (and extensively analysed in Sen (1973)), which is quite different from one based on poverty as such.

if he has other sources of income and also a person can work very hard indeed and still be very poor. Poverty is a function of technology and productivity, ownership of means of production, and social arrangements for production and distribution. To identify unemployment with poverty seems to impoverish both notions since they relate to two quite different categories of thought. Further, it can also suggest erroneous policy measures in seeking extra work for a person who is already working very hard but is poor.

In contrast, the income approach used here is concerned not with checking whether a person's income is high or low, but with the extent to which it is conditional on the work he performs. From this point of view, a member of a joint family working on the family farm is to be regarded as unemployed if he would continue to receive economic support even if he did not work on that farm, but is to be regarded as employed if his emoluments would cease if he stopped working there. In the determination of the supply price of labour for work elsewhere, the precise institutional arrangements for income sharing are most important.

This distinction is also of some importance in assessing the extent of surplus labour at the peak agricultural seasons. It is quite common for labourers engaged in other activities, e.g. services and industries, to migrate to their family farms during the busy weeks.<sup>14</sup> This may mean that without their labour the agricultural output would be lower, but not necessarily. Working is not merely a method of producing output, it is also a way of establishing one's rights to a share in the family income from a joint farm. It is, therefore, possible to overestimate the workforce requirement during the peak seasons if we consider only the actual numbers sharing in the activities in those periods, sometimes leaving other work to do this. One has to take into account the institutional set-up and the principles of income-sharing that are in use in peasant communities.<sup>15</sup> Measures of unemployment as seen from the production point of view and from the income point of view can differ sharply, and they have very different bearings on economic policy making.

## 2. Production modes, institutional structure and labour utilisation

As discussed in the last section, the concept of employment has several different aspects and the relationship between them depends on the precise institutional structure for production and distribution, which varies considerably in developing economies. In studying the effectiveness of labour utilisation, the modes of production and distribution again assume

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<sup>14</sup> Doubts about the existence of "disguised unemployment" are frequently based on this observation.

<sup>15</sup> The fact that sometimes male labourers moving to the towns in order to work as domestic servants or in industry leave their nuclear family behind with the rest of the joint family does tend to put them under a straightforward obligation to come and help in the peak farming activities. The relation between economic support and work obligations is a particularly complex one in the traditional agrarian societies.

some prominence. Some of the relevant contrasts can be brought out in terms of an extremely simple model.

Let  $x$  be the amount of labour time supplied by a typical labourer and  $n$  the number of such persons. Hence the total amount of labour time  $L$  is given by:

$$L = nx. \quad (1)$$

Given the non-labour resource base, output  $Q$  is assumed to depend simply on  $L$ , increasing at a diminishing rate as more and more labour is applied:

$$Q = f(L), \text{ with } f' > 0 \text{ and } f'' < 0. \quad (2)$$

Note that  $f'$  stands for the marginal product of labour, and the lower its value the higher is the corresponding total output  $Q$ .

The effort involved in working is a function of the amount of labour, and to simplify the picture it is assumed that the required compensation for an additional unit of work is constant, measured in units of output:<sup>16</sup>

$$S(x) = zx. \quad (3)$$

The work equilibrium will therefore be characterised by the condition of equating  $z$  with the gain from an additional unit of work. It is assumed that of the additional output produced by such work the labourer gets a proportionate share of  $a$ , with  $a$  lying between 0 and 1. The person values a unit of output going to others at  $h$  per unit (in terms of units of output enjoyed by himself).<sup>17</sup> Typically,  $h$  also will lie between 0 and 1. If the person is completely "alienated" from others, then  $h = 0$ . If he puts the same weight on his own income as on the income of the others involved, then  $h = 1$ .

The work equilibrium will be given by the equality of the cost of an additional unit of labour (i.e.  $z$ ) to the reward from it. The direct reward of the person providing the effort is  $af'$ , while  $(1 - a)f'$  goes to others and this he values at  $h(1 - a)f'$ . Hence:<sup>18</sup>

$$z = [a + (1 - a)h] f'. \quad (4)$$

As was noted before, in view of (2), the lower the value of  $f'$ , the higher is the total output produced:

$$Q = G(f'), \text{ with } G \text{ diminishing.} \quad (5)$$

Putting (4) and (5) together, we obtain:

$$Q = G(z/[a + (1 - a)h]), \text{ with } G \text{ diminishing.} \quad (6)$$

We conclude that output and employment will be larger if:

<sup>16</sup> This is an oversimplification; for a more general model see Sen (1973), section 3.3; also Sen (1966).

<sup>17</sup> The value of  $h$  would depend not only on one's "concern" for others' welfare but also on their respective income levels; if one is richer than others,  $h$  could even exceed 1. For an analysis of the underlying behaviour assumptions see Sen (1966), (1966a). See also Hymer and Resnick (1969), Wellisz (1968), W. C. Robinson (1969), (1971), Jorgenson and Lau (1969), and Zarembka (1972).

<sup>18</sup> There must be some "boundary conditions" on the total amount of labour that can be supplied by a typical person, i.e.  $x \leq x^*$ , and there is no guarantee that (4) would hold for  $x \leq x^*$ . See Sen (1973), section 3.3.



- (i)  $a$  (own share) is larger
- (ii)  $h$  (concern for others) is larger
- (iii)  $z$  (labour cost) is smaller.

This shockingly simple framework is, however, broad enough to permit a preliminary sorting out of issues for the different modes of employment on a comparative basis. However, there are variations in technological parameters also, especially related to the possibilities of utilising technologies that require a larger scale of operation. The production function that is suitable for a large wage-based factory enterprise might not be available to a small household production unit. This is not very easy to integrate into the framework outlined here and we shall do it – shamefully naively – through a “technology parameter”  $\beta$ . The object of the exercise is to be able to catch the relative advantages of the different modes in terms of output production and when a mode lends itself to larger-scale operation we shall reflect this advantage through a higher value of the multiplicative parameter  $\beta$  (always positive) applied to  $f$ :

$$Q = \beta f(L), \text{ and} \quad (7)$$

$$Q = G(z/\beta[a + (1 - a)h]), \text{ with } G \text{ diminishing.} \quad (8)$$

In the table a rough schematic structure for the four influences ( $a$ ,  $h$ ,  $z$  and  $\beta$ ) is considered for four modes of labour use, viz. “family system”, “extended family system”, “wage employment” and “co-operative system”; these are, of course, only very rough stereotypes.

Category	Parameter	Family system	Extended family system	Wage employment	Co-operative system
Own share	$a$	High	Medium	High?	Low
Concern	$h$	High	Medium	Low	Medium?
Labour cost advantage	$1/z$	High	High	Low	High?
Technology	$\beta$	Low	Medium	High	High

Note: We take the inverse of  $z$  rather than  $z$  itself, so that “high” means a positive influence rather than a negative one.

As far as  $a$  (own share) is concerned, it is obviously high for the family system since a family is a small unit and each worker will get back a high share of his contribution to output.<sup>19</sup> This share will be less for an extended family since  $a$  may correspond roughly to  $1/n$ , where  $n$  is the number of people involved, which will be larger for the extended family. For a co-operative run on a larger scale,  $a$  will tend to be smaller still, if the distribution system in the co-operative is geared towards some family-type criterion. A co-operative that is run on the basis of payments according to

<sup>19</sup> For share-cropping and other feudal systems in agriculture,  $a$  will be smaller.

work rather than on some criterion of needs may approximate "wage employment" in essential respects and should be put in that category.<sup>20</sup>

As far as wage employment itself is concerned, if the marginal productivity theory of wages held,  $a$  should equal 1, but the weaknesses of that theory are well known. In any case, if the market is not competitive and there are monopolistic elements in the product market or monopsonistic features in the labour market, the wage earner will get less than his marginal product even according to neo-classical theory.

Coming now to  $h$  (concern for others' income), members of the same family are likely to have much concern for each other, so that  $h$  should be high. This may be less so for the extended family and still less for a large co-operative, even though that will depend very much on the values and social consciousness of the society in question. Under the capitalist wage system it may be expected that the wage earner's interest in the welfare of the capitalist, who takes away a part of his product, will be rather slight.

