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NATIONAL AND INTERNATIONAL ACTION TO ACHIEVE OR
MAINTAIN FULL EMPLOYMENT AND ECONOMIC STABILITYA report Prepared by the Secretariat of the United Nations

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INTRODUCTION

This report contains an analysis of the replies received from governments and specialised agencies ^{1/} to questions submitted to them by the Secretary General concerning national and international action to achieve or maintain full employment and economic stability and concerning any publicly available plans to prevent a decline in employment and economic stability. At the time of the inquiry in the middle of 1948, unemployment in most of the countries was relatively low. Indeed, inflationary pressure rather than lack of effective demand was the primary problem in most cases. The questions addressed by the Secretary-General to the various Governments dealt primarily with the problems which might be faced after the "special factors of temporary duration" of the immediate post-war period have ceased to operate.

In view of the slackening of economic activity and the rise in unemployment in a number of countries in 1949, the problems dealt with in this inquiry no longer relate to future contingencies but to present needs.

This study was initiated by the Economic and Social Council at its sixth session when it considered a resolution on employment referred to it by the United Nations Conference on Trade and Employment at Havana ^{2/} and approved a resolution, ^{3/} the relevant parts of which follow:

"The Economic and Social Council

"Taking note of the resolution unanimously adopted by the United Nations Conference on Trade and Employment on 4 February 1948;

"Endorses the opinion of the Conference to the effect that the studies which have been initiated dealing with the achievement

^{1/} See Documents E/1111 and E/1111/Addenda 1 through 7.

^{2/} Document E/635, 4 February 1948, United Nations.

^{3/} 104 (VI) ECOSOC.

and maintenance of full and productive employment should be advanced as rapidly as possible, and that attention should be given now to methods of ensuring that high levels of employment and economic activity shall be maintained even when special factors of temporary duration now prevailing in many countries have ceased to operate;"

and

"Requests the Secretary-General (a) to arrange with Members of the United Nations and, where practicable with non-members, for the submission of information concerning action they are now taking to achieve or maintain full employment and economic stability and concerning any publicly available plans to prevent a future decline, (b) to arrange with the appropriate specialized agencies for reports on plans which they have prepared and resources they will have available to assist members of the agency to prevent a decline in employment and economic activity and (c) to prepare as soon as practicable an analytical report based on the information received."

In implementation of item (a) of the resolution of the Economic and Social Council, the Secretariat designed a questionnaire, reproduced below, which covers the various aspects of the relevant economic policies and measures which are being taken or are proposed to be taken by individual Governments in order to maintain full employment and economic stability, or to prevent a decline in economic activity and employment in the future. In designing the questionnaire which follows, consideration was also given to Article 55 (a) of the United Nations Charter, quoted below:

Article 55 (a) the United Nations shall promote

"a. higher standards of living, full employment, and conditions of economic and social progress and development;"

and Article 56;

"All Members pledge themselves to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in Article 55",

Replies were requested to each question, but since the questionnaire was addressed to countries with widely differing economic systems and structures, it was anticipated that some questions might not be applicable to some countries; in such cases, it was requested to state in the reply that the question was not relevant.

Questionnaire

A.

1. Has your Government made any commitments concerning policies or programmes to promote full employment and economic stability in the form of constitutional provisions, statutory provisions, Government pledges and declarations. Please send the major official documents pertaining to these commitments.

2. Has the responsibility for the implementation of a full employment programme been allocated among existing central or local agencies, or have special agencies been set up or planned for this purpose. Describe the functions of the agencies with regard to:

a. Observation, analysis and appraisal of economic trends to determine the need for and the type, timing and magnitude of possible governmental intervention;

b. Preparations of full employment plans, programmes or projects;

c. Execution of such plans, programmes or projects.

Please enclose the major official documents relating to (1) the structure of the agencies including, where relevant, material pertaining to the

relationship between central and local agencies, (2) analyses and appraisals of economic trends affecting the maintenance of full employment, (3) scope and magnitude of existing plans for maintaining full employment.

B.

3. Estimate the magnitude of the average total unemployment and its relation to total workers for the year 1947 ^{1/}. Describe the structure of the unemployment, e.g. to what extent it is due to (a) labour turnover (b) inadequacy of materials and equipment, or (c) lack of adequate markets; to what extent it is concentrated in special industries or areas, etc.

4. What measures are being taken to eliminate unemployment?

5. a. What elements in present Government economic policy are aimed at preventing a decline in economic activity in the future?

b. Are there any "automatic economic stabilizers" inherent in the existing governmental economic machinery which would tend to mitigate a decline in effective demand? Do they include:

1. Maintenance of governmental expenditures on goods and services in the face of a fall in revenue resulting from a decline in economic activity;

2. Payment of unemployment benefits without increasing the contributions (or perhaps even reducing them);

^{1/} Include under total workers all hired employed persons, plus all unemployed. Should the data at your disposal correspond to a different concept, explain their coverage, for example, whether they include agricultural or domestic workers, etc.

3. Government guarantees of prices paid to farmers;
4. Any other measures: specify.

6. Are any short or long run national economic plans (including development plans) in operation based on the full utilisation of available resources? If so, explain the methods of allocation of resources and of assuring an effective demand for the commodities produced under the plan.

7. Should unemployment develop as a result of a deficiency in effective demand, what programmes and provisions are available to offset it? To what extent, if at all, do they include:

a. Increased governmental expenditures on goods and services:

1. Public works and development projects;
2. Investment by existing publicly owned enterprises;
3. Other measures: specify.

Indicate the scope and magnitude of the existing programmes.

b. Stimulating consumption through:

1. Increased payments (in money or in kind) of allowances, benefits, pensions etc.
2. Subsidies with the view of reducing prices or raising wages in private enterprises;
3. Reducing profit margins in governmental enterprises; in private enterprises;
4. Reduction or change in structure of taxation;
5. Other measures: specify.

c. Encouragement of private domestic investment by:

1. Reduction or adjustment of taxes;
2. Facilitation of credit;

3. Reduction of interest rate;
 4. Other measures: specify.
 - d. Increasing net exports by means of:
 1. Government grants to foreign countries;
 2. Government loans to foreign countries;
 3. Encouraging private loans to foreign countries or direct foreign investment; if so, what measures are contemplated?
 4. Other measures: specify.
 - e. Any other measures: specify.
8. Should a decline in effective demand develop, is it expected that steps of the type listed in Question 7 above will be taken from the start or will it be possible to do so only after the fall in effective demand has developed? What are the methods for anticipating the time of the downturn and its extent?
9. If your full employment programme involves increased governmental expenditures is it proposed to offset it partly or fully by increasing tax rates? If so, what taxes?
10. Should a budget deficit result from the full employment programmes, what limitations would be placed on the rise in the public debt (such as balancing the budget over longer periods, keeping the ratio of the national debt to the national income below a certain limit, etc.)?
11. How is it proposed to deal with the problem of the transfer of labour in case some industries or areas are hit especially hard, e.g. if industries largely dependent on exports lose their foreign markets?
12. Should an attempt to maintain full employment in the face of a decline in exports lead to balance of payments difficulties?

- a. What national measures are envisaged to deal with the problem?
- b. What type of assistance would be requested of the existing specialized agencies of the United Nations?
- c. What other international measures might render additional assistance?

13. If your Government is responsible for the administration of non-self-governing territories which are not participating in the work of the United Nations regional economic commissions, describe the policies designed to maintain full employment in these territories in the light of the above questions.

14. Comment freely on any subject relevant to the problem of achieving or maintaining full employment and economic stability which is not covered by the preceding questions.

