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## ECONOMIC AND EMPLOYMENT COMMISSION

## THIRD SESSION

## SUMMARY RECORD OF THE FIFTIETH MEETING

Lake Success, New York  
Monday, 26 April 1948 at 11 a.m.

<u>Chairman:</u>	Mr. R. WILSON	Australia
<u>Members:</u>	*Mr. E. de SEILLIERS	Belgium
	*Mr. J. G. TORRES	Brazil
	*Mr. V. A. BAKOUNOV	Byelorussian Soviet Socialist Republic
	Mr. J. DEUTSCH	Canada
	Mr. F. HO	China
	*Mr. N. SILVERIO	Cuba
	Mr. R. BYSTRICKY	Czechoslovakia
	Mr. J. RUEFF	France
	*Mr. D. KARMARKAR	India
	Mr. G. BOE	Norway
	*Mr. G. LUTOSLAWSKI	Poland
	*Mr. M. FLEMING	United Kingdom
	Mr. I. LUBIN	United States of America
	Mr. A. P. MOROZOV	Union of Soviet Socialist Republics

Representatives of Specialized Agencies:

Mr. A. A. EVANS	International Labour Organization
Mr. D. GORDON	International Bank for Reconstruction and Development
Mr. A. G. B. FISCHER	International Monetary Fund

Observer:

Mr. WINDHAM-WHITE	Interim Commission of the International Trade Organization
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Consultants from Non-Governmental Organizations:

Miss L. SPIEGEL	World Federation of Trade Unions
Miss T. SENDER	American Federation of Labor
Mr. J. BOTTON	International Federation of Christian Trade Unions

\*Alternates for Third Session

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Secretariat:

Mr. WEINTRAUB

Secretary of the Commission

DISCUSSION OF ITEM 8 OF THE AGENDA: REPORT OF THE SUB-COMMISSION ON  
EMPLOYMENT AND ECONOMIC STABILITY (document E/CN.1/55)

At the CHAIRMAN's request Mr. WEINTRAUB (Secretariat) enumerated the following documents bearing upon Item 8 of the Agenda:

Documents and studies mentioned in paragraph VII.5 of document E/CN.1/54 and the two reports prepared by the Food and Agriculture Organization and the International Emergency Food Committee respectively (document E/CN.1/58; he referred to the passage on page 3 of the latter report, regarding the food situation and also mentioned the study prepared by the International Monetary Fund on the problem of exchange rates (document E/CN.1/60).

Mr. LUTOSLAWSKI (Poland) suggested that the Commission should begin discussion on the substance of the report forthwith, avoiding the procedure followed during consideration of the Report of the Sub-Commission on Economic Development.

Mr. RUEFF (France) found the report of the Sub-Commission on Employment and Economic Stability very interesting as a whole, though some of its conclusions were debatable.

However, he did not think that the report contained any positive or effective recommendations that could be submitted to the Economic and Social Council under the terms of reference it had given the Commission.

/Mr. BAKOUNOV

Mr. BAKOUNOV (Byelorussian Soviet Socialist Republic) recognized that the problem of inflation, to which the Sub-Commission had devoted the greater part of its work, called for most exhaustive study. But as the French representative had said, the report contained no concrete recommendations that could be applied in order to combat inflation. Moreover, that opinion was confirmed by Professor Frisch, whose views on the matter were summarized in Annex 1. The report also contained many contradictions. For example, it stated at the beginning that one of the means of combatting inflation was to limit demand; a strange statement, to say the least, since any reduction in demand inevitably led to an economic crisis. Later, in the same part of the report, there were entirely opposite assertions. Thus the causes of inflation and the remedies to be applied were far from clearly presented. Nevertheless, the report contained several accurate observations. In particular, the two last sentences of paragraph 6 on page 22, regarding the causes of inflation, and the statement that extreme inflation lowered real wages and enriched speculators, were correct in substance. He was sorry that such truths had not been taken as a starting point and amplified in a scientific and objective manner.

Speaking of the problem in general he pointed out that inflation was a very old phenomenon. Though much work had been done, no accurate, scientific understanding of it had yet been achieved, as most economists refused to study the subject objectively.

Some attributed inflation to increased wages. But a rise in wages, which always lagged behind the rise in prices, was<sup>a</sup> consequence, not a cause of inflation. Others sought to blame the expenditure of private income accumulated during the war, whereas such excessive spending was caused by rising prices. According to such economists, the working masses were thus responsible for inflation. It was impossible to agree with such an assertion.

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The true causes of inflation should be sought elsewhere. The principal cause was the policy of capitalist monopolies which tried to increase their income by raising prices. Moreover, inflation took on different characteristics in different countries. In colonial and semi-colonial countries, in which the feudal system still survived, it was of a chronic nature, bringing suffering, epidemics and high mortality. Other countries, such as Greece and Italy, were receiving very special attention from the monopolistic countries. In studying the problem of inflation, therefore, the characteristics and conditions peculiar to each country could not be disregarded.

