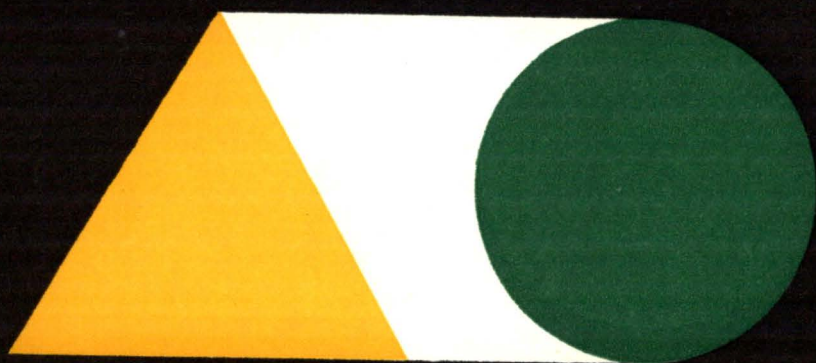


# Speeding up and Smoothing Economic Growth



*Report from an international conference  
in Stockholm May 31 — June 2, 1962*

*Studier  
och  
debatt*

THE INDUSTRIAL COUNCIL  
FOR SOCIAL AND ECONOMIC STUDIES





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*Sources of Growth • Regional Development • Business  
Cycle Policy • OECD • Labor Market and Industrial  
Relations • Means of International Cooperation*

*Report from an international conference  
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# Studier och debatt

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## STUDIEFÖRBUNDET NÄRINGSLIV OCH SAMHÄLLE (SNS)

**The Industrial Council for Social and Economic Studies**

SNS is a nonpolitical organization, aiming at widening the knowledge of economic life and the functions of society by means of research into fundamental social and economic problems and subsequently spreading information based on the findings of the research work and organizing educational conferences. The activities of SNS are financed by Swedish industry.

### Research

in economic and social questions is carried out by experts both inside and outside SNS. Their conclusions are published as monographs in the SNS series of publications.

### Studies

based to some extent on the result of research and combined with lectures are made by *local groups* all over the country, where business leaders and their assistants meet to discuss topical economic, social and managerial problems. The local groups are supported in their work by the central office of SNS.

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# Foreword

This year the Industrial Council for Social and Economic Studies (SNS) arranged an international conference in Stockholm, Sweden, from May 31 to June 2 with the object of discussing problems connected with economic growth in Western society.

The participants were, in one way or other, all specialists in the fields under discussion and the majority of them belonged to organizations with which the SNS is in continuous co-operation, such as the Committee for Economic Development (CED), in the USA; Political and Economic Planning (PEP), in England, and the French, German and Italian groups of the Comité Européen pour le Progrès Economique et Social (CEPES).

The main purpose of the conference was to discuss development problems of common interest to the highly developed industrial democracies of the West, and also to provide an opportunity for the exchange of experiences in the field of speeding up and smoothing economic growth. Another aim was to seek to establish even closer co-operation between the organizations mentioned above.

The first part of the conference dealt with the problems of speeding up economic growth: "Why must the Western countries speed up their economic growth?" "What are the sources of economic growth?" Regional development was also discussed in this context. — The second part of the conference — "Smoothing Economic Growth" — was first and foremost devoted to the study of business cycle policy, the labor market and industrial relations in a changing economy.

In this book we present the main speeches and parts of the subsequent discussions at this conference. I wish, on behalf of the SNS, to thank the participants for their inspiring contributions, which we hope will prove of interest in future discussions.

The hospitality extended by Stockholms Enskilda Bank, Svenska Handelsbanken, the Swedish Employers' Confederation, the Federation of Swedish Industries and the Swedish General Export Association was of great assistance to the Conference Committee.

The editorial work on this report has been carried out in co-operation with the CED. We thank our American colleagues for their invaluable aid.

*Carl J. Kjellberg*  
Chairman of the Conference Committee

## Main speakers

- Tore Browaldh — LL.M., BA, University of Stockholm, President, Svenska Handelsbanken, Stockholm, Sweden. Member of the Boards of Directors of several large Swedish enterprises. One of the founders of the Industrial Council for Social and Economic Studies (SNS). Author of "Management and Society".
- Neil W. Chamberlain — Ph.D., Ohio State University. Professor of Economics, Yale University, New Haven, Conn., USA. Director of the Salzburg Seminar in American Studies, member of the editorial council of Management International and member of the executive committee of the Industrial Relations Research Association. Author of i.a. "The Firm: Micro-Economic Planning and Action".
- Hans Hagnell — Ph.D., University of Göteborg, MP, economist with the Labor of Swedish Metall Workers, Stockholm, Sweden. Member of the Economic Committee of the Council of Europe.
- Theodore V. Houser — B.E.E., Iowa State College. Chairman of the Committee for Economic Development (CED). Member of the Board of Directors of Sears, Roebuck and Co. Trustee of Northwestern University and George Williams College, member of the Corporation of the Massachusetts Institute of Technology. Author of "Big Business and Human Values" and "The Cruellest Tax", a summary of the CED National Policy Statement, "Defense Against Inflation".
- Bertil Kugelberg — BA, LL.B., University of Uppsala. President, Swedish Employers' Confederation, Stockholm, Sweden. Judge of the Labor Court, member of the Consultative Committee to EFTA, member of the Boards of several Swedish organisations.
- Mario Marconi — Ph.D., University of Genoa. President, Italian Westinghouse, Milan, Italy. Chairman of Nebiolo S.p.A., SICAR. Member of the Board of Confederazione Generale Industria Italiana. Vice chairman of Associazione Nazionali Industria Meccanica Varia ed Affine, A.N.I.M.A. Member of the Boards of several banking and insurance companies. Author of a number of scholarly books.
- Alfred C. Neal — Ph.D., LL.D. h.c., Brown University. President, Committee for Economic Development (CED), New York, USA. Author of "Industrial Concentration and Price Inflexibility", co-author of "Modern Economics", "The New England Economy" and "Introduction to War Economics".

John H. Nixon — Ph.D., Harvard University. Director of the Area Development Division, Committee for Economic Development (CED), New York, USA.

Jonas Nordenson — Ph.D., University of Uppsala. MP. Vice President in charge of Research and Information at Grängesbergsbolaget. Appointed President of the Swedish General Export Association from the spring of 1963. Chairman SNS Advisory Board.

Andrea Nuvolari — Head of the Studies and Foreign Relations Bureau of the Italian Group of the Committee for Economic and Social Progress (CEPES). Adviser to several cultural institutions. Consultant of the Montecatini Chemical Group.

Erich Schneider — Dr h.c., University of Paris, Free University of Berlin. Commercial High Schools of Stockholm and Helsinki. Professor, University of Kiel, Germany. Director of the Institute for World Economics, University of Kiel. President of "Gesellschaft für Wirtschafts- und Sozialwissenschaften (Verein für Socialpolitik, gegr. 1872)". Honorary member of the American Economic Association. Author of i.a. "Einführung in die Wirtschaftstheorie" and "Pricing and Equilibrium".

Herbert Stein — Ph.D., University of Chicago. Director of Research, Committee for Economic Development (CED), Washington D.C., USA. Author of "Government Price Policy in the United States during World War I", co-author of "Jobs and Markets", editor of "Policies to Combat Depression."

Marcus Wallenberg — Dr Techn. h.c., the Royal Institute of Technology, Stockholm. Vice chairman of the Board of Stockholms Enskilda Bank, Stockholm, Sweden. Chairman of the Federation of Swedish Industries, of the Business and Industry Advisory Committee to OECD (BIAC), of the Council of European Industrial Federations (CEIF), of the Swedish National Committee of the International Chamber of Commerce. Chairman, vice chairman and member of a number of Swedish and foreign industrial companies.

Thomas Wilson — Professor of Political Economy, University of Glasgow, Scotland. Member of the Council of the British Association. Author of i.a. "Modern Capitalism and Economic Progress", "Inflation", editor of "Oxford Studies in the Price Mechanism".

## Other Contributors

- Walter Bauer — Chairman of the Board of Val. Mehler AG, Chairman of the German CEPES, Fulda, Germany.
- René Belin — Publicist, the French CEPES, Paris, France.
- Göran C-O Claesson — Executive Director, The Swedish Sales- and Advertising Federation, Stockholm, Sweden.
- Russell J. Clark — Head of the Economic Intelligence Department, Westminster Bank, London, England.
- James A. Clay — Economic Adviser, Rio Tinto Management Services Ltd., London, England.
- Pierre-Bernard Cousté — Executive Director, Fédération des Jeunes Chefs d'Entreprises d'Europe, Paris, France.
- Axel Iveroth — Director General, Federation of Swedish Industries, Stockholm, Sweden.
- Nils Kellgren — Economist, MP, National Labor Market Board, Stockholm, Sweden.
- Wilhelm Paues — Head of Foreign Affairs Department, Federation of Swedish Industries, Stockholm, Sweden.
- Jacques Plassard — Head of Economic Research, REXECO, Paris, France.
- Theodore O. Yntema — Chairman of the Finance Committee, Ford Motor Company, Dearborn, Michigan, USA.

# Why the Countries of the West must Speed up their Economic Growth

## *Introductory Speech by Tore Browaldh*

Human beings have a tendency to verbalize their problems in the terms of an either—or question. Our brains seem to dislike statements that embrace too many aspects that bring out shades and nuances. We use the black and white technique, complicated issues are cut down to involve only two aspects.

The title of this speech can be said to illustrate this either—or approach. We all feel tempted to take it for granted that today growth is the overriding goal of economic policy, forgetting that society pursues so many aims that are partly in conflict with each other and that the hopes and aspirations of the common man include much more than an accelerated economic growth.

### **History**

Let me first delve into History. Our image of aims and issues in the Western society is a product of historical developments. It should be viewed from an historical perspective. Looking back three decades we note that our economic thinking has undergone a striking change since before the war. Before the Second World War

economists were mainly concerned with the question of how employment could be maintained, but since the war they have mainly concentrated on the question of how we can reach the highest possible production growth. Both economic theory and economic policy have become more dynamic, more aggressive than in the pre-war period when our ambitions were small and our attitude towards the business cycle more or less defensive. We are no longer satisfied with maintaining present production levels, gratified that there is work for everybody. We no longer accept the idea of pyramid building just to keep people employed, but we aim higher. We take it for granted that everybody shall have work and our aim is that full employment shall stimulate a continued rise in total production.

Are we too cocksure in raising our aims? When the Dow Jones average seems to continue slipping down below the 600 mark should the title of my speech not instead be: Are depressions really extinct? Cassandras appear now and then to predict that we will soon have a world-wide depression. I do not share this gloomy view, but at the same time I also believe that the business cycle as such

is not dead. Swings in economic activity will be our eternal companion, but I do maintain that deep and long depressions are a thing of the past. In my opinion a repetition of the catastrophe of the Great Depression is practically impossible. There are so many reasons why this is so: the financial structure in the Western world is sound, the scope of government expenditure is large enough to counteract a sudden decline in total demand, better statistics make for an early diagnosis of economic illness. Above all, the governments are pledged to pursue full employment policies and have better theoretical knowledge of how to counteract recessions.

### Philosophy

Let me thus concede that SNS is not victim to a common fallacy, namely to focus attention on the wrong problem. Today unemployment and the business cycle is not a very fascinating subject. But I still refuse to accept without questioning the implication of the title of my lecture. I will don a philosopher's robe and remind you of the metaphysical problem that confronts Man: What is the basic goal of Society in the economic field? We are so eager to accept the statement that an ever-increasing standard of living, in a materialistic sense, is the ultimate aim of Mankind that we are almost bewildered if someone asks: "Is rapid progress really necessary?"

In fact, this is not necessarily so self-evident. In any case it hasn't been

for the arrangers of this conference, who have given me the subject "Why the Countries of the West Must Speed Up Their Economic Growth". There is a real reason for the question. Even the most ambitious of us must, at some time or other, make a choice between more productive effort and leisure. There is a limit to how much each one of us can reasonably be expected to contribute to higher production. Our conception of human existence is not only work with a minimum of physical and mental recreation. Reduced working hours on one hand and more goods and services at the disposal of the consumer on the other are merely two aspects of the same basic process: increasing the standard of living. It has been said that culture first began to flower when the human race had reached that stage where a large number of persons gained command over consumption goods which transcended the basic needs: foods, shelter and clothing. There was then time and energy to spare for meditation and that most creative of human activity: art. Allow me to quote John Maynard Keynes who in a speech to the Royal Economic Society in London in 1945 said the following: "I give you the toast of the Royal Economic Society, of economics and economists, who are the trustees not of civilization, but of the possibility of civilization".

Economic progress cannot be the final goal of the human race, but as Keynes says only a means to realize other higher aims. We believe that there is an optimal distribution of our energy between productive efforts and leisure time. The question is,

where does this optimum lie?\*: In many countries it is obviously considered that the optimal rate of production has not yet been reached, and they are trying to step up the rate. The Americans, who have the highest standard of living in the world—a standard which is a distant goal for many other countries—are not satisfied with this standard and are trying to speed up the growth. The European countries on the average, have had a higher rate of progress than the USA, but we are no longer satisfied with this and are aiming at an even more rapid progress. The OECD countries have set a common goal of an average increase of 5% per annum during the 1960's. This is considerably higher than that recorded recently for these countries. Taking the long view, this is a very ambitious goal indeed. Let us take the volume of production during 1962 as 100 and calculate with a 5 per cent annual rise in the future. In the year 2062, that is after 100 years, we will have a production index of over 13,000. This figure is as breathtaking as those we hear today about the speed of space ships, but we need not be frightened by this play with figures. Taking the short view, we can anyway accept a 5% annual rise in production as an undoubtedly high but not impossible goal.

Let me now set the record straight and summarize our findings: People in the West and their elected governments prefer a high rate of growth to the leisurely meditative and esthetic life of philosophers and artists.

\* Perhaps this optimum implies a slower rate of growth.

## The Stake of Free Enterprise

For obvious reasons business has no hesitation in embracing the goal of a more rapid economic growth. In fact, a prerequisite for free enterprise is dynamic change and continued expansion. A slowing-down of the rate of growth would threaten its very existence.

The first reason then for wanting continued growth in the West is that free enterprise has a big stake in this aim. Stagnation might provoke requests for nationalization or strongly centralised planning, contending that free enterprise cannot solve the problem of growth.

People in all countries have become used to a relatively rapid and constant rise in the standard of living during the post-war period. There seems to be an inexorable law of psychology at play here. It appears that we human beings disregard the absolute level that our standard of living has reached while the rate of change is all-important. People take mortgages on the future and rarely get any consolation out of the fact that their present standard of living is four or five times higher than that of their grandparents.

Party politics seem to be based on generosity to citizens. There is a search for disgruntled groups and a scrambling for those fields that are not yet covered by social security. Every interruption in this rise in the standard of living would be regarded as a failure and therefore give rise to dissatisfaction and political unrest. All the discussion on our production goals that has taken place in the press

and on TV has made everyone accustomed to the idea of an accelerating rise in the standard of living. We all have great expectations and it would be psychologically difficult to get people to accept a too obvious reduction of the target, once set.

## Ethics

From business to ethics might seem a daring step to take—but to certain people there is a moral reason for speeding up economic growth in the West. That is the very great poverty that still exists in the world. The majority of the world's population is still living under conditions that we in the industrialized countries are not willing to accept as fit for human beings. This is not a problem only for those people living in the developing countries but for the whole world, and not least a problem for the industrialized countries. We have, in all countries, accepted the idea of social responsibility which in its turn has entailed government measures to guarantee a minimum standard for all citizens. On the international plane, it is only now that such an attitude has begun to gain ground.

We must consider it as an urgent task to raise the standard of living of the masses in the developing countries. It is not solely, and not even predominantly, a problem of redistribution of income between the industrial countries and the developing countries. Even if we brought about a completely uniform level of income in the whole world, the standard of living in the developing

countries would not rise sufficiently. Our problem is not one of redistribution, it is a problem of production we are faced with. In order to get the desired rise in production under way there must, of course, be some "redistribution", in the form of transfer of capital to the developing countries. But it is not through the transfer as such, that the standards will be raised, but by creating conditions favorable to a rapid growth in production in the developing countries themselves. It is a complicated problem and previous experience has not always been encouraging. A certain scepticism and resignation has been noticeable in many of those, who previously were enthusiastic pioneers in extending aid to the developing countries. In this resignation lies a great danger. It must not be allowed to spread, because we need enthusiasm if we are going to succeed.

To sum up: the ethical argument for speeding up economic growth undoubtedly carries weight. Aid to developing countries will during the next few years certainly demand a greater part of our resources than before.

## International Politics

There is a political element in this moral obligation on the West to help the poor nations. There is competition between East and West, a struggle between political regimes even as regards aid to developing nations. Even though one might say that it is not a question of "getting there first" but to overcome hunger and

misery, it is impossible not to admit that developing nations might ultimately have to make a choice between two ways of living: Soviet planning or the welfare state based on free enterprise. If Soviet growth continuously surpasses that of the big Western nations, the temptation might become too great for the developing nations to adopt the Soviet economic and political system. The next ten years may be crucial in this respect.

Secondly there is undoubtedly a production race going on between East and West. Many of us might be unwilling to admit that we are being forced into a rapid rate of progress solely by the threat of communism. Fortunately, we do not need to regard the development in this light. But we cannot shut our eyes to the fact that the problem of economic growth has some connection with the competition between East and West. The political regimes in the West must be able to offer a satisfactory and sustained rise in the standard of living of their citizens if they want to survive. This does not mean that we must raise our production at the same rate as the Communist countries. The Eastern bloc has a lot to catch up. But we must not give Communist propaganda the chance to point out that the political regimes in the West are unable to offer their people a satisfactory rise in standards.

The third political element concerns the Common Market and European integration. The visionary dream of a European Market without tariffs or trade restrictions is on its way to realization. As a European, conscious

of the position of our Continent between the two giants, the United States and the Soviet Union, I can only welcome this development.

But we must not believe that the movement towards a "United States of Europe" will continue unimpeded. A prerequisite is an economic expansion within the Common Market. Stagnation would probably bring forth conflicts between member countries, jealous of protecting their own standard of living.

There is another aspect of the EEC that I would like to point out. It is important that the very efforts of the Common Market to raise production do not obstruct industrialization in the developing countries. This means that in the long run the Common Market will have to reduce its outer protectionist tariff walls. The aim of the EEC countries and of the West as a whole must be to erase the existing walls and see that we discriminate as little as possible against the developing countries. One of the most important contributions of the industrial countries to a sound economic development in the less advanced countries is that we maintain as rapid an expansion as possible in our own countries, and at the same time keep our expanding markets open for products from the developing countries.

### **Prospects**

What, now, are our prospects for reaching the rapid rise in growth at which we aim? The relatively rapid rise in production we have enjoyed hitherto in the post-war period has

partly been due to certain favorable circumstances. In the first place, the population in many Western countries has increased unusually fast. Secondly, there has been a gradual transfer of labour from agriculture, where productivity is low, to industry. Further, many countries had a reserve of idle labour resources after the war. We have also experienced what might be called a second industrial revolution. The technical inventions developed for military purposes during the Second World War were rapidly taken over by civil production in the immediate post-war period.

In many respects, conditions for a continued rapid increase in production are not as favorable today as they have been up to now. The population of Western Europe is now growing more slowly. The transfer of labour from agriculture has in many countries reached a stage where it cannot go on at the same rapid pace as before. Furthermore, the industrial countries, with a few exceptions, have reached the stage of full employment. Production can, consequently, no longer rise through the utilization of idle labour resources. We also note a general tendency on the part of the workers to prefer shorter working hours to a continued rise in real wages. Leisure is in itself valuable, but it is not included in any production index and it cannot be transferred to the developing countries in the form of aid.

In the competition between East and West, the Western world has a serious handicap. Our rate of expansion is wholly dependent on our ability to adapt production to the existing demand. In a dictatorship

one can, to a great extent, decide what people shall buy, but in a free market economy that cannot be done. The capacity which does not produce desirable goods is lost. Therefore, we in the free world run a greater risk of making investment mistakes with their consequent repercussions on the development of production. Actually, the possibility of making mistakes may be no greater in a free economy, but it is just that mistakes are punished much more severely than in a centralized dictatorship. The market is more ruthless to unnecessary investments than a dictator who can "save" such investments by eliminating the free choice of the consumers.

In order to attain as rapid a growth as possible it is, therefore, of the greatest importance that we produce just those goods which the market is willing to accept. We must, in other words, be very flexible in our investment policies. This is one of the basic conditions for avoiding depressions which would jeopardize all our good intentions.

Another condition for rapid growth is a satisfactory financial stability, both international and national. We must be able to avoid international liquidity crises, which force individual countries into protectionist measures and thereby disturb the international economic equilibrium. And we must maintain a reasonable balance in our internal economies in order to avoid the same kind of disturbances.

The third basic condition for rapid progress is that we make full use of research and development.

If we succeed in fulfilling these conditions, there is every prospect of realizing our production aims.

# *Speeding up the Growth*



# The Sources of Economic Growth

by Theodore V. Houser

For an American to speak on economic growth to this audience may seem a bit odd. Most of your countries are enjoying much higher growth rates than the United States. Let me assure you it is not my purpose to tell you how to grow even faster. I propose to discuss my own country, where, as I shall note, the limitations on growth are in some vital respects quite different from those in European nations.

Economic growth is usually measured by the increase in national product, measured in constant prices. I shall follow this definition. Thus, economic growth means the increase in the quantity of marketable goods and services produced. It is sometimes overlooked that this is a long way from being a measure of changes in the welfare of individuals, which should be the main purpose of economic activity. Let me give just a few examples.

We Americans devote an enormous amount of time, on an unpaid basis, to all sorts of nonprofit organizations. Every city of any size has a community chest. Each cultural, educational, or social purpose has its organizations, and many of them rely heavily on unpaid volunteers, usually working with a much smaller professional staff. Our churches, wholly

free of government support or control, are centers for religious and community activities conducted by their members. The time devoted to this unpaid work might be transferred to paid employment, where it would raise the national product, but this way of conducting community activities appears especially congenial to Americans.

Let me give another example. The American Red Cross, supported entirely by voluntary contributions with a budget of \$95 million, has 2 million unpaid voluntary workers who devote 500 million hours of work per year which at a dollar an hour—if you want to establish a value—is half a billion\* dollars.

A great part of innovating activity in the United States, perhaps more than in Europe, takes the form of developing and marketing new and improved final products—as distinguished from methods to reduce costs of old products. These add immeasurably to the quality of life, as well as to defense capability. But this has not contributed to the growth rate, as measured. Our calculated growth rate from, say, 1929 to the present would be unchanged if the

\* Please note that the American word *billion* = the British *milliard* = a thousand millions.

resources now used for television sets, antibiotics, and guided missiles were devoted instead to producing radios of 1929 model, medicines already in use in 1929, and battleships.

The national product thus is not a complete measure of the ability of production to satisfy our needs. In addition, it must be recognized that it measures only output. When we consider alternative economic policies, we cannot focus on output without regard to other aspects of economic progress. The growth rate tells us nothing about the uses to which output is put; nothing about the narrowing of the income distribution and the broad measures adopted to alleviate poverty and provide for the unemployed and the elderly; nothing about the shortening of working hours and increase in leisure time; nothing about safety in factories and mines, or about other aspects of the workplace or the job. Furtherance of these other aspects of economic progress often competes with the growth of output.

Fruitful discussion requires that long-term growth of productive potential, the economy's ability to produce goods and services, be distinguished from short term fluctuations in the ratio of actual output to potential production. In the Committee for Economic Development (CED) we accept the inevitability of fluctuation in business activity. We believe fluctuations must be held, however, within fairly narrow limits. We are presently disturbed that unemployment has been excessive for almost five years, although it is currently declining. CED has given

much attention to employment policy and price stability. As one who has spent his life in retailing, I am acutely conscious also of the longer run need to develop markets to absorb what we can produce. However, I shall confine my talk to long-term growth of our productive potential, which is a very big subject in itself.

In the past, the long-term growth rate of the United States has been around 3 per cent a year, whether we calculate it over the period from the beginning of this century or even earlier, or from the twenties, or from, say, 1951. The growth rate has fluctuated from decade to decade, but there has been no pronounced tendency for the long-term rate to change in either direction. We sometimes hear references to a lag in United States growth since 1957, in comparison to past periods. But this lag appears only because we have been utilizing our productive potential less fully. Full recovery from the recent recession would immediately wipe out the lag.

In the 1929—57 period, when total national product grew at an average annual rate of just under 3 per cent, the growth rate of national product per person employed was 1.6 per cent and that of product per capita was 1.7. From some standpoints, these are more important figures.

It is sometimes said that a mature economy must accept a declining growth rate. If we have a mature economy, and we do not think we do, our experience denies this view. Our growth rate thus far has shown no tendency to decline in the past and I know of no study that anticipates a decline in the decades ahead.

There is much interest in knowing why many advanced countries are currently experiencing higher growth rates than the United States, and how long this is likely to continue. To arrive at a complete answer, I suspect we need to know why productivity in Europe and elsewhere is so much lower than in the United States. For developments in Europe and Japan may be viewed as a rapid move to eliminate some of the conditions responsible for the lag of productivity behind ours, although this is not the whole story.

International comparisons are hazardous, and I hesitate to comment at all in this area. But it does seem that industrialized countries in which productivity is much below the United States should achieve much higher growth rates once they establish the institutional conditions that make them equally favorable to growth. They can raise productivity quickly and inexpensively by adopting the techniques of production and distribution already being used in the States. Improvements in our technique are much more closely limited to new accretions to knowledge.

There are additional factors. With less capital per worker, the yield of a given amount of new investment is usually higher. The higher rate of return is also a stimulus to more investment. In smaller economic systems, such expansion of production is automatically reinforced to a greater extent by economies of larger scale operations. One recognized purpose of the Common Market is quick establishment of a market more comparable to ours in size. In par-

ticular countries other factors are important—such as the absorption of underemployed agricultural workers into full-time employment in Italy, or the attraction into West Germany of skilled workers from the East and from abroad.

The opportunity to learn from our experience is not confined to technology, techniques of management, and the like. It reaches also to the basic structure of law and industrial organization. Most Americans are convinced that vigorous competition among business firms, enforced for three-quarters of a century by our anti-trust acts, has contributed greatly to our relatively high income.

We can, of course, learn from Europe, and are anxious to do so. But our situation, as the country in which productivity is highest, is so different from that of other major countries as to suggest that the sources of growth in the recent past, and quantitative opportunities to accelerate the future growth rate, may differ greatly between Europe and America. I hope you will bear this in mind in what I have to say next.

The sources of economic growth may be sought at various levels. Basically, growth results from the use that people make of the resources in their control. The fundamental requirement is that the people who control the resources should desire growth sufficiently to use the resources in ways that cause growth—by educating themselves and their children, by saving and investing, and by seeking ways to do things more efficiently. In the United States, from the beginning, the control of

resources was widespread among the people. An intense desire to use their resources in ways that would promote economic advancement was, and has remained, also widespread. There are many reasons for this. The most important is the existence of a social system in which the direct benefits of efforts at economic advancement are gained by the person who makes the effort, while indirect benefits are shared by the whole community. Moreover, economic advance, and achievement generally, had a value in America that it did not have in more stratified societies. Thus, we may look for the sources of growth in the underlying psychological and institutional conditions that motivate people to devote resources for growth. At a more measurable level, we may look at the quantities of resources that were put into the economic process and the ways in which these resources were used.

A recent exploratory study by a member of CED's Research Staff, Mr. Edward F. Denison, has tried to break down the known past growth rate of the real national income of the United States among the sources of growth in this sense. This is a difficult type of inquiry that requires some assumptions and judgments. The results are not presented as precise, but as rough and tentative. Their derivation is fully described in the study, which has been published by CED.\* Let me

\* The Sources of Economic Growth in the United States and Alternatives Before Us. By *Edward F. Denison*. Supplementary paper No. 13. New York; Committee for Economic Development, 1962. \$ 4.00.

summarize the results for the period from 1929 to 1957. Over this period the growth rate was 2.93 per cent.

1) Changes in the number of people and in working hours accounted for 27 *per cent* of the total growth rate. If average hours of work had not been shortened, the increase in employment would have contributed an amount equal to 34 per cent of the actual growth rate. But average work time was cut by 460 hours a year. The study assumes that shortening of hours did not reduce output per man proportionately. Even so, it concludes that the shortening of hours costs the U.S. the equivalent of 7 per cent of the actual growth rate. In passing, I might note the need for much more information than now exists concerning the actual relationship between working hours and productivity.

(2) The quality of the labor force was improved by a great deal more education. The average person in the labor force in 1957 had spent 8/10 more days in school than his 1929 counterpart. The study estimates that this 8/10 (80 per cent) increase in education raised the ability of the average individual to contribute to production by 3/10, and that this was responsible for 23 *per cent* of the total growth of national product. A number of other recent studies by American scholars also place great stress on education as a source of growth.

(3) The stock of capital goods increased less from 1929 to 1957 than in earlier periods, and less than the national product. The increase in the stock of private capital that did

occur contributed *15 per cent* of the total growth rate. This was mostly the contribution of more business capital—structures, equipment, and inventories—although residences and international investments are also included. Let me stress that this is an estimate of the contribution of the increase in the quantity of capital only. Structures and equipment in use in 1957 were, of course, more efficient than equally costly types of capital goods that were in use in 1929. The ability to produce better capital goods is considered to be a contribution of the advance of knowledge.

(4) The advance of all kinds of knowledge relevant to production contributed *20 per cent* of total growth. This is the contribution of all that has been learned, in both technology and techniques of business organization and management, that permits more end products to be produced with a given quantity of resources. It does not include any contribution for the introduction of new and better final products because this does not affect the growth rate as it is measured, as I indicated earlier. This unmeasured contribution may easily be as important to the improvement of living conditions, and certainly to national defense, as that which is measured.

(5) A large economy is more efficient than a small one. *9 per cent* of economic growth from 1929 to 1957 is ascribed to economies of scale made possible by the increase in the size of the national economy. This is, of course, a passive element in growth made possible by other de-

velopments. Consequently, its contribution could, if desired, be reallocated among the active ingredients. This estimate includes the automatically associated increase in the size of local and regional markets. But, in addition, adaptation by business to the widespread ownership of automobiles and to the increasing concentration of the population in urban areas has broadened local markets quite independently of the growth of the national economy. The resulting increased efficiency is credited with *2 per cent* of the growth rate.

These five sources contributed an amount equal to 96 per cent of the growth in this period. Other sources, such as the increased experience of women workers, and the shift of workers out of agriculture, also made positive contributions. On the other hand, increases in certain obstacles to efficiency, such as resale price maintenance laws and labor union restrictions against use of the more efficient techniques, have had a negative effect.

Various developments interact one upon another, and any source of growth could, in principle, be traced to more ultimate influences. For example, the ultimate source of part of the increase in employment was new medical knowledge that prolonged life. A larger part reflected greater labor-force participation by married women, which in turn was made possible by the introduction at reasonable prices of prepared food products, mechanical refrigeration, automatic laundry equipment, and other aids to household work. Part of the contribution of the advance of knowledge

could be traced back to the increase in the number of scientists educated. The amount of capital accumulation on the other hand was adversely influenced by high tax rates.

Let me turn now to a different question. Suppose the United States wished to take deliberate steps to accelerate future growth, *not from the past rate, but from whatever rate will otherwise occur in the future*. What would be necessary to achieve any particular increase? Clearly, the way to get more growth is to do more of the things that have contributed to growth in the past and that are contributing to it now. The simple answer is that if we put more work, more capital, more education, and more research into the economic process we get more growth out of it.