As far as  $z$  (labour cost) is concerned, one of the common features of models of the "dual" economy is the relatively low level of the supply price of labour in the family system (and this should also apply to the extended family as well as to a co-operative organised in a community-centred way) as opposed to capitalist wage employment.<sup>21</sup> The capitalist is deterred from choosing relatively labour-intensive techniques by the level of the wage rate he has to pay. But the height of the wage rate may reflect institutional constraints and the labour cost calculations of the family enterprise may be completely different. To what extent this cost advantage will apply to a co-operative enterprise as well will depend on how alienated the members of the co-operative feel from the management and from each other. At one extreme is the case of the co-operative being one big family and at the other is the case in which members treat their work simply as a source of income. The value of  $z$  will depend on the appropriate assumption.

Each system seems to have some advantages and also some disadvantages. All of them survive today in different parts of the world – sometimes even side by side. Wherever the technological advantages of large scale are particularly important, e.g. in modern manufacturing, the family system and the extended family system tend to die out. They survive in areas where the technological advantages of scale are not too great (especially when scale is reckoned in terms of the size of the workforce), whereas traditional values reinforce the preference for working for oneself or for the family, e.g. in agriculture.<sup>22</sup>

The case of the non-wage co-operative mode involves the most challenging questions of organisation of employment and production. In

<sup>20</sup> There are, however, some special problems with co-operative payment according to work as well, on which see Ward (1958), (1971), Domar (1966) and Sen (1966a), (1973a).

<sup>21</sup> See Sen (1966).

<sup>22</sup> For a comparison of data from 28 different countries and their interpretation in the light of the analytical model proposed here see Sen (1973), Ch. 3.

principle it can combine the technological advantages of a wage system with the cost advantages of a family-type mode, with a high technology parameter  $\beta$  and a low labour cost  $z$ . While the share  $a$  may be low, given a socially oriented motivation a high value of  $h$  can compensate for it, as should be obvious from (6) or (8).<sup>23</sup> Not surprisingly in countries making major efforts in the direction of non-wage co-operative production, such as China, much emphasis has been placed on a cultural reorientation of behaviour and a complete revision of work motivation.<sup>24</sup> The opportunities for effective utilisation of economic resources depend not merely on technological and institutional considerations (e.g.  $\beta$  and  $a$ ), but also on the social psychology of the people (affecting  $z$  and  $h$ ).

### 3. Employment, income distribution and consumption

In the last section employment was considered from the point of view of output generation. Shifting our attention now from the production aspect to the income aspect, it becomes essential to examine the relation of employment to income distribution, which is indeed an important aspect of employment policy. There are very few methods of distributing income that are thought to be as effective as offering employment. It is worth inquiring why this should be so.

The question can be asked whether the aim of giving income to economically depressed groups could not be better served by simply paying these people subsidies. To concentrate on the income approach only, we leave out of this picture the recognition aspect; people may in fact prefer to receive income for work rather than be on the dole, but let us not go into this question here. So we now have a case of employment that has no consequence for production and that has no recognition aspect. Under these circumstances, it could well be asked: why make the poor work rather than simply hand them subsidies?

Two types of issues seem to be relevant in answering this question, and each involves more than economics. First, a widespread system of pure subsidies in a developing economy may be difficult to run because of the possibilities of corruption involved in it. By relating payment to employment, these possibilities may be substantially reduced since the records are easier to check and fictitious payments by corrupt officials easier to eliminate. Second, if the subsidy mechanism is not broad enough to cover everyone owing either to a lack of funds or to the limitations of the administrative machinery, there is a serious problem of selection of beneficiaries for special favour. By

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<sup>23</sup> In the extreme case where  $h = 1$ , the value of  $Q$  is completely independent of  $a$ . The higher the value of  $h$ , the lower the sensitivity of  $Q$  to  $a$ .

<sup>24</sup> See Hoffmann (1967), J. Robinson (1969) and Riskin (1973) for illuminating analyses of the experiments on work motivation in China. See also Ishikawa (1973) for an important general study of choice of technology in China.

offering people jobs rather than pure subsidies, the government may be less exposed to charges of arbitrary discrimination, and indeed it is possible to discriminate in favour of those who need support most and are ready to work for it. This type of administrative and political consideration may provide the rationale of employment schemes for the purpose of income redistribution, such as the one with the somewhat distinguished name "Crash Scheme for Rural Employment", launched in India in 1971.<sup>25</sup>

There is, however, a problem of feasibility even in the case of the employment method of redistributing income. Suppose  $n$  jobs are to be offered at  $w$  wage rate. If only  $n$  people wish to work at that wage rate, then clearly there is no problem of selection, though in that case the question can be raised as to whether the wage rate is enough of a hidden income subsidy. If, on the other hand, more than  $n$  people try to get these jobs, the question of selection and therefore of arbitrary discrimination would crop up again.<sup>26</sup> So would the possibility of corruption and bribery. Employment may not, therefore, be as fine a method of income redistribution as it is sometimes made out to be. The crux of the matter is that the whole purpose of pure redistribution is to give something free, and given that fact – no matter how the process is administered – it will tend to generate pressures influencing the officials involved in the give-away. Whether the employment mechanism minimises these problems more than the other vehicles of redistribution is still an open question. A detailed examination of the feasibility constraints is essential.

Turning now to the other side of the coin, it is important to recognise that since employment generates income and purchasing power, the feasibility of employment creation is also constrained by the availability of the consumer goods the demand for which will expand with employment. This has a significant bearing on employment policy. One of the commonest problems of employment policy is to choose between two alternatives, one of which, say alternative A, produces more output but yields less employment than alternative B, all other resources being equal. Should B be chosen, despite its lower productivity, if employment is regarded as an important goal? No doubt such an argument can be made out, but it is not necessarily an easy one to defend. B is, of course, technically inefficient, but this need not in itself be a sufficient reason for rejecting it.<sup>27</sup> The important question is: what determines the aggregate level of employment? Does the level of employment in one enterprise influence that in others?

If more employment is sought, we have to ask why is it not possible simply to hire more people in some public sector project such as road building? It can be argued that the main difficulty here lies in the need for consumer goods to meet the additional demand arising from the additional

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<sup>25</sup> For a detailed examination see Sen (1973), Appendix B.

<sup>26</sup> In the Indian experiment this seems to have been a serious problem (*ibid.*).

<sup>27</sup> If employment is a desirable goal in itself, B can be "superior" from the social point of view despite technical inefficiency.

wages bill. When more people are hired, more wages will be paid out, thereby creating more effective demand. In a situation of Keynesian unemployment, this would, of course, lead to more supply, but not so in the developing economy given the fact that typically, in such an economy, output is restricted by resources and organisation rather than by effective demand.<sup>28</sup> Thus the extra demand arising from the additional wages bill will simply have to be met from some reallocation of the existing output, e.g. through inflationary readjustments, which may have considerable political and economic repercussions, and can also involve reduction of employment elsewhere.

It is this fact which casts serious doubts on the view that aggregate employment can be easily raised at the cost of reducing output of consumer goods. If in the choice posed earlier, alternative B is chosen, yielding more employment and less output, the opportunity of creating employment elsewhere will be less because of the reduction of output.<sup>29</sup> In fact at the risk of oversimplification, the total opportunity of wage employment  $\hat{E}$  can be viewed as being given by the available supply of wage goods  $M$  and the real wage rate  $w$ , assuming that all wages are consumed:

$$\hat{E} = \frac{M}{w} \quad (9)$$

A reduction in output would tend to reduce  $M$ , so that even if direct employment in this project is larger, its over-all impact on total employment can be negative.<sup>30</sup>

This type of consideration has an important bearing on the framework in which employment policy may be discussed. Important contributions have been made in recent years by analysing the generation of "indirect employment" through input-output relationships. The creation of demand for related goods can be taken to expand employment through their labour content.<sup>31</sup> If this is interpreted as a model of *determination* of total employment (direct plus indirect), there are obvious problems, since what the process really implies is the creation of a market demand for labour.<sup>32</sup> In a completely free enterprise economy this may be the way employment is determined, but if there is employment planning by the government, the real bottleneck to employment expansion will be in the supply of wage goods rather than on the demand side, which the government can in any case alter

<sup>28</sup> See Das Gupta (1954), (1956), and Rao (1956).

<sup>29</sup> The argument is immediate if the output in question is of goods consumed by the wage earners. If the product consists of capital goods, a similar argument exists through the possibility of shifting resources between the production of capital goods and that of consumer goods. The same holds for the case of consumer goods of other kinds.

