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INTERNATIONAL ORGANIZATIONS AND THE ANALYSIS OF ECONOMIC POLICY, 1919–1950

**ANTHONY M. ENDRES
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International Organizations and the Analysis of Economic Policy, 1919–1950

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CAMBRIDGE
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS

The Edinburgh Building, Cambridge CB2 2RU, UK
40 West 20th Street, New York, NY 10011-4211, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain
Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

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First published 2002

Printed in the United Kingdom at the University Press, Cambridge

Typeface Times New Roman 10/12 pt. System QuarkXPress [BTS]

A catalog record for this book is available from the British Library.

Library of Congress Cataloging in Publication Data

Endres, A.M.

International organizations and the analysis of economic policy, 1919–1949 /
Anthony M. Endres, Grant A. Fleming.
p. cm.

Includes bibliographical references and index.

ISBN 0-521-79267-3

1. Economic policy – International cooperation – History – 20th century.
2. Commercial policy – International cooperation – History – 20th century.
3. *International economic relations* – History – 20th century. 4. Economists – History – 20th century. 5. Economic history – 20th century. 6. League of Nations – History. 7. United Nations – History. 8. Bank for International Settlements – History. 9. General Agreement on Tariffs and Trade (Organization) – History. 10. International Labour Organisation – History. 11. Financial institutions, International – History – 20th century. 12. Monetary policy – International cooperation – History – 20th century. 13. Labor laws and legislation, International – History – 20th century. I. Fleming, Grant A. II. Title.

HD87 .E53 2002

338.9'009'041-dc21 2001035702

ISBN 0 521 79267 3 hardback

International Organizations and the Analysis of Economic Policy, 1919–1950

This book expands our understanding of the distinctive policy analysis produced between 1919 and 1950 by economists and other social scientists for four major international organizations: the League of Nations, the International Labor Organization, the Bank for International Settlements, and the United Nations. These practitioners included some of the twentieth century's eminent economists, including Cassel, Haberler, Kalecki, Meade, Morgenstern, Nurkse, Ohlin, Tinbergen, and Viner. Irving Fisher and John Maynard Keynes also influenced the work of these organizations. Topics covered include: the relationship between economics and policy analysis in international organizations; business cycle research; the role and conduct of monetary policy; public investment; trade policy; social and labor economics; international finance; the coordination problem in international macroeconomic policy; full employment economics; and the rich-country-poor-country debate. Normative agendas underlying international political economy are made explicit, and lessons are distilled for today's debates on international economic integration.

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Abbreviations

| | |
|-------|---|
| BIS | Bank for International Settlements |
| CCI | Course and Control of Inflation |
| GATT | General Agreement on Tariffs and Trade |
| IBRD | International Bank for Reconstruction and Development |
| ICE | International Currency Experience |
| IFI | International Financial Institution |
| ILR | International Labour Review |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| ITO | International Trade Organization |
| LON | League of Nations |
| LONJ | League of Nations Journal |
| UN | United Nations |
| UNEEC | United Nations Economic and Employment Commission |
| WEC | World Economic Conference |
| WES | World Economic Survey |

Preface

This book is the culmination of eight years' research. It began with correspondence between the authors and Janie Gummer, the daughter of E.J. Riches, in 1993. Janie informed us that Riches, international civil servant and former ILO Deputy Director, was close to death and that some of his personal papers may be of interest to historically minded economists at the University of Auckland. These papers alerted us to the work of economists at the International Labor Organization. We were especially stimulated by conversations with A.W. (Bob) Coats when he visited the Antipodes in the mid-1990s; his unflagging enthusiasm for extending work on the intellectual history of economics to include the work completed by special cadres of economists and social scientists in both government and international agencies had a lasting influence, as the following pages attest.

The path to the final manuscript has been made easier by the wealth of comments from countless academic colleagues. We acknowledge the benefits of comments and conversations with conference participants at the History of Economic Thought Society of Australia conference (Freemantle), the European History of Economic Thought conference (Marseille), and two Economic Society of Australia Annual conferences (Canberra and Melbourne). More vigorous exchanges in seminars at the Australian National University, Duke University, King's College Cambridge University, University of Auckland, University of New South Wales, and University of Western Australia have sharpened our arguments and challenged our framework.

Research funding from the Australian Research Council Small Grant scheme (S6204012) helped us travel to key archival sources in Geneva where we received enthusiastic support from archival staff. They were not generally accustomed to having economists explore their records and that indicates just how much modern practitioners in the discipline have forgotten the value of these rich data sets. We are obliged in particular

to Mr. A. Zoganas at the International Labor Organization and Ms. Blukacz-Louisfert and her staff at the League of Nations Archives in the United Nations Library (Geneva) for their energy, flexibility, and the ancillary archive resources placed so generously at our disposal. We also thank publishers for permission to use material that has previously appeared in book chapters (Edward Elgar and Ashgate) and in the *Cambridge Journal of Economics* (Oxford University Press), the *European Journal for the History of Economic Thought* (Routledge), the *International Labour Review* (International Labour Organization), and the *Journal of Monetary Economics* (Elsevier North Holland).

