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ECONOMIC AND EMPLOYMENT COMMISSION

REPORT OF THE THIRD SESSION

**PART IX OF RAPPORTEUR'S DRAFT REPORT OF THE COMMISSION
TO THE ECONOMIC AND SOCIAL COUNCIL**

1. The Commission's discussion concerning problems of economic stability and full employment took place on the basis of a report of the first two sessions of its Sub-Commission on Employment and Economic Stability. The Commission also had before it the "Survey of Current Inflationary and Deflationary Tendencies"* and the "Economic Report - Salient Features of the World Economic Situation 1945-47"** which were prepared by the Department of Economic Affairs of the United Nations Secretariat. In addition, the following reports and study were made available to the Commission at the suggestion of the United Nations Secretariat: A report on "World Food and Agriculture Situation and Prospects" prepared by the Food and Agriculture Organization for the Second Session of the Council of the Food and Agriculture Organization based on information available as of 5 March 1948, a "Report of the International Emergency Food Committee for the Council of the Food and Agriculture Organization at its Second Session" and a "Study prepared by the International Monetary Fund on the Problems of Exchange Rates" (E/CN.1/60). The Commission also had before it a memorandum concerning the views of the International Labor Organization on "International Action to Maintain World Full Employment and Economic Stability" (E/CN.1/46/Add.1).
2. Having examined the report of the Sub-Commission on Employment and Economic Stability, the consensus of the Commission was that in view of the economic conditions prevailing in a number of countries and taking into account the Commission's earlier request to the Sub-Commission to concentrate on problems related to the maintenance of economic stability and full

* Published in September 1947.

** Published in January 1948.

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employment, it was not inappropriate for the Sub-Commission to devote most of its first report to the subject of inflation. The Commission expressed its appreciation of the work of the Sub-Commission in analyzing the problems of and remedies for inflation. The Commission felt itself handicapped, however, in the formulation of its own views with respect to practical measures to combat inflation because the report of the Sub-Commission did not differentiate sufficiently between the different patterns of inflation experienced in different types of economy.

3. Some members of the Commission, having examined the statement of the Sub-Commission that "extreme inflation leads to a lowering of real wage rates and the real value of fixed incomes on the one hand and to the enrichment of speculators and monopolists on the other", considered that inflation leads to such consequences at all stages of its course. The Commission thought that the problem of relating economic action to social goals had not received enough attention from the Sub-Commission, and that the Sub-Commission could usefully have paid more attention to such important factors contributing toward inflation as excessive military expenditures, the differences in the relative rates of economic growth of various countries, and the activities of speculators. It also felt that insufficient stress had been laid by the Sub-Commission on the positive approach toward fighting inflation through an emphasis on economic actions designed to increase the supply of goods, especially as international efforts could be more easily applied in that direction than in the direction of reducing demand; they felt that economic action designed to reduce demand lay primarily in the field of national action, and in any case represented a negative approach to the problems of inflation which might result in measures leading to unemployment. The Commission further felt that the Sub-Commission had paid insufficient attention to the special problems of inflation in the underdeveloped countries.

4. During the Commission's discussion concerning the causes and consequences of inflation the Commission emphasized that inflation is an economic evil which not only constitutes a danger to the economies affected by it but also presents an obstacle to international co-operation. More specifically, the Commission agreed that inflation causes a shift in the distribution of real income from wages and fixed incomes to profits and speculative gains, that hoarding of essential commodities for the purpose of increasing prices and further profits develops in the course of inflation thus reducing the availability of supplies to consumers, and that inflation results in the diversion of the flow of resources into unessential
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production thus impeding the reconstruction of war devastated countries and of war dislocated economies, and retarding the economic development of underdeveloped countries.

5. With regard to the international consequences of inflation the consensus of the Commission was that whenever inflationary conditions in exporting countries tend to raise the level of export prices for urgently needed imports of which they are the major suppliers, they aggravate the balance of payment difficulties of importing countries and the depletion of their foreign exchange resources. It was also agreed that inflation distorts the structure of production, consumption, and world trade and thus creates a threat to the maintenance of economic stability and full employment in both exporting and importing countries.