<sup>30</sup> If alternative B involves a lower real wage, that fact will tend to work in the opposite direction, but it need not fully cancel out the greater employment potential of the larger output of A. However, the picture is simplest when there is a uniform wage rate, as is assumed in (9).

<sup>31</sup> See, for example, Hazari and Krishnamurty (1970), and Gaiha (1972).

<sup>32</sup> In this sense it is an extension of the older concept of the "employment multiplier" (Keynes (1936)).

through public sector projects if wage goods are available. The framework of analysis in terms of direct and indirect employment is useful in exploring the creation of market demand for labour, but to interpret it as a process of determination of employment would be a hang-over from the Keynesian model of demand bottleneck.

A government pursuing the employment objective seriously should always be able to make up the gap between the employment opportunity as given by (9) and the existing demand for labour. The distinction is important when doing project evaluation in terms of the employment objective, because the question does arise whether to take credit for the "indirect employment" to be generated by the project through the demand for related goods and thus through the derived demand for labour. The answer really depends on the government's own policy. If it merely maintains law and order, and does not pursue any employment policy, then it may make sense to count in the "indirect employment", since demand may also be a bottleneck. If, however, the government does try to expand employment subject to the constraint given by (9), it can always make up for any demand gap, so that (9) will be the binding constraint. Employment will then depend simply on the supply of wage goods.

This analysis is based on the use of the wage system at a given real wage rate. The advantages of lower real cost of labour for certain modes of production and employment have been discussed earlier. One way of breaking through the barrier of (9) is to use a non-wage system of employment generation, e.g. through co-operative work projects in which the reward for extra work comes only later in the form of greater output for the co-operative and the community. This is essentially a method of extending the advantages of a non-wage family system<sup>33</sup> to operations of larger scale.

## 4. Dualism

In the controversial field of economic development one of the few areas of agreement is on the existence of multiple labour markets in many developing countries. Wage gaps are a common feature of such different models of growth as those of Lewis (1954) and Fei and Ranis (1964) on the one hand, and those of Jorgenson (1961) and Zarembka (1972) on the other; and there are also the models of Marglin (1966), Dixit (1968), Hornby (1968), Newbery (1972), and Stern (1972), to mention just a few.

In the case of the wage system the gaps are readily noticeable in terms of differences in the wage rates for the same kind of labour in different labour markets. However, when one contrasts a wage-based labour market with

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<sup>33</sup> There have been some attempts to use this strategy in China, and whether (9) would be binding or not would depend on the possibility of expanding employment outside the wage system. The question of appropriate work motivation is crucial for the possibility of exploring this avenue.

labour use under a non-wage system, one has to be careful about defining real labour costs appropriately. For "self-employed labour" or "unpaid family labour" the appropriate cost of labour is given by the rate of substitution between output and non-work that is acceptable to the labourer.<sup>34</sup> If a self-employed person accepts two units of output as making it just worth his while to put in an additional unit of work, then 2 is the relevant "real labour cost" expressed in terms of output.

One has to be careful in interpreting the "real labour cost" since the substitution in question is not that between the person's labour and his *own share* of output, but that between the former and the *entire* output produced by that unit of his labour. For example, if he gets one half of the output contribution he makes and regards two units of output, of which he gets one unit, to be just adequate compensation for his work, then the real labour cost is 2 and not 1. In terms of the model outlined earlier, the real labour cost  $j$  is given not by  $z$  but by:

$$j = z / [a + (1-a)h]. \quad (10)$$

Only with a homogeneous family unit – typically a nuclear family rather than a joint family – when one's "own share" is the whole ( $a = 1$ ), or when concern is total ( $h = 1$ ), could we have the special result:<sup>35</sup>

$$j = z. \quad (11)$$

In general it is  $j$  and not  $z$  that has to be compared with the ruling market wage  $w$  since  $j$  and  $w$  would play identical roles in decisions on labour allocation.

While the formula given by (10) involves psychological factors, estimating  $j$  on the basis of observed choices need not bring in these factors explicitly. In such an exercise of estimation one would have to check precisely at what point the labourer in question stops putting in additional units of labour and to see the implied value of  $j$  from it in terms of production possibilities. The value of (10) lies not in this estimation, but in understanding the underlying process and in interpreting the estimates.

The problem of estimation is simpler for wage-based labour markets in which the operating wage rates can be easily observed. However, there is need for caution in interpreting the wage rate as the real labour cost in any market in which imperfections exist. For example, if labour is available at a given wage rate  $w$  but the output thus produced is sold in an imperfect product market, then the profit-maximising capitalist would apply labour to the point such that the wage rate  $w$  is equated to the marginal revenue product.<sup>36</sup>

<sup>34</sup> If the non-wage labourer simply obeys the commands of the head of the family enterprise, then the valuation has to be that of the head in question.

<sup>35</sup> Cf. Sen (1966).

<sup>36</sup> That is:  $w = f'(L)\{1 - \frac{1}{e}\}$ , where  $e$  is the elasticity of demand for the product of this firm and  $p$  the price of it. In units of output the "real labour cost"  $j$  would then be not  $w$  but:  $j = w/(1 - \frac{1}{e})$ . Similar corrections would have to be made if there were monopsonistic elements in the labour market. See J. Robinson (1933).

Needless to say that if the output of the non-wage unit is sold in an imperfect product market, then a similar correction would have to be made in the formula given by (10) as well. Frequently, this would not be needed since the peasant family units typically tend to sell their product in a market with innumerable sellers, e.g. in peasant agriculture, but there can be exceptions, as in the case of family-based production units making specialised handicrafts in which each producer may enjoy a substantial share of the market.<sup>37</sup>

The dualism of labour markets can have a number of different causes, which it is necessary to distinguish clearly. They include:

(1) *Labourers' job preferences*: The labourer in question could actually prefer to be in one sector rather than in another, e.g. working in peasant agriculture rather than in wage employment in the town.

(2) *Indivisibilities in labour supply*: A labourer could prefer to work half time in his farm and half time in a factory but he may not be able to do this given the physical problems of location and the organisational problems of the factory system. To take up a job in the factory he may have to leave his farm altogether or at least for long stretches of time, and the same may be true of accepting a job in, say, an irrigation project. High transport costs, as well as the monetary and psychological costs of settling in, may persuade the labourer to stick to his farm unless the reward elsewhere is very high. But settled in his own farm the supply price of labour  $z$  and the real cost of labour  $j$  for hours (or days) of effort may be comparatively low.

(3) *Loss of share of family income*: A movement away from one's farm may involve the loss of one's share of the family income. In terms of orthodox economic theory it is possible to split the earnings of the peasant into two parts – one being the reward for labour and the other that for being a joint owner of family resources, in particular the plot of land. But there is a kind of labour theory of value which tends to influence the distributional principles in a peasant society, and the possibility of the ex-peasant working in the town but nevertheless cashing in the "implicit rent" on his share of the land is usually rather remote. The peasant in question may have an economic incentive not to move even when his marginal contribution to the family income is negligible or low.<sup>38</sup> What wage he will accept as minimal compensation will depend partly on his concern for the welfare of the joint family compared with that for his own welfare (or the welfare of the nuclear family).

(4) *Labour legislation and union pressure*: In many countries there is labour legislation specifying a minimum wage for employment in the organised sector, and even if the number of people seeking such jobs far

<sup>37</sup> It may also sometimes be the case that essentially identical labour is sold at different prices because of artificial distinctions. A typical example of this is the Indian phenomenon of using highly educated labour in jobs that do not at all require that type of education. On this see Blaug, Layard and Woodhall (1969), and Sen (1971).