The following, in his view, were the main real causes of inflation:

First: War psychosis, which persisted in spite of the Assembly resolutions, and the armaments race which in several parts of the world, such as Greece and Indonesia, went as far as direct military intervention. The armaments race was a crushing burden on the economies of all countries, and resulted in unbearable living conditions for the working masses; secondly: the tendency of certain countries, which had not suffered from the War, to take advantage of their privileged position to embark on a policy of unbridled economic expansion; thirdly: speculation and the black market, particularly in food-stuffs, which only aggravated the economic position of the masses.

He then quoted figures on industrial recovery since the war in various countries, which he regarded as having no relation to inflation. There had been inflation before the war, which had merely aggravated it. If inflation was to be fought effectively, the cause of the evil must be sought in the right place.

Mr. BOE (Norway) recognized the complexity of the problem raised by the report of the Sub-Commission on Employment and Economic

/Stability

Stability. Besides the report he had studied the summary records of the meetings that had led to its adoption. The records showed rather marked differences of opinion, which partly explained the nature of the final report. The Sub-Commission's report seemed to represent a compromise between different points of view.

While admitting that the report gave a good general idea of the problem to be solved, he thought it tended to dwell too much on the purely monetary side of the question. Such monetary aspects should be considered less as causes than as symptoms of an inflationary situation that had deep-seated causes. Moreover, some of the proposed measures to curtail demand by reducing the various types of expenditure might, if not applied with the greatest caution, bring about a crisis caused by an increase in unemployment and insufficient utilization of the means of production. An anti-inflationary policy designed to reduce the volume of demand must only be applied with considerable reservations.

Furthermore, he completely disagreed with certain specific points in the report. The Sub-Commission's suggestions for increasing rates of interest (Part V, C paragraph 8, page 28) were of dubious value. If inflationary pressure took on dangerous proportions, only a very high rate of interest could be of any use. Such an increase, moreover, would not only hinder investment, but since the rate of interest is an important factor in costs, it would cause a rise in cost prices and thus have an effect opposite to that intended. Moreover, the Sub-Commission's report attached too much importance to balanced budgeting (Part V.C, paragraph 14, page 31), without making sufficient reservations. If public expenditure formed only a small proportion of national income, the policy of balanced budgeting would only play an insignificant part in controlling inflation.

/The Sub-Commission's

The Sub-Commission's Report considered mainly the social role that could be played by subsidies. He himself, considered that a policy of subsidies could play an important and concrete part in halting inflation. Subsidies make it possible to ensure the stability and relative equilibrium of real incomes. Their suppression, on the other hand, could lead to a dissension between the various economic groups regarding the distribution of the national income between them. The inflationary consequences of such a situation would be more serious than those of the unbalanced budgeting to which the granting of such subsidies might lead.

He also thought that the report should give a more detailed account of the economic and social aims on which the proposed monetary policy should be based, and of how the measures contemplated were to be applied.

Finally, he found it difficult to give his full approval to the Sub-Commission's report in its present form.

Mr. FLEMING (United Kingdom) regretted that the Sub-Commission on Employment and Economic Stability had devoted almost the whole of its report to the problem of inflation. Without wishing to underestimate the great importance of that problem, he pointed out that, generally speaking, inflation was decreasing in most countries, thanks to the measures that had been taken. In countries where inflation had not been controlled, it was not for lack of knowledge of the measures to be applied, but for lack of the necessary courage to put them into effect. The Sub-Commission could have dwelt on the problem of a deflationary crisis or that of general unemployment, which might arise in the near future.

He wished to make some comments on the substance of the report. The most important one was that the report did not differentiate clearly between the two processes of inflation, namely, the so-called inflationary "gap" on the one hand, and the "wage-price spiral" on the other.

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The first category of inflation, caused by a demand for goods or services which exceeded available supplies at a stable price level, might be caused either by a shortage of supply or by excessive demand. Recalling that the Norwegian representative had complained that the report devoted too much attention to the monetary factors of the problem, he observed that there was good reason for stressing them, as they were the easiest to work on. Governments could easily influence the monetary factors, that was to say demand, whereas there was little they could do, for example, with regard to the shortage of food products.

The second type of inflation resulted from the desire to maintain real wages at a higher level than the country's economy permitted. In that respect, he did not agree with the Byelorussian representative's remarks. It was true that wages were now lower than before the war, but if the productivity of labour were reduced, real wages were also reduced, and any effort to maintain them at their normal level by increases in nominal wages brought price rises, etc. Such a situation could not be remedied until productivity regained its normal level.

Those two inflationary processes, related though distinct, might require different remedies.

