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STATEMENT OF MR. RAGNAR FRISCH, MEMBER OF THE SUB-COMMISSION ON EMPLOYMENT AND ECONOMIC STABILITY, CONCERNING THE REPORT OF THE THIRD SESSION OF THE SUB-COMMISSION ON EMPLOYMENT AND ECONOMIC STABILITY (DOCUMENT E/CN.1/66)

At the time the final report of the third session of the Sub-Commission on Employment and Economic Stability was being considered, Mr. Frisch, while agreeing with a number of specific points, dissented from the adoption of the report as a whole, and it was agreed that he would prepare a statement containing his views (E/CN.1/66, paragraph 9). The following statement contains his comments on the report of the third session of the Sub-Commission and on some urgent problems in the field of employment and economic stability, together with his suggestions regarding the nature of the work of the Sub-Commission.

Statement of Mr. Ragnar Frisch

I. THE PROBLEM

1. The mass unemployment that prevailed in most countries in the 1930's led to a monstrous situation. Standards of living declined in the midst of plenty. Food and other consumption goods were deliberately destroyed, while people hoped and prayed that something would turn up which would finally allow them to use their own labour for the satisfaction of their own wants.
2. This experience brought out one very simple, but cardinal conclusion: If the democratic system is to survive, such monstrosities would have to be prevented. Some sort of measures would have to be taken, some sort of changes in economic policies or in the institutional setting would have to be introduced that could eliminate the risk of a mass unemployment while maintaining the priceless virtues of the democratic system: all of these things that come under the general heading of human rights.
3. This simple but cardinal conclusion is what initiated the United Nations work on employment and economic stability and amongst others led to the establishment of the Sub-Commission on Employment and Economic Stability. The combination of the above goals is what makes the problem a complex one, calling for vigorous thinking along new lines.

/II. THE TERMS

II. THE TERMS OF REFERENCE

4. The terms of reference of the Sub-Commission are:

- "(i) To study national and international full employment policies and fluctuations in economic activity.
- (ii) To analyze the causes of these fluctuations and:
- (iii) To advise the Commission on the most appropriate methods of promoting full employment and economic stability".

5. These terms of reference together with the fact that the members of the Sub-Commission are elected as individuals, not as representatives of Governments, show clearly what is wanted from the Sub-Commission.

III. THE NATURE OF THE SUB-COMMISSION'S WORK ACCORDING TO THE TERMS OF REFERENCE

6. Mr. Frisch does not see any need for changing these excellent terms of reference. They go straight at the main problem. They instruct the Sub-Commission to clear its own mind about facts and causes pertaining to employment and economic stability and to pass the results of this clarification on in a distilled form to the parent body, the Economic and Employment Commission. The work described under (i) and (ii) of the terms of reference contains the preparation for the work described under (iii).

7. In order that the Economic and Employment Commission and its superior body the Economic and Social Council shall be able to rely on the Sub-Commission's actually carrying out this task, the Sub-Commission must do something substantial to clear its own mind about facts and causes. Possible types of explanations must be tested against each other in an objective and systematic way and an attempt must be made to consider all the factors of the problem within the complex network of inter-dependencies that exist between these factors.

8. This point is in the opinion of Mr. Frisch particularly important. Any resourceful economist can list a number of factors in a given problem and show **that they may have "effects" in one or more directions**. The mere listing of these effects is not the kind of discussion of "causes" that is needed. Some of these "effects" will indeed work counter to each other while others may work in the same direction so that the ultimate result as it bears on employment and economic stability will depend on a comparison of several "effects". What is needed in the final analysis is therefore a discussion of how such comparisons can be made, taking into account a given factual situation. Thus a great number of factors must be considered simultaneously if an adequate analysis is to be achieved. Examples of this are given below in connection with the comments to the report of the Sub-Commission's third session (E/CN.1/67).

9. There is no way of escaping the fact that this task is of a scientific character. Obviously, the Sub-Commission is not in a position to carry out by itself scientific research, but it is, according to its terms of reference responsible for seeing to it that the results of high calibre economic analysis and research - objectively scrutinized as they bear on employment and economic stability - are passed on to its parent body, the Economic and Employment Commission speedily and effectively, so that this Commission and its superior body, the Economic and Social Council, may base their conclusions and decisions, to the largest possible extent, on objective facts and causes. It is the duty of the Sub-Commission to find ways and means of organizing its work in such a way as to realize this purpose, so clearly set forth in its terms of reference.

