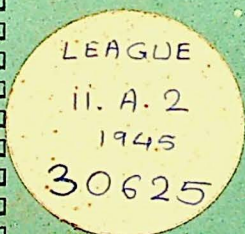


ECONOMIC STABILITY IN THE POST-WAR WORLD

THE CONDITIONS OF PROSPERITY AFTER
THE TRANSITION FROM WAR TO PEACE

Report of the Delegation on Economic Depressions

Part II



LEAGUE OF NATIONS
1945

Part I of the
Report of the Delegation on Economic Depressions

THE TRANSITION FROM WAR TO PEACE ECONOMY

(Series of League of Nations Publications 1943.II.A.3)

118 pages cloth bound 6/- \$1.50; paper bound 4/6 \$1.00

Table of Contents

PREFACE

INTRODUCTION: 1. Objectives of Economic Policy. 2. The "Right to Work." 3. No Return to the Past: The Unstable Recovery of the Twenties—The Great Depression—The Instability of Prices in the Interwar Period—The Breakdown of the World Trading System—The Breakdown of the World Currency System. 4. The Task Before Us. 5. The Nature of the Report.

CHAPTER I. THE EFFECTS OF WAR ECONOMY: 1. General Characteristics of War Economy. 2. Structural Changes in Production. 3. Shifts in Demand. 4. The Reserves of Savings. 5. The Increase in Domestic Debt. 6. Changes in the International Distribution of Capital and Equipment. 7. Destruction Wrought by War. 8. Wartime International Agencies.

CHAPTER II. THE TRANSITION FROM WAR TO PEACE: DOMESTIC ISSUES: 1. The Need for Preparation. 2. Characteristics of the Postwar Transition Period. 3. Postwar Factors of Disequilibrium. 4. The Problem of Controlling Demand. 5. Financial Control of Demand. 6. Physical Control of Demand: Consumers' Goods—Investment Goods—Raw Materials. 7. Public Works. 8. Employment and Training Services.

CHAPTER III. THE INTERNATIONAL PROBLEMS OF TRANSITION: 1. The Need for Government Action. 2. The Need for International Action. 3. Relief. 4. The International Aspects of Rationing. 5. The International Demand for Raw Products, etc. 6. The International Demand for Capital and Credit. 7. Exchange Control and Multilateral Clearing. 8. Inflation. 9. Long-term Lending. 10. Commercial Policy. 11. International Organs.

ANNEX I. WARTIME INTERNATIONAL AGENCIES

ANNEX II. EXTRACTS FROM THE UNITED STATES TREASURY'S "Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund" and FROM THE WHITE PAPER (dated April 7, 1943) containing Proposals by British Experts for an International Clearing Union.

ANNEX III. SUMMARY OF THE REPORT

[Communicated to the Council
and the Members of the League.]

Official No.: C.I.M.I.1945.II.A
March, 1945

ECONOMIC STABILITY IN THE POST-WAR WORLD

THE CONDITIONS OF PROSPERITY AFTER
THE TRANSITION FROM WAR TO PEACE

Report of the Delegation on Economic Depressions

Part II

LEAGUE OF NATIONS
GENEVA
1945

Series of League of Nations Publications

II. ECONOMIC AND FINANCIAL

1945.II.A.2

Printed in the United States of America
by Princeton University Press, Princeton, N.J.

8/45—2,500

TABLE OF CONTENTS

	PAGE
LIST OF DIAGRAMS	10
LIST OF TABLES	12
PREFACE	13
INTRODUCTION	15
1. The Nature of the Problem before us	15
2. The International Aspects of the Problem	16
3. General Objectives of Policy	21
4. The Importance of Sound Transition Policies	22
5. The Structure of our Report	24