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1 **Economics and Policy in International Organizations: Introduction**

PROLOGUE: A PERSPECTIVE ON THE LITERATURE

In the early twentieth century, John A. Hobson's *Toward International Government* (1915) reflected hopefully on the prospects for realizing the ideal of a "world community" or of "a society of nations" through the creation of an international organization. That organization would subordinate national advantage to the idea of international cooperation – an idea that Hobson did not fully articulate. Hobson could not have foreseen the evolution of international organizations committed to economic and social cooperation among nations over the twentieth century and the increasingly active role in international affairs that such organizations were to play from the creation of the League of Nations (LON) in 1919 onward.¹

There are now available a plethora of institutional and organizational histories expatiating on the functions and influences of international organizations in the twentieth century.² Some recent studies have proceeded beyond recounting the history of administrative structures and functions to analyzing the nature, scope, and history of international economic cooperation – treating cooperation in connection with a flow of episodes, events, economic crises, and policy responses.³ An abundant literature written by economists has focussed attention on:

¹ We mostly employ the term *international organization* in this book and regard it as synonymous with *international agency*, *transnational institution*, and *supranational institution*. All these terms are taken to refer to the institutional structures of intergovernmental or nongovernmental organizations. This broad usage is consistent with literature in the now specialized field of international organization. See Taylor (1990) and Willetts (1990).

² See, for example, Groom and Taylor (1990); Hill (1946); Luard (1966); Northedge (1986); and Walters (1952).

³ Several studies in the field of international monetary cooperation stand out. See Horsefield (1969) and James (1996).

1. the macroeconomic stabilization, financial reconstruction, and enforcement programs of the LON and Bank for International Settlements (BIS) prior to 1939 (Pauly 1996; Santaella 1993; Schloss 1958);
2. the structure, function, and performance of international economic and financial institutions such as the International Monetary Fund (IMF) and World Bank (Black 1987; Gavin and Rodrik 1995; Krueger 1998; and MacBean and Snowden 1981); and
3. the economic rationale for the existence, development, and performance of supranational economic organizations (Frey 1997 and Vaubel and Willetts 1991 on public choice; Kindleberger 1986 on international public goods; and Simmons 1993 on dynamic contracting).

Furthermore, in the 1990s the Brookings Institution instigated a series of studies on the subject of "Integrating National Economies" (Bryant 1995; Kahler 1995). These studies have taken investigation of international economic organizations to a new and more sophisticated level; they consider the myriad of alternative possible forms of cooperation achieved through international organizations, locating each organization in a broad international movement aiming ultimately to coordinate national policies and minimize spillover effects on member nation states.⁴ Again, the orientation in all this burgeoning research is structure, function, and performance at the operational level – it is institutional and organizational in character and not ideational or avowedly a study of doctrinal issues.

By comparison with the literature referred to so far, the purpose of this book is not to explain what organizational forms and structures were established or assess their performance. We intend to survey what was contributed in an intellectual sense to economic and social research by the social scientists – especially the economists – who worked in, or attached as consultants to, some of the principal international economic organizations from 1919 to circa 1950. This book aims to expand our understanding of the distinctive research and economic policy advice proffered by economists in international organizations. These organizations include the mostly Geneva-based LON Economic and Financial Section, various branches of the International Labour Organization

⁴ The problem of managing and coordinating economic policies using international organizations has also been considered in the light of fundamental uncertainty facing international economic policy makers. See Ghosh and Masson (1994). Various definitions, forms, and methods of economic policy coordination have also been the subject of intensive study by economists. See, for example, Frenkel and Goldstein (1996a).

(ILO), the Bank for International Settlements (BIS), and various divisions of the United Nations (UN). As these organizations operated according to a certain set of guiding principles, their economic secretariats, analysts, and advisers were charged with the tasks of putting those principles into practice – of steering the specific organizations in a constructive direction. Apart from a long list of lesser known economists who were engaged in the work of these organizations as full-time employees or consultants (and whose work will be accorded wide coverage in the following chapters), some of the twentieth century's most eminent economists made significant contributions to the work of international organizations in the 1919–50 period, including: Gustav Cassel; Gottfried Haberler; Michal Kalecki; James Meade; Oskar Morgenstern; Ragnar Nurkse; Bertil Ohlin; Jan Tinbergen, and Jacob Viner. In addition, Irving Fisher and John Maynard Keynes commented on the work of several international organizations in the period under review.

