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Fourteenth Session, 624th MEETING

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CONTENTS

President: **Mr. S. Amjad ALI (Pakistan).**

Present: The representatives of the following countries:

Argentina, Belgium, Canada, China, Cuba, Czechoslovakia, Egypt, France, Iran, Mexico, Pakistan, Philippines, Poland, Sweden, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay.

Observers from the following countries: Chile, Netherlands.

The representatives of the following specialized agencies:

International Labour Organisation, Food and Agriculture Organization of the United Nations, International Bank for Reconstruction and Development. International Monetary Fund.

Full employment, and report of experts on the problem of reducing the international impact of economic recessions and on measures required to mitigate the effect of fluctuations in international markets on the economies of under-developed countries (Council resolutions 290 (XI), paragraph 19, and 341 A (XII), paragraph 5) (E/2156, E/2189, E/2194 and E/L.313)

[Agenda item 4]

Economic development of under-developed countries (*continued*): (*f*) Integrated economic development and commercial agreements (General Assembly resolution 523 (VI)) (E/2243, E/2243/Add.1, E/2243/Add.2 and Corr. 1, E/2243/Add.3 and E/2257)

[Agenda items 5 (*f*)]

1. The PRESIDENT invited the Council to consider item 4 of the agenda.

2. Mr. ROOTH (International Monetary Fund) said that the International Monetary Fund had studied with great interest the United Nations experts' report on *Measures for International Economic Stability* (E/2156).[1] The Fund's observations on the report might properly be confined to the recommendations which directly affected the Fund's own work, but that limitation should not be taken as an indication that the Fund was not interested in other aspects of the report. The question of the stability of prices of primary commodities, for instance, with which the experts dealt, was one of vital importance to the Fund's members. If measures could be devised to achieve a greater degree of stability in the prices of primary commodities, one important source of disturbance in interational payments would have been reduced.

3. Under its Articles of Agreement the Fund was assigned an important function in connexion with the problems created by depressions. First, the Fund's resources provided a second line of reserves to be used in accordance with the Fund's purposes and policies to help members to meet balance-of-payment deficits due to a depression abroad. Second, the fact that the Fund was able to perform that function with assets which were substantial, though not perhaps so large as might be wished, was in itself a stabilizing influence that should enable countries to plan ahead with much greater confidence than would otherwise be possible. Third, the Fund was a permanent international institution where financial problems could be discussed and where members could work out ways of meeting their problems

[1] United Nations Publications, Sales No.: 1951. II. A.2.

in a manner that would avoid the destructive measures which had at times emerged during certain depressions in the past.

4. It must be emphasized, however, that the basic difficulties caused by depression could not be overcome merely through the freer availability of international credit to be repaid in the next boom, whether the credit came from the Fund or from any other source. The remedies for a depression would require national measures to maintain or stimulate production and employment, especially in the great industrial countries.

5. It would take time before such measures brought recovery. In the meantime many countries might be faced with serious balance-of-payment difficulties. The Fund could assist its members to meet those difficulties and, in so doing, help to reduce the deflationary pressure on the world economy as a whole. Even then it should not be overlooked that countries would naturally be careful as to the amount of indebtedness they incurred to maintain imports during a depression when the demand for their exports fell off.

6. With a view to ensuring that the Fund could provide greater aid to its members in the event of a depression, the experts had recommended an enlargement of the Fund's resources, either by an agreed increase of quotas or, if that proved impracticable, by resorting to its borrowing powers under the Fund Agreement. The Fund had been considering the question of increasing the quotas for some time, having in mind such factors as the magnitude of possible balance-of-payment deficits which might arise in a depression and the fall in the value of money since the time of the Bretton Woods Agreements. In view of various considerations, including the fact that it would be difficult for many members to make additional gold contributions, the Fund had concluded that an increase in its resources was not a question for action at the moment.

7. The Fund's existing resources were by no means small as a source of aid for financing cyclical deficits in the balance of payments. Those resources amounted to over 3,000 million dollars in gold and convertible currencies (including Canadian dollars), plus other currencies which might be needed. In that connexion it must be borne in mind that the Fund's resources were secondary reserves and that the ability of countries to maintain import demand in a depression would also depend on the size of their own reserves. It was important therefore for countries to follow financial policies that would enable them to build up reserves in periods of prosperity to provide a first cushion to absorb the shock in periods of depression.

8. The experts also suggested that the Fund should protect the revolving character of its resources by more formal contractual repurchase obligations. The Executive Board of the Fund had recently adopted policies and procedures which, although not identical with those suggested by the experts, should achieve the general objective of making the resources of the Fund truly a "revolving Fund". Those new policies and procedures included a definition of "temporary use of the Fund's resources" as meaning use for a period not longer than three to five years.

