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FULL EMPLOYMENT AND ECONOMIC STABILITY

Speech made by Mr. Jean Lesage, M.P., Chairman, Canadian Delegation to Fourteenth Session of the Economic and Social Council - in Plenary Session on July 1, 1952.

Once again the Economic and Social Council is called upon to consider problems of full employment and international economic stability. From its inception it was recognized that one of the principal functions of the Council in the economic field would be to facilitate the efforts of national governments to achieve and maintain high and stable levels of employment, income and trade, and in that way to encourage higher standards of living for all people. Each year the Council has devoted considerable energy and time to the fulfilment of its responsibilities in this important field. Indeed the Experts' Report on Measures for International Economic Stability has its origin in a comprehensive debate and resolution adopted at the eleventh session of the Council held in Geneva in 1950.

The report which we now have before us, and its relationship to the previous efforts of the Council to devise international measures to deal with the impact of economic fluctuations, is an impressive tribute to the determination of the United Nations and its member governments to avoid the occurrence of economic recessions in the future. Even though the post-war years have been generally prosperous, it is significant that this Council has, in the past few years, arranged for the preparation of no less than three major reports dealing with problems of international economic stability. In a sense this reflects the universal fear of economic depressions like that of the thirties, which left such deep scars on the thinking of most of us. In a more important sense, it holds the promise that countries are prepared to do everything in their power to avoid serious depressions in the future.

The Canadian economic policy since the end of the war has been directed to the maintenance of high levels of employment and economic stability both at home and abroad. In line with these basic objectives, the Canadian Government is prepared to cooperate with all countries in the pursuit of policies which make these objectives possible. We have approached the Experts' Report in this spirit.

To begin with, the Canadian Delegation would like to join with all the other delegations which have complimented the Experts for the realistic and able report which they have prepared for our consideration. Regardless of whether or not we can agree with all their recommendations, I think I can safely say that the vast majority of the countries represented here would agree that the Experts have made a worthwhile contribution to our understanding of problems of world economic stability.

Perhaps the most significant statement contained in the report is its very first sentence. We would most heartily support the view that the major countries of the world now have both the will and the means to avoid deep and prolonged depressions. Based on this assumption, which we regard as a realistic one, the Experts concern themselves primarily with the problems arising out of the impact of recession in a major country upon the economic stability of other countries. It would be over-optimistic to expect that minor fluctuations in economic activity and employment can be avoided entirely in the future. Indeed it should be recognized that economic adjustments are a fundamental part of the process of economic progress. In a sense they are the price of progress and largely inseparable from it. At the same time, it must be recognized that what may appear to be a minor recession in a large industrialized country may have a much more serious impact on the economies of other countries, especially countries which are highly dependent on the production and export of primary commodities.

This is all the more true where recessions originate in large industrial countries which are not heavily dependent on international trade, such as the United States. Even though we can proceed on the assumption that major depressions will be avoided in the future, it is nevertheless of great importance that everything possible be done to soften the impact of fluctuations on the economies of smaller countries and those heavily dependent on foreign trade. This is the problem to which the Experts direct their main attention.

In the view of the Canadian Delegation, this report is more helpful than the one prepared in 1949. The present report recognizes that there is no royal road to economic stability. There is no set of fixed rules nor any automatic formula which can replace the exercise of responsibility by national governments. This is fundamental. On the other hand, while the primary responsibility for maintaining stability must inevitably rest with national governments themselves, international institutions can be of assistance. At best, however, they can do no more than supplement appropriate policies by governments. It is important to recognize this basic fact. Otherwise there is a danger that we will place undue emphasis on institutions which, by their very nature, cannot possibly carry the main burdens. It is understandable why the Experts have devoted the major portion of their report to international efforts. After all, this is a report initiated by an international body, and designed for international discussion. It is to their credit that they recognize that national policies based on the leadership of the great industrial nations are essential to the achievement of our basic objectives. At the same time, it is not unreasonable to suggest that it might have been appropriate to devote more detailed consideration to national policies in the achievement of international economic stability.