One thing that should be clear but that is often overlooked needs to be stated. It is the simple mathematical proposition that an increase from 3 per cent to 4 per cent is not an increase of one per cent but is an increase of  $33\frac{1}{3}$  per cent. Roughly speaking, it would require an increase of  $\frac{1}{3}$  or  $33\frac{1}{3}$  per cent in the total effort that produces a 3 per cent growth rate to get a 4 per cent growth rate. This is a big order.

I can illustrate the dimensions as follows: Suppose that our growth rate from 1960 to 1980 would be 3.3 per cent and we would want to raise that by only one-tenth of a point to 3.4 per cent. This may sound like a small difference, but it is really rather large. It would yield a national product in 1980 higher than otherwise by about 2 per cent. Put the other way round, to change the growth rate

over the next 20 years by one-tenth of a percentage point requires some action that will make the 1980 national product larger than it would be in the absence of that action by 2 per cent or about \$ 20 billion—more than the present national product of Belgium, the Netherlands, or Sweden.

Suppose we wish to achieve this change by increasing the quantity or average quality of labor. This would require an increase of 2.4 per cent in the quantity or quality of labor in 1980, over and above what it would be otherwise. This would require some fairly major changes. For example, it could be done by preventing half the deaths that will otherwise occur from 1960 to 1980 among individuals less than 65 years of age, or by cutting in half the time lost from work because of sickness and accidents. Or it could be done by drawing into the paid labor force one-tenth of all the able-bodied persons over 20 years of age who would not otherwise be working in 1980. A workweek one hour longer than otherwise would also make a similar contribution. To achieve it by raising the quality of the labor force through more education would require adding  $1\frac{1}{2}$  years to the average time that would otherwise be spent in school by everyone completing school between now and 1980, on top of the very considerable extension of schooling already in prospect. Better schooling could, of course, have the same effect.

We could, alternatively, add one-tenth of a point to the growth rate by increasing investment or raising productivity, but on investigation

these rough routes also require rather large measures.

It is not clear that we know *how* to provide incentives that will bring forth much more work or much more investment, *how* to achieve a medical break-through for radically better health, *how* to accelerate still more the advance of knowledge, or *how* to do other things necessary to achieve greater growth. The main point to be remembered, however, is that faster growth does not come free. All the quantitatively important ways of raising the growth rate impose costs. Some, such as those leading to more investment in private or public capital, or to a faster rate of advance in knowledge through more research, require that the nation consume less than it otherwise could. Others, such as diversion of resources to provide more education or better medical care, which are classified as consumption in the national product, require that the nation consume less in other forms. Still others, such as longer hours of work or enlargement of the labor force, require that more work be done.

Costs of this kind are not imposed by changes such as the reduction of trade barriers that would make the economy operate more efficiently with its given resources and given knowledge. What is required is frequently obvious. From a broad standpoint, such changes consequently are particularly attractive even though their possible stimulus to the long-term growth rate is measured in tenths or hundredths of a percentage point, not whole points as is sometimes imagined. Even these, however, require

some real or imagined sacrifice on the part of some members of society.

Decisions on whether or not to try to affect the growth rate by any particular means cannot sensibly be made without full consideration of their costs, and their other consequences.

What I am about to say now does not represent a consensus of American thinking, for no such consensus exists, nor does it represent the view of the United States administration. It does represent one point of view in the United States that I would like to place before you.

It appears likely that, without major changes in our society, we can anticipate fairly confidently a future growth rate at least as high and probably moderately higher than in the last half century. This will enable us to continue to raise living standards substantially, and to provide the economic base needed to meet our international responsibilities as we can foresee them.

We seek policies that will accelerate growth when the benefits exceed the costs, but only when all benefits and all costs are considered. Government has a responsibility to foster an economic environment conducive to growth, but the basic decisions as to how much and where to work, how much to save rather than consume, whether to go to college and what to study, and similar decisions as to what benefits are worth what costs, are best left to the individuals affected. We do have reasonable opportunities to improve our growth performance. Their contribution may be measured in tenths of a point in the growth rate, but these are significant amounts.

In our economy steps to raise the long-term growth rate very greatly, by whole percentage points rather than tenths, would impose large costs. We are not in a position that compels us to give the growth of output an overriding priority in our decisions. We are also concerned with the preservation and expansion of freedom in the fullest sense of the word. The growth we get is influenced by public policy but, aside from maintenance of high employment, is governed much more by individual decisions. We hope to keep it this way, to preserve the sovereignty of consumers' choices of what to buy, to expand the individual's choice of where and how much to work, and how to divide his income between saving and consumption. We want to maintain and strengthen a free and competitive private enterprise system. We believe this will best serve our needs and aspirations, and we are not convinced that in the long run any alternative

approach would even give us necessarily a faster growth rate.

We do not consider ourselves to be in a production contest with other countries. Moreover, we would consider total per capita output rather than growth rates to be the test of performance. To be considered the winner of a race, a four-minute miler is not expected to improve his time from the last contest by the same fraction as a six-minute runner.

In actual fact, we applaud rapid advances in living standards in Europe and elsewhere and hope for a narrowing of income differentials throughout the world. We have tried to facilitate growth abroad, have welcomed foreign observers of our methods of production and distribution, and will continue to do what we can to assist. But we are far from supposing we have all the answers. We hope to learn much from you, and are watching your progress with the liveliest interest.

# Reflections on the Causes of Economic Development

by *Mario Marconi*

The economic policy of the Western world is today focused on the broad theme of economic growth. The relations of the west with countries just beginning to develop are also influenced by the problems of economic growth. To solve these problems, both economic and moral, presents a challenge to the Western world. A challenge with all the implications attributed to that word by Professor Toynbee.

Studies of economic development have revealed in some detail the nature and rate of this development process. We must not forget the first great treatise on this matter, "An Enquiry into the Nature and Causes of the Wealth of Nations". In dealing with the dynamics of economic growth economists largely agree that it can be measured, synthetically, in terms of the annual average rate of increase in per capita national income. Also, in evaluating remedial measures in political economy this figure is the yard-stick by which the efficiency of specific measures can be evaluated. One might object, however, that this rate of increase is a criterion which cannot be used beyond a limited time horizon.

In the opinion of some economists, however, the short-run objective of

economic growth should be expressed in terms of the percentage of national income that is invested, since only an increase in current *investments* can lead to an increase in future national income. Measures adopted to increase national income in the short run, which do not substantially increase the percentage of income invested, would in the long run result in a lower total increase compared to alternative measures which, while increasing national income at a lower rate, also increase the *percentage* of investments. The objection to this is that it is acceptable only when adopted as a condition favoring investments which are destined to bear fruit during a long period.

The problem of measuring the rate of growth is more important in underdeveloped regions or countries than in more mature economies. However, even bearing in mind the question of the time limit, the rate of increase in per capita national income as the criterion remains valid as a basis for economic choice. Without this criterion it will not be possible to outline a policy of economic development, or determine the extent of various practical measures.

On the practical level, the problem is even more complex. Western

cultural traditions imply that a rise in the rate of increase to its maximum is not the ultimate aim in a process of economic development. One must take into consideration at least four other aims. These may be defined as follows:

- 1) the process of economic development must be a means for bringing about full employment (in the case of Italy, the Committee for Economic Planning has estimated that full employment can be reached in 1970 when the per capita national income reaches an average annual rate of increase of not less than 5.5 per cent);
- 2) the reduction of the degree of concentration in the personal income share of national income;
- 3) the reduction of regional differences both in the level of gross volume and in per capita volume of the net product;
- 4) finally, the process of economic development must be the means of a cultural elevation making possible the discovery and mobilisation of talents hidden in human personality.

The adoption of these four aims no doubt creates problems as to the importance that should be given to each in practice. The increase in national income, which is the consequence of a given aim, offers a quantitative criterion for evaluating the welfare achieved.

If "the Western tradition" in economic development is so defined, it is essential to underline a second problem: the path to be followed in this development. Measuring the process of economic development in terms of economic logic enables us

to find progressions common to all. This applies even in the case of socio-economic systems which are different, or even opposing, in so far as their human and social content is concerned. In fact, the long term increase in average per capita income implies an analogous increase in productivity levels. Thus, the productive combinations—the total input of a certain country—in time, will result in a higher output. In general, an increase of both the quantity and quality of capital and labor results, but less than proportionate to the increase in national income. The increase in productivity is related to a number of factors: the increase in the size of operations and markets; the process of specializing productive activities, where this demands a corresponding increase in the productive structure of a country; the combination of growing quantities of capital per unit of land, labor and output; the formation and utilisation of more advanced technology; and the readiness of entrepreneurs, firms and workers to adapt themselves to technical and economic progress. It is also necessary to vary the time horizon within which the various phenomena are considered, when evaluating the contribution of alternative factors.

Technological progress plays a decisive role. Directly by increasing productivity and inspiring new activities. Indirectly by creating new types of capital which incorporate technological innovations. Also, the improvement in the quality of labor and the capacity of society to disclose enterprising talent becomes a variable of strategic value. This capacity de-

depends on historical heredity and even more on the limit of ideal and moral components in institutional and sociological factors.

Underlying this progression of economic forces we find factors, causes and components of an extra-economic nature. These play important roles in determining the birth as well as the relative importance of the effects of these various forces.

One might also notice that even in societies far removed from Western traditions there can be found extra-economic structures and components which favor a rapid growth of economic systems. Political institutions and ideologies sometimes drive these societies towards the maximum production of goods. However, these deductions which are valid in the short run are not necessarily valid in the long run. Therefore, the proof of experience is not conclusive. It cannot be said, however, that comparison of short and long run leaves us in a weakened position in our analysis.

Still another fact should be taken into consideration. Our socio-economic systems have served as a model, the technical and economic aspects of which have been imitated to speed up the development of socialist economies in the most delicate phase in the take-off of their growth.

The extra-economic factors are not merely conditions required for economic development but also fundamental values which the process of development seeks to attain as part of the total objective. The path and means by which economic development is achieved are of great importance, for establishing a certain

tempo or pace. Also and perhaps most important, the choice of means has a direct impact on the structure and values of a society.

The basic respect for the right of the consumer to choose and the right of free participation by all members of society in a social and economic life, set clear limits which differentiate our type of society from others distinguished by alternative values.

Yet a third feature is interrelated with the first two. This is the activity of the entrepreneur as a manifestation of productive capacity. He makes an original contribution to the evolution of society, a contribution which is free and not pre-determined in the process of economic development.

The entrepreneur has a great responsibility. He plays his part in the efficient working and development of the economy, and, above all, operates as a safe-guard of free society. All that our American colleagues with the CED, and we in Europe with the SNS, the PEP, the LECE, the CEPES, and other Associations, do in the administration of local organisations and in other functions of general interest, is a concrete answer to this responsibility which we feel so deeply. In other words, the entrepreneurs together with men of culture must more and more take upon themselves the functions that were once the prerogative of the aristocracy.

Thus, in the aid to underdeveloped countries we should set up small and medium sized firms next-door to the great factories and defend small farms and craftsmen by increasing their productivity. Only by so doing shall we achieve heterogeneous societies com-

posed on many varied groups. These are potentially free, and economically progressive in contradistinction to those consisting of few categories and classes which are opposed and hostile.

Economic policy and political activity play a vital role, today, in directing individual, local, regional and national choices. Tendencies and behavior that are not compatible with social interest and the aims of economic growth may be influenced by economic and political forces. The three features of "the Western tradition"—technological progress, the role of extra-economic forces, and the activity of the entrepreneurs—are fully compatible with the operating of economic and political policy.

There is a civil and religious tradition in the West, the components of which cannot be given up. Doing that would deny our age-long ideological legacy: the belief in free determination by which history is made. We consider the events of history as not pre-determined but born of the free action of individuals and social groups. This vast multiplicity of attitudes, interests and points of view is necessary for the mediation from which history flows. The choices made by the consumers and the entrepreneurs constitute a decisive element in operating the forces of economic development. Economic policy then operates to modify these forces and integrate them into the broader objections and values of society. In this way, economic development becomes a process which responds to the aims of societal wellbeing and contributes to the achievement of the ideals of civilisation. We shall now proceed

within the framework outlined to examine certain technical conditions necessary. The free choice of entrepreneurs and consumers as well as the decisions of economic policy which join them together are required in this process to satisfy the aims of economic development.

One primary condition relates to the formation of capital. There exists a relationship between expenditure on consumer goods and expenditure on producer goods which will maximize the flow of income obtainable from a given quantity of productive factors employed at a given level of technology. Because of structural changes in an economic system during process of growth, this relationship tends to increase with a rising level of per capita income. As happened in the United States around 1925—1929, this relationship tends to decrease once the critical level of average income has been attained. During the take-off and in intermediate stages of economic development, the propensity to consume may not permit a flow of investment corresponding to the level required for optimum capital formation. As a result, the rate of increase in national income may be inferior to what might otherwise be achieved. It will then be the task of economic policy to favor greater capital formation. On the other hand, there is the less likely alternative that the expenditure on consumer goods will be excessive in respect to the optimum relation between consumption and investment.

Whenever there is a considerable difference between the actual and the optimum relationship intervention

may be required, reducing the freedom of choice even in a free society. This assumes the existence of the other conditions for development which are also essential for an increase of the capital formation. However, the decision to restrict freedom of choice cannot be justified merely on the grounds that a greater flow of national income may be available in the future. The increase in the flow of income must be countered by measures promoting the other aims of economic development, that is to say, full employment or something very near to it; and the reduction of intersectoral and regional differences. The degree in which such aims are achieved will justify and determine the correction of individual choices.

The optimum situation would obviously be one in which a wider distribution of the national income, accompanied by a relative increase in expenditures on consumer goods restores the equilibrium with the expenditures on producer goods. This is a very likely situation when the per capita national income level is sufficiently high. As a matter of fact, a check on the consumer's free choice must always be weighed against the degree to which the complex of aims in the process of economic development is achieved.

To appreciate the role of the consumer's choice, even within the limits mentioned above, we should recall that expenditure on consumer goods is a significant factor in the growth of the economic systems. It creates the conditions necessary to promote technological progress. This, in turn,

creates new opportunities for investment and accelerates the rate of formation of new capital. The creation of capital is thus related to a rapid increase of national income only when it is supported by the progression of development; the widening of the horizon of desired consumption; the increase in expenditure on consumer goods; and the extension of technological knowledge. Thus, a balance between the rates of growth of the various factors, which contribute to changes in the rate of capital formation, is a necessary condition for the process of economic development.

The progression illustrated can and must be expressed in terms of the optimum relationship required by the conditions for the dynamic equilibrium of the system. A different, and extreme rate does not appear in western societies unless the entrepreneurial factor is operating without restriction. The relation between the producer's and the consumer's decisions—the freedom of the entrepreneurs' action and the consumers' choice—are two interdependent factors. This holds true even though there may be momentary set-backs, lags, and direct public intervention influencing the consumer's choice—for example by means of taxation. As a result of the necessary controls imposed by the established economic policy there will be two repercussions of a dynamic order. In the first place, the progression mentioned above will be brought into existence through the creation of innovations and potential demand, and the consequent increase of productivity and demand for capi-

tal. In the second place, also by reason of decisions of economic policy, the system tends to equate the process of economic development with the spontaneous choice of society. These choices are even more significant when they have explicit effects resulting from the employment of alternative means of evolution. A quick glance at the experiences in the development of Southern Italy will illustrate this.

First, what are the reasons behind the policies pursued? In every country there are regional differences in the levels of per capita net product and income. Generally speaking, the differences, in terms of per capita income, are minimized by the redistribution carried on by public finance and money sent home by emigrants. However, a reduced ratio between the number of persons in labor force and the total population coupled with widespread unemployment and under-employment causes per capita income to be less than net product per worker. It is significant that this hypothesis finds confirmation in the case of Southern Italy. There, the disbalance between regions have been and still are remarkable and they occur in a country in which the level of average income, although increasing rapidly, is still modest according to West European standards. The differentials in average income are, therefore, much more noticeable. In short, in the various regions of Southern Italy and the Islands there is evidence of underdevelopment. This is most noticeable in the high percentage of labor force in agriculture (over 60 per cent) and the

very widespread hidden unemployment.

Therefore, the simplest justification for the policy adopted is of a moral nature, a duty imposed by the national conscience. From the economic point of view the problem is more complex. It is apparent, as a consequence of what has been said before, that one should not speak of objectives but rather of the limits upon policy from an economic point of view and of the optimum choice of the steps to be taken to achieve this aim. Some are of the opinion that a concentration of productive activity in Northern Italy should be prevented. Such a concentration would be economically sound from the firms' point of view and as a short term policy, but would not respond to the social interest. In theory one can agree on the limits which social welfare imposes on the concentration of productive activities. In 1950, however, when the policy in favor of the South had begun, our economy was still far from these limits. Further an industrial development as rapid as that which was to take place in the ten years immediately following, could not then be foreseen.

A policy of regional development cannot be correctly planned without satisfying two basic requirements: it must be effected on the basis of long-term planning of at least five and, preferably, ten years duration. And, it has to be incorporated into and coordinated with the objectives, the timing and the totality of economic policy in a country.

Neither today nor in the near future (not even in the case of the

most advanced provinces of Northern Italy) is the degree of concentration of productive activities un-economic. One could, therefore, uphold the convenience of a heavy migration towards the northern centres of ancient industrial tradition—that is Milan, Turin and Genoa. Capital requirements would be reduced and improvement in the standard of living of those who are now living in the South would be speeded up. This argument is attractive. However, it was not conceivable in 1950, when the problem of the South became acute. At that time widespread unemployment and under-employment existed also in the North. The policy indicated only became possible after 1957 when the situation in the North had been eased by the creation of new jobs.

In the past, even the role of emigration was important and to some extent it is still so today.

Second, mass movements of labor also require public and private investments in streets, houses, public services and utilities. For reasons both psychological and practical, however, emigration cannot be so intense as to solve the problem of the South more rapidly than regional development. In fact, the justification, valid in 1950 but also today, remains the mobilization of productive factors, human and material.

The effects of new income and employment spread over other regions. Especially in the early years of the programme a large part of the new flow of income was spent on imports from the industrialised regions. This occurred on such a scale that it exceeded the fiscal burdens required to meet the demand.

As far as the make-up of the programme was concerned, during the first five years (that is up to 1955) investments in agriculture and in infrastructures dominated. Credits at low interest rates and investments and incentives to promote industrial development both by the state and by the local regional governments of Sicily and Sardinia were rather limited. The great weight of agricultural activities in the income determination and the decisive role played by irrigation in the South justified this choice. Experience has shown, however, that one should have increased the investments in favor of tourism, promoted the development of a commercial organisation for the marketing of old and new agricultural products, and improved education and vocational training. More thorough studies, research and forecasts on the potential of economical growth and on the ways of developing the different areas should have been made. In such a case, the localisation of public works and the determining of a scale of priority in space and time would have been more rational.

At present considerable incentives in favor of industrial development are in operation. Areas and nuclei for development are being set up through investments, to a large extent on the part of public organisations. In these areas concentration of industrial plants is favored, thus reducing the heavy and varied investment in infrastructures.

The success of this policy of promoting industrial growth may be measured by the fact that according to a recent estimate about 35 per cent

of the total investment in rapidly growing industry will be directed towards the South during the next ten years compared to about 20 per cent ten years ago. On the other hand, the per capita income differentials between North and South have only partially been reduced. Owing to the rapid expansion of industrial activities in the Northern regions, the per capita income in Italy has increased by about 70 per cent in a decade. In the absence of programmes

for the development of the South, the difference would have increased even more. At the same time, the prerequisites for a reduction in this difference are now in existence.

Through our experience in programmes of this nature we have realized that, while trying to limit *investments* to short-term fruition, frustration of short term often results from the difficulties encountered in human character and the lack of knowledge and organising ability.

## Discussion

### Jacques Plassard:

The speeches we have heard so far have dealt mainly with the technical aspects of economic growth. The observations I shall make belong under a heading which, in my opinion, covers the central idea.

This idea is that growth is originated by man's wish to create better living conditions and that the rate of growth depends on the intensity of this wish. There are, of course, obstacles to this growth. To overcome them we have to work; we need education, investments, and many other things. Of still more vital importance, however, is that we get people to accept *changes*, because to increase the national product also means to change its composition. In other words, we have to conquer and change routines and habits, both in our productive work and in our daily private lives. Thus, habits and routines become the most dangerous obstacles to rapid growth.

When France came out of the last war, probably more than any time before in its history the French people had a true wish to change their living conditions, which were, indeed, miserable. This very intensive wish naturally ought to result in a rapid growth, especially since we only had one obstacle and that was a political disorder.

At that time, when business and

industry wanted to make active use of capital (part of which was furnished by the United States) we formed in France *Le Commissariat au Plan*. This commissariat was supposed, through long range planning to bring together the representatives of the state, of the labor organizations, and of the productive enterprises. In this study of the future France, the workers, the employers, and the federal administration have come to know each other much better and they have made progress towards a certain co-operation. Thus we have been able to spread in the entire country and amongst all our enterprises certain ideas which were not known before. We have been able to sketch a future and set forth those measures which will have to be undertaken if we are ever to reach a happy solution for the nation.

All our enterprises, all our professions wish to make such studies in order to make the right investments, to have that common research policy which is necessary to achieve growth. The changes necessitated by this growth were conceived and described in a spirit which we had not known before. Earlier we had difficulties with labor organizations, some of which had little knowledge of what was going to be changed, why certain enterprises had to close, and why there was unemployment. They were in a way, conservative, but we have

been able to minimize the importance of this attitude. We have also been able to go a little deeper into all the administrative sectors, especially those concerning the public services, in order to introduce into the latter sector (which is also more conservative than in any other country) a feeling for efficiency and for progress.

The question which has long been most discussed in France is the same as the subject of this conference: Will our rate of growth increase? Do not we on the other hand risk to loose other things? This animated discussion is far from closed yet. The contacts taken between official services have been ratified by the instances on the top level and the progress of the activity from 1949 to 1961 has been estimated to about 4.4 per cent in terms of national product. But the figure ought to be further increased because we have had a permanent lack of labor force. We must have more workers to achieve a total progress of 5.3 per cent, according to the international definition.

A factor which has to be considered is the opening of the French protectionistic system—the Common Market. The Rome Treaty had a considerable psychological effect. French firms now all try to find out what is going on outside the country, what kind of competition they have had and how they could take a place in a freer market. This confrontation was useful and, of course, every confrontation leads to certain progress. The Rome Treaty has now been applied progressively and the French enterprises that accepted it are making real progress. The labor possi-

bilities inside the Community have been increasing, too. Although I would not like to mention any figures, I am sure that its influence on the growth has been considerable. Certain parts of the French industry, especially the producers of electric household equipment, have been first to make concentrated rationalizations, because the Italian firms mean great competition to them.

What factors speed up the growth elsewhere than in France? When we look at the rates of growth in the OECD countries we find that they are 2 or 3 times as high as they used to be. We might even ask ourselves if there is anything essential changed in the history of the world. One thing is sure: In the middle of the 20th century one profound change—on the technical and human level—has been of great importance: we have got fantastic means of communication. Above all I think of Africa, where I have been some time ago. There are now French schools and many people know France very well (in fact they know our civilization better than my great-grandparents knew Paris). And as they get to know highly developed civilizations like this, they wish to get away from the old habits and culture and become like the others.

Thus, the underdeveloped countries now experience a change which they did not have before. This as far as the desire for progress goes. But they also have technological measures at their disposal, to cope with greater difficulties. We are willing to teach them and also, possibly, to put capital at their disposal.

This creates a great problem of economic competition between two civilisations. I am rather sceptical of the idea that the most advanced countries should do all they can to advance even more. Instead, I think they should try to integrate into the Western system these countries which are still underdeveloped but approaching the threshold of civilization.

The great development in Western society during the last years has shown itself not only in the countries which were ruined by the war, but also in countries like Italy where the southern part now is on a good way to catch up with the north. There are also countries like Spain, Greece, Turkey, Mexico, which to a certain extent are still underdeveloped but able to make relatively good speed. If they can develop fast and reach civilization in the spiritual and material sense of the word, the West will assume a dimension which will show that its ideas will triumph in the near future.

### **Nils Kellgren:**

As far as I can see, Mr. Houser gave a very optimistic view of a free market system. I hope he is right, but I am not sure.

When we discuss economic problems we often start from this point: all the factors of production are easy to change; we live in a market with free mobility of labor, with free change of products and of capital. I think it is true for the market of private consumption. We can change from one household product to an-

other, from one brand of canned fruit to another. But the problem in a modern, highly industrialized society is not merely private consumption, it is the market of education, of medical care, of society planning so that we can get pure water and air, places to park our cars and enough space for our children to play in.

To finance the fields of common interest is all over the world a problem of tax paying. There is of course a very close relation between the private and the public sector. Mr. Houser mentioned that investments in education were responsible of about half—I calculated about 40 per cent—of the total increase of production, including investments in vocational training but also investments in the common education in schools, societies and such. Similar studies in Norway, Britain and Sweden have given the same results: education is a very important factor.

However, I have an impression that Mr. Houser underestimated the difficulties for the market to function in the right ways, especially in these fields of common consumption. Let me take only one example, from the labor market. If the labor market is to function, we need a retraining of adult people. Our estimates in Sweden are that we need to retrain about one per cent of the total labor force or about 35,000 persons a year. At present we are retraining about 20,000 persons a year and the cost of this is about \$12 million. I do not know how many people are being retrained in the United States, but a similar American program would affect around 650,000 persons a year.

This figure might even be too small because the Swedish program is very easy to carry out. We take our shoe-workers and textile workers and re-train them for metal work, which happens to be a field of great expansion. But, as I understand it, in the United States the engineering industries are not in such state of an expansion, because there are other fields of the American economy that must expand. Therefore the figure 650,000 might be too small. Perhaps it should be one million people. And such a retraining program will cost about \$600 million.

Without such efforts the society will not function, at least not the labor market. Another area where we Swedes underestimate our ability to accomplish good things is in vocational training at the plants and factories. We estimate that about 10 per cent of the total working time would be necessary for educational purposes in a firm, for both workers and managerial employees. I think so far there is only one firm in Sweden that has started such a program. That is Svenska Handelsbanken. This bank will support all kinds of education that somebody in the bank is interested in, and it concerns people on all levels. I think that every firm, every factory should invest in human ability and human efficiency. This is the greatest motive power for our economic growth in the long run.

If we do not start from this point to really make the different markets free to expand (I have here only mentioned the labor market), to take away all kind of obstacles and to make the partial markets to function,

we will never achieve a growth of 3—4 per cent a year. As I see it, we must start with the labor market, with retraining, and with educational programs. Administrators within the Soviet bloc have understood this better than we and I think we should learn as rapidly as possible.

### **Erich Schneider:**

I take it for granted that we, being members of the Western world, have made a final decision, the decision which was expressed by Mr. Houser thus: "We are concerned with the preservation and expansion of freedom in the fullest sense of the word. We hope to keep it this way, to preserve the sovereignty of consumers' choices of what to buy, to expand the individual's choice of where and how much to work, and how to divide his income between saving and consumption. We want to maintain and strengthen a free and competitive private enterprise system because we believe this will best show our needs and aspirations."

The sources of economic growth in such a system—this was also indicated in Mr. Houser's speech—are the same as they always have been since the countries of the Western world began to develop: labour, capital, and know-how. But the driving forces of growth are different in the public sector than in the private sector. It is very easy for the state to say: We want to have certain rates of growth within the different branches of the public sector and to establish certain goals. In the private sector it is

different: the economic process is a result of the decision of private individuals (private entrepreneurs, private households), who work on millions of uncoordinated plans. Within this part of our economic system the State can only act upon the conditions for growth, not more; the State cannot force upon private entrepreneurs a certain rate of growth. Consequently it is difficult even to say: We want to have in the private sector a rate of growth of 4 or 5 per cent. Because in the private sector the rate of growth is, as Mr. Houser rightly says, *the test of the performance*. Within the public sector you can work with fixed targets for growth rates; and you can do something to reach it. It is very difficult to do the same in the private sector.

But what can we do within the private sector (which is still the largest in the Western economies) in order to accelerate growth? First of all, it is necessary for all of us to preserve full employment. (By the way: a Common Market is impossible between economic systems which are in a state of depression.) This does not mean that we will not have temporary deviations from full employment. I quite agree with Mr. Houser that the business cycle is not dead. And it will never die in a system like ours. It is deeply connected with the whole process of growth. However, what we can do is this: We can smoothen the trade cycle by means of monetary and fiscal policy and other policies which are in harmony with the rules of a free market system.

Next: the rate of growth can be

accelerated by the creation of greater markets. I quite agree with Mr. Plassard who said that the existence of the Common Market alone is an important psychological factor in promoting economic growth.

And last, but not least, we need to intensify our education. That is by far the most important thing.

### Wihelm Paues:

I would like to make a remark in connection with Mr. Kellgren's intervention, as seen against the background of Mr. Houser's speech.

We have to remember that the economic and productive structures of the different countries which we may compare are so different and that also the size of a country, of the labor force etc. can be of importance to this difference.

I presume that the United States now can offer some 65 million jobs, so there are great chances for someone who has lost a job in one sector of the economy to go to another.

Further, if you have a big market—as the United States has to-day, and Europe may have in some years' time—you also have rather specialized jobs in each firm. At a relatively small Swedish workshop with e.g. thousand workers, the machines may have to be reset every two hours or at least twice a day. That means that the worker who is tending that machine has to be more qualified and versatile than if he is working on a specialized product which you can go on producing maybe for months. The average American worker can and

probably has to be trained on the specific job, and when the production changes he can be retrained in fairly short time.

Of course there is also a much greater mobility of labor and of the whole population in the United States. I remember a figure from the years 1945—1955 when you had 190 million people changing addresses in America, which means that every person moves more than once in ten years. In Sweden and in Europe there is more of a long term mobility trend from agriculture into the urban areas, which enables us to direct, to some extent, our labor reserves into fields where they are wanted.

That is why I believe that we cannot directly apply Mr Houser's facts on our small countries with their lower grade of productivity etc. We have somehow to transform these figures to find out what problems *we* have. They may be bigger because we are smaller.

### Neil Chamberlain:

It seems to me that our discussion has rather quickly boiled down to a question of the roles of the private individual and of Government and the respective contributions which each has to make. While it is true that at any moment of time these may be competitive functions in the sense that each may be seeking to draw on the same revenues of the moment, I think it is unfortunate we should consider these competitive roles over a period of time. The more important thing is that we should try to isolate

or define the respective contributions which each may make.

The point which seems to emerge from the emphasis which Mr. Houser places upon the role of the private market is that it encourages the activity of the individual. It is a motivational factor that is involved, it creates an incentive for activity that leads to economic growth. And this, of course, is something which all of us desire. But there is another aspect of the problem of economic growth which seems to me to involve peculiarly a role for Government. This is to help develop the capacity for individual growth and this is quite a different matter from the motivational problem.

Here we do move into such areas as education, health, the cultural contributions which lead to the richness of a people's lives, that stimulates their imaginations, and makes possible the individual contributions of a people. So it would seem to me that we are not in any sense playing down the importance of the role of the individual and the opportunities that should be opened to him to make his individual contributions, and the importance of motivating individuals by allowing them to seek and achieve their own personal objectives, if at the same time we realize and underscore and perhaps even place equal stress upon the social responsibility for attempting to realize or to improve the capacities of any people for exercising their own personal initiatives and abilities in the achievement of their objectives. And if we lay these two kinds of contribution alongside of each other—not that these are

necessarily the exclusive contributions of each sphere—then it seems to me that we can think in terms of an appropriate balance between the expenditures of the particular functions of these two spheres—the private market and the public sector. We may conclude that it is as important to emphasize the improvement and the expansion of a people's capacities as it is to allow free scope for the initiatives and the abilities of an individual, the incentive to perform to the level of those capacities.