SECTION I

THE NATURE OF DEPRESSIONS

CHAPTER I. STRUCTURAL FACTORS	25
1. Demographic Influences	26
2. Increase in Income per Head	27
3. Increased Importance of Capital Goods	28
4. The Changing Distribution of Income	29
5. Growth of Rigidities	30
6. Growth of State Intervention	32
7. Economic Effects of Wars	33
(a) General	33
(b) Agricultural Maladjustment	35
(c) Changes in Sources and Uses of Raw Materials	36
(d) Geographical Shifts in Industrial Development	37
CHAPTER II. TYPES OF DEPRESSIONS	41
1. Cyclical, Chronic and Structural Depressions	42
2. General and Partial Depressions	44
CHAPTER III. THE MECHANISM OF CYCLICAL FLUCTUATIONS	46
1. Changes in Money Flow and Decisions to Spend	46
2. Cumulative Processes in Upswing and Downswing ..	47

	PAGE
CHAPTER IV. THE STRATEGIC ROLE OF INVESTMENT	50
1. Influence of Income Changes on Investment	50
2. Replacement Demand for Capital Goods	52
3. Fluctuations in Investment	53
4. Short- and Long-term Influence of Investment on Employment	57
(a) Building	58
(b) Producers' Plant and Equipment	64
(c) Changes in Stocks of Goods	66
(d) Durable Consumers' Goods	72
5. Conclusions	74
CHAPTER V. DEPRESSIONS AND PRIMARY PRODUCTION	76
1. Movements of Production and Prices	76
2. Causes of Price Fluctuations	79
(a) Shifts of Supply and Demand	79
(b) Low Elasticity of Demand and Supply	80
(c) Stockholding Policies	81
3. Long-run Excess Capacity in Primary Production	84
CHAPTER VI. INTERNATIONAL SPREAD OF BOOMS AND DEPRESSIONS	87
1. International Synchronization of Business Cycles	87
2. Differentiating Factors in International Transactions	89
3. The International Business Cycle as Registered in the Balance of Payments	92
4. Effect of Changes in National Income on Imports	97
5. Effect of Domestic Expansion on Exports	98
6. Effect of International Investment	101
7. Closing the Gaps in the Balance of Payments	103
8. Disequilibrating Money Flows	106
9. Effect of Trade Restrictions	108
SECTION II	
ANTI-DEPRESSION POLICIES	
CHAPTER VII. REGULATION OF TOTAL EXPENDITURE	111
1. The Importance of the Great Industrial Countries	111

	PAGE
2. The Problem of Maintaining Aggregate Demand . . .	112
3. Possible Lines of Policy	115
CHAPTER VIII. CONSTITUENTS OF NATIONAL EXPENDITURE	120
1. The Constituent Parts	120
2. Where Should Revival be Started?	123
3. The Special Problem of Structural Unemployment	124
CHAPTER IX. PRIVATE CONSUMPTION EXPENDITURE	126
1. The Importance of Expenditure on Non-durable Goods	126
2. Social Insurance	126
3. Stable Wage Rates	127
4. Farm Income	130
5. Equalization of Income	131
6. Distribution of Savings	132
7. Durable Consumers' Goods	133
CHAPTER X. PRIVATE INVESTMENT	136
1. The Importance and Nature of Private Investment	136
2. Construction	137
(a) Financial Costs	138
(b) Other Costs	140
(c) Dovetailing Public Building	141
(d) Structural Impediments to Building Revival	142
3. Industrial Plant and Equipment	143
(a) Influence of Consumption Expenditure	143
(b) Importance of Rising Consumption Expenditure	144
(c) Long-term Planning of Investment	145
(d) Dovetailing Capital Exports	146
(e) Taxation of Risk-bearing Capital	147
(f) Prices of Capital Goods	149
(g) Dovetailing Public Expenditure	150
4. Stocks of Commodities	150
CHAPTER XI. CREDIT POLICY AND THE STABILIZATION OF TOTAL EXPENDITURE	153
1. Scope and Importance of Credit Policy in Depressions	153