<sup>38</sup> See Sen (1973), Appendices A and B.



exceeds the number of jobs available, still the wage rate does not decline. The same result is sometimes achieved by unionised labour through wage bargaining. This provides a straightforward institutional explanation of the wage gap between organised and unorganised sectors.<sup>39</sup>

(5) *Employers' incentives for paying high wages:* The employer is, under certain circumstances, better off paying wages higher than the minimum at which he can recruit labour, partly to reduce the costs of rapid labour turnover, partly to avoid discontent and potential labour strife, but also because higher wages may have a direct impact on labour productivity through better nutrition and greater ability to work hard.<sup>40</sup>

The consequences of the dual labour markets depend on the cause of the phenomenon. For example, if the wage gap arises from labour legislation or union pressure (cause 4), or from the employers' incentives for paying high wages (cause 5), then not only will there be different wages in different markets, but labourers from the low-labour-cost sector will be available in substantial number to move to the high-wage sector. The high wages will be restrained from falling by legislation, or union action, or the employers' expected profit calculations, but many people will be looking for jobs and will be ready to work even at somewhat *lower* wages. If, however, the explanation is labourers' job preferences (cause 1), or indivisibilities in labour supply (cause 2), or loss of share of family income (cause 3), the wage gap will be a reflection of labour supply constraints, and there will not be a mass of people hanging around in readiness to work at lower wages.<sup>41</sup>

The wage gap under causes 4 and 5 leads to rather complicated decision problems for the potential wage labourer. If he gets a job at the ruling wage, he will clearly prefer it to working in the family-based production unit. On the other hand, he prefers his current work to unemployment. Given such a ranking it can be argued that he will be indifferent between the certainty of his job in the family system and a given probability mixture of getting a high-wage job in the organised sector and being unemployed.<sup>42</sup> This crucial probability  $\rho^*$  of getting a high-wage job is given by (12) in which  $U(w)$  stands for his utility from employment in the high-wage sector,  $U(y)$  for that from his current family-enterprise employment, and  $U(0)$  for that from unemployment, with  $U(w)$  larger than  $U(y)$  and  $U(y)$  larger than  $U(0)$ :

$$U(y) = \rho^*U(w) + (1-\rho^*)U(0). \quad (12)$$

<sup>39</sup> Bhalla (1970) argues that it may not be in the interest of the class of labourers as a whole to bid down wages since people benefit from income transfers from their high-wage-earning relatives. This implies some "tacit collusion".

<sup>40</sup> On the last see Leibenstein (1957), Mazumdar (1959) and Galenson and Pyatt (1964).

<sup>41</sup> There may, however, be a large "reserve army of labour" available for work at the ruling wage rate given by the subsistence level in one version of cause 3; see Marx (1887); also Lewis (1954).

<sup>42</sup> This is not an analytic requirement and there is obviously no mathematical reason why such a probability must exist. However, it seems to be a reasonable behavioural postulate and implies essentially a continuity assumption. On this see von Neumann and Morgenstern (1947).

Obviously,  $\rho^*$  will lie between 0 and 1. A rather simpler version of this approach has been presented by Harris and Todaro (1969), in which the calculation is done not in terms of utility but directly in terms of incomes. If  $y$  is the income of the person in the unorganised sector and  $w$  that in the high-wage sector, with  $w$  larger than  $y$ , then the person is assumed to be indifferent between the certainty of getting  $y$  and probability  $\rho^*$  of getting  $w$  and  $(1 - \rho^*)$  of getting nothing when:<sup>43</sup>

$$\rho^* = \frac{y}{w} \quad (13)$$

If the subjective probability  $\rho$  of getting high-wage employment in the town is greater than  $\rho^*$ , then this person moves to town; if less, he does not. If  $\rho$  exceeds  $\rho^*$ , then more and more people crowd into the towns, thereby raising the incidence of unemployment and reducing the proportion of the workforce that is employed there until their subjective probability of employment  $\rho$  comes down to  $\rho^*$ . The opposite happens if we start from  $\rho$  less than  $\rho^*$ , and the equilibrium given by  $\rho = \rho^*$  is stable according to this adjustment process.

This is a theory of the determination of the subjective probability  $\bar{n}$  of finding a job. More has, however, been read into it, and a model of the determination of the urban unemployment ratio has been based on it. By assuming that the subjective probability of employment in this high-wage sector is equal to the ratio of the employed to the total workforce in that location, the condition of subjective equilibrium given by (13) has been converted into a theory of the determination of the *actual* ratio of the employed to the workforce.<sup>44</sup>

One consequence of making this translation and of interpreting (13) thus, is to make the market wage rate equal the opportunity cost of labour. For every person in employment there has to be  $(1/\rho^*)$  people in the urban workforce and thus the alternative earnings forgone are  $(y/\rho^*)$ , which by virtue of (13) exactly equal  $w$ . What the market pays the labourer equals, on this interpretation, the corrected opportunity cost of his employment. The Invisible Hand strikes again!

There are, however, several difficulties with this analysis. First, the workers in question need not have the behavioural characteristics implied by (12), i.e. may not be expected utility maximisers. In matters of "life and death" such as these decisions involve, affecting one's entire economic existence, the assumption of expected utility maximisation is recognised to be quite restrictive. Second, even if they do follow (12), they may not follow

<sup>43</sup> This corresponds exactly to (12) if utility is a linear function of income. Choosing the origin arbitrarily as  $U(0) = 0$ , we get  $U(w) = w$  and  $U(y) = y$  through appropriate choice of units.

<sup>44</sup> See Todaro (1969) and Harris and Todaro (1969). See also Harberger (1971), pp. 568-572. Stiglitz (1972) provides an alternative set of assumptions that also lead to induced unemployment just offsetting the gap between the wage rate and the opportunity cost of labour in a model in which the government directly controls the urban employment level and the ratio of urban unemployment, or equivalently directly controls the urban employment level and the urban wage rate.

(13), which requires them to maximise expected *income* and not expected utility, which rules out diminishing marginal utility with increasing income. Third – and perhaps more important – the people in question may not think of the possibility of employment in terms of a given probability of getting a job *independent of time* but in terms of a definite period of *waiting* after which they can expect to be employed. Studies of unemployment in several developing countries<sup>45</sup> have indicated that the way the labour market adjusts to variations of excess supply is mainly through a variation of the length of time a person has to wait before he gets his first job. On this interpretation, the way to bring the excess labour supply situation into the individual's rational calculations is through a discounting of future higher incomes and not through a probability weight independent of time. Various intermediate possibilities can also be considered.<sup>46</sup>

Finally, even if people do think exclusively in terms of expected probability of employment, as given by (13), they may not identify their subjective probability of employment with the actual ratio of the employed to the workforce, and it is only under this very special interpretation that the Invisible Hand could grab the prize.<sup>47</sup>

## 5. Dualism and resource allocation

While in the last section the wage gap was defined in fairly general terms, the focus of our attention was on rural-urban differences. There are, however, important problems that arise from dual labour markets *within* the agricultural sector itself. The total amount of labour  $L$  applied in a family farm and the output  $Q$  produced in the farm can be seen to be determined by the "real labour cost"  $j$ :

$$L = E(j), \text{ and} \quad (14)$$

$$Q = G(j). \quad (15)$$

Both  $E$  and  $G$  are strictly diminishing functions of the real labour cost.<sup>48</sup> For wage-based farms with the same production possibilities, (14) and (15) give the relevant relationships if  $j$  is replaced by the wage rate  $w$ .

The essence of dualism lies in the simple fact that:

$$w > j. \quad (16)$$

<sup>45</sup> See Blaug, Layard and Woodhall (1969), ILO (1971), (1972). See also Sen (1973), Appendix A, on the average lag between registration in Indian employment exchanges and the first call.

<sup>46</sup> See Anand (1971).

<sup>47</sup> Note also that even if this theory of urban unemployment were accepted, this would equate the wage rate  $w$  only to the private income interpretation of the opportunity cost of labour from the traditional sector. The latter can diverge from the "production aspect" of the opportunity cost when the "implicit rent" from his share of the joint ownership of land is lost to the migrant as he moves.

<sup>48</sup> The real labour cost  $j$  is given by  $z/[a + (1 - a)h]$ , and  $E(j) = f^{-1}(G(j))$ .

It follows from the fact that  $E$  and  $G$  are strictly diminishing functions of  $j$  that:

$$E(w) < E(j), \text{ and} \quad (17)$$

$$G(w) < G(j). \quad (18)$$

That is, the family farmers could yield a higher value of labour and output per acre than the wage-based farms. It has been argued<sup>49</sup> that (17) and (18) explain why smaller farms in India tend to have higher productivity per acre than larger ones, since the dependence on hired labour tends to go up as farms of larger size groups are considered.

