

**ECONOMIC
AND
SOCIAL COUNCIL****CONSEIL
ECONOMIQUE
ET SOCIAL**E/C.2/18*
9 January 1947

ORIGINAL: ENGLISH

**COMMITTEE ON ARRANGEMENTS FOR CONSULTATION WITH
NON-GOVERNMENTAL ORGANIZATIONS****RESOLUTION OF THE INTERNATIONAL CHAMBER OF COMMERCE ON
"MAXIMUM EMPLOYMENT IN A FREE SOCIETY"****AND THE****"REPORT OF THE I.C.C.'s COMMITTEE ON METHODS TO MAXIMIZE EMPLOYMENT"**

(Circulated to the members of the Council for their information in pursuance of paragraph 2 of Chapter IV of the Report of the Committee on Arrangements for Consultation with non-governmental Organizations approved by the Council on 21 June 1946 - E/43/Rev.2, 1 July 1946).

Production and Distribution
RB

Document No. 7702-or.
3. XII. 1946 - hkw

"Maximum Employment in a Free Society"

Resolution and Report Adopted by the Council
of the International Chamber of Commerce at its 65th Meeting
Paris, France, December 3d and 4th, 1946

RESOLUTION

1. The task of maintaining productive employment stably at its highest possible level calls for cordial and continuous co-operation between government, business, agriculture and labour, effectuated wherever possible by appropriate institutional arrangements. It is not a task that can be accomplished by simple devices, nor by any section of society acting on its own. The recommendations that follow deal first with the duties and responsibilities of business.

2. In order to maximize productive employment, business should foster a dynamic economy and the moderation of economic fluctuations. To this end:

- (a) Business should pursue a policy of vigorous enterprise in expanding production to serve human wants and aspirations and in keeping its activities healthy and profitable.
- (b) It should endeavour to preserve and develop vigorous and fair competition.
- (c) It should emphasize research for the discovery of new products and better methods and strive constantly to improve the productivity of those who toil.
- (d) As higher productivity permits, it should pass on a substantial part of the gain in the form of higher wages and lower prices.

* French text will be submitted by the I.C.C. and distributed later.

(e) It should cultivate by adequate training the potentialities and abilities of its employees and its management.

(f) It should employ practices that help to moderate economic fluctuations and thus, foster economic stability. Realizing its obligations to ensure to the utmost of its ability regular and satisfactory employment, it should explore every possible way of achieving this end; thus, for example, it should hold over to periods of low market demand more of its postponable expenditures for maintenance and improvements.

3. Labour and agriculture have the same interests as business in fostering a dynamic economy and in moderating economic fluctuations. They are therefore invited to take, through their responsible organizations, an active part in promoting and pursuing policies directed towards these objectives.

4. Government, acting for the people:

(a) Should assume its inescapable responsibility for creating a favourable climate for a dynamic free economy under which people are encouraged to create for themselves the fullest possible productive employment and maximum production.

(b) Should encourage the extension of private enterprise, foster vigorous competition, and establish a tax structure and other policies that stimulate enterprise and output.

(c) Should provide appropriate aids to business, particularly through the improvements of facilities for the dissemination of business information and economic statistics.

(d) Should pursue an international policy designed to foster multilateral private trading, and thus contribute to the preservation of peace.

5. Government should recognize the great responsibility it possesses for the moderation of the business cycle. It is important, therefore, that it should not only use the instruments it possesses for the direct mitigation of the upward and downward swings, but should also ensure that its policies and actions in other fields are co-ordinated into a consistent whole with its specifically anti-cyclical policies and actions. The dominating aim should be the integration of all aspects of government policy touching the economic field with a view to stabilization and development. To this end, government should:

(a) Use methods of taxation that tend to moderate rather than amplify economic fluctuations.

(b) Develop money and credit policies aimed at dampening inflationary pressure in booms and promoting credit expansion in depressions.