On 6 July 1948 the above questionnaire was sent out to the Members of the United Nations, and to the associate and participating members of the regional economic commissions. In addition, in accordance with the instructions under item b) of the resolution of the Economic and Social Council, the specialized agencies of the United Nations which are directly concerned with certain particular aspects of the problem of full employment were requested by the Secretary-General to submit a report on the plans which each of them has prepared and on the resources which they will have available to assist members of the agency to prevent a decline in economic activity and employment. Requests to that effect were sent to the International Monetary Fund, the International Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations, and the International Labour Organization. The first of October 1948, was set by the

Secretary-General as a time-limit for the replies. However, by that date, only a limited number of replies was received, and the deadline was extended. By May 1949, 25 replies to the questionnaire were received from the Governments of the following countries:^{1/}

- | | |
|------------------------|------------------------------|
| 1. Australia | 13. Finland |
| 2. Belgium | 14. Greece |
| 3. Bolivia | 15. India |
| 4. Burma | 16. Iran |
| 5. Canada | 17. Netherlands |
| 6. Ceylon | 18. New Zealand |
| 7. China | 19. Norway |
| 8. Czechoslovakia | 20. Pakistan |
| 9. Denmark | 21. Philippine Republic |
| 10. Ecuador | 22. Sweden |
| 11. Dominican Republic | 23. Switzerland |
| 12. Egypt | 24. United Kingdom |
| | 25. United States of America |

In addition to these replies, the Secretary-General of the United Nations received a brief communication from the Union of Soviet Socialist Republics to the effect that "there is no unemployment in the Union of Soviet Socialist Republics and that economic stability is ensured", and that "consequently the problem with which the Economic and Social Council Resolution of 3 March 1948 mentioned in your letter is concerned, does not arise". A similar communication was received from the Government of the Byelorussian Soviet Socialist Republic. Finally, the Government of Iraq informed the Security Council that the "Iraqi

^{1/} Documents E/1111, E/1111/Add.2, E/1111/Add.3, E/1111/Add.4, E/1111/Add.5, E/1111/Add.6, E/1111/Add.7.

competent authorities are unable to provide the information required....
owing to the fact that the available statistics are inadequate."

Replies were also received from the four specialized agencies
mentioned above.^{1/}

A perusal of the list of countries which replied to the
questionnaire will show that it is heavily weighted with regard to
economies which are both relatively well developed and based predominantly
on private enterprise. Countries whose economies are of the centrally
planned socialist type and economically under-developed countries are
much less adequately represented. This has a certain logical basis.
In the economies of the centrally planned type, full employment does
not arise as a separate problem of economic policy, but is part of the
over-all plan of utilization and allocation of national resources, of
which the problem of full utilization of man-power is a particular
aspect. The major unemployment problem in economically under-developed
countries is the existence of a chronic state of disguised unemployment
which is a particular case of the general state of under-employment of
national resources. As will be seen in the analysis of the replies of
these countries, unemployment through fluctuations in effective demand is
not their primary concern, and such plans and economic policies as
were formulated in the replies generally relate to furthering of economic
development rather than to maintenance of full employment.

The three categories of countries indicated above served also
as a basis for classification of the replies for purpose of the analysis
which follows. Thus Section I deals with the replies of the developed

^{1/} Documents E/1111, E/1111/Add.1.

countries based predominantly on private enterprise; Section II deals with the reply of Czechoslovakia as the only representative of the centrally planned socialist type of economy; and Section III with the under-developed countries. In addition, Section IV deals with employment policies with regard to dependent non-self governing territories reported by some governments.

Section 1. Replies of the economically developed countries based
predominantly on private enterprise.

This group includes Australia, Belgium, Canada, Denmark, Finland, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States.

The scope of the programmes and policies formulated by the countries in this group varies within a considerable range. Some countries report with considerable confidence about the possibility of preventing major economic setbacks. Other countries do not, for various reasons, commit themselves to such an extent. All of them, however, have in common the approach that they will attempt to counter depressions by government programmes aimed at increasing effective demand.^{1/}

In the second half of 1948 when the replies were prepared, the unemployment which existed in most countries in this group was within the range of what the Governments considered as "normal". In the replies this unemployment was generally attributed to such factors as labour turnover, seasonal fluctuations, specific shortages of fuel and materials or to local conditions in certain areas. Not only was there no deficiency of effective demand in most instances, but on the contrary, inflationary pressures were still in existence. The replies to the questions relating to the problems of counteracting possible deficiencies in effective demand therefore were meant to be applied in future contingencies rather than to the situation at the time of the reply.

Even Belgium, where considerable unemployment had developed in the second half of 1948 did not directly refer to measures to be taken currently to deal with the problem.

^{1/} Although Finland states that the "formulation of eventual national measures..... has not yet been undertaken" by her government, it appears from the reply that the government is aware of the necessity of such measures in the case of a decline in effective demand. Such a decline, in her opinion, would be most likely to originate through a decrease in exports.

The analysis of the replies which follows will be made under the following headings:

- (a) The constitutional, statutory and administrative framework.
 - (b) The actual and potential elements of economic stabilisation.
 - (c) The contemplated policies and measures to deal with a decline in effective demand.
 - (d) The balance of payments aspects of the policies of full employment.
- a) The Constitutional, Statutory and Administrative Framework.

None of the countries in this group has constitutional provisions relating to maintenance of full employment. Norway replied, however, that a constitutional amendment on this subject is under consideration in Parliament. Commitments to a policy of full employment are, however, contained in various government declarations, in formal statements of policy published in the form of official documents, and in legislative enactments. In the United Kingdom, Canada and Australia, the employment policies of the governments are stated in the white papers presented by Command to parliaments.^{1/} In New Zealand and the United States, employment policies were given a statutory formulation in the form of Employment Act.^{2/}

There is considerable variation in the scope of the commitments undertaken by the governments under their policy statements. The Canadian White Paper declares, for instance, that "The Government has stated unequivocally its adoption of a high and stable level of employment and income, and thereby higher standards of living, as a

^{1/} Full Employment in Australia, 30th May 1945; Canadian White Paper on Employment and Income, April 1945; United Kingdom White Paper on Employment Policy, Cmd.6527, May 1944

^{2/} The New Zealand Employment Act of 1945, and the U.S. Employment Act of 1946.

major aim of Government policy".^{1/} In other cases, the policy declarations were made in more qualified terms. As an example, the preamble to the United States Employment Act of 1946 may be quoted: the Act states "that it is the continuing policy and responsibility of the Federal Government to use all practicable means... to co-ordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production, and purchasing power". The Swiss reply refers to the fact that the Constitution "confines official intervention in economic and financial affairs within narrow bounds", although it points out that a recent amendment to the Constitution enjoins the Government "to act jointly with the Cantons and private economy to prevent economic crises and when necessary to combat unemployment."

In some of the replies a further qualification is introduced, to the effect that the domestic policies of full employment may be seriously interfered with by deflationary developments abroad "imported" through the sector of foreign trade. Thus the effectiveness of the domestic policies is considered to be largely dependent on factors over which the national governments have little control. The commitment of the Belgian Government "to ensure the highest possible level of employment" is substantially qualified by statements to the effect that "in a country like Belgium . . . the problem of unemployment is related above all to foreign trade" and tha

^{1/} White Paper on Employment and Income, p.23, quoted in the reply of the Canadian Government

"the employment policy in Belgium is therefore essentially related to the success of external trade policy". The reply of the Netherlands also makes it clear that a policy of high employment will be followed "as far as international circumstances will not frustrate such a policy". On the other hand, referring to the same conditions, the New Zealand reply declares that the Government's provisions "are sufficient to insulate New Zealand's economy, at least for a period of a few years, against the worst of the possible fluctuations in more highly industrialized countries." Canada states in her reply that "In view of the changing and fluctuating economic situation of today it is not possible to draw up a blueprint of all the policies needed to achieve this objective. But the Government is ready to take any measures necessary to cope with unfavourable circumstances, and is well aware that rapid, bold, and imaginative steps will have to be taken to deal with the threat of unemployment or declining incomes"

With regard to the organizational set-up available in the individual countries for the implementation of a full employment programme, in many cases it is difficult to appraise the effectiveness of the machinery reported in the replies on the basis of available information. It is possible, for instance, that in some cases the special agencies which have been set up may have in the main very little effective power to act on recommendations or programmes, may have available inadequate operating funds, or may exist merely in the blueprint stage.

