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United Nations Experts Propose U. S. A. Finance Nationalistically Planned Economies

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Prominent industrialist terms plan drafted by five economists under UN's aegis, over-ambitious, unrealistic, fantastic, and sure road to ruin for free competitive system. Maintains recommendations are aimed at U. S., requiring us to make sacrifices so that other countries can isolate themselves in socialism.

The Report on National and International Measures for Full Employment published by the United Nations overstates full employment and stability to the detriment of economic progress and higher standards of living. The National Association of Manufacturers fully agrees on the importance of a high level of productive employment, but must insist that the means used for maintaining employment should not undermine or destroy the individual competitive system, and should not make im-



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possible the restoration of a well-knit world economy. This report speaks of full employment as the "over-all objective" of public policy to which governments should relate all their activities. We leave undisputed the definition of full employment given by the report. (Mr. Truman does not agree either with the definition of full employment proposed by the experts, according to an interview with Arthur Krock published in the New York "Times" of Feb. 15. Mr. Truman states that: "A certain amount of unemployment, say from three to five millions, is supportable. It is a good thing that job-seeking should go on at all times; this is healthy for the economic body.") It ought to be obvious, however, that employment

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cannot be an aim in itself, or we would consider that an army camp or a prison is the most desirable prototype of society.

Dr. Alexander Loveday, former Director of the Economic Intelligence Department of the League of Nations, has expressed himself on employment in a free society as follows:

"In a free society: there is the rub. Many governments have since the war formally assumed the responsibility for securing and maintaining what at San Francisco they felt emotionally impelled to call full employment. Now, government can, I believe, secure and assume full employment under certain conditions. If it is in a position to tell every man and woman — entrepreneur or wage-earner — what he shall produce and what consume, how many hours he shall work a day, what remuneration he shall receive, what portion of his remuneration he shall save or spend, and if it can cast those who do not carry out its instructions into a concentration camp, it can, I believe, guarantee full employment—inside the camp or outside. But if that is done, you sacrifice human liberties. This question of employment is, therefore, a question immediately affecting the daily lives of us all."

What do we mean by a free society? By a free society we mean not only one in which the individual enjoys the rights and freedoms with which we are familiar, but also the right to work or not to work, the right to get the best job he possibly can, the right of the consumer to use the product of his work in purchasing whatever he wants. Moreover, in a free society the individual is free to leave a country provisionally or permanently, as he wishes.

The Overriding Objectives

We submit that in analyzing the problem of employment and the proposals to remedy unemployment, we must give paramount consideration to two overriding objectives:

(1) That in the process we do not destroy human rights and human liberties which the individual enjoys in a free society. We hold that our civil and political rights are dependent on the preservation of an individualistic competitive system.

(2) The second overriding objective is that national policies for full employment should be devised so as to suit the requirements of a well-knit world economy. Each country should pay due regard to the effects of its national policies on the well-being of other countries, and particularly on international economic relations.

We regret to have to say that the report does not meet the test of these two fundamental overriding objectives.

The Keynesian Influence

The report is imbued with intellectual prepossessions and ideas stemming from what is known as "Keynesian" or "New" economics. Our main objections to the thinking which has prevailed in the making of the report are the following:

(1) The intellectual approach to the problem is incompatible with the preservation of the individualistic competitive system. It deals with the economic problems of our society by using the notion of "effective demand," which is the economist's idiom of the popular remark: "to buy you need money." Economic thinking which starts its chain of reasoning with "effective demand" is attacking only symptoms of economic disorders but never the causes. As a result of this kind of thinking we may get full employment by means of

chronic monetary inflation, but in the process we would destroy the individualistic free enterprise system. We cannot accept deficit spending as a way of life, because it would disrupt our social economic system and would lead us into a totalitarian form of society.