(c) Time its construction of public works so that the maximum of expenditure be made in times of low business activity and the absolute minimum in times of threatened inflation. In order to carry out such a programme, it is absolutely essential that the government have on hand at all times a backlog of projects, not only planned, but blue-printed with all financing and legal details complete.

/(d) Mainta

(d) Maintain a broad programme of social security benefits that will alleviate the fear of total loss of income and privation.

6. Governments of the more industrialized countries should, upon invitation, actively investigate the possibilities of assistance which their countries could give to the industrial, technical and agricultural development of less advanced areas, so as to raise their standards of production and consumption, in the realization that by so doing they are also expanding their own markets for manufactured products.

7. The attainment and maintenance of high levels of production, employment and living standards in any one country is a matter of international concern. Without concerted international action, local policies for maximum employment cannot fully succeed; and without a growing volume of international trade and intercourse the possibilities of raising local standards of living are limited. Governments should, therefore, pursue whatever policies they adopt for the furtherance of domestic employment with due regard to the welfare of other countries and the prosperous growth of international trade. Through appropriate agencies, governments should co-ordinate their employment policies, foster counter-cyclical policies and develop joint undertakings for the formulation of commercial policies that are conducive to economic stability throughout the world. The Chamber notes with satisfaction the start that has already been made in this direction by institutions such as those created at Bretton Woods as well as by the London Preparatory Committee of the International Trade and Employment Conference.

8. The International Chamber of Commerce offers this statement of broad principles with the appended report of its Committee on Methods to Maximize Employment as a basis for action rather than for further discussion.* With that end in view, it suggests that each National Committee should work out in concrete terms the application of these principles to the situation of its own country and make precise recommendations for action to its Government.

* The Permanent Consultant of the International Chamber of Commerce to the Economic and Social Council points out that this call for action rather than further discussion is directed to the National Committees of the Chamber rather than to the Council.

REVISED VERSION

APPENDIX

Report
of the I.C.C.'s Committee on Methods to Maximize Employment

Introduction

This report is concerned with methods of maximizing employment in a free society. Its purpose is, first, to clarify the problem; second, to determine how employment may be maximized; and, third, to present the line of reason leading to the recommendations presented in the draft resolution.

EMPLOYMENT IN A FREE SOCIETY

1. The Problem

2. The problem of maximizing employment in a free society differs fundamentally from that of achieving "full employment" in a dictatorship, where people, subservient to the will of the government, may be obliged to forego things they prefer so that officially prescribed goals may be attained. In the planned or totalitarian society, "full employment" is a question only of the application of political power; in the free society, "maximum employment" is a question of the right balance between all the activities being carried on in the society.

3. In a free society, the well-being of the people is paramount. The objective of free men is to maximize employment not as a single goal, but as one among other desired goals. Free men want more than jobs alone - more than jobs at any price.

(a) They want employment of their own choosing, that is well paid, productive, worthwhile and satisfying.

(b) They want the opportunity to grow and develop materially, intellectually, socially and spiritually.

(c) They want political freedom - the opportunity to govern themselves through their chosen representatives - and the attendant individual liberties of person and of property, freedom of speech, freedom of press, freedom of worship and freedom of peaceful assembly.

(d) They want to live in a progressive economy that affords an abundance of things for their material welfare and with a government that fosters these goals for all the people and for their children.

(e) They want to live in a world of peace - at home and abroad.

4. Free men want all these things simultaneously and continuously. In brief, they want freedom and abundant, productive employment with rising standards of living in a peaceful world.

5. Institutions adapted to attaining these goals exist in free societies in the system of individual liberties, representative government and private

/competitive

competitive enterprise. The compatibility of these institutions has been demonstrated. More people have more clearly realized their various objectives simultaneously through these three institutions than under any other arrangements.