### **Herbert Stein:**

Somebody has already mentioned this number of 650,000 people representing the need for retraining and therefore by some means the need for a retraining program by the Federal Government.

What perhaps may not be adequately appreciated is the extent of educational effort exerted by private enterprises in America. There have been attempts to measure the amount spent for this. The numbers are very large even in relation to the total amount of public expenditure for education in the United States and probably more than \$ 10 billion per annum. We have in the United States some experience with Federal programs, not for retraining but for initial vocational training and where we are about to embark on a new Federal program of retraining our past experience with the vocational training program financed by the Federal Government is nowadays a happy one.

The program started during World War I, concentrated mainly on the training of agricultural workers and still continues in areas of very large surplus agricultural population to concentrate on teaching the young high school students how to be better farmers—but that is probably the last thing we need. There is, of course, considerable political pressure. The Senator from Virginia thinks it is very important that there should be an adequate supply of trained apple pickers. Since he happens to be in that business that is the thing that is taught in the Federal vocational program in Virginia. I mention this only as a warning against leaping to the conclusion that the recognition of a problem of any kind is automatically a recognition of the need for Federal action to deal with them.

Further I would say something about the role of the individual in economic growth which I think has not been quite clear. Discussion has concentrated on the role of the individual as a source of growth, as a provider of growth, but there is another point which I think is also implicit in Mr. Houser's talk and that is the role of the individual as the proper determinant of the desirable rate of growth.

The situation, at least as I see it, is not that we require a social decision that there should be a certain rate of growth and then somehow to motivate or qualify the individual to produce that rate of growth. The concept of an optimum rate of growth itself seems to me not to have any clear meaning except as the sum of the rates of growth that the indi-

viduals have chosen for themselves. A basic question is whether this decision is to be taken over and that there is, somehow, to be determined a national optimum rate of growth which is distinct from the sum of the individual optimums that have been freely chosen.

### Theodore V. Houser:

First of all let me say how indebted I feel to Mr. Schneider and Mr. Chamberlain for their clarifying additional thoughts to the remarks that I made. I rather deliberately did not define what should be the area of the public sector as compared with the private sector. I question whether anybody *can* say with any degree of certainty what that should be, but my paper dealt with protecting the free market and free choice concept for the private sector, however large or however small it may be. There is no doubt that the results of scientific inquiry and research and study are all tending to enlarge the legitimate sphere of the public sector. It shows itself essentially in defense efforts.

A very important part of the research in the United States is carried on by the use of public money even though the research may be in private corporations or more likely—and where most of it is—in institutions set up in collaboration with an existing educational institution like Massachusetts Institute of Technology or California Institute of Technology. The same thing is true in the field of medicine and health, with great programs financed by Federal money

and carried on in connection with medical institutions. I also believe that our country neglected for too long the proper sphere of the Government intervention in some aspects of our development. Our cities for the most part assumed their shape in the early part of this century or even earlier. It would have been much better, had there been more city planning, more regard for open spaces, for protecting waterfronts for public use instead of for steel mills and industrial purposes. Chicago is an exception with 25—30 miles of lake front preserved for the public through the intervention of private businessmen who had a civic sense of responsibility.

Now, at the 11th hour vast sums are being spent to recreate what might have been done much more properly and effectively earlier. So I recognize very clearly a revaluation, a reappraisal that goes on all the time as to the function of the interest in the public sector. I think that, as we in our country at least go along, one of the great decisions that the public will have to make is to recognize what is the proper boundary between public interest and private interest. We had this incident in the steel industry, first the settlement of the wages and then the matter of pricing. There has been, I think, a general feeling that possibly Government overstepped itself somewhat in posing the power of Government on the matter of price determination. So I am sure that Government will back up a bit on that type of encroachment on the private sector. So by mistakes and correction, by debate, by argument as

through a democratic process this boundary line, or perhaps rather dividing zone, is being determined. But, wherever that boundary may find itself, we feel that the sum total of millions of individual decisions is a safer basis for the determination of what the total effort should be than is a Government functionary, who thinks it ought to be different. Just

because a man is in the Government it does not endow him with any more imagination or any more brains or any more education than he had when he had some other occupation of work in the private sector. So there is no magic or no greater ability to express a desirable goal, as I see it, in one place than in another.

# Regional Policy in Britain

by Thomas Wilson

## I. The Nature of the Problem

The desirability of special measures designed to foster the development of the less prosperous regions within a country may be considered under three headings.

First, the objective may be the relief of hardship, and regional development policy may thus be regarded as one of the functions of the welfare state. Structural unemployment is the hardship that has received most attention in British development policies. While it is sometimes recognised that income per head may be lower in these areas, this is still usually regarded as an incidental consequence of unemployment. In some other countries, however, the lower standard of living has received some direct emphasis. Thus the fact that income per head in the South of Italy is only about one-third what it is in the North is regarded as a reason for developing the South on the ground that such a difference is, in some sense, unjust.

Secondly, the development of industry in these areas may help to relieve congestion elsewhere. The growing concentration of population in the South-East of England is sometimes held to involve excessive inconvenience and military risk. The growth

of Paris has been deplored on similar grounds.

Thirdly, regional development may be encouraged as one part of a general policy of raising the level of output in the country as a whole.

It is with the *third of these objectives* that I shall be mainly concerned. I must begin, however, by emphasising that up to a point there may be no conflict between these three aims. Industrial expansion in a depressed district will not only bring social benefit to that area but may also imply less congestion elsewhere. Moreover by giving work to any who would otherwise be unemployed, and perhaps in other ways too, such a policy may raise the general standard of efficiency with which the country uses its resources. Everything may work together for good and the task of the policy-makers will then be greatly simplified.

Conflicts may, however, occur. The diversion of industry to a depressed district may achieve the first objective of relieving hardship but it will not be warranted, under the third heading, if the district is unsuitable for efficient industrial growth. Unfortunately, there is apparent at times in Britain a regrettable tendency to suppose that any district with structural unemployment has a natural right

to new industries, however improbable the location. Up to a point the rest of the community may, indeed, be prepared to accept some sacrifice of national output and to pay the higher taxes needed to subsidize industry in such places. There will always be some support for the view that various local communities should be kept in being even at national cost. More important, perhaps, the depressed areas may be able to form politically effective lobbies while the general body of consumers and taxpayers are unorganised and scarcely aware that they must meet the cost of such a policy. At some point, however, a limit must be reached. Industrial development cannot be specially fostered in any and every part of the country with no regard for efficiency!

Moreover, when labour is fully employed in the rest of the country, migration affords an escape from structural unemployment; it may often be more appropriate to assist the migrants by removal grants, retraining facilities and the like rather than to foster industrial growth in their native areas. We may note, in passing, that in Britain, and probably in some European countries, migration has really done more to relieve structural unemployment than has the opening of new factories under official schemes for regional development. If this fact is not much emphasised in public statements, the reason may be that it is likely to provoke political resentment in the areas that have lost population. The emphasis on migration in official policy is probably stronger in Sweden than in most

European countries; but in most places migration has really been very important in the event.

Let us now turn to the second objective, the relief of congestion. Firms that are prevented from expanding or setting up new factories in the London area may possibly turn to the depressed districts, but they need not do so. There are, after all, large areas of the country that are neither depressed nor crowded. Moreover, while too much congestion may bring industrial as well as social loss, there may be cases where firms would be severely handicapped if denied expansion in, say, Greater London or Greater Paris. In France, in particular, the facilities for technical training and research are so greatly concentrated in the capital that firms in certain industries may have a legitimate claim to be allowed to expand in Paris, or as close to it as may be. A further complication arises when a depressed district is itself highly congested. Glasgow is the outstanding example in Britain. Other examples could be given of the ways in which the pursuit of one objective may conflict with the pursuit of another.

Although in this lecture I shall be mainly concerned with the third of the objectives I have described, I do not wish to imply that the other objectives must be regarded as illegitimate. What I should like us to assess, however, is the extent to which a policy designed for regional development can be defended without invoking special social considerations under the first two headings, and I want to speculate about the form such a policy should take. Although our

approach must therefore be critical and discriminating, I shall try to convince you that a plausible case can sometimes be made.

What I am really asking you to do is to consider the desirability of special measures for regional development not only from the point of view of the regions that claim to be in need of such development but also from that of the nation as a whole. There are then four ways in which the nation can benefit.

- Some structural unemployment is likely to persist in certain areas even if manpower is scarce in the rest of the country. I do not want to suggest that most of those who are structurally unemployed are simply content to subsist indefinitely on unemployment benefit rather than face the bother of moving. There may be a few malingers of this kind, but it is relevant to note that, even in the depressed districts of Britain, most of the unemployment is short-term. The choice is often between migrating or facing the risk of being out of work more frequently, though for short periods each time. Regional development will reduce such unemployment and will thus bring an addition to the nation's employed labour force. In the British case, however, the addition would at best be small.

- If structural unemployment could be reduced it would be possible to operate with a lower level of total unemployment without incurring the penalty of inflation. If, as in Britain, the Government and electorate are extremely sensitive to small increases in unemployment of a half or even a quarter per cent, less structural un-

employment may be a considerable help in coping with inflation. About a third of British unemployment is in the special development districts as compared with only an eighth of the labour force.

- The participation ratio, i.e. the ratio of the number normally employed for gain to the total population, is liable to be low in depressed districts just as it is low in the economy as a whole during recessions. In Scotland, for example, the potential rise in this ratio would imply a larger addition to the country's manpower than would the absorption of structural unemployment. Thus, if Scottish unemployment had been reduced in recent years to the British average, only about an extra 30,000 workers would have become available; a rise in the Scottish participation rate to the average British figure would have meant about three times as many more workers. (It must be noted that a calculation of this kind depends partly upon the way "unemployment" is defined. In the U.S.A., for example, changes in the participation rate would appear less important to the extent that some of those who, in Britain, would be deemed to be leaving or joining the labour force would be described as leaving or entering employment in the U.S.A.)

- Regional development must not, however, be regarded as simply a way of increasing the country's employed manpower. For the efficiency of those already employed may be raised with benefit to the country as a whole. This is the central proposition in the most recent report on

regional policy in Britain—the *Report of the Committee of Inquiry into the Scottish Economy*.<sup>\*</sup> The main emphasis is on fostering a more rapid growth of regional output. While the reduction of unemployment is still an objective, it is not the sole aim. Unemployment will naturally fall with a sufficiently buoyant rise in production. Long views must be taken and it will not do simply to look for more jobs immediately of any kind without regard to cost or to prospects. These arguments in favour of helping the laggard regions to advance are not, of course, conclusive. In some areas there may be substantial offsetting disadvantages as a consequence of remoteness, insufficient skilled labour, a lack of experienced managers, and so on. Regional policy should be selective. *What is required is not the general dispersion of industry over the whole country—an absurd idea—but the building up of new industrial complexes or “zones of growth”*. But how is the selection of such areas to be made? How can reasonably selective criteria be applied in practice?

## II. The Main Lines of Policy

The most important determinant of regional development is usually the state of prosperity in the country as a whole. Thus the strong pressure of

<sup>\*</sup> The Committee was appointed by the Scottish Council (Development and Industry) and its Report appeared in November 1961. The Chairman was Mr. J. N. Toothill and the author of the present paper was Vice-Chairman.

demand for manpower and output has done more to help the less prosperous areas in Britain than any measures specifically devised to aid them.

Among the more specifically regional measures is an improvement in the regional *infrastructure*—e.g. the supply of power, better road and better rail and air services, suitable housing for staff and skilled workers who have come from other areas, and so on. It should be noted that this need for a better infrastructure, which is frequently emphasised nowadays, may not always be easy to reconcile with what used to be a familiar argument in favour of regional development. This was the argument that such areas had valuable social capital that would not be fully used if the population fell with migration. It was believed that the total cost of development in terms of social as well as industrial capital might well be less in such areas than in new industrial centres elsewhere. There is clearly some validity in this contention but it must not be exaggerated. For the infrastructure of the depressed regions is often inadequate or obsolescent. The improvement of the infrastructure of the Mezzogiorno has, of course, been a major objective of regional policy in Italy and the heavy cost of doing so must be set against the gain to be anticipated from the subsequent expansion of output in that territory. In Britain as a whole the infrastructure is also inadequate in many respects but the differences between prosperous areas, such as S.E. England, and depressed ones, such as N. Ireland, are often

slight. The additional cost of developing these more remote British regions may therefore relate mainly to the transport services, and this cost must be set against the economy of being able to use some existing social capital.

Much of the discussion of policy in Britain has centred around the problem of bringing new manufacturing industries to the depressed districts often in order to compensate for the decline of older industries. This may mean "diversification" (in some sense of the term) but the really critical consideration is that the more rapidly growing industries will be more strongly represented. How best can this be done?

We must dismiss the proposal that certain firms should be legally compelled to go to the depressed districts. Such a procedure would involve gross inequity between firms. Moreover it would probably need to be supported by legislation to permit the direction of labour if the conscripted factories were to get the managers and key workers they would need. Indirect pressure, however, may be applied and, in Britain, firms are required to obtain *Industrial Development Certificates* before expansion of any size will be permitted. Firms may thus be diverted to the development districts by making it difficult for them to expand elsewhere. This indirect pressure could also be dangerous if applied so strongly that the preferences of experienced management for particular locations were being disregarded by the government officials. A compromise must, as usual, be sought, but it can at the

very least be claimed for this policy that firms may be forced to consider locations that they might otherwise have neglected from habit, ignorance or prejudice.

Apart from this pressure to go to the development districts, firms are offered certain financial inducements. Factories are provided from official funds and let at subsidized rents.\* Loans and grants are offered on reasonably favourable terms. Britain has not, however, offered tax incentives as is done, for example, in Italy, France and Eire.

How is eligibility for such assistance determined? The criterion in Britain is still the possibility of expanding employment. The development districts are chosen with regard to the number out of work (initially 4½ per cent or more). The assistance provided to a particular firm within one of these areas roughly depends in turn upon the number of new jobs it expects to be able to offer. The British legislation has, therefore, been framed as part of a general policy for full employment and the question arises whether such arrangements would need to be modified if the emphasis were shifted to accelerating the growth of output. This was one of the issues discussed by the Committee on Scottish development to which reference has been made.

It has already been suggested that there is a case for fostering expansion in "zones of growth" where the lo-

\* Between the end of the War and the end of 1961, 194,000 jobs were provided in state-financed factories. Of these jobs, 71,000 were in Scotland.

cational factors are reasonably promising. Moreover with new industrial ventures largely concentrated within certain zones, external economies of scale will accrue that could not be obtained if the firms were widely scattered. It is, therefore, natural to conclude that the Government should select such zones and should direct all its efforts to their development. There would, however, be strong political protests if other districts with substantial unemployment were denied financial assistance. Anyhow some firms may well be able to establish themselves satisfactorily enough in locations that did not appear to the civil servants to qualify as "zones of growth". The present procedure of choosing the development districts by reference to unemployment can, in fact, be reconciled with the building up of new industrial complexes, if appropriate adroitness is used. One aspect of official policy is the establishment of industrial estates, some of which are linked with new towns. In choosing the location of these sites within the development districts, the government can encourage expansion at what appear to it to be particularly promising centres. Some firms will, of course, prefer to go elsewhere within the development districts and should be left free to do so. After all their judgment may be as sound as that of the civil servants. The centres of industrial expansion will therefore be partly selected on the basis of private judgment. Firms would be unlikely to go to really unsuitable locations unless, indeed, particularly large financial inducements were offered. Occasionally it has been

suggested that the inducements should be substantially larger for the very difficult areas—that is to say, that the size of the inducements should be inversely correlated with the suitability of the locations! Although there is already some implicit concession to this idea in the inducements currently offered in Great Britain,\* it is not on so large a scale as to be a really decisive factor. We can, therefore, envisage a firm making its choice over a wide range of development districts. So long as it can reasonably be assumed that these development districts include within them some plausible economic locations, this procedure need not be inconsistent with one of expanding total national output.

So much for the choice of sites. When these have been selected the amount of assistance offered to firms within these districts depends roughly upon the amount of additional employment they hope to be able to provide. While this is principally the consequence of the emphasis placed upon employment policy, it is also fair to point out that the arrangements have been devised to help expansion but are not intended to provide finance for the modernisation and replacement of equipment by existing firms. Of course modernisation and replacement are extremely important and special encouragement may even be appropriate. But it has been thought convenient in Britain to separate this problem from that of

\* That is to say in the formula for determining assistance with the renting or building of factories.

encouraging new expansion within the development districts.

No doubt other measures of expansion, apart from the prospective increase in employment, could be devised. Additional employment in the short-run could, indeed, be an inadequate criterion but, if a long view is taken, there need be no serious conflict between the expansion of employment and the fostering of growth. It should also be noted that it would be wrong to favour only labour intensive projects in these areas simply on the ground that they are areas with a surplus of employment. If, in fact, the aim is to build up new industrial complexes, some highly capitalistic concerns may well be appropriate.

In Great Britain the assistance offered relates in the main to capital expenditure rather than running costs. The principle behind this ruling seems to be that the firms assisted should be able, in due course, to carry on without government help. More generally this assumption is necessary if the whole policy is to be justified by the severe test of its effect on total national output. It is necessary to believe that help of this kind will finally permit a breakthrough in the regions that have benefited. Indeed it is necessary to go further and to suppose that expansion in these areas will ultimately be more promising than expansion in what are now the more prosperous areas.

Clearly the whole policy may be called in question on the ground that if firms in the rapidly growing industries such as electronics, are diverted

to the development districts, the gain to these areas will simply be offset by the loss elsewhere. This may sometimes happen. On the other hand, the more depressed districts may not only offer greater reserves of manpower but may be capable of achieving an industrial renaissance if some growth industries can be made to take root. The case for special measures to foster regional development rests therefore on the assumption that these local communities are capable of responding to such a stimulus. The needs of the new firms may bring more work to local concerns that can manufacture components, etc. Moreover the new firms will bring a knowledge of techniques and markets not previously possessed in these areas. If the new firms can be persuaded to bring part of their research and development with them they may later become an important source of supply of entrepreneurs who will set up new firms on their own.

Let me repeat that our objective is to see how far the case for regional development can be sustained as part of a general policy for growth without introducing special welfare considerations. We must, then, think in terms of temporary assistance designed to permit a breakthrough, not of continuing subsidization. It might be desirable to emphasize more strongly that help should be given to the development districts only for a limited period. But political repercussions inhibit frankness and the welfare considerations, provisionally set aside in this analysis, must of course be taken into account in any

final assessment. It needs scarcely be said that, while it is important to encourage newcomers, the firms already in these areas also deserve encouragement. A whole range of measures is available for rapid growth, many of which will benefit both existing concerns and newcomers. Many of these measures will be appropriate in other parts of the country as well and it may often be impossible or improper to discriminate in favour of particular districts. I can do no more than mention one or two examples.

First the taxation of personal incomes and profits should be so designed as to do the least possible harm to growth. In Britain, the right to claim an allowance against tax corresponding to a percentage of expenditure on new industrial capital is an encouragement to investment in the development districts as in other parts of the country. The allowance is, however, at a uniform rate and should probably remain so. The introduction of a payroll tax with a corresponding cut in direct taxes might be favourable to growth and, in this case, regional differences might well be introduced.

Another example is the need to improve the air services within Britain, for rapid personal communication is of immense importance to management. Many parts of the country would benefit but some of the more slowly growing districts might benefit most. There is reason to believe that a significant improvement might be made without subsidizing the services.

Other examples could be given such as the need to improve the

reliability of the railway freight services, or the desirability of improved training facilities and technical schools or of better arrangements for strengthening the links between science and industry and better facilities for advising managers about new methods and about marketing. Each of these topics might be discussed at length.

While many of these improvements must be the responsibility of the central government, the whole operation depends upon the readiness of the local governments, the businessmen, and the trade unionists within these areas to co-operate and even at times to take the initiative. One of the most important examples is the need for better industrial relations and for the relaxation of restrictive practices imposed by trade unions as well as by management. Regional self-help is indispensable. A serious objection—and it is not, as we have seen, the only one—to the proposal to force firms by means of legal sanctions to establish themselves in these depressed districts is that the need for regional self-help might then be obscured. There would be a potential danger in strengthening the belief that each district would be rescued from its difficulties by outside help from the central planners. This is not really the way to build up the psychology of growth.

You may feel that I have said too little about “planning”, but this is a very ambiguous term. If “planning” means the preparation of detailed targets for the output of individual industries, then I am somewhat

sceptical about its usefulness even if the targets relate to the nation as a whole, and I am particularly sceptical about industrial targets for each region, although I am aware that the French are experimenting in this way. Moreover I am inclined to doubt whether the more ambitious proposals for regional input-output analysis have much practical significance. A "plan" may, however, be taken to mean a number of concerted measures adopted in pursuit of a particular aim, in this case more rapid growth. These measures may range from better air services to better technical schools, from the siting of industrial

estates to assistance with research and development, from enticing new concerns to establish themselves in particular areas to providing adequate housing for key workers, from the relaxation of restrictive practices to tax reform. And so on.

The object of such measures would be to create *an environment that would be more favourable* to growth, and if the various measures are concerted with this objective in mind, they can properly be said to constitute a "Plan". This, indeed, seems to be much the most important meaning that can be attached to the expression "a Plan for Regional Development".

# Economic Development in Southern Italy

by *Andrea Nuvolari*

My purpose is to give you a brief description of our experience in developing economic growth in the depressed areas of southern Italy. We try to do it with maximum respect for the market economy and without adopting compulsory measures. As many of you know, the territory of the Italian Republic may be divided into two great areas according to the average income per head. The first includes central and northern Italy, the second southern Italy, each with its own economic, geographic, sociological, and ethnological characteristics. The economy of the central-northern part approaches that of the "mature" states with a high average income per head. Industry there is rapidly expanding, and agriculture works with a high level of productivity and widespread subsidiary activities.

In sharp contrast with this, the economy of the south shows all the signs of an underdeveloped economy, not only because of the low average income per head, but also because of the structure of its embryonic industry. The lack of organization in agriculture explains the fact that the population of the south, which represents 38 per cent of Italy's total population, produces only 21-22 per cent of the national income.

The unification of the peninsula which finally ended political dualism left the dualism in the economy untouched, and so it was to remain for nearly a century. It is true that even before 1900 there existed a policy for the south, but this policy had limited effects. At this point one may recall a series of special laws promulgated between 1900 and 1906 which provided for the carrying out of public works, fiscal concessions and subsidies.

In the years just before World War II a number of large scale actions were taken by the state. Italian economic policy was directed toward economic self-sufficiency and the intervention in the south was directed not only toward the introduction of new crops (e.g. cotton) but also toward the cultivation of grain in vast areas with a low yielding rate. The results of this economic policy, however, were on the whole modest for *two principle reasons*:

- the fundamental causes of the economic backwardness of the south were not dealt with;
- the dynamics of the national economy were too modest to permit internal emigration to the north while the emigration abroad during Mussolini's time was discouraged.

At the end of the war a large part

of the country was laid waste by military operations; communications did not exist; the industrial apparatus was partially destroyed and technically outdated; further there was a widespread social unrest.

1945—1950 became the period of reconstruction. Economic measures were directed at restoring the primary sources of income—with large contributions of aid from the United States. The steps necessary to combat the very serious inflation (which had begun in 1943) were taken in 1947. Between 1948 and 1950 the internal machinery of production began to work again. Export and import were able to start again under the impulse given by a policy of gradually restoring the freedom of exchange.

Already in 1949 the first signs were to be seen that Italian economic policy was directed not only toward the reconstruction of the country. It turned out to be a policy of development, a policy of securing full employment of the available resources and increasing the per capita income. Its means was the mobilisation of public spending and of large scale investments. Although measures in favor of popular housing date from this period the primary action of the state in 1950 was directed toward agriculture through two special laws. The goal was a real reform of the agricultural structure in the south and to a certain extent of the central parts by means of limitations imposed on the extent of landed property, the excess portions of which were expropriated and distributed among the agricultural workers.

Other measures may be noted; especially those in favor of industrial reconstructions, e.g. creation of new industries in the south, an increased activity at the shipyards, an intensified search for fuels, and vocational training for unemployed workers. But these were all measures of a sectional nature, and not a part of a coherent policy of sectional and territorial distribution of investments which would have ensured a balanced development of Italian economy.

It was not until the creation of the *Southern Italy Development Fund* in 1950 that the basis was laid for a less tied and restricted economic policy. In fact, it was the explicit task of the Fund (which is a state agency) to co-ordinate public and private investments with the aim of obtaining the social and economic development of the underdeveloped regions of the south.

The programme of the Fund runs to 2,077 thousands of million lire. It was originally planned to last ten years but it was later extended to fifteen from 1950—1965. It envisaged a *direct* action on the scale of public investments, and *indirect* action on that of private investments, with the aim of creating the infra-structures and basic services, which were to make the local resources and the prevailing economic activities in the south more effective. The aim was to achieve, through setting up industrial nuclei, the structural transformation of southern economy with its consequent repercussions on the economic development of the whole country.

The economic recovery of the country and the consequent benefits

of the various programmes of aid brought about those conditions of maturity which in 1954 made possible the formulation of the "scheme for the development of employment and of income in the ten years 1955 to 1964." That was the so-called "Vanoni Plan".

By this plan the Italian policy of economic expansion got the first weapon possible to direct in its choice. With the aim of inserting into an organic whole the sectional inter-

vention, by co-ordinating specific and general aims, the development of the south, together with the creation of new jobs, was adopted as the fundamental goal of Italian economic and social policy.

The action of the Fund tending towards the creation of basic infrastructures, viz. the necessary conditions for stimulating "induced" private investment, has been distributed to the following sectors:

*Distribution of the funds entrusted to the Southern Italy Development Fund*  
(in thousands of millions of lire)

Sector concerned	Fifteen year plan	per cent
Agriculture . . . . .	1,150	55.4
Transport and Communications . . . .	259	12.5
Water supply and sewerage . . . . .	312	15
Industry . . . . .	245	11.8
Home industries . . . . .	5	0.2
Tourism and hotel credits . . . . .	56.5	2.7
Fishing . . . . .	5	0.2
Schools for professional education . .	43	2.1
Institutions of a social nature . . . . .	2.0	0.1
	2,077.5	100

Of the 2,077.5 thousand million lire 1,564 (75.3 per cent) are destined to the financing of the *basic infrastructures*. 468.5 thousand million lire are destined to the encouragement of *private enterprise*, in the form of subsidies for increase of capital, credit for improvements, industry (245 thousand million lire or 11.8 per cent of the total), fishing, craftsmanship (home industries), hotel credits; 45 thousand million, or 2.2 per cent

are destined for *other uses*—schools, vocational training and social welfare.

The *specific improvements* which correspond to the investments given above may be summarised thus: in *agriculture*—modification of the agricultural structure over an area of 23.3 million acres. Of this 4.2 million acres are being changed into agriculture land. The plan for the laying of *water-mains* will allow supply of drinking water for all the 2,600 towns

or villages of the south. In the field of *communications and transport* the Fund has provided for carriage roads 8,285 miles of which are covered with tarmac. Further 1,600 miles of new roads have been planned and built, and much work has also been done on the railways.

The Fund has also financed important works designed to promote *tourism*, including roads, archaeological research, and restoration of ancient monuments. These projects, although they do not require large sums of money, are of considerable importance in starting a process of increasing income. Recent experience has shown that tourism is destined to expand rapidly, mainly in the south.

Finally, various subsidies have been granted to *private enterprises*. Special attention has been given to the industrialisation of the southern regions, either indirectly, through public investments which have created the conditions necessary for the growth of industrial plants, or directly by means of credits granted on favourable terms for the formation of capital, or again, through special fiscal concessions for the industries in the south.

Special institutes operate in the mainland of southern Italy, Sicily, and Sardinia to grant medium term fixed-interest loans to small and medium-sized industries. They can now get loans up to 1,500 million lire over 15 years at a rate of 3 per cent.

An important development has been the establishment of institutions taking up ordinary shareholdings in southern enterprises. The most important is one in Sicily; another is

on the mainland of southern Italy. Through these institutions the banks are getting more closely involved in the risk of southern investments. At the same time there is a movement to integrate financial with technical assistance in order to remedy the scarcity of enterprise. In 1957 the Fund was allocated 130 billion lire for equipment subsidies to be made to small and medium sized enterprises, in towns with less than 200,000 inhabitants to cover up to 20 per cent of the costs of plants and machinery. The Fund can also contribute to the costs of infrastructure works in the underdeveloped areas through special consortiums set up for this purpose.

The two most important tax concessions to firms investing in southern Italy were introduced in 1957. These are the exemption from profit tax of industrial profits in southern Italy for up to half the profits of any enterprise and half the amount of any investment, and the exemption from profit tax for 10 years of the profit on any new investment in southern Italy. Other concessions include a reduction in the registration and mortgaged taxes, a lower level of turnover tax, and reduced freight charges on building materials and machinery for factories constructed in southern Italy, as well as exemption from customs duty on imported machinery.

Also the local administrations, like the regions of Sicily and Sardinia, give other facilities to the industries that are going to establish themselves in the south.

But the problem of industrialisation of the south also concerned the localities in which factories were to be

built. For this purpose, "areas for industrial development" were projected, conceived as poles of gravitation for the industrial development in relation to the entire territory of the south. Beside such areas, "industrial nuclei" are distributed, of various size—these too with infrastructures and services on charge to the State.

The measures mentioned above have led to nearly 5,000 medium-term industrial investments for a total of 340.2 billion lire by December 31, 1961, out of a total investment of 695.3 billion lire. Of this 1,500 were made for new establishments, the rest for enlarging already existing plants.

New investments have been made mainly in Campania and Sicily. These are directed not only towards traditional local industries (the transformation of agricultural and garden production) but also to new activities such as chemical, petrol, mechanical, metalworking, textile, and paper-making industries.

The action taken by the industries of central and northern Italy has been of great importance in the industrialisation of the south. What have been the results, in economic terms, of these efforts? They may be summarised by the following figures. *Per capita income in Italy between 1951 and 1960 (counting in lire with constant purchasing power) has increased about 50 per cent. The average per capita income in the south during the same period has been increased with about 30 per cent.* The annual rate of increase during these ten years therefore has been about 3 per cent in the south and about 5 per cent in the north.

These results have been achieved by investing throughout the entire country in these ten years nearly 30 thousand million lire (at constant 1954 prices) of which 6 thousand in the south. The rhythm of investment in the south has gone from 451 thousands of millions in 1951 (1954 lire) to 1,079 thousands of millions in 1960, an increase of 140 per cent.

To complete the picture given by these figures one may mention the fact that, at the moment, about one-third of industrial investment tends to be localised in the south.

An examination of the distribution of the income by activity shows that there have been profound changes since 1950. Income derived from agriculture has been relatively reduced, while income derived from industrial and subsidiary activities has been considerably increased.

On the whole the tendency has been for the secondary and tertiary activities to develop at a faster rhythm than the primary activities and therefore the income deriving from them has increased in both the relative and the absolute sense.