9. The experts had made a number of other recommendations about the practices of the Fund which the Executive Board would carefully consider. After reviewing the problem of the use of its resources in a possible depression in the light of the experts' report, the Fund was of the opinion that it could operate with sufficient flexibility to permit it to be helpful in a depression without changes in the Fund Agreement. It might be recalled that the Agreement had been drafted with that very problem in mind.

10. The Fund welcomed the experts' report as a very helpful study of the important problems of depression. The Fund, other international agencies, and all countries should continue to prepare themselves to recognize the indications of an incipient depression and to play their part in meeting the difficulties it created. In any decisions by members and by the Fund, problems of expansion and balance in international trade, of adjustment of national economies to new situations and of development, to mention only a few, must, however, also be taken into consideration. It would, therefore, as the experts had indicated, be unwise at the present stage to try to blueprint future action for an uncertain future situation.

11. The Fund was fully aware of its responsibility to act with determination to assist its members in lessening the balance of payments impact of any future depression. It believed that, with its existing machinery and existing resources, it could make a useful contribution to that end.

12. When presenting the annual report of the Fund a month earlier (584th meeting), he had been asked whether the Fund could make available its resources to finance a buffer stock scheme. The creation of buffer stocks raised many fundamental issues which lay outside the province of the Fund and the latter had not officially considered the financial issues involved. When the Fund had been established, it had been decided that its operations should be limited in two important respects. First, the Fund could deal only with fiscal agencies such as the treasuries and central banks of Member States. Second, the Fund could provide those agencies only with foreign exchange to finance a temporary deficit in the balance of payments of their countries. The Fund could not therefore make its resources available to an international buffer stock agency. The Fund would not, of course, exclude from its operations members participating in a buffer stock scheme. The accumulation of buffer stock on any significant scale would most likely occur during a world depression. In those circumstances, the Fund's resources would provide a second line of reserves which would enable members to act with greater confidence in dealing with their balance-of-payments problems.

13. In brief, the Fund could not be regarded as a source of capital for a buffer stock scheme. Because its resources were available to help its members to meet temporary payments difficulties, they were in a better position to take national and international action to meet the problems arising from depressions.

14. Mr. ROSENSTEIN-RODAU (International Bank for Reconstruction and Development) said that the Bank had studied with great interest the experts' report on *Measures for International Economic Stability,* since it dealt with a problem of fundamental importance to the Bank.

15. A recession in the major industrialized countries caused a fall in incomes and investment in the under-developed countries which jeopardized both their standards of living and their economic progress. Even if future recessions were mild and short-lived, they would seriously disturb the economic life of the under-developed countries. Those countries would quite understandably try to protect themselves against such shocks, and in their quest for stability, they might push diversification of their economies to a point which would prevent them from realizing the maximum national income.

16. The Bank therefore viewed with sympathy the objective of avoiding periodic disruptions in the rate of economic development. It was doubtful, however, that the Bank could play a major part in anti-cyclical measures. The question had been considered by the Economic and Social Council in 1950 in connexion with the discussion of the report of a previous group of experts on *National and International Measures for Full Employment* (E/1584).[2] At that time, the Bank had taken the position that its primary function was to provide long-term capital for development on a continuous and sustained basis, and that there was a conflict between maximum lending for development and anti-cyclical action.

17. The experts quite properly suggested that the important factor was not so much continuity in the rate of foreign financing as continuity in the level of capital goods imports (and therefore of investment). According to the experts, when foreign exchange receipts dropped because of a recession abroad, the Bank should provide increased funds to member countries for development projects which would otherwise have to be abandoned, thus enabling the borrowing countries to maintain the level of investment.

18. To the extent that it was practicable to apply that policy, it had undoubted merits. For example, in cases where one of the Bank's borrowers had a debt-servicing capacity in excess of existing obligations and where its investment programme was threatened by a temporary decline in foreign exchange receipts, the Bank could quite readily increase the amount of its financing by covering a larger proportion of the foreign exchange costs of the project or programme it was financing. Moreover, as the experts suggested, a recession, if at all protracted, might well induce a number of member countries outside the dollar area to make additional funds available to the Bank, either through 18 per cent releases or by granting the Bank access to their capital markets. Assuming the existence of appropriate projects or programmes ready for execution, the availability of additional non-dollar resources would enable the Bank to increase the volume of its lending, since many borrowing countries were in a better position to service non-dollar than dollar debt.