In the United Kingdom, the main responsibility for general economic policy rests with the Treasury and its Economic Planning Staff. The latter agency, in particular, acts as a coordinating body of the economic policies and programmes to various ministries and is charged with the planning function. The central economic organization

also includes the Economic Section of the Cabinet Office (an advisory body which keeps general economic trends under review, and advises the Cabinet on economic policy) and the Central Statistical Office. The collection and general integration of statistical and other information on economic trends on particular industries is the responsibility of the appropriate department concerned. The Treasury prepares annually a White Paper on National Income and Expenditure and on Economic Survey which contains an estimate of the "full employment level of national expenditure" for the coming year. It also prepares an annual man-power budget which compares the demand for labour implied in the various categories of anticipated expenditure with the forecast size and distribution of the labour force.

In Norway, central economic policy is based on a national budget (which is equivalent to the United Kingdom forecast of the full employment level of national expenditure) prepared by the central statistical services and a man-power budget prepared by the Labour Directorate. These budgets are supplemented on the district levels, by half-yearly forecasts of local developments.

The organizational machinery is extended here into the local levels. The Labour Directorate which is the central executive organ in charge of the implementation of the full employment policies is supplemented on lower jurisdictional levels by district and local employment committees with advisory functions. The decentralized set-up enables the central authorities to keep in close touch with local trends in the labour market and the implementation of its employment policies.

The existence of organs for the purpose of implementing or coordinating the national employment policies of the government is also mentioned by Belgium, Denmark, the Netherlands, New Zealand and Sweden. These bodies are sometimes supplemented by a special agency

in charge of public works, which in some countries is a key element of the contra-cyclical programs.

In countries with a federal set-up, the organizational machinery has to take into account the dual nature of the division of political power between the Central Government and the States. In Australia where the responsibility for the implementation of a full employment programme is divided between the Commonwealth and State Governments, an inter-governmental coordinating machinery has been established. There is no central agency to deal with the problem of employment as a whole, but a National Works Council has the task of establishing and maintaining a reserve of public construction projects. The financing is done through the Australian Loan Council which determines, in cooperation with the Commonwealth Bank, the amount and allocation of the public borrowing involved.

In Canada, no governmental coordinating machinery exists. The agency of the Central Government responsible for the policies of full employment, including public investment policies, is the Cabinet Committee on Economic and Industrial Development. There are certain constitutional restrictions upon the regulatory powers of the Central Government in economic matters, particularly in the field of taxation and fiscal policy. The reply of the government emphasizes, however, that "at other times when close economic integration on a nation-wide scale has made uniform government action essential to the national interest, federal and provincial governments have worked together to overcome constitutional difficulties".

The dual political set-up creates similar policy problems in the United States. The responsibility for implementing the Employment Act cited above rests with the Federal Government. With respect to the coordination of Federal and State activities, the United States reply notes that "Although there is no formal Federal mechanism for integrating the economic activities of State and

regional organizations." As to the existing machinery on the central government level, the reply states: "The Employment Act of 1946 established machinery and procedures for dealing with the threat of unemployment but did not prescribe any specific programme, nor has any subsequent legislation authorized any such programme for the economy as a whole". The responsibilities for implementation of the policies under the Act are divided between the President and the Congress. The President has the responsibility of transmitting to Congress periodic Economic Reports which contain economic analyses and recommendations on needed legislative action. The Act established in the Executive Office of the President a Council of Economic Advisers, which is in charge of preparing analyses of economic trends and making recommendations of policy to the President. It also set up in Congress a Joint Committee on the Economic Report which examines the Economic Report of the President and submits its own findings and recommendations to the Congress.

b). The actual and potential elements of economic stabilization.

With respect to the existence of stabilizing elements in the economy, it was felt by the governments of the countries which maintained anti-inflationary controls at present that these controls made their economies more immune against a slump. Representative of this view is the statement by Australia that one of the three main aspects of its present economic policy is "the control of the upward surge of inflation now as to moderate the extent of any decline later". The reply of the United Kingdom emphasizes another aspect of this problem by stating that: "whether a decline in demand arose in this, or other, ways, a relaxation of some of the (anti-inflationary) measures already in operation would do something to remedy the situation."

More important for the mitigation of a slump are the "automatic stabilizers" whose function is to neutralize some of the decline in effective demand when it sets in. A number of possible stabilizers of this kind were listed in question 5 of the memorandum.

Maintenance of public expenditures on goods and services in the face of a fall in revenue resulting from a decline in economic activity, in other words, an automatic increase in the budget deficit (or decrease in the budget surplus) was considered as one of the stabilizing devices. Most of the countries replied in this connection, that an automatic compensatory effect will be provided by the normal operation of the national budget. Thus the reply of the United Kingdom states that: "While there are no important elements in the expenditure of the central government which would tend automatically to fall off in the event of a failure of total demand, revenue stands to be considerably affected, quite apart from the changes in the tax structure which might be made. Normal fiscal arrangements, though not designed for this purpose, would therefore have an automatic, and very substantial, stabilizing effect." Other countries emphasize the rigidity of current public expenditures which are to a large extent based on statutory and contractual commitments. The reply of the United States notes, for instance, that: "even though most Federal expenditures are determined by annual appropriations, it is not likely that such expenditures will be reduced proportionately in case of a reduction in economic activity and revenue. Many Federal expenditures are based on legislation such as for veterans' benefits, grants-in-aid to State and local governments, and interest on the public debt. These are, at least relatively speaking, 'fixed commitments' which will not automatically decline with a reduction in economic activity".

If government expenditures are maintained in the face of falling revenue, the extent of the stabilizing effect on the economy depends upon the level of taxation. This point is emphasized in the reply of the United Kingdom which states that: "As near as may be calculated, the total liabilities for tax would fall off in about equal proportion to the decline in incomes and employment. Since central government taxes now amount to about one-third of the total of personal incomes, this effect alone might offset about a third of any decline in demand that took place".

Payment of unemployment benefits, the financing of which is as a rule separated by statutory provisions from the regular budgetary accounts, has been considered by all governments in this group as a basic element of economic stabilization. The effect of this measure depends, of course, upon the length of period during which the unemployed are entitled to benefits.

In the United Kingdom, under the scheme introduced by the National Insurance Act which has been put in operation in July 1948, a balance of receipts and payments of benefits is achieved at a level of unemployment of 8 1/2 per cent. The fund operates on a surplus basis as long as unemployment is below the 8 1/2 per cent level; should unemployment rise above that level, the effect of increased benefit payments would offset about one tenth of the decline in incomes which take place.

The reply of the United States estimates that the increase in unemployment benefits might reach an annual figure of one billion dollars in a mild depression (with 5 million unemployed) and two billion dollars in the case of a more severe depression with 10 million unemployed. The revenue from employment taxes is expected to fall but the extent of this

fall will be limited because under "the experience rating feature ^{1/} of most State unemployment compensation laws, the tax rates will act perversely should an employment decline be severe and prolonged."

