

2007

PUBLIC WORKS

IN THEIR INTERNATIONAL ASPECT

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H. B. BUTLER

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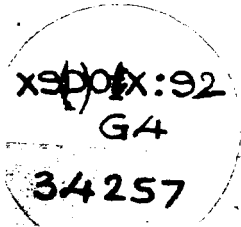
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by
J. E. Meade.



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WITH AN INTRODUCTION BY
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INTRODUCTION

The idea underlying the use of public works as a means of dealing with unemployment and industrial depression has undergone a complete and fundamental change in the course of the last fifty years. Originally conceived as a means of "making employment" for some of the able-bodied victims of depression, public works took on a new significance in the first decade of the present century when, almost simultaneously in a number of countries, the notion of advance planning of such works and their concentration in times of abnormal unemployment came to the fore. While the conception of public works as a relief measure still persisted in some quarters, the new proposal that industrial depression might be counteracted in large part by an orderly shifting of employment from years of prosperity to years of decline gradually gained ground.

During the last few years this conception has in turn been profoundly modified. Public works, in combination with appropriate monetary policy, are now widely advocated as the most effective means of bringing about the restoration of purchasing power pre-essential to a revival in business activity. By this means, it is urged, purchasing power at present lying idle in the hands of the general public or of the banks can be injected into active circulation in such a manner as to swell the volume of buying. The initial idea of "making work", transformed into the proposal for "shifting" employment, has now developed into schemes for reviving and sustaining business activity, and with it employment, by reinforcing and maintaining effective demand.

These fundamental changes in the conception of the use of public works as a means of combating industrial depression have had an important corollary. With each step in the evolution, the international aspect of the question has increased in significance. So long as public works were designed to serve as relief measures only, their international aspect was of no particular interest. With the proposal for advance planning they immediately became important internationally, since prosperity in every country is to some considerable extent dependent upon continued prosperity elsewhere in the world. The most recent combination of public works with monetary policy makes international co-ordination imperative, for without some such measure a country taking energetic action along these

lines would be liable to find itself out of step with the rest of the world, to the grave detriment of its financial and commercial relations.

There is, accordingly, urgent need for examination in all its detail of this new conception of public works, particularly from the international aspect. It is interesting to note that the International Labour Organisation, from the beginning, has been active in this whole field. At the first session of the International Labour Conference in Washington in 1919, a Recommendation was adopted urging that each Member Nation should co-ordinate the execution of all work undertaken under public authority, with a view to reserving such work as far as practicable for periods of unemployment and for districts most affected by it. The problems raised by public works have been the subject of continual study by the International Labour Office, the volume on "Unemployment and Public Works" published by the Office in 1931 being the most complete survey of the question in existence. Finally, when once it became evident that the present depression was no transient phenomenon, Albert Thomas, then Director of the International Labour Office, largely devoted the last twelve months of his life to an endeavour to secure international co-operation in the active prosecution of public works. The ensuing pages give some account of what can now be accomplished in this field, thanks to his efforts.

During the last few weeks the matter has been carried one stage further. A series of schemes have been considered and approved after expert technical examination. These schemes have been submitted to the Preparatory Commission for the World Monetary and Economic Conference, with a view to the whole question being placed on the agenda of the Conference. Whatever the outcome of these particular proposals, there can be little doubt that the use of constructive schemes of public works, as a measure of maintaining social and economic equilibrium in times of depression, is a subject which deserves more careful and systematic treatment than it has yet received. This pamphlet performs a valuable service in this direction.

H. B. BUTLER.

PUBLIC WORKS IN THEIR INTERNATIONAL ASPECT

I.

The world is now faced with a strange paradox. People desire a certain standard of living, and yet they are not making the best of the resources which science and progress have placed at their disposal. There are some 30 million able-bodied workers who are unemployed, and many more millions of people in want, while productive plant lies idle, asking to be used. Why not enjoy the benefits which the existing productive plant could yield?

It is not our purpose to explain this state of affairs here. But the salient fact remains. Private enterprise, as at present organised, is failing to make the best use of the world's resources and to secure for the mass of the population a standard of living as high as it could be if productive plant were being used to full capacity. Is there not a strong *prima-facie* ground for the community as a whole to step in to prevent the waste which thus arises and if possible to prevent its re-occurrence through future economic depressions?

What then are the fields in which it is suggested that a collective effort, whether under the control of Government authorities or of private corporations, might usefully employ idle workers and unused capital at present? How could the productive capital of the world be used to satisfy the latent demand which at present cannot find monetary expression?

Men of science, engineers, economists and others have been thinking on this problem during the last few years. They have thrown out some ideas. They may be called visionaries. Their ideas may seem Utopian—but they were at least men with constructive minds; and what the world now needs more than anything else is constructive minds.

The main trend of these suggestions turns towards greater transport facilities. The building of means of communication would provide immediate employment both directly and through the supplies required. It would help producers and consumers to get into touch with each other

and thus to extend the economic market for innumerable products. We can scarcely be satisfied with the existing facilities.

For instance, Eastern Europe is sadly hampered by lack of means of communication. It is not so much main roads that are required, as small feeder roads capable of bearing a one-ton lorry, reaching each village and each farm—rather than these communities having to rely upon the ox and cart drawn over lines of mud. In that long strip of agricultural country stretching from the Baltic to the Ægean and wedged in between industrial Western Europe and Soviet Russia, it is considered that 250,000 miles of such secondary roads would be a minimum requirement. And that would only give these countries a road density equal to that of Czechoslovakia, which has far fewer roads per square mile than, say, France or Great Britain. This, coupled with some main roads and an improvement in railways and canals, would enable some 60 million peasants who at present live outside the range of economic exchanges to enter into it and to create a new market. They could get more for their wheat and other produce without necessarily growing a larger quantity, though it would be sold at the same price in the wheat exchanges; and they could buy manufactured goods (agricultural implements, boots and shoes, clothing, pots and pans, etc.) cheaper than they are able to now. Further, such a system would enable the producers of the southern and northern parts of that area to exchange their products. The wheat of the Balkans, the meat and dairy products of Poland, and tobacco and raisins of the South and the rye and timber of the North, could be bartered one for another along lines of communication which would run from north to south in a way that is at present impossible—the main transport lines all running from the various areas and converging on Vienna and Berlin towards the industry of Western Europe. This would involve the completion of the existing communication systems by the building of some 6,000 miles of railways and some 2,000 miles of canals. It is estimated that the demand for lorries and cars would reach some 600,000 over a period of five years. The French economist, M. Francis Delaisi, has drawn up a plan for carrying out such a programme in a period of five years—a plan which has greatly interested the statesmen of the countries concerned. Is not such an effort worth examining when capital and labour are both idle? Would not the human welfare

of some 60 million peasants and of thousands of industrial workers be improved? And who will maintain that this cannot be done with the means at the world's disposal at present? In fact, the first collective efforts to carry through a programme of this sort might well provide just that stimulus which would ensure a return to prosperity in a number of industries, and lead perhaps to the end of the depression in the world as a whole.

Other far-reaching programmes have been imagined. Anyone who has travelled in some parts of Europe in a car, taking the risk of running into cows and cursing at the mud, may well be thrilled at the dream of being able to drive as fast as he wills along perfect roads, from centre to centre, and going off to the byways when scenery attracts him; roads forty feet wide, with no level crossings, no cross-roads or villages long lines of flood-lit surface at night no slow traffic permitted this may well seem a contrast with the conditions which are so bad in some parts of Europe that many drivers prefer to put their car on the railway for certain stretches of road. And yet it would not be entirely luxury. Such rapid means of road communication might have real economic significance and value. They would lead to a great development of the motor-car industry. And such roads are cheaper to build than railway tracks. The nineteenth century provided capital for railways; could not the twentieth provide it for special motor roads? An International Office of Motor Roads has been established at Geneva and has drawn up a map indicating the network of motor roads which they consider most economic for Europe, and have submitted this map to Government Departments, touring associations, automobile clubs, etc., for suggestions. The financial aspect has also been gone into, and it is calculated that the cost of building them could be amortised within a period of twenty years by an additional tax on petrol actually consumed in Europe equivalent to, roughly, one penny (gold) per gallon. Such a network of roads of, roughly, 9,000 miles, built over a period of five years, would provide work for about 188,000 workers in the first year; 469,000 in the second; 563,000 in the third; 656,000 in the fourth, and 750,000 in the fifth year (allowing for 200 working days per year). The cost would be about 170 million pounds (gold). Some such roads already exist; in particular between Cologne and Bonn—between Milan and Turin, Como, Brescia, and one is being built between Rome and Naples.

Detailed plans have been drawn up and are ready to be carried into effect for similar roads between Paris and Calais and Lille and also from Hamburg-Frankfort-Basle, as well as in Spain.

Another project connected with these motor roads is the building of a road tunnel about ten miles long under Mont Blanc. This would provide the only road between Western Europe and Italy which would remain open the whole year, except the one running along the Riviera. The traffic through such a tunnel would certainly be very heavy and it is calculated that it could be made to pay on a charge of eight shillings (gold) per car.