6. On both the historical and analytical evidence, societies in which men have been relatively free in their political and social relations and have been permitted to organize their economic relations on the basis of private competitive enterprise, have made more improvements in methods of production, produced more goods and services per head, distributed more benefits to more people, provided greater opportunities for realizing their individual potentialities, and retained more freedom than have men under any other system in any period of history. It is not without reason that an economic growth unexampled in history, and the fullest flowering of political and individual freedom so far known to mankind have occurred under conditions of political and economic freedom.

7. But great as have been the accomplishments of free economies, their operation has not been effective enough. They have been dynamic, vigorous and highly productive, but they have not been made to yield their full potentialities in opportunities for growth, development and material well-being. High levels of employment, though they have been reached, have not been maintained. Recurring depressions and unemployment have too often interfered with economic well-being. The free economies have forged ahead spectacularly, but they have done so erratically, in alternating booms and depressions.

8. The fact that the operation of the free economies has not been perfect does not warrant abandoning them to state control, as some propose, but suggests instead the need to strengthen them and to improve their functioning. Such a course calls for courageous and constructive action. Appropriate measures must be developed to foster abundant production and employment, to deal with economic maladjustments resulting from the war, and to alleviate business fluctuations. We must achieve these aims without arresting technological progress, without limiting the opportunities of the people, without surrendering individual liberties, and without sacrificing political freedom. The most dangerous dilemma awaits us in the very fact that measures which, superficially, locally and in the short run - seem to promise most in respect of employment are the very ones which - essentially, generally and in the long run - most endanger the prospects of productive employment.

II. Sources of Productive Employment

9. In any society, free or unfree, we have a mutual dependence: productive employment is created by demand, but demand in turn is created by productive employment, and so on ad infinitum. In free economies private employment (including self-employment) accounts for the overwhelming proportion of needed jobs.

10. In the public sector, useful jobs grow out of public administration, the construction of public works, and the operation of public services. Here the principal problem is not to maximize employment, but to maintain proper standards of productivity and usefulness. While some public enterprise is carried on for profit, the intrinsic nature of the operations

/which

which create public jobs generally renders the profit motive irrelevant; they are determined mainly by political decisions as to the kind and scale of services government is to provide. Without the automatic check of the profit and loss account, the public interest requires that care be exercised to make certain that public employment is productive, and the services provided are worth their cost.

11. While public employment is relatively small, it may exert a considerable direct influence on total employment in two ways. First, there exists flexibility in the timing of public expenditures; in consequence of which, they may be expanded in periods of depression and curtailed in periods of prosperity, thus counter-balancing, in some measure at least, the fluctuations in private employment. A less direct influence upon total employment is introduced through the construction of well-designed improvements, such as dams, irrigation projects and the like, which, for accidental reasons, might not be privately undertaken, but which promote economic development and future employment opportunities. These measures, if wisely planned, may expand the opportunities for private employment and increase productivity. Imposing the test of benefits vs. costs on all public expenditures is a necessary precaution, however, against employment that is wasteful of human and material resources.

12. In the large private sector of the economy, employment is created by employers and the self-employed in the production of goods and services that people are expected to want and to be able to pay for. In order to expand private employment, production must be expanded; people with ideas, capital and organizing ability must first assume risks and provide the necessary machines, facilities and managerial direction, without which highly productive jobs can neither expand nor be maintained.

13. Under private enterprise, production is undertaken voluntarily by innumerable job-givers, seeking incomes in the form of profits. They create jobs only when the resulting revenues seem adequate to cover costs and to compensate for the risks they assume, the investments they make and the enterprising direction they give.

14. Underlying the operation of both public and private enterprise, there is a host of economic conditions, policies and arrangements that govern the actions of job-givers and job-holders, and which must be favourable if maximum productive employment is to ensue.

15. An analysis of the operation of free economies over the past century shows that those which have been most successful in achieving high and productive employment are those possessing to a marked degree the characteristic of dynamism - the vigorous, enterprising pursuit of opportunities to serve peoples' wants. A second major characteristic of these economies is a persistent tendency toward instability. The problem of realizing fully the potentialities of these economies to create productive employment is initially one of determining the conditions that will enhance their dynamism and that will alleviate their instability.