A special case of (18) has been much discussed in the context of the "relative efficiency" of peasant agriculture and capitalist farming.<sup>50</sup> Taking the real labour cost of "overpopulated" peasant economies to be zero ( $j=0$ ), we get:

$$G(w) < G(0). \quad (18.1)$$

In view of the seasonal nature of agriculture, this argument needs to be somewhat extended.<sup>51</sup> Consider two seasons, in one of which there is a wage gap, viz.  $j_1 < w_1$ , while there is none in the other, viz.  $j_2 = w_2$ . If complete complementarity is assumed so that labour is used in fixed proportions (say, in the ratio  $b : 1$ ), the effective cost of a composite unit of labour in the family farm would be  $(bj_1 + j_2)$  and that in the wage-based farm  $(bw_1 + w_2)$ . It follows immediately from the strictly diminishing nature of the  $E$  and  $G$  functions that:

$$E(bj_1 + j_2) > E(bw_1 + w_2), \text{ and} \quad (19)$$

$$G(bj_1 + j_2) > G(bw_1 + w_2). \quad (20)$$

That is, the employment level and the output volume per acre in the family farm would be higher than in the wage-employment farm.

It is obvious that this result can be easily extended to a model of many seasons, and the directional results will hold as long as there is a wage gap in *at least* one season. Furthermore, it is not necessary that labour in different seasons be perfectly complementary. If we assume that a greater use of labour in one season increases the productivity of labour in other seasons,<sup>52</sup> the result will hold good.

Incidentally, in some models of labour allocation it has been argued that if the seasonality of the production process is taken into account, then surplus labour cannot exist. Perhaps the most interesting of these models is that of Stiglitz (1969). As he puts it, "we have proved that, provided leisure is a superior good and labour supplied at harvest and planting times and at other times of the year are complementary, output must fall as labour migrates to the urban sector: labourers cannot be in surplus".<sup>53</sup> Explaining the difference between his results and those in Sen (1966), Stiglitz says:

<sup>49</sup> Sen (1962), (1964). There has been a vigorous controversy on the subject which is reviewed in Sen (1973), Appendix C.

<sup>50</sup> See Bauer (1948), and Georgescu-Roegen (1960).

<sup>51</sup> Cf. Sen (1966).

<sup>52</sup> That is, the "cross-partial" are non-negative.

<sup>53</sup> Stiglitz (1969), p. 11.

This result can be contrasted with that of Sen (1966). He argues that agricultural output will remain unchanged as labour leaves the agricultural sector if and only if there is constant marginal utility of leisure and income (so the indifference curves are straight lines). The reason for the divergence between our results and his is his strong assumption that  $L^1$  and  $L^2$  (labour supplied at different periods of the year) are perfect substitutes. Even if we allow  $L^1$  and  $L^2$  to be substitutes, but not perfect substitutes, his results will not obtain.

This is, if correct, a very serious criticism of the model of surplus labour since we do know with certainty that labour applied in different seasons is not perfectly substitutable. We cannot replace a day's work at harvest time by a day's work at sowing time, or by a day's work when the crop is quietly growing in the fields while the cultivator is resting his limbs without having much to do. But is the criticism correct? I would argue that Stiglitz gets his result precisely because of an additional assumption brought in by him without much fanfare.

The crucial difference rests in Stiglitz's assumption that, in at least one of the seasons of the year, each person is already doing the maximum amount of work that he *possibly* can, and this combined with the fact that labour applications in different seasons are not perfect substitutes immediately produces the no-surplus-labour consequence. Stiglitz explains his assumption thus:

For simplicity, we shall divide the year into two periods, planting and harvesting, during which labourers are assumed to be fully utilized (i.e. *work the maximum that is possible at those times*), and the other times of the year, during which the supply of labour (hours worked per week) by each labourer is determined so as to maximize utility.<sup>54</sup>

No wonder that this model produces the result that "labourers cannot be in surplus", since it begins by assuming that there is no slack whatsoever in one season, which, combined with the perfectly reasonable assumption that labour in other seasons cannot fully substitute for busy season labour, must yield the no-surplus-labour result! Surplus labour can exist with any degree of substitutability between labour in different seasons.<sup>55</sup>

Coming back to dualism, it is worth mentioning that (17) and (18) apply to wage gaps caused by "labourers' job preferences", "loss of share of family income", or "labour legislation and union pressure", but not necessarily to "employers' incentives for paying high wages". In the last case the relevance of (17) and (18) will depend on the precise reasons behind the employers' higher wage offers. If the motivation is higher productivity (say, due to the influence of improved nutrition), the effective labour cost may not be higher even when wages are greater. The relationships discussed here hold only for differences in effective real labour cost after correction for productivity differences.

Dualism has consequences for various other aspects of resource allocation. One such is the choice of appropriate age of the machinery.

<sup>54</sup> Stiglitz (1969), p. 3; italics added.

<sup>55</sup> See Sen (1973), Chs. 4 and 8, for a fuller discussion.

Consider two sectors *A* and *B* of an economy such that sector *A* has a higher wage and a lower interest rate. (We can think of *A* as "advanced" and *B* as "backward".) The relative prices of old and new machines that would be equilibrating from the point of view of profits in sector *A* would not offer the same rates of profit in sector *B*, and this provides a case for trade in second-hand machinery.

Take the simplest case first. Let the gross profits (quasi-rents) of a machine with a fixed life be  $P$  per year in both sectors *A* and *B*. But the interest rate is lower in sector *A*, i.e.  $r_a < r_b$ . The equilibrium price of the machine one year before the end of its life in sectors *A* and *B* will be respectively  $P/(1+r_a)$  and  $P/(1+r_b)$ , and the corresponding prices two years before its end will be  $\{P/(1+r_a)\} + \{P/(1+r_a)^2\}$  and  $\{P/(1+r_b)\} + \{P/(1+r_b)^2\}$  respectively. The price ratios of the one-year-left machine to the two-years-left machine in sectors *A* and *B* are respectively:

$$\rho_a = (1+r_a)/(2+r_a), \text{ and} \quad (21)$$

$$\rho_b = (1+r_b)/(2+r_b). \quad (22)$$

Since  $r_b > r_a > 0$ , it is clear that:

$$\rho_b > \rho_a. \quad (23)$$

Thus an older machine is a relatively better investment for the high-interest backward sector *B*. The argument can be easily generalised for all periods of time. If the new and old machines all sell in the advanced sector *A* at relative prices such that they are equally profitable investments in sector *A*, then in the absence of transport costs an investor in sector *B* will always find it more profitable to buy an older machine rather than anything of newer vintage.

Of course, it is likely that sector *B* will have not merely a higher interest rate but also a higher gross profit  $P$  since the wage rate there is lower. Will the above argument be affected if we take  $P_a$  and  $P_b$  as the respective quasi-rents and assume that  $P_a < P_b$ ? The answer is: not at all. In fact,  $\rho_a$  and  $\rho_b$  given by (21) and (22) are completely independent of  $P_a$  and  $P_b$ . The relative advantage in favour of older machinery, i.e. (23), holds even though the lower-wage sector may have a higher gross profit per machine in sector *B* and not merely a higher interest rate.<sup>56</sup>

Export of second-hand machinery from countries with high wages and low interest to those with lower wages and higher interest does, of course, take place on a substantial scale. A factor that acts against this is the cost of transport, which is larger if machinery has to be frequently replaced and imported. Also, in countries with import controls and licensing the industrialist may feel more inclined to import a new machine that will last for a long time rather than one which will have to be replaced very soon, thereby requiring a new licence. The latter issue is, however, usually inoperative for transfers between sectors *within* a country, and the

<sup>56</sup> Cf. Sen (1962a). The model can be extended in several directions to take account of labour input variation with age and of technical progress related to vintage; see Smith (1972).

transport costs will also be typically lower than those for inter-country transfers. Such inter-sectoral transfers have been observed on a very large scale in Japan as well as in India. The dualism characterised by differential capital and labour costs not only affect[s] the extent of mechanisation of different sectors but also influences systematically the optimal age structure of capital goods in use.

## 6. Cost-benefit evaluation and shadow pricing

The institutional, technological and psychological aspects touched on in the earlier sections have important implications for cost-benefit analysis of the employment aspect of alternative policies. It is not the purpose of this section to discuss the methods of cost-benefit analysis and the derivation of shadow prices presented and discussed in some detail in Sen (1973), but to comment on some alternative definitions of shadow prices, each used extensively in the literature.