Intellectual histories of economic research completed within and for international organizations have been rare and so far piecemeal. To be sure, the career and appointments processes, functions, and powers of economic secretariats have been investigated.⁵ The first partly historiographical study of significance appeared in 1986 – *Economists in International Agencies: An Exploratory Study* (Coats 1986). That work's primary objective was to assess the role and status of economists as a “professional cadre” in “policy formulation, decisionmaking, and implementation” in various international agencies post-1945 (*Ibid.*, 2). Further, some of the contributed chapters in Coats (1986) outlined the recruitment policies for economists; the place of economists within the agency and how economists' work infiltrated the policy-making process. Altogether, the intellectual history content in the Coats (1986) volume is largely a by-product.⁶ Only the chapter by Sidney Dell (1986: 37ff.) considered the “influential ideas” on the problem of economic development offered by economists working for the UN secretariat from about 1947 onward. The evolution of ideas at the World Bank on the economic development process from the late 1940s is also treated carefully in Mason and Asher (1973: 457–90), although this is a comparatively brief intellectual history in a volume running over 900 pages concentrating on the origins, policies, operations, and impact of the group of institutions constituting the World Bank.

⁵ On the secretariats see Bailey (1964), Hill (1946), McLean (1980), Menzies (1983), and Meron (1977).

⁶ The same comment applies to Earlene Craver's (1986) study of Rockefeller Foundation grants to research work in international organizations over the interwar period.

Two important contributions of standing in the literature provide the background for this book. An obvious prototype is Neil De Marchi's work (in collaboration with Peter Dohman) (1991) which produced a programmatic, path-breaking analysis of the work of LON economists in the 1930s. Here the very framing and content of economic research conducted by LON economists is adumbrated. We will have occasion at various points in the following chapters to comment on and extend the insights provided by De Marchi.⁷ In addition, another model for our study resides in Jacques Polak's (1995) intellectual history of exchange rate research at the International Monetary Fund (IMF) post-1945.⁸ Polak's work examines the development of research on, and policy attitudes toward, exchange rate matters by economists employed by an international organization. He was interested in the content of that research, associated policy advice, and the interaction between economics and policy, while admitting that linkages between economic research at the IMF and actual policy outcomes in nation states "is in no sense simple or direct" (Polak 1995: 735). Likewise, we are interested in the substantive ideational content of research and policy advice of economists in international organizations though on a much wider range of subjects. We also agree that the actual impact of ideas on policy cannot easily be estimated.

ECONOMICS AND POLICY IN INTERNATIONAL ORGANIZATIONS: HISTORIOGRAPHICAL ISSUES

That the following chapters focus on economic thought and policy, or economic thought as it relates to matters of practice at the national and international levels, raises some critical historiographical issues. Economists in international organizations from 1919 to 1950 acted as experts in the provision and interpretation of information and in the development of ideas; they were occasionally able to complete fundamental or "pure" economic research which had only remote bearing on immediate policy concerns; they planned operational programs in several fields and they participated in forums for the worldwide exchange of ideas and information on particular policy problems. We prefer to distinguish between all the above activities and economists' participation in decision making, policy making, and policy implementation as such. The economists whose work we wish to survey only participated *indirectly* in decision making and policy-making activities. In addition, on many economic

⁷ Pauly (1996) has also assessed the analytic content of some early work at the LON on monetary problems. Again, Pauly's study will be mentioned at various points in this book.

⁸ See also Polak (1997) for a treatment more along the lines of an institutional and personal history.

and social issues, international organizations had an educative, consulting, and advisory role rather than specific policy-making functions. Nevertheless, the work of their economists was frequently adapted to policy issues and critical episodes in economic policy confronting member nations. Our interest is in how the adaptation process altered the scope, content, and character of economic research in international organizations.

It would be a serious misapprehension to regard the work of economic researchers engaged by international organizations as being obviously “positive” in the traditional sense of dispassionate provision of analysis without manifest “normative” implications. It is not possible, generally, to disentangle positive and normative levels of discourse in the work we will consider. So much of that work was directed variously by the conventions, principles, and conference resolutions of the governing bodies of the respective organizations. The research considered in the following chapters acted both as an input into assessing what was feasible in relation to a particular policy response and it analyzed the effects of specific courses of action, often by observing and reporting on a range of country experiences and generalizing from these experiences. For example, we may acknowledge Pauly’s (1996: 25) distinction between “operational” and “analytical” dimensions in the contribution of LON economists in the 1920s and 1930s. In the former dimension, LON economists were mere surveillance and reporting officers; they reported on LON- and BIS-sponsored financial reconstruction programs in Europe. In the latter dimension, LON economists conducted putatively pure economic analysis on international finance and business cycles. In general, however, we demonstrate in the following chapters that it is not easy to separate operational and analytical dimensions for the majority of research projects undertaken by economists in the international organizations considered, even where the research outputs were strongly analytical and published in scholarly journals or books.

The economics and policy analysis we survey in this book was didactic in style and sometimes hortatory; it contributed actively to reconciling differences in national policy initiatives or points of view on particular problems facing national policy makers; in some cases it critically appraises these initiatives (or lack of them as the case demanded). LON research in the 1920s in particular, contributed to the development of policy consensus on a range of economic problems (Pauly 1996: 30–33).⁹ ILO research over the entire period 1919–50 was openly

⁹ Whether consensus were generally contrived to create an impression of “liberal orthodoxy” on economic policy matters as Pauly claims (p. 17) is debatable. We shall discuss this point more fully below.