III. Sources of Dynamism

16. Two basic conditions are essential to a dynamic and healthy economy. These are (a) conditions under which people can work together fruitfully and (b) an adequate system of rewards and penalties.

(a) Conditions

(a) Conditions for working together fruitfully

Conditions must exist under which people of diverse talents and ambitions can work together willingly and fruitfully toward consistent goals, and in which the function of the entrepreneur (i.e. that of combining, with a suitable reward for himself, the activities of the other factors of production) is regarded with respect. Satisfactory arrangements have yet to be developed for the settlement of differences between labour, capital and the public without sacrificing the benefits which each derives from uninterrupted production.

(b) An adequate system of rewards and penalties

In any economy, and especially in one based on voluntary action, a system of rewards and penalties to elicit the ingenuity, skill and effort of the people is indispensable. Employees find such a system in their compensation and opportunities for advancement. For job-givers, the system of profit and loss exists. Unless these rewards and penalties arouse a spirit of enterprise among the people, a spirit impelling them to work productively and impelling a great many to take risks, to venture capital and skill and to become job-givers rather than job-holders - new productive jobs will not be created. The profit and loss system of private enterprise has been unrivalled for enlisting the potential capacities of the people. The reward of profits to the successful, and the penalty of losses to the unsuccessful, are powerful inducements. No other incentives have operated quite so impersonally or more effectively in stimulating the effort, inventiveness, resourcefulness and capacities of so many people. But the system is ineffective unless it is used. It is vital to business efficiency and to the expansion of job opportunities, that adequate incentives in the form of rewards and penalties be preserved.

IV. Sources of Instability

17. Abundant employment cannot be maintained by the foregoing conditions alone. The free economies, in consequence of their freedom, are subject to powerful influences that induce instability in business activity and, therefore, in employment. The capacity of free economies to produce goods and services in great abundance and variety has been amply demonstrated. They have not shown a corresponding ability to maintain production and market demand at satisfactory levels. If high levels of employment are to be reached and maintained, these erratic and disturbing factors must be offset as far as possible through appropriate policy.

18. Unstabilizing influences, whatever their source, spread through the economy primarily by affecting market demand. Market demand for goods and services is made up of the combined demands of individual consumers, of business firms, and of the government. It includes demand for consumers' goods (perishables, semi-durables, and durables) and for producers' or capital goods. The demand for goods and services by the government is not necessarily limited by the current size of government revenues; it can obtain credit - as can business and consumers to a lesser extent. Except for these purchases with credit, however, market demand depends on (1) whether consumers and businessmen have enough money to purchase the goods and services produced, and (2) whether they

/are willing

are willing to spend, or to invest in business assets.

19. /Instability of market demand in most free economies has resulted from a complex set of factors. Among these factors are high standards of living (characterized by a substantial proportion of postponable expenditures in consumers' budgets), heavy investment in durable capital goods and inventories (the demand for which is readily postponable when business confidence wavers), a credit system which has magnified the effects of waves of optimism and pessimism; tax systems which have failed to offset, and have often intensified, the fluctuations in disposable income (after taxes); the impact of governmental disruption of established channels of trade; and the results of erroneous investment. On the basis of our present knowledge, we have no reason to anticipate that, if the casual or systematic unemployment due to these specific causes, could be removed; there would remain any problem of general non-cyclical unemployment.

(a) High standards of living

Each family determines, within its means, what it wants to spend, when it wants to spend it, and what it wants to buy. The higher the standard of living, the more money each family has beyond the requirements of its basic needs, the greater are the purchases which it can defer. This postponement of buying reduces demand at the onset of recession, while exceptionally heavy buying in good times aggravates the boom. The higher the standard of living, the greater is the instability.