If railway communication is considered, it will be found that there are still many missing links in the railway system of Europe which might well be filled. This requires close international co-operation. Outside Europe, more ambitious schemes are suggested. A main line linking up with the Spanish network and running from the Straits of Gibraltar to Dakar might halve the time it takes to reach Buenos Ayres. If the existing Russian and Indian lines were linked up through Afghanistan—which is not being done for political reasons—Delhi could be reached in nine days from Paris by rail.

And what about the Channel Tunnel?

Regarding inland waterways, plans exist in a complete form for improving the navigability of the Garonne so that small seagoing liners will be able to cut across France from Bordeaux to the Mediterranean, thus avoiding the circumnavigation of the Iberian Peninsula.

Electrical engineers have visions of a gigantic grid system which would permit the electrification of almost the whole of Europe, distributing the power obtained from coal in the mining areas and of waterfalls in the mountains to the thousands of more dispersed workshops in the plains. By this means a great improvement in the industrialisation of Europe might be effected and the rural problem partly solved.

These suggestions have been confined mainly to Europe, but it is clear that the more primitive countries in Asia and the colonies throughout Africa are in need of further development which might well be undertaken in periods of depression for the benefit both of the local inhabitants themselves and of the industries of other countries.

Without seeking ambitious schemes far afield, is there not enough to be done nearer home? Town-planning,

slum-clearance, improvement in housing facilities in general, improvements in heavy motor traffic near the big cities, electrification of railways on the lines suggested by the Weir Report, the perfecting of the electric grid system, the Severn Tunnel : do not all these schemes call for attention? Could not unemployed men usefully work upon them? Would not they serve a socially useful purpose?

These few suggestions give an idea of what could be done, were there the will to do it. But the carrying out of any such programme obviously raises many important problems. These it is the purpose of the following chapters to point out, with special reference to the international aspect of a public works programme. Public works, in order to remedy the depression, have to be prepared in advance and so arranged that they can be advanced or postponed in time. One country alone may find it impossible to carry out such a policy if other countries do not follow suit. The whole effort must be linked with, and be considered as a part of, the general monetary policy—first of all, of the country carrying out the works, and secondly, of the world as a whole. The special problem raised by lending to countries already indebted calls for examination. The whole problem, in fact, calls for the establishment of some international organisation which could co-ordinate all these schemes, examine them on their merits and help to see them carried out in such a way as not only to prevent economic difficulties arising, but also to use them as a means of preventing depressions and of reinforcing by material links the economic and political inter-dependence of all States of the world.

II.

GENERAL ISSUES AND PROBLEMS OF ADMINISTRATION.

It has frequently been argued that unemployment and the other evils, which are caused by cyclical fluctuations in trade, may to a large extent be avoided by a policy on the part of public authorities of concentrating their expenditure on capital developments and renewals in periods of unemployment and bad trade, and cutting down such expenditure in times of good trade. The international aspect of a Public Works policy is, however, too often neglected. What agreements are necessary between nations to make any such policy really effective? What are the possibilities of inter-

national co-operation in undertaking works on roads, railways, electricity schemes, etc., which cut across national frontiers and are common to many nations ?

The possibility of there being a policy of public works, as distinct from works undertaken merely for relief of unemployment, depends upon the international body, the governments, municipalities or public utility companies planning in advance. For the policy means that, when trade is beginning to be depressed and unemployment to increase, because the orders of private businesses are slackening, public authorities should press forward with their plans of development. These plans must have been prepared and postponed in good times ; for there are very few undertakings of any importance which can be undertaken at a few months' notice. This policy involves important problems of administration, which are certainly not insoluble, but which differ from country to country and which cannot be discussed in very great detail here. Apart from questions of the administration of international works proper, which will be discussed later, there are certain general administrative difficulties.

(1) A central government, which has decided upon a policy of public works, must ensure that municipalities and public utility companies, who may be responsible for a very large proportion of the public works to be undertaken, do form plans in advance.

(2) In the second place, even if the central government can assure that plans are ready, it must have some means of deciding when such works should be pressed on and when postponed. Movements in the general price index or in the number of workers unemployed are possible criteria. But, as we shall see, so many considerations of the international economic position of the country concerned should affect its public works policy, that it would probably be best for the authorities of a single country to take no automatic criterion as a guide to the proper time to spend money on public works, but rather to judge every moment on its merits, on the general assumption that expenditure on public works should be increased, when prices and employment fall.

(3) In the third place the central government must find means actually to postpone or speed up expenditure on public works at the desired moment. In as far as the central government is responsible for the works, there is no difficulty here. In as far as municipalities or other authorities are

responsible, if the moral persuasion of the central government is not sufficient, it must, by providing grants-in-aid or loans at low rates of interest to the authorities concerned, provide some incentive for increased expenditure in bad times, and by withdrawing such incentives and even by the imposition of special taxation delay such expenditure in good times.

(4) There is a fourth difficulty, which is more apparent than real, but which will occur to any body, which is expected to undertake a policy of public works, namely, that in the nature of things works undertaken by public authorities are for the most part incapable of being postponed or brought forward in time; for instance, as the population in any district grows, new houses must be provided and, when new houses are built, the municipality concerned must extend its electricity, gas and water supplies appropriately. It cannot choose the time at which this shall be done. To some extent this is true; but there is a very large amount of public development which, *so long as authorities plan in advance*, would be capable of postponement or of speeding up. In nearly every country there is a large amount of slum clearance work to be undertaken, which history has proved to be capable of postponement and which a little town planning would prove to be capable of being tackled on a large scale. Again, the development of motor roads, the supply of electricity to new districts, the renewal of roads, bridges and railway equipment—all these things and many others are capable to some degree of being postponed or brought forward in time. But there may well be a real cost in postponing public works and concentrating them in certain times of bad trade. For instance, a railway station may become very congested in a time of good trade, if some necessary extension is being postponed. Since a policy of public works is being undertaken to avoid worse evils and may depend upon such postponement, such advance planning and postponement of works is worth while.

III.

PUBLIC WORKS AS AN INSTRUMENT OF STABILISATION.

Our next task is to see how a trade boom or depression can be caused, and to discuss their fundamental characteristics, in order to see whether a policy of public works can do

anything to mitigate such fluctuations. In this chapter the discussion will relate to a single country, disregarding its connection with the rest of the world. Such a discussion is merely a necessary preliminary to the international aspect of the problem.

There are many causes which may start a trade boom or a trade depression, but all trade booms and all trade depressions have many features in common. There may be an important invention, which means that at the current rate of interest industrialists wish to invest a great deal of money in machinery and equipment of a new kind. This may well lead to a general trade boom. For in this case more money may be spent upon this new capital equipment without there being an equivalent reduction in the amount spent on other capital goods or on consumption goods. In the first place, when the invention takes place, persons, whether they are industrialists directly interested or simply members of the public, may invest in the new opening for capital money, which they had idle at deposit in the banks; this would cause an increased flow of money spent on such goods without a diminution of expenditure elsewhere. Secondly, those directly interested in the new form of capital development may borrow more insistently from the banks, who may thus be induced to lend more freely and to increase the amount of credit they give, thus again causing an additional expenditure of new money. But in the third place, when once this additional expenditure on capital goods is started, it will begin to finance itself. For those who produce capital goods will have larger incomes and will therefore be enabled to save more money; companies producing capital goods will add more to their reserves when their receipts increase; more taxes will be paid to the State and, since more hands will be taken on in industries producing capital goods, State expenditure on unemployment relief will fall, so that there will be an increased budget surplus. At the same time those producing capital goods will increase their expenditure on consumption goods, so that these persons too will be able to save more money; companies producing goods for consumption will put more money to reserve; the tax receipts of the State will rise still more, while expenditure on unemployment relief will fall further, as more are employed in producing goods for consumption. Now all these sources—namely, increased savings by individuals, purchase of securities by companies to add to their reserves, and the increased budget surplus

due to the rise in tax receipts and the fall in expenditure—will represent an increased demand for securities and will provide funds, by which the increased expenditure on capital goods can be financed.

But at this point it must be realised that the price of all goods and of ordinary shares will be rising. The price of capital goods will be rising because there is an increase in the total amount spent on them; the price of consumption goods will be rising because those producing capital goods have more to spend on them; and since industry will have become more profitable, the price of ordinary shares will be moving up. This upward movement of prices provides a further very strong incentive for increases in expenditure. Thus every business concern will have a strong inducement to speed up expenditure on capital goods, because industry has become more profitable and because the price of capital goods is rising, so that it expects to buy them cheaper now than in the future. When prices are rising no one will desire to hold money, but rather to hold goods or securities, since, if bought and held for a time, they can be sold for a money profit. Merchants will therefore increase their stocks, business concerns of every kind will increase their holdings of raw materials, and private individuals will desire to hold ordinary shares, rather than money. Such action will still further increase the rise in prices and in the total amount spent on goods.