19. For a number of reasons, however, it would be unrealistic to expect that the rate of Bank lending would or could be accelerated at the onset of a depression to such an extent as to have any appreciable overall anti-cyclical effect. For the Bank to be in a position to accelerate its lending in that manner, there would have to be always available a reserve of high-priority projects, suitable for Bank financing, which had been worked out in sufficient detail to be carried out promptly. The Bank's experience indicated that such a reserve of projects existed hardly anywhere. Notwithstanding the experts' recommendations on that point, it would be too much to expect a significant improvement in that situation. Moreover, many private industrial projects whose completion might be interrupted in times of depression could not easily qualify for Bank financing, because Bank loans had to be guaranteed by the government or central bank. Finally, in times of depression, investment was reduced not only for lack of foreign exchange, but also for lack of local currency. In some richer countries, highly developed banking systems could provide credit expansion in local currency, which would be an effective anti-cyclical weapon. It should not be expected, however, that a lack of local currency in under-developed countries could be entirely compensated for by a credit policy. In those cases, supplemental lending by the Bank on a sufficient scale would be impossible.

20. Although, for the reasons stated, the Bank did not believe it would be in a position to adjust its rate of lending to such an extent as to compensate in any substantial degree for international cyclical fluctuations, it intended to continue to invest at a steady pace, and that in itself would be a stabilizing factor.

21. Consequently, there was no need to comment on the experts' proposal for an increase in the Bank's resources to enable it to engage in anti-cyclical lending. The other proposal of the experts involving suggested Bank financing was the creation of international buffer stocks and international commodity agreements which would attempt to eliminate or reduce violent short-term price fluctuations of primary products without endangering long-term price flexibility. If that objective were achieved a major source of instability in under-developed countries would be removed. The proposals therefore warranted thorough study.

22. A host of other difficult problems must, however, be solved before the question of financing arose; among them were (*a*) the number and types of commodities which must be included for a stabilization scheme to be effective; (*b*) methods of price determination and the timing of price changes, and (*c*) the extent to which the schemes should attempt to include future as well as spot prices. Those problems were much more intricate and difficult than the question of financing buffer stocks. If they could be solved, financing itself would not present a major obstacle. In any event, the Bank doubted that international financing mechanisms would be required; it would seem both simpler and cheaper to provide finance for buffer stocks through national channels, although not necessarily to a large extent by exporting countries.

23. Although it did not feel that a sufficient case had been made for the financing of buffer stocks by the International Bank, the Bank nevertheless welcomed the discussion of the whole subject both in the experts' report and in the Economic and Social Council, as the Bank's task in the field of development would be greatly facilitated if a way could be found to eliminate wide fluctuation in primary commodity prices.

24. Miss BLAU (Food and Agriculture Organization) said that the FAO had studied the experts' report with

[2] United Nations Publications, Sales No.: 1949. II. A.3.

great interest. Although the FAO was less directly concerned with the experts' proposals than the International Bank for Reconstruction and Development or the International Monetary Fund, the basic issues raised by the report were of very great importance to it. The keynote of the last FAO Conference had been the need for expanded food production, which was not keeping pace with the growth of population, a problem which had been given considerable attention by the Council during its discussion on the world economic situation.

25. It was realized that food producers must be given some long-term assurance of stable markets for their products, and the FAO Conference had been concerned to find that once again fears of surpluses alternated with fears of shortages. It had re-affirmed its faith in international commodity agreements, and had stressed particularly that such agreements should be considered not only as temporary emergency solutions, but as permanent stabilization instruments. With that view in mind, the FAO had adopted the resolution transmitted to the Council in document E/2194.

26. It was encouraging to note that the experts' report was as a whole based on that philosophy. It was less reassuring, however, that those principles, which had been more or less accepted for some time, had as yet been put into effect only on a limited scale. In that respect, the report was rather optimistic. The experts based their conclusions on two premises: first, governments were better equipped and more determined not to permit a recurrence of the serious depressions of twenty years earlier; secondly, in the absence of such depressions and in a generally expanding world economy, governments would be more disposed to enter into inter-governmental agreements. The first premise could be accepted but the second was open to some doubt. The fact could not be ignored that the only agreement of that type concluded to date was the International Wheat Agreement, although there was some discussion of agreements regarding sugar, cotton and rubber. It would seem therefore that governments had not shown any great enthusiasm in that respect.

27. The experts' report did not perhaps give sufficient emphasis to the real difficulties, both political and technical. With regard to the political difficulties, the FAO, while it did not entirely share the optimism expressed in the report, felt that the latter might be useful in bringing out the fact that the disadvantages involved in the conclusion of international commodity agreements were much more obvious than those resulting from the absence of any such agreement. The solution of the technical problems required much hard thinking. In the first place, it must constantly be borne in mind that what was sought was real stability, and not merely stability in money terms. In other words, real stability should not be confused with any attempt to freeze the long-term relationship of prices of different groups of commodities. In that connexion, the experts' study quite properly pointed out that the recently experienced change in the terms of trade might well be considered to be "more than ephemeral", that a more permanent change of that nature must be accepted and that commodity agreements could not and should not be used to interfere with such trends. On the contrary, their sole objective should be to even out fluctuations above and below the natural average. In the light of that consideration, however, it was clear that stability in real terms was not the stability which would result from an international agreement designed to stabilize the price of a single product while the prices of most other goods varied widely and the general value of money was subject to sharp inflationary or deflationary changes.