Most countries in this group reported the existence of measures of protection of farmers' incomes in the form of a guarantee of minimum prices on a fixed or sliding scale basis. As is well known, there are three basic methods for guaranteeing such prices: (a) subsidizing of domestic prices; (b) subsidizing of export prices; and (c) government purchases of farm products. All three methods, if not financed by increased taxation, will automatically mitigate a reduction of effective demand.

There is nevertheless an important difference between the first method and the other two. The second and third methods, while they mitigate the decline in effective demand and employment, at the same time maintain prices to domestic consumers at a higher level than would otherwise prevail, and thus affect real wage rates unfavourably.

The first two methods are not mentioned explicitly in the replies of the countries in this group. Although all of the countries use only the method of government purchases, the purpose of these purchases may differ. In some countries such as Australia and New Zealand the purchases are made mainly with the view of reselling abroad. If the export prices are below the guaranteed prices, the financing of this loss is tantamount to payment of a subsidy for exports.^{2/} In other

^{1/} Under the experience rating feature the rates levied on employers vary in inverse relation to their employment records.

^{2/} In Australia and New Zealand these subsidies are paid out of funds accumulated in periods when export prices are higher than guaranteed prices.

countries such as, for instance, the United States the emphasis of the programme is to remove farm surpluses from the market in order to support the market prices received by the farmers at the guaranteed level,

The implementation of farm stabilization programmes in exporting countries during periods of depression may be facilitated by international commodity agreements. Australia emphasizes that "efforts to stabilize the income of primary producers through such means as commodity agreements have the strong support of the Australian Government."

c) The contemplated policies and measures to deal with a decline in effective demand.

The automatic economic stabilizers discussed above serve only to mitigate the effects of depression but not to eliminate it, because they operate only when income is below the full employment level. In general the governments in this group declare in their replies that they will not be satisfied merely with reliance upon the automatic stabilizers, but that they will take active counter-depression measures. The replies differ however, with respect to the timing and nature of the measures as well as the degree of confidence expressed by the governments in their ability to restore full employment in a relatively short time.

The relevant programs are mainly based upon increased public investment in the form of a stepped-up realization of public works and other publicly financed projects. With a few exceptions, increased government expenditures on other goods and services are not considered. Stimulation of private investment and of consumption is generally given a secondary place.

Most of the countries in this group accumulated reserves or "shelves" of public works projects to be put in operation in case of a decline in employment. The projects are generally worked out by local jurisdictions on the basis of local needs and their execution and financing is co-ordinated by a central agency. The reserves of public works arose partly from the postponement of various projects under the pressure of the inflationary situation of the immediate post-war period. In assessing the adequacy of the reserves, account has to be taken not only of their magnitude but also of such factors as the nature of the projects, the stage of planning, the timing of their execution, and the availability of funds to finance their execution at the proper time.

Australia, Sweden, Norway and New Zealand reported that a substantial part of their reserve of public works projects is in a sufficiently advanced stage to be put into operation immediately as need arises. In the United States, on the other hand, while there is enabling legislation which authorizes the federal government to engage in various types of public works, the execution of the reserve of public works accumulated by the Federal Works Agency is subject to congressional approval of the necessary appropriations. The United States reply mentions that only a limited amount of advanced planning of public works has been completed so far.

Contra-cyclical timing of public works is generally mentioned in the replies, and in addition some governments contemplate a flexible operation of their long-run investment programme related to their plans of economic development. This permits these countries to engage in compensatory public investment of diversified nature to offset a decline in employment in the corresponding sectors of private investment and thus to minimize the transfer of labour to other industries. The Australian government refers to the programme of public investment, managed by the National Works' Council, which is planned in such a way that it could be progressively brought into operation in order to offset a decline in similar types of work financed by private investment. For instance, the Australian public housing programme would be stepped up should a decline take place in construction in private housing; in the same way, a decline in private investment in industry would be compensated by government building of telephone exchanges, engineering works such as railways, water schemes and similar projects. Canada mentions that with regard to the Dominion investment programme, it "has adopted the practice of timing its programme to complement private investment."

This technique could be applied most effectively in countries whose economies include substantial nationalized sectors. The reply of the United Kingdom, for instance, states that "the government would be in a position to develop, subject to supplies of materials being available, the use of capital expenditure as a means of countering unemployment," and that "the government policy will be directed toward preventing capital expenditures (by local authorities and nationalized industries) from fluctuating in sympathy with private capital expenditure." The reply mentions, however, that the effectiveness of this policy is limited first by the inevitable lag between the decline in private investment and the actual putting into effect of the compensatory investment and second, by the relative magnitude of public vs. private demand for certain types of investment goods. Thus, the reply points out, the demand for building could be stabilized more easily than the demand for engineering products.

Expansion of government purchases of non-capital goods and services was mentioned by Norway and the United Kingdom. The United Kingdom remarks that such purchases as come under the head of defense expenditures are dictated largely by non-economic considerations, but for certain types of consumer goods (boots, clothing and furniture) which the government purchases in large quantities, it could time the placement of orders in relation to business conditions.

With regard to the stimulation of consumption, the replies generally refer in the first place, to the various types of benefit payments and income guarantees described under the stabilization devices. A number of countries refer in general terms to the possibilities of actively stimulating consumption. Sweden mentions a specific plan, which consists of grants to low income groups for the purchase of durable goods.

Switzerland states that among other measures, it would plan to reduce prices of certain essential goods. In general the reduction of profit margins in Government or private enterprises is not considered. Adjustment of the tax system for purposes of stimulating consumption has also generally received little consideration. The reply of the United Kingdom refers to the possible reduction of income tax rates in order to stimulate consumption expenditure, and mentions that the income tax is "an annual tax on annual incomes and therefore not a perfectly flexible device." Variations in indirect taxation are stated to be liable to "cause exaggerated and not wholly predictable fluctuations in demand for the goods directly affected." Tax credits are considered as probably the most preferable tax measure for affecting consumers' demand. Under this system a certain portion of the income tax collected during a boom would be earmarked and released during a depression. ^{1/} Norway mentions the possibility of the unfreezing of a substantial balance of private cash holdings which had been blocked immediately after the Liberation.

There is generally a reserved attitude on the part of the governments concerning the use of tax concessions as an incentive to stimulate private investment, apparently on the assumption of a rather inelastic response of depression-minded private business to incentives of this type. Canada indicated that in times of unemployment, it "plans to develop its fiscal policy so as to encourage the increase in private investment". In Sweden, tax exemption is granted to corporations on that part of their profits which is set aside in special investment funds subject to the condition that the timing of the investment will be controlled by the authorities. A similar fiscal device is available in Norway.

^{1/} In the United Kingdom such tax credits were accumulated during the war on a large scale.

In general, the reduction of the rate of interest is not presented as a major stimulating device, while grants of credit facilities are contemplated primarily in terms of assistance to small business, equipment loans to farmers and stimulation of residential construction.

With regard to increasing net exports by grants, loans, etc. only New Zealand mentions that she would consider financing some of her exports by grants of credits in domestic currency to the importing countries; she adds however, that such a measure would be of relatively small importance.

It may be noted that a number of countries did not reply in detail to the question on which measures might be used to eliminate unemployment. The reply of the United States for instance that the Council of Economic Advisers "initiated surveys of stabilization devices that may be needed to prevent heavy fluctuations in employment and production or to combat unemployment that may have developed. These surveys include most of the measures that are listed in the United Nations questionnaire. The measures under exploration include policies designed to maintain or restore a relationship in income, prices and costs conducive to economic expansion, as well as measures designed to counteract deficiencies in effective demand".