Thus a typical boom will have started. What means could have been taken to stop it? The banks could have raised interest rates by raising their discount rates and by selling securities in the market, which would have depressed their price. Such a rise in interest rates would make it less profitable to borrow money for capital developments, and, if carried out on a large enough scale and soon enough, would have prevented the boom. But, as we have seen, once the boom has started, the fact that prices are rising will provide so large an incentive for increased expenditure on capital goods, that movements in the rate of interest will not control such expenditure. Here is the great opportunity of control through Public Works; if as soon as the boom starts, public authorities postpone their expenditure at the same time that the banks raise interest rates, the rise in prices might be stopped. Such expenditure should simply be postponed to an extent and for a time sufficient to stop the rise in prices and to allow the banks by raising interest rates to regain control. Thus there must be close

co-ordination between a public works policy and monetary policy.

What happens during the depression? A time comes when the expenditure on new capital goods for the purposes of the invention, which we are supposing to have started the boom, ceases, because all the new capital necessary for the invention is installed. This decrease in expenditure on capital goods will mean that the price of capital goods begins to fall. The fall in the incomes of those producing these capital goods will mean that they decrease their expenditure on consumption goods, so that the price of consumption goods also falls. For the same reason industry as a whole will become less profitable, so that the price of ordinary shares will fall. But, as we have already seen, a great deal of expenditure on new capital goods was taking place, simply because prices were rising so quickly, and this expenditure will cease, causing prices to fall still more rapidly. As soon as prices begin to fall, there will be every incentive to reduce expenditure on goods and to hold money instead. Thus merchants will sell stocks of goods without replacing them, since they are falling in money value. Companies will postpone investment in machinery, because industry is less profitable and because the price of machines is falling and will be lower in the future; and private individuals, since the price of shares is falling, will sell shares and hold money instead. All these things will add still further to the fall in prices.

Now in this case the depression might have been prevented at the very outset, if the banks had lowered interest rates by lowering their discount rates and by purchasing securities in the open market and so raising their price. For such a lowering of the rate of interest at which persons can borrow would, if sufficiently large, have induced persons to start borrowing money for further capital developments. But in this case as well, as soon as prices begin to move, the rate of interest itself will lose its power of control over the amount spent on new capital goods. For when prices of capital goods are falling, persons will not spend more on capital goods simply because of a fall in the rate of interest at which they can borrow money. Further, when the price of finished commodities is falling, and no one knows how far the fall is going, persons will not be willing to extend their capital equipment. When their price is falling, merchants will not be willing to hold larger stocks because the rate of interest at which they can borrow money is lowered,

since the expected fall in price of the commodities may outweigh any fall in interest rates.* But if at this point public authorities determine to borrow for Public Works and to spend more on capital goods, at the same time that the banks are lowering interest rates, they will thereby be able to stop the fall in the price of capital goods and also, by maintaining the expenditure on consumption goods of those producing capital goods, to stop the fall in price of consumption goods, and so also the fall in profits and in share prices. Such extra expenditure on public works should be undertaken on a sufficient scale to prevent prices falling. It need only last sufficiently long to enable the banks by lowering interest rates to stimulate expenditure by ordinary private business again, and then the expenditure on public works can be diminished, as that of private business increases.

IV.

CERTAIN OBJECTIONS.

We are now in a position to meet certain objections which are frequently made to a policy of this nature.

In the first place it is frequently argued that the extra borrowing by the State for public works will take funds of an exactly equivalent amount from private industry, so that there will be no net increase in business activity. Whether this is so or not depends upon the action of the banks. If public works are undertaken at a time when private industry cannot be stimulated by low interest rates and an easy money policy, then public borrowing for public works will provide just the opening for new funds, which is required. But if, at a time when the State is undertaking a policy of public works, the banks are not adopting an easy money policy but are keeping interest rates high, then it is quite possible that the increased expenditure on public works will be accompanied by an exactly equivalent decrease in expenditure on capital developments on the part of private industry.

* The attempts of the Federal Reserve System in the U.S.A. throughout 1932 to improve the situation by purchasing securities and lowering interest rates have not been as yet successful; for the fact that prices are still falling so rapidly in the U.S.A. has meant that low interest rates have little power to stimulate expenditure on capital goods. If this policy, however, had been coupled for a time with one of planned capital development by the Federal and State governments and municipalities, the result would have been very different.

It is for this reason that a close co-ordination of monetary policy and the public works policy is so necessary. But it by no means follows that the whole expenditure on the public works should be financed by new money provided by the banks; for once the monetary policy of the banks has brought it about that the expenditure on public works does represent additional expenditure on capital equipment, funds to finance these works will automatically be released. A numerical example will perhaps best illustrate this. Suppose that £100 millions a year is being spent on public works and that this does represent additional expenditure on capital equipment. Then, since more persons are being employed directly on the works or in producing the necessary raw materials, there will be a decrease of (*e.g.*) £25 m. in the state's expenditure on unemployment benefit; the contractors will be making larger profits and will therefore save (*e.g.*) £10 m. more a year and pay £5 m. more a year in taxes. Thus those engaged directly on the public works or in producing the raw materials for them will be receiving £100 m. more a year in income, but will be spending £60 m. more a year on consumption goods, since of this £100 m. £15 m. a year are being saved or paid in taxes and £25 m. a year are merely taking the place of unemployment relief, which was already being spent on consumption goods. But this additional £60 m. expenditure per year on consumption goods will cause greater employment and profits in these industries; this will mean (*e.g.*) a further diminution of £20 m. a year in unemployment benefit, a further increase in savings or in sums put to reserve by companies producing consumption goods of (*e.g.*) £10 m. a year, and a further increase in tax payments of (*e.g.*) £10 m. a year. Thus there will be a further increase of £20 m. expenditure per year on consumption goods due to this increase of £60 m. in the amount spent per year on consumption goods by those engaged on the public works, since of this £60 m. £40 m. a year only is saved, paid in taxes, or put to reserve by companies, or takes the place of previous expenditure of unemployment benefit. Of this additional £20 m. expenditure a year on consumption goods again a certain amount will be passed on as further expenditure on goods for consumption, and the rest will again be saved, or paid in taxes, or take the place of unemployment benefit. This process of ever diminishing waves of expenditure must continue, until the whole of the £100 m. additional expenditure per year on public works is "held up" in the form of increased

individual savings, or additional sums put to reserve by companies, or additional tax payments, or diminution of other state expenditure. Thus the increase in the budget surplus, plus the increased savings of individuals, plus the increased sums put to reserve by companies, because of the extra activity caused by the expenditure of £100 m. a year on public works, must be equal to £100 m. a year, so that these sources of additional funds will be just sufficient to finance the public works.

Secondly, it is argued that expenditure on public works will as a matter of fact provide very little employment owing to the necessity of providing raw materials and of allowing for the profits of the contractors and others who will be concerned in the works. This argument entirely neglects the fact that the number of workers actually employed on the public works is one of the least important effects on employment, since consideration must be taken of those who are employed in providing the raw materials and also in meeting the extra money demand for consumption goods brought about by this policy. It must be realised that a policy of public works with a co-ordinated monetary policy may be the means of preventing a general depression.

Thirdly, it is often objected that public works are very costly. In so far as this policy is simply one of postponing works from good to bad times, this argument has little validity; for in bad times, especially if the banks are co-operating in lowering rates of interest, the public authorities will be able to borrow at a much cheaper rate than in good times, and further in such times the price of materials and of labour is likely to be low. Thus the works will probably be undertaken at a cheaper price. Possibly by concentrating the works at given times less efficient labour will have to be taken on; there will be some cost to be borne, because the works are not spread evenly over time, and there will be the real inconvenience—as we have seen above—of postponing works. But the policy is certainly worth this price. If however public works of general utility, which would not otherwise have been undertaken, are undertaken in bad times simply for the relief of unemployment, they will be as effective as any other works in preventing a general depression, if accompanied by an expansionist monetary policy.

In this case it is argued that the state is undertaking works at a great cost, which are “unproductive”. The cost of such works, however, cannot simply be deter-

mined by the direct charge they put on the budget. For since, if they are successful, they will cause a decrease in unemployment and an increase in tax receipts, they will actually be the direct cause of some relief to the budget, and at the same time they will probably bring in some net revenue to the state, even if their actual "productivity" is small. Thus they may cause no net charge on the budget. Suppose that a policy of public works together with an easy money policy had been undertaken by all countries in 1930 on a scale sufficiently large to arrest the development of the depression; could anyone in 1932 seriously maintain that they had been "costly" or added any strain to the nations' budgets even if all the work undertaken had been entirely unproductive? But even if such works did impose some net charge on the budget in future years in payment of interest on the debt so incurred, the necessary increase in taxation, while it has certain disadvantages, is by no means a "burden" on the society to be measured directly by the amount of interest to be paid, since this payment simply represents a transfer of income by taxation within the country from one person to another.