IV. WHAT THE SUB-COMMISSION HAS DONE SO FAR

10. Since the Sub-Commission has now had three sessions **this is a fitting** occasion to ask how much it has done "to study the fluctuations in economic activity", "to analyze the causes of these fluctuations" and to use this as a basis for advice on "methods to promote employment and economic stability". In Mr. Frisch's opinion very little has been done along these lines. In his view the Secretariat has furnished excellent material but the Sub-Commission has not lived up to its terms of reference. On the study of fluctuations as such, nothing at all has been done, and on the causes of the fluctuations only isolated comments were made.

11. In this connection he would like to present some remarks in particular on the report of the last session - the first one to consider the problem of maintaining full employment (E/CN.1/66). There are several specific points in this report on which he would agree but he thinks that the way in which the report approaches the problem as a whole, is fundamentally wrong.

Part B of the report

12. In his opinion part B contains some valuable special points, but it contains no attempt at a more systematic analysis. One example will serve to indicate the nature of Mr. Frisch's objections.

13. In paragraphs 14 and 15 mention is made of a number of measures that may be used for stimulating demand. If attention is limited to the demand side of the effects, it is correct to conclude that the measures in question will tend to increase employment and national output. However, experience has amply proved that some of these measures will at the same time lower the incentive to work, and if attention is limited to this side of the effects, the conclusion will be that the measures in question tend to lower national output. Illusion has been made to this latter fact in a concluding sentence added to this paragraph of the report.

14. The effect which the measures in question will have on the incentive to work is extremely important not only in countries struggling with rehabilitation but in a progressive world under any circumstances. The stimulation of demand must also be considered in conjunction with the import possibilities of the country in question. An uncritical stimulation of demand in a country which is at the same time facing unemployment and balance of payment difficulties would be out of the question.

15. A government that is facing such problems and plans to use the tax machinery or other factors at its disposal as instruments to maintain a high and productive employment, i.e. a high national output, will be interested not so much in having its attention drawn to the fact that the measures will have effects pulling in opposite directions, as in knowing how to strike the correct balance between the opposing effects. It is of the greatest practical importance to such a government to know what factual elements of the economy (the elasticity of production under the given import possibilities, the elasticity of spending etc.) must be taken account of in order to arrive at a rough estimate of the opposing effects and to understand in what way the factual elements jointly determine the result. Only on the basis of such an analysis will the government in question be able to form a well founded opinion on what actually to do in a given case in order to maintain a high and productive employment. A variety of other examples could be given illustrating the nature of the analysis that is needed in order to approach the domestic problem of employment and stability in a significant and constructive way. No such analysis has been attempted in the report.

16. In a special memorandum (E/CN.1/Sub.2/13) Mr. Frisch has presented material that might have been useful in discussing problems of this kind. The actual data used in that memorandum pertains only to the Norwegian economy but the argument is general.

Part C of the report

17. Mr. Frisch felt that part C of the report contains some valuable historical material but that it was even more remote from attempting a significant analysis of the present situation than was part B.

18. The crux of the matter in the international sphere in the post-war period is how to solve simultaneously the balance of payment and balance of trade problems for several countries. That this is the crux of the matter is amply proved by what has been going on in the way of international and inter-regional economic conferences and consultations in recent years. Considerable efforts have been made in these directions, e.g., the ITO conference in Havana and its various preparatory conferences; the work of the ECA; the various activities centering around the Economic Commission for Europe; efforts in the direction of commodity agreements within the general

framework of thought that has crystalized in the FAO; economic consultations within regional groups (such as the Scandanavian Group) etc.

19. When progress has been slow in these several directions it is reasonable to believe that this is due not so much to the fact that enough international conferences at a sufficiently high level have not been called as to the fact that there is something fundamental in the economics of the problem which is difficult and needs to be reconsidered.

20. It would have been the duty of the Sub-Commission to consider these fundamental difficulties in the economics of the problem, but the Sub-Commission has chosen not to do so (it had some material at disposal that could have been taken as a starting point for such discussions (E/CN.1/18, E/CN.1/18/Add.1, E/CN.1/Sub.2/8)).