6. During the Commission's discussion concerning the remedies available against inflation, the Commission emphasized that inflation can be fought in fundamental terms only through increased production of essential goods but that in many instances major increases in production cannot be achieved until the bottlenecks of production are broken. On the demand side, the Commission felt that countries concerned should, without causing unemployment, undertake effective measures to halt domestic inflationary processes as for example by the rationing of essential goods coupled with price control, and progressive income taxation.

7. The majority of the Commission also felt that countries should maintain and even increase their exports, especially of goods needed to aid permanent recovery and sound development, to countries which have been devastated or whose economies have been dislocated by the war and to countries urgently in need of development in order to enable them to progress rapidly in their domestic production and the development of their external economic relations, thus furthering world economic stability and full employment.

8. The Commission affirmed the view that the development of international trade is an important form of economic co-operation among countries and that it should be developed on a foundation of mutual respect, equality among countries, the sovereignty of countries and their national interests. Furthermore the majority of the Commission considered that member countries should take all practicable measures which would result in the lowering of inordinately high prices, especially of those goods (whether finished products, raw materials or foodstuffs) which enter into world trade and which are urgently needed by countries whose economies have been disrupted by war or which are in serious need of rapid economic development. In

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addition, the Commission advised the adoption by governments of all practicable measures directed toward increasing production and world trade and thereby to assist in the struggle against inflation and help to readjust prices on a basis conducive to economic stability and to the maintenance of full employment.

9. It was the consensus of the Commission that members should be guided by the principle that credits and assistance given by member countries of the United Nations to other countries should be used in the interest of the people of the countries receiving credits and assistance and should not be accompanied by any political conditions and should not be utilized as a means of interfering in the internal affairs of those countries.

10. In connection with the future work of the Sub-Commission, the Commission wishes to draw the Sub-Commission's attention to the Summary Records covering the Commission's discussion of the Sub-Commission's first report.

11. Having in mind the Economic and Social Council's request that the Commissions of the Council "establish priorities of work in their respective programmes, based on the urgency and importance of the projects in fulfilling the purposes of Article 55 of the Charter of the United Nations and to indicate these priorities in their reports to the Economic and Social Council" (Part IV, Resolution 128(VI)), the Commission agrees with the Sub-Commission that the next session of the Sub-Commission should be devoted to an examination of the economic problems related to the maintenance of economic stability and full employment.

12. During the Commission's discussion of Item 9 of its Agenda: "Economic and Social Council Resolution of 3 March 1948 on Resolution Relating to Employment Adopted by the United Nations Conference on Trade and Employment", the Commission considered the Council's request that the Commission expedite certain studies referred to in the Council's earlier Resolution 26(IV). In this connection the Commission noted that the studies for which arrangements have already been made include not only the inquiry to be made by the Secretary-General concerning plans for the maintenance of economic stability and full employment in accordance with the Council's Resolution of 3 March 1948 (Resolution 104(VI)), but also the studies undertaken by several members of the Sub-Commission in accordance with Part VIII of the Sub-Commission's Report, and the following additional studies undertaken by the Secretariat:

(a) Analyses of problems of deficiency or excess in effective demand. The first report entitled "Survey of Current Inflationary and Deflationary Tendencies" was issued in 1947; a second report is in preparation.

/(b) Shortages

(b) Shortages of food and coal; their causes and extent. This study was in a preliminary form made available for the information of members of the Commission.

(c) Economic analyses of international trade.

13. The Commission also recommends that both the Secretariat and the Sub-Commission consider arrangements for a study of how to recognize incipient down-turns in economic activity, so as to facilitate the formulation of recommendations to governments and to specialized agencies concerning actions to be taken in the event of down-turns in economic activity. At the same time the Commission wishes to stress the point that it considers it important in the approach to the problem of full employment to give priority to studies of action to be taken for the maintenance of economic stability and full employment and the prevention of economic depressions in preference to studies of counter-cyclical action to be taken in the event of a depression.