28. The experts seemed to have taken that danger partly into account, and it was probably with that consideration in mind that they advocated the simultaneous conclusion of agreements on a fairly wide range of commodities. In practice it appeared, however, that governments intended to rely on an individual commodity-by-commodity approach; according to the latest and very interesting issue of the *Review of International Commodity Problems 1951* (E/2181)[3] that tendency might continue for some time. In those circumstances, if stability in real terms was to be achieved, a flexible formula had to be found which, without endangering the automatic character of the agreement, would provide some safeguards against losses which might be incurred as a result of major changes in the general price level. It was essential, for the successful functioning of an agreement, that in the long run the parties concerned should not be worse off than they would have been without such an agreement; in other words, the possible advantage of the evening out of short-term fluctuations should not be bought at too great a risk of loss in the long run.

29. It was obviously difficult to find a workable formula of that nature, but every effort must be made to secure it. The FAO had given some thought to the matter, and had tried to work out such a formula in a paper entitled "A Reconsideration of the Economics of the International Wheat Agreement". While it could not claim to have solved the problem, it had at least contributed towards a solution. Although the study dealt primarily with wheat, much of the analysis was also applicable to other commodities.

30. There were other problems of technique relating to the creation and operation of buffer stocks. The experts' report stressed the advantages of buffer stocks, especially as a possible adjunct to other arrangements. Such stocks could play a useful part in the adjustment of supply to demand, which could not be provided by international contracts and guarantees alone. There were, however, certain basic difficulties inherent in such a system which should be brought out more clearly. First, it might obviously be difficult to build up stocks when supplies were limited. Secondly there was the problem of currency, a problem which the experts had touched but to which they had not attached sufficient importance. The difficulty might be more manageable in the case of a commodity exported from a soft-currency to a hard-currency area, in which case payments would be effected largely in hard currency. In the reverse case, it might be difficult to maintain a revolving fund of the required currencies and to retain the centralized operation of the buffer stocks, as the sales and purchases of a given commodity might, depending on its origin and destination, have to be dealt with separately. Thus buffer stocks, in order to be effective, pre-supposed the existence of an international currency. Thirdly,

[3] United Nations Publications, Sales No.: 1952. II.D.1.

there was the question of the stabilizing effect of a buffer in the face of supply fluctuations. The experts had recognized that buffer operations were valuable chiefly as a means of counteracting demand fluctuations and that they did not automatically stabilize producers' incomes or the incomes of producing or exporting countries. It was possible to go even further and to state that in the case of sudden supply changes, brought about for example by crop variations, buffer stocks might have a "de-stabilizing" effect. The reason for that was simple: in a free market a poor crop would tend to raise the price, and a bumper crop to lower it. Thus, although a change in quantity tended to bring about a proportionate change in price, the total value remained unchanged. Buffer stocks might work in the opposite direction by keeping prices up when supplies were abundant, and keeping them down when supplies were low. The unfavourable effects of buffer stocks were less pronounced than those of price fluctuations in the free market which did not exactly correspond to changes in supply and demand, as was often the case for primary products. In general, therefore, buffer stocks could have a stabilizing influence in evening out variations in supply, but it should be realized that the system was rather more complicated than it might seem at first sight. Those complications must be borne in mind if that important weapon was to be used properly.

31. In considering inter-governmental commodity stabilization techniques, account must be taken of the extent to which price fluctuations of primary products performed a useful function. In general, one could only agree with the experts' conclusions that the violent price fluctuations on commodity markets in the past, even in the recent past, had not performed a useful function. The question was a delicate and important one and needed to be examined much more closely, because the answer to it might determine the kind of stabilization machinery that might be evolved. For instance, a multilateral contract such as the International Wheat Agreement could in a sense be defined as an attempt to stabilize incomes or expenditures while retaining the role of price as a regulator at the margin. The analysis of the role of price fluctuations and of the relative elasticities which influenced them would show how far it was possible to go with such policies.

32. Another related problem was that of the relationship of international stabilization measures to national policies. The experts' report touched upon the matter, but it might perhaps be examined further. It was important to be clear whether the chief purpose of the agreements should be to alleviate the balance-of-payments difficulties of the countries concerned or to stabilize the incomes and expenditures of the producers and consumers of the commodity involved. The extent to which the effects of multilateral agreements were general would, of course, depend on the national policies of the countries which signed the agreements.