21. Without going into detail Mr. Frisch would like to give a rough outline of some ideas that might be considered in this connection. Consider first by way of analogy different sectors within a country. Suppose that a country for reasons of national security or for social reasons or for any other reasons, wants to maintain full employment and a decent standard of living in its agricultural sector. Nobody would think that this could be achieved simply by placing unlimited credit resources at the disposal of the agricultural sector and by assuring that the same sort of currency notes were used by this sector as by the rest of the country. Market conditions, technological conditions etc. may be such as to make it necessary to revert to measures of an entirely different kind, for instance, such measures as price fixation on agricultural products and other means of transferring income to the agricultural population. Among these other means a manipulation of the tax-subsidy system might be considered.

22. Exactly the same principle applies if the sectors concerned are countries and the problem is to maintain a high and productive employment on a world basis. The international situation may be - and in the post-war economy certainly is - such that this goal cannot be achieved without the transfer of income or possibly of factors of production between countries -- that is, by large scale international gifts of a supra-national fixation of export - and import prices so designed as to achieve the necessary transfer of income between countries or possibly by the transfer of factors of production.

23. Mr. Frisch does in no way insist that such measures should be taken, but he wants to point out the importance of recognizing that complete world employment at an over-all high level of productivity cannot be steadily maintained without such measures. If this is not recognized, one will be misled in the search for a correct economic policy and will experience

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deceptions.

24. In particular he thinks that international credit operations, while being important as a means of bridging a temporary gap in balances of payments or of supporting a well-planned development scheme, are under existing conditions insufficient for the above considered purpose and indeed are dangerous to use in the face of an income and productivity - maladjustment for which no correction is in sight. This applies in an even higher degree to formal rules concerning the convertibility of the currencies of different countries. Such rules attack only secondary aspects of the problem. If the underlying income- and productivity-balances are assured, and only then can the convertibility problem and the problem of assuring a smooth flow of international credits be solved. Then the solutions to these problems will present themselves easily without necessitating any elaborate arrangements.

25. Thus the main problem which must be considered first is the nature of the skewnesses in the income- and productivity-situation as they exist in the network of international relations, and the extent to which a change in international prices and possibly direct transfers of income or factors of production would be needed in order to bring about a balance simultaneously for all the countries concerned and with an optimum utilization of world resources.

26. If it is assumed that such international transfers shall not be made, or only be made on a relatively small scale, a secondary optimum problem will arise. The problem will then be to find ways and means of carrying through the inevitable reduction of world trade in such a way that this reduction becomes as small as possible as compared with the volume of world trade that could have been achieved under completely full utilization of world resources.

27. If the Sub-Commission had gone into an analysis of these fundamental problems and through this had been able to indicate the principles on which new international action would have to be based, the Sub-Commission would have been justified in recommending international consultations at a high level. Such consultations would then have had a definite purpose.

28. As the matter now stands, the Sub-Commission's arguments for international consultations have been only in the form of generalities stating for instance that progress towards international economic collaboration has been slow and that governments have been wicked because they do not act in accordance with the common good. In the opinion of Mr. Frisch such statements contribute nothing to the economics of the problem. They may be

effective in arousing passing attention in newspaper headlines but will at the same time appear as an attempt to pass on to somebody else the task of making economic analysis.

29. Mr. Frisch would like to state that he has repeatedly protested against the spirit in which the Sub-Commission has gone about its work and that he has urged that an attempt should be made to discuss matters in a more fundamental way. In his mind three things should have been radically different from what they actually have been.

30. In the first place, the composition of the group should have been more permanent. Members should have come to know each other better. Having been present at all sessions, hardly missing a single meeting, he has witnessed the constantly changing composition of the group and the repetition of arguments and counter arguments which that has caused.

31. In the second place the Sub-Commission should have used more of its time in session on fundamental discussion instead of using it on generalities. If only half of the 52 meetings which have been held so far, had been devoted to fundamental matters, some significant progress would undoubtedly have been achieved.

32. In the third place he thinks the Sub-Commission should have from the very beginning given serious attention to such questions as the establishment of working groups, co-operation with research institutions and possibly other arrangements that would have helped the Sub-Commission in carrying out its task in the true spirit of its terms of reference.