	PAGE
2. Instruments of Credit Policy	155
(a) The Discount Rate	156
(b) Changes in Cash Ratios	157
(c) Open-market Operations and Interest Rates ...	157
3. Credit-Policy during a Cyclical Upswing	160
CHAPTER XII. PUBLIC EXPENDITURE AND FISCAL POLICY .	163
1. Objects of Public Expenditure	163
2. Contra-cyclical Management of Public Finance	165
3. Contra-cyclical Budgeting and Monetary Controls ..	167
4. Variations in Revenue and Variations in Expenditure	168
5. Dovetailing Public Works and the Expenditure of Public Enterprises	172
6. Influence of Different Types of Expenditure	176
7. The Problem of Additional Public Works	178
8. Limitations to Public Expenditure	179
(a) Debt	179
(b) Effect on Private Enterprise	182
(c) Effect on Capital Markets	183
(d) Effect on Costs	184
(e) Inflationary Influences	184
9. National Income Budget	185
10. General Conclusions Concerning Fiscal Measures ...	188
CHAPTER XIII. FOREIGN INVESTMENT	189
1. The Importance of Capital Exports	189
2. The Importance of the Form of Capital Exports ...	190
3. The Prerequisites of Foreign Investment	192
4. The Means for Mitigating the Strain of Foreign Debt	193
5. The Profitable Employment of Foreign Capital	195
6. Contra-cyclical Foreign Investment	198
CHAPTER XIV. EMPLOYMENT AND INFLATION	201
1. The Danger of Inflation	201
2. The Ideal High and Stable Level of Employment ...	204
3. The Need for Labour Mobility	205
4. The Influence of Wage Structure on Mobility	206
5. The Influence of Trade Union Policy	207

	PAGE
6. The Influence of the "Skill Structure"	208
7. The Influence of the Entrepreneur	209
8. The Need for a Community Effort	210
9. Employment and Productivity	211
10. Wages, Productivity and Prices	212
11. Lessons to be Drawn from the Danger of Inflation ..	213
 CHAPTER XV. UNEMPLOYMENT IN SPECIAL AREAS AND INDUSTRIES	 215
1. Partial Depressions and Labour Mobility	215
2. Structural Causes	216
3. Means for Promoting Mobility	218
 CHAPTER XVI. UNEMPLOYMENT DUE TO CHRONIC DEPRESSION	 224
1. The Possibility of a Long-term Deficiency of Private Investment	224
2. Stimulation of Private Investment	224
3. Stimulation of Private Consumption	226
4. Public Expenditure	226
5. Foreign Investment	228
6. The Growth of Leisure	228
 CHAPTER XVII. INTERNATIONAL MONETARY IMPLICATIONS OF NATIONAL ANTI-DEPRESSION' MEASURES	 230
1. Deflationary Influences from Abroad and Offsetting Policies	231
2. Expansion or Inflationary Influences at Home and the Trade Balance	237
3. Monetary Implications of Offsetting Policies	239
4. Foreign Inflationary Influences	240
5. Deflationary Influences at Home	241
6. Conditions for a Smooth-working System of International Payments	241
7. Responsibility of Major Industrial States	244
8. Co-ordinated International Action	245
9. Capital Movements	247

	PAGE
CHAPTER XVIII. NATIONAL ANTI-DEPRESSION MEASURES IN RAW MATERIAL AND FOOD PRO- DUCING COUNTRIES	250
1. Classes of Countries Considered	250
2. Causes of Depressions in these Classes of Countries . .	252
3. Diversification	253
4. Export Subsidies, Guaranteed Prices and Government Purchase Schemes	254
5. Debt Alleviation	256
6. Monetary Stabilization	258
7. Devaluation	262
8. Exchange Control	263
9. The Inadequacy of National Measures	263
 CHAPTER XIX. INTERNATIONAL ANTI-DEPRESSION MEASURES FOR RAW MATERIAL AND FOOD PRODUCING COUNTRIES	 265
1. Buffer Stocks	265
2. Production Control	271
 CHAPTER XX. INTERNATIONAL ADMINISTRATION AND CO-ORDINATION OF CONTRA-CYCLICAL POLICIES	 276
1. Introduction	276
2. National versus International Application of Contra- cyclical Policies	277
3. International Action Required	281
(a) Commercial and Economic Policies	281
(b) Monetary Arrangements	283
(c) International Investment	284
(d) Stabilization of Primary Production	285
(e) International Co-ordination of Contra-cyclical Policies	285
4. The Need for Comparable Statistical Information . .	289
5. Final Observations	290