What conclusion can be drawn from these figures?—No doubt the policy of development begun in Italy in 1950 has brought about some concrete results, which only a few years back were unthinkable. The per capita income has increased, the unemployed are gradually being absorbed, the balance of payments is out of the red (thanks to the demand for Italian goods abroad and to the "tourist boom"), consumption has increased qualitatively as well as quantitatively, and savings deposited in banks and

the money market are continuously increasing.

However, the difference in the rhythm of development between the central-northern and southern Italy continues with a tendency to increase. This is due to the fact that a large part of the investments made in the sector of southern agriculture have been done for technical reasons, of deferred maturity, consequently they will produce income after a period of waiting. The industrial development in the south could not possibly be *rapid*, because the measures have recently been completed and the southern consumer markets do not yet enjoy an income level high enough to permit the absorption of possible large increases in local industrial production. However, one can assume that the difficult starting phase soon is over and that the process will now continue more rapidly.

Another reason of the slow expansion rate of southern industry is the lack of skilled manpower. We may say that we have to make farmers out of peasants; and sometimes these peasants are illiterate while actually entrepreneurial and managing know-how is needed. The problem of vocational training is maybe the most important one; it is a bottle-neck in the development not only of the south but of the Italian economy in general.

The public sector is now busy working on this problem through ordinary administrative procedures and through extraordinary measures, especially through the Southern Italy Development Fund. The private sector is do-

ing a lot of work through schools attached to the factories, and through other initiatives.

The principal attention had been given to the preparation of skilled workers for industry, at inter-firm training centres, the organisation of which is entrusted to local associations, in which are represented not only the Fund and the Ministry of Labour, but also the industrialists of the area.

This formula of collaboration between public and private undertakings has given excellent results. Some difficulty, however, has arisen in associating small and middle sized firms with the inter-firm centres.

To accomplish this task also the Italian Group of CEPES has mobilised every Government Agency, every public and private concern interested in this effort to constitute an organisation called the "Centre for Educational Progress" (Centro per il Progresso Educativo—C.P.E.), which represents a platform for cooperation on which all may stand. Local affiliations of the C.P.E. are becoming real "committees of public welfare", embracing all the best local forces available for the struggle against ignorance. This war is going on both in silence, and through mass propaganda, with the support of newspapers, radio and television, as best suited to local conditions.

But the weapons do not change: they are the same everywhere, and consist of audiovisual media, specially designed for the purpose. Of these:

- some are *preparatory*, for vocational guidance and psychological

impact, for entertainment; firm viewings offer an occasion for initial meetings where broad contacts are started off, to get these people to talk about what they need, what they want, their general outlook;

● others are *teaching material* in the true sense of the word, for training in certain basic skills.

These audiovisual facilities are accompanied by very simple written texts, closely co-ordinated with the film version. We produce them and show them in groups of peasants in the remotest villages. The results ac-

complished have proved that the method and the sponsoring formula we have chosen fully answers our purpose. We have reached these results with a population and in situations that are rather similar to those which many of you will meet in your efforts to promote the development of underdeveloped countries: I think in particular of United States operating in South America. So we hope that our experience may turn out to be useful also for international purpose.

# U.S. Regional Development

by *John H. Nixon\**

I will focus on the use of manpower resources as a key factor in regional development.

During the past century in the United States the free movement of workers to locations of greater opportunity and of employers to locations of lowest cost have been counted on to provide full use of manpower. The result has been an impressive tendency toward equalization of per capita income among the various parts of the nation. In 1880 the effective range was from 50 per cent below the national average per capita income to 40 per cent above the national average.\*\* The low area was the Southeast, formerly a slave-holding cotton plantation economy which was slowly recovering from civil war devastation. The high area was the industrial Northeast. By 1960 the range was much narrower—from a low of 28 per cent below the national average (again for the Southeast), to 18 per cent above for the Middle Atlantic and rapidly growing Pacific Coast areas. Particularly since 1930 the

Southeast has increased its per capita income faster than the national average and than all other regions.

The major reason for the tendency toward equalization has been personal migration out of occupations and areas of less to occupations and areas of greater opportunity. In 1870, 50 per cent of the national labor force was engaged in agriculture while today less than 9 per cent is. The average income in agriculture is still considerably below the average non-agricultural income and this migration from the farm continues.

In the Southeast, the most predominantly agricultural region, the population in 1870 was less than 10 per cent urban, but by 1960 it was more than 50 per cent urban. The Southeast and the Plains States (also a heavily agricultural area) have experienced the greatest rates of out-migration throughout the past 60 years.

The regions with the highest per capita income have been the Middle Atlantic States and the Pacific Coast. They are the only two regions with net in-migration for each decade from 1900 to 1950. In the past decade, from 1950 to 1960, the Middle Atlantic Area grew less rapidly than its natural rate of increase, showing a net out-migration, while the Pacific

\* The views expressed are Mr. Nixon's personal views and not necessarily those of CED, or any of its Committees, or of its staff.

\*\* *Harvey S. Perloff*, "Why a Region Grows", unpublished mss. Resources for the Future and CED.

Coast grew considerably more rapidly, showing net in-migration. Some of the rapid expansion of the Pacific Coast area is due to the heavy concentration of defense industries there during the past decade.

It is noteworthy that average per capita income in each of these two areas varied from the other no more than 2 percentage points in the Census years of 1920, 1940, 1950 and 1960. This suggests that the more rapid growth of jobs on the Pacific Coast than in the Middle Atlantic States between 1950 and 1960 was matched by a shift in the migration pattern which helped maintain an equality of per capita income.

Several factors have contributed to the extent of migration in the past 30 years—a common language, a common currency, almost universal primary education, low-cost private transportation (first provided by the Model T Ford and later by inexpensive second-hand automobiles, coupled with a network of paved roads stretching into every hamlet), and finally, the gradual replacement of regional by national cultural patterns as the result of general family ownership of radio and television.

While farmers and other workers leave regions of low income for those of higher earning potential, manufacturers for whom labor is a major element of cost are expanding employment in the low-wage areas. The share of manufacturing employment and of value added have gone up in the Southern States from 1900 to 1950 while the share has declined slightly in the high income Middle Atlantic States. In the decade ending

in 1960, manufacturing employment in the United States as a whole increased only 10 per cent, while in the South it increased 25 per cent. Even so, the South's share of manufacturing employment (20 per cent), is still considerably below its share of the national population (28 per cent).

Despite the mobility of people and of capital, the difference in economic opportunity among regions still is large. Average per capita income in the South is almost 40 per cent below that of the Middle Atlantic States and the Pacific Coast. The income of the Southern Negro farmer is even farther below. The regional inequalities largely reflect the very low income earned by one-half the farms.

In the past decade the United States has also become aware of a number of industrial areas with high and persistent unemployment, even during times of general national prosperity. Many industrial workers have been stranded by competition from rival firms or products, by changes in consumers' tastes, by substitution of machinery for human labor, or by shifts in the location of industry. In 1961, 100 such areas with almost 10 per cent of the U.S. population had over 16 per cent of total industrial unemployment.

Most of these areas have had net out-migration in the past decade and some have had a population decline, but the obstacles to mobility have prevented a rapid adjustment of the unemployed population to the decline in local opportunity. Some of these unemployed lack an adequate basic education. Others lack a marketable skill, particularly if their occupation

is no longer in demand. Other deterrents to mobility have been lack of knowledge of job opportunities elsewhere, age, social ties to the local community, and in some cases, ownership of local property.

Since the end of World War II each of the 50 states has set up an economic development agency, and over 2,000 local communities have established organizations to induce manufacturers to locate new plants in their communities. The objective has been more employment, and more business for local service industries. This has been a critical need in the depressed areas, but it has been considered desirable by most communities. The primary aim has been to induce new manufacturing plants to locate in the communities. A secondary goal has been to secure a larger share of the tourist dollar which is of growing importance. Techniques to induce location of plants have included provision of information, some probably useless advertising, provision of loanable funds outside of normal commercial channels (occasionally at subsidized low-interest rates), provision of industrial sites, the construction of shell plants, and in a few cases, local tax concessions.

The results have been more plants in some of the depressed areas. In the coal mining centers in Pennsylvania there has been a steady increase in manufacturing employment, but unfortunately the decline in coal mining employment has been even more rapid than the increase in manufacturing employment. Other communities such as Burlington, Vermont, and Utica, New York, have

shifted from the manufacture of textiles to the manufacture of electronic components and machine tools. In total, however, these programs have had a minor impact on the great number of depressed areas. Not enough new employment opportunities have been provided to utilize the unemployed workers. By the end of 1960 it was apparent that the state and local programs and the out-migration together were not making use of the surplus manpower in the depressed industrial areas.

In 1961 a new Federal program was established to help provide jobs in these industrial areas of chronic high unemployment and also in the agricultural areas of unusually low income. The Area Redevelopment Act signed in May, 1961 places its primary emphasis on incentives to industry to locate new plants in these areas. It provides loanable funds at lower than market interest rates. It also provides aid to communities to provide necessary infrastructure, chiefly water and sewer facilities but also access roads, which will be needed by new industrial plants. Aid to communities may be loans at nominal interest rates or, in some cases, outright grants. A preliminary requirement for eligibility is that each community must study its own situation and must prepare its own local program for economic improvement. Technical assistance is provided to communities to assist in the local analysis. In addition, the Act makes provision for vocational retraining for long-time unemployed in these areas, with subsistence allowances to cover living expenses during retraining.

At the end of one year the Federal government has defined over 900 areas as eligible for assistance. These include 19 per cent of the population of the United States, and 30 per cent of the unemployment. The large number of areas classified as "eligible" has created administrative difficulties.

What accomplishments have there been in the first years? Several hundred communities have prepared local economic development plans. These have proved of value in educating local leaders about the problems their communities face. In many cases, localities have been able to solve some of these problems themselves without further recourse to the Federal government. In other cases the local plans have laid the basis for an appeal to the Federal government for sizeable grants.

Vocational retraining programs have been started in 100 communities with an average gross cost of \$1,000 per worker retrained. Approximately 8,500 workers have been or are in the process of training. Training programs for 15,000 workers are expected to be in operation by the end of June. Seventy-five per cent of the workers who have completed retraining have been placed.

So far, only 19 loans have been made for industrial projects. In these cases several dollars of local and private funds are put up for every dollar of Federal government money. In addition, 21 loans or grants have been made to local communities to assist with the provision of infrastructure. The total of these loans and grants has been \$11 million of Feder-

al funds and they will contribute to the establishment of about 11,000 direct new jobs. The rate of approval of these projects is stepping up rapidly and it is expected that all the projects approved by the end of June will provide for 30,000 new jobs. This is only a small beginning considering that the goal set by the Administration is almost one million new jobs in these 900 areas.

In 1962 the Federal government took a further step to promote the ability of workers to find jobs in a dynamic economy. The Manpower Development and Training Act of 1962 established a nationwide system for retraining workers. The program is being developed by the Federal government in cooperation with the state and local governments, local educational systems, and private industry. The number of men to be retrained will grow from 160,000 in the first year to 570,000 in the third year, or eight-tenths of one per cent of the U.S. labor force.

I was interested in Mr. Kellgren's comments that we should try to retrain one per cent of the labor force this year. Inside of three years we will have experience with something close to that number. The administrative problems in establishing an effective system have yet to be solved in the U.S. Such retraining will contribute to the capacity of these workers to find jobs in their own communities or in communities with higher rates of employment. For the long-term unemployed subsistence allowances equal to the average weekly unemployment compensation payment in the state will also be provided.

The Act provides no funds for moving allowances. This is politically difficult in the United States since no Congressman wants to pay a voter to leave his district; but with moving costs being quite low, the lack of moving allowances is not expected to be a serious deterrent to necessary mobility of retrained workers.

The United States is just beginning

to develop the public institutions which will adequately stimulate and assist the movement of workers from these depressed industrial and agricultural areas and will attract employers to take advantage of the labor supply in such areas. These measures should contribute to a fuller use of the labor force and thus to the growth rate.

## Discussion

### Wilhelm Paues:

I think we should realize a few problems of size before we start our discussion. The United States covers an area which is about three times that of Western Europe, so the United States *regional* problems often cover the same area as a *national* problem does in Europe. Secondly, the United States has a population of more than 180 million people. Our countries vary between 130,000 in Iceland and about 52 million in the biggest countries of Western Europe. The task of the Americans is also complicated by the fact that the number of so-called *unemployed* (which is a doubtful term, anyhow, in the United States) seems to be about twice as great as the total number of unemployed people in Western Europe.

I would like to ask three questions. First: How do you make this information about facilities, about training programs, about labor in different parts of the country, available to managers who may want to move? We rather have that problem in Sweden, but how should we help these enterprises to escape from the congested areas with overemployment?

The second is, as Mr Wilson mentioned, the restrictive practices of the trade unions, which of course may vary between the countries. One good remedy—if you have a limited amount of public capital to put down in new

enterprises—is shift work, which can be an immense help to create better employment opportunities without spending too much money.

Thirdly a problem which I have been waiting for but have not heard yet: What happens in the different parts? I suppose that in southern Italy there is still a fairly normal age grouping, so that you have a balanced population in those parts, according to age. But in some of the states in America I should believe that an emigration makes age grouping a rather awkward problem to tackle. You have to reeducate, retrain people maybe 45—50 years old which means large educational investments for the relatively short remaining part of their active life.

### Alfred Neal:

With serious unemployment in a region one would expect that wages there will be lower than elsewhere. I would like to know how the situation is in Italy; is the wage rate in southern Italy lower? If not, how do you manage to overcome a national economic force?

Secondly: How much of the improvement in employment in southern Italy came about through people leaving the region to obtain jobs elsewhere and how much through the creation of new jobs there through development?

**Andrea Nuvolari:**

We have in Italy a system of salary which is composed roughly of two parts. One is the *basic salary* which is the same all over the country, and the other is the *productivity premium* which varies according to the productivity level. That makes the premium minor in the south of Italy. As for the emigration I do not know if I am really replying to your question. We have this emigration to the north because people in the south have not enough jobs. But the south is, indeed, developing its industrial structure, so we expect to reduce the emigration to the north.

In Italy top economists and entrepreneurs are deeply concerned with this problem: Is it worth while, in a small country like Italy, to build new industries (e.g. a shoe industry in the south)?—Well, if you send truck-loads of shoes from Milan to Palermo, what would that mean in costs per a pair of shoes?—Practically nothing, while building up a new plant in Sicily will cost a lot, partly because you have not available all the things that are needed to make the shoes, while this supply is very easy to get in Milan or elsewhere in northern Italy.

The industries that have replied to the call for establishing themselves in the south are big industries; we must admit that the small industries do not go to the south. The reasons are simple. First of all, southern Italy itself is not a good market and never will become one. So the industries usually establish themselves in the south to get a platform for an ex-

pansion toward nearby countries in the Mediterranean areas. Only big industries can afford investments which bring no profits for a long time. Secondly I may say even this: In Italy there is a rather friendly fight going on between private and public initiative in the economy. This may be a good way to increase the understanding so that when the state is implementing a large program of railways in the south, a big industry might be interested in going down there.

Finally I would like to mention that the state industries are compelled to make 40 per cent of their investments in the south.

**Alf Lüning:**

One question to Mr. Wilson: When is it necessary to have a payroll tax in connection with the Common Market?

**Thomas Wilson:**

A payroll tax is a tax on the amount paid to the employees in the factory. I understood that the Treaty of Rome was aiming at a certain harmonization of fiscal systems and with the payroll tax important in at least some of the Common Market countries (certainly Italy, not in Germany apparently) must there not be a tendency to bring this in? I may be wrong here, but it looks likely. Whatever happens on the Common Market, this particular tax on the earnings could be applied with regional differences. From the point of view of regional policy it is a convenient tax.

### **Pierre Bernard Cousté:**

I should like to give you some observations I have made in the field of regional development. The Paris area attracted too many people, a fact which became more and more obvious. This was considered a very dangerous phenomenon, so groups which before would not cooperate decided to cooperate for the economic development of this specific area. Later the private initiatives became Government policies, the Government took over and gave support to projects of zone development. In different zones they received capital, equipment etc. for their social funds and learned how to make necessary reforms.

All this was accomplished through fees which made it impossible to build in the Paris region. A great number of enterprises left the Paris area and that made the situation much easier; it was not so difficult any more to find space in Paris.

The enterprises that left Paris for new provincial areas actually changed the situation so much that we got a lack of labor instead of the previous unemployment. Many factories actually had to look for workers whom they could train for the new activities, although perhaps the rate of wages was somewhat lower than in the Paris region. Certain frontiers were thus opened and the various communities came into very strong competition with each other concerning the location of those new industries. In general it has been possible to place the enterprises where there have also been people available.

In the national planning one has

divided the country into 21 regional action fields which can make their own plans, in cooperation with the local authorities. The coordination of national and local growth promotes an exchange of ideas between the managers of the local enterprises and the local authorities. Often one has arrived at solutions which have been very favorable both for the regions and for the whole country.

### **Göran C-O Claesson:**

Should there really be any regional development programs at all? I am not sure of that. In fact I think there are strong reasons for a negative answer.

In Swedish newspapers you find competing advertisements from different provinces telling the industrialists that if they come to their particular region they will get free land, free railway tracks, and many other kinds of subsidies. In American magazines you find similar ideas, although expressed in a more refined way. They mention the beautiful surroundings of the city, the exquisite golf course, etc.

There is a romantic notion that all parts of a country should be populated approximately as they have been before, perhaps even more. I wonder whether it is a sound policy to try to speed up all kinds of regional development. I believe it would be better to try to depopulate areas which have difficulties in employing the population. This would give us an industry distributed geographically according to the real transportation costs and the real advantages and disadvantages.

**Axel Iveroth:**

We are told that the Rome Treaty and the EFTA agreement aim at an equalization and a harmonization of competitive conditions, the balancing of advantages and disadvantages, in brief a generally more stabilized competitive picture. Now, there is a chance that too many measures of the type we are discussing will eventually create a situation where the abolishing of tariff barriers and others will be replaced by other measures to further industrial development—subsidies of all kinds. Now we are talking of southern Italy, northern Sweden etc. but it is very easy to foresee a stage where you talk about the necessity of furthering regional development in one, two or three countries.

To what extent can we, in our regional development, use subsidies to locate industries in areas with weak natural resources? How far can we go along that line without upsetting the competitive picture as a whole? There must be a limit, and I consider it extremely important to know where that limit should be drawn.

**Walter Bauer:**

The questions of Mr. Claesson and Mr. Iveroth lead to an important problem of the Common Market, the very idea of which depends upon getting things produced at the lowest costs without considering discrimination and national borders. This idea would be turned into the contrary if

we, under the pretext of regional claims, would not allow these advantages to function. The regional advancement must not be made an excuse for the national. We, therefore, in our work towards European integration need certain norms and methods for carrying through both European regional progress and national regional development.

There would be districts which, from the European point of view, are underdeveloped. As a national example I should like to mention the Soviet occupied part of Germany, which is entirely cut off from its hinterland. There are regions which, under certain conditions, must be subsidized by the Federal Government. In the Common Market we must develop, in some kind of Joint Committee, rules, norms and methods showing how this real competition between regional advancement and the prohibition of national subsidizing can be carried through.

In the background we have another problem: the whole area within the Common Market needs a common economic policy because only by means of a common economic policy we can make the right decisions.

**Theodore V. Houser:**

I hate to bring this discussion down from the lofty levels of state sovereignty to the grubby level of a specific business, but some of our experiences may be of value in the emerging Common Market.

In the middle thirties Sears, Ro-

buck & Co\* was doing around \$ 600—700 million, covering the entire country. We had in mind a very large investment program in retail stores, and we could not help but notice the wide disparity of income or of consumers' buying power in various part of the country. We thought that we should take on a program of our own in an effort to try to counteract this. In New England we purchased three times as much as we sold, in the south-east we purchased one third of what we sold.

Now, how to attack that problem? —We recognised that if one starts a new company with an administrative set-up, a research program, finance departments, billing and accounting etc., it takes a fairly large unit to support such a wholly integrated operation. However, if one established a branch plant of an existing company and put it strictly on an operating basis with all of the overhead functions carried on at one place, it changed the picture.

So we set up a fairly large engineering group to analyze the problem of how small can a factory be on a strictly operating basis for each of these hundreds of different things that we sold. Thus we developed the minimum sized plant for each of all these different kinds of manufacture. Then we undertook to encourage wherever we had the volume in each

\* Maybe it should be mentioned that the sales of Sears, Roebuck & Co. are about  $\frac{1}{3}$  of the Swedish national income and that their outstanding receivables are slightly higher than the Swedish national debt.

of the so called underdeveloped regions to support this minimum sized plant. We tried to convince our existing source that a branch should be established. In many cases this meant being able to go into a community with only 100—120 employees and to be as efficient as a much larger corporation.

Our principal shoe manufacturer to-day operates some 30 factories and in each factory they make just one quality shoe. In the meantime we have grown from 600—700 millions to  $4\frac{1}{2}$  billions, which is incidently only 7 per cent of the nation's business in the kind of goods we handle. Our purchases in New England are exactly equal to our sales. Our purchases from the south-east are  $\frac{1}{3}$  more than our sales. I will give you the figures from 1937, when this program was launched, to 1957, because we made a very thorough survey at that time. In Mississippi we sold in 1937 for about \$ 7 million, and purchased one half of a million dollars. In 1957 we sold \$ 70 million and purchased \$ 105 million, from half a million to 105 million in twenty years. In California we purchased about 15 per cent of our requirements in 1937, we now purchase about 60 per cent.

You notice that we have had a great evening-up process which means that, as far as possible, each region produces the goods that is consumed in that region. The economy of minimum of transportation of both raw materials and finished goods is quite obvious. I venture to make these comments primarily to give you this concept of analyzing how small a strictly operating unit can be and then search for a

locality that can consume that amount of product.

**Wilhelm Paues:**

Maybe it is the purchasing managers, not the sales people who are the real forces in changing the channels or purchases location of plants etc., if they have a combination of a very vast purchasing power or distribution and also take the trouble to study it.

I have seen something like this in England. Marks & Spencers go around to all the small knitting shops around Leicester and lay out their orders. Sometimes they can keep a small firm busy for a year or more with just one article. When a small manufacturer of e.g. 30—40 different articles gets a huge order and has to compete with other firms, he will really look at his costs. Perhaps he finds a solution impossible, saying: I will be ruined if I take such prices! But when he has worked with a firm which specializes he usually finds after a month that it is quite feasible. Thus many manufacturers in some countries in Europe, where you have had large distribution units, have learned to produce for a mass market in long runs.

But in other countries we find a different policy and a development into large manufactures.

**Theodore Yntema:**

One of the questions that has occurred to me is the function of exchange rates. You might, if you want to, look upon the United States as a distressed

area to-day. In a way there are similar problems in the Common Market. One of the interesting questions is: whether or not in the Common Market you should have a common currency because there are rigidities in wages. Detroit for example was an area of very rapid growth for a period of time, now the automobile industry does not grow as rapidly. In the period of rapid growth we built up, of course, very high wage rates in order to attract people. Now we have the high wage rates but we do not need the people. I just like to ask about the development of the Common Market. Do you want to have a common currency, or do you want to have the possibility of adjustment through changes in the exchange rate?

**Jacques Plassard:**

A move towards one single currency in the Common Market must be a long term project, because for quite some time we will have to keep our own fixed currencies and then see that it will change very little if we go over to a common currency. Before we have accepted such a common currency we will probably realize that competition gets tougher with a mixed currency, as our wages are not identical. Although the wages per hour have been rising very much during the last year, we still have great differences. Therefore perhaps we should all have made more careful economic calculations. But a Europe torn to pieces by wars did not have time to do this.

One of the problems of economic calculation is to know what economic value a certain region has, its real efficiency (which does not depend on folklore and romantic aspects). In France we have considered the southwest of France economically difficult. But we have also observed that people leaving their country, leave behind certain empty public buildings. We have schools and town halls which nobody needs. And all these people go to Paris—where we have to build for them. With the fiscal charges adopted to the real costs of public services, it would be easier to place people and we would be able to avoid many of the present difficulties.

#### Theodore Yntema:

Some of the areas with an excessive unemployment may be areas that are relatively inefficient. But there may be other areas that *need* development; they are not fundamentally inefficient but there has been lag in the adjustment of wages and prices.

This does have some bearing on the exchange rate situation. Detroit overdid it in wages for example; it is a good place to live and work in, but the wage rates are too high in relation to the employment situation. It is hard to get new firms to come into such a high wage area.

But there are different kinds of problems here. In agriculture, obviously, we have to move people out, because there are too many farmers in the United States.—But I am not sure that we are to move people out of

Detroit. We probably need a different kind of a solution.

#### Nils Kellgren:

In Sweden we have very few expansive areas. One consists of a belt, some 150 miles wide, between Gothenburg and Stockholm. Other expansive areas are the small region in the southwest of Sweden and a few other places in the north of Sweden. The rest of Sweden is losing population, mainly to this belt I first mentioned. We have also, just like in the U.S. high wage areas, e.g. in the north of Sweden, where it is very difficult to get a new factory established. What is our solution? There is research going on in a parliamentary committee, but its work is not finished yet. So far our only solution seems to be some kind of subsidies to the factories, e.g. lower taxes for 5—10 years, perhaps with the municipalities giving subsidies to factory buildings. Further we must choose cities and places where we believe that community life will continue and then invest in those communities. We have hundreds of places to choose between, but we must make such decisions. Then we have to build up the business life to avoid unemployment and to keep the people there. "We" stands for the Labor Market Board and business together. There exists a system of voluntary negotiations between our Labor Market Board and our Federation of Swedish Industry—that is the so called Location Cooperation. We collect all the statistic material about a place, its population,

its labor force, taxes, education, training possibilities etc. We give this information to the industry that wants to move. Thus about a hundred firms have moved some 70,000 workers from overpopulated places. This is not a compulsory system but a form of voluntary cooperation. I am not sure that this system is the one and only solution, but for the time being there exists no better.

**Wilhelm Paues:**

There is also the mobility aspect. Some industries are shrinking while others are expanding. Thus retraining might be necessary in whole sectors of industry. In Sweden, as in most other countries in Europe, this has happened to the cotton textile industry.

What happens in such a situation? A manufacturer finds that he cannot go on because he is losing too much money. The general philosophy is that he had better fold up as soon as possible so that he can take care of the old workers at least and give them a pension. But first of all he has to give a warning to the Labor Market authorities, to the industrial organisations. Then comes something like a fire brigade, if it is a "fire" of some size. You may have a labor exchange put up in the plant to find out what kinds of skills different people have. You may try first of all to get someone else into the empty factory buildings with workers from the surroundings. But, if this proves to be impossible, the whole retraining of these people is done in co-

operation with the labor market authorities and private industry.

One of the reasons for our Trade Unions to push for a structural change of industry is that they have forgotten the 1930's and the unemployment (which the British workers have not). And of course they prefer to have less Trade Union members in industries which are going badly and more members in prospering industries.

**John H Nixon:**

I would instinctively agree with the suggestion that we must create an environment where development can take place. This has been the basic development policy in the United States over 150 years because most of our real development efforts have been in transportation and in education which covered the entire country. 150 years ago we were building canals, then turn-pikes, and then we subsidized the construction of railroads. Since about 1910 we have had a vast Government and Federal Government program to construct highways for all kinds of automobiles. There has been a tremendous development of roads to bring agricultural products closer to their market.

All this construction of transportation has facilitated the migration of people. A century ago we established land-grant colleges which would provide at very low costs higher education to young people from rural areas. We also provided financing for research programs in these colleges. Recently several professors from different agriculture colleges told us

that of all our students who came from farm areas to these colleges only 22 per cent of the graduates went back into agriculture.

The rest discovered in college that they could move to another kind of vocation which would have a higher yield over their lifetime. But the research facilities of these colleges have promoted and contributed to development in many areas. In the debate between no regional programs whatsoever and very heavy Federal regional programs, the United States at the present time has taken the middle ground. So we still encourage a great deal of migration but also develop new programs to find ways of attracting industry to places where the industrial manager feels it should be located. We are putting a very small amount of subsidy and we are trusting the judgement of the industrial managers not to make an uneconomic location in some of these distressed areas.

**Thomas Wilson:**

There is an enormous contrast between, say, the Italian problem and the British problem. In Italy there is a big difference in output per head between north and south, while unemployment, much of it concealed perhaps, is heavy in the south. In Britain there is not such a wide difference in income per head between different areas although I must admit that our knowledge on this point is limited because the statisticians have not yet worked out figures in detail.

Unemployment in the less prosperous districts of Great Britain is cer-

tainly not very heavy by Italian or, let us say, American standards for such areas. Therefore the whole scale of the problem is different in Britain and the kind of measures one may wish to see adopted may be milder than may be thought appropriate for the south of Italy.

Whatever the country, however, I am sure that mobility is bound to be important. Measures designed to help workers to move are, therefore, necessary. However, mobility may not be enough, and something more may have to be done as well.

I deliberately ruled out two motives for assisting the laggard regions: one to relieve the hardship of the unemployed and the other to cope with congestion in certain other parts of the country. I did so deliberately not because I regard either of those motives as being necessarily illegitimate, but in order to concentrate attention on growth—the subject of this conference.

One very important factor is the adequacy of monetary demand in the country as a whole. What has made the regional problem much less serious in post-war Britain has been the freedom from general slumps such as characterised the inter-war years. Labour has been scarce in most of the country, and this has been the most important part of the battle.

Finally, I would emphasize again that throughout my discussion I was assuming that there would be certain districts even in the relatively depressed areas that were capable ultimately of self-sustained growth. The whole argument is based on that assumption.



# *Smoothing the Growth*



# European Business Cycle Policy

by *Erich Schneider*

Professor Harald Jürgensen, University of Hamburg was originally assigned to speak on this subject. Due to illness Mr Jürgensen was not able to take part in the conference. His colleague, professor Schneider, University of Kiel was kind enough to take his place with very short notice.

Let us start with a look at the world as it was before 1914—that world which Stefan Zweig has described so wonderfully in his book “The World of Yesterday” (*Die Welt von gestern*). In this period we had a free world-wide market system, or better a system of market economies with its two centers—Great Britain in Europe and the United States on the other side of the Atlantic. It was a world with free mobility of labour, free mobility of capital, multilateral trade with free convertibility. We had the gold standard as a monetary system which reflected all these freedoms. As you all know, it was a monetary system with fixed exchange rates; it was a world without employment difficulties, without balance of payments difficulties. The mechanism of the gold standard always established or tended (via price level variations and income variations) to establish the equilibrium of the balance of payments. This mechanism worked because we *wanted* it to work, because we *voluntarily*

accepted all the rules necessary for the working of this monetary system. We renounced deliberately an autonomous business cycle policy. We accepted the balance of payments as *the* governor of the international economic relations. We were confident that all of us would follow the rules and we enjoyed a long period of political stability and peace. During this period we lived with the business cycle and we did not worry about it. Business cycles were considered to be necessary deviations from the path of progress. Indeed the progress itself was regarded as being deeply connected with the business cycle.

Look at the books of that time: The chapter on business cycles was always the *last* chapter, e.g. in Gustav Cassel’s “Theory of Social Economy”. And in the work of Alfred Marshall you find a few words on growth but you will not find much about the cycle. Nobody talked at that time about business cycle *policy*.

Then came the break-down of this world on the 1st of August, 1914—the day of death of the world market economic system. After 1918 it was believed that one could simply return to “the world of yesterday”. We tried to reconstruct the working of the gold standard. Great Britain made the first

attempt and other countries followed. But it was only "Ein letztes Aufflackern". In 1931 England left the gold standard. It was the end of "The Golden Age".