It may be useful to consider what policies would be appropriate if countries are to be in a position to contend with future economic adversities. In the view of the Canadian Government, the task is one which requires active measures at this time by all countries, creditor countries and deficit countries, developed countries and under-developed countries. Countries which today are experiencing balance of payments difficulties should take vigorous measures to bring inflation under control, to establish domestic stability through appropriate monetary and fiscal policies, to maintain their production and exports in a competitive position, and to rebuild their depleted monetary reserves. Surplus countries should maintain and extend liberal trade policies, and in this way, make it possible for the deficit countries to expand exports, achieve external equilibrium, and rebuild their monetary reserves. This is a subject which received considerable attention at this session of the Council when we were dealing with the world economic situation. Nevertheless, we feel that it is of sufficient importance to emphasize once again in this context. Unless the large industrial countries, including the United States, are prepared to accept imports in payment for their exports, it is difficult to see how international stability can be re-established even in good times, let alone maintained in periods of adversity. Countries that require foreign capital to facilitate their economic development and help them withstand the impact of fluctuations should create a domestic environment which will encourage the inflow of capital. It is not less important that countries which have capital available for export should adopt policies which ensure a steady and reliable flow of capital.

We would like to deal now with the specific recommendations of the Experts in the three related fields of international monetary reserves, international flow of investment capital and commodity policy. In essence, the proposals of the Experts involve the extension to the international sphere of policies now considered appropriate for dealing with internal economic difficulties. In the domestic field it is now generally recognized that counter-cyclical, fiscal and monetary measures are an important device for maintaining economic stability - that is, budget surpluses, postponement of public investment and restrictive monetary policies during periods of boom, and budgetary deficits, expanded public investment and easy money policies in times of recession. These ideas are theoretically attractive, and we believe that the Experts should be commended on their imaginative approach. It is perhaps regrettable that in present circumstances the practical application of these ideas raises a number of difficulties. Indeed the Experts themselves are aware of these problems.

We would like to turn now to the recommendations of the Experts with respect to the International Bank. They propose that the Bank should be prepared to step up its rate of lending in time of recession. To this end, they suggest that the Bank should establish a shelf of development projects well in advance so that the Bank would be in a position to swing into action on the first signs of a recession. In the Experts' view this would require a substantial expansion of the Bank's resources to meet the additional demands which would then be made upon them. It is important to recognize that this recommendation represents a fundamental change in the purposes for which the International Bank was created. As we understand it, the primary function of the Bank is to provide long-term capital for worthwhile development projects. This new concept of anti-cyclical action by the Bank would seem to require the Bank to hold off certain worthwhile projects in good times, and to expand its lending operations in bad times. I am afraid that such a policy would not be fully consistent with the purposes for which the Bank was created. The rate of development in the under-developed countries should be geared to their basic needs and capabilities rather than to the phase of the economic cycle.

The notion of building up a shelf of worthwhile projects for implementation in a recession presupposes that, at present, there are more projects which would qualify for Bank financing than are in fact being financed. This is far from being the case. At the present time, there is no shortage of

Bank funds. In a recession there is the danger that this condition would be accentuated, since the normal tests of soundness which the Bank must apply may then screen out some projects which now qualify.

It has been suggested that one possible solution which might lead to greater use of the Bank's resources during a recession would be to change the basis of the Bank's operations by lowering its standards of credit-worthiness. We do not believe that such a policy would serve the long-term interests of the under-developed countries. On the contrary, such a policy might easily prejudice the role of the Bank in providing investment capital. The International Bank has proved itself to be a highly adaptable and useful institution in fulfilling the purposes for which it was established. Today, it has a sound reputation all over the world which enables the Bank to draw on capital markets which pursue the most orthodox financial policies. Any measures that water down the credit-worthiness of its loans would inevitably damage that confidence and reduce the loan capital available to it.