33. The problem of quotas also required further consideration. For example, in the case of a commodity the market for which was already divided by various types of preferential arrangements, prices might be lowest in the free sector, which would therefore bear the brunt of marginal fluctuations; in such a case the only solution would be to conclude agreements with production as well as export quotas supplemented by variations in stockpiling, as suggested in the experts' report.

34. In view of those illustrations, it was clear that over-optimism was not justified. General solutions would not be sufficient to attenuate the international impact of an economic recession. On the other hand, there was no cause for over-pessimism, since the chief difficulties were known.

35. With regard to the work which the FAO was trying to accomplish, it would be recalled that the FAO Committee on Commodity Problems had been functioning for three years. Fourteen Governments were represented on that body, which had been established by the Conference and reported to the FAO Council. Originally set up to deal specifically with surpluses caused by balance-of-payments difficulties, it had gradually concerned itself with all commodity problems which fell within the FAO's terms of reference. The Committee was the only existing inter-governmental body within the framework of the United Nations for the consideration of problems with regard to a wide range of primary products. It worked in close liaison with the Interim Co-ordinating Committee for International Commodity Arrangements, which was represented on it. The FAO secretariat was also in close contact with specialized commodity bodies.

36. On the whole she agreed with the experts' conclusion that the existing inter-governmental machinery was generally adequate, and that the main task was to use it wisely.

37. Mr. METALL (International Labour Organisation) said that full employment policies and measures to prevent unemployment were of particular concern to the International Labour Organisation. The Governing Body of the ILO, fully recognizing the importance of co-ordination in that field, undertook an annual examination of developments in the situation so as to communicate its views to the Council, to which the problem was also of primary concern.

38. Having been entrusted with that task he wished, before dealing with the substance of the subject, to congratulate the authors of the interesting and valuable report which the Council was now considering (E/2156). The report contained numerous recommendations on problems which were basically within the competence of other international agencies. The ILO was nevertheless keenly interested in its general objective, which was to ensure greater stability in income and employment, and was gratified to note that the various means of achieving that objective were carefully studied in the report. In March 1952, for instance, the ILO Governing Body had noted that fluctuations in the price of primary products must be followed closely in view of their repercussions on employment and standards of living. ILO was therefore pleased to note that the report under consideration contained suggestions as to methods to prevent unduly wide price variations and sudden changes in the general economy.

39. Prospects of economic stability were still uncertain in the industrial countries, where the level of employment was generally high but where there was some unemployment in the consumer goods industries. Inflationary pressures had developed, not only because of

the re-allocation of resources for defence needs and the building up of stocks of scarce commodities but also because of credit expansion, the tendency of wages and profits to increase at a higher rate than productivity, and other factors. If not contained, such inflationary pressures might affect standards of living. The Director-General of the International Labour Office, in his report to the 35th session (1952) of the International Labour Conference, had observed that in many countries the economic situation was dominated by the fact that they were trying to do more than their resources would permit, since they had simultaneously to provide for re-armament, economic development and the raising of standards of living. The Director-General had pointed out that the results were often harmful with regard both to the maintenance prices and to the very achievement of the objectives sought. He had observed that it was essential for governments to act individually and jointly to control inflationary pressures by adopting the measures most suitable in each particular case. The measures should be applied as fairly as possible among the various sections of the community and should be designed to lead to a maximum increase in productivity and the best possible use of resources. In conclusion, the Director-General had observed that it was precisely when resources had to be diverted for other purposes that it was essential to ensure a fair distribution of that portion of resources which was still earmarked for consumption.

40. The problem of controlling inflationary pressures was related in many countries to problems of wage policy, a subject with which ILO was, of course, mainly concerned. In that connexion, the ILO Governing Body wished once more to draw the Council's attention to chapter 2 of the report of the Director-General to the 34th International Labour Conference and to the records of the debate which was then held on problems of wage policy in conditions of full employment.

41. Whereas in most industrial countries inflationary pressures still existed in some industries, demand had fallen off in other industries and unemployment had reached considerable proportions. The extent and nature of unemployment at the present time would therefore be more clearly realized by a study of conditions prevailing in various industries. While the rate of production in the capital goods and heavy industries had rapidly increased, the general trend of employment in industries producing consumer goods was downward or slightly upward. The textile and clothing industries, in particular, suffered from considerable unemployment in several countries, partly because of consumer resistance to price rises and partly owing to the fact that producers had had to liquidate accumulated stocks in order to meet the huge demand following the outbreak of hostilities in Korea. In other consumer industries, substantial unemployment was caused by restrictions on production resulting from the need to allocate strategic commodities to the defence programme.