We may conclude then that, if a policy of public works simply means the postponement of works from good to bad times, these works are likely to be undertaken actually at a lower cost; that if the public works undertaken in bad times are special works of general utility undertaken to create employment, even then they are not likely to add any appreciable burden to the budget, if they are co-ordinated with an easy money policy and are carried out on a sufficient scale to stop the depression; and thirdly that a budgetary "burden" is not a direct burden to be measured by the increase in taxation necessary to meet it. But, while a state should not shrink from borrowing in times of depression in order to undertake schemes of capital development, it should certainly not hesitate in good times from taxing heavily to repay these loans.

V.

THE NECESSITY FOR INTERNATIONAL CO-OPERATION.

In the previous three chapters the main arguments in favour of public works have been considered without reference to the fact that no single country is an isolated

unit. From this point we must turn to the international aspect of public works. In this chapter we shall discuss why international co-operation is as desirable in a policy of public works as in a monetary policy.

We have seen that a policy of public works undertaken together with an easy money policy will raise prices and will also raise the money incomes of all those engaged in production. If such a policy is adopted in one country alone, it is therefore likely to lead to certain difficulties. There will probably be an increased purchase of imported raw materials in connection with the public works; both workers and others in the country, in which the policy is being pursued, will spend more on foreign commodities, because they will have larger money incomes, and also because the price of home produced goods will have risen. At the same time the purchase on the part of foreigners of goods produced in the country in question will fall off, since prices in that country have risen. For these reasons the amount spent on imports into the country adopting a policy of public works will rise, while the amount received for its exports will fall.

This will lead to certain difficulties. If the country in question is on the Gold Standard, which prevents its exchange rate with other countries from fluctuating, it will immediately begin to lose gold to other countries to pay for the increase in its imports and the decrease in its exports. This cannot continue for long, and it will be obliged to raise its interest rates, in order to attract loans from abroad or to induce its own citizens to lend less to others, in order by this means to finance the decrease in its exports and increase in its imports. But this rise in interest rates will discourage private business from borrowing for capital developments at home, and will therefore largely counteract the effect of the expenditure of money by public authorities on public works. This does not necessarily mean that it will be impossible for a country in these circumstances to act alone. It could by raising a tariff, at the same time that it adopted a policy of low interest rates and public works at home, prevent any net increase in the amount spent by it on imports. It could take a strict control, other than by raising interest rates, of the amount which it lent abroad; by putting a special tax on its exports abroad, it might be able so to lessen its imports. Finally something

country alone, if it indulged in a policy of public works, while at the same time it allowed the rate of interest in the country to rise. For the rise in the rate of interest would provide an incentive for its citizens to lend less abroad or for foreigners to lend more to it, so that thereby it could finance its increased imports. The rise in the rate of interest would, however, discourage some expenditure on capital development by private industry; and for there to be any net increase in the amount spent on capital goods, the amount spent on public works by public authorities at the higher rate of interest would have to be sufficient not only to make up for the decrease in the amount invested by private business in capital developments, but also to provide some net increase. Thus in this case the expense of public works would be great since the rate of interest would be high, and to some extent such expenditure would take the place of capital development by private business. Moreover, the policy might become semi-permanent, since in these circumstances the banks could not stimulate private business again by low interest rates.*

The position would however be quite different, if all countries had decided to adopt a policy of low interest rates and of public works at the same time. Since in this case prices would have been raised in every country, there would not be any incentive for one country, simply because its price-level had risen, to buy more from another than before. Since money incomes would have risen in all countries, there would be an equal incentive in every country to spend more on the goods of other countries, so that no country would lose gold, so long as appropriate rates of expenditure on public works had been adopted in each country. It is generally recognised that, if an attempt is made by monetary policy to avoid unemployment or to stabilise prices, all countries must co-operate and raise and lower interest rates together at appropriate rates, to avoid exchange difficulties. *It should be equally clearly realised that such international co-operation is desirable, and for the same reasons, in the case of a policy of public works.*

We must next turn our attention to the case of a country which alone undertakes a policy of public works together with an easy money policy, but which is not on any fixed international monetary standard, so that its exchange rates in case the rise in its money incomes

* Britain was in this position between 1925

and prices will again lead to an increase in the amount spent on its imports and to a fall in the amount of its exports. However, in this case this will cause a depreciation of its exchange rate, so that a unit of its currency will purchase less of foreign currencies. Foreign goods will become more expensive to its citizens, while its own goods, since foreigners can purchase its currency with less of their own, will be cheaper to foreigners. Thus its imports will be restricted again and its exports stimulated.

For this reason such a country will be in a much easier position to act alone in a national policy of public works. But there are still important difficulties, which would be avoided by an international policy of public works. In the first place, the fact that it was the known policy of the country to maintain prices, employment and money incomes by this policy, while prices and money incomes are falling elsewhere, would mean that it was well known that the currency of this country would over a period of time depreciate in terms of other currencies. It would therefore pay speculators to sell the currency of the country in question and buy that of other countries. This speculation would make the currency of the country depreciate still further, and such a speculative movement might cause it to depreciate out of all relation to any depreciation naturally to be expected from the movement in relative prices and incomes. Such speculative depreciation, by raising the price of the goods it imports, might even seriously endanger the standard of living of its members, if it relied for a large proportion of its consumption upon imported goods. At the least such a policy in a single country is likely to give rise to serious inconveniences due to fluctuations in its rate of exchange.

But, in the second place, the existence of international debts may raise serious difficulties in the case of a single debtor country alone adopting a policy of public works not financed by an external loan, even if it is not on an international monetary standard. For if a country has to pay fixed sums of money every year in interest on government or private debts, these sums are likely to be expressed in terms of the currencies of the creditor countries. In this case as its currency depreciates in terms of other currencies, this will again stimulate its exports and cut off its imports, but at the same time it will mean that it has to pay more in its own currency to meet the interest payment expressed in other currencies: for this reason the depreciation of its currency might have to go a very long way before it

could manage to adopt this policy of public works without failing to pay the interest on its external debt. It is possible, if the debt payment is large relative to the volume of its foreign trade, and if a depreciation in its rate of exchange does not greatly stimulate its exports or restrict its imports, that it will be impossible for it to adopt this policy of public works simply and solely by allowing the rate of exchange to go against it and yet at the same time meet the interest payment on its debt.

In the third place, while it is certain that the depreciation of a single country's currency in terms of other currencies will cause an increase in the value of its exports in terms of its own currency, and while it is certain that the depreciation of its currency will by raising their price restrict the volume of its imports, yet, if the rise in the price of these goods only slightly reduces the amount purchased, a greater total amount of money may be spent on them. The depreciation of the country's currency, while it will increase the value of its exports, may not decrease, but may increase the value of its imports. If it imports goods, which it cannot well do without, the depreciation of its currency will seriously increase the amount it has to pay for its imports, and this will intensify its difficulties.

It is therefore most desirable, if not essential, that even when there is not an international monetary standard such as the gold standard, there should nevertheless be international co-operation in any policy of public works, as in any monetary policy. For in this case, if all countries adopt the policy at the same time, there would be no need for any fluctuations in exchange rates, since prices and money incomes would rise in every country at the same time.

VI.

DEBTOR AND CREDITOR COUNTRIES.

There remains one more question of the utmost importance in any international policy of public works. When a world depression starts some countries will be much more severely hit than others. In the first place debtor countries with debts fixed in terms of money will be faced by great difficulties. For suppose that a country, owing £10 m. per annum in interest on debt, has been importing goods worth £90 m. and exporting goods worth £100 m., the

excess of its exports over its imports being used to pay the interest on its debt. Suppose, then, in a world depression that the total value of world trade is halved. Then if the value of its imports and of its exports were halved in each case, so that it was importing £45 m. and exporting £50 m. it would now only have a surplus of £5 m. from which to pay the interest of £10 m. This country will therefore lose gold; or else it must borrow more from other countries; or it must reduce its prices and costs so as to import more and export less; or it must let its exchange depreciate in an attempt to stimulate its exports and cut off its imports at the cost of adding to the burden of its debt in terms of its own currency; or else it must raise tariffs to reduce its imports, and by exchange restrictions attempt to secure as much foreign exchange as it can to pay its debt; or else it must default. But a country cannot go on for long meeting such a situation by an export of gold, and the worse its situation becomes, the less willing are creditors to lend to it, since it is already experiencing great difficulty in paying the interest on existing loans. At first tariffs will be raised, as in all debtor countries in this depression; Australia tried the method of exchange depreciation, Germany that of lowering prices and costs by decree and that of exchange restriction; while some debtors have defaulted.

Also those countries which produce commodities which are already "overproduced" relative to other commodities and whose supply is not so quickly restricted as that of other commodities, will also be in particular difficulties in the depression. The prices of raw materials and of many agricultural products, such as wheat, wool, rubber, etc., have fallen much more severely than the prices of manufactured commodities, because these things are relatively overproduced and because their supply is not readily cut down with a fall in their prices. For this reason the countries producing these commodities will suffer a very severe reduction in the value of their exports, while the value of their imports will not fall so quickly. They will therefore find themselves in the same kind of exchange difficulties as the debtor countries. When they are also debtor countries, as in most cases they are, (*cf.* Australia, Argentine, Brazil and many of the East European countries), their plight will be very serious.

