

ILO Century Project

ILO, Geneva

Title: **The ILO, the League of Nations and the fight against economic depression, 1938-1945**

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‘Now what were the primary causes of the depression, as we called it?’

Overproduction, maladjustments in gold distribution, overproduction deflation, too little production of thyroid secretion or platt's disease, too much drivel, over production and, by the same token, underproduction. If you look at this chart that I have here you will see more what I mean. Here you will see that in 1921 our trade balance was 3.9.6.4, this represented 24 million bushels of wheat, which is too much wheat. Under such circumstances it is little wonder people did not know whether they were coming or going.’²¹ (Robert Benchley, filmed by British Pathé, Scrapbook).

2. Show EFO and ILO compiled charts of depression. Sort of thing Benchley had piled around him.

3. EFO borne out of crucible of economic crises. ILO less so, but focus of its concerns, labour rights etc., meant it was deeply integrated.

4. Worrying about depression, especially after 1929 but even before it essentially all they did. Huge global laboratories. Not just interested, but especially interested. Importance because place where world economy can be seen.

5. In 1939, an international network called the Depression Delegation set up by the League of Nations to study economic crises and how they might be tackled, argued ‘each period of prosperity and depression is an historical individual’.ⁱⁱ This group of economists, politicians and civil servants brought together from Europe, North and South America and Australasia, wouldn’t be in the least bit surprised that the current financial crisis was different from those they lived through and studied. Their research and their personal experience taught them to see each economic crisis as ‘embedded in a socio-economic structure of its own’.ⁱⁱⁱ The news that the current economic crisis nothing like those which have preceded it would have come as no great surprise to the Depression Delegation.

The Depression Delegation was a deliberately heterodox group of economic and financial experts, traditionally associated with different schools of thought, although all representing varieties of liberal capitalism. In their hugely ambitious survey of the origins of global financial and economic crises, and more particularly, its focus on how to tackle them, the Depression Delegation argued that each ‘meltdown’, would vary ‘in nature and require the adoption of different policies on different occasions.’ Economic science and history offered ‘no simple remedy or specific’.^{iv}

But at the same time, they agreed that for all the remarkable changes in the world economy over the past 100 years, and the differences which exist in the economic structure and institutional framework of different countries, economic activity was characterised by

certain essential similarities. The most obvious was that economic progress had not taken the form of a steady hill climb to new levels of output and well-being, but rather the form of spurts and rebounds; periods of prosperity and then depression. (In comparison to 21st-century economic analysis, their language was also refreshingly direct. No deflation masquerading as disinflation here.)

The delegates agreed that these spurts and rebounds had some common characteristics. Without going into the detail which was the essential grist of the Delegation's mill (the amount of materials collated and generated by the Delegation easily equalled four times the average body weight of an economic historian), the Delegation believed it had sufficient intelligence on which to justify generalisations that might serve as the basis to advocate policies to mitigate financial and economic crises. It also recognised that when in the middle of any particular crisis it would still be important to address the specific maladjustments which had given rise to it.

This stress on mitigation rather than prevention was deliberate. Although the delegation attached the greatest importance to economic stability, in the absence of what it called 'complete knowledge of the fundamental causes of depressions', it was easier to agree they were evil and treat their symptoms than to propose pervasive and permanent measures which might also curb the prospects of future prosperity. Although heated, the discussions within the delegation were respectful and comparatively harmonious. The theoretical and ideological divides between delegate members that included the Swede Bertil Ohlin and Gottfried Haberler of the Austrian school were more easily smoothed over in when faced with the threat of soviet-style communism on the one hand, and German National Socialism on the other.

One of the key debates between the delegation's members was whether recovery from depression was most effectively promoted by stimulating consumption or by stimulating investment. This, of course, has a very contemporary ring. In the 1930s stimulating consumption was understood to include measures such as central banks lowering their base interest rates, increasing the cash reserves available to commercial banks, currency depreciation and social insurance schemes (while recognising the efficacy of these measures depended on how effectively individual countries' credit systems were organised). The delegation thought about the whole world, and generally took great pains to distinguish between measures that were appropriate for developed and less developed economies. Social insurance schemes also came under the category of sustaining consumption, during a crisis. Stimulating investment, on the other hand, was generally associated with schemes for national and international public works.