It is symptomatic of the way of thinking of the economists who have written the report published by the U. N. that not once the words "costs of production" even mentioned except in a note by Professor J. M. Clarke. It is well known that those who accept deficit spending as a way of life are not concerned either with the volume of national debt or with the costs of their experiments. Obviously the authors of the report believe that we can lift ourselves by our bootstraps. The lack of concern with the matter of costs becomes particularly significant when we think of what a depression really is. A depression means that the volume of goods that can be produced at prevailing costs of production with the available factors of production cannot be sold at a profit at prevailing prices. Economic depressions are usually characterized by a fall in prices, which is necessary to reestablish the balance between production and consumption and thereby permit economic activity to resume its pre-depression or a higher level. But the economists who have written the report are not concerned with costs. They even argue that we should attempt in our economic policy the impossible task of stabilizing prices, about which recommendation we shall say a few words later.

(2) The report starts from the assumption that government can provide employment and maintain a free society. We hold the view that a government has no means to maintain full employment except in a totalitarian society. In a brochure published in England by the Workers' Educa-

tional Association on the problem of full employment, the author of the study, Mrs. Joan Robinson, who is the spiritual mother of the "full employment" doctrine or myth, makes the following interesting statement:

"The only example known to history of full employment under partially planned capitalism (except in wartime) is the Nazi regime. The Nazis succeeded in overcoming the problems created by full employment because they had first broken the labor movement. Discipline in industry was ensured by substituting terror, along with a mystical propaganda appeal, for the fear of unemployment. The vicious spiral was cut at the root by fixing wages."

Assumes U. S. Full Employment Pledge

The report right from the beginning attempts to demonstrate that the United States is pledged to a full employment policy by its signature of the United Nations Charter. However, on one side, the U. N. Charter does not define full employment; and on the other side, Articles 55 and 56, read together, state that the United States pledges itself to take joint and separate action in cooperation with the U. N. for the "promoting" of full employment. It is not very clear what the drafters of the Charter meant by "taking action for the promoting of full employment." No country or government likes widespread and prolonged unemployment. Therefore a policy against unemployment is, so to say, a matter of course. We fail to see, however, how the United States could possibly have pledged itself to take action to eradicate unemployment, and have perpetual full employment. We doubt that the United States Government has pledged itself to do something that it cannot possibly do and maintain a free society. Besides, a pledge "to

take action designed to achieve and maintain full employment" (which, by the way, is the language used in Article 3 of the I.T.O. Charter) was hotly debated and turned down by Congress in 1945 (the so-called Murray Bill), and Congress adopted "The Employment Act of 1946" which provided carefully worded safeguards to possible actions of the government in matters of employment. It is also interesting to note that "The Employment Act of 1946" was passed by Congress after the signature and ratification of the United Nations Charter.

(3) The report published by the U.N. states: "In the successful attainment of the twin goals of full employment and the creation of a relatively free multilateral trading system, the former must certainly take precedence over the latter: while countries can pursue full employment policies even without a multilateral trading system, the restoration of multilateralism without the attainment of internal economic stability in the trading countries is impossible." It is no wonder that such a statement should be found in the report published by the United Nations, which fundamentally is a plea for planned economy and state control of economic activity. We find in this statement by the experts the same thinking as in the Havana I.T.O. Charter. Therein also precedence is given to nationalistic economic policies over international economic cooperation.

The report, like the I.T.O. Charter, shifts the emphasis from the pursuit of freer trade to the pursuit of national full employment. Employment is not, for these experts, an aspect of a well-functioning economy, but an aim in itself.

It is evident that trade is greater among prosperous countries than among depressed ones. It is,

however, also true that employment increases with the expansion of trade. But the nationalistic socialistic-minded countries which worked on the I.T.O. Charter were decided that the issue "trade through employment" or "employment through trade" should be solved in favor of nationalistic economic planning.

Nazi Germany had full employment, but also exchange controls and import quotas. Socialistic economic planning of economic activity inevitably creates balance of payments difficulties and therefore requires exchange controls and import quotas, the most diabolic instruments against international economic cooperation. The London "Times" of Jan. 20 reported the following statement made by Mr. Harold Wilson, President of the Board of Trade:

"Basic controls, such as those of the location of industry, foreign exchange, and the volume of investment, will be maintained as permanent instruments to ensure the maintenance of our economic position and the fulfillment of our full employment programme."