Now these countries, namely the debtors and those the prices of whose export products have fallen most severely, will probably be suffering most severely from the depres-

sion; for their central banks will have had to raise interest rates very severely to attract foreign funds, which will very largely have restricted their internal activity. It is therefore often proposed that the creditor countries should relieve the exchange situation by lending more freely to the debtor countries by means of State guaranteed loans, and that the debtor countries should use these funds for schemes of public works in their countries to absorb their unemployed. Several schemes of this nature have been proposed. It is essential therefore to examine this principle.

Now there is no doubt at all that such schemes would give temporary relief in a period of depression. For the lending of money to the debtor countries would ease the exchange position of those countries; they could therefore indulge in expenditure on public works, which would absorb the unemployed and raise prices and money incomes in these countries. The increase in their importation of raw materials and of consumption goods and any fall in their exports, due to the rise in their prices and incomes, would be financed by the increased lending to them on the part of the creditors. But such action might only intensify future difficulties. For, as the debtor countries borrowed more, the amount which they would have to pay on interest would accumulate, and their exchange position would become worse. In any future periods of difficulty their situation might be very much worse because of this action.

This situation can perhaps be best illustrated by the history of Germany between 1925 and 1930. During these years Germany was enabled to meet her reparations liability by borrowing from creditor countries, mainly from America. In fact, she borrowed more than her total reparation liability payable during these years. These funds were used to a large extent by States and municipalities for expenditure on developments, which could be undertaken largely without regard to the rate of interest demanded on the loan; some of the funds were used for rationalisation of Germany's main industries, which certainly might have had the result of helping her to produce and sell in the international markets those goods which the creditors would have wanted. Germany might thereby have been able to meet the interest on her loans as well as the reparation payments, *had the creditor countries, when Germany's exports began to expand, shown themselves ready to see their imports increase and exports decrease.* But this they were unwilling to do. Both England

and the United States of America have, since the slump of 1930, attempted to obtain a more favourable balance of trade by significantly raising tariffs; as soon as Germany developed an export surplus other countries attempted to "protect their balance of trade".

This history should serve as a warning. Loans made to debtor countries by creditor countries for the purposes of public works should not be allowed, unless these works will be such as to improve the position of these countries in the export market, so as to enable them to pay the interest on the loan. Even in this case, this policy should not be adopted, unless the creditor countries consciously agree to allow an increase in their importation from the debtor countries in the future and to allow an unfavourable balance of trade to develop, so that the debtors can pay the interest on their loans. And this is largely a question of tariffs; creditor countries must show their willingness to lower their tariffs to enable the debtor countries to meet their debts, as soon as the debtors get into exchange difficulties. Naturally in cases in which these conditions can be fulfilled, such a policy is most desirable. *But it would be disastrous, if this policy of further lending were undertaken simply for the temporary relief it provides, since the future intensified difficulties of the debtor countries, which could be directly traced to this policy, would undoubtedly very seriously discredit the whole cause of a sane public works policy.*

What help then can the creditor countries provide in this situation? There is one method by which they can not only help the debtor countries but at the same time relieve their own position in the depression. The creditor countries should themselves indulge in a vigorous policy of public works together with an expansionist monetary policy. For such a policy will, as we have seen, cause them to spend more on imported goods of every kind. This would immediately relieve the strain on the exchanges of debtor countries, and would enable them to pay their debts. It would lead to the removal of exchange restrictions and remove the main incentive to raise tariffs. Or, if that is not enough, the creditor countries must be willing at the same time to lower their tariffs and so allow the debtor countries to develop a favourable balance of trade.

Such a policy on the part of creditor countries, in so far as they are not on an international monetary standard, should be accompanied by an attempt to maintain the value of their currency rather than to let it depreciate. For

the less the currency of creditor countries depreciates as they raise prices and money incomes by a policy of public works, the greater the incentive for those countries to buy more goods from the debtor countries and the less the incentive of the debtor countries to purchase from the creditors.

As a contrast to this helpful policy on the part of creditor countries during a depression, we may compare the policy of Great Britain during the first half of 1932. In this country following the imposition of tariffs an attempt was made, by the purchase of gold by the Bank of England and by the purchase of foreign currencies first by the Bank and then indirectly through the Exchange Equalisation Fund, to keep the value of the pound low in the foreign exchange market, and thereby to cheapen our exports in the world's markets, and to restrict our importation of commodities. At the same time prices in this country continued to fall, without any attempt through a vigorous public works policy together with the cheap money policy to stop this. The Government has on the contrary attempted to practice "economy". Now it may have been the intention of the authorities by this means so to increase exports and decrease imports that we could lend more abroad to help the weak countries. But the very fact that Great Britain tried thus to buy less from them and to sell more cheaply to them caused a further fall of world prices, more unemployment and business losses abroad. Our increased foreign lending was probably to a considerable extent used simply to finance budget deficits and business losses abroad, caused by this policy of attempting to throw more goods on the world markets and to take less off them. What a difference our policy might have had on world prices and world trade, if we had maintained the value of the pound as much as we could, at the same time that we raised prices and incomes at home by a policy of public works !

In a depression, therefore, creditor countries should go ahead with a public works policy and raise prices and incomes in their own countries, thereby relieving the strain on the debtors' exchange position; further, they should be willing at this period to see an increase in their imports in order to aid the weaker countries. This does not mean that debtor countries may never go forward with a policy of public works. For as soon as the exchange difficulties have been removed by the action of the creditor countries, it will be possible for the debtor countries, having experienced

an increased demand for their exports, to go forward themselves with a public works policy together with a monetary policy of low interest rates.

Now such a policy, in which the creditor countries go ahead sooner and on a larger scale than the debtors in their public works policy, may seem to lead to a further discrepancy between the standard of living of the creditor countries, which is likely to be already high, and that of the debtor countries, which is likely to be low; while the obvious policy of undertaking public works in debtor countries financed by loans from creditor countries would seem to lessen this discrepancy. But the contrast is very unreal. For a short time it may be true. But as soon as the debtor countries have to pay the interest on the loans, if those loans have not been used to develop their capacity to produce goods for export, which creditors would be willing to buy, they would be in a very much worse relative position than they would have been in, had the loans not been made. For in any attempt to develop the value of their exports and cut down their imports to pay the debt, they would be compelled to reduce wages, raise interest rates and therefore face severe unemployment, and to raise the price of their imports by the imposition of tariffs. Whereas if in the first place the creditor countries had relieved their position by buying from them instead of lending to them, none of these results would have followed.

This policy of international agreement as to the timing of public works, whereby the creditor countries agree to go ahead sooner than and on a larger scale than debtor countries, would need international co-operation. It does not by any means exclude the policy of developing international public works or schemes common to many nations, which works are the ideal means of seeing that all nations move together in a policy of public works; nor is it inconsistent with the policy of creditor countries agreeing together to guarantee loans to debtor countries for the purpose of expenditure on public works, so long as those works are such as to increase the ability of the debtor countries to sell cheaply in the export market goods that are not over-produced, *and so long as creditors declare themselves ready in the future to face an increase in the value of their imports without a corresponding increase in the value of their exports of commodities.*

We have seen then the reasons why international agreement in a Public Works policy is so desirable. It is not, however, to be assumed that no country can therefore do

anything significant alone by a national Public Works policy. An important creditor country with a strong exchange position might alone be able not only to help itself but to help other countries considerably by such a policy. Any country, which has no debts fixed in terms of other countries' currencies, might help itself considerably by such a policy, if it allowed its exchanges to depreciate; and it might do so even without any exchange depreciation, if it is a large country spending a small proportion of its income on imports from the rest of the world, so that a considerable rise in its incomes and prices would cause a very small increase in the amount it spent on imports.

VII.

THE ORGANISATION OF INTERNATIONAL CO-OPERATION.

The next problem is to decide what type of organisation is best fitted to serve the purposes required for an international policy of public works. We need a body which fulfils the following conditions :

(1) It must be representative of as many nations as possible, both debtor and creditor.

(2) It must represent the governments of the nations concerned, in order to ensure that actual steps are taken to advance and postpone expenditure on capital developments. It must have the services of representatives of the central banks of the nations concerned, to ensure co-ordination with the nations' monetary policies, on the principles outlined above. It must include representatives of the workers of these countries, to ensure that conditions of work on such capital developments are consistent with the standards set in those countries. Finally it must be able to obtain the services of experts to examine and report on the technical and economic possibilities of the different schemes of international works and of national works in countries which desire to float loans on the international market, with or without the guarantee of creditor countries, for their undertaking. We have already discussed the main economic conditions which schemes of this type should fulfil.