Where they were all agreed was that deficit spending was an essential tool in the battle against the unwelcome economic, social and political effects of financial crises. (There was agreement among economists who usually disagreed on other issues.) The essential challenge this group of economists identified in the late 1930s was trying to persuade the general public and businessmen in particular to accept the necessity of such spending. 'Why was it', asked the Swedish economist and member of the delegation, Bertil Ohlin, 'that public opinion was prepared to tolerate budget deficits when it came to preparing for war, yet 'was so resistant to them when it had come to fighting economic depression?''^v (Here Milton Friedman's castigation of George Bush as the greatest living Keynesian for allowing the US budget deficit to balloon springs to mind.)^{vi}

The members of the delegation also agreed that wherever and however an economic downturn starts, it 'finds expression in the behaviour of the credit system'.^{vii} In the 1930s

and 1940s, the delegation rehearsed various plausible start points for crises of the future but the origins for the 2008 financial meltdown were somewhat beyond their imagination. Given the work it did on speculation and US commercial banks maintaining 100 per cent deposits, it's a fair guess that the delegates would not have approved of kind of creative leveraging that lies beneath the 21st century financial crisis.^{viii}

The depression delegates expected the future to surprise them. By their reasoning economic crises, by definition, could not be precisely anticipated because of the economy's capacity for invention and growth. If one wanted development, prosperity, and liberty, then the key challenge was to remain alert to the threat of crisis, to be ready with a variety of appropriate policies, and a coherent architecture of international co-ordination and co-operation to handle the economic and financial crisis when it came. Because come it would.

Much of the Depression Delegation's work became absorbed into planning a new international economic order during the Second World War, out of which came, amongst other organisations, the International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank). The IMF embodied the delegation's emphasis of the need to safeguard financial stability, and the World Bank was a reflection of its emphasis on global development.^{ix}

These were path-breaking institutions in the history of financial and economic co-operation. The IMF's function was to help countries in trouble by offering them stabilization loans to control financial crises that, otherwise unchecked, would lead to national ruin and international instability. But it often has been characterised as a secretive club run according to rules that benefit primarily the world's wealthiest countries. When the financial crisis hit last year, the IMF's reserves were also found to be woefully inadequate to the stabilization task before it.

These shortcomings in the architecture of international relations in 2008 were anticipated by many of the members of the Depression Delegation. Although they supported and worked for the creation of the IMF, they also recognised as early as 1944 that it was unlikely to measure up to the challenges of the future: it didn't have sufficient financial resources, was too much an 'American show', and was insufficiently connected and accountable to the humanitarian agenda of the new United Nations. The UN, too, was far from perfect: it spent too much time worrying about the security interests of nation-states, and not enough time, in the words of one of the Depression Delegation members in 1944, trying to 'connect to the day-to-day activities and interests of the great mass of people.' The UN needed to be made 'less political and more economic, cultural and social'.^x It was a perspective which haunts the world today.

This group's saw the architecture of international relations created in 1944 less as a finished system than a work in progress. Their historically-orientated approach led them to argue the case for constant global review and institutional reform to stay in touch with the ever changing world around it. In 1944 they called for an independent 'central advisory body' to be set up ready to watch for, and take action 'against the common enemy which depressions constitute'.^{xi} The proposal, though far from perfect, was more inclusive, imaginative and advanced than those we have seen so far in 2008 and 2009. I can direct any one who's in need of a few bright ideas to the relevant papers in the ILO and UN archives.

ⁱ for 1933, reel 2 of 3 reels; <http://www.britishpathe.com/record.php?id=75436>

ⁱⁱ Note by the Secretariat (Rasminsky probably first author), 'Basis of Discussion for Report. Part A. Economic Depressions and Economic Structure', pp. 24-25, Records of the League of Nations, Geneva, LN 10 General, Box R4453 Economic Depression Cttee, 1937-38, File 10A/33303/32649.