Most of the countries had little to report concerning any plans for transfer of labour from industries or areas which would be particularly affected by unemployment, for instance industries dependent on export markets. The United Kingdom reply states that "the government does not rely primarily on large scale labour transfers for the solution of the unemployment problem of particular areas but believes in a postwar policy of balanced industrial development" and that a policy of local placement aided if necessary by retraining of the displaced labour is preferred.

A resettlement scheme was however introduced in 1946 under which grants and allowances are payable to unemployed labour transferred to other areas. Some other countries (Australia, Canada, Denmark, Sweden and New Zealand) have provisions for similar financial assistance. The United States reply reports that no provisions exist for grants and allowances of this kind, and that it is expected that the transferred workers would pay their own expenses.

The preceding discussion of the measures of counteracting a decline in employment and economic activity, made it clear that governmental fiscal policy in the period of decline will be a basic factor in the situation. Most of these measures involve increased government expenditures, and their effectiveness is dependent to a large extent on the methods of financing which will be used. The attitude of most of the governments on this point, was to the effect that the necessary financing will be provided by expansion of budget deficits rather than by taxation, even though definite policy commitments were generally avoided. Implicit endorsements of this view are, for instance, contained in the reply of the New Zealand government stating that "in determining the advisability of increasing tax rates, account would be taken of economic conditions at the time, having particular regard to the advisability of maintaining a high level of effective demand". The reply of the United Kingdom without making any definite commitment on policy recognizes specifically that "the employment effect of an increase in government expenditure will normally be reduced if the expenditure is wholly or partially covered by increased tax rates". A similar statement is made by Norway, and Sweden mentions the possibilities of a flexible fiscal policy offered by the device of balancing her working budget not annually but over a cycle. Switzerland replies in this connection: "The prevailing opinion is that a crisis should be combatted

not by a policy of retrenchment but by increased public spending and that such spending should be covered not by taxation but by a loan". In the case of the United States, it is pointed out that while "there is no legislation that determines the way in which any increases in governmental expenditures are to be financed" there exists a statutory procedure under which economic as well as budgetary conditions can be taken into consideration in the recommendations of fiscal policy made by the executive branch. Recent budget legislation was also designed so as "to assure that the economic analysis could be taken into consideration in the legislative formulation of fiscal policy."

It does not appear that a policy of deficit financing would be greatly hampered by considerations of the size of the public debt. In most countries there are no statutory or constitutional limitations on the size of the debt, and it is generally pointed out that the decision of financing by deficit vs. taxes will be made on grounds other than the growth of public debt. The only statutory limitation of the public debt in absolute terms exists in the United States whose reply states, however, that "the policy concerning the national debt will be decided according to circumstances". For the time being, the relative size of the public debt (in relation to national income) in individual countries does not appear to be a matter of concern for any of the governments. It is not likely that the United Kingdom's qualification with regard to expansion of the public debt that "regard would be paid to the undesirability of the national debt increasing over any longer period at a greater rate than the national income" would interfere with her fiscal policy in this field in the immediate future.

We come finally to the question of timing, the importance of which from the point of view of the effectiveness of any government policies of

intervention need hardly be stressed. This question presents two aspects. One is the methods used and the machinery available for forecasting the point of downturn. The second aspect is the timing of the actual measures of intervention in relation to such advance information as is yielded by the available forecasting techniques.

With regard to the first point, it appears from the replies that no specific forecasting index is used, nor is it considered that there is any specific method whereby it would be possible to anticipate with certainty the movement of employment. The United States reply, in particular, states that "in the light of present knowledge and techniques the Council (of Economic Advisors) found it more fruitful to concentrate on an analyses of threatening basic maladjustments in the economy and the exploration of remedial programmes rather than to attempt forecasts of the exact turning points". In general, the governments would depend on surveys and analyses of economic trends at home and abroad regularly made by their general statistical services, or in some cases, by special research agencies which are part of the organizational set-up of the full employment machinery. In countries which maintain some measure of overall economic planning, attention is given to the interrelated trends in the items of the national economic accounts. As has been mentioned previously in the United Kingdom, anticipated national expenditure is compared with the full employment level of national expenditure in the period concerned. Australia mentions that her Bureau of Census and Statistics is developing a system of social accounts which will enable her to forecast general economic trends on the basis of anticipated changes in a few key components, such as investment, prices and employment.

The sectors of private investment and foreign trade are especially closely surveyed by some governments. In the United Kingdom the government

considers supplementing its annual reviews of investment programmes and currently available information on the orders on hand of manufacturers of plant and machinery by direct industry inquiries concerning anticipated investment plans. Australia likewise mentions the introduction of a method of direct inquiry whereby firms are asked to report their expenditures on building, plant and machinery during the preceding six months and anticipated outlays for next two six months periods.

Fluctuations in exports are followed by a close check of the relevant economic indices in the export sectors of the economy. New Zealand, in particular, makes the point that the effectiveness of her measures to check an over-all deterioration of the economy as a result of unfavourable developments abroad will depend essentially on how early a decline in employment will be detected in the "sensitive" industries dependent on exports. In addition, advance guidance is sought by keeping under close check changes in economic conditions abroad, in particular as they relate to the exported commodities. The uncertainty of forecasting in this field is stressed, however, even by the United Kingdom whose export "targets" are the closest approach to translating export forecasts into practical economic policy.

The second point relative to the expected timing of the measures of intervention has been to some extent covered in the earlier discussion of the general approach of individual governments to the policy of intervention, and in the analysis of individual measures. It appears that Australia, Canada, New Zealand, Norway, Sweden and the United Kingdom intend to put into operation corrective machinery at an early stage as soon as a decline in effective demand has been detected. Denmark, on the other hand argues that her economy is affected to an unusual degree by deflationary developments abroad, over which she has little control, and

that a decline in employment may therefore be expected to be under way before appropriate steps could be initiated. The Belgian reply considers that it is advisable to undertake corrective measures only after the decline in demand has developed to a certain extent in order to be certain "that there is in fact a trend". The Netherlands go further to state that it would be a matter of policy for them to admit a certain degree of deflation before initiating anti-depression policies as they consider a mild deflation "healthy for the Netherlands economy and particularly for labour productivity." At the time of the reply, the anti-deflationary programme of the government and the machinery for its implementation were still in a tentative and blueprint stage. The reply of the United States makes it clear that "the actual dearth of approved programmes designed specifically to offset possible deficiency of effective demand implies no lack of purpose to provide such programmes in case of need. The Employment Act of 1946 implies the contrary". It goes on to add: "If the need is demonstrated by the course of events, additional legislative action setting up the necessary programmes or appropriations will be called for". In the last analysis, the proper timing and scope of government action, and ultimately its effectiveness in checking the development of a cumulative deflationary process, will depend on how soon and how much legislative action of the appropriate kind will be forthcoming when the situation arises.

d) The balance of payments aspects of the policies of full employment

The problem of maintaining full employment is closely interrelated with the problem of the balance of payments:

Disequilibria in balance of payments are bound to arise if individual countries attempt to engage in policies of full employment in the face of persistent deflationary pressures from abroad due to the failure to

maintain full employment in other countries. The maintenance of a high level of effective demand and consequently of a high level of imports in the face of declining exports will result in balance of payments difficulties. If an adequate safety margin in the form of reserves of gold and foreign exchange is available, then the gap in the balance of payments may be covered by drawing upon these reserves, and full employment may be maintained by the measures considered above. If such reserves are not available, however, or are exhausted after a shorter or longer period, the persistent disequilibrium in international payments, unless relieved by foreign lending, may interfere seriously with the carrying out of the domestic full employment policies.