(3) The functions of any such international body would be to provide an organisation, in which the countries concerned would deposit all the possible information concerning

schemes of capital development, which they were undertaking at the time, which they had already planned but were postponing, and which they were planning or simply considering as possible fields of action in the future. It should also provide an organisation for the planning and consideration of international works, or should examine schemes of international developments prepared by such bodies as, in the case of road development, the Permanent International Association of Road Congresses or the International Office of Motor Roads. It should examine or submit to examination by experts those plans of a national character in countries, which desired international loans for their financing, and should report whether these schemes satisfied the required economic and technical conditions. Finally, it should recommend to governments to what degree, having regard to the strength of their exchange positions, they should postpone or advance expenditure, should recommend to governments of creditor countries those loans to the countries with weak exchange position, which they considered to be objects of some international guarantee, and finally should report on the monetary policies desirable in different countries for the success of their other proposals.

Before outlining a possible form of organisation to meet these requirements, it is necessary to recount briefly what has recently been done in the international sphere in this field,* in order to understand the present administrative position. In January, 1931, the Governing Body of the International Labour Organisation passed a resolution, in which was expressed "the possibility of Governments coming to an agreement through the appropriate organs of the League of Nations with a view to joint execution of extensive public works of an international character". In April, 1931, a memorandum was submitted by the International Labour Office to the Governing Body drawing attention to the possibility of extensive public works of an international character, and the Director of the International Labour Office was authorised to submit this in his own name to the Commission of Enquiry for European Union. This body considered the problem to be mainly a financial one and drew the attention of its Committee on Credit Problems to the work done by the International Labour Office in this sphere. The proposals, which had been made by the

* See the report of the Director of the International Labour Office to the Sixteenth Session of the International Labour Conference, 1932, pp. 37-39.

International Labour Office, were discussed by the Committee on Credit Problems ; this committee suggested that the Committee of Enquiry on general Questions relating to Public Works and National Technical Equipment, set up by the Communications and Transit Organisation of the League of Nations, should with the addition of representatives of the International Labour Office, be the proper body to examine proposals submitted to the League by governments, and that the Financial Committee of the League would then have to consider from the financial point of view those proposals, which were already so approved from the technical and economic point of view. This proposal met with the approval of the Assembly and the Council of the League.

In October, 1931, the Committee of Enquiry on Questions relating to Public Works and National Technical Equipment met and circularised all States Members of the League and Soviet Russia and Turkey, asking them to give information of schemes of work, which they contemplated undertaking. In April, 1932, the committee met again to examine schemes submitted by governments, and in May its report on these schemes was submitted to the Council of the League. The Council reserved its opinion, until it should receive a further report from the Committee, in order that it might be able to give its opinion upon a larger number of schemes at the same time. In September, 1932, the Committee presented a second report to the Council, which, in accepting the report, passed a resolution to the effect that the Commission of Experts, who were responsible for the preparation of the agenda of the World Economic Conference, should be asked to examine the reports of the Committee of Enquiry on Questions relating to Public Works and National Technical Equipment, with a view to the inclusion of this problem in the agenda of the Conference.

This then is the administrative position at the moment : schemes are submitted by governments to the Committee on general Questions relating to Public Works and National Technical Equipment, which examines their technical merits and their economic "productivity". This committee reports to the Council of the League, that it approves of certain of the schemes. The Financial Committee of the League will then presumably—unless a new administrative mechanism is suggested at the World Economic Conference—be asked to state what measures should be adopted for

financing these schemes, when international loans are desired.

This organisation has many disadvantages, due mainly to the fact that it has been employed as a temporary method of dealing with the problem ; for it was necessary to move quickly in order to see what could be done in the immediate future, and therefore to make use of any existing organisations which could be employed for that purpose. The main objections to this general form of organisation are :—

(1) It makes difficult the proper co-ordination of public works policies, monetary policies and policies of lending to foreign governments. Although the Bank for International Settlements provides some means for co-operation among the central banks in their monetary policies, this is not at all co-ordinated with public works policies. Again, although in the Financial Committee of the League there is an organisation, which deals with policies of international lending and which by the nature of its personnel is in close contact with the Bank for International Settlements, yet it is desirable that there should be much closer co-ordination of policies of international lending on long and short terms and of those of international public works. At the moment the Council of the League will presumably receive separate reports from the Financial Committee and the Committee on general Questions relating to Public Works and National Technical Equipment ; plans for international co-operation in this field should be examined together in their financial, technical and general economic setting by some joint body, before they come before such a body as the Council of the League.

(2) This form of organisation is almost bound to interest itself solely in actual international public works, or public works in particular countries, for which international loans are required. For unless the schemes are discussed by a body, on which the governments of the creditor countries are represented, and which can discuss the policy in all its broadest economic aspects, very little emphasis will be laid on the desirability of extensive schemes in creditor countries ; the organisation is likely to become simply an organisation through which weak countries ask for loans. Throughout the history of attempts to obtain international co-operation in a public works policy too little emphasis has been laid on the desirability of obtaining agreement among creditor countries to undertake expenditure in their

own countries at the right moment, and too much on the possibilities of floating loans to aid weaker countries to absorb their unemployed on public works. Any organisation should be one which is likely to be able to stress the first type of policy more strongly.

(3) It will be difficult to use with any effect a permanent institution of this kind, as an instrument in avoiding fluctuations in trade and employment, unless the representatives of the governments agreeing in such a policy are actually present and able to commit their respective governments to certain forms of action.

If then it is really desired to obtain a degree of stability of trade and employment by means of co-ordinated monetary policies and policies of advancing or postponing all types of controllable expenditure on capital developments, then some permanent international body, competent to deal with these problems together and with the greatest possible powers of taking effective action, should be set up. It would be most desirable that such a body should be definitely a League of Nations organisation to ensure co-ordination with the other organs of the League and to provide means of co-operation between its secretariat and the Secretariat of the League and of the International Labour Office; and it should be possible to provide a constitution, by which such countries as the U.S.A. could co-operate in the work of such a technical body, and by which other countries, which were members of the League, need not necessarily be represented on it. For membership of such an organisation, while it should be as universal as possible, should also be confined to those nations, which state their belief in some degree of stabilisation of employment through monetary control and a control of expenditure on planned capital development. Only if these constitutional difficulties proved too great should the body be officially dissociated from the League.

In the following paragraphs an attempt is made to sketch a suitable organisation for such a body. It should consist of a permanent Conference consisting of representatives of all the governments of the States Members of the organisation. Each government should also appoint a representative of the central bank of its country and a representative of labour. These representatives should have the right to speak, but not to vote; for, to make the body as effective as possible, only the Government delegates should be allowed to vote. The Conference would meet once a

year; but the main work of the organisation would be directed or undertaken by an executive committee, modelled on the lines of the Council of the League or the Governing Body of the International Labour Organisation; it would consist of the delegates, *i.e.* the Government delegates and the representatives of the central banks and of labour, of the most important industrial and financial countries as permanent members, together with a number of delegates of the other countries, elected for a period of years by the members of the Conference other than the permanent members of the executive committee. This executive committee would meet frequently, and by means of delegating work to special expert committees would fulfil the functions which we have discussed above. The Executive Committee and the Conference would submit its resolutions and recommendations direct to States Members through their Government representatives. Such a body would need some secretariat of its own; but this should not need to be very large, if the League of Nations, the International Labour Office and the Bank for International Settlements were all to provide it with information and to undertake research for it.

It is clear that this organisation is bound to overlap to some extent on its financial side with the Financial Committee of the League and with the Bank for International Settlements, since an international policy of public works cannot possibly be conducted successfully, if it is not closely co-ordinated with monetary policy in general and with international long-term financing in particular. Some co-ordination between these bodies would clearly be essential. Probably the representation of each central bank on the new organisation would in fact provide sufficient contact with the Financial Committee of the League and the Bank for International Settlements, since the personnel of both the latter bodies would in fact be to some extent the same as the representatives of the banks on the new body. However, some form of closer official co-ordination could be devised, if it were necessary.

It would be difficult precisely to limit the functions of this body. For instance, since practically all the loans floated by governments or municipalities in the international market would be described as for purposes of capital development or public works, and since further, as we have seen, a sane public works policy depends upon the whole problem of international lending, it would be difficult to prevent the

new body from taking over all the functions in this field of the Financial Committee of the League. Presumably the new organisation would set up a Financial Committee of its own, which would in fact be composed to some considerable extent of the same persons as the Financial Committee of the League, but it is, I think, essential that the new body should not simply make use of reports of the Financial Committee of the League, but should have Financial Experts representing central banks on its Executive Committee and on its Conference. A possible solution would be that the Financial Committee of the League should work for and report to the Council of the League, as well as to the new body. But the question immediately arises whether, if, in the interests of obtaining stability of world trade by some measures of planned control, a body has been instituted competent to deal with problems of control of expenditure on capital developments, of monetary policy and of international lending, it is logically possible to prevent that body from discussing tariff questions, budgetary problems, problems of immigration, problems of international combines, valorisation schemes for single commodities, etc. For how can budgetary problems be separated from monetary problems or problems of State expenditure on capital developments? How can tariff questions be separated from the exchange questions involved in foreign loans and the payment of interest on such loans? Such considerations would lead one to imagine a permanent body organised on the above lines, competent to discuss and pass resolutions and form agreements on all major economic problems, a body which would in the economic field fulfil those functions, which the League is already designed to fulfil in the political field.