Why was it impossible to bring about a revival of "the world of yesterday", to reconstruct a world market economic system based on the rules of the gold standard? Because we wanted no longer to accept the rules. We did not want to renounce to a national business cycle policy. We did not want to let our own national economy be influenced by variations in economic activity in other countries. It was the experience of the great depression which gave rise to movements away from the world market economy and towards more national economic isolation—towards a world with bilateral agreements, currency restrictions, controls, a world which Hayek has described so well in his book "The Road to Serfdom". In this new world the balance of payments no longer governed the international relations. We were governed by national economic goals and activities, without regard to what happened in the outside world. At that time we invented national business cycle *policy*. This presupposes, of course, that we have an idea about the causes of variations of greater amplitudes in the economic activity. You know that it was the great British economist, Lord Keynes, who in his famous book "The General Theory of Employment, Interest and Money" raised the following central question: What determines at any time the level of economic activity and the level of national income? Nobody before him

had asked this important question. We had some business cycle theories; but nobody had given an answer to this central question which could be compared to his. On the basis of his theory we developed new business cycle policies which could make it possible to avoid the mass unemployment which we experienced during the thirties. It was the beginning of thinking about possibilities of monetary and fiscal policies as means of business cycle policy. And then came World War II.

Already during the last years of World War II some people discussed the following problem: Can we have full employment at home—not full employment for its own sake, but full employment which enables us to have economic growth at the same time—a balance of payments equilibrium and a fairly stable price level? Can we have all these three things at the same time? Can we reconcile international business cycle policy which aims at full employment within a nation, with all these other things which we had under the gold standard?

There are only two ways to reach these three goals at the same time. First, one accepts flexible exchange rates; then you can have your own international economic policy, and you will never experience balance of payments difficulties. Second, if we make a decision for *constant* rates of exchange, balance of payments equilibrium *and* full employment can only be reached by a coordination of national business cycle policies. Then one must give up autonomous business policy.

Now, most countries of the free world have made the decision for constant rates of exchange within the limits set by the International Monetary Fund. The central problem is then, how to coordinate business cycle policy (and "coordinate" is an ambiguous term, like the word "planning" as Thomas Wilson rightly said yesterday). How to coordinate the national business cycle policy in order to achieve these three goals: full employment, balance of payments equilibrium and a fairly stable price level? How to accomplish that between the 71 nations which belong to the International Monetary Fund? It is quite clear that this is impossible. The only way is to approach this goal gradually. In Europe we have chosen to create larger regions by economic integration of a smaller group of nations, in the hope that we later can enlarge this area. The creation of the International Monetary Fund on the one side and the creation of the Common Market (what we call now The Six) on the other side are the two great achievements after the end of World War II. Do not forget that the Common Market is more than a customs union! A customs union, as it is said in the Rome Treaty, is only the beginning. The final goal is expressed in articles 103 and 104: The member states regard their business cycle policy as something of common interest; and the member states conduct an economic policy which is necessary for the preservation of a high degree of employment, stable price level and equilibrium of balance of payments. This requires the cooperation of the fiscal

authorities, of the Central Bank authorities, and of the entrepreneurs and the workers. All together have to contribute to reach these goals: full employment, stable price levels, and balance of payments equilibrium. That means that economic policy in Europe today is no longer only business cycle policy, it is economic policy *in the broadest sense of the word*.

I could end my lecture by saying: There is not yet such a thing as a European economic policy. There are beginnings of it, but no more. You know, that the Common Market since 1957 has a transition period of 12 years and only after this transition period, the member states will always act in full agreement: "Nach Ablauf der Übergangszeit gehen die Mitgliedstaaten in den internationalen Organisationen mit wirtschaftlichem Charakter bei allen Fragen, die für den Gemeinsamen Markt von besonderem Interesse sind, nur noch gemeinsam vor". At that time, after 12 years, there will no longer be separate national economic policies, there will be but one economic policy for the group. In any case, this coordination is essential for the six member countries. It is our hope that the number of member states will increase and that some day we will have a real *European* economic policy. But first we must solve many difficult problems. *Where* is the cooperation to achieve these goals easiest to accomplish?—Between the central banks! Because between them there exists already a very close cooperation.

On the other side, the most difficult task in Europe will be the co-

ordination of fiscal policies, because most of the national governments will regard, for example, the increase or reduction of taxes as something which is untouchable. And even the wage policy will be regarded as some-

thing that belongs to the inner sphere of a nation. We have to overcome these difficulties if we want to reach our goal: European economic unity and—through economic unity—political unity.

# Business Cycle Policy in the United States

*by Herbert Stein*

I shall discuss the business cycle experience of the United States since 1957, and the responses of government policy to that experience.

The period since 1957 was not one of large fluctuations in key economic variables. Unemployment has remained within a narrow range, seldom less than 5 per cent or more than 7 per cent of the labor force. Total production, as measured by the gross national product at constant prices, has increased rather steadily. The two recessions of this period have been mild. The average per cent decline of production in the 1957 and 1960 recessions was 3-1/2 per cent, as compared with 3 per cent in the 1948 and 1953 recessions. The average per cent rise of production in the first year of the recoveries that began in 1958 and 1961 was 7-3/4 per cent, as compared with 8-1/4 per cent in the 1949 and 1954 recoveries.

Moreover, prices have been rather stable during this period. The average of all wholesale prices in May 1962 was at almost exactly the same level as in January 1958. Wholesale prices excluding farm products and foods rose at the rate of .3 per cent per annum over the same period—and this is probably the price index most relevant to our foreign trade. Our

most comprehensive price index, which includes services, rose at the rate of 1-1/2 per cent per annum.

Despite this stability, the economic performance of the period since 1957 has been unsatisfactory. There were, as I see it, four unsatisfactory aspects of the performance since 1957. One of them was real and, in my opinion, serious. One was real, although of uncertain magnitude and, again in my opinion, not terribly serious. The third and fourth are somewhat speculative, but are probable, and their seriousness is a matter of viewpoint and judgment.

The first, and most serious, unsatisfactory aspect of the period was the excessively high unemployment. While the rate of unemployment was rather stable, it was stable around an average of 6 per cent, as compared with an average of 4.2 per cent in the period 1948—57. You should not interpret these numbers by reference to European statistics. By European definitions and methods of measurement, our unemployment rates would be lower than they are, although still higher than present European rates. However, by our own experience and expectations our unemployment rates are too high.

Chart 1

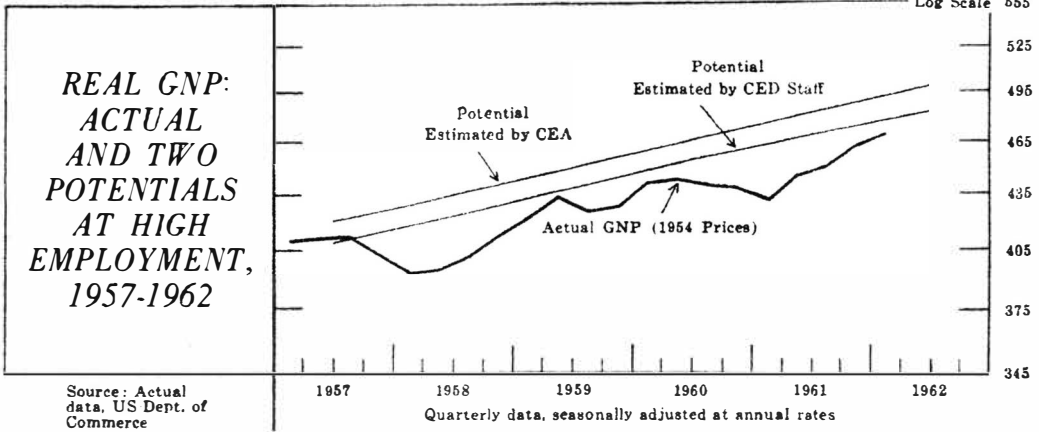


Chart 2

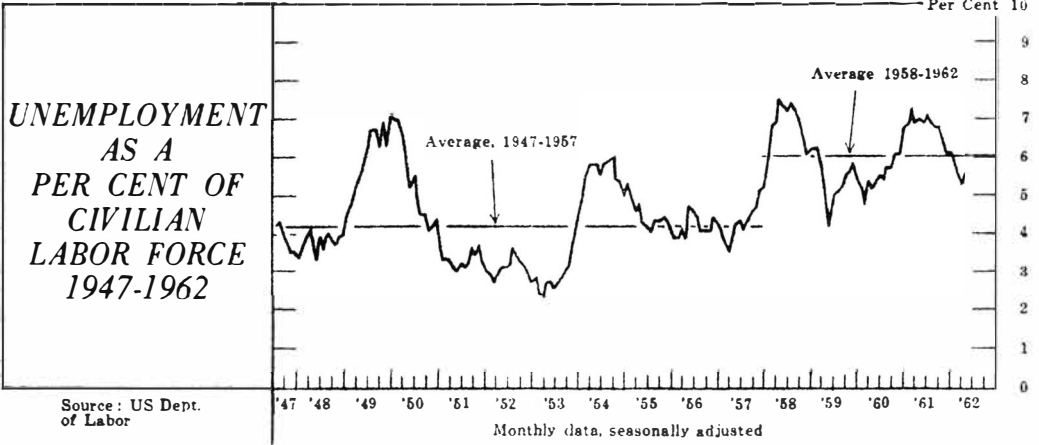


Chart 3

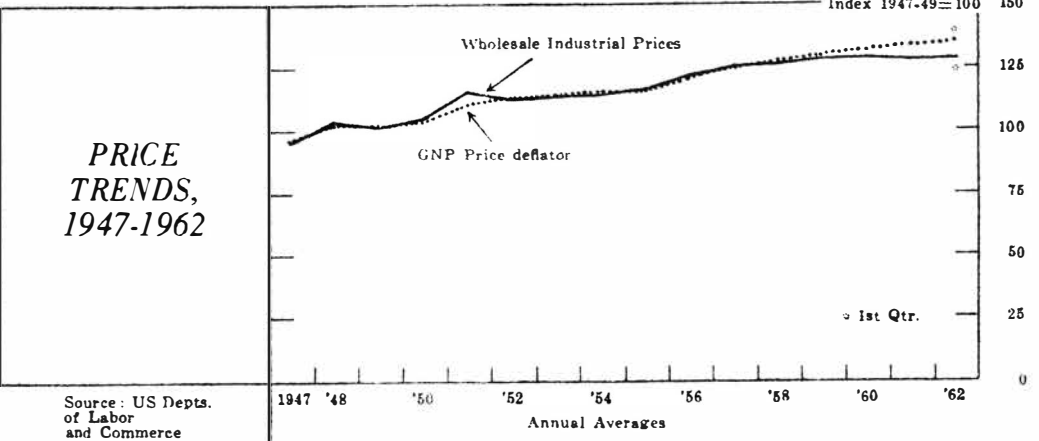


Chart 4

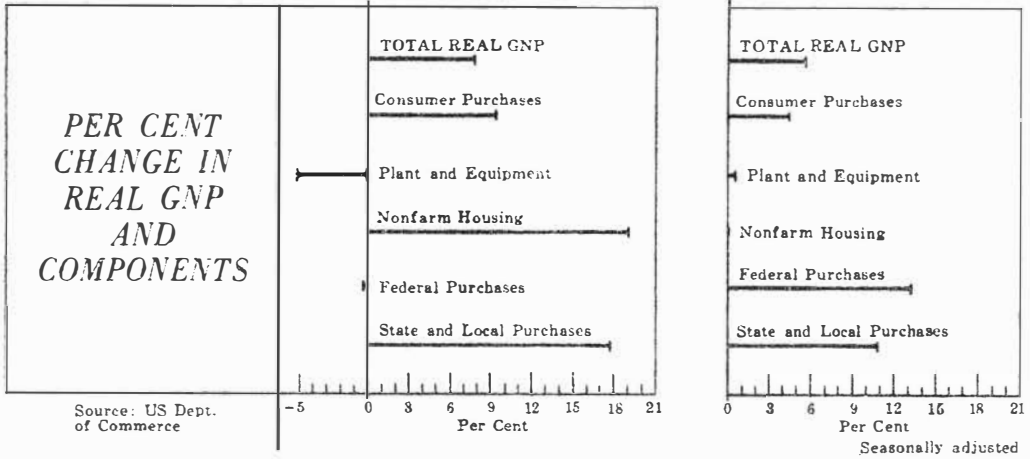


Chart 5

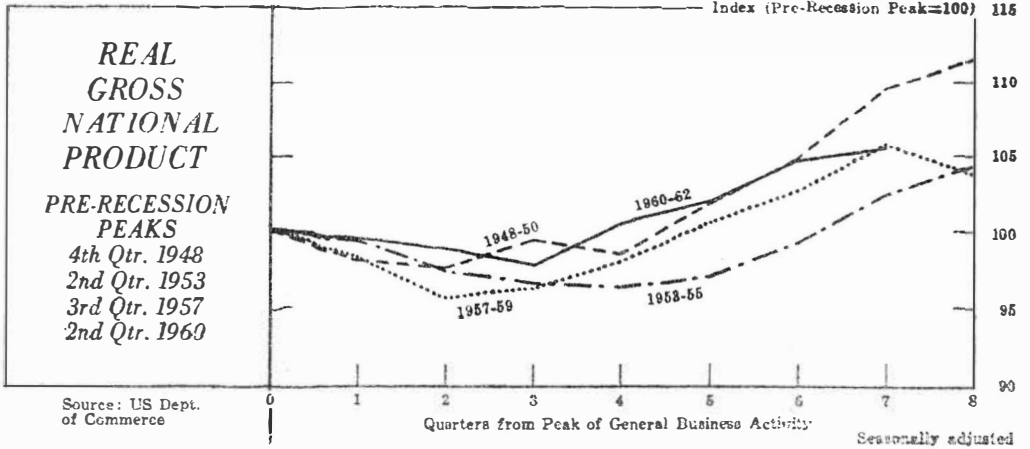


Chart 6

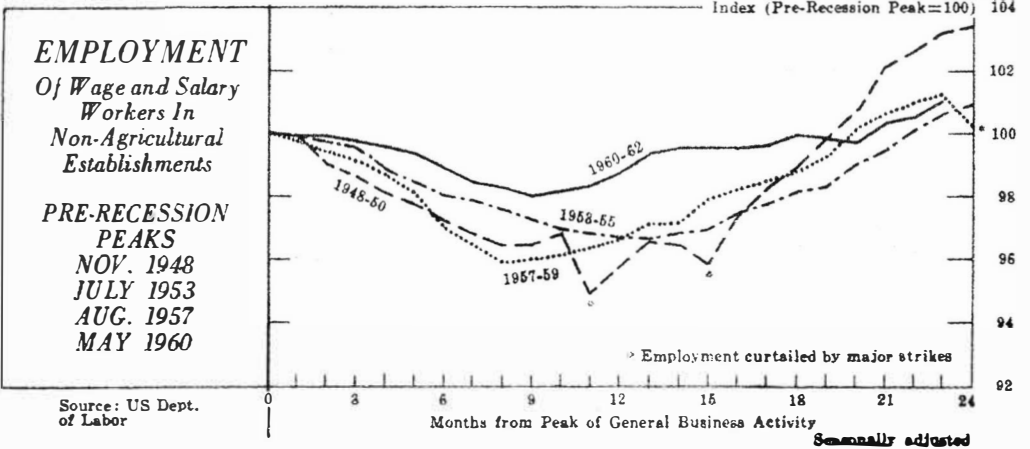
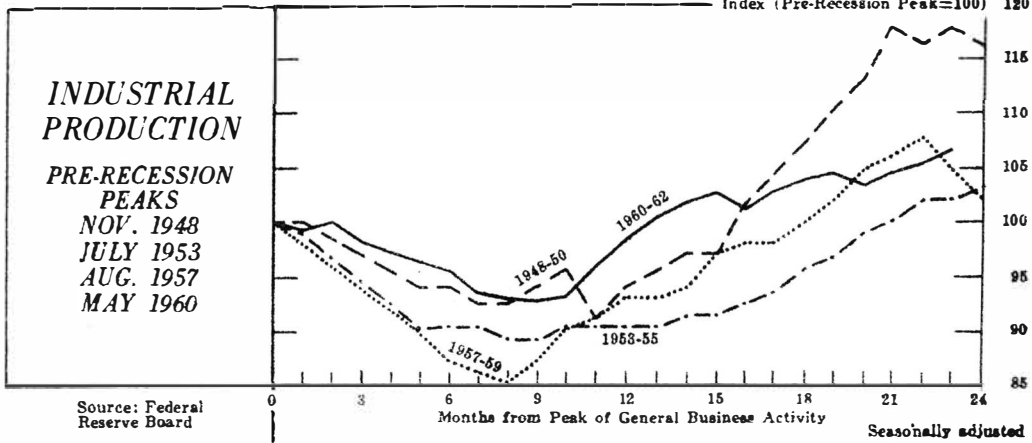


Chart 7



This is serious first and most important because of the people directly affected. The difference between 4 per cent and 5 per cent unemployment is about 700,000 people, with families of about 2-1/2 million. Despite the unemployment compensation system, these people suffer considerable income loss and insecurity. Moreover, the presence of excessive unemployment casts a pall over the whole economic and political system. It creates obstacles to economic adjustments that we should be making. If continued, it could raise doubts about the value and meaning of the free system we wish to preserve in an indifferent or hostile world.

The second unsatisfactory feature of our performance has been the loss of production that we might otherwise have had. This is rather difficult to measure. According to estimates

by the President's Council of Economic Advisers, actual production in the four years 1958 to 1961 inclusive was about 6.3 per cent below our potential production at high employment. They define high employment for this purpose as employment of 96 per cent of the labor force. Using the same definition of high employment, some of us in the CED staff find that actual production was about 3.7 per cent below the potential.

One must, of course, make one's own judgment about how serious this is. I must say that on our estimate, and probably also on the CEA estimate, it does not seem very serious to me. The losses are equivalent to about two years growth in production. It is as if we were living in 1962 with the real incomes of 1960. In the long sweep of history, this does not seem alarming to me, although some people make a great deal of it in my country.

A third, and somewhat speculative, aspect of our situation is what might be called the latent inflation. We have not had very much actual inflation in the past four years. In fact, the rate of measurable inflation is probably within the range of bias in our measurement procedures, so that the actual inflation may have been zero.

But we have not been operating at high employment either. There is concern that we can only have this degree of price stability when we have excessive unemployment and that we would have more inflation if we had high employment. Among the 185 million people in the United States there are some who maintain the contrary and who say that we would have less inflation if we had high employment because productivity would be higher. This seems unlikely. But on the other hand, how much inflation we would get at high employment, and how seriously we should regard it, are unclear to me. I think we are in danger of elevating our 1955—57 experience of the relations between high employment and inflation into an eternal law.

A fourth unsatisfactory feature of our recent situation lies in the relation between the rate of unemployment and the size of our balance of payments deficit and gold loss. There has been concern that if we had high employment our international financial position would be even worse than it is. This is almost surely true as to direction, but again the quantities involved are uncertain. With the higher real national income that we

would have at high employment, our imports would be larger. The magnitude of the effect would depend upon the distance that actual national income has been running below the high employment potential. I have already indicated that estimates of this vary substantially. Also, if high employment causes higher prices, this will hurt on the export and the import sides.

No American in his right mind, at least when standing on European soil, can say that he is not worried about the loss of gold. But at least he may be permitted to ask what it is he must worry about—Is the tendency to lose gold at high employment a sign of something seriously wrong with our domestic economic system or a sign of something wrong with the international financial system?

Let me mention briefly two alternative views of our recent performance before turning to a discussion of the policies adopted or under discussion.

On one view of the record which has much evidence behind it, our trouble has been mainly due to an accident and an error that made the 1960 peak of economic activity exceptionally low and short lived. The recovery from the 1957—58 recession proceeded at a normal pace for one year. The decline from the 1960 peak was short and shallow. Real output is already about six per cent higher than two years ago, at the 1960 peak. If full employment had been reached in 1960 and had been followed by a recession and recovery on the scale we have just been through, the record of the past four years would have looked entirely different.

Two immediate causes can be assigned to the incompleteness of our recovery from the 1957—58 recession. One, the accident, was the 1959 steel strike. The other, the error, was the abrupt increase in the restrictiveness of the Federal budget at the end of 1959.

The other view of the source of our difficulties is more complicated. On this view, while our problem took the form of a submerged peak in 1960 this was only the manifestation and not the cause of the problem. Even if it had been possible to pump the economy up to a high level in 1960, the high level could probably not have been sustained for long and certainly could not have been sustained or even reached without serious consequences for the price level and the balance of payments.

This view has, as I understand it, four related but not inseparable elements. I state them as propositions held by some thoughtful people in the United States, not as necessarily proved.

1 The structure of the demand for labor, in terms of the distribution of workers demanded by location, industry and skill, is so out of balance with the supply that high employment cannot be achieved at all or can only be achieved at the cost of substantial inflation.

2 The rise of wage rates is so sensitive to the level of unemployment that we would get substantial inflation as we approached high employment.

3 Partly because of the upward pressure of labor costs, partly because

of overcapacity in some industries, and partly for other reasons, profit prospects in America are too poor to support a high level of business investment. It is worth noting that private fixed investment, excluding housing, did not regain the 1957 level in 1960 and has not yet regained it in 1962. This makes high employment hard to reach, at least in a form consistent with longer-run objectives.

4 Foreign financial sentiment is highly sensitive to expansionist fiscal policies in the United States, so that attempts to pump up our economy by fiscal measures would accelerate the outflow of gold.

It is not my purpose to evaluate these ideas but to report the nature of the problem with which business cycle policy must contend. Business cycle policy always contends with uncertainty, and these are some of the uncertainties in our present situation.

What is the business cycle policy of the United States? This is a difficult question for me to answer, for two reasons. The first is that we do not have anything distinguishable as a business cycle policy. We have a number of decisions that the government must make, or in any case does make, in which business cycle considerations are important but always mixed with other considerations, of international or domestic politics and of other economic objectives.—Second, I have no pipe line into the thinking of our Administration. I can only deduce their policy from what they say and do. This is hard in an environment where the line between saying and doing is unclear.

However, let me give you my interpretation of the government's view and policy. I think the government has a view of the problem that makes it quite difficult to solve. This does not mean that the government has a pessimistic view. Our present Administration seems exceptionally confident of its ability to overcome difficulties.

The government's view of our problem I would judge to contain the following elements:

1 We are a long way from the rate of production we would have at high employment. It is doubtful that the economy will reach this production rate, or sustain it for very long, without more stimulus than the government is now providing.

2 We want not only to regain high employment but also to accelerate our growth rate. This requires, as one step, an increase of private investment. Therefore the stimulus to the economy should take a form that will encourage and not discourage private investment.

3 The balance of payments is a critical problem. Because our production and income would be so much larger at high employment than it is now our balance of payments problem would be much worse at high employment. The balance of payments problem must be solved within the framework of the present system of fixed exchange rates and limited expansibility of international reserves.

4 There is a strong built-in tendency for labor costs and prices to rise when we are in the near neighborhood of

high employment. This results from inadequacy of competition in labor and product markets.

5 While structural unemployment is probably not a major factor in our present situation, it is nevertheless a factor and efforts to reduce it are worthwhile.

6 Balancing the budget is important—whether because the Administration thinks so, or because other people at home think so, or because Swiss bankers think so, is unclear.

This eclectic view of our problem leads to a many-faceted policy. The main ingredients of the policy are measures to increase demand, measures to reconcile high employment and price stability and measures to reduce the conflict between our domestic economic objectives and our international financial requirements.

On the stimulation side, the restrictiveness of the Federal budget has been substantially reduced as compared with 1960, mainly by increasing expenditures. There is concern to prevent the budget from becoming more restrictive again as growth of the economy increases the revenue yielded by the existing tax system. Apparently this would be done, at least in part, by a reduction of tax rates. At the same time the government would like to avoid presenting a budget that would have a deficit at high employment. In view of the flexibility of the definition of the budget and of the estimation of high employment revenues this is not a rigid limit, but it is some.

Further to increase the government's ability to use its fiscal influence in a

recession—not this one but the next one—the Administration has asked for power, on its own initiative to cut taxes and increase certain expenditures. Congress has not acted on these proposals.

To promote private investment the government has proposed a tax credit for new investment. This requires Congressional action, and for a combination of reasons too complex to report here, the outcome in Congress is uncertain. In addition, the government is taking administrative steps to accelerate the charge-off of depreciation permitted for tax purposes.

The main move to reconcile high employment and price stability has been the enunciation of a set of guideposts for price and wage behavior. The government hopes for voluntary conformity to these guideposts by business and labor. However, it has shown some willingness, at least in cases it regarded as critical, to use its powers to enforce adherence to the guideposts.

As measures to deal with the problem of structural unemployment, the government has established a program to assist redevelopment of depressed areas and has authorized a manpower retraining program. The Administration has also proposed a program of public works for depressed areas, but Congress has not yet acted on this.

The steps to try to control our balance of payments problem without giving up too much employment and national income in the process have been numerous and are probably well known here. Generally they may be

described as ad hoc measures to hold the line until the tide turns.

You do not need to be told that this combination of policies does not command unanimous support. Nothing does in the United States. I shall not try to report all the divergences in view that you would find in the United States. Instead I will briefly describe one contrary view, not because it is representative, which it is not, but because it is mine.

The basic problem, as I see it, is to form some judgment as to the terms of trade, that is, how much of one we have to give up for the other, among four objectives, and then to decide what our scale of priorities is among these objectives. The four objectives are high employment, price level stability, balance of payments equilibrium within the framework of the present international financial system, and avoidance of government control over the private economy. Any business cycle policy for the United States today will be determined largely by valuations of these objectives.

In my opinion, the amount of price level stability we would have to give up in order to get high employment in the American economy is not large. Many people whose opinions I respect would disagree with this and I have to recognize the uncertainty of my own judgment about it. I think my preferences for policy do not depend exclusively upon the judgment that the conflict between high employment and price stability is not great. My policy preferences depend even more upon the belief (a) that high employment is very important to

us after almost five years of not having it, and (b) that the extension of government control required to suppress the conflict, if the conflict exists, would be large and highly undesirable. Also, I do not think that the addition to our balance of payments deficit that would result from regaining high employment would be large in relation to our existing deficit. But here too, my policy preferences rest less upon a judgment of the magnitude involved than upon a belief that if balance of payments equilibrium and high employment are incompatible under the existing international financial system, this is so much the worse for the international financial system which would badly need reform.

On the basis of this credo I erect a rather simple policy program. I think we are not very far from the production level at which we would have high employment, and I think there is a good chance that we will get there within about a year without any extraordinary measures, but we should be prepared to take stimulating measures through the budget if the recovery lags and particularly that we should be prepared to cut taxes to prevent the budget from generating a large surplus as a result of economic growth. This is likely to mean a tax cut of greater or less magnitude early next year. I would hope to see this tax cut concentrate on a reduction of the rate of corporate profits tax which seems to me

from all standpoints, other than the political, the worst tax in our structure.

This is about all of my positive domestic program. I would like to see the government get out of the business of enforcing guidelines for price and wage behavior and would hope that the guidelines could be restored to the status of description of the way a competitive economy would work rather than having the status of moral law or government edict. I think there is a good deal that needs to be said and done about strengthening competition in labor and product markets in the United States and increasing the geographical and occupational mobility of the labor force. I would not regard these as making a primary contribution to business cycle policy but I believe they would be beneficial in their effects even in that sphere.

This leaves me with the problem of reconstructing the international financial system. Fortunately my assignment does not explicitly require me to do this and I have about exhausted the time allowed to me. However, I believe that the general lines of policy would not be impossible to formulate. I am sure that we could make some improvement over an international financial system that has required the United States, which is about one-half of the free world economy, to operate under wraps for almost five years in a row.

## *Discussion*

**Nils Kellgren:**

The Swedish discussion on this subject started just after the war. The trade unions had the same goals as Mr. Stein but with one very important exception: we should have full employment, stable prices and balance of payments. We now have all this, but in order to get it we had to give the government, the public sector, enough money and enough power. I can express my first more severe criticism of Mr. Stein by asking: Why are you in the United States so afraid of the government, a government elected by a democracy?

Then, to another problem. We believe, of course, in an integrated European market, also in the trade unions but these must have a greater influence, and of course also greater responsibility. I believe that most of the European countries must learn that the trade unions represent a new force in economic life—if you want to reach all these goals mentioned here, full employment, stable prices, and the balance of payments.

**Russell J. Clark:**

May I make just a few general observations on what we heard this morning, particularly from the British point of view. I thought that Pro-

fessor Schneider oversimplified the Golden Age of monetary management to which he looked back in the years prior to 1914, in one sense at least, when he omitted—I think—to say in effect that although it was called a gold standard it really amounted to a sterling standard. In other words, people throughout the world were, very largely, prepared to conduct their current business in sterling and were prepared to obey—he did say this—the signals that the Bank of England chose to make when it raised or lowered bank rate. I have some sympathy with countries' desire to break away from that system when I consider the errors of judgment of which our central bank has been guilty from time to time. And it seems to me that a system, such as we or rather our grandparents enjoyed is very much dependent on the existence of a single, dominating financial center which the rest of the world is prepared to obey. Quite obviously that condition no longer exists.

There was also, at that time, that curious accident of history, known then as the British Empire and later as the Commonwealth. It was not without its effect on this system of free trade and payments. The Commonwealth, of course, is another thing that is evolving and in the process of evolution is resulting in a number of new and separate nations. The first

task of any new nation, having established its own airline of two airplanes, is to establish a central bank and its own gold reserve, thereby reducing international liquidity a step further.

But to come a little closer to the present discussion and our own management of cyclical policy, we have been, whether by design or accident, outstandingly successful in the objective of securing full employment, and our problem throughout the post-war period has hinged on the balance of payments. The great problem that we have had to try to solve, and we have by no means solved it, is that our external position and the requirements of the external position are so often in complete conflict with what is desirable at home. It has been a fundamental tenet of the Treasury throughout most of the period that in order to secure a favourable balance of payments you must depress the home economy. Thus, at the first danger signal from an outflow of gold or an adverse balance of payments, the immediate reaction has been to clamp down on the domestic economy. Now, while it is quite obviously true that if you have a booming home economy some of your goods that might otherwise have been available for export will be consumed at home, it does *not* follow that if you prevent them being consumed at home they will automatically go for export. That undoubtedly was the theory at one stage of the battle, though the authorities have now to some extent lost faith in it.

From the point of view of British balance of payments, because of Great

Britain's tremendous dependence on imports, whenever we clamp down on the domestic economy there is an immediate or almost immediate response in a curtailment of imports. So that, broadly speaking, we have tended to put our balance of payments right in a rather negative way by depressing the total level of trade.

Throughout the early part of the period—the immediate post-war period—the economy in general was subject to physical controls, partly because of the post-war situation, partly as a result of the philosophy of the Labour Government that came to power after the war. Then the conservatives came into office in 1951 and immediately monetary policy became *the thing*. Everything could be solved by monetary policy and, in particular, by changes in the bank rates. So within a month of their coming to power they made the first, or effectively the first, change in bank rate since 1932. This was going to accomplish wonders; but somehow it did not. It did not deliver the goods and, speaking from the point of view of a commercial bank, we felt that we got the rough end of the stick over most of that period. Then, during the last few years, partly perhaps as a result of the deliberations of the Radcliffe Committee, it has come more and more to be recognized that monetary policy alone is not sufficient; and we are moving now to the idea that fiscal policy, *supported* by monetary policy, will perhaps do the trick.