42. In order to reduce such frictional unemployment to the minimum, it was advisable, in so far as production requirements and the need to safeguard essential raw materials permitted, to prepare defence programmes in such a way as to avoid a serious cut in the production of consumer goods before defence plants urgently required a larger labour force. If the reduction of the labour force in consumer industries was inevitable, the workers affected by the measure should be given warning as far in advance as possible. Consideration should also be given to the possibility of setting up new factories in areas where a large number of workers were threatened with unemployment, instead of directing the workers to other areas. Where workers in a given branch were working full-time and a still further increase in the rate of production became necessary, an effort should in all cases be made to secure the desired increase by engaging unemployed persons instead of calling upon workers already employed full-time to work overtime.

43. Measures of that kind might lead to a reduction in frictional unemployment. Governments might, however, find it necessary to provide re-training for some workers and to move them to other areas with a view to employing them in industries in which an increase in production was desired. The success of those methods, as the ILO had already pointed out to the Council the year before,[4] depended in a large measure upon an efficient organization of the labour market. In that connexion, ILO had submitted several specific recommendations concerning the collection of employment market information, national manpower budgets, mobility of labour, vocational training, location of industrial enterprises, utilization of special categories of workers, use of employment counselling facilities and international co-operation with a view to facilitating migration. Members of the Council had received a communication in which the recommendations were summarized (E/2071). In December 1951, at the Asian Manpower Technical Conference held at Rangoon, emphasis had been placed upon the need to improve the organization of employment services in Asian countries. It was stressed that, in order to prepare manpower utilization programmes, the provision of accurate and up-to-date information on the employment situation was essential.

44. In addition to measures designed to combat inflation, governments should closely watch the volume of investments; even if the level of defence production remained high, the quantity of new capital goods required to carry out a defence programme might well decrease. Under the circumstances, it might become necessary, in order to maintain a high general level of employment, to adopt measures with a view to encouraging the re-allocation of manpower and means of production to the production of consumer goods, capital goods for consumer industries and capital goods for export. In particular, restrictions on investments not intended for defence must be removed as and when defence requirements for capital were reduced, so that investors could again turn to the civilan sector. Moreover, as the Director-General had pointed out, plans and hopes for the future should be based upon the conviction that it would not be necessary to allocate indefinitely to defence so large a portion of resources as was planned for the next two years. The Director-General had observed that it was not too early to prepare for the change in the economic climate which would take place as soon as current re-armament plans were carried out. Pre-war and even post-war experience

[4] See *Official Record of the Economic and Social Council, Thirteenth Session*, 507th meeting.

showed that it was not premature to urge that now, and for the next two years, a study should be made of means of ensuring that a reduction in re-armament expenditures would lead not to a bitter return to mass unemployment but, on the contrary, to further development of the world economy and to higher standards of living.

45. The problem of unemployment and under-employment was closely related to that of economic development. A statement on the subject would be made when the Council again considered item 5 of its agenda. For the time being, however, the Council's attention should be drawn to the difficulties facing many under-developed countries as a result of lack of information. The ILO's Advisory Committee for Asia had already pointed out that the information on under-employment available to most Asian countries was inadequate to permit a quantitative evaluation of visible, disguised or potential under-employment. The Committee felt that studies should be undertaken of seasonal employment fluctuations in agriculture and their importance in terms of agricultural income, and on the proportion of agricultural manpower which might be considered surplus, having regard to the manpower that would be required if output was greater and if modern methods of cultivation were applied. Generally speaking, it was agreed that lack of such information raised a serious problem not only for Asian countries but also for other areas in which under-employment was prevalent.

46. With regard to the measures adopted by ILO to faciliate international comparison of employment and unemployment statistics, members of the Council were aware that ILO had been considering the matter for some time. In reply to an offer made to them during the previous year, fifteen countries had expressed a desire to consult ILO experts on methods of improving their employment and unemployment statistics. ILO staff members had visited those countries and were currently drafting their report. The ILO was also preparing a general analysis of the various problems raised by the international implementation of recommendations to improve employment and unemployment statistics. The ILO had also kept in close touch with a group of statisticians brought together by the Manpower Committee of the Organization for European Economic Co-operation. The group had adopted a draft recommendation which, although generally consistent with the recommendations of the International Conference of Labour Statisticians, outlined in greater detail how best to divide the various sections of the population into categories of employed and unemployed to meet the requirements of manpower statistical sampling. That recommendation had been approved by the Manpower Committee and the OEEC Council. It was believed that the joint OEEC and ILO working group on statistical questions would take further decisions when it had completed its studies in 1952 of the results of the statistical sampling it proposed to undertake in Europe, and when a team of European statisticians at present in the United States to study American methods had submitted its conclusions.