A situation of this kind was considered a potential threat to the economies by all governments of this group, except the United States. One approach to the problem was to suggest the necessity of coordinated action on the international level aimed at the maintenance of a high and stable level of employment and effective demand in all countries. The reply of the United Kingdom points out that "it would be of great assistance to the United Kingdom in the pursuit of full employment at home if other countries also were able to maintain a high and stable level of domestic demand", and states the willingness of the government of the United Kingdom to cooperate in some "fruitful international action". The reply of Australia also states that "generally, the maintenance of employment and of continuous programmes of development throughout the world would assist the implementation of a full employment policy in any one country.

A second possibility is a corrective action on the international level in the form of financial assistance to the deficit countries by the International Monetary Fund and the International Bank for Reconstruction and Development. Some of the countries indicated that they would have

recourse, if necessary, to such facilities of these organizations as would be available. The position of the Fund and the Bank concerning the extent to which they would be prepared to grant assistance to member governments, and resources which they would have available for that purpose are outlined in their replies to the Secretary-General. The Fund recognizes that under its statutes "it is ... authorized to make its financial resources available to members under adequate safeguards, and thus to provide them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity". It states, however, that its resources are intended primarily to relieve temporary disequilibria in the balance of payments of its members pending necessary adjustments and that its means of action are not "instruments to be kept in reserve until an emergency arises when some widespread threat of a decline in employment and economic activity may seem imminent". It adds that "the resources of the Fund are not and cannot be large enough to give all its members the assurance simultaneously that in the event of a world crisis sufficient finance of the kind which they urgently need will be available to afford complete protection against balance of payments pressures". The reply of the Bank likewise emphasizes that the nature of its functions basically precludes the use of its available funds on a contracyclical basis. "It should be pointed out", it states, "that the Bank's primary function is to provide for a smooth and continuous flow of international investment in order to promote the reconstruction and development of its members. In the nature of things, therefore, it cannot conserve its resources simply in order to release more funds in times of incipient depression". It considers furthermore that its resources are "plainly too limited to be considered a leading influence quantitatively in the anti-cyclical timing

of international and domestic investment".

Should appropriate action on the international levels prove impossible or ineffective, restriction of imports and exchange depreciation were contemplated by most governments. Only Australia and Belgium refer specifically to the possibility of devaluation of currency, in order to meet their balance of payments difficulties. In addition, Canada, Denmark and New Zealand mention the stimulation of exports without indicating the specific measures by which exports might be increased.

Measures of restriction of imports are mentioned in the replies of practically all countries in this group, with the exception of the U.S. The governments generally stressed the fact that any such measures would be taken within the limitation arising under their international commitments. The provisions relative to exchange and trade practices of the charters of the International Monetary Fund and the proposed International Trade Organization contain, however, a number of qualifying clauses, under which restrictive policies by member

governments with regard to imports and foreign exchange are admitted under certain conditions.^{1/}

The implications of the import restrictions used to offset a decline in exports require some elaboration. If the restriction of imports leads to increased output in the domestic industries which are competitive with the imported goods, the restriction will solve not only the balance of payments problem but also the problem of maintaining full employment in the face of the reduced volume of exports. (The effects of possible retaliation by other countries will be considered below). There may, however, be some loss of real income as a result of the shift in production, despite the maintenance of full employment. In this connection it should be noted that the governments envisage selective import controls with the view of confining the restrictions to less essential goods.

^{1/} Under the Articles of Agreement of the International Monetary Fund, the Fund can authorise a member to impose temporary limitations on the freedom of exchange operations in a scarce currency (scarce currency clause, Article VII, section 3), and the provision relative to avoidance of discriminatory currency arrangements or multiple currency practices makes allowance for exceptions subject to approval by the Fund. (Article VIII, section 3). Furthermore, the members may maintain or introduce in the post-war transitional period, restrictions on payments and transfers for current international transactions (Article XIV, Section 2). Under the Final Act of the United Nations Conference on Trade and Employment, Article 6 on "Safeguards for Members' subject to External Inflationary or Deflationary Pressure", provides that "in case of deflationary pressure special consideration shall be given to the consequences for any member of a serious or abrupt decline in the effective demand in other countries". More specifically, Article 20 of this Act, which provides for general elimination of quantitative restrictions on imports, contains an exception clause under which import restrictions on products of agriculture or fisheries "may be established if they are necessary to the enforcement of governmental measures which operate effectively, to restrict the quantities or to remove a temporary surplus of the like domestic product or domestic products for which the domestic product can be directly substituted". A further exception is provided in Article 21 under which, subject to certain provisions and under certain conditions, "any member, in order to safeguard its external financial position and balance of payments, may restrict the quantity or value of merchandise permitted to be imported."

Should a country find it necessary to reduce imports of essential food and raw materials the problem may become acute. While full employment might still be maintained, e.g. by public works which do not require imported raw materials, the standard of living would fall considerably. This point is discussed in the reply of Norway.

Import restrictions in one country may lead to retaliatory measures in other countries. Should the country from which the deflationary pressure spread through the reduction of its imports also resort to retaliation, then no equilibrium in the balances of payments will be possible. Should, however, this country not resort to retaliation because the restrictions imposed by the other countries reduce its exports only to the extent to which its imports fell, then a new equilibrium in the balance of payments is possible. Such an equilibrium may be achieved, however, only after a considerable reduction in world trade, inclusive of trade with third countries.

The degree to which trade with third countries would be affected would depend upon the nature of the import restrictions, and of other measures that might be associated with them. Import restrictions may be selective with respect to commodities in such a way as to concentrate their effect upon the country which initially reduced its imports: Canada for instance reports that it applied this method in dealing with balance of payments difficulties which arose in a different context in 1947. It imposed import restrictions on a selective commodity basis in such a way as to reduce imports from the United States. Selective import restrictions may be even directly aimed against the country from which the deflationary pressure spread. Thus Denmark states that in the last resort she "might find it necessary to reduce imports from the countries of whose currencies it was short" and the Netherlands refers in this

connection to the scarce currency clause of the International Monetary Fund.

Finally, restrictions directed against imports from one country may be associated with an increase in trade conducted on the basis of bilateral or multilateral agreements with other countries. Although many such agreements are in existence there is in general no reference to such measures in this connection. Switzerland, however, states in its reply that "Our unfavourable balance of trade has risen appreciably owing to the decline in Swiss exports and to the efforts made by other countries to export increasing quantities of goods to Switzerland. We are therefore obliged to continue to place our relatively high purchasing power at the disposal of our export policy, i.e. where necessary, to guarantee bilaterally the importation of a large variety of items in exchange for similar guarantees for our own exports."

Section II Replies of countries whose economies are centrally planned and largely state operated.

In economies of this type, full employment is part of general economic planning entailing full utilization of national resources. The responsibility for carrying out the planned programmes also lies directly with the state itself which operates a large part of the economy. The policies of full employment are thus essentially different from those which are appropriate in economies where production and investment are carried out predominantly through the channels of private enterprise.

Among the countries which replied to the questionnaire, U.S.S.R. Byelorussian S.S.R. and Czechoslovakia belong to this category. As has already been stated, the replies of the U.S.S.R. and the Byelorussian S.S.R. are limited to brief formal statements to the effect that "there is no unemployment" (in their respective countries) and that "economic stability is insured". The only substantive reply in this category is that of Czechoslovakia.