We are also—I think—coming to a conclusion, and this I think chimes in with something that Mr. Stein was saying, that it does not necessarily

follow that if you establish a reasonable rate of growth, your balance of payments will suffer dramatically or that your price level will necessarily get out of control, though these have been fundamental tenets over the past years—with the result, as I have suggested, that we have restrained the economy most of the time.

Because Britain has the good fortune, or the misfortune, to be holders of one of the key currencies, we are particularly interested in recent developments in the co-ordination of international monetary arrangements. The Triffin Plan, the Stamp Plan and other plans aroused a good deal of interest in Britain. It looks as though any grandiose plan now is to be shelved for some time, but the arrangements made between central bankers referred to earlier this morning, seem to be bearing fruit. The ad hoc arrangements for supporting the key currencies—the dollar and sterling—certainly seem to be doing a great deal of good. Under the leadership of Per Jacobsson, the Monetary Fund, too, is providing a part of the answer to the problem of insufficient international liquidity and thus giving countries a longer period of time before they have to take drastic action to control an adverse balance of payments; and our belief is that the co-operation will continue. We also have some hopes that *should* we enter the Common Market—not more than a six to four chance, I would think, at the present time—these arrangements will develop still further.

### Tore Browldh:

During these last ten years economic policy makers have reached a point where they are suffering from “*embarras de richesse*”. They have so many aims that they run into conflict with each other, and they are also suffering—in a way—from an embarrassing number of instruments in economic policy. Today we have not only monetary and fiscal policy, but also labour market policy, wage policy, price policy, investment stimulus policy and so forth, housing policy not to be forgotten. And I fear that when it comes to coordinating these policies on a European or world-wide scale, we may really get into trouble.

I do agree with Professor Schneider that the field where it is easiest to attain a coordination that goes beyond national borders is in monetary policy. In fact, as Professor Schneider also stressed, we have already an institutional set-up in the Basel meetings once every month where I understand that our Governor of the Central Bank picks up a lot of both bad and good ideas from his colleagues. And I also understand that it has become a set policy now for representatives of the Federal Reserve Board in Washington to attend these meetings.

But I believe that the difficulties are growing in geometrical progression when you enter the field of fiscal policy. Here you do not only enter the realm of political economy but of politics, because fiscal policy is used for so many things other than keeping up full employment and

stimulating growth. It is being used for redistributing income and capital, helping underdeveloped countries, furthering growth in a particular part of the country. And once you enter the political field, you are to stumble upon many obstacles. For this reason I believe that coordination of fiscal policies will be very difficult to attain on an international scale. Here co-operation has to be carried out by politicians, who for national reasons may have very different ideas about various fiscal measures. Perhaps we will have Adenauers in certain countries and Gaitskells in others and Kennedies in third countries and it will be very difficult to get them to agree on the formation of united and coordinated fiscal policy.

I believe that similar political problems also crop up in other fields, for instance in the coordination of labour market policies, when it comes to wage policy and so on. We may well talk about harmonization here, but whenever we enter the realm of politics, we are bound to run into difficulties. This does not mean that I do not want to have more of collaboration between the various countries. But I do believe it is necessary to realize that it is mainly in the field of a monetary policy that we can hope for coordinated *economic* policy. All other instruments that we at present have at our disposal are heavily tinged with political considerations.

Professor Lundberg and many others (like Mr. Kellgren) believe that there is an optimum profit margin that should not be surpassed, and the reasons given are very interesting. I also take up this particular

problem because Mr. Stein said that reduced profit margins in the United States is one of the obstacles preventing full employment to be reached, because private investment in industry cannot be stimulated enough. In Sweden we had high profit margins during the 1950's. The corresponding high degree of self-financing stimulated private investment, which made Swedish industry very efficient.

But now my Swedish friends here point out that with too high a degree of self-financing you have certain disadvantages too. First of all the Trade Unions are stimulated into demanding much too high wage increases when they see the profit yields. Secondly, if you have profit margins which are too high, inefficient companies can continue in activity for too long a time. And as labour is in very short supply in Sweden, it is a good thing that inefficient companies are hit as early as possible so that labour can be shifted over into more efficient plants and sectors of industry. Thirdly, too much internal financing creates watertight compartments on the capital market, and hence you do not get the capital out onto the market where all sectors of industry and all groups of society can freely compete for it. Fourthly, and this is an aspect of the problem stressed in particular by Mr. Kellgren and his colleagues, high profit margins mean a distribution of income and capital in society that is not acceptable to the Trade Unions, because it means that the shareholders get too much.

However, I remain unconvinced by these rather divergent arguments and I do not believe that it would be

possible to coordinate the profit rate policy of Mr. Stein and the profit rate policy that we now seem to be aiming at here in Sweden. This is just another illustration of the great difficulties involved in coordination over national borders.

### **Jacques Plassard:**

Political problems are always difficult but still we have to solve them; we must not avoid them. The phenomenon of business events can be treated as an international system on the basis of monetary systems, which indeed have a political factor in themselves.

I appreciate Mr. Schneider's hints of "the great revolution" of 1914 when the universal monetary system was replaced by national systems. We have now arrived at some harmonization of business policy which is not made consciously but is due to the fact that we have a monetary system which has a certain international coherence with a degree of convertibility which has become higher and higher. The most important question for the future of our Western systems is whether this monetary system of universal character—which despite its imperfections has given almost satisfactory results—is a system of quite reliable solidity. Mr. Schneider mentioned the monthly Central Banks' meetings in Basel as a basis for our present system. However, this basis must be very fragile as the men who meet in Basel have no organisational power in their home countries. The Central Banks are subject to the state

power but it is not certain that the financial authorities will follow their advice. We have seen the Governor of the Bank of France who was perfectly conscious of the international needs but who did not succeed in the interventions because the political authorities were against him.

The central problem of the harmonization of business policies is to get a universal monetary system which is stable. If we now consider the actual weaknesses of our monetary systems we find at least a lack of dollars which cannot go on for ever in its present pace. This is where we run into essentially political problems, because the lack of dollars is not a deficit which is a result of the lack of balance in private payments. What France obtains from the Americans is to a great extent placed on private business.

The other problem comes up in connection with military expenses, etc. I think the most important and crucial problem for our system is that we cannot speak of the economic integration, if in a few years we can meet accidents of the same kind as those of 1925, which were due to a disagreement in monetary policy. I was surprised to see that there are very few studies of allowances to solve this problem except those which have been presented by monetary experts who dream of replacing the universal monetary system which is enforced upon each of its members, by monetary systems which will offer possibilities to generalize an inflation which we Frenchmen have too great experiences of not to fear it. I think this is a problem which could be

treated in a Western frame but so far I have seen no serious efforts.

### Herbert Stein:

I would like to respond to a few points raised here. First, Mr. Kellgren's question why we are afraid of our Government—are we not a democracy? Of course, I must make quite clear that the views I express are not those of all Americans. Many Americans are not as afraid of it as I am. Nevertheless we do have a certain view of what a democracy means in the United States: it does not mean a weak government, it means a strong government operating in a limited area. But certain areas we like to reserve even from the control of a government which we are in a position to elect or reelect every four years. This perhaps goes back to our unfortunate experience with the British but we feel that certain powers ought not to be entrusted to a government. I think that most Americans would feel that control of wages and prices is one of them, since it goes so much to the heart of all economic operations. We prefer to see our government operate in fields where certain principles of general applicability can be established, and control of prices and wages does not seem to be one of them.

We have had an experience which at least some of us regard as frightening: For years we have been adding to the power of the Federal Government and we have a much bigger tax system than we used to have, we have much more government procurement,

we have antitrust regulations, etc. And we always said to ourselves: This was quite safe after all, it is nothing here but this fiscal policy, and the Government cannot hurt anybody by spending money and by collective taxes and forcing these laws and having the FBI around to enforce certain Federal criminal statutes. But then, suddenly, we discovered that here was a whole basket of powers which could be used at the discretion of the President to enforce some policies, which have not been established in any constitutional way, that empower the Government to procure some \$ 50 or \$ 60 billion worth of stuff per annum. This came to a head during the steel strike, but my own feeling about it much antedates that. And, furthermore, I would say that I do not see in our situation a need for accretion of government power because this is a question which comes close to my hint about the international financial system and a thing which I feel is somewhat paradoxical: that to breed the idea of a system of flexible exchange rates is regarded as a highly radical idea, but it *may* be the only conservative response to the alternative of very intensive, detailed and rigid internal controls. It may be that it is the conservatives who have to learn this.

Somebody asked why the United States, which has a coordinated policy, has not fared as well as the Europeans with their uncoordinated policies. I am sure that he was joking, because there are many explanations of successful performance of the European economies but it suggests to me, of course, that coordination by itself

does not solve many problems. The main question is to what objectives and with what instruments and with what intelligence one does the co-ordination? I think there is a kind of difference of view between me and Mr. Schneider which appears despite the fact that we were discussing such different problems, at such different levels. One key difference is that he has a variable, an instrument of policy which I do not have. He has a price and wage policy in his system. If you want to have and can make a fact of an internationally coordinated price and wage policy, then you can dispense with a lot of other things. But I just do not happen to have that in my system. But it is not only I who do not have it; the United States does not have it. This makes it difficult to talk about the co-ordination of economic policy between the United States and Europe, if this kind of policy is to be a key element on the European side. And of course, this idea has a considerable possibility of extension and creates a real problem of the possibility of general coordination between countries with highly different economic systems, if we are going to have highly different economic systems.

Now, to another question which is also relevant to the coordination of business cycle policy. The U.S. balance of payment deficit, as far as I can see, does not arise from the U.S. cyclical position being out of phase with the European cyclical position. In fact, we have had our deficit continuously during a period in which we have operated with considerable

slack employment, while the Europeans were on the whole booming. This should have given us the opposite result. Our balance of payment deficit results in part, as has already been said, from certain government policies which cause us to make large military and foreign aid expenditures abroad. Judging from the completion of the post-war reconstruction and the very rapid rise of productivity in Europe I do not think that a co-ordination of business cycle policies could have corrected this, except by forcing upon us an even more serious unemployment than we have had. There are and may be ways to correct this within the framework of the existing financial system. As I mentioned, we have been trying many things, some of which would certainly in any case be desirable and deserve the support of our European associates, including the spreading of the burdens of military defence and foreign aid.

We have, however, also been forced into doing many other things which were less desirable from anybody's standpoint and the only point that I would like to make is that, if we encounter a situation in which the balance of payment problems cannot be solved by a combination of measures which are from the international and national standpoint desirable in themselves, we ought to have a system which would at least give us more time to make adjustments and not force us into consistently deflationary policies. And one reform which would help to solve this problem is a system of flexible exchange rates. An alternative, not of quite the same effect

but perhaps yet very powerful, would be to increase the flexibility with which additional reserves are injected into the international system. I think it is worth noting about this Golden Age before 1914 that it seems to have been rescued at least twice by fortuitous discoveries of gold in South Africa and in Alaska. We ought to have some method of managing that now when we are managing so many other things.

**James A. Clay:**

I would like to begin by putting a point to Mr. Kellgren about the Labour Board in Sweden. I wonder whether it is sufficient to have some mechanism to raise employment, if it is falling off. It seems to me one thing to have a reserve of public works in order to increase employment when it is needed, and another thing to achieve stable, or reasonably stable, wages at the same time. I understand that this has not in fact happened in Sweden; wages in recent years have increased with prices as fast as anywhere else.

I will now turn to our own experience in England. I would not like you to think from my colleague Russell Clark's remarks that everyone in England is quite as satisfied with our having achieved full employment. I recall soon after the war, when Dalton was our Chancellor of the Exchequer, that he made his famous budget speech and said he had a song in his heart when he looked at the home scene: he saw rising production, adequate demand, and every-

thing seemed perfect. And he had this song in his heart, he said, until he looked abroad where the picture was rather different. We had at that time a balance of payments deficit of a size we had never experienced before and it shortly in fact led to our getting on to the telephone to Uncle Sam for a very large loan and it led to devaluation. And that seems to me is what happens if you pursue one of these objectives, full employment, and forget everything else.

One has to consider inflation and the balance of payments at the same time. The problem is to reconcile these three objectives. In my country I think we have pursued the first one, full employment, more than the other two. I have a feeling that in the years to come, in ten years' time, people will look back to this period and say: "Well, economists discovered how to deal with the problems of lack of employment on a big scale, of what to do in a slump. Between the wars we had the worst slump possibly the world has seen and we now think we know what to do. We believe that Keynes showed us how to do it. But after World War II, we were not even once faced with that sort of position. We have been using Keynesian weapons in the wrong war." It is as though we have suddenly put in a new fire brigade system with an alarm and, whenever we see a cigarette-end on the ground, we call the fire brigade. Since the war we have not been faced with the kind of slump or recession which justifies the full armory of Keynesian weapons. We have been using these weapons far too freely. And that is

why Britain keeps running into balance of payments problems.

This is a thing that concerns my own company very much. We invest in mining operations all over the world. When England gets into balance of payments difficulties, as happened recently, we find that we are not allowed to invest more than a couple of pounds overseas. This puts us in an embarrassing situation; we have a very small subsidiary company in America and we have to shift funds from there, and it is very undignified.

What we are faced with now is the need to study the highest level of employment that we can achieve without getting into difficulties of inflation and balance of payments. Herbert Stein was right when he said that the level of employment is overwhelmingly important and when it is obviously too low, it casts a pall over everything. It cannot be ignored. It just forces itself upon everyone. But it is one thing to be obsessed with this and another to decide just what level of employment can be achieved in any given circumstances. It obviously varies from time to time and it varies with countries.

I understand that in America the Council of Economic Advisors are looking at this very problem at the moment, trying to decide what happens at various levels of employment. In my own country it will probably be one of the things that the new National Economic Development Council will be looking at, what sort of levels of employment we can achieve without getting into difficulties. The Council, I understand, is

at the moment taking a very cautious attitude—I think quite rightly—and sees its job as looking at such questions as what are the obstacles to growth. Are these obstacles the sort of rigidities which cause trouble on the inflation front as employment rises? I think, in other words, that the main problem in front of us is to find out how to remove the rigidities in a country which will enable the level of employment to be increased without causing balance of payments troubles and inflationary troubles.

One example of these rigidities in my country would be the recent decision the Government made to set up two small steel mills instead of one large one. That kind of thing, it seems to me, slows the economic machine down and makes it less flexible. It means that the machine gets into trouble earlier as employment rises. And I think that is one of the problems that we are all going to face in the next few years.

#### **Nils Kellgren:**

There seems to be some misunderstanding from Mr. Stein. We do not either accept control of prices and wages in Sweden. On the contrary we also want to avoid control as much as possible. Therefore we have a general fiscal and monetary policy to keep full employment and stable prices. And we also try to keep the profit rate low enough, so that only the efficient companies are able to pay the wages. And therefore we try to keep the total demand just below the natural resources and by all kinds

of labor market policy we will increase the demand until all the natural resources are used with full employment, stable prices and balance of payments.

The labor market policy consists not only of labor exchange, retraining courses, moving people etc., it also includes stimulation of the economy on the margins, when it is necessary. So we stimulate housing when there is a chance to build more houses, when there is free manpower. It also includes stimulation of industry to build new factories, invest more when

there are more workers available; stimulation of public work in hospitals and in all kind of investments when there is a little recession or depression. And it also consists of work everywhere on the margins to raise the total demand in relation to the resources. Thus you can avoid price control, investment control etc. That is the theory which we have tried to follow. Of course, these new means we have found can be used more efficiently but they are certainly not so bad that we want to leave this way.



# OECD and Economic Growth

by Marcus Wallenberg

In connection with the theme of this conference, I would like to talk about the OECD and particularly what the OECD is doing. *The organization for European Cooperation and Development*, OECD, succeeds, as you know, the OEEC which after all had a tremendous effect upon the development of Europe after the war—thanks to the Marshall help the economic growth, the recovery in Europe has been rather spectacular.

I think that the work of OEEC to a very large degree was responsible for the success. The main characteristic of the OEEC work was, as I see it, that the 18 European member countries by sending governmental representatives to this Organization, by setting up working committees for various branches of industrial activity etc. developed, during these years a kind of team spirit and a work of coordination which was very helpful indeed. So, when this international cooperation was to be extended, and when it was felt that in view of the big jobs ahead of the world, particularly in connection with the economic conditions in developing countries etc., the Americans should come along, the new organization OECD, in which the United States and Canada joined, was created to suc-

ceed OEEC. Now, the OECD, in which, again, only governments are represented, felt a necessity of trying to get a good contact with business. However, they did not want to see all kinds of business organizations in the respective countries come and talk to OECD about problems of common interest. Therefore, they turned to the international industrial organization which once was formed among the European industrial and employers' organizations to represent industry's point of view at OEEC. They asked *The Council of European Industrial Federations* (CEIF) to try to work out some new formula, i.e. a new organization comprising industry in all the twenty OECD member countries, which could then be authorized by the OECD to act as a contact organ between OECD and business.

In the same way they turned to the Trade Unions too and the Trade Unions have also organized themselves into something called *The Trade Union Advisory Committee*, TUAC, to the OECD.

We, on the industrial side, after quite some long preparations and work, succeeded in forming something which is called *Business and Industry Advisory Committee*, BIAC, to the OECD. The members of that

organization are 33 employers and industry organizations in the 20 member countries. In order to give you an idea of the work that we in BIAC might embark upon I think the best thing is to tell you a little about the OECD itself.

The principle subject for the work of the OECD is something which fits in very well with the theme of your conference. The major decision passed by the Ministerial Council of OECD on November 17, 1961, aimed at a collective target for the attainment during the decade from 1960 to 1970 of a growth in real gross national product of 50 per cent for the 20 member countries taken together. Thus, some countries could grow more, some could grow less, but the total sum should be at least an economic growth of 50 per cent during the 1960's. The OECD have recognized that they could not reach this object unless they cooperate with business and with labour. Indeed, the Secretary-General of OECD, the former Danish Minister of Finance, Professor Kristensen, has been very much aware of the necessity to achieve such cooperation and has, therefore, encouraged us to form the new Committee, the BIAC, which has now been officially authorized by the OECD Ministerial Council to represent industry and employers at OECD. The contact between OECD and BIAC is intended to become a two-way traffic. OECD may ask BIAC to give industry's views on particular subjects dealt with by the Organization and BIAC, on the other hand, may take the initiative to recommend to OECD subjects that in

the opinion of business ought to be tackled by the Organization.

These consultations have only just started. One of the reasons why they are rather hard to get under way, is the fact that the OECD itself has not quite yet found its own line of activity. But perhaps it is a good thing to remind you about the goals which have been set for the OECD.

The three principle objects of the OECD are the following:

- *to achieve the highest sustainable growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy*
- *to contribute to sound economic expansion in member as well as non-member countries in the process of economic development*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations*

In the first field of activity, economic cooperation, within which "the 50 per cent growth exercise" is falling, is handled by the Economic Policy Committee under the chairmanship of the British Delegate to the OECD, Sir Robert Hankey, at least to the Swedish members of this panel known as one of the previous British ambassadors here in Stockholm. He has two working parties at his disposal, one for "policies for the promotion of economic growth" and one for "policies for the promotion of better international payments equilibrium". In these bodies high of-

ficials responsible for economic and financial policy in the different countries are meeting regularly in order to learn from each other and to coordinate the actions they are taking in their respective home countries. This is a sign of the growing awareness of the interdependence of the individual government policies. This kind of cooperation which, as I just said, was encouraged already in the old OEEC days, has now become closer and closer. It offers the opportunity for one country to criticize and to make suggestions with regard to the economic policy pursued by another country. Just to mention a few examples from the OEEC, the German balance of payments surpluses in recent years were under constant review, and the sterling crises last year gave rise to several suggestions as to the best way for Great Britain to put her house in order. As a matter of fact, I think that this particular policy committee now referred to is one which is of the greatest importance and, certainly, the one which the governments themselves attach the greatest importance to. This is proved by the quality and the number of the government representatives usually sent to the meetings. For instance, from America it has been Mr. Dillon, it has been Mr. Rosa, it has been Bill Martin, Heller and the like. They have always tried to send some very first rate people. I believe that it is fair to say that one of the reasons why the sterling crises were handled in such a delicate way, in such a smooth way, without any really great disturbances, was that this Committee, this coordinating forum,

was at hand and developed such intimate contacts between all concerned. Of course, they worked together with both the Basel Bank and the International Monetary Fund too. I think, however, that here you have really one aspect of the OECD activity which is of great value already to-day.

So far, the work of the OECD on the growth subject has been directed towards studies of the experiences made in this field during the 1950's. They have tried to analyse the factors that have promoted or hampered the growth rate and they have also reviewed the different ways in which economic and financial policies have influenced the growth rate. The next step which they are trying to make is a projection of the gross national product likely to be attained by 1970. With these various investigations as a basis the idea is to try to isolate a number of "key areas" in which special action by governments seems to be necessary and where the Organization may be of help in ensuring that such action is taken. As examples of such "key areas" the following can be mentioned:

- maintenance of adequate levels and rates of increase of demand, without which full employment will not be upheld;
- the balance of payments problem, the solution of which will involve the establishment and maintenance of appropriate levels of costs in different countries and also the pursuit of appropriate policies in matters of trade liberalisation and regarding capital flow;

- a third area is the wage and cost problem;
- a fourth is the share of investment in the national product and the generation of the domestic savings needed to finance this;
- another one is the changes in the pattern of demand produced by the growth rate set; this will in turn involve changes in the distribution of employment, for instance between agricultural and industrial forms of production.

All this means a certain amount of planning, even "planification". Reference may be made to the successful French "Plan" and the new British "National Economic Development Council".

The second principle object of the OECD is to assist the developing countries. A special Committee, *The Development Assistance Committee*, DAC, is charged with this matter. The forerunner to this committee was *The Development Assistance Group*, DAG. DAC's main job so far has been to analyse the assistance hitherto given by the respective donor countries. Their next task is to coordinate the assistance which is originating from these different sources. In other words, they are trying to make an inventory list of all the various organizations in member countries engaged in this field. For example, in the United States you have the Inter-American Development Bank, you have the Export-Import Bank and several others. DAC also reviews the different categories of aid that is forthcoming: Government grants and loans, private investments,

often in connection with some public money, education, know-how etc. Thus, they are looking into what is done in the respective member countries, in what areas you can make useful coordination, what practical steps could be taken to find the best solution and so on. They are also trying to get into contact, of course, with the developing nations to find out what they themselves are particularly interested in. This is a very long and very difficult job but I think that they are gradually making some headway. The procedure for the gathering of all the necessary information is called "the Annual Aid Review".

DAC is also to set up smaller coordinating teams for particular receiving countries. They have three or four nations in South America in mind, one or two in Asia and some in Africa too, the idea being that the particular underdeveloped country should come to the OECD and have its situation reviewed, discuss what methods could be employed and then let OECD coordinate different aid projects suggested by member countries, obviously with the assistance of organizations like the World Bank and the International Monetary Fund. This should make it possible to secure that these different aid projects fit in with each other so that some composite general plan for the country in question can be established. There is no practical result yet out of this procedure but there is in the mill some work being done and I hope that it is going to succeed, because I believe that the problem of the developing countries is one of the most important things that we have

in front of us in this after-war-world. Some kind of coordination has to be made, however difficult it is going to be.

DAC is also to direct its action towards plans for the promotion of an increased flow of private capital to the developing nations, for instance, the protection of foreign investments, guarantees for foreign investments against political risks, tax incentives etc. Here, OECD is working on a multilateral convention regarding protection of foreign investments, they are discussing a plan regarding a multilateral, international guarantee fund which, in my view, would help to find more private capital willing to go into developing countries. The machinery set up to finance exports from the industrialized to the underdeveloped countries is on the whole pretty well developed in the principle industrial nations but, as you all know, this takes care mainly of credits on fairly medium term. What is needed, of course, is above all to try to find capital willing to long term investments. The idea behind these different plans is, of course, that the best thing you can do in trying to develop the developing countries is to help them to start new industries.

Surely, for the OECD there is in this field a long way to Tipperary, because there are so many aspects to these problems, so many wishes to be reckoned with in the respective nations, for instance with regard to the question of how relations between old colonial powers and newly independent nations could best be maintained etc. There may be certain po-

litical aspects which may best be dealt with on a national basis and not on an international one. Well, anyhow, with the success of the World Bank and the Monetary Fund I believe that, particularly against the background of the wishes of the developing nations to be treated on an equal basis with the industrialized countries and not as more or less a receiver of aid from the Big Brothers, there ought to be some scope for international cooperation which is going to prove itself very useful.

Regarding the third object of the OECD—to promote world trade—I can pass it over very lightly, because there is, so far, nothing particular to report. Obviously, everybody is awaiting developments as to Great Britain's demand for entry into The Six.

BIAC has had contact with two other special OECD committees which I might mention here. The first one is *The Manpower and Social Affairs Committee* and the other is *The Industry Committee*. They are both setting out on a very broad programme only a few points of which can be mentioned here.

The Manpower and Social Affairs Committee shall try to assist in the adaptation of the labour market to the needs of production and to the fundamental changes resulting from technical progress. This should be done through studies of such problems as the settlement of industries in depressed areas, the social consequences of technical progress, vocational training etc.

The Committee shall further examine how different methods for the agreement of wage settlements affect

the relationships between wages and other production costs, on the one hand, and the general economic growth and stability, on the other. That is a rather ambitious programme.

The Industry Committee has not yet fixed its working programme. They are in a very preliminary discussing period. However, we think that we have been able to detect four principle lines of action on which they intend to set out, viz. that the Committee should contribute

- to the achievement of the 50 per cent growth target which, of course, has top priority in the activity of the whole organization;
- to the industrialization of developing countries, which after all overlaps to a certain degree with the activities of DAC;
- to the examination of technical and administrative obstacles still hampering trade, with a view to facilitating international commerce—which also falls under the scope of the OECD job;
- to the increase of productivity by practical means.

Whether there is going to come anything out of these special Committees is very difficult to say. No doubt, both BIAC—The Business and

Industry Advisory Committee—and TUAC—The Trade Union Advisory Committee—will be called upon to give their views on the particular problems dealt with by the two OECD Committees. I am sure that BIAC and TUAC will avail themselves of this opportunity and in as much as it is a two-way traffic even go further and, as I said, come forward with suggestions of their own.

### Summing up,

one can say that OEEC has developed into an OECD on a broader basis. What the future will be for OECD depends, it is true, to a large degree on what is going to happen in the context of European integration, but above all, it will very much depend upon how OECD is going to carry out their proper work. Naturally the kind of support that the United States and Canada are going to give is also bound to matter a great deal. Certainly, the problems that OECD have set out to tackle are of such a magnitude that, to my mind, they can only be solved successfully through international cooperation.

# The Labour Market and Industrial Relations in a Changing Economy I

by Bertil Kugelberg

## “The World’s Most Peaceful Labour Market”

The Swedish labour market has an international reputation for being a very peaceful one. Quite recently, the International Labour Organisation (ILO) went so far as to describe it as the most peaceful labour market in the world. It is not infrequently held up as a model in matters of industrial relations.

Compared with those of other nations, the Swedish labour market is indeed very peaceful if we take the number of working days lost through disputes per employee as our yardstick. It is, at the same time, perhaps one of the most thoroughly organised labour markets to be found anywhere. This is true of the general pattern and of the forms under which the parties conduct their dealings with each other—but it is also true of the degree of organisation.

The Confederation of Swedish Trade Unions (LO) with its membership of one-and-a-half millions and with a degree of organisation among industrial workers of more than 95 per cent, is considered to be the strongest national trade-union federation in the world. Among salaried employees, membership of labour-

market organisations is not so general as it is among manual workers.

Nevertheless, the Central Organisation of Salaried Employees (TCO) embraces a good 420,000 members, of whom 235,000 are in private employment and 185,000 are employed by national and local government. This probably covers more than 70 per cent of all salaried employees eligible for membership. By international standards this, too, is a very high degree of organisation.

On the employers’ side, the Swedish Employers’ Confederation (SAF) is by far the biggest organisation. At the present time it embraces some 16,500 employers, chiefly engaged in industry, building and transportation, although certain services are also represented. All told, SAF’s member-firms employ more than one-third of the country’s roughly three million wage and salary earners. Of Sweden’s aggregate annual payroll of about 41 milliard\* Swedish crowns, some 15 milliard come within the SAF field, 10 milliard in wages and 5 milliard in salaries. As for the organisational structure of SAF, LO and TCO, I refer you to the chart on page 107.

Like all other human relationships,

\* = *Brit.* a thousand millions.

peaceful or otherwise, the peaceful development of the Swedish labour market has been subject to the influence of a number of sociological, economic, psychological, and other factors bound up with the development of society at large. But these factors have by no means been peculiar to our country. Their influence in favour of labour peace must surely not have been so different from what it has been in other countries that it can explain why our labour market should be more peaceful. In view of this, we may well ask whether labour peace in Sweden is not bound up most intimately and most tangibly with the unusual strength of the employees' and employers' organisations in this country.

I am of the opinion that Sweden's labour peace is primarily ascribable to the circumstances that our labour market is so firmly organised and that dealings between the parties are centralised in a high degree among the top organisations. There can scarcely be any doubt that the collectivisation of the interests of individual employees and individual employers, which was brought about by the rise of the labour market organisations, and which has since been carried further and further by the process of steady centralisation to larger and more powerful national

organisations, has to a very high degree served to reconcile their conflicting interests. Extreme attitudes on both sides have had to yield to a more moderate overall view, representing the average, so to speak, of the opposing wills. It has brought the parties closer together, provided the right kind of soil for the growth of a will to peace, discernible not least of all in the sincere desire of both parties to achieve peaceful solutions of their problems through the medium of negotiations.

This development, which has of course had its counterpart in other countries as well, has reached a particularly advanced stage in Sweden. In consequence, as compared with the situation in most other countries, the relations between the labour market parties in this country are in large measure unique. The existence of strong organisations on both sides has fostered the emergence of mutual confidence, and has thereby created the right atmosphere for frank discussions even of very controversial questions. On SAF's side, too, we naturally attach great value to the existence of strong national organisations on the labour side—organisations that possess the necessary power and authority to be able to give effective sanction to the agreements they make with us.