There are, in fact, several alternative definitions of shadow prices and they coincide only under specific (and sometimes very restrictive) assumptions. Four approaches are particularly worth distinguishing:

(1) Shadow prices as the contribution to social welfare (i.e. whatever is being maximised by the planner) of having one more unit of the good or resource in question.

(2) Shadow prices in the technical sense of the "dual" corresponding to the constraint of the resource in question in the maximising programming (primal) problem.

(3) Shadow prices as the accounting prices which if used for profit maximisation lead to the choice of the social-welfare-maximising combination of policies.

(4) Shadow prices as the prices that would equate demand in a competitive market to the competitive supply.

Under some assumptions (1) and (2) correspond to each other closely (see Sen (1968)), so that the technical concept of the shadow price as the "dual" is perhaps best interpreted in terms of the incremental contribution to social welfare made by an additional unit of labour. In some senses (3) coincides with this too, but there are some tactical problems which have been responsible for a certain confusion; these relate to not using shadow prices uniformly but using uncorrected market prices for a few items. For example, consider the following problem. In an economy with surplus labour, the project selector is trying to choose the appropriate labour intensity to maximise a weighted sum of immediate consumption and reinvestable savings valued higher than corresponding units of consumption at market prices.<sup>57</sup> If  $q$  is the market value of the additional output generated by one

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<sup>57</sup> See Sen (1960), Marglin (1966), Little and Mirrlees (1968), UNIDO (1972).

more unit of employment and  $w$  the additional wage, the net gain in social welfare from an additional unit of employment is given by:

$$N = w + (q - w) p', \quad (24)$$

where  $p'$  is the weight on savings (greater than unity with consumption as the unit of account) and where all wages are consumed and all profits saved.<sup>58</sup> Given surplus labour, social welfare will be maximised by going to the point where  $N$  is zero, i.e.  $q$  falls so much that not only is  $(q - w)$  negative but  $w = (w - q)p'$ . The contribution of an additional unit of labour to social welfare will then be zero and the appropriate shadow price in sense (1), and also in sense (2), will be nil as well. But if the project selector decides to refer to the shadow price as that labour cost to which the additional *market-valued* productivity of labour should be equated to get to  $N = 0$ , then clearly this "shadow price" equals  $q = w(p' - 1)/p'$ . Similar "terminological" problems abound in the literature of resource allocation and require careful treatment.

Turning now to sense (4), the assumptions needed to make it coincide with (1) and (2) are very restrictive indeed. This use of "shadow" or "accounting" prices is, therefore, particularly abundant in pitfalls. In his pioneering exercise in using "accounting prices" for development planning, Tinbergen (1958) took this approach:

They [accounting prices] are the prices at which supply is just sufficient to satisfy demand; they represent the value of the marginal product to be obtained with their aid, since projects showing no surplus above the cost, at accounting prices, of the factors used, will be on the margin between acceptance and rejection.<sup>59</sup>

This conception is, obviously, close to the notion of shadow prices as a guide to decentralised decision-taking, since perfect competition is a method of decentralised resource allocation. But the difference between the two approaches is quite substantial. The existence of competitive equilibrium would guarantee only Pareto optimality (and that under certain specific circumstances<sup>60</sup>), and an arbitrary competitive equilibrium need not at all correspond to the maximisation of the objectives of planning, even if those objectives include Pareto optimality.<sup>61</sup>

This concentration on the competitive market led Tinbergen into an unduly narrow framework of accounting prices and also made him come out with a rather limited set of reasons for which accounting prices should differ from the market prices.

In other words, there are two reasons why market prices do not truly reflect "intrinsic values". First, the realisation of the investment pattern will itself influence these values, but only after some time, since investment processes are

<sup>58</sup> For more general models see Sen (1968), (1973).

<sup>59</sup> Tinbergen (1958), p. 40.

<sup>60</sup> See Koopmans (1957), Essay 1.

<sup>61</sup> Further, certain circumstances may rule out the achievement of Pareto optimality through the competitive mechanism, but not decentralised procedures in general.



essentially time-consuming. Secondly, there do exist, in underdeveloped countries especially, a number of "fundamental disequilibria".<sup>62</sup>

This leaves out divergences of accounting prices from market prices arising from the planning objectives being different from whatever it is that the particular competitive mechanism may achieve when in equilibrium. Some of the more important reasons for the divergence between market prices and accounting prices may have nothing whatsoever to do with either of the two reasons suggested by Tinbergen and may relate instead to income distributional judgements, existence of certain types of non-market interdependences between the individuals and groups,<sup>63</sup> and so on.

It should be noticed that while the difference between approaches (1), (2) and (3) to shadow pricing is one of presentation and there is no real conflict between them, the same does not hold for the differences between approach (4) and the earlier three. The prices that would equate demand and supply under the competitive mechanism in a given economic environment may indeed have nothing very much to do with the shadow prices in terms of the other definitions.

## 7. Partial ignorance and policy making

One of the difficulties of using a very broad framework of analysis involving institutional, technological, psychological and political factors is the near-certainty that its practical application will be extremely difficult. Methodologically, one is faced with the choice between using an uncomplicated model which will be easy to apply, but which will miss many important dimensions of employment policy and technological choice, and using a more comprehensive model which will be difficult to apply.

It is worth emphasising in this context that the exercise of systematic economic evaluation should not be viewed as an all-or-nothing game. In some circumstances one may know for certain that the relevant shadow prices lie within a certain range but be unsure of their precise level. It is this type of constraint that has led to the increasing use of sensitivity analysis in project evaluation.<sup>64</sup> However, sensitivity analysis only shows precisely which shadow prices have to be estimated very accurately and which can be assessed somewhat more loosely. It is, in fact, possible to go beyond that and to define rigorously the decisions that can be made with confidence in a state of partial ignorance and those that cannot. Formally, it is possible to think of social preference as a quasi-ordering rather than as a complete ordering. A quasi-ordering may lack completeness, that is, it is possible that a policy  $x$  may be thought to be neither better than, nor worse than, nor indifferent to, say policy  $y$ , while  $x$  and  $z$  and also  $y$  and  $z$  are easily comparable. This type of

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<sup>62</sup> Tinbergen (1958), p. 39.

<sup>63</sup> Some types of "externalities" would rule out the existence of shadow prices in the sense of the dual, but not all.

<sup>64</sup> See UNIDO (1972); also Datta-Chaudhuri and Sen (1968).

framework has been used in other problems of policy making and planning,<sup>65</sup> and it can be applied to employment policy as well.

Let  $r_i$  be a set of consequences of hiring one more person and let  $v_i$  be the appropriate shadow price (in sense 1) of element  $r_i$ . Then the impact on social welfare of an additional unit of employment is given by:

$$w^* = \sum_i r_i v_i \quad (25)$$

One may, however, be uncertain of the precise values of  $r_i$  and  $v_i$  and know only that they lie within the sets  $R_i$  and  $V_i$  respectively. Considering all possible combinations of these values we can easily define the price range  $H$  in which the shadow price of labour  $w^*$  will lie.<sup>66</sup> In evaluating any project one can then use not one combination of shadow prices but a set of combinations, and it can be easily checked that this will mean that the ranking of projects will be a quasi-ordering, which will be transitive, but not necessarily complete. That is, if project  $A$  is judged superior to  $B$ , and  $B$  to  $C$ , then project  $A$  will also be judged superior to project  $C$ , and the consistency condition of transitivity will be met. However, cases *can* arise in which two projects cannot be ranked against each other. Such incompleteness of ranking is, however, not a real deficiency, since it only reflects the extent of partial ignorance characterising the choice problem. Arbitrary choices between them may have to be made, but the approach outlined here would simply define precisely which choices are arbitrary and which can be made with confidence even in the given state of partial ignorance.

The alternative to this would be to leave out a whole set of questions which we have been discussing here (and in Sen (1973)) and which, I would argue, make employment an important goal and employment policy a serious exercise. While the complexity of institutional, behavioural, technological and political features does make many of the choices difficult, there is no way in which one can escape this difficulty without shutting one's eyes to significant aspects of technological choice and employment policy. A quasi-ordering derived in the way described would reflect our ability to say something though not everything, whereas the requirement of a complete ordering is a compulsion to express an opinion on every choice that can arise. Happily, silence and babbling are not the only possible approaches to employment planning.