33. When deciding upon policies regarding the future work of the Sub-Commission there are, in Mr. Frisch's opinion, three possible courses:

(i) Either to retain the terms of reference of the Sub-Commission as they are now and **make** a serious attempt to organize the work in such a way that the Sub-Commission can live up to the true spirit of these terms of reference.

(ii) Or to change the terms of reference so as to make it appropriate for the Sub-Commission to formulate reports on broad generalities without basing **these reports** on objective work "to study fluctuations" and "analyse the causes of these fluctuations".

(iii) Or to conclude that while it is likely that such a reformulated task is the only one which the Sub-Commission will be able to carry out in whatever way it tries to organize its work, that task in itself does not give a sufficiently significant contribution to the work of the Economic and Employment Commission and its parent body the Economic and Social Council. In the latter case, it would seem justified to discontinue the work of the Sub-Commission.

34. In the subsequent section Mr. Frisch will attempt to point out that the task which has been defined in the present terms of reference for the Sub-Commission is of the greatest importance, and in section VI he will make some suggestions regarding how the work of the Sub-Commission might be organized if it is decided to follow the course indicated under (i) above.

V. IMPORTANCE OF THE TASK WHICH IS FORMULATED IN THE PRESENT TERMS
OF REFERENCE FOR THE SUB-COMMISSION

35. Somewhere in the pyramid of organs within the United Nations which are designed to handle problems of employment and economic stability the task of making the necessary contact with high calibre analysis and research on the employment and stability problem as a whole, must be faced. The logic of the system requires this. Either the Sub-Commission on Employment and Economic Stability must face its task "to study economic fluctuations", "to analyze the causes of these fluctuations", and to use this as a basis for advising on methods to promote full employment and economic stability, or this task in all its broadness and complexity must be passed on to some other organ of the United Nations. Somewhere the task must be faced, otherwise the logic of the whole system will break down. Clearly, this is what the authors of the terms of reference for the Sub-Commission had in mind when they formulated them in such an admirably clear and precise form.

36. Several of the national governments have staffs of economic advisors with the highest economic and statistical competence. The competence to be found in these bodies equals or surpasses that found in many universities. The quality of the work produced by the United Nations expert body that is to handle the problem of employment and economic stability as a whole, must not fall below the standards set by these national units. Only qualitative work of the highest level will be able to sustain the prestige of United Nations initiative in this field. The Sub-Commission on Employment and Economic Stability should support this prestige not by the formulation of generalities but by technically competent analysis of difficult matters.

37. For this analysis it is inadequate to build only on types of data and types of explanations that are old enough to have become generally recognized. The analysis must go considerably beyond this point. There is a very good reason for this. There is nearly always a considerable time lag between the results of economic research as they emerge through the labours of economic research institutions, research groups and individuals, and the general recognition of these results. But the economic facts do not wait for this recognition. The whole factual background is constantly changing. New institutions, new systems of economic objectives, of social goals, new productive techniques are constantly coming into the picture calling for

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new types of data and new analytical machinery. Thus by its very nature the general recognition of the results of economic research will be lagging behind the factual situation.

38. Therefore if there is to be any hope of bringing the results of economic and statistical research to bear effectively on the urgent economic problems of the day one must look for ways and means by which to take into account and to make available the newest and the most up-to-date results. The fundamental research itself must be constantly on the alert striving for new explanations to fit the new facts.

39. As examples the following four facts may be mentioned that now must be taken into account in addition to the facts already stressed in the "effective demand" type of analysis which has been so widely used to explain the monstrous situation in the 1930's. Firstly, a change in the political climate now makes direct economic controls acceptable to a larger extent than before. Secondly, new standards of social justice have emerged. Thirdly, the problem of incentives to work has come more conspicuously into the foreground. Fourthly, in many countries restricted import possibilities now severely limit the courses of action that are open to governments, thus making it necessary to formulate the problem in new ways. All these facts have considerably complicated the analysis of the problem of employment and economic stability. The analytical machinery must be reshaped so as to express all these facts explicitly. This calls for a simultaneous consideration of a large number of factors in the price - wage - tax-subsidy system.