As if this statement were not enough to clinch the argument, one can read in a publication issued by the Labor Party, "Feet on the Ground, a Study of Western Union," the following statement:

"Little has been said about the relationship between a western union and socialism. . . . We as socialists believe that the type of economic planning and social reform required is incompatible with the survival of competitive capitalism."

(4) It ought to be obvious that the first essential for the cure of any malady is to have a clear diagnosis of its nature. Admittedly not all depressions are alike. The report is mainly directed to one sort of depression in one sort of country, particularly the

United States (a diagnosis on the usual Keynesian pattern, completely inadequate). But the report does not consider the case of a country which maintains employment by inflation and thereby becomes unable to pay for its necessary imports of raw materials, which is, for instance, presently the case in Great Britain.

Concerned With Symptoms Not Roots

The report is mainly concerned with the symptoms of economic disorders but not with the root causes. The experts, therefore, propose various gadgets, mainly of an automatic nature, to cure unemployment. The whole approach to the problem is as if ours were a mechanical world. The report recognizes that the methods proposed are still in their infancy, and yet by over-simplifying the difficulties of the problem they propose devices which may work or not, and which may undermine our social economic structure. As the London "Economist" puts it:

"Perhaps the greatest present threat to it (the full employment policy) lies in the over-confidence of governments that they have mastered the trade cycles."

Professor Alvin Hansen in his book "Economic Policy and Full Employment" states:

"Modern governments are just at the threshold of this great experiment (mastering the trade cycle). We are, however, still in the kindergarten stage."

Specific Objections

We wish now to comment specifically on a few points in the report:

(a) The report states, in paragraph 75, "this stabilizing influence, moreover, will be all the greater the larger the normal share of governmental expenditure in the total national expend-

iture." We believe that this view is completely erroneous. High government taxes make for high prices. High government expenditures mean high government taxes. High government expenditure is disruptive of the flow of savings at its source and destroys the incentive essential to individual enterprise.

(b) The report minimizes the danger of inflation in countries which make full employment the over-all objective of economic policy. We are referring not only to the balance of payments difficulties which are an inevitable result of socialistic economic planning for full employment, as proven recently by Great Britain and by Sweden; we are referring to the danger of inflation created by full employment policies. Mrs. Joan Robinson makes the following pertinent remarks in her brochure on the problem of full employment to which we referred before:

"Another problem created by full employment is the tendency to inflation. When labour is scarce relatively to the demand for it the Trade Unions are in a strong position to force wages up, and employers do not object to raising wages since it is easy for them to pass on extra costs to the consumer in the form of higher prices. But, as prices rise, the workers demand still higher wages, and the "vicious spiral" of wages and prices sets in.

"A continuous rise of prices involves serious dangers. First, it brings about an arbitrary and unfair change in the distribution of income, all those with incomes fixed in terms of money suffering a loss of real income. The worst sufferers are pensioners, and the workers who are ill-organized and do not succeed in getting their wages up as fast as the rest. The most vocal sufferers are the middleclass bondholders and salary earners. The loss of their good

will may have serious political consequences for the government attempting to carry out a full employment policy.

"Second, a general expectation of rising prices may lead to a complete collapse of the value of money such as occurred in the great inflations on the Continent after the last war.

"To a remarkable extent an appeal to the patriotism of the Trade Unions during and since the war has kept the 'vicious spiral' within bounds, but the position has been, and remains, highly precarious."

Dr. Nourse, who resigned last November as Chairman of the President's Council of Economic Advisors, recently stated that "the unions were generally looking to the Federal Government either to strengthen further their legal position or to supplement their incomes . . . ; they seem willing to accept dollar gains on the basis of the Federal deficits and are not much concerned at the inflationary results in either deficits or wage rises that induce equal or greater price advances." It is, therefore, strange, to say the least, to find in the report the following statement in Para. 84 dealing with full employment and inflation:

"... it is nevertheless true that the government's general responsibilities for maintaining the stability of the price level are enhanced by their adoption of full employment policies."