	PAGE
CHAPTER XXI. SUMMARY AND CONCLUSIONS	291
1. Private Consumption Expenditure	293
(a) Non-durable Goods	293
(b) Durable Consumers' Goods	294
2. Private Investment	295
(a) Residential Construction	295
(i) Building Costs	295
(ii) Dovetailing Public Construction	296
(b) Industrial Plant and Equipment	296
(c) Business Stocks	297
3. The Respective Roles of the Government and of the Business Community	298
4. Credit Policy	299
5. Public Expenditure and Fiscal Policy	300
6. Foreign Investment	302
7. The Risk of Inflation	304
8. Unemployment in Special Areas and Industries	305
9. Chronic Unemployment	306
10. International Monetary Implications of National Anti-depression Measures	307
11. National Anti-depression Measures in Raw Material and Food Producing Countries	310
(a) Diversification	311
(b) Export Subsidies, Guaranteed Prices and Domestic Government Purchase Schemes ...	311
(c) Debt Alleviation	312
(d) Monetary Stabilization	312
(e) Devaluation	312
(f) Exchange Control	313
12. International Anti-depression Measures for Raw Material and Food Producing Countries	313
(a) Buffer Stocks	313
(b) Production Control	314
13. International Administration and Co-ordination of Contra-cyclical Policies	315

LIST OF DIAGRAMS

<i>No.</i>	<i>Chapter</i>	<i>Title</i>	<i>PAGE</i>
I.	IV.	Annual Percentage Deviations in Output of Various Classes of Goods and in National Income in the United States of America, the United Kingdom and Sweden	56
II.	IV.	Building Cycles Compared with General Business Cycles in U.S.A., 1875-1932 . .	61
III.	IV.	Output of Houses and Industrial Production in Various Countries, 1919-37	63
IV.	IV.	Indices of Production of Investment Goods and of Goods Currently Consumed in Various Countries, 1919-38	64
V.	IV.	Inventories (Stocks of Goods) and National Income in U.S.A., 1918-41	67
VI.	IV.	Changes in Commodity Stocks and in Total Gross Capital Formation in U.S.A., 1919-38	68
VII.	IV.	Relationship between Year-end Inventories (Stocks of Goods) and Gross Flow of Finished Goods and New Construction in U.S.A., 1929-41	70
VIII.	V.	Indices of World Production, 1920-38 . . .	76
IX.	V.	Wholesale Prices in the United States, 1914-38	78
X.	V.	World Production, Prices and Stocks, 1920-38	85
XI.	VI.	Conspectus of Business Cycles in Seventeen Countries	88
XII.	VI.	Indices of Industrial Production in Various Countries, 1924-38	89

[11]

<i>No.</i>	<i>Chapter</i>	<i>Title</i>	<i>PAGE</i>
XIII.	VI.	Movement of National Income and Imports, in United States, United Kingdom, Canada and Germany, 1922-39	99
XIV.	XII.	Public and Private Construction in U.S.A., 1919-38	174
XV.	XII.	Capital Expenditure of Local Authorities in England and Wales compared with <i>The Economist</i> Index of Business Activity, 1919-37	175

LIST OF TABLES

<i>No.</i>	<i>Chapter</i>	<i>Title</i>	<i>PAGE</i>
I.	I.	Past and Future Population Trends in Advanced Industrial Countries	26
II.	I.	Indices of Industrial Production—Averages for 1936-38	38
III.	IV.	Components of National Output of the United States of America, 1921-38.	54
IV.	IV.	Some Components of National Output of United Kingdom, 1924-37	55
V.	IV.	Some Components of National Output of Sweden, 1919-34	55
VI.	IV.	Output of Certain Consumers' Durable Goods in the United States of America, 1929	73
VII.	V.	Variability of Prices of Primary Products, 1936-38	83
VIII.	VI.	Impact on International Currency Markets of Individual Items in the United States Balance of Payments, 1923-39	94
IX.	VIII.	United Kingdom Gross and Net National Expenditure in 1938	120
X.	VIII.	United States Gross National Expenditure at Current Prices	121
XI.	X.	United States Construction Activity.	137