40. The above are only examples. We are in a race between economic research and economic facts. It is no exaggeration to say that it is a race of life and death. Disaster for millions will follow if economic and social research and their correct application do not win. If they lose we will witness new monstrosities as extreme as those we had in the 1930's, only with emphasis on different aspects of the situation, depending on the aspects in which the application of sound economic principles and research will be lagging behind the economic facts. It is unnecessary to dwell on the political upheaval that will inevitably follow a failure to understand the problem in time.

41. These considerations apply not only to the collection of data but in no smaller degree to the elaboration of analytical machinery. It is just as inadequate to apply five- or ten-year-old analytical machinery to the problem of employment and economic stability in the post-war period, as it would be to apply five- or ten-year-old statistical data.

VI. HOW TO ORGANIZE THE WORK OF THE SUB-COMMISSION

42. In promoting the application of appropriate data and analytical
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machinery to the problem of employment and economic stability, the Sub-Commission can make a significant contribution if its work is properly organized. The Sub-Commission must find ways and means so that it can effectively and without delay scrutinize critically, new facts and new analytical machinery. It must clear its own mind as to the consequences which these developments may entail for policies regarding employment and economic stability and it must distill these policies for the proper authorities.

43. The first and perhaps most important thing which the Sub-Commission should do is to arrange for the organization of working groups. Such a group must be small enough for its work to proceed in an informal way and this would indicate three as the upper limit; a group of two would appear too narrow. The group should be an ad hoc group whose members are appointed by the Sub-Commission for some specific task assigned to the group by the Sub-Commission, subject to the authorization of the necessary funds by the appropriate United Nations authority. The members of the working groups need not be members of the Sub-Commission.

44. The date, place and duration of the meetings of a working group would be decided upon by the Sub-Commission subject to the authorization of the necessary funds.

45. No official records of the meetings of the working group should be prepared. If possible, the members of the working group should be selected so as not to make it necessary for the Secretariat to service it.

46. The report of a working group should be presented to the Sub-Commission and consist of two parts, one technical and the other semi-technical or non-technical. This latter part should give a summary to be discussed in the Sub-Commission. The Sub-Commission might decide on the length and nature of the semi-technical or non-technical part of the report which it expected to receive. The working group should be free to formulate the technical part of the report in any form which it considered best for a complete presentation of its findings. The report should be issued as a regular United Nations document and should be presented at **such a date as the** Sub-Commission decided upon in each case. One or more of the members of the working group who are not members of the Sub-Commission might be invited by the Sub-Commission to take part in the discussion of the report which the **working group in question had prepared.**

47. A working group or any individual member of the Sub-Commission or of a working group should be free to use whatever assistance he could get from research institutions in economics and statistics in preparing material for the Sub-Commission, so long as such assistance does not entail any **expenses** on the part of the United Nations. Later when more experience along the lines of such co-operation is gained, one might perhaps consider cases where financial aid from the United Nations could be given.

48. If the necessary funds could be obtained, the Secretariat should be strengthened so as to be able to give more extensive service to the Sub-Commission in matters of an analytical nature. Such a development even on a large scale would not be a substitute for the organization of working groups as the latter are more flexible.
49. If the working group arrangement proves to be successful it might not be necessary to consider any great changes in the present mode of procedure of the Sub-Commission itself. One or two modifications may, however, be desirable.
50. In the first place one may envisage extending the duration of the session of the Sub-Commission from the two weeks, in practice now, to three or possibly four weeks. (In the election of its members, consideration might be given to whether the candidate would be able and willing to give the time needed for the work of the Sub-Commission).
51. One might also consider giving the Sub-Commission an opportunity to arrange, if it so wishes, some of its meetings in the form of technical meetings. The main difference between a regular and a technical meeting of the Sub-Commission would be that in the latter there would be no formal summary records. Instead one of the members of the Sub-Commission might be charged with the duty of preparing a short synopsis of what had been discussed. The omission of the summary records in their usual form would make it possible to proceed to the discussion of more technical matters. **The translations should take the same form whether the meeting is a regular or a technical meeting.**
52. The previous practice of **allotting to members of the Sub-Commission or to the Secretariat the elaboration of preparatory papers**, should be continued.
53. The final report presented by the Sub-Commission to its parent Commission should be in non-technical language.