A more desirable method for getting the Bank into a position where it could expand its loan resources during a recession is to concentrate on the real difficulties which are impeding a fuller use of the Bank's resources at present. What is required is that the countries seeking capital should make every effort to prepare a sufficient number of sound, well-conceived development projects which qualify for Bank financing. If it becomes evident that a greater number of investment projects are forthcoming than can be financed by the Bank's resources, we believe that countries will be willing to face up to and meet the problem of providing the necessary funds. Canada has always been prepared to support sound, realistic proposals for the expansion of the Bank's activities. If, in the future, it can be shown that the Bank's resources are insufficient to finance all the acceptable projects put forward, Canada would be prepared to consider all reasonable proposals for expanding the Bank's resources.

The Bank itself is constantly reviewing the adequacy of its resources. There is no evidence that the Bank has been backward in seeking to expand its operations for the purpose of financing worthwhile projects. On the contrary, the Bank, in cooperation with other agencies and national governments, is doing a great deal to encourage countries to prepare sound projects which would qualify for Bank loans. In these circumstances, it would seem highly desirable that when decisions respecting the future scope of operations of the Bank have to be taken, the Bank itself and its members should be entrusted with this task. Most members of the Economic and Social Council are members of the Bank, and it is certain that problems concerning expanded operations of the Bank which have been raised in the Experts report would be given full consideration in the framing of future Bank policy.

The Experts next turn their attention to the question of the adequacy of monetary reserves. They indicate that, in their view, the present level of monetary reserves are inadequate to meet the impact of even a moderate decline in economic activity in an important industrialized country. We believe that this assumption is basically correct. The serious impact which the minor 1949 United States recession had on the economies of overseas countries is ample proof of the inadequacy of the present level of monetary reserves. In our view, however, the emphasis on the need to expand international reserves is somewhat overstated and it seems to us that more attention could have been given to the problem of raising national reserves to more adequate levels. While the International Monetary Fund was given clear and definite responsibilities in protecting its members against the impact of recessions, we believe that it would be wrong to regard the Fund as having primary responsibility. Essentially, the resources available to the Fund, which are not inconsiderable, provide a second line of reserves to be used to help members meet balance of payments deficits due to a recession abroad. The primary burden must rest on national governments themselves. If they are to meet these responsibilities, it is clear that national reserves in many countries will have to be raised to a much higher level than at present. The achievement of this goal requires action by all of us, as I have already indicated earlier in my statement.

The Experts suggest that the International Monetary Fund's present resources are inadequate to deal with the problems of a recession. While no precise estimate is made of the additional amount required, it would appear from the Experts' analysis that at least a doubling of the Fund's resources would be needed to meet a recession of the kind experienced in 1937 or 1949. The Experts propose that the additional resources be obtained either by increasing the subscriptions of members or by borrowing under the Articles of Agreement. The Experts also suggest that in the event of a recession the Monetary Fund should make free use of its rights to waive the rule limiting each member's annual purchase of exchange from the Fund to 25 per cent of its quota. Finally, the Experts suggest that the Fund modify the repurchase arrangements to provide for contractual repurchase obligations, with the object of making sure that the Fund's resources would be a truly revolving Fund.