Price Stabilization Theories

(c) The experts consider that it is the responsibility of the government to stabilize the price level. They believe in panaceas to solve our economic problems. In the last fifty years, there are few subjects on which so much ingenuity and ink have been used as on the question of stabilization of prices. First of all, the experts seem to forget that the

greatest depression we have ever known started after a relatively long stability of the price level. In point of fact, it is this stability which fooled many an economist in the belief that they were living in a new era. Those who favor a government policy for the stabilization of the price level are thinking mainly of the monetary aspect of this question. The fact that money, and its role in an economy, has for most economists a mysterious character leads them to believe that they can manage the monetary system so as to secure the stability of prices. They don't seem to realize that the level of prices is influenced by money but also by production, and that, therefore, even if we assume that they could manage the money side of the equation they would also have to control the production of goods in the world. Professor Charles Rist, one of the greatest living economists, recently stated:

"One should say without hesitation that the stabilization of prices is like squaring the circle. There is even an unwitting deceit to let the public believe that the economists and the government have available means capable of insuring the stability of prices, either in the world or in a particular country. It would be a great achievement if we could only convince the governments not to themselves create instability of prices in the world by the creation of paper money and the maintenance of disorder in their economies."

(d) In the discussion of the international aspects of full employment policies the national consequences of what the report calls "the international propagation of cyclical fluctuation" are overstressed and therefore nationalistic remedies are proposed. Here again the experts are concerned with the symptoms of economic disorder rather than with the causes. They hardly take notice of

the existence of the price mechanism and the market place for the reestablishment of equilibrium between imports and exports. Instead of thinking in terms of solidarity of world economy, they argue in favor of insulating nationalistically planned economies from countries which may not be able to avoid a certain degree of economic depression or recession.

We are of the opinion that if a country, pursuant to a depression, suffers a reduction in its exports, such a problem can be solved not by the economic insulation of such a country, but by close economic cooperation with other countries and by the flexibility of its cost-price structure.

"International" Recommendations Unrealistic

The so-called "international" recommendations related to the full employment policy are most unrealistic. For instance, the experts recommend a stable flow of international investment by government, for economic development of underdeveloped areas. We believe, however, that there is a strong conviction in the United States, shared by practically everyone, that private capital and not our government should make the major contribution to the economic development of undeveloped areas. The experts' report also contains a proposal for stabilizing the flow of international trade through the machinery of the International Monetary Fund. The plan provides that countries which experience a decline in their imports, as compared with a given selected year, shall deposit with the Monetary Fund an amount of their own currencies equal to that decline, less any fall in exports. These funds would be made available to countries which had experienced a decline in exports and which assumedly

would manage their economy so as to maintain full employment. This proposal amounts to a kind of penalizing of countries which may be suffering from unemployment and therefore may experience a fall in their imports. This proposal would involve liability for potentially large and indeterminate payments. No country will be willing to commit itself blindly, in advance, to payments of possibly considerable magnitude. Both the London "Times" and "The Economist" think that this proposal, while new, is too theoretical and over-ambitious. It seems to us that this is the least that can be said about this unrealistic proposal.

(e) The London "Observer" of Jan. 22 remarks that the proposal for the maintenance of domestic full employment is primarily addressed to the United States. The London "Economist" in its issue of Jan. 28, with reference to the proposal for stabilizing the flow of international trade, states that "the report clearly has the United States in mind when it contemplates a reduction of imports as a result of unemployment."

Main Recommendations Slanted At U. S.

It is obvious that the main recommendations of the report are directed at the United States. On the argument that our country is pledged to maintain full employment constantly, the United States is requested to make readjustments and material sacrifices so as to enable other countries to isolate themselves from the rest of the world in order to pursue nationalistically planned economic policies. This conception of a world economy and international cooperation seems to us simply fantastic, particularly so from experts selected by the United Nations.