47. ILO would continue to give close attention to the unemployment question as a whole and was prepared to co-operate with the Council in its study of methods designed to prevent or abolish unemployment. The Director-General of the ILO would submit to the ILO Governing Body any specific problem which the Council might particularly wish the ILO to study.

48. Mr. LUBIN (United States of America) pointed out that the question of international economic stability was of particular interest to his delegation and to him personally. He recalled that at its twelfth session, the Council had formulated a series of recommendations to governments on the problem of economic instability. The adoption of those resolutions by the Council showed that governments recognized the international impact of economic changes within their own borders.

49. A great deal nevertheless remained to be done. In particular, the Council could undertake a more complete analysis of trends of employment and international trade. It could also draw from the experts' report on *Measures for International Economic Stability* useful recommendations on the international aspects of the stability problem. The need for further consideration of the subject had been recognized in the resolutions adopted by the Council in 1950 and 1951.

50. Before considering the report in detail, he wished to pay tribute to the experts, who had placed the problem of international economic stability in its proper perspective. In particular, they had emphasized the necessity of relying primarily on national measures to deal with economic instability, even in its international aspects. He fully agreed with that view, since international measures could be helpful only as supplementary measures to cushion temporarily the international repercussions of recessions. Like the experts, he thought that the progress already made would make it possible to take more effective action to combat economic crises. In particular he thought that a disastrous depression like that of 1930 was highly unlikely to recur in view of the changes that had taken place in economic institutions. The experts, however, did foresee the possibility of minor recessions and the development of instabilities in certain industries. They pointed out that in such cases no international remedies could take the place of national measures. International action might alleviate the effects of a recession but the fact remained that national measures were essential to avoid recessions. On that point again he agreed with the experts. His views differed from those of the experts, however, in that he did not think that a previous peak in trade should be used as a reference point to measure the magnitude of a recession. Using such peaks as a point of reference resulted in exaggerating the magnitude of the problem to be resolved. The report also did not attach sufficient importance to cyclical or other expansionary forces. For his part, he thought it was also essential to check abnormal expansion by internationl measures and, as a corollary, by national measures. It was in the interest of countries experiencing a rapid increase in exports to save their foreign-exchange earnings and institute disinflationary measures until the boom subsided. Despite his disagreement on those two points he thought that as a whole the policies recommended by the experts were sound.

51. Turning to a detailed study of the report, he noted that the experts had stressed in chapted IV the importance of international monetary reserves, which

were indispensable for the maintenance of a stable flow of imports. He regretted that the experts had confined themselves to the statement that national reserves in convertible currencies and gold were inadequate to meet fluctuations in trade and capital flows, without suggesting corrective measures to be applied by governments. The report principally stressed the possibility of resorting to the International Monetary Fund to supplement national reserves in times of recession. It contained recommendations regarding the availability and the size of the Fund's resources.

52. With regard to the use of the Fund's resources by member countries, the experts had underlined the desirability of making the Fund's resources available to member countries at the onset of a recession, as cheaply and as fully as possible. They thought, however, that before granting loans the Fund should make sure that member States borrowing the money would be in a position to repay it. He pointed out that when the need for the Fund's aid was greatest the expectation of repayments would probably be small. The experts had formulated a number of specific recommendations to facilitate the use of the Fund's resources in time of emergency. He thought that the Fund would take due account of those recommendations, but he nevertheless drew the Council's attention to the fact that like any other organization the Fund would have to examine requests for temporary assistance in the light of existing circumstances and of the basic purposes for which the Fund was created.

53. With respect to the size of the Fund's resources, the experts had recommended that they should be increased at the earliest possible moment. Obviously, if the Fund had a larger volume of resources available and if wider use were made of the Fund it would be possible to some degree to offset the international repercussions of a recession in any of the member countries. He also emphasized that the existence of a large volume of resources did not guarantee that the economic disequilibrium would be corrected. In the absence of international monetary and trade policies capable of restoring equilibrium, it was likely that those additional resources would be rapidly dissipated. Moreover, the question of increasing the Fund's resources in gold or hard currencies raised the delicate problem of how that increase should be achieved.

54. He felt that the question of the adequacy of the Fund's resources should be a matter to be resolved by the Fund itself. Most of the members of the Council were members of the Fund. In his view the Fund's resources were far from inconsiderable. He wished, however, to make it clear that if a shortage of the Fund's resources became imminent the United States Government would give the matter proper consideration.