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THE CHART ON THE OPPOSITE PAGE:

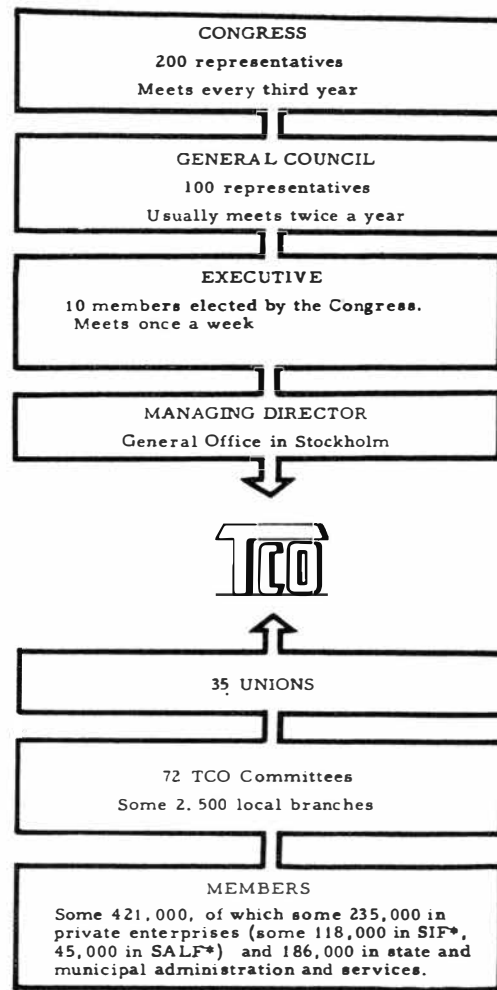
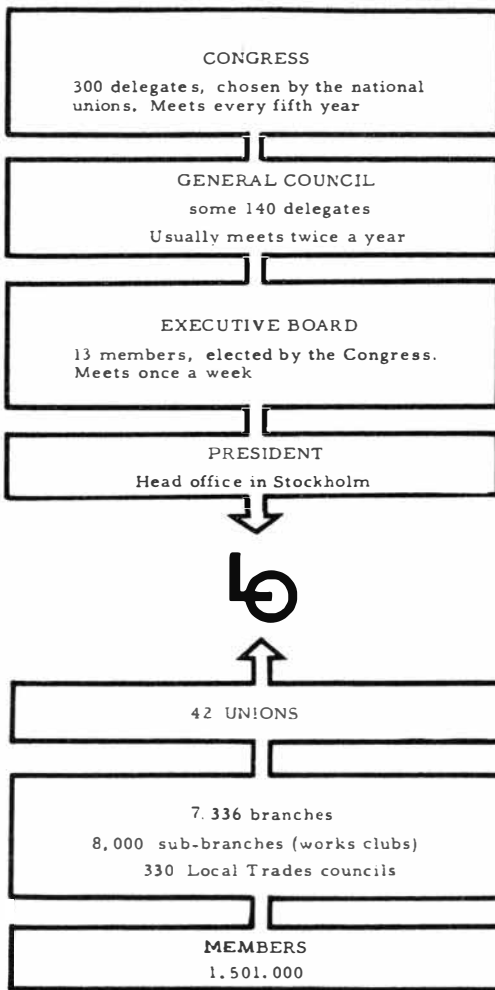
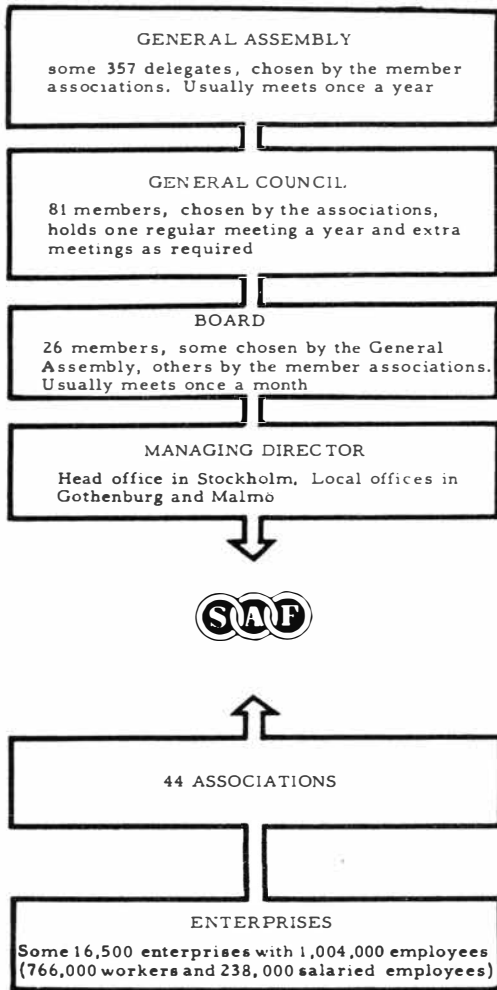
*The organisation of SAF, The Swedish Employers' Confederation*

*The organisation of LO, The Confederation of Swedish Trade Unions*

*The organisation of TCO, The Central Org. of Salaried Employee's*

\* SIF: The Swedish Union of Clerical and Technical Employees in Industry.

SALF: The Swedish Foremen's and Supervisors' Union.



Most of the development I have just described in the relations between the parties on the Swedish labour market is of relatively recent date. Behind it is a long history of conflict and the formation of organisations ever since the first collective agreements came into being in the 1870's. I do not intend to go into any great detail concerning the history of the Swedish labour market, but to provide *some* background to the story I should like to dwell on some of the important steps that are behind us.

The development of the employers' relations with the workers and their trade organisations can be divided into various phases, each making its own particular contribution to the situation as it is today. The first of these phases, which may be said to extend from the first collective agreements in the 1870's up to 1906, and which includes the formation of the Confederation of Trade Unions and the Employers' Confederation in 1898 and 1902 respectively, can be characterised as the years of conflict, when there was a prohibition against trade combinations and when the employers refused to recognise the workers' right of association.

The next phase began with the agreement on the freedom of labour and the right of association which SAF and LO concluded as early as in December 1906. This is generally known as the "December Compromise". By this agreement the employers expressly recognised the workers' right of association, but only after the workers, on their part, had agreed to accept the employers' right

to direct and allot the work and to engage and discharge workers as they saw fit, without regard to membership of labour organisations. A large proportion of the conflicts at this time were caused by the trade unions' efforts to gain a voice in the dismissal of workers or their attempts to prevent employers from using workers other than those belonging to the trade unions.

The 1906 agreement established the right of association and opened the way to a revolutionary change in the relationship between the employers and the trade-union movement. It is beyond question one of the most important events in the history of the Swedish labour market. After 1906, there followed a period during which the parties concerned endeavoured, though not without continued strife, to translate into practice the good intentions which they had expressed at the highest level. It was a time when the trade organisations were coming to be entrusted with bargaining functions and when the foundations of true collective contracts and a more orderly system of negotiations were being laid. During this period the collective agreements were made legally binding. A State Labour Court was set up in 1928. This Labour Court was not created to interfere with disputes of conflicting interests. Its task was (and is today) only to interpret existing agreements and to fix damages for the breaking of contracts or the violation of law.

The next big landmark is the Salt-sjöbaden Agreement. This came into being in 1938, when the organisations had already grown so strong and ex-

tensive and had acquired such national importance that even the Government had begun to feel concerned at the course of events. In other words it was already beginning to be said that official intervention ought to be regarded as justified in certain circumstances in view of the fact that important public interests might be jeopardised by the conflicts on the labour market. As early as 1934, a Government committee had accordingly been appointed to investigate the need for and prospects of legislation concerning the negotiations of the labour market parties and their powers of undertaking offensive action.

The labour market parties, which even at that time were already anxious to preserve the freedom of the labour market, agreed in these circumstances to make an attempt to anticipate the authorities. And in May 1936, with this end in view, SAF and LO appointed a joint labour-market committee to discuss not only what could be done to deal with conflicts that constituted a threat to society—in other words to limit the use of economic weapons—but also the question of the workers' job security and the basic principles of a more rational form of bargaining.

These talks resulted in the Saltsjöbaden Agreement of 1938. This agreement, with its numerous features designed to promote labour peace, marks the beginning of what I should like to call the modern labour market. It gave Sweden a negotiating procedure under which disputes arising out of contracts between individual employers and union branches need

not be made the subject of offensive action nor be referred to the Labour Court for settlement, unless negotiations have first been held between the relevant employers' organisation and trade union. It also contains provisions prohibiting offensive action arising, for example, out of political dissensions. As for disputes that threaten essential public services, it lays down that SAF and LO are under an obligation to consider jointly and without delay the circumstances of any conflict if and when either of the organisations or a public authority has called for steps to be taken in defence of the national interest. The question of security was settled by giving the workers' trade-union representatives at each workplace the right to discuss in advance with the employer every case in which it is proposed to dismiss or lay off employees. The agreement also established a Labour Market Council, composed of equal numbers of representatives of SAF and LO and charged with the task of acting in such cases as an arbitration tribunal, or committee of review, if so requested by either party.

I have dwelt at some length upon the Saltsjöbaden Agreement since, like the December Compromise, it represents a very important milestone in the development of relationships between the parties on the labour market. It formed the introduction to the "most peaceful" labour market history in the world by creating a new spirit of concord and cooperation which has ever since guided the course of events and which still constitutes one of the basic tenets in our work of negotiation. More than

any previous event, the Saltsjöbaden Agreement marked the dawning realisation of the parties concerned that the interests of employers and employees were not all at variance and that, on the contrary, they had in fact considerable interests in common. The Basic Agreement of 1938, which averted the threat of official regulation of the labour market, has since been followed up by other central agreements on workplace safety services with the object of cutting down the hazards of accident (1942), the promotion of occupational training (1944), and agreements concerning works councils (1946), and time and motion studies (1948).

The Saltsjöbaden Agreement, which in 1957 and 1959 was followed by similar basic agreements with salaried employees in industry and with supervisors, thus became the cornerstone of greater understanding throughout the labour market and the beginning of greater cooperation between the parties. Since 1948 we have had explicit confirmation of this trend in the Constitution of the Employers' Confederation, which imposes on the Confederation the duty of working for good relations between employers and employees as one means of serving its avowed purpose of promoting the common interests of employers.

As mentioned above I believe that the relations between employers and employees in present-day Sweden are in large measure unique if we view them in an international light. This applies to the institutional structure within which these relations are carried on.

A fundamental rule governing the relationship between the labour market parties in Sweden—and one which is often an entirely new concept to foreign observers—is the legal validity of collective agreements. Legal validity, which has been embodied in an Act of the Riksdag since 1928, means that during the validity of a collective contract neither of the signatories may resort to offensive action with the object of influencing the solution of a question which is already regulated by the contract. Recent collective contracts have been concluded for a period of two years. During this period, therefore, disputes over the interpretation of such a contract must be solved by peaceful means, perhaps after the submission of the difficulty to the Labour Court, or with the help of privately arranged arbitration procedures. We see, therefore, that a collective agreement is a legally binding contract which neither the contracting organisations nor their individual members may break without laying themselves open to legal penalties. At the same time this means that it is open to the individual worker or his organisation to bring his employer before the Labour Court to compel him to provide the benefits on which the parties have agreed in the collective contract. On its part, a firm that has been hit by an unofficial strike can summon the strikers before the Labour Court with a claim for damages, which are limited to 200 crowns per worker. If the relevant employees' organisation does not use its influence to see that labour peace is restored at once and that the provisions of the contract

are respected, damages may be awarded against the organisation as well. So far, unofficial strikes have been rare, and where they have occurred the trade unions have succeeded in suppressing them promptly, among other things by using the threat of expulsion, which would involve loss of the right to strike benefits. The jurisdiction of the Labour Court is restricted to disputes involving the interpretation of collective contracts.

Since it is a common misconception outside Sweden that the peaceful condition of the labour market in this country is at bottom a direct consequence of the compulsory State mediation system, I should like to stress in passing that neither the State mediation commission nor the State mediator—and both these forms occur—has any power to compel the parties to reach agreement. In other words, the parties are fully at liberty to accept or reject the mediation proposals that are put forward. This is, I should like to say, a form of negotiation to which the parties have adhered owing not least to their conviction that voluntary agreements have a better chance of being respected than others. It may be of interest to hear that in our central negotiations between SAF and LO after the war—during 17 years—we have only twice applied to mediation committees.

Thus if State mediation fails, the parties are entitled to resort to militant action, though they must first give one week's notice.

Another fundamental feature of relations on the Swedish labour market is that the employers, ever since the December Compromise of

1906, have successfully upheld their right to engage and discharge workers at their own discretion and to use any worker whatsoever, whether organised or not. *This basic rule has undoubtedly had and still has great importance from the point of view of wage policy.*

Although salaried employees in Sweden are strongly organised as well as the manual workers, the movement towards combination among white-collar workers is of considerably later date than that among manual workers. TCO, which is the national body within which salaried employees are organised and is thus their counterpart of LO, did not come into existence until 1944. There are many reasons for this. For one thing, the salaried group was for a long time relatively small and of heterogeneous make-up as regards status and qualifications. For another thing, salaried employees had long regarded themselves as holding a position of trust in relation to their employers, and therefore took up a stand closer to the employers than to the workers—not least in respect of political ideology. Thus, a significant factor retarding the organisation of salaried workers was the feeling that many of them had of solidarity with their employers. Nowadays they have had to abandon these scruples. Not the least among their reasons is apprehension over the growing strength of the manual workers' movement. The white-collar movement has also influenced the behaviour of the manual workers. Now that salaried employees have been able to secure for themselves the same pay improvements as manual workers, the

latter have realised that their contracts serve to signpost the way for other groups as well, and that their prospects of pursuing a policy of equalisation of income are thus reduced in corresponding degree.

There still exist substantial contractual differences in the relationship between employers and manual workers on the one hand and employers and salaried workers on the other. For the salaried employees, no collective contracts on salaries are made. The fixing of salaries is still an individual matter—in other words it is an affair between the individual employer and the individual employee—and the agreements that are concluded between the central organisations contain only certain general recommendations. Another point of dissimilarity that cannot be neglected is that the salaried employees' organisations are non-political. There is no counterpart to the dualism of political with purely trade-union effort that is to be found on the workers' side.

The collectivisation of the interests that has been brought about by the advent of the labour-market organisations has become more and more marked with the passage of time owing to the steady advance of centralisation. During the 1950's and up to the present day this has found expression in a switch from union-level bargaining to central bargaining between the top organisations. Such central negotiations, the object of which is to fix a margin for wage adjustments which is then put at the disposal of the unions for allotment among the various categories of workers, have in the post-war era

been held in 1952, 1956, 1957-58, 1959, 1960-61, and now, 1961-62.

Among other things, this trend must be seen against the background of the economic consequences of the contractual system and the fixing of wages to the nation as a whole. In an economy marked by full, in fact almost over-full employment, and by a corresponding shortage of labour such as we have had by and large throughout the post-war period, the employees have been in a strong bargaining position. And rivalry among various unions in their efforts to get as big a slice as possible of the available "wage cake" for their own group has therefore been all too liable to spark off inflation. The experience of the most recent rounds of union-level bargaining has shown that in a situation characterised by full employment and excess demand for labour, and in consequence of the compensation-mindedness that is rampant among the employees' organisations, they tend to be most costly in those trades whose bargaining sessions, as a result of the existence of serious dissensions right from the start, have gone on at great length. The central form of bargaining affords better prospects of restraining the jockeying of the rival groups of employees to improve their relative wage levels, and thereby increases the chances of arriving at a reasonable wage advance from the point of view of the national economy.

I should like now to turn to the subject of the labour market and industrial relations, and discuss them against the background of the theme of this conference, "Speeding up and

smoothing economic growth". For some reason, I do not know what, my contribution has been included under the heading of "smoothing the growth". It may possibly be that in the opinion of the arrangers the activity which I have the pleasure to represent here has not made direct contribution to production and market economic progress, having been more of a moderating influence. With that in mind I cannot resist reminding you that the employers' organisations were originally created because the employers felt that a reasonable proportion of the returns from their enterprises should be left over for the consolidation and expansion of the production apparatus. Against that background it would appear that the employers' organisations have always in their way contributed to "the speeding up of economic growth". And I should also like to direct your attention once more to the tranquillity which our labour market enjoys, which must surely be reckoned as the outstanding advantage of the new forms of bargaining. On the most recent occasions it has proved possible, thanks to the central form of negotiation, to secure labour peace throughout industry at one stroke—and, moreover, to secure it for a period of two years. Being able to count on labour peace for as long a period as this has facilitated the planning work of Swedish business in respect of market prospects and so on, and has thus been an important factor in the competitive position of our vital export industry.

In this context I should like once again to emphasise the relatively wide

scope which the present system of contracts affords for taking our international level of costs into account in considering the wage question. The soundness of wage levels, which in the early days used to be judged chiefly with reference to the need to leave a reasonable proportion of the gross profit over to be ploughed back, has now come to be judged more and more with respect to the problem of inflation and to the undermining of our international competitive position to which inflation leads. Whereas the effect of wage movements on the national economy was at one time very much a secondary matter, the economic prognosis now constitutes one of the central arguments. This is most particularly true when it comes to central bargaining. And surely this, too, must be regarded as a contribution to economic growth.

Finally, I should like to mention in passing the work of the labour market organisations in the field of training, and their efforts to establish wage systems aimed at enhancing productivity.

The net impression of this description of the Swedish labour market, and not least what I have just said about the consequences of our contractual system to the national economy, will perhaps be that our system is infallible. But this is far from being the case. Our exhaustively organised labour market has given rise to a compensation-minded approach which we have not succeeded in overcoming. In addition to this there is the wage drift—the wage increases that take place outside the contracts. It is enough to observe that

between one-half and two-thirds of the total wage increase during the 1950's was in the form of wage drift, and that the wage rise in consequence thereof and despite our rather good contract system has outrun the rise in productivity. The wage drift occupies a central position among our current problems—not least as we look ahead to the prospects of a European market.

It is not possible to say very much about what form our negotiations and industrial relations are likely to take in the future. Whether the central organisations in the years to come will have a smaller or a greater influence on employer-employee dealings is an open question. The combination of business outlook, labour market situation, wage trend, and other factors that decide bargaining policy is never the same from one occasion to another. In other words, contractual policy must be just as flexible as the development of society itself. Nevertheless, the steadily grow-

ing realisation that most of our problems are *joint* problems provides strong arguments in favour of the continued centralisation of our industrial relations. If international economic integration becomes a fact, in that not only goods but also labour and capital are able to move freely across frontiers, it is possible that centralisation will take place more along industrial lines, sector by sector, on the international plane. An interesting perspective, the outlines of which are already discernible but which I mention here merely in passing, is the shift in the proportion of manual workers to salaried employees, and the structural changes to which it may lead as far as LO and TCO are concerned. But whatever form this trend may take I think that if we will be able to continue on the line we have chosen for our labour market and industrial relations, though quite aware of its weaknesses and shortcomings, we may face the future with an amount of confidence.

# The Labour Market and Industrial Relations in a Changing Economy II

by *Hans Hagnell*

Showing how far the Swedish cooperation between employers and employees has reached Bertil Kugelberg from the employers' organisation has just given us a basic description of the Swedish labor movement. I have not much to add to his description. Instead I shall try to give you some information that I think might be interesting from another, *international* point of view.

A year ago I received from a professor at the Massachusetts Institute of Technology a form (this was in connection with the big US steel strikes) asking how many days were lost in steel strikes in Sweden during the different years between 1935 and 1960. Zero was the only figure that I could use. This is indeed a fact that makes the Swedish labor market interesting to people from abroad.

We must realize that the conditions on the Swedish labor market have exceptional causes. Sweden has had no wars for 150 years. It is a small and rather homogenous country. It has relatively rich natural resources and quite recently it has been an "underdeveloped" country with regard to industry. As late as 1930 a great proportion (34 per cent) of our population made their living from agriculture. Only 32 per cent of the

population made their living from industry. We simply did not have those "traditional" problems which exist in Germany and England: the coal industry, the textile industry, the great urban areas. All our cities are relatively new. That also helps us in the social field.

As far as I can see labor relations should not be looked upon as a specific managerial problem, as if one should have a special department in the office to take care of labor relations. No, these depend on the whole attitude of the society, not only within a particular firm. If you want to establish good labor relations in a country you must accept certain psychological aims for the society as a whole. I shall try to catch those aims in a few phrases. We must accept the idea of industry, commerce and administration as being means only. Industry is nothing in itself, it is just a means or an instrument that you use to reach a goal. To reach this goal in Sweden we try to use as little as possible of goods and services. We work for a good standard of living, social welfare, and on top of that we are trying in our country to do all these things not as mechanically as possible, but in a democratic way instead.

One of the problems discussed by this conference is the competition in the world between different systems. We cannot be content with having freedom and good labor relations in our countries, we must also get good material and psychological results to win people inside and outside our countries. We run into that problem as soon as we look outside our country, e.g. at African and Asian countries, but also in some European countries. We must compete with other ideologies, we must convince millions of people showing them that our way of life is worth while to work for and that our accomplishments are better than our competitors can reach.

This conflict between democracy and dictatorship will be won by the society that can solve the workers' problem in the best possible way—not only the material but also the psychological problems. In this respect I think Sweden has managed fairly well mainly through a cooperation between politics and trade union work. As Mr. Kugelberg mentions, our salary unions, TCO, are not politically connected with the Labor party but the LO groups are. But I think it is necessary to work not only in the narrow trade union field but also outside that to get good results. Further, when we study labor market problems in other less developed countries, we shall not try to build up an ideology that suits an advanced market, e.g. like the American. We simply must not tell people in other parts of the world: "Here are our institutions, please copy them! If you do it in a way different from

ours, if you have a politically stronger society built up, then it is no good, then you are dangerous!"

I think that we have to accept that we must have in these countries not only efficient trade unions but also a rather hard economic policy, planned and directed in such a way that we do not like to have in our own countries. Why? Because the problems of these countries are different from ours. We can only hope that they will in the future reach a better standard living.. To accomplish that they must work very hard. And we shall not expect business in these countries to develop along the same lines as has been the case in our part of the world. We must accept a different way of life in these countries and a different kind of cooperation between trade unions and political means that perhaps is not so well accepted in most European and North American countries.

The goals reached in Sweden might show to you that such a cooperation is not so dangerous. Sometimes it is said that what we cannot accomplish in the Swedish labor market by help of trade unions we try to accomplish by political means. To some extent this is true. We have a three week vacation; in some other countries they have two weeks or something like that. This is generally accomplished through trade union negotiations, but in Sweden we have it by law. You may ask: Are the Swedish trade unions too weak to accomplish a three week vacation? No, I don't think so, but from a practical point of view it has been found more efficient to do it through legislation. Further there

exists indeed this cooperation between trade unions and the State and politics, and the problem is solved not by trade unions in the narrow sense of the word but by trade unions and politics by help of the State. And the same goes for the reduction of the weekly working hours, the health insurance and the newly enlarged old age benefits.

Although we try to combine the trade union means and the purely political means we still are less socialized in this country than most other countries. Many European countries have right-wing governments but a much bigger percentage of state ownership. In Sweden 5 per cent of industry is in the hands of the State (and that includes telephone, telegraph and railway services). 91 per cent is in private hands, and the balance, 4 per cent, is co-operative and municipal enterprise. In France I think State ownership in business and industry amounts to 25 per cent and in Austria 20—25 per cent. Further in France and Italy the whole banking system is in the hand of the State.

By this I would like to emphasize that we have to go outside the narrow trade union concept—the narrow trade union bargaining system—into a broader field, the field of the society as a whole to pursue a trade union policy. That is why our trade unions are so strong, having organized 95 per cent in industry. In countries where the trade unions are weaker, covering e.g. 1/3 of the labor market, the attitude is different. Such “weak” unions have to fight to enlarge their part of the market; they have to be

more active in such a way that they can get more members. In the newspapers in such a country you get the impression that there is a big, open fight going on against the employer.—In Swedish newspapers you do not find much of that, except when the annual negotiations start. It is indeed possible to work in a more indirect and cooperative way; you can have more friendly relations with the employers if you are strong than if you are weak, you can be more reasonable if you are without a competitor than if you have two competitors. And you can behave in a more democratic way too, which of course means that the employers, in their turn, also behave differently. I think that the discrepancy between employers and employees in this country is very small, which explains how we can sit together, both parties, and calmly discuss the future in various fields. Because the two parties know that they will meet soon again and if you do not meet in the trade union negotiations you might meet in the political field, in law discussions or export arrangements etc.

This atmosphere is the essence of the Swedish labor market. If I was to say something about the industrial relations in a changing economy, judging from our Swedish experience, I would like to say that labor relations constitute a psychological problem but also a technical-industrial material problem.

- 1 You try to get good labor relations to increase productivity;
- 2 You must have good labor relations because you shall cooperate

not only between countries but also within a country.

The trade unions must leave their narrow interest in the specific trade union field to take part in the whole society and very soon also in the changing economy of the world. Today wage problems will not be solved as merely national problems. The labor unions of the world must take interest not only in their own special branch of industry, not only in their own country, but also in the whole society and its relations to other societies where the buyers or the products may be.

Sweden is an exporting country with one man out of four in metal industry working for consumers in foreign countries. This means that we must take interest in international relations immediately if we are interested in wages and prices and employment policy and a higher standard of living. Attending these economic problems, we also must deal with political problems. Because there is

a world-wide political struggle going on, as you know, in these fields, and you can never from the employers' side gain the majority of people in the uncommitted countries—in Asia, in Africa. The trade unions represent a much larger proportion of the people living in these countries and the trade unions have much better psychological contacts with these groups than you ever can reach, whatever you invest in special PR-departments.

This is why we ought to operate via trade unions not only within our countries but internationally. We should help those new unions to develop, because they are not against our reasonable interests, and we simply cannot solve international problems, neither in the technical nor in the psychological and political field, without the assistance of the majority of the population within our own country, without the majority of people on the continents that we try to make to follow our way of life.

# Recent Issues in the Field of Industrial Relations in the U.S.

by Neil W. Chamberlain

The period of violence and experimentation that occurred during the 1930's in the United States in the field of industrial relations, and in the war-time and post-war years also with a good deal of experimentation but a good deal less violence, finally led in the 1950's to a decade of rather placid industrial relations.

But within the last couple of years there has erupted a number of very interesting and even exciting problems in this general area of industrial relations. A veritable catalogue of new problems are confronting us and some of the old problems are reemerging. Among these are the continuing presence of unemployment, the questioning of the extent to which automation is responsible for this, and whether structural unemployment requires special measures. Problems are challenging our labor movement, which has failed to grow and has even lost a little ground in the last year or two. Among these is the question of jurisdiction, in part because of the rapidly changing technology which makes obsolete jurisdictional lines based on occupations and in part also because our large corporations typically spread across numbers of industries, so that

even our industrial unions now find that their jurisdictional lines may be inadequate in dealing with particular companies. Problems of job security have led unions to seek to impose restrictions on management's freedom to subcontract operations and to try to secure provisions for lifetime guarantees of jobs (for their life-time or for their career). On the other side, these labor efforts have led managements to try to buy back from the unions some of the provisions which earlier they had *conceded* with respect to the number of men required on particular jobs and other such matters. New legislation has been passed to preserve the integrity of our pension and welfare funds and to increase the democratic rights or the democratic freedoms of members of labor unions within their unions.

All these and many other problems I could recite, constituting a veritable Sears, Roebuck catalogue of issues into which I could reach, and pick out and discuss, but unfortunately—or fortunately—our time does not permit us to dwell upon all of these. So I shall single out one on which I shall concentrate my attention. That is one which has come increasingly

to the fore in the United States, namely, the relationship of Government to the collective bargaining process. With respect to this particular issue I shall concentrate on three isolated or independent events, all which, however, illustrate the increasing problem in this broad area of the role of Government in industrial relations.

First of all, just a few words of background to remind you of the general framework in which our industrial relations are set. We have a National Labor Relations Board, one of whose principal functions is to conduct elections in units which it defines, units which may range anywhere from a shop in a company up to an association of employers. These elections are designed to permit the employees in that unit, as defined by the Board, to vote as to whether they wish to be represented by a labor union and if so, by which labor union. The Board also hears complaints of unfair practices engaged in by either union representatives or by management which may be construed as designed to tear down or jeopardize the bargaining relationship. To this end certain provisions are specified in the law. One of these is the requirement that both the Union and the employer must negotiate in "good faith" in an attempt to reach a collective agreement.

At the same time, the law makes perfectly plain, and this has been standing philosophy in the United States, that the Government is completely uninterested in the terms of the agreement. There is no concern by the board or by any other arm of

the Government in what terms the employer and the union eventually arrive at in negotiation. This is illustrated for example in legislation passed in 1947 which among other things provided for governmental intervention in what were determined to be emergency strike situations, one provision of which was that the fact-finding board which was to be convened in such situations was specifically forbidden to make even recommendations as to the terms on which such an emergency dispute should be settled. So the standing philosophy has been that the Government should not concern itself with the terms of the agreement, and this you can readily see ties in with the kind of philosophy which believes that such things as wage and price decisions are really something to be decided by the private parties, by the negotiations that go on within the some 125,000 to 150,000 separate bargaining units which arrive at separate collective agreements. At the same time legislation specifies that the union may require an employer to negotiate with it on wages, hours and conditions of employment.

That last phrase—"conditions of employment"—is somewhat ambiguous, and there have been numbers of cases brought before the board in an attempt to determine what this includes. The Board and the courts have construed this to include such things as the right of an employer to subcontract operations; the question of whether an employer's operations may be closed down; plant location; pension problems; supplementary unemployment compensation arrange-

ments, stock options, and a variety of other such topics and subjects. If the union seeks to bargain on such a subject and the employer refuses to negotiate with it, claiming that this is some privileged matter on which only management should have the right to make a decision, the union may then take its case before the board, charging that the employer has failed to bargain "in good faith" with it, which would constitute an unfair labor practice. Appeals from the board may be taken on up to our Supreme Court. By and large such disputes as have arisen over this provision have been decided in favour of the labor unions, so that there are relatively few areas which are immune to the union's right of negotiation, a right which is enforceable at law. All of this is by way of background.

Let me now quickly proceed to these three events which suggest changing circumstances in the United States and the problem of private and governmental relations that is perplexing us, at the moment, and about which we are seeking to arrive at some tentative conclusions.

First, let me refer to a report of which many of you have knowledge, issued by CED just this year after a study engaged in by a number of outstanding experts in this field, who over a period of approximately two years reviewed the industrial relations patterns in the United States. I will not attempt to summarize its conclusions but simply point to one of the most significant conclusions which they reached, namely, that this aspect of the law which I have just mentioned—the obligation, enforceable at

law on the employer, to negotiate in "good faith" on the demand of the union—should be eliminated. The experts agreed that they would still retain the National Labor Relations Board function of conducting elections and of outlawing or declaring as unfair practices specific acts of employers or unions which are obviously designed to destroy the other organisation, but they would remove the government's concern with enforcing the obligation of an employer to talk and bargain and negotiate with the union about particular subject areas of the union's own choosing. The CED study commission believed that it really should not be part of the business of the federal government to involve itself in the strategy of negotiations in the daily give and take of collective bargaining—it can readily be left to the unions and managements themselves to determine what they will bargain about. Once the government has moved to conduct elections which have permitted workers the free choice of a union within a given bargaining unit, at that point the government should for all practical purposes withdraw and leave it to the parties to continue. So that in this respect—and this point of view is shared by others outside of the particular study commission appointed by the CED—there is developing some sentiment for a lesser role on the part of government in industrial relations and withdrawal from some of the daily matters involving union and management relations.

The second event to which I direct your attention is one which has al-

ready been mentioned in this conference several times and which I suspect you are all familiar with from your own newspapers. That is the steel controversy which took place in April 1962, at which time the U.S. Steel Company initiated a price increase following wage negotiations which had added to its labor costs. By raising steel prices it drew down on itself the wrath of the Kennedy administration, and a sequence of events eventually led to the rescinding of that price increase. To understand or to appreciate the circumstances of that culminating event it is necessary to go back at least 6 months prior to it and to observe the antecedents. These included the concern by the Kennedy administration with the unfavorable balance of payments, its fear that inflationary wage movements might worsen that situation, and the efforts then undertaken by the members of the Council of Economic Advisers to engage in genuine missionary work among management associations and with the labor unions in an effort to acquaint them with the nature of that problem and to try to persuade them of the necessity to exercise restraint in wage negotiations and then in any subsequent price actions which might be taken following such negotiations. A short time after the members of the Council had begun the series of meetings in which they tried to put across this notion in informal sessions with both employers and unions, our Secretary of Labor, Arthur Goldberg, whom some of you met on his visit to Sweden, delivered a speech in Chicago before an audience composed largely of business

men in which he made the assertion that in collective bargaining negotiations of a major nature, when the government felt public interests were involved, it would not stand idly by, but would "assert" the public's interest. Unofficially he put the steel industry on notice to the effect that the government was watching its negotiations and was concerned with their outcome. When the steel collective bargaining agreement was signed with one of the smallest cost increases in years (no wage increase at all, but some benefits that added approximately 10 cents an hour to labor costs), this was popularly construed as being the steel union's response to the Kennedy Administration's plea for restraint. There were other motives that may have been involved in that modest settlement but in any event it was widely construed in that fashion, and President Kennedy himself, by special communication to the steel union and the steel management, congratulated them on the non-inflationary settlement. It was in the light of this background that the increase in the price of steel, coming two days later, appeared to be not simply a slap at the Kennedy Administration but actually a violation of public trust or of good faith vis-à-vis the public. And there were numbers of editorials which chided the steel industry for the action it had taken even though they admitted its right to take that action. In the light of this background, then, the successful attempt on the part of the administration to secure the rescinding of the price increase was viewed in numbers of circles as

a victory for the public as well as for the administration.