<sup>65</sup> On its use for income distributional judgements and policies see Sen (1973). For a more general analysis see also Sen (1970), Chs. 7, 7\*, 9 and 9\*.

<sup>66</sup> That is,  $H$  is given by:  $[\inf_i \sum_i v_i r_i, \sup_i \sum_i v_i r_i]$ .

$$\begin{array}{cc} v_i \in V_i & v_i \in V_i \\ r_i \in R_i & r_i \in R_i \end{array}$$

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## The ILO: A retrospective and future view

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One of the main tasks of the *International Labour Review* over the years has been to examine and discuss the fundamental issues and technical matters which form part of the ILO's mandate. In doing so it has fulfilled an essential and at times complex function, because the ILO had set itself not only technical but also social and even, in the broad sense of the word, political objectives and because its aims sometimes differed significantly from traditional ideas. In fact, some of them still remain misunderstood and disputed by a number of interest groups and countries. The 75th anniversary of the *Review* offers an opportunity both to look back and to consider the future.

### Looking back

It would be stating the obvious to say that people are the measure of all things, that justice and freedom must govern social relations, that the economy must serve the cause of humanity and that peace requires justice between human beings. Yet the force of those self-evident truths is not really felt and believed – at least not generally. To some, both in government circles and from the private sector, they appear to be nothing more than meaningless rhetoric or, in the words of Albert Thomas, “high-sounding frontispieces without any real substance”, or at best “pious hopes”.<sup>1</sup>

However, it is upon those very principles that the ILO is based. Of course, it remains a technical organization dealing with social and labour issues. But it does so within the framework of its overall objectives which are of a broader nature.

The role of the *International Labour Review* has therefore been and continues to be to study and to explain, from a completely objective – which

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<sup>1</sup> Albert Thomas: “Justice sociale et paix universelle”, in *La Revue de Paris* (Paris), 31st year, No. 6, 15 Mar. 1924, p. 242.

does not mean completely neutral – point of view, both the technical issues and the fundamental principles which underpin the ILO's authority and mandate. An example of this occurred in the epic interwar period, when the *Review* published a defence of unemployment insurance in the face of attacks from prominent economists who favoured what were held to be the sacred laws of the market. For a variety of reasons this question remains of topical importance.

After three quarters of a century of publishing by the *Review* – and 77 years since the establishment of the ILO itself – is there any point in recalling what the Organization's aims are? They have been described on so many occasions that one might be tempted to think, as La Bruyère wrote long ago, that "All has been said and we come too late". However, situations and ideas have changed so much over the years that a brief reminder is necessary, even in respect of ideas which were believed to have been grasped, but which in fact were never fully assimilated.

The ILO's initial aims are now well known. Primarily, they were to improve working conditions and then, as the outlook broadened, to enhance living conditions in both a material and a moral sense, to secure respect for the values of freedom and equality – in short to improve the human condition.

Those aims were underpinned simultaneously by a philosophy, a moral code and a method of work. The philosophy, and in particular the moral code, were summed up in the dictum of "social justice" enshrined in the ILO's Constitution in 1919. More broadly speaking, this was an expression of the need for justice *per se* or, in the words of the great ILO theorist, the French Professor Georges Scelle,<sup>2</sup> the pre-eminence of the human factor over the economy, or rather the placing of the economy at the service of man.

This general philosophy was based on a number of more or less controversial arguments, such as those addressing the question of international competition, the contribution to peace, the need for a comprehensive social policy, the promotion of balanced economic and social development, and many other issues. Thus the overriding consideration in the ILO's philosophy was social and political (in the wide meaning of the term).

Before examining the ILO's distinctive method of work, it may be helpful to clarify a few issues and principles of a more general nature, since it is on such principles that the Organization is based, whether explicitly or implicitly.

One problem which often arises is lack of clarity in the relationship between economic policy and social policy. The two have indeed been contrasted on many occasions: are they two sides of the same coin? Or are they in competition with each other for ascendancy? These questions have long divided theoreticians and practitioners. In actual fact, neither could

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<sup>2</sup> Georges Scelle: *L'OIT et le Bureau International du Travail*, Paris, Librairie des sciences politiques et sociales, Marcel Rivière, 1930, p. 32.



exist without the other: without a sound economic policy, social policy is likely to lead to disaster. Conversely, without an equitable social policy, economic policy would become an end in itself, at the risk of neglecting the human factor and resulting in the survival of the fittest, oppression of the weak, injustice and, ultimately, social disruption. We shall return to this point later, but it is worth noting here that the parallel sometimes drawn between the social and economic factors has its limits, since the social, and consequently the human factor cannot be compressed indefinitely.

A second problem is that of the relationship between international standards and legislation. A widespread misconception in this respect is the belief that international labour standards can be given effect only through legislative action. It is true of course that standards do establish legal rules and that no social policy can be effective unless it is based on the rule of law. However, ILO standards do not necessarily require the adoption of specific, formal legislation at the national level. Often, they simply provide guidelines which States are invited to follow in pursuit of an objective which may never be fully attained as such. For example, the elimination of discrimination, the reduction of unemployment and the promotion of full employment may depend as much – or more – on educational programmes, particular administrative practices and economic resources as on actual legislative measures. The long-term nature of such objectives and the complexity of the activities involved in their pursuit are among the reasons why the work of the ILO will never be really finished.

But above all, what the ILO aims to achieve is to contribute to greater justice and well-being on Earth. From a long-term perspective, however, the very concept of justice, like that of human rights, is constantly evolving despite temporary interruptions in the process. In response to this challenge, ILO standards cannot but continue to develop.

At this point, a few specific comments about the Organization's actual methods of work may be in order. It will be recalled that when it was set up, the ILO made two major innovations. The first was its tripartite Constitution (governments, employers and workers) and the second, its procedure for the adoption of international Conventions aimed at committing States to minimum standards of social protection. ILO Conventions are both the expression of the Organization's fundamental values and legal instruments for translating those values into practice. While some Conventions are designed to achieve a specific objective, others merely indicate a general direction to be followed, as in the case of employment. A system for the promotion and international supervision of all Conventions was set up and developed. With a current (1996) total of 177 Conventions – having received some 6,300 ratifications from ILO States Members – and 184 Recommendations, this quasi-legislative activity has had a wide influence on international law, giving the impression – in many respects justified – of a solid achievement which will stand the test of time.

This impression was strengthened towards the end of the Second World War when the ILO's aims were reaffirmed and expanded in the 1944

Declaration of Philadelphia,<sup>3</sup> which defined the Organization's objectives in the broadest terms. It is difficult to imagine that such an instrument might be adopted in its entirety nowadays. Indeed, it states that "labour is not a commodity" and emphasizes the importance of freedom of expression and association, the need to combat poverty and want, and the right of all human beings without distinction to pursue their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity. In particular, the Declaration stresses the need to promote full employment and to raise living standards. It advocates a broad view of social security and – in addition to the pursuit of material well-being and economic security – affirms the importance of the values of freedom, dignity and equality, in particular equality of opportunity. The Declaration embraces all human beings and defines social objectives in very comprehensive terms, reflecting the ILO's direct interest in economic issues having a bearing on social problems.

The Declaration was incorporated into the ILO's Constitution, together with the constitutional amendments made in 1945 and 1946 to strengthen the system of Conventions and Recommendations. Without going into further detail, it may simply be added that it affirmed the pre-eminence of the social factor in all economic planning and set out a programme of action for the future.

It is often stressed that the Organization "has had a sustained influence on the legislation of all countries" – as put in the words of the Chairman of the Nobel Committee when the Nobel Peace Prize was awarded to the ILO in 1969.

## Looking ahead

But where do we stand now, as the century draws to a difficult and unstable end? The resolutely optimistic and ambitious views of the ILO's founders, subsequent leaders and other actors have evidently had a far-reaching impact and secured impressive results, but do they still command such widespread support?

In recent years, those views have indeed met with reservations of various kinds, for several reasons.

One of the most important is rooted in the wave of economic ultraliberalism and "deregulation" which has swept the world in the past few years under the influence of certain schools of economic thought hostile to State intervention in the workings of the market. Such thinking has influenced some governments and groups of employers. Its proponents are opposed to international standard-setting which, in their view, prevents economic forces from taking their natural course.