55. In discussing the international flow of capital, the subject of chapter III of the report, the experts had concentrated on an examination of long-term capital movements for investment purposes. They pointed out that as foreign exchange was essential to the financing of imports, a drop in the foreign-exchange earnings of the under-developed countries might delay their economic development. If that drop was due to a depression in other countries, the under-developed areas would be compelled either to reduce their imports or to resort to long-term financing with the aid of foreign capital. They thought that in times of emergency, the under-developed countries should obtain the financial assistance they needed from inter-governmental organizations rather than from governmental agencies. In that connexion, he recalled that the Council, which had discussed the functions and role of the Bank in detail, had always considered that that agency should devote maximum attention to sustained economic development. For its part the United States delegation had always maintained that the chief function of the International Bank was to provide long-term capital on a continuous basis for the economic development of under-developed countries. Its position had not changed, and he feared that that objective might conflict with the role the Bank might be called upon to play in combatting cyclical movements. The Bank should not be led to reduce the volume or rate of lending in times of prosperity so as to be able to increase its lending in times of recession.

56. During a recession the Bank could help to cover a deficiency in the foreign-exchange earnings of an industrialized country wishing to finance a specific programme. It could also help by financing a part of development programmes which an under-developed country had originally intended to cover entirely out of its national resources or its foreign-exchange earnings.

57. He then turned to consider chapter II of the report, which dealt with international commodity arrangements. The fluctuations in prices of primary commodities, whose prices reacted sharply to supply and demand, were a factor in general economic instability. It should be noted that those oscillations had particularly harmful effects in the under-developed countries. The sharp variations in the prices of certain raw materials prevented investors and producers from knowing whether the long-time trend was up or down and from taking decisions with a full knowledge of the facts. That was why governments had for a number of years considered it desirable to limit those fluctuations in prices. To that end, the United States Government was prepared to enter into commodity agreements. He emphasized the inherent difficulties in concluding such agreements. At the present time agreements were being prepared, and a number of international study groups were considering problems connected with those agreements. In their report the experts said they did not think a new system would help to facilitate negotiations between the parties concerned, a view which he endorsed. He did not think that it would be advisable to establish new machinery in view of the service now being rendered by the Interim Co-ordinating Committee for International Commodity Arrangements. Upon request, that body could set up study groups for any commodity, and in that connexion he wished to draw to the Council's attention the last report prepared by the temporary Committee under the able direction of its Secretary, Mr. Judd. The United States delegation thought the Committee was doing excellent work.

58. Apart from existing arrangements to facilitate the negotiation of commodity agreements, governments also had a guide in the Havana Charter, chapter VI of which had laid down a number of principles for such

negotiations. It was not possible successfully to negotiate multi-commodity agreements. In his view the interests of the countries directly concerned with particular primary commodities would be better protected in single commodity negotiations.

59. The experts had stated that commodity agreements should tend to reduce controls on production and trade, an opinion in which he concurred. Almost all commodity agreements entailed financial implications and the United States delegation thought that those charges should fall upon the parties concerned. It was therefore wiser not to ask the International Bank to tie up its funds in investments in stocks of primary commodities. The effect of such a decision might be to reduce the volume of the Bank's funds available for financing development.

60. In conclusion he said that the report of the experts had helped to define the problem of international economic instability. The report emphasized how important it was, if economic stability was to be ensured, for governments to take appropriate steps to maintain full employment and economic stability within their borders. It also revealed the importance of governments reporting more fully on domestic and international aspects of their economies.

61. Lastly he wished to comment on the passage in the report which stated that the real danger to the economic stability of the rest of the world lay in the United States. He explained that the situation was very different from that which had obtained in 1930. The United States Government had a better monetary and banking system, a better tax structure, a better system of farm aid, a better system of collective bargaining between unions and management, a better wage structure and an improved system of social security. In addition, the country's present frame of mind was very different from that which had prevailed in 1929 and which had made the disaster possible. In the United States, as elsewhere, the possibility of recessions had not been eliminated. There was, however, no reason to fear a crisis similar in magnitude to the 1930 depression.

62. He reminded the Council that variations in capital movements and in unilateral financial transfers also played a part in bringing about economic instability. It was true that some of those capital movements had started in the United States, but he observed that large movements which might be described as capital flights had occurred elsewhere and for reasons which had nothing to do with the United States. In addition, economic instability had resulted from the war, and he recalled that neither the First nor the Second World War had originated in the United States.

63. For all those reasons it was inaccurate to claim that the threat to world economic stability was to be found in the United States' economic position. Recessions could occur in the United States and elsewhere but there was machinery, both national and international, to deal with them. The pursuit of stability, moreover, should not hamper the pursuit of economic development and progress. What the world was seeking was stability within the framework of a more dynamic economy. He trusted that the Council's work would contribute to that end.

The meeting rose at 1 p.m.

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