(b) Investment in capital goods

Business expenditures are even more postponable than consumer expenditures. Modern competition requires that a constantly increasing volume of business spending go into capital goods - into buildings, industrial machinery, office and store equipment, and into inventories - to permit low-cost production and to provide the conveniences which the buyer expects. Continued investment in capital goods of this character is as indispensable to the maintenance of employment as is spending for consumer goods. Investment is made possible primarily through savings of individuals and business firms. Only as savers are induced to invest do their savings find their way into the stream of expenditures. Business men can afford to increase their holdings of these capital goods only when the actual or anticipated volume of consumption demand promises a reasonable profit on the added investment. These purchases are postponable; and when profit prospects are dreary, they often are postponed even though ample cash reserves are available. This unwillingness to spend, like the unwillingness of consumers to spend, causes a cumulative curtailment of demand, production and employment which spreads rapidly throughout the economy and generates an inability to spend for lack of income. Further, investors (i.e. those who apply saved funds to the creation of capital goods, may make mistakes. Each such mistake involving loss of capital and disemployment of labour, is a deflationary influence in the economy.

(c) Credit

Whether money is "easy" or "tight" - whether credit is obtainable

/generally

generally at a low or a high rate of interest, or not at all - is determined (1) by policy decisions in the public treasury, in the central banking system, and in other government agencies; (2) by the actions of public supervisory authorities; and (3) by the numerous decisions made by individual bankers and others who grant credit in the light of their appraisal of the business outlook. These decisions at times have an all-pervasive and crucial influence on business activity. In general their net effect has been to make credit more easily available in prosperity and less easily available in depression, thus widening the periodic swings in market demand.

(d) Taxes

When taxes reach too high a level they place the whole enterprise system in jeopardy. The influence of taxes on the stability of incomes, and hence on the stability of demand and employment, takes on new importance with every increase in the percentage of total national income absorbed by taxes. When taxes take only a small percentage of total national income, they are probably a factor of minor importance. With expenditures in the postwar period reaching levels that may require as much as fifteen to twenty per cent or more of the national income, the structure of the tax system and the amount and timing of tax collections become factors of primary importance. By collecting too little in taxes in periods of prosperity and too much in periods of depression, the tax system operates to intensify booms and to deepen depression.

(e) Foreign Trade

No economy can, in practice, be radically isolated from the rest of the world. Therefore, economic instability in any country may be either the cause or the effect of instability in the rest of the world. An independent source of instability arises from losing foreign markets on short notice, or without warning, because of restrictions adopted by foreign countries. Losing foreign sources of supply because of export restrictions abroad are a less common but possible source of instability. The use of state trading monopolies and trade restrictions for political purposes creates a special hazard because of the unpredictability of the changes in policy.

20. These major sources of instability operate through the decisions of numerous consumers and businessmen. The confidence of individuals in the continuity of their income and the confidence of businessmen in the prospects of a profit are essential to the maintenance of economic stability. These influences must be recognized in the formulation of a positive policy aiming at high productive employment. Such a policy must also take account of maladjustments in production, prices, wages, and other unstabilizing influences that play a part in creating or aggravating business fluctuations. Recognition must also be given to the fact that a balanced and productive economy creates without inflation its own purchasing power.

HOW TO ENHANCE DYNAMISM AND MINIMIZE INSTABILITY:

I. Responsibilities of Private Groups

21. There is no simple formula for maximizing productive employment in

/a free

a free society. Neither by planning, nor by public regulations, nor by public spending, nor by monetary policy, nor by government taxation and expenditures, nor by any series of unco-ordinated prescriptions for each segment of the economy, can economic fluctuations be controlled or high productive employment be maintained. But through many co-ordinated policies, designed to preserve a proper balance in the economy and to stimulate expansion, the employment goals of free men may be reached.

