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SECOND SESSION

MEMORANDUM ON INTERNATIONAL ACTION TO MAINTAIN WORLD
FULL EMPLOYMENT AND ECONOMIC STABILITY SUBMITTED
BY THE REPRESENTATIVE OF THE UNITED STATES

This Memorandum was submitted in connection with Item 6 of the
Provisional Agenda (document E/CN.1/32) for the Second Session of the
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INTERNATIONAL ACTION TO MAINTAIN WORLD FULL EMPLOYMENT
AND ECONOMIC STABILITY

1. The Commission is responsible for making recommendations to the Council regarding action to maintain world full employment and economic stability. In discharging this responsibility, as well as its responsibilities in the field of economic development, etc., the Commission should plan to submit to the Council:

(a) Periodic reports analyzing current economic conditions and trends, including relevant policies and activities of member governments and of other commissions and specialized agencies, and making recommendations related to situations currently developing or in prospect (see Agenda Item 5);

(b) special reports dealing with specific urgent situations;

(c) reports on long-range problems and policies with recommendations of broad principles of action for general application.

2. In dealing with world full employment and economic stability attention should be given to:

(a) avoidance of measures by one country that tend to handicap other countries in maintaining employment and stability;

(b) adoption of measures that promote full employment and economic stability throughout the world or in one or more countries without handicapping other countries in their pursuit of the same objectives.

3. It is desirable that there be developed a progressively clearer understanding of the nature of national measures that tend to have an unstabilizing or employment-restricting effect upon the economies of other countries, and that there be a progressive acceptance of the necessity of avoiding such measures. Safeguards against certain measures of this type have already been or are being developed by the specialized agencies. For example: the Articles of Agreement of the International Monetary Fund include provisions designed to prevent competitive currency devaluation; the draft Charter of the proposed International Trade Organization seeks to limit import restrictions and export subsidies; and both seek to provide for correction of any persistent disequilibrium between a country's exports on the one hand and its imports and foreign investment on the other. In view of the importance of this question, the Commission should direct the Sub-Commission on Employment and Economic Stability to make a systematic study of forms of national action in the international sphere which have had or may have adverse effects upon the general level of employment in other countries, giving attention in this study both to types of action which have most frequently been taken by economies based on individual enterprise and to those types which are commonly associated with state-planned or state-trading economies.

4. In the group of countries with relatively high incomes in the economies of which individual enterprise is predominant, experience has shown that the maintenance of high levels of activity and employment may be threatened or prevented mainly as a result of insufficient effective demand. While this problem does not at the moment compare in urgency with the problems raised elsewhere by shortages of supply, the

fundamental nature of the difficulties connected with its solution, and the gravity of its ultimate implications for the prosperity and the security of the world, permit of no delay in seeking a better understanding of the practical issues involved. Accordingly, the Commission should direct the Sub-Commission on Employment and Economic Stability to advance its studies of long-term full employment policy, with particular reference to high-income, individualistic economies faced with possible deficiencies of effective demand, as rapidly as possible, and in this connection to give attention to the following questions:

- (a) How far may basic or general long-term policies (e.g., wage, tax, farm income, and social security policies designed to spread income broadly, measures to stimulate private investment, measures to prevent monopolies from restricting production, etc.) be counted on to maintain adequate effective demand, and on the other hand how large a role must be assigned to "compensatory" policies to provide additional effective demand?*
 - (b) What difficulties are involved in the use of various "compensatory" policies (e.g., expansion of government demand through public works, etc., direct support of consumer demand through tax reductions or supplementary income payments) under various circumstances?*
 - (c) To what extent can highly developed countries overcome tendencies toward deficiency in demand, production, and employment by outlets for their savings provided by underdeveloped countries?
 - (d) Assuming the practical possibility of maintaining total effective demand (total consumer demand, business demand, government demand, net exports, etc.), how may undesirable cost and price increases be kept from defeating the purpose to sustain production and employment through support of demand? More generally, how may full employment be maintained without inflation?
5. While the chief problems confronting the above-mentioned group of countries relate to the maintenance of full employment in the numerical sense, underdeveloped countries are concerned to find ways of making their employment more productive. The two sets of problems are closely interrelated. It is, therefore, recommended that the Economic and Employment Commission submit to the Economic Development Sub-Commission the following questions for further study:

- (a) How can underdeveloped countries carry out developmental programmes continuously, and yet in co-ordination with conditions in capital-exporting countries conducive to the maintenance of high levels of productive employment throughout the world?