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<sup>3</sup> See Wilfred Jenks: "The Declaration of Philadelphia after Twenty-five Years", in *Social Policy in a Changing World*, ILO, Geneva, 1976, pp. 55-67; and Eddy Lee: "The Declaration of Philadelphia: Retrospect and prospect", in *International Labour Review* (Geneva), Vol. 133 (1994), No. 4, pp. 467-484.

Furthermore, that view has been reinforced by the tendency of some developing countries to adopt only minimal social legislation in the belief that this will help them to sustain the pace of their economic development.

Admittedly, such tendencies towards economic liberalism have always existed and have always encouraged some opposition to the ILO's activities. However, this did not prevent the Organization from expanding its work in the social sphere. In this connection, reference has often been made to Albert Thomas' pithy formula – not to be taken literally – that “social issues must take precedence over economic issues”, which was taken up again by Pope Paul VI in 1969. Then there are the words of President Franklin Roosevelt who, in 1941, stated that “economic policy cannot be an end in itself: it can only be a means of achieving social aims”. Nowadays, of course, opinions on the matter differ.

Economic globalization has given fresh impetus to ultraliberal arguments. Big businesses are relocating, diversifying and dividing their activities between different countries to suit their interests, thereby often escaping virtually all forms of State control since their decisions are taken by extraterritorial actors. These developments have led to fears about a possible legal void and a return to the law of the jungle.<sup>4</sup> The as yet fruitless debate on the adoption of a “social clause” to cushion their most harmful employment effects – in particular those of unrestricted “outsourcing” – is as significant as it is worrying.

In addition to this change in priorities – or at least in emphasis – another fact that cannot be overlooked is the growing complexity of the world since the early years of the ILO. Trade unions are in some cases less representative than they were; the structure of society has changed; small and medium-sized enterprises and the informal sector have assumed greater importance; and, as noted above, the nature of large enterprise networks is sometimes elusive because of the extremely wide range of actors involved. All of these factors make it increasingly complex to adopt and implement effective international standards.

Does the answer lie in the principle of “adaptability” or “flexibility” of standards, which has been spoken about for decades, in particular by the representatives of developing countries? Of course, it all depends on what is meant by flexibility. It goes without saying that the provisions of standards must be flexible enough to be applied to a variety of countries and situations. In fact, almost all ILO Conventions comprise flexibility devices of one kind or another. However, if what is proposed is to make their wording so loose as to render them inoperative, it would then amount to betraying the Organization's mandate, which is to bring about a real improvement in working and living conditions.

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<sup>4</sup> See ILO: *Defending values, promoting change – Social justice in a global economy: An ILO agenda* (Report of the Director-General, International Labour Conference, 81st Session, 1994), ILO, Geneva, 1994, pp. 63 ff.

This issue is sometimes raised in more general terms. Indeed, given the number and content of existing ILO Conventions, it is sometimes questioned whether there remains any important subject to be regulated by international standards.

Broadly speaking, the answer can only be yes. While some fundamental problems do remain, labour issues evolve with the passage of time, which means that standards sometimes need to be supplemented and updated. More precisely, some topics only become ripe for standard-setting when other gains – social, economic or legislative – are achieved. Generally, as noted above, the concept of social justice and human rights is itself constantly evolving and expanding, even though there may be temporary interruptions in that process.

Furthermore – and this is an essential point – the future of ILO standards cannot be considered without taking account of the need to supervise their application as well. The system established for this purpose has contributed substantially to making standards a more or less tangible reality in most countries. The increasing number of Conventions and ratifications has inevitably resulted in a simplification of the supervisory procedure. However, its essential aspects cannot but be safeguarded for the future: ILO standards are not adopted merely to form part of an international code or even national legislation, but to be effectively implemented in people's daily work.

This brings us to a fundamental question: given the changes in circumstances and in the international environment, have we now reached the end – or the beginning of the end or a significant reduction – of the role played by international labour standards?

At this point, another general observation must be made. Contrary to what has sometimes been argued, the international community is still a long way from a surfeit of standards.<sup>5</sup> Admittedly, for the reasons given above amongst others,<sup>6</sup> opposition between the proponents and opponents of standard-setting has grown stronger in recent years.<sup>7</sup> Yet, it should also be noted that the vast majority of some 70 independent contributors to a publication marking the ILO's 75th anniversary<sup>8</sup> emphasized the importance of international labour standards and of the procedures for their application.

It would therefore be a gross exaggeration to conclude that we have reached the end of the extraordinary effort which ILO standards have

<sup>5</sup> See *International law at the time of its codification: Essays in honour of Roberto Ago*, Vol. I, Milan, Giuffrè, 1987, p. 33.

<sup>6</sup> For more details see N. Valticos: "Les conventions de l'Organisation internationale du Travail à la croisée des anniversaires", in *Revue générale de droit public* (Paris), 1996, No. 1, pp. 5-43.

<sup>7</sup> See H. Bartolomei de la Cruz, G. von Potobsky, Lee Swepston: *The International Labour Organization: The international standards system and basic human rights*, Boulder, CO, Westview, 1996, p. 63.

<sup>8</sup> ILO: *Visions of the future of social justice: Essays on the occasion of ILO's 75th anniversary*, Geneva, ILO, 1994.

embodied in the search for ways to improve the human condition – an effort which prompted a prominent labour law specialist to describe the ILO as “one of the rare institutional bodies of which humankind can rightly be proud”.<sup>9</sup>

That being said, a somewhat different balance can certainly be expected to emerge between the ILO’s different means of action. In fact, a process of gradual change in that direction has already begun in response to the developments under way in the world today.

Generally speaking, the Organization’s other activities aside from standard-setting cannot be called into question. Research, training, information, publications and particularly the vast field of technical cooperation – itself often based on standards – cannot but be pursued and even developed on account both of the major conceptual and technical changes happening in the social sphere and of the undeniable, though variable, importance that States and the international community attach to social issues. The effects of the much debated process of globalization will not be confined to those which restrict the scope for worldwide social action. Of course, globalization will make such action more complex, more difficult, but it will also make it more imperative as social development becomes less and less a matter of national or even regional policy.

As regards the future of standard-setting itself, account will have to be taken of the achievements and lessons of the past. This applies not only to the number of future standards, but also to their nature and content.

Thus, given the large number of Conventions already adopted, future standards can be expected to concentrate either on new subjects or on the revision of existing, but outdated instruments and, overall, to be fewer in number. However, given the unpredictable pace at which history unfolds and ideas develop, one can never be certain.

Future standards will have to reflect the lessons of the past from the technical and substantive points of view as well. For example, it is now accepted that there are areas in which standard-setting can establish only broad guidelines and general principles which must be adapted to national situations. Results then depend on practical action, based on those principles. In particular this applies to the major social problem of our time – not to say of our civilization – namely unemployment, which has ruined so many lives and so many destinies.

By contrast, there are other issues for which Conventions must make fundamental provisions. How these are given effect may vary from one country to another, provided that the basic rules are applied. This is the case with the core Conventions on human rights (freedom of association, the prohibition of forced labour and the elimination of discrimination).

It may also be expected that a different balance will be achieved within the Organization’s standard-setting activity as a whole with, on the one hand,

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<sup>9</sup> Gérard Lyon-Caen: “Bibliographie”, in *Revue internationale de droit comparé* (Paris), Jan.-Mar. 1972, p. 249.

an increasing focus on supervising the application of those standards considered to be the most important and, on the other, significant attention still being paid to the setting of new standards or the updating of existing ones, as required by the development of our societies.

In the process of these changes, the all too frequent squabbles – or incompatibility of temperament – between legal specialists and economists should give way to an effective distribution of roles based on the principles and basic aims of the Organization.

As for the often misconceived dilemmas between continuity and change, between the diversity of the world we live in and the universality of the principles of social justice, their solution must be sought – as ILO has always tried to do – in the middle ground between over-generalization of the concepts involved and excessive regulatory detail.

While some of the Organization's past standard-setting work may well prove transitory, a substantial part of it will undoubtedly survive. As some great civilizations have done in the past, the fundamental role of the ILO has been to place people at the centre of society and of international life. No theory in the world could ever defeat that vision. At the most, its development could be interrupted or even suffer set-backs, but only temporarily. Beyond all the uncertainties and doubts, beyond the very crisis which our societies are experiencing, the work of the ILO, in step with the march of history and constructed with clear-sightedness and vigilance, is destined to continue because it is the expression of a deep-felt need.