22. The necessary co-ordination of policy and unity of purpose depend upon the constructive support of all participants throughout the economy. All have a vital interest in the results that can accrue from their joint efforts. If the separate and joint interests of labour, agriculture and business, and of the public are to be maximized, it cannot be at the expense of each other, but must come from their working together purposefully to maximize employment and production in a free economy. The responsibility for maintaining high levels of employment and production rests on no one group or agency, but on all together - job-seekers, job-holders, employers, union officials, government and the general public. By their action they fulfill their responsibility or they jeopardize the efforts of others. The efforts to moderate business fluctuations and to maximize employment can be successful only if all groups separately and jointly promote the necessary conditions and policies in the common interest of all. This is the challenge to business, labour, agriculture, government and the general public, as groups and as individuals.

23. The first obligation of business men, in promoting productive employment is to operate their businesses efficiently and profitably. Employers can make important contributions to employment by cultivating the potentialities of their employees, by providing facilities and training to increase the productivity of workers, by constant research to improve products and methods and to find new products and services. They should regularize employment to the greatest extent possible. By spreading postponable expenditures for maintenance and improvements more evenly over the cycle, or by making them more largely in depression periods, they can exercise a stabilizing influence on employment and incomes. Rising standards of living should be a constant goal, since they permit expanding markets for the products of business. Businessmen must expect to pass on a substantial part of the savings flowing from higher productivity in the form of lower prices and higher wages. This is in the interest of business as a whole. Businessmen must be prepared to offer and support constructive proposals for the attainment of high levels of employment and production.

24. Workers and union officials, directly concerned with high wages and lower prices, promote their own interest by giving a fair day's work for a fair day's pay, by expanding production, and by promoting efficiency, upon which high wages, low prices and an improved standard of living depend. Increased output per worker, through improved technology, is essential to a steady rise in real wages. By far the greatest real gains to labour have come from increasing the size of the total pie to be shared.

25. Both employers and union officials, in pursuit of this common goal generally profit in the long run by opposing restrictive policies that lower output and raise costs. Taking a long view of self-interest is, in fact, a first step toward harmonizing objectives which, on the

surface, often appear to clash. To the extent that long-run group interests converge on high employment and high productivity, they coincide with the interests of the community as a whole.

25. This unity of long-term interests emphasizes the need for restraint on the part of individuals and groups tempted to turn to government for special favours or alleviation of short-term difficulties. Artificial price maintenance; restrictive trade and labour practices; subsidies tariffs or quotas for particular groups; and other impairments of competitive markets generally operate counter to the public interest, and in the long run, counter to the interests of the class of which the self-serving individual or group is a member. Moreover, they place the free enterprise system in jeopardy.

27. There are substantial contributions that business can make toward the solution of the employment problem by courageous planning for expansion and for more regularized employment. Research on the problem of maximizing employment has scarcely begun, despite the critical need. Only by competent research can we discover dependable methods of dealing with the problem as it applies to given firms, given industries, and as it relates to the whole economy. From labour and agriculture important contributions must also come. These private groups, acting individually or jointly, cannot, however, maintain abundant employment by their own unaided efforts.

Responsibility of Government

28. Only central government, acting in the name of the whole people, has the means to execute some of the policies needed to maintain high levels of employment. There are some things the government cannot do, however. It cannot, for example, fulfill a guarantee of "jobs for all" and at the same time preserve individual freedom. But it can do much to co-ordinate and foster policies for the expansion and stabilization of productive employment. It is a primary function of government to promote conditions under which free labour and free business can work together efficiently for the general good of all.

29. The criteria against which such policies should be measured should include the effect upon the character, capabilities and opportunities of the individual members of society, for on their ingenuity, resourcefulness, self-reliance and personal growth depend their current happiness and their future effectiveness and well-being.

30. What public policies should be fostered can be answered only partially now. Some things we know, and this knowledge we can apply. About some aspects of the problem we know little, and the first step is to conduct research that may yield a better understanding and guidance in the formulation of public policy. Such research needs to be undertaken by government and by all other groups, including business, labour, and especially by our independent research institutions and universities. In the light of present knowledge, the following policies must be regarded as essential measures for government to take. We first consider policies for promoting a dynamic, healthy economy.