Examining the methods proposed in that part of the report which dealt with national aspects, he thought that the Sub-Commission had struck an excellent balance between the two; the first method was to take measures to reduce demand (such as those applied by the United Kingdom, in particular, and other countries with a planned economy), the second was to apply monetary and financial measures. He emphasized the danger of applying the first method exclusively, in the case of countries that lacked a solid administrative framework.

On the other hand, he was somewhat disappointed in the part of the report devoted to international aspects. While advice on national

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programmes had its value, the essential function of the United Nations in the economic field, was to promote planned action on an international scale either through its organs or by direct co-operation.

In spite of those few objections, he thought that the Sub-Commission's report was of great scientific value and that the Commission should decide to publish it without even waiting for the Economic and Social Council's next session.

Mr. de SELLERS (Belgium) said that having read the report with interest, he felt that this excellent study of such an important subject would be more suited to a treatise on political economy than to the report by a Sub-Commission instructed to study problems of employment and economic stability.

Noting that the report was confined to the problem of inflation, he said that although a study of the causes and remedies might be of great interest, it was of little help to the countries suffering from that evil. For each country had its own economic structure and its own causes of inflation.

The Sub-Commission could have devoted a great part of its work to other provisions of its terms of reference; for instance, the study of measures to check a possible deflation or extensive unemployment. During its second session, the Economic and Employment Commission had touched upon that question, which did not come within the scope of any of the specialized agencies. In that connection the report did not take sufficient account of the existence of the International Monetary Fund, an organization that was served by many economists, and one of whose activities was the close and constant study of the problem of inflation in Member States. The study of inflation was, therefore, largely a function of the Fund, which was in a position to give its members specific advice on the control of inflationary tendencies in their countries.

/The report

The report itself, was excellent from a scientific point of view. He would limit his comments on detail to a few points.

The Norwegian and United Kingdom representatives had raised the question of increasing rates of interest. He agreed that such a measure was not in itself an adequate weapon to control a typical inflation, but if used in conjunction with the other methods, it could be of great help in reducing inflationary pressures. In Belgium, where rates of interest had been raised considerably, the Government had had every reason for satisfaction at having taken such a measure.

He recognized the necessity for balanced budgeting when the general budget was concerned; extraordinary budget or investment expenditure could be covered by loans but not by advances from the issuing bank. Part V,C, paragraph 27 of the report stated that the cutting of purchasing power by withdrawal of the notes in circulation had doubtful results and did not reach equally all social classes; his country had carried out such an operation successfully. The notes had been withdrawn, but had been gradually returned to circulation; there had thus been, neither social injustice nor direct levy on the holders of notes.

If the Commission considered the report point by point, he would reserve the right to propose certain changes of detail.

Mr. HO (China) pointed out that the report under consideration was the first to be submitted by the Sub-Commission on Employment and Economic Stability. He regarded it an academic document of great scientific value. He had only two general comments to make.

First, he would have liked the report to lay more stress on the disastrous effects that would ensue from a deflation. The Sub-Commission only mentioned the matter once and, in his opinion, too briefly.

On the other hand, he was glad that at the end, the report mentioned steps taken to prepare documents on more specific subjects and special

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studies. Specific studies and plans could play an important part in the Sub-Commission's future work, and he hoped that the Economic and Employment Commission too, would attach more importance to such studies in the future.

The CHAIRMAN said that the Commission would continue examination of the Sub-Commission's report at its next meeting.

ELECTION OF A MEMBER OF THE SUB-COMMISSION ON ECONOMIC DEVELOPMENT  
(documents E/CN.1/51 and E/CN.1/W29)

The CHAIRMAN recalled that there were two candidates to fill the vacancy in the membership of the Sub-Commission on Economic Development that had been left by the resignation of Mr. V. Urquidí: Mr. M. Bravo-Jimenez (Mexico) proposed by Mr. Torres (Brazil) and Mr. J. Jussiant (Belgium) proposed by Mr. Fleming (United Kingdom).

In answer to a question by Mr. de Selliers (Belgium), the Chairman explained that if the candidate elected were not available, the Commission would be notified by the Secretariat before the end of its session, and would hold a new election.

At the CHAIRMAN's request Mr. S. LVERIO (Cuba) and Mr. BOE (Norway) acted as scrutineers.

A secret ballot was taken. Fifteen valid votes were cast with the following result:

Mr. M. Bravo-Jimenez.....9 votes

Mr. J. Jussiant.....6 votes

Mr. M. Bravo-Jimenez (Mexico) was elected member of the Sub-Commission on Economic Development.

Mr. WEINTRAUB (Secretary) informed the Commission that he would take the appropriate steps in accordance with the terms of reference of the Sub-Commission on Economic Development.

The meeting rose at 12:55 p.m.