The Czechoslovak government states in its reply that it has undertaken commitments to promote full employment and economic stability under the Constitutional Charter of the Czechoslovak Republic of 9 May 1948. These commitments are closely connected with the general economic plan, namely the Five Year Economic plan which provides for "a steady expansion of the Czechoslovak economy and its resistance to influences of economic crises". The agencies responsible for the implementation of this plan are the Economic Council, the State Planning office, all the ministries concerned with economic matters and their subordinate offices.

Practically no unemployment existed in Czechoslovakia, and no unemployment as a result of deficiency in effective demand is anticipated, as under the conditions of the Czechoslovak economy

"all economic activity is directed towards maximum economic operation". In a planned economy, the planning of investment and the production of consumption goods and services are parts of the general economic plan of allocation of resources, while the maintenance of an adequate level of effective demand for the output of the consumption goods and services is insured through the planning of prices and incomes. The reply points out that such unemployment as may occur as a result of shifts in demand for labour in some branches or areas of the economy would be taken care of by appropriate regulation of the labour market and redistribution of labour into other occupations. A more serious potential source of disturbances is the sector of foreign trade which is the vulnerable spot in the planned programme of full employment. Non-fulfilment of the planned programmes of imports of raw materials and exports of finished goods may result in unemployment in the affected branches of the economy. The non-fulfilment of the export programme would also result in balance of payments difficulties. The reply states that this danger is reduced because a large part of foreign trade is with other planned economies. For such difficulties in foreign trade as would occur "remedy would be sought in a suitable amendment of the plan. What means would be used to this end would depend on the particular case; planned economy possesses the widest possibilities in this connection."

Section III Replies of the economically under-developed countries

1. This group includes Bolivia, Burma, Ceylon, China, Ecuador, the Dominican Republic, Egypt, Greece, India, Iran, Pakistan, and the Philippine Republic.

The general approach of the economically under-developed countries towards the problem of full employment, as reflected in their replies, can be described as follows:

Unemployment through fluctuations of effective demand is not a matter of primary concern for economically under-developed countries. The major problem is the existence of a chronic state of under-employment of available man-power, owing to the low level of economic development. This appears in the form of disguised unemployment in agriculture and in industry (a high proportion of which is still in the handicraft or cottage stage) with resulting low productivity of labour and depressed standards of living.

The wide prevalence of under-employment makes the definition of unemployment in such countries rather difficult. When there is a decline in the demand for labour in industry, some of the labour is likely to fall back on subsistence farming. Thus, visible unemployment is reduced, and the extent of the increase in unemployment is concealed by the increase of disguised unemployment in agriculture. Hence the statements of Bolivia and Egypt to the effect that these countries have no unemployment problem. In the case of Bolivia it is explained - that "in the mining industry which is Bolivia's basic industry, there is a constant turn-over of workers since many of them are peasants and regularly alternate between farm work and work in the mines." A converse case in which visible unemployment is increased through a reduction in disguised unemployment is presented by the increase in unemployment in a few countries of this group in

the post-war years, following the demobilization of their military personnel. The war-time recruitment into the armed forces and the increase in employment in war industry had siphoned off some of the under-employment in the rural areas. After the war some of the former disguised unemployment in agriculture emerged as visible unemployment in the cities. In addition in some countries there was a decline in industrial employment resulting from war devastation and post-war dislocations. These factors account for the significant unemployment in a number of under-developed countries.

The elimination of "structural unemployment", disguised or in some instances visible, by means of economic development is considered the most urgent goal by the countries in this group. This approach is explicitly stated in the replies of Burma and India. The reply of Burma states "The questionnaire is designed primarily for the problem of unemployment in industrially developed countries and is only remotely related to such problems of an industrially backward country like Burma. The so-called 'unemployment' in Burma is not in the nature of mass unemployment caused by a lack of effective demand, but is merely in the nature of frictional and structural unemployment caused by the economic dislocation after the war. Another type of unemployment which, though not emphasized by the questionnaire, is nevertheless very important to Burma, namely disguised unemployment in agriculture." The Indian government declares in the preamble to its reply that "though they (the government) have accepted certain commitments ... to provide full employment to the fullest possible extent they do not have any specific employment programme" but "they are mindful of the necessity of utilising all resources for the development of the country and for raising the standard of living of the people."

Countries of this group which are producers of primary raw materials do, however, face a problem of imported cyclical unemployment when a generalized deflationary movement in the industrialized importing countries is transmitted to them through the channels of foreign trade. The primary fall of incomes and, generally, also of employment in the export sector is followed by secondary repercussions in the rest of the economy and results in a decline in effective demand and employment of the kind envisaged in the questionnaire. As a rule, no effective mechanism of stabilizing the incomes of the agricultural producers by means of government price and output guarantees, is available or is considered in these countries. Instead, some countries considered that a solution should be sought in diversification of output so as to make the domestic economy less vulnerable to the impact of deflationary pressures coming from the outside. The reply of Ceylon, a country whose economy is predominantly based on exports of a few raw materials (rubber, copra) contains the following statement: ... "About 80 per cent of the people are employed either directly or indirectly in the production and handling of these exports. Slight changes in the price or volume of exports on any of these products have therefore serious consequences on the employment of the people. The Government therefore finds it extremely difficult to maintain a policy of full employment in view of these circumstances. It has therefore been laid down that the most important object of the present Government was the attainment of a more balanced economy which will not be so dependent on external factors."

The possibility of a cyclical decline in effective demand and employment induced by domestic factors was not considered in any of the replies in this group. While autonomous deflationary movements

of this kind may occur in industrially under-developed countries, the effect of purely domestic deflationary factors was apparently considered to be of slight importance compared to potential deflationary pressures imported from abroad.

These preliminary remarks are intended as a background for the brief analysis of the replies which follows.

a) The constitutional statutory and administrative framework.

Constitutional and statutory provisions relating to employment are either non-existent or stated in general terms which do not commit the respective governments specifically to an active policy of ensuring full employment. The references to the subject of full employment in the constitutions of China and India which are quoted in the replies are couched in more or less general terms. Article 15 of the constitution of the Chinese Republic states that "The State shall provide persons capable of work with suitable opportunities for work." The Government of India in its draft constitution provides (Chapter VII, paragraph 31) that "The State shall, in particular, direct its policy towards securing that the citizens, men and women equally have the right to an adequate means of livelihood". The reply of Pakistan also mentions that in the recent official declaration on industrial policy the government stated its aim of "providing gainful and legitimate employment to the people of Pakistan," and the reply of Ceylon states "that it has been generally made clear that the government's intention is to promote full employment."

No specific administrative machinery to implement a full employment programme is generally available. As a rule, the countries reported the existence or the setting up of employment exchanges, placement and vocational training and resettlement services and similar agencies whose function is obviously limited

to the administration and regulation of the labour market in order to mitigate the effects of frictional unemployment.

b) The elements of economic stabilization and the contemplated policies to deal with a decline in effective demand

The part of the questionnaire relative to measures designed to prevent a decline in effective demand or to mitigate such decline when it sets in, received a sketchy treatment.

In general, "economic stabilizers" are either non-existent or of a very limited scope. Except for Greece, there are no state schemes of payments of social benefits of any kind.

Price and income guarantees to agricultural producers are either non-existent or of limited application and effectiveness.

Specifically, government guarantees of prices of some domestically consumed agricultural products, including rice, exist in Ceylon.

The government marketing department buys the produce from the farmers at a guaranteed prices and resells it to the consumer.