31. Encouragement of private enterprise. If adequate employment is to be created, private enterprise must create most of it. Policies of government antagonistic and destructive to private enterprise eat into

/the economic

the economic fabric with wasteful consequences. The first essential of public policy is that it be constructive and subservient only to the common good, that it be encouraging to business without favouring business as against other sectors of the economy, and that it facilitate expansion and employment in business without the interference of conflicting policies that undermine the results intended.

32. Planning for competition. Competition among rivals to serve the public stimulates and regulates business. An important responsibility of government is to foster competition among those who strive to serve the people's wants. When business and labour, as well as government, have planned to combat depression, they have too often directed their planning against competition by seeking exemption from Anti-Trust laws by price maintenance schemes, freezing of trade practices, and similar measures. We need a re-examination of the various ways in which competition is now infringed by possible abuses of patents, international cartels, and monopolistic practices such as combinations in restraint of trade on the part of both business and labour. We need also a thorough study of how competition actually functions, what it can and cannot do to mitigate depressions, and how its action in this respect is obstructed; together with careful consideration of alternative forms of competition and alternatives to competition. Out of this investigation should come realistic policies for dealing with monopolistic practices, for extending the area of effective competition, and for promoting stability in ways that will supplement competition and not restrain or extinguish it. In particular, this should encourage and facilitate the entry of new businesses, opportunities for the self-employed, and the expansion of existing businesses wherever there are opportunities for increased production and employment. The constant emergence of new businesses is an essential characteristic of the spirit of private enterprise; they provide one of the nation's greatest laboratories for new ideas and new products; they promote flexibility and competition in our economy and give scope for the individual's talents and abilities. They are among the most effective instruments for developing self-reliance and resourcefulness.

33. Aids to business. A number of beneficial aids may properly be supplied by government. The first is to remove hampering obstacles to trade, interferences with normal business practices, and impediments that stand in the way of new ventures, unless these obstructions are found to be required in the public interest. Special aid in the form of data on economic conditions and trends are more and more needed for the information of management. Improved labour exchanges and better information concerning available employment are desirable in order that jobs seeking men and men seeking jobs may be brought together more promptly. The dissemination of information about markets, standards, and improved business technics are services needed by many firms.

34. The tax structure. Taxes exert a major influence on incentives to spend and to assume business risks. If we are to have high employment, greater consideration must be given to the impact of taxes on business expansion. It is a mistaken notion that taxes on business are paid by business. Business collects taxes; but they are paid by the people - consumers, workers, and investors. It is poor economy to impose tax burdens that discourage extra exertion, and the creative, inventive and enterprising forces that bring about the expansive of production, employment and taxable income. In general, excessive tax burdens on risk-taking should be lifted, excises which limit

consumption should be kept to a minimum, and personal income taxes should be placed on a broad and equitable basis.

35. Public services. Programmes to improve health, education and the welfare of the people must be pursued to provide the maximum opportunities for the growth and development of the people. No asset of the nation is more important than its people. Only by cultivating their capacities can their well-being be assured, and only in that way can modern economies be operated so as to yield the results desired by the people.

36. International policy. Internal economic policies cannot be divorced from the conditions of the world economy. No country can long remain prosperous and safe in a world of distressed nations. National policies which harm other nations have repercussions at home and must give way to mutually beneficial measures. International policies designed to preserve peace are the first requisite of world prosperity. A programme to reduce artificial barriers to trade between nations - whether they take the form of tariffs, import quotas, subsidies, or restrictive business agreements - should be undertaken and multilateral trade should be encouraged in the interest of domestic prosperity. Restrictive exchange practices should be eliminated. International movements of capital should be governed, insofar as possible, by economic rather than political considerations. The wartime tendency to make international trade a state function is incompatible with free economies, and measures should be taken to re-establish opportunity for the private trader.