The Canadian Delegation believes that the problem today is not one requiring an increase in Fund resources, but rather one of making greater use of the resources which the Fund now has at its disposal. The Fund was never intended as a source of long-term capital, but was designed as a "revolving fund" to deal with temporary balance of payments difficulties, not structural exchange difficulties of a deep-rooted nature. Up to the present, a greater use of the Fund's resources has been limited by the structural exchange difficulties which exist in many countries, and also in part by the inflationary situation which prevails over a large part of the world. If the Fund were to make extensive use of its resources before these countries overcome their basic structural difficulties, it seems clear that the Fund's resources would be dissipated without achieving the basic objectives for which the Fund was set up. It seems clear too, that unless these countries get back into equilibrium, a recession would intensify their structural problems, and would make it even more difficult for the Fund to use its resources in fulfilling the purposes for which it was set up. In these circumstances, it seems apparent that the first essential in getting the Fund into a position where it can fulfil its responsibilities, is for the deficit countries to make every effort to overcome their structural and inflationary difficulties. If these underlying problems are overcome and it is then shown that the Fund's resources are inadequate to meet a temporary recession, proposals of the kind made in the Experts' report would then have much more practical significance.

Concerning the proposal that the Fund should modify the contractual repurchase obligations, it should be noted that the Fund has recently adopted policies and procedures which should go a long way to meet the recommendations made by the Experts. This appears to have been achieved without modifying the agreement itself. We would also like to endorse the views expressed by the Managing Director, Mr. Rooth, when he stated that the Fund can operate with sufficient flexibility and make a useful contribution in a recession without any fundamental changes in the Agreement.

Turning now to the question of commodity arrangements to help stabilize prices and production of primary commodities, we would like to endorse the views of the Experts that no new international agency is required to administer commodity agreements. The Canadian Government has long recognized that the problems affecting the production and trade in raw materials and primary foodstuffs may require special measures of international cooperation. To this end, the Canadian Government cooperated in drawing up the Commodity Chapter of the Havana Charter, the numerous resolutions of the Economic and Social Council, and the establishment of the Interim Coordinating Committee for Inter-Governmental Commodity Agreements which has done such a useful job to date. We believe that with respect to certain commodities, and in some circumstances, Inter-Governmental Commodity Agreements would serve a useful purpose, both from the point of view of producing countries and consuming countries. At the same time, we would like to make it clear that we do not believe that commodity agreements in themselves would be a universal panacea. It also seems clear that proposals for a comprehensive scheme to include simultaneously commodity agreements over a wide range of commodities is not a practical proposition under present circumstances. The arrangements needed differ from commodity to commodity and must be worked out and put into effect by the countries mainly concerned in each case. Since the end of the War, countries have relied heavily on the study-group technique. Currently, there are at least ten such study groups dealing with individual commodity problems. If, in fact, fewer commodity agreements have been negotiated than some countries might desire, it is not because the international mechanism has been inadequate. On the contrary, the mechanism which has been devised has encouraged countries to get together and discuss their problems in a cooperative and friendly way. In some cases, failure to negotiate commodity agreements has resulted from the unwillingness of the producing countries to enter into such arrangements. In other cases, it has been due to the reluctance of consuming countries to enter into long-term commitments. In almost every case, the questions of price and quantity have been central points of disagreement. It seems, that in all these cases, the most effective approach would be to continue the study-group and conference technique based on equal representation of producers and consumers. In this way, present commodity problems can be kept under continuous review and necessary action taken whenever there is adequate basis of agreement.

In conclusion.... I should like to say once again that the Experts' report has made a significant contribution to our understanding of fundamental economic problems which the Council will continue to deal with in the years to come. While not all the recommendations of the Experts lend themselves to practical application at present, I am sure that the international agencies to whom they have addressed themselves will continue to pay close regard to the need for more effective means of international co-operation in avoiding the impact of recessions. We are also convinced that in developing their policies, national governments will benefit by the excellent analysis presented by the Experts. In the foreseeable future, the main burden in maintaining economic stability must continue to rest on national governments themselves. For its part, the Canadian Government will continue to attach primary importance to domestic policies which aim at a high and stable level of income and employment, and will pursue liberal trading policies which will help other countries to achieve economic stability. We believe that if all countries, large and small, were to pursue these objectives energetically, the dangers of the international spread of recessions would be mitigated, and the international agencies with responsibility in these fields would be able effectively to assist in overcoming any minor fluctuations which might occur.

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