Any loss incurred in the operation is borne by the government, which means that in the latter case the guarantee is combined with

a subsidy to consumers. Ceylon also reports a guarantee of minimum export prices for copra which is based on a purchase

agreement with the United Kingdom. Export prices of other minor products are guaranteed under certain emergency conditions but

there is no mention of an export price guarantee for rubber,

which is Ceylon's main export. In India, a price guarantee

for sugar cane has been operating for some time since before the

war, and the government has guaranteed to support cotton prices

by a purchase programme if prices fall below the guaranteed level. ^{1/}

^{1/} The Indian Government also has under consideration a comprehensive scheme of price guarantees for food grains and other commercial crops, including a system of buffer stocks financed by a commodity corporation to be set up for that purpose.

Greece has also indicated the existence of minimum price guarantees of agricultural products. The point was made earlier that the effectiveness of any guarantees of this kind as economic stabilizers depends essentially on the method of financing which are adopted.

The countries of this group had also little to report in the way of advance planning of contra-cyclical action. Aside from the fact that cyclical unemployment was not considered to be a major policy problem, the immediate economic policies were dominated in most countries by the inflationary pressures of the post-war period. "The question of a deficiency of effective demand", states the reply of the Indian Government, "has not so far arisen in India... The gap between spendable income which is growing and the volume of goods which is dwindling is widening every day... No great danger exists for the present at any rate of unemployment developing as a result of a decrease in demand, and the need for drawing up programmes to offset such unemployment has therefore not been felt." Only the Philippines Government's reply mentions the possibility of increased government expenditures in the face of a decline in effective demand. This would be accomplished by a "flexible" management of the budget. ^{1/} The reply mentions the existence of a comprehensive programme of public works and other public investment which is linked to the general industrialization programme of the Philippine Government. It includes investment by government owned industrial corporations and "the setting up of government enterprises in fields where private capital is reluctant to venture."

^{1/} The reply specifies that this would be accomplished by shifting appropriations from low priority and other "unessential" budget items to public works and "other expenditures that would offset deficiency in effective demand". This means that the increase in expenditures would be achieved by retrenchments of government spending in other sectors which weakens considerably the contra-cyclical effect of the expenditures.

Some countries refer to the possible use of various tax concessions to provide encouragement to private investment. In the Philippines, the maintenance of the existing low level of taxation is considered essential in order to create a favourable climate for private investment, together with such incentives as low interest rate and a liberal credit policy. A number of other governments emphasize their intentions to provide a favourable fiscal climate to promote investment from domestic and foreign sources.

It should be noted that the measures mentioned in the replies for stimulating private investment as well as for increasing expenditures on public investment are related primarily to the general development programmes.^{1/} The possibilities of contra-cyclical timing of these measures, are generally given secondary emphasis, when recognized at all. It should be pointed out, however, that the vigorous execution of general development programmes may serve as an important stabilizing element in the economy and thus reduce the effect of cyclical fluctuations.

The attempt to continue development programmes in the face of a decline in the volume of exports may confront the under-developed countries with balance of payments difficulties similar to those mentioned above in connection with the consideration of full employment policies in industrialized countries. It appears that

^{1/} The existence of national plans of development, of a more or less ambitious scope, bearing upon rehabilitation of agriculture and expansion of the industrial sector is reported by the Dominican Republic, Egypt, Greece, India, Iran and the Philippines. Except for India, which submitted an outline of her economic plan, the plans were described in very general terms, and several of them do not seem to have progressed beyond the blueprint stage.

if faced with such difficulties, most of the governments of this group expect to make use of import restrictions, and some, namely India, Greece and the Philippines, would solicit assistance from the international Specialized Agencies. Finally China and the Philippines consider that recourse would be taken to commodity and trade agreements. The point is also made by a number of countries that, in the longer run, economic development and diversification of production may render the under-developed countries less vulnerable to fluctuations in foreign demand.

Section IV Employment policies in non-self governing territories

The basic economic conditions in non-self governing territories are essentially those of underdeveloped areas and are characterized by a lack of productive equipment in relation to the available manpower, low productivity of labour and depressed standards of living which are often at the subsistence level. There is a wide prevalence of disguised unemployment as a result of which the problem of unemployment in these areas takes on the character which was discussed in the section dealing with the underdeveloped countries. Australia for instance mentions that "the economy of the non-self governing territories of the Commonwealth is largely subsistence agriculture and the maintenance of full employment in these areas is not therefore a problem", while New Zealand declares that "the questionnaire in its terms is hardly applicable to the special conditions in the non-self governing territories for which New Zealand is responsible". That a "solution" of the unemployment problem in these areas is provided by the shock absorbing effect of agriculture was mentioned in the reply of the United Kingdom which states that: "Urban populations are relatively small and even urban dwellers retain tribal connections which, in the main, enable them to return immediately to their villages and support themselves by agriculture when other forms of work are not available. In this type of community, therefore, there is no real unemployment problem".

The reply of the United Kingdom mentions, however, that substantial unemployment exists in some of the areas, namely in some of its West Indian territories, especially Jamaica, and in some coastal towns of West Africa. This unemployment is due, aside from the natural increase in population, to an accelerated drift from rural to urban areas, and to the discharging of a considerable number of persons who had been engaged in war service or special

war work. The latter two factors "changed the problem from one of underemployment in agriculture to one of urban unemployment". The reply calls attention to a number of long-run programmes for agricultural and industrial development jointly sponsored by the United Kingdom and local governments, and encouragement of private investment by local capital. It adds that some measures of stabilization of farmers' incomes were taken by the local governments in the form of central marketing arrangements for the most important products. These arrangements include long term selling contracts and price guarantees through the operation of stabilization funds.

The United States reply does not give the magnitude of unemployment in its non-self governing areas, but it mentions that "the problems of maintaining full employment are probably most difficult in Puerto Rico". The reply refers to development programmes in Puerto Rico and the Virgin Islands and to the existence of some automatic stabilizers in several of its territories. In Hawaii and Alaska unemployment insurance is administered under local legislation similar to that of the states. In Puerto Rico, "various United States Department of Agriculture programmes operate, including agricultural price support for sugar".

Belgium and the Netherlands did not reply to the question concerning the non-self governing territories.

SUMMARY

The countries which are primarily interested in counteracting cyclical depressions are the developed countries with predominantly private enterprise systems. In centrally planned socialist countries the problem of maintenance of full employment is an integral part of general economic planning. In under-developed countries and non-self governing territories the problem of cyclical unemployment is overshadowed by the enormous problem of disguised unemployment which may be eliminated only by economic development.

The developed countries that are based predominantly upon private enterprise emphasize the mitigating effect in periods of declining economic activity of automatic stabilizers such as payment of unemployment benefits during a slump, guarantees and support of farm prices, and the maintenance of relatively rigid government expenditures in the face of reduced revenues.

The developed countries also generally declare that they will not be satisfied merely with the mitigation of depression as a result of the automatic stabilizers, but that they will also venture into active counter-depression measures. Although various measures of this sort are taken into consideration, the most frequently mentioned is public investment financed by government borrowing. The problem of the timing of counter-depression measures, however, is in a number of cases treated rather vaguely and it is therefore not clear at what stage of the slump the countries concerned will resort to such measures.

Most of the countries indicated that if faced with a decline in the foreign demand for their products they will sooner or later have to resort to import restrictions. The ultimate effect of such restrictions upon the volume of world trade, the structure

of production and the standards of living of the countries affected will depend upon (a) the nature of the import restrictions that are selected and (b) the extent to which these are countered by protective or retaliatory measures, especially on the part of the countries which generated the deflationary pressures.

Both the International Monetary Fund and the International Bank for Reconstruction and Development consider that their financial resources are insufficient in the event of a world crisis to afford widespread protection against balance of payments pressures or to be a leading influence in anti-cyclical timing of investment.