International Development Loans

37. The low average productivity of many regions of the earth condemns their populations to a painfully slow rate of capital accumulation. These populations can be aided in their struggles towards higher levels of output and therefore of consumption by an influx of capital from more fortunate communities. Such an influx is not assistance in any derogatory or charitable sense, because there is a mutuality of interest - the borrowers gain in the development of their resources, and the lenders gain in the growth of new outlets. Since, however, under contemporary circumstances, private capital may be unwilling to venture itself abroad in undeveloped areas, it is essential that the potential lenders' governments should take active steps to encourage the necessary flow.

38. Measures to minimize economic fluctuations. The foregoing statements relate to the problem of fostering a dynamic, healthy economy that may function effectively. But in order to maintain continuous high employment in free economies, steps must also be taken to overcome the dangerously wide fluctuations in market demand. Through the co-ordination of taxation, public expenditures, public works, monetary policy, and foreign economic policy, government has the power to influence substantially the volume of spending, the confidence of individuals and businessmen, and the overall volume of production and employment.

39. Taxation. Taxation offers a direct means of influencing spending so as to counteract both inflation and deflation. One proposal that warrants careful study is that as a basic principle of tax policy, tax rates should be set to balance the budget in a period of normal prosperity and left without change. The rates would be set so that, over the cycle, aggregate receipts would exceed aggregate expenditures. Under this proposal in prosperous years a substantial surplus of receipts over

/expenditures

expenditures should result. In years of depression, a deficit would occur. The effect would be to take purchasing power away from people during inflationary periods when they are inclined to spend too much, and to leave purchasing power with them during dull periods when they have too little to spend. In this way, spending could be influenced directly, and automatically, and in such a way as to moderate the wide cyclical fluctuations in market demand.

40. Social Security Payments. A system of social security which offers protection to the people against the hazards of unemployment and old age may contribute importantly to economic and social stability. The payments under social security exert a counter-cyclical stabilizing influence in that they tend to decrease in periods of prosperity and tend to increase in periods of depression, thereby cushioning the fall in incomes and market demand. Further, the protection they give against the complete loss of income furnishes a bulwark against ill-considered policies growing out of fear and destitution. Unemployment compensation, rather than relief payments or "made work", should be the basic method of providing for those temporarily unemployed. The payments should be subject to the work test and should never be such as to make unemployment attractive.

41. Public works. Public works cannot be relied upon, either solely or even mainly, to maintain high productive employment. The volume of useful and well-conceived projects that is also postponable is far too limited and the opportunity for prompt expansion and prompts contraction is far too meagre, to permit public works to be used as an adequate or feasible means of stabilizing changes in employment. However, public works can be used effectively as a means of approach toward a more realistic objective - the stabilization of the construction and related industries; and they constitute an important element of any co-ordinated programme to minimize the fluctuations of business in general. For this purpose public agencies should develop to the blue print stage a programme of useful, postponable public works, both light and heavy. They should then devise means to initiate such projects promptly when business slackens and to slow them down or to stop them without serious waste when business becomes active. Only by careful timing can such projects have their full affect on total employment.

42. Monetary policy. The adequacy of existing policies affecting money and credit needs re-examination in the light of postwar conditions. Some way must be found to prevent the over-expansion of credit in boom periods and to facilitate lending in periods of recession when credit is needed. The dampening of inflationary pressures in booms and the promoting of expansion in depressions can become a constructive stabilizing influence.

43. Foreign economic policy. National policies aiming at the maintenance of employment can result in import restrictions that create unemployment elsewhere, and in high-pressure subsidized exports that disrupt trade abroad. Both policies are disturbing to the economic stability of other countries. Accordingly, it is essential, in the interest of good international relations and of economic stability at home and abroad, that some kind of international commitment should limit the unilateral power of individual national governments to disrupt the trade and stability of others. It should be the responsibility of every national government to stand by such an international commitment and accept, in the interest of prosperity for all nations, this kind of limitation on the freedom of its national action.