Now quickly to the third major event and then I shall try to draw some conclusions. The new administration on taking office very soon appointed a committee of 21 individuals, known as the President's Labor-Management Advisory Committee, composed of seven top level business leaders, seven top level union officials, five members representing the public plus the Secretaries of Labor and Commerce. That committee of 21 settled down to examine a number of major areas in the field of union-management relations or dealing with economic matters affecting or affected by union-management relations. One of these areas was that of collective bargaining and emergency disputes. After a good deal of discussion and compromise there finally emerged a report which recommended a greater attention by the unions and managements to their joint responsibility to the public and which called for a greater grant of power to the federal government to protect the public interests in emergency or major disputes. It used this language, and I quote from their report "... inasmuch as the welfare of vast numbers of our citizens who are not directly concerned in these disputes is involved, and the economy of the country is often adversely affected, we conclude that there is a clear need for more effective governmental action under existing circumstances." The "more effective" action which that Committee called for was the presidential appointment of public boards capable of making and publi-

cizing recommendations for the *terms* on which major disputes would be settled. The only person on this Committee of 21 who specifically dissented from their recommendation was Henry Ford II. But the other members, including the six other representatives of business, agreed to that recommendation.

It would be hazardous I realize, to read from these three isolated events any sort of a trend, but I venture to suggest that they do give this kind of an indication—that in the years immediately ahead our federal government may tend to withdraw from some areas where it has been involved in the daily activities and the routine collective bargaining aspects of our industrial relations systems, that it will no longer feel that it is a proper function of the government to try to act as a debating coach which brings the parties together to talk to each other, standing by to induce the negotiations but with no concern for the terms which emerge. And on the other hand the long historical tradition of government non-interest in the specific terms of the settlements of the collective agreements may be gradually dissolving into a feeling that at least with respect to major negotiations or with negotiations occurring at critical times there is a public interest that is involved, a public interest which requires the government in its representative role to involve itself more deeply in the actual terms which emerge from the collective agreement. This would represent almost an about-face from the present situation when the government is concerned with the pro-

cedures, but unconcerned with the terms: we are becoming less concerned with the procedures willing to leave these to the parties to a greater degree, at any event—but are becoming more deeply concerned as to the specific terms. There is of course a question which bothers many people, and you have heard this expressed by representatives of the CED group here at this meeting, as to whether this is a desirable course of action. We could also go on to say that even if this course of action should actually emerge there is then the further question as to how the government may effectively involve itself in the definition of terms of collective settlements. If time permitted I would like to tie this in with Herbert Stein's comments of the morning as to his belief that full employment, as a desirable objective,

could be obtained without what he believed to be "excessive concern" with wage and price settlements. If he should be right in this respect then there may be relatively little need for the government's involvement in the specific terms of settlement except in unusual circumstances, but if he should be wrong or at least if his degree of confidence is perhaps a bit exaggerated, and if there is indeed danger that collective bargaining settlements in the major bargaining units do have an inflationary potential, then we may see some experimentation with ways in which the government can "assert" the public interest (to use Secretary of Labor Goldberg's phrase) by intervening in collective bargaining determinations in ways which have not yet received any consensus and perhaps have not even been very deeply thought about.

## Discussion

### René Belin:

First I would like to say to Mr. Hagnell that there might be a good deal of nationalization going on in France, but we must not forget that this has been done through the Socialist Government (or, if not Socialist at least a government containing many socialists). Further it is not completely proved that strong, united labor movements are enough to guarantee social peace. In France, for example, the labor movement is in minority, with 25 per cent of the wage earners being organized members. Only two million wage earners are organized and they belong to four or five different organizations. But there have been periods when there was a French mass labor movement.

I should like to mention three periods: 1920—1921 after World War I when thousands of people joined a single organization. This adventure ended in a wave of strikes, which led to the disappearance of this mass labor movement.— The second period was 1936. Again we had a mass labor movement, with five million workers in one organization and 360,000 in another. In 1938 there was a general strike, and after that there were only one million people left in the labor movement.— The third experience was in 1945—1947. Once more two organizations predominated in the French labor

movement. One had 7 million members, the other 800,000. This ended in two huge strikes. In the autumn of 1947 when the strike could not be resolved—the army was partly mobilized. In the autumn of 1948 another strike was called which ended in violence, the workers leaving their tools.

These were examples of labor movements destroying themselves. I make these observations in order to contradict the basic assertions in connection with the Swedish labor organization. I don't consider Mr. Hagnell's thesis valid in *all* countries to the same extent.

The key problem of our time is the economic confrontation of East and West. The issue of this confrontation must be fatal for one or the other part, and consequently the solution is important to the whole destiny of the Western world. Most of the labor organizations in the Western countries know very well the importance of this confrontation and therefore they have in general a favorable attitude towards economic expansion and growth. They even have a feeling that they work to reach these goals: they further technical progress by forcing employers to rationalize their production and their marketing system.

But in taking this rather abstract position it seems that in certain cases

they do not have sufficiently precise an idea of the dangers which this growth might cause when one is too preoccupied and unable to survey the progress which might be achieved. There are ways of eating one's corn in the seed. It seems that Sweden is an example which many countries should follow, but it might be questioned whether this country does not enjoy special conditions. The Swedes have lived in peace for 150 years: you have not experienced the material destruction and you did not have your economy ruined by invasion. This is no reproach. But it is a fact that Sweden enjoyed considerable wealth and prosperity while other countries were suffering at the same time. Not only were the economies of these countries destroyed materially, there was also a profound moral and political deterioration. The great tragedy of our era has made it necessary to wipe out the memories of this period, to reconstruct the whole society. In this case Sweden is a good example to us.

### **Bertil Kugelberg:**

First a few additional remarks on "rationalization". In the agreement between employers and workers concerning Time and Motion Studies you find in the first paragraph the motives and principles which both sides have agreed upon. I quote from this:

"A continual development of efficiency in industry and production is a general and essential condition for raising the standard of living of labor and the nation. Such rationalization must be carried out continually in each enterprise

in order to enable it to keep pace with technical developments. It is a common interest of the entire personnel of every enterprise to *assist* in making it truly competitive. Like all other members of the community the employees will benefit by a rationalization which leads to increased production and thereby basically contributes to a general improvement of the standard of living. Measures which aim at freeing production from unnecessary material and labor costs are important elements of any such rationalization. Time and motion studies, if rightly applied, are appropriate means for attaining this aim."

Then I would like to sum up the basic facts which I think are of interest on the labor market. The first point is that we have strong organizations. The second point—which we have not mentioned—is that the Swedish organizations are built up industry-wise, so that every worker in an industry belongs to the same union. This is very important. People are willing to fulfil contracts. Both employers and labor leaders are sensible, well informed and have a good knowledge of economy. But most essential is the good *atmosphere*. That makes open discussions possible and both parties respect and have confidence in the other.

### **Neil W. Chamberlain:**

I might just recount one statement that was made at the recent White House Conference on National Economic Issues by one of our senior respected economists, who reminded us of the development of the theory of free markets stemming from Adam Smith (as well as predecessors of

Adam Smith, but we usually go back to that great Scotsman), where we think in terms of the freely moving forces in the economy as being guided, to use his phrase, by an "invisible hand" to arrive at results conducive to the social welfare.

Then as the years passed we began to see the spread of corporations with their use of collective capital, the spreading and the advancing pace of technology, the rise of labor unions designed to secure the interests of workers. We found that institutions had changed sufficiently, that the old conception of the free market, standing alone, could no longer be considered adequate. We moved into an era when collective decisions and collective bargaining played a more important part, supplementing the institutions of the free market. And then professor Nourse posed as a thought worth examining, not as a settled conclusion of his own, a rather disturbing possibility—disturbing since all of us dislike change when it disrupts our settled ways of life and the institutions with which we are familiar. Conceivably we may be moving now into a new stage where, with the further growth in the size of our organisations and with some of the problems that are posed in our inter-

national relations, it may be that we can no longer base our reliance on the institutions of the free market supplemented only by private decision-making of the union-management nature or within the large corporations. We may be moving now into a new era where there may be the need for further changes in our economic decision-making processes, so that along with the free market—which we cannot do wholly without—and along with private decision-making of the collective bargaining sort, etc. there may be a growing need for new institutional devices which will involve governmental representation of a kind that we have not hitherto experimented with and where conceivably we may have to go through a little bit of the travail and pain that occurred when we developed some of our collective but private decision-making techniques.

I pass this thought on to you because it is an interesting even if disturbing one. It does, I think, alert us to the fact that change is something that we cannot very well control and that it may involve some adaptation on our part to circumstances that are undergoing considerable transformation around us.



# Means of Intensifying the International Cooperation in the Fields Discussed

*Some Final Remarks by Alfred C. Neal*

When this subject first was assigned to me, I thought of it as a strictly administrative problem; that is to say: How do we work better together on whatever it is we are going to work on? But then when I saw the phrasing "means of intensifying the cooperation in the fields discussed", this surely has *two* meanings. Cooperation among whom? How do we get our governments and our national policies changed, for example, so they will more adequately reflect the great wisdom which has been poured for us from this group. That is one meaning. The other one is: How do we obtain cooperation from each other in furthering knowledge in the fields in which we are interested? These are two different problems. Not being able to make a choice I am going to say something about each, because they are related, and I think I have in the course of this discussion found that relationship.

All the organizations and individuals here share a great deal of common philosophy. We are a part of the West, of a society in which freedom, individual choice, enterprise, self-development are all basic. This makes our task easier and I think it makes the task of persuading governments a little easier, so long as we do not

have governments that depart too far from these basic principles.

Professor Schneider recalled to mind those relatively easy days for economists when all you had to do to cover international cooperation was to have a concluding chapter on business cycles and a couple of chapters on the gold standard, exchange rates and the self-equilibrating mechanism. There was agreement about the structure of the world economy which was implicit in the whole of economics. The role of government and of the equilibrating mechanism among countries were built in to the very body of economics itself. It was very simple. But then, just at the time everybody was trying to understand it and behave properly, it all broke down and then, years later, we had to start to build something new.

Now we have new chapters in the book; in fact the book is different. It starts with something like the gross national product. What determines its size? How do you make it grow faster? How do you smooth the growth? Despite the fact that we come from different countries and disciplines, we have all been reciting the same basic goals. Now, on goals, there seems to be a rather general

agreement: full employment, a satisfactory rate of growth, stable prices, balance of payments equilibrium. Herbert Stein introduced another goal, a minimum role of government. I am not sure whether that is a goal or a means, but I think that among the groups here (with a considerable degree of latitude as to what you mean by a "minimum role of government") this goal might be added. So we get down mainly to means of achieving goals as the big problems with which we have to deal.

Because we have little time, I am going to go very fast and leave out a lot of the logic that may be required to develop my position properly. It seems to me that with the recreation of convertible exchanges, a liberal trading policy, relatively free capital movements and the creation and possible expansion of the Common Market, we can reduce this "embarras de richesse" so far as means are concerned to a very considerable degree. I am not sure that all of them can be encompassed within the familiar monetary and fiscal policy boxes, but I think certainly the most important of the means for achieving these goals will fit into them. Let me explain this a little further.

In the period from the great depression through the war until the restoration of convertible currencies in the leading countries, national policies for achieving full employment, growth, stable prices, balance of payments equilibrium, could involve a wider range of choice than monetary and fiscal policies. There were direct controls: exchange controls, quotas,

quantitative restrictions—to say nothing of a considerable degree of freedom about tariffs and currency devaluation. With the formation of the Common Market this range of choice of means, which allowed a good deal of independent national policy for achieving these goals, is no longer available. I should like to see one member of the Common Market, for example, as it is presently constituted, devalue its currency except with the complete concurrence of the other members. (A revaluation, as in the German case, is something else.) I do not think you necessarily have to get agreement on the up-valuation but for the *devaluation* I think it would be difficult. If we continue to make progress on liberalizing trade, viz. in reducing tariffs and other restrictions to trade, a country which gets into balance of payments problems and inflation problems cannot use those old means of raising tariffs, imposing quantitative restrictions or even devaluation. So I think that independence of policy which has worked so well from a national point of view in most of Europe in recent years is going to be constrained. On this I may be wrong, but in any event I think we need to find out whether in fact we are all facing a more limited range of choice in the means of obtaining these agreed-upon goals than we have had before. In this respect I think that Mr. Stein's emphasis upon the role of government—and it has been brought into the labor discussion also—is very important. Because this is something fundamental to individual and philosophical values which are even more important than

full employment, growth, stable prices etc.

One of the problems in this connection is: Do you have a structure in your economy which in fact permits minimization of the role of government? Mr. Chamberlain gave us a very good example: because of the size of the contending parties, the government in our own country has felt that it must directly intervene in the heart of a market process, viz. the determination of prices. Here we may have to work not only at the alternative of a government expressing the public interest in price wage matters but on the other side as well; how can the structure of the economy be changed so that this excuse or need for intervention is unnecessary? This surely is a problem that we share with Europe.

I have been impressed in the discussions here with the "more easy acceptance" of the role of government in most of the economies in Europe than we have in the United States. This has been commented on many times and I am sure that there are many of our learned scholars who believe that in this respect we are merely backward and reflecting our largely agriculture history etc. Actually I think that there is some relevance to these attitudes in the mere size of the economy.

I think that we might pose a proposition that the larger the size of an economy, the freer it can be. As Mr. Schneider and Mr. Houser pointed out, we rely upon millions of uncoordinated decisions to produce a totality of result whether it be growth or income or product development.

We rely upon these millions of decisions to bring out a total result which is satisfactory. If there are not enough decision makers or producers in an economy to assure competition, then all the questions involved in planning of growth and development arise, especially in the small underdeveloped economies. Small economies may have room for one automobile tire factory, one steel mill, mainly because they want to control their own destiny rather than to participate in the free world economy. The classic way of making every economy big was to have free trade, but because of restrictions imposed by nationalism or transport difficulties small economies have a limited possibility for free and unregulated industry.

I think that this is one of the reasons why we find a more ready acceptance of a larger role of government in the somewhat small economies of Europe and in the smaller economies of the underdeveloped countries than we do in the United States. This is a reflection that I am making with as high a degree of objectivity as I can, because I do not like the conclusion that I am arriving at.

The other side to this conclusion that I think is relevant for our European discussions is that the small economies of Europe are being thrown into an enormous market. If we follow the implications of this, the degree of freedom available to the decision makers in Europe should become very much wider. This has application to the question of what to do about displaced labor. If there is freedom of movement of labor, there are millions of opportunities in

the larger economy in Europe. The size of the economy has a great deal to do with the size of the retraining program. In a small economy there are not the alternatives available and therefore you must have much more consciously planned efforts to get people trained and placed for new jobs. In a bigger economy many of these problems will disappear. So the thing that I as a student of these things in this conference am concerned with is whether the full implications of the greater degree of freedom possible as a result of the formation of the Common Market is fully realized; whether we are on a path toward a greater degree of freedom arising from the larger economy that is going to result or whether some old habits of the past will be carried over and we shall have to be reeducated.

Another problem which bothers me very much also has to do with the structure of the economy. Now that we have convertible exchanges and stable conditions in many countries, capital is once more becoming venture-some and crossing national borders. It seems to me that the possibilities of the flow of capital over national borders are much more limited in one direction than they are in the other. The United States has no restrictions on the movement of capital whatsoever, so far as I know. And the New York capital market is so large that it seems capable of absorbing almost *any* amount of either short or long term funds. But the possibility of the flow in the opposite direction to the Common Market is extremely limited. Professor Lipfert, who discussed these

matters with us, has studied them and he quoted some ratios of size to me. I may remember it incorrectly, but I think he said that the New York capital market is far larger than all of Europe's capital markets combined.

So there is not in Europe a capital market of sufficient size to balance the New York capital market. I do not know whether the free part of the world needs one, two or a dozen capital markets, but I do know this: the instruments and mechanisms for a free flow of short term capital are very much limited on this side of the Atlantic. Markets are small, the types of securities used do not readily fit a market system, and there are restrictions on foreign ownership of domestic securities and domestic ownership of foreign securities in many European countries. We need very badly a study of how capital markets in Europe are functioning, how they are organized and what are the possibilities, when the Common Market is expanded, of expansion of the capital market in Europe. And can you have more than one large capital market within a single free trade area? I think there are technical reasons for arguing that *one* is far more efficient than several. If we are going to facilitate the means for obtaining our goals we will have to study these problems.

Another problem is the difference in tax structures among countries that are in close competitive relationship with each other. A leading example is the treatment of indirect taxes under the GATT rules, although the question is broader than that. Mr. Stein put his finger on a very important part of the problem when he

said that it may be that our taxes on profits—at least in the United States—are too high. This may mean that as the United States becomes more closely related to Western Europe—as we get our tariffs lowered and competition really gets tougher—that we shall have to do something about our tax structure. These are not particularly new ideas but we are facing some new problems. Governments organised in the OECD and in the GATT are trying to deal with these problems. You may think I am cynical but I doubt very much that governments are going to generate the best ideas about how to deal with the means for obtaining these goals on which we in this conference may have a pretty good agreement. At least I think that the governments involved would profit from the competition of ideas in the market place. And I consider it important that ideas be put into the market place not only by governments and not only by research people in universities but that they be put into the market by people who know how the ideas will be carried out in terms of effects upon individual enterprises, labor organisations etc. And this, I think, is the great opportunity which lies before us for cooperative work among these groups which I think share a basic philosophy.

I think we need the experience and the study and the insight which can be provided by the combination of scholars and business executives working together in order to come up with the best ideas for policy. Those ideas, when they are developed, will get into the OECD, the GATT and other international organisations. Incidentally the

OECD itself—as it now exists—came out essentially of a conference of private and government people.

Alongside the development of these ideas and putting them into the market place, there is another function which has certainly been illustrated in the discussion of the way in which the Swedish labor market and organisations work. And that is *the need for understanding of the economic forces*, of the policies that are being discussed. We all share also that objective of educating ourselves first, then the public, to the best of our ability.

To this end I would like to make one plea—on the practical side. We distribute each others publications, we make them easily available to each other and we have had some success in putting the publications that we receive from the European organisations into the hands of both our business people and our university people in the United States. But there is a great scarcity of basic factual studies covering many of the subjects dealt with in this conference in a form which can readily be used by university people, business organisations etc. and particularly from the continental countries. E.g. there is simply no good study on this business of capital markets. So I hope that groups in Europe will contribute to the stream of research and ideas more than they have. Because if we are going to work together we need to know more about some of these basic problems which we have discussed; we need to have an instrument for conveying what we know and what you know to a much wider audience.

## Discussion

Göran C-O Claesson:

What interests me most is how can we organize the cooperation between the "avant garde"-organizations in the different countries. Trying to answer that question I always come to think of the influence that the Federalist movement had on the continent. I wonder: Could we get the same strength, could we in any similar way through our organizations spread our ideas about different problems of the society? The contacts are established, we have for instance a fairly good exchange of publications.

This widened distribution of information seems to *work*. However, when it comes to the *production* of the information we seem to be quite "national", e.g. SNS will as a rule choose Swedish authors, Swedish lecturers. I would suggest that we in the future did not limit our field of vision to our own country. On the contrary we should make it a rule to discuss projects of research etc. across the borders. It would not be particularly expensive, because it would increase our chances to get the right people.

International cooperation is necessary. As an introduction to such cooperation conferences like this are extremely valuable. But in spite of this I dream of a time when we can do without them, without ambassa-

dors, without agencies taking care of a lot of very different interests which happen to be located within one particular nation. I think we will be much better off when we continuously, in our everyday life, keep contact with other countries.

What we should do is to pioneer such a development, so that we fairly soon can reach a stage when it will seem natural to cooperate with foreign authors, to invite foreign speakers, to have manuscripts commented upon in other countries and to sell books internationally.

When we reach that stage we can be sure of a *mutual* interest between different countries, big ones and small ones.

Alfred C. Neal:

I think that Mr Claesson's suggestion about being more universal is something that we in our own unsystematic way have been trying to practice and I might just tell you how far we have gone. I do not know how far we are going to go, because we do not have any long range plan.

Last January we had a session with representatives from, I think, all of the organizations with whom we are working except the Japanese just on the question of choosing our own subjects for research, our own inter-

national subjects. We spent a long time discussing what we ought to do and then—as a result of that discussion—we recommended the program to our Research and Policy Committee.

In carrying out the research—in several fields already—we are employing foreign scholars to prepare documents or small studies for us. We have one project on higher education as a preparation for business; we asked an English management specialist to write one of these papers; we asked a French person who is well acquainted with higher education to prepare a paper and we are combining those with our own papers.

In our work in the Central American field we have some papers being prepared by people from that area. In our work on Japan and the world economy we have urgently requested that the Japanese prepare some material and we in our turn are preparing material. We have completed one joint project on the Common Market in which the CEPES groups and CED worked together over a considerable period. We each came out with a statement, we published the two statements together in each of our own countries.

What we have *not* done to any great extent, although we have had visits is to have a staff member either of our own go to some country for an extended period or people from one of the other groups come and work with us for an extended period. For short periods we have had visits—Miss Topping on the Tariff study came to Sweden, which pioneered the

work in that field. Certainly this was a case where work done by one group inspired immediately a reaction from another. We are also going to have a Tariff study comparable to the great Swedish Tariff study. We also have had short visits from the British scholar who was working on the British version of this comparative tariff study.

So, I think we are disposed to have a great deal more of what Mr. Claesson has proposed. I would like to emphasize, however, that—and I do not mean to be critical—we do need this flow of research, these small publications such as PEP and SNS do. And—if you must talk about small and large countries—I think one of the great roles of the small countries is that objectivity for a small country is a matter of necessity. This is indeed beneficial to other countries that may, for reasons perhaps of their own size or other reasons, not be able so easily to achieve this objectivity. So one of the great hopes for us is that Sweden will continue to excel in its research, that SNS will be the spearhead of this research and that we will have the benefit of it.

#### Jonas Nordenson:

I shall not try to summarize our discussions during this conference, because I think that such a summary would violate something of the versatility of our discussions.

We have not made any exact conclusions about measures to be taken. The idea of coordination has certainly been emphasized, but at the same

time it has been stressed that national traditions and characteristics call for a variety of policies and measures.

We have to *tackle* the problems; try to find solutions and not only hope that they will solve themselves. To accomplish something I think it is most important to use a process of trial and error, in which we certainly should emphasize the common denominators and the need for co-ordination but also respect the national differences and characteristics.

One of the advantages of this conference is the exchange of ideas and the greater understanding which we come to. I believe that among our policy measures we ought to have not

only "credit policy" and "fiscal policy" and "balance of payments policy". I think that the information and furthering of understanding will in itself be an important policy measure in times to come.

Such a policy measure will be open to all groups and individuals in society. Thus everybody will be able to participate in governing and guiding their countries towards a better future.—Finally, to further understanding and to increase information we must have faith in the future, in the development and in the economic systems which we want to use ourselves and bring over to new countries.

## Participants

- Lars M. Adler*, AB Svenska Metallverken, Västerås, Sweden  
*Walter Bauer*, Dr, Chairman of German CEPES, Val. Mehler A.G., Fulda, Germany  
*René Belin*, French CEPES, 25, Rue François Ier, Paris 8e, France  
*Arne Björnberg*, Swedish Agency for International Assistance (NIB), Box 7296, Stockholm 7, Sweden  
*Peder Bonde*, Stockholms Enskilda Bank, Stockholm 16, Sweden  
*W. Harold Brenton*, Brenton Companies, 2840 Ingersoll Avenue, Des Moines 12, Iowa, USA  
*Tore Browaldh*, Svenska Handelsbanken, Stockholm 16, Sweden  
*Sven-Eric Brunnsjö*, LKAB, Box 5103, Stockholm 5, Sweden  
*Staffan Burenstam Linder*, Dr, Stockholms Enskilda Bank, Stockholm 16, Sweden  
*Torsten Carlsson*, Skandinaviska Banken, Stockholm 16, Sweden  
*Neil Chamberlain*, Professor, Yale University, New Haven, Connecticut, USA  
*Göran C-O Claesson*, The Swedish Sales- and Advertising Federation, Regeringsgatan 19—21, Stockholm C, Sweden  
*Russell J. Clark*, Economic Intelligence Department, Westminster Bank Ltd, 41 Lothbury, London, E.C. 2, UK  
*James A. Clay*, Rio Tinto Management Services Ltd, 6, St. James's Square, London, S.W. 1, UK  
*Pierre Bernard Cousté*, Fédération des Jeunes Chefs d'Enterprises d'Europe, 9, Avenue Ingres, Paris 16e, France  
*Sven Dahlman*, Federation of Swedish Industries, Artillerigatan 34, Stockholm Ö, Sweden  
*Carl-Otto Eiserman*, Åkerlunds Bomullsspinneri AB, Borås, Sweden  
*Ivar Galeen*, AB Volvo, Fack, Göteborg 1, Sweden  
*Hampus Grunditz*, AB Nordiska Kompaniet, Stockholm 7, Sweden  
*Hans Hagnell*, MP, Svenska Metallindustriarbetareförbundet, Torsgatan 10, Stockholm C, Sweden  
*Arne Henrikson*, LKAB, Box 5103, Stockholm 5, Sweden  
*Erik Henriksson*, Grängesbergsbolaget, Box 16329, Stockholm 16, Sweden  
*Sven Hornewall*, Svenska Cellulosa AB, Sundsvall, Sweden  
*Theodore V. Houser*, Moss Neck Manor, TWT, Fredericksburg, Virginia, USA  
*Erik Huss*, Dagens Nyheter AB, Box 138, Stockholm 1, Sweden  
*Rune Höglund*, Svenska Handelsbanken, Stockholm 16, Sweden  
*Axel Iveroth*, Former chairman SNS Advisory Board, Federation of Swedish Industries, Artillerigatan 34, Stockholm Ö, Sweden  
*Rudolf Jalakas*, Svenska Handelsbanken, Stockholm 16, Sweden  
*Nils Kellgren*, MP, The Labour Board, Fack, Stockholm 12, Sweden  
*Carl J. Kjellberg*, Birger Jarlsgatan 8, VI, Stockholm Ö, Sweden  
*Bertil Kugelberg*, Swedish Employers' Confederation, S. Blasieholmshamnen 4 A, Stockholm C, Sweden  
*Bengt Lagercrantz*, Wirsbo Bruks AB, Virsbo, Sweden  
*Kaarlo Larna*, Dr, Federation of Finnish Industries, Södra Kajen 10, Helsinki, Finland  
*Robert F. Lenhart*, Committee for Economic Development, 1000 Connecticut Avenue, N.W., Washington 6, D.C., USA  
*Erik Lundberg*, Professor, University of Stockholm, Odengatan 61, Stockholm Va, Sweden

*Alf Lünning*, AB Wilhelm Sonesson & Co, Industrihamnen, Malmö C, Sweden  
*Morten H. Magnus*, Studieselskapet Samfunn og Næringsliv, Oscars Gate 55, Oslo, Norway  
*Mario Marconi*, Professor, Italian Westinghouse, v.P.C. Boggio 20, Turin, Italy  
*Bengt Metelius*, Dr, Svenska Handelsbanken, Stockholm 16, Sweden  
*Uno Murray*, Näringslivets Fond, Sköldungagatan 2, Stockholm Ö, Sweden  
*Lars Nabseth*, Dr, Federation of Swedish Industries, Artillerigatan 34, Stockholm Ö, Sweden  
*Alfred C. Neal*, Committee for Economic Development, 711, Fifth Avenue, New York 22, N.Y., USA  
*Gösta Nilsson*, AB Scania Vabis, Södertälje, Sweden  
*John H. Nixon*, Committee for Economic Development, 711, Fifth Avenue, New York 22, N.Y., USA  
*Jonas Nordenson*, Dr, MP, Chairman SNS Executive Committee, General Export Association of Sweden, Fack, Stockholm 1, Sweden  
*Hans Nordmark*, LKAB, Box 5103, Stockholm 5, Sweden  
*Andrea Nuvolari*, Dr, Italian CEPES, Piazzetta Bossi 2, Milan, Italy  
*Wilhelm Paues*, Federation of Swedish Industries, Artillerigatan 34, Stockholm Ö, Sweden  
*Wilhelm Pessler*, Mo och Domsjö International AG, Spiegelgasse 15, Basel, Switzerland  
*Jacques Plassard*, Rexeco, 44, Rue François Ier, 8e, France  
*Gunnar O. Rising*, Taptogatan 6, Stockholm Ö  
*Gösta Rydbeck*, Backstigen 3 A, Danderyd, Sweden  
*Sven Rynell*, AB Bahco, Box 245, Stockholm 1, Sweden  
*Erich Schneider*, Professor, University of Kiel, Germany  
*Bengt Senneby*, Skandinaviska Banken, Stockholm 16, Sweden  
*Herbert Stein*, Committee for Economic Development, 1000 Connecticut Avenue N.W., Washington 6, D.C., USA  
*Herbert Tingsten*, Professor  
*Stina Thyberg*, Swedish Agency for International Assistance (NIB), Box 7296, Stockholm 7, Sweden  
*Eoin Troy*, The Irish Export Board, 74, Lower Baggot Street, Dublin 2, Eire  
*Marcus Wallenberg*, Dr Techn., Stockholms Enskilda Bank, Stockholm 16, Sweden  
*Yvonne De Wergifosse*, Secretary General, European League for Economic Cooperation, 11, Rue de Namur, Brussels I  
*Joachim Willmann*, Dr, German CEPES, Schumannstrasse 62, Frankfurt A/M, Germany  
*Thomas Wilson*, Professor, Department of Political Economy, University of Glasgow, UK  
*Bertil Vinberg*, Boliden Batteri AB, V. Trädgårdsgatan 17, Stockholm C, Sweden  
*Torsten Vinell*, General Exports Association of Sweden, Fack, Stockholm 1, Sweden  
*Seiichi Yamashita*, Keizai Doyukai, Japan Industrial Club Building, 1, Marunouchi, Chiyoda-ku, Tokyo, Japan  
*Theodore O. Yntema*, Ford Motor Company, Dearborn, Michigan, USA

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The Industrial Council for Social and Economic Studies  
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# *Speeding up and Smoothing Economic Growth*



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## CONTRIBUTORS

Tore Browaldh ● Neil W. Chamberlain ● Hans Hagnell ● Theodore V. Houser ● Bertil Kugelberg ● Mario Marconi ● Alfred C. Neal ● John H. Nixon ● Andrea Nuvolari ● Erich Schneider ● Herbert Stein ● Marcus Wallenberg ● Thomas Wilson ● and others

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