ⁱⁱⁱ 'Technological knowledge, methods of production, degree of capital-intensity, number, quality and age distribution of the population, habits and preferences of the consumers, social institutions in the widest sense including the legal framework of society, practice in the matter of interventions of the State and other public bodies in the economic sphere, habits of payment, banking practice and so forth – all these practices change continuously, and are not exactly the same in any two cases.' Haberler, *Prosperity and Depression* (revised edition, League of Nations, Geneva, 1938), p. 177.

^{iv} League, *Economic Stability*, p.291.

^v Ohlin's comment, Provisional minutes, 'Delegation on Economic Depressions: First Session, Third Meeting', 30th June 1938, p.1, LN 10A General, Box R4453, Econ Depr Cttee, 1937-38, File 10A-36595-32649 Econ Depr Cttee Jun 1938 Minutes

^{vi} By 1942 this was transformed into EFO's criticism of too great a sense of the top down approach in post-war Anglo-American planning with 'problems at their apex rather than at their base – international finance in terms of central banks instead of financing production; commercial policy in terms of tariffs instead of in terms of the economics of production'. No formal minutes were kept at the meeting. Instead, Loveday made notes which were later circulated to participants. See Note by Loveday, 'Economic and Financial Committees; report to the Council on the Work of the Joint Session, London, April 27-May 1, Princeton, August 7-8, 1942', August 1942 and Lloyd to Vigier, 5 Nov. 1942, LN R4384, 10A/41803/1778. See also Loveday to Makins, 'I. Suggestions made by the Committee with reference to the programme of studies', 5 May, 1942, The National Archives London, TNA FO371/31002, C4885/4885/98.

^{vii} Note by the Secretariat (Rasminsky probably first author), 'Basis of Discussion for Report. Part A. Economic Depressions and Economic Structure', p.8, LN 10 General, Box R4453 Economic Depression Cttee, 1937-38, File 10A/33303/32649: 'The process of contraction, however it is started, finds expression in the behaviour of the credit system. The losses made by producers led banks and the investing public to adopt a cautious attitude towards lending. Even if no outright deflationary pressure is exerted by central banks, the commercial banks may desire to increase their own liquidity; borrowers will then have to dispose of assets to pay their debts. The pressure on prices, both of commodities and securities, accentuates the contract. Moreover, business firms too strike to increase their liquidity during a period of depression. When prices are falling and losses being made and the outlook is poor, entrepreneurs postpone the replacement of fixed and working capital as well as ant new investment that may have been contemplated before the situation deteriorated. The net result is a further contract of incomes and of monetary demands'.

^{viii} E.G. Irving Fisher's call for '100 per cent Money', advertised in H.C. Simons call for 'A Positive Programme for Laissez-Faire', which proposed that commercial banks in the USA (and potentially elsewhere) be change into safety-deposit institutions, maintaining 100 per cent reserves against their deposits, and therefore being unable to create or destroy effective money. Instead, banks would derive their income from service charges, and the function of lending would be taken over by investment trusts, which would obtain funds by the sale of their own stock.

^{ix} In its words, the fullest possible use of 'resources of production, human and material, of the skill and enterprise of the individual to attain and maintain *in all countries* a stable economy and rising standards of living. *Transition from War to Peace Economy*, p. 11

^x Loveday to Sweetser, 91 Jan. 1944, Manuscript Division of the Library of Congress, Washington DC, LC Sweetser, Box, 39 General Correspondence, File, 'UN Beginnings. Loveday was, in this respect, especially scathing of the activities of the Executive Committee of the League of Nations Union', who despite calling for the 'full import of the League was never sufficiently realised by the general public' in an LNU Pact published in London in 1943, demonstrated little interest in the non-political activities of the League. The pact was signed by the Lord Cecil, Layton and Perith, by K.D. Courtney and Gilbert Murray. Only the latter, in Loveday's estimation, recognised the non-political agenda when it came to selling the value of the League to the public.

^{xi} League, *Economic Stability*, p.287.