* The Council has assigned the study of legal, administrative and technical aspects of fiscal measures to the Fiscal Commission. Analysis of the broad economic effects of fiscal policies is, of course, a major responsibility of the Economic and Employment Commission and its Sub-Commission on Employment and Economic Stability. References at this point to taxation, etc., are made with the respective interests of both Commissions in mind and on the assumption that necessary co-operation between them will be worked out as their studies proceed.

(b) How would a policy of varying the rate of foreign investment by lending countries, for the purpose of aiding their short-term stability, affect the development of underdeveloped countries?

(c) Whether it would be a feasible policy to establish target rates of foreign borrowing by underdeveloped countries year by year for a considerable period ahead, and yet to seek to adjust the actual flow of such borrowings up and down, within a moderate range, to help meet the needs of stabilization?

6. Consideration of the problems prevailing in most war-devastated countries today, namely, deficiencies in the supply of equipment, fuel, raw materials, food, etc., resulting from physical and foreign exchange shortages, is in the first instance the responsibility of the regional Commissions for Europe and for Asia and the Far East. Information as to the extent of these deficiencies, as to the extent to which they can be met by indigenous production or through imports, and as to the ability to meet the foreign exchange problems that arise in this connection, is essential if the Economic and Employment Commission is to assess the problems of employment and economic stability in these areas in relation to the world as a whole and to make recommendations for international action.

7. A seriously unstabilizing economic influence is continuously exercised throughout the world by inflationary pressures. In part these pressures arise from physical shortages and the low level of current production in most countries. But in these countries and even in those where production has attained high levels, there is in most cases a large inflationary potential deriving from (a) an excess of currency and credit inherited from wartime financing of military expenditures, occupation costs, or export surpluses, and (b) the current creation of currency and credit, mainly as a result of budgetary deficits. Although the pressure of the surplus money supply upon prices and wages has been widely held in check by direct administrative controls, the tensions and distortions created by this pressure constitute a serious hindrance to economic stability. Furthermore, the controls themselves have tended to become less effective with the relaxation of public self-discipline following the end of the war; particularly in those countries which have continued to engage in domestic monetary expansion. In some countries the controls have collapsed and hyper-inflation has ensued, with very disruptive effects upon economic activity and upon domestic and international economic relationships.

Stabilization of national economies and of international economic relations can be achieved on a secure basis only if inflationary pressures are moderated. Much is being done and more can still be done in this direction through increasing production and obtaining effective distribution of goods and services as a counterpart to money claims. But resolute action is also required in the realm of monetary and fiscal policy. Some countries have carried out "monetary purges" designed to eliminate or reduce excessive money supplies inherited from the war, and some have achieved sufficient budgetary equilibrium so that government requirements are no longer financed through fresh creation of currency and credit. In the many countries, however, where neither objective has been attained, increased attention should be paid to monetary and fiscal remedies.

Government expenditures should be reviewed in the light of the capacity of the economy to bear the burden involved; tax systems and tax rates should be adapted to the new post-war levels of public expenditure; and efforts should be made to stimulate a flow of genuine savings which together with such foreign financing as is available will be adequate to cover public and private investment requirements.

The difficulty of avoiding undue monetary expansion in some countries is admittedly great under present disturbed conditions. Unless countries pursue appropriate counter-inflationary monetary and fiscal policies, and in particular unless the creation of currency and credit is held within bounds, it will prove extremely difficult to avoid unstabilizing inflation of prices and wages even if deficiencies in the supply of physical goods are overcome.

It is recommended that the Commission should discuss this problem at the current session, on the basis of such information as is readily available, with a view to recommending action by the Council.

8. Finally, action is required on the Economic and Social Council's request that the Commission, in considering the problem of full employment and economic stability, "take full account of any views put forward by the International Labour Organization, the International Monetary Fund, the International Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations, the Interim-Co-ordinating Committee for International Commodity Arrangements, the Preparatory Committee of the Trade and Employment Conference (particularly the draft resolution on international action relating to employment appearing in the report of the first session of this Committee); and by non-governmental organizations in Category A in regard to questions of particular concern to them". In conformity with this request, the Commission should:

(a) Invite the organizations named, where they have not already done so, to submit in writing their views as to any specific steps that should be taken in the interest of maintaining world full employment and economic stability;

(b) Instruct the Sub-Commission on Employment and Economic Stability to make a systematic study of the views submitted by these organizations.