Such is probably the ideal development of any such body; but such ideas must not blind one to the fact that this is only the logical development in the direction of greater co-ordination of many existing institutions, which are already doing good work. Nor must one for a moment imagine that such an elaborate organisation would be necessary before any solid advance can be made in the direction of an effective international policy of public works, co-ordinated with an international money policy. Any international committee, even the existing organisation, might do a great deal in this field; it is however essential that any such action should be co-ordinated with the monetary policy adopted at the same time, and also that the policy

should be adopted in accordance with the general economic considerations, discussed above.

Finally the nature of any international organisation instituted for this purpose might require modification in view of any decisions made at the World Economic Conference, at which, as we have already seen, the problems of International Public Works will most probably be discussed. But whatever decisions that conference makes in the sphere of monetary policy, whether it determines that an international gold standard is desirable, whether it determines that each country should adopt its own standard, whether or not it decides that some price index should be stabilised, co-operation will still be desirable through some international body on the lines laid down above in a policy of public works to achieve whatever stability is desired; this much I hope is sufficiently clear from the earlier discussion of the problem.

VIII.

SCHEMES OF PUBLIC WORKS.

When one considers what has actually been done in the past and what might be done in the future by means of a public works policy, it is impossible not to be amazed by the negligible amount that has been achieved, in comparison with the possibilities of action in this field. Single creditor nations have done little. For instance, one reads of the U.S.A. in "Planning and Control of Public Works", the report of the committee on recent economic changes of the President's Conference on Unemployment (pp. 179-180):

"This study, made by Wesley C. Mitchell and Simon Kuznets of the National Bureau of Economic Research, appears to show that, in the period from 1919 to 1924, contracts awarded for public works and public utilities were not highly sensitive to cyclical movements in business. Thus, in the cycle 1919-1921 contracts for public works and public utilities, turned down at recession, and continued to decline all the way through the revival of the next cycle. But of the other groups, residential, commercial and industrial building, only industrial contracts showed the same type of behaviour, although they ceased declining during the last period of business contraction. Again in the cycle 1921-1924, public works and utilities began to decline early and continued to decline mildly

through the first phase of the next revival. In this cycle, both commercial and residential building revived earlier. During the cycle 1924-1927, however, when there had been a large and persistent increase in the volume of public works, the revival of public works and utilities preceded the revival of general business."

Or, in other words, expenditure on public works has on the whole varied with expenditure on the part of private business on capital developments.

Great Britain between 1925 and 1931 was in a peculiarly difficult position owing to the exchange difficulties caused by her return to the Gold Standard at the pre-war parity. She found it difficult for this reason to regain prosperity by means of an easy money policy combined with a public works policy. She undertook some public works in a half-hearted manner, but had to keep interest rates high to maintain her exchanges. It is, however, most deplorable that during the first half of this year (1932), when her abandonment of the gold standard had given her a large measure of freedom of action, when her exchange position was so strong that even the Bank of England's purchase of foreign currencies did not prevent the value of the pound from rising in terms of other currencies, and when interest rates were falling quickly, her policy has been one of strict economy of expenditure on public works, though the British price-level was falling. Even after the successful conversion of the 5 per cent. War Loan this policy of economy of expenditure has not been reversed.

The explanation of this neglect of a public works policy is, I think, not hard to find. In the first place, there has been no international co-operation in the matter, and we have seen why it is difficult for one country to act alone. Secondly, there has been little realisation on the part of the authorities of the necessity for a close correlation between its public works policy and its monetary policy. Thus there was some attempt in the U.S.A. in 1930 to speed up expenditure on public works at the beginning of the depression. In the first four months of 1930 the value of construction contracts awarded for public works and utilities was \$452,910,000 as compared with \$347,750,000 in the same period in 1929, an increase of 30.2 per cent., while between the same periods the value of awards for all other construction fell from \$1,550,140,000 to \$1,127,114,000.* But it was not until 1932 that the

* See "Planning and Control of Public Works", p. 180.

Federal Reserve System came into the open market to purchase securities on a really large scale. If, however, these two actions, monetary action and public works, had been combined in 1930, they would almost certainly have met with very great success. In the third place all policies of public works require advance planning and administrative control by the central government, in order to ensure that expenditure is timed properly and that plans are laid in advance. Such control is in no country adequately organised.

It is, however, frequently stated that in creditor countries it is impossible to find desirable objects of expenditure on public works. But this argument is difficult to maintain. To quote again from "Planning and Control of Public Works" (pp. 174-175), in the case of the U.S.A. :

"The testimony is overwhelming that nearly all local and State governments in this country are always far behind in their programmes of permanent improvements. The bulk of American expenditures on public works is employed in the construction of schools, hospitals and prisons ; in extending the means of transportation by the building of roads, bridges, tunnels and subways, in ministering to the health of the citizens of the country by providing adequate water supply and sewage systems ; and in attempting to reduce the growing hazards of accidents by the elimination of grade crossings. The facilities for all these purposes are in general so far below the physical requirements of the prevailing situation, that it would be hard, if not impossible, to persuade public authorities to hold back one or more projects to meet a future eventuality of general unemployment."

This paragraph is used in its context to illustrate the difficulties which public authorities will experience in any policy of postponing expenditure on public works : it is on the other hand an equally telling argument in favour of the ease with which it would be possible to find schemes upon which to advance expenditure at the beginning of a depression, and it is merely a question of definition to decide whether one is in good times "postponing" or "refraining from advancing" expenditure.

What, then, are the possible fields for controlled expenditure in any advanced industrial State ? Such schemes would cover housing, school-building, hospital, prison and public construction generally ; slum clearance, town and regional planning and development schemes ; harbours,

docks, roads, bridges, canals, land drainage and afforestation schemes; the development of the capital equipment of any industries nationally or municipally owned and administered, or of public utility services, where there was any significant degree of public control, such schemes including post office and telephone development, railway equipment, the provision of electric current, gas and water supply. Finally there is a growing measure of control over a large field of capital expenditure, which could and should be pushed much further. The control exercised by the Bankers' Industrial Development Company in Great Britain over expenditure on capital reorganisation schemes and rationalisation schemes, though it is only of a "semi-public" nature and only to a limited extent control over expenditure on new capital equipment, might be used to a large extent, so as to time such expenditure with the demands of trade activity. Moreover, there is the possibility of a large degree of control over the expenditure on actual capital equipment of private industry, which can be exercised by the State through such means as the State-guarantee of the interest on loans raised for these purposes, as under the Trade Facilities Act in Great Britain, or by the remission of income tax on undistributed profits used by companies for development purposes approved by the State. All these schemes are such as to provide the possibility of immediate control by the State of the timing of expenditure on capital development. It is not, however, the purpose of this study to discuss the problems of national administration and planning; it is sufficient to point out that there do exist large spheres of possible activity.*

But in the case of possible works in less fully developed countries, it is necessary for my purpose to discuss their nature rather more fully, since it is for works in these countries that international loans are likely to be sought. In the case of these countries there can be no doubt of the immense amount of really useful constructive work that there is to be done. M. Francis Delaisi, a French economist, it has already been noted above,† has made a study‡ of the possibilities of intensive development over a period of five years in the countries of Eastern Europe, Finland, Esthonia,

* For a study of this question see a forthcoming N.F.R.B. pamphlet, "The Control of Investment."

† See p. 4 above.

‡ "Un Plan Quinquennal Européen," published by the author, 11, Place St. Michel, Paris.

Lithuania, Latvia, Dantzic, East Prussia, Poland, Czechoslovakia, Hungary, Rumania, Yugoslavia, Albania, Bulgaria, Turkey and Greece. These countries comprise a population of about 90 millions, 60 millions of whom are small peasant proprietors, working their own strips of land with antiquated methods and, because of the almost complete absence of means of transport and communication, without any contact with the towns or with the industrial West. M. Delaisi points out that the Canadian farmer receives 10 per cent. to 20 per cent. more for wheat sold at the same price in Liverpool than the Rumanian farmer, simply because of the absence of roads in Eastern Europe. He outlines the way in which some 70 milliard francs (say £700 million) could usefully be spent on roads, railways and canals and river development in these countries to improve their means of communication, a network of small roads being built to serve main railway lines or navigable waterways. By these means a large traffic in the exchange of varied products between members of these countries along lines of communication running North and South could be developed, as well as trade East and West.

If such a development could be organised together with an improvement in the means of cultivation, the peasants of these countries would begin to demand industrial products, the industries of Eastern Europe would feel the increase in demand and there would probably be a large migration from the land to the towns. There can be no doubt that in these countries there is an opening for a very large development on these lines, and that such improvements in the means of exchange and communication would very greatly raise the standards of life in Eastern Europe. M. Delaisi in his scheme, however, envisages this plan as being an important means of overcoming the trade and unemployment crisis in the Industrial West. He discusses how the funds necessary for these projects should be provided by means of loans floated in the creditor nations, the interest and amortisation being guaranteed by the debtor and by the creditor governments. He discusses how the increased yield of taxation and traffic receipts in the debtor countries would provide for such payments. The increased purchases of Eastern Europe, while the development was in process, of equipment and machinery for the construction of roads, railways and canals, and later of cars and lorries and also of other products, which the rise in their standards would cause the inhabitants to demand, would provide a

large and new market for the export industries of the industrial West. The point, however, which does require further consideration is whether these countries would avoid exchange difficulties in the future by developing an excess of exports to pay the loan charges. They would undoubtedly be in a much stronger position to export agricultural products, and could compete with much greater ease in the world markets for these products. In many cases this might be in commodities, for which the demand is likely to grow or which are not likely to be overproduced, when recovery comes in the rest of the world. But in so far as it was only likely to lead to an increased production on the world markets of agricultural commodities already considerably overproduced, it might lead to such a fall in their price, that not only the present producers would be greatly hit, but even the countries of Eastern Europe, in spite of their increased powers of competition, would be unable to increase the value of their exports. And yet, unless they could do so, they would be unable to meet the payment of interest on the loans, which they would have contracted. This aspect of the scheme would require considerable attention, but certainly a great deal of M. Delaisi's proposals would provide suitable outlets for expenditure of money, lent under guarantee to these States.

In June, 1931, the International Labour Office, in order to obtain some details of schemes to put before the Credits Sub-committee of the Commission of Enquiry for European Union, asked all European Governments to provide an outline of schemes of public works, which they desired to undertake, and which would be of international interest or which would require international loans for their financing. In reply, the Governments of Albania, Austria, Belgium, Bulgaria, Czechoslovakia, Esthonia, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Rumania, Spain, Turkey and Yugoslavia submitted schemes of works. Of the other governments some replied that they had no schemes, which were of international interest, or which needed international loans to finance them; or that they had not time to prepare their plans; or—in the case of the U.S.S.R.—that they had no unemployment. These schemes were partly those of works, which required international co-operation for technical reasons other than financial. Thus both the Austrian and the Belgian governments mentioned work on roads, which were to form part of international roadways; and in these cases it would be

useless for one government alone to start work on such a scheme, unless there was some agreement with the other States concerned that they should construct their sections of the road more or less at the same time. In the same way Austria suggested work on the Danube to make the Danube navigable by ships of 1,200 tons, which work would also require such co-operation with the other Danubian States, and the Spanish government suggested improvements of the railway communication with France and Portugal. Both the Austrian and the Belgian governments referred to schemes for the international exchange of electric power by means of overhead wires. Apart from these works, which are definitely of an international character, works on roads, railways, waterways, electrification, land development and bridges were put forward by different States, directly only of interest to the nations concerned, but for which international loans were required.

In October, 1931, the Committee of Enquiry on Public Works and National Technical Equipment, which had been authorised by the League of Nations to report on schemes of public works, invited governments to submit schemes to it for examination. In April, 1932, it reported to the Council of the League of Nations on schemes submitted to it by the Governments of Belgium, Greece, Latvia, Poland and Yugoslavia, and stated that it would continue its examination of other schemes, which had already been submitted to it or which might subsequently be submitted to it. The committee examined these schemes from three points of view: their effectiveness in reducing unemployment, their productivity—by which they meant an examination as to how far the schemes would “improve the industrial or agricultural situation of the country concerned”—and their interest from an international point of view. Again in these schemes it is of great interest to note that some were of such a character as to demand international agreement for technical reasons. Thus a scheme of the Bulgarian government proposing the construction of a bridge over the Danube at the Bulgaro-Roumanian frontier together with a railway line connecting this bridge with the railway systems of Roumania, Bulgaria and Greece, could not be approved by the Committee, for one reason because there was not yet any agreement between the Bulgarian and Roumanian Governments on the scheme. The government of Yugoslavia suggested works on roads, waterways and railways, all of which were of direct international interest,

affecting Italy, Albania, Roumania, Hungary and Austria. In September, 1932, the Committee on Questions relating to Public Works and National Technical Equipment presented a second report to the Council. In this report further schemes, submitted to it by the governments of Austria, Bulgaria, Esthonia, Hungary, Latvia, Poland, Roumania and Yugoslavia, were examined. It was in accepting this report that the Council adopted a resolution suggesting the inclusion in the agenda of the World Economic Conference of the problems of Public Works, which were examined in the reports of the Committee on Questions relating to Public Works and National Technical Equipment.

Those official schemes, information concerning which was provided to the International Labour Office, and those approved by the Committee of Enquiry on Public Works and National Technical Equipment in its reports to the Council would involve considerable expenditure. But it is to be remembered that very little time has been given to governments to prepare schemes, and there had never been any previous attempts at such international co-ordination. Further, the plans discussed were plans of international interest, submitted by individual States, which had ruled out the discussion of expenditure on useful works of a purely national interest, and at the same time gave no time for the development of more ambitious schemes of work of an international character, which would require co-operation through some international organisation for their planning. Finally, these plans excluded all possible works in creditor countries, which could finance their own expenditure. It cannot therefore be argued that there are not works to be undertaken, upon which a vast amount might not be usefully spent, if this excellent first step in international co-operation in this field were followed up, and some international organisation developed, whereby appropriate expenditure by different countries on all these different categories of work might be arranged.

Many of the important schemes of public works of a definitely international character would only become practicable with some highly developed international organisation. Suggestions have been put forward for the development of a European system for the provision of electric current and its transmission at 400,000 volts. Such a plan would require an organisation, which would receive reports and plans from individual experts and from such expert bodies

as the International Power Conference, and in which agreement between the governments of all the nations concerned could be obtained. In the same way the European railway system might with the aid of the International Railway Union be developed and co-ordinated on a European plan; it has, for instance, been suggested that a universal system of automatic coupling should be introduced on all European railways. Plans for the development of the international telephone system would require the same type of international co-operation, and provide the same opportunity of persuading all countries to time their expenditure on public works together. The development of European waterways, whether by work on such rivers as the Danube, which flow through many States, or by the construction of canals, which pass through several States or which join existing waterways in different States, provides another fruitful opportunity for wise expenditure, provided only that the development can be planned on an international basis. The same is equally true of a European road system; an international road, of which certain short sections in a few States are not built, clearly loses all its value. Plans for a network of European motor-roads have been developed by the International Office of Motor Roads, on the basis of proposals submitted by the late M. Albert Thomas in April, 1932,* to the Second International Congress of Motor Roads. It is proposed that some £170 million (gold) should be spent over a period of five years on the construction of about 9,000 miles of European motor roads. The funds would be raised by loans in the first place, and it has been estimated that a tax of 1d. (gold) per gallon of petrol actually consumed in Europe would cover this charge within twenty years.

Finally, such schemes need not, and indeed should not be confined to Europe. Whether it be in North America, where the U.S.A. and Canada should each alone undertake works in their own territory, or, by common agreement, works which are of common interest, or whether it be in undeveloped tracts of Africa, where the supply of materials and equipment for development affect the export trades of more highly developed countries, and where co-operation in this field between mandatory powers is required, the same work remains to be done and the same international co-operation is required.

January, 1933.

* See above, p. 5.

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Some of the Bureau's inquiries:

1. *Economic*: What enterprises, or types of enterprises, are ripe for socialisation in the near future, and what form or forms should such socialisation take? Should there be a National Economic Council entrusted with the work of planning? How should the supply of capital be directed? What form should workers' control in industry take? Are we in sight of the limits of taxation under capitalism? What should be the duties of Import Boards? What monetary policy ought to be adopted?

2. *Political*: How can Parliament be speeded up? What should be the organisation of the Civil Service under Socialism? How should the Cabinet be adapted to its new functions? Should the powers of Local Authorities be extended? Should our electoral methods be altered?

3. *International*: How can the machinery of international negotiations be improved? Should the League develop into a super-state? How can disarmament be immediately furthered? What is the position of international law, and how can it be improved? What organisation should deal with international movements of capital, labour and raw materials? What should be the Socialist attitude towards colonies and mandated areas? How can the international Socialist, Trade Union and Co-operative organisation be strengthened?

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PUBLICATIONS.

Economic Section :

- THE ESSENTIALS OF SOCIALISATION, by G. D. H. Cole.
Price 3d.
- INDUSTRIAL COMPENSATION, by G. R. Mitchison.
Price 3d.
- THE NATIONALISATION OF WEST COUNTRY MINERALS,
by A. K. Hamilton Jenkin. Price 3d.

International Section :

- IF WE WANT PEACE, by H. N. Brailsford.
(The Hogarth Press.) Price 1/6.
- PUBLIC WORKS IN THEIR INTERNATIONAL ASPECT,
by J. E. Meade. Price 6d.
- (With an introduction by H. B. Butler, Director of the
International Labour Office.)

Also published for the N.F.R.B. :

- TWELVE STUDIES IN SOVIET RUSSIA, by Hugh Dalton,
F. W. Pethick-Lawrence and others.
(Victor Gollancz, Ltd., 1933.) Price 7/6