

## CHAPTER 13

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### INDUSTRIAL STABILIZATION AND WORLD TRADE

THE first objective of domestic economic policy, in the more advanced countries, is the achievement and maintenance of industrial stability. The first objective of international economic policy, under the *Articles of Agreement* of the International Monetary Fund and the *Charter* of the ITO, is the achievement and maintenance of greater freedom for world trade. These objectives may frequently come into conflict. Nations may seek stability through economic isolation. When hard times supervene, they are unlikely to rely upon the slow processes of deflation for the reestablishment of equilibrium. Declining employment, wages, costs, prices and rates of interest would eventually increase exports, reduce imports, and restore the balance of trade. But these processes take time, inflict hardship, and arouse political unrest. No government that wants to stay in office will permit them to run their course. Nations accordingly will undertake to maintain industrial activity, as foreign demand declines, by increasing exports through currency depreciation and subsidization and by curtailing imports through higher tariffs, quota systems, and exchange controls.

There is no hope that a multilateral trading system can be maintained in the face of widespread and protracted unemployment. Where the objectives of domestic stability and international freedom come into conflict, the former will be given priority. If nations are to take commitments to establish a freer trading system, this fact must be recognized. It would be futile to insist that stability must always give way to freedom. The best that can be hoped for is a

workable compromise. Stability could provide a firm foundation for freer trade. It should be sought; it cannot be guaranteed. International action must therefore be directed toward providing assurance that nations will cooperate in seeking stability through methods that will preserve the greatest possible measure of freedom in world trade.

Particular importance attaches, in the eyes of other countries, to the instability that has characterized the American economy. Our country is the center of the world's industrial activity. When our national output declines, our demand for imports falls more than proportionately. From 1937 to 1938, our output fell 11 per cent, our imports more than 36 per cent. Production, in other countries, rises and falls in response to fluctuations in American demand. When depression visits the United States, employment suffers all around the world. In agreement to afford greater freedom of trade, other nations therefore see the risk of greater instability. They consequently insist that commitments as to trade policy must be accompanied by a commitment to maintain industrial activity. And they are unwilling completely to surrender the possibility of recourse to devices that might protect them against the migration of hard times.

It is for these reasons that policies affecting employment as well as trade were included in the American *Proposals*, in the agenda of the conferences at London, Geneva, and Havana and in the *Charter* of the ITO. The two are inextricably intertwined.

#### ATTITUDES TOWARD "FULL EMPLOYMENT"

The approach toward this problem, both abroad and at home, is highly charged with politics. Industrial stability, as the goal of policy, is given expression in the slogan of "full employment." And by this token the issues that are at stake, instead of being illuminated, are obscured. There is no common understanding of the meaning of the term. Opinions differ as to when employment is really "full." Attention comes to be directed toward the employment of labor alone; the significance of other productive resources tends to be ignored. Employment seems to be regarded as an end in itself, not as a means to the production of useful goods and services. The importance of productive efficiency appears to be forgotten; the ultimate

lost from sight. More light could be shed and less heat generated if the slogan of "full employment" could be dropped. But it is too deeply imbedded in popular psychology to be dislodged.

The identification of stabilization with "full employment" has had an unfortunate consequence in the United States. There is an apparent reluctance, among leaders of conservative opinion, to recognize that industrial stability must be a goal of policy or even to acknowledge that depression and unemployment may recur. This attitude arises from the fact that "full employment" has come to be synonymous with make-work policies. But there is no reason to assume that this is the only possible approach to the provision of stability. Production can be maintained and jobs provided by other means. It is the part of wisdom, instead of denying their necessity, to determine what those means shall be. The problem of instability is not to be avoided. Prevention of depression, in our country, is bound to be the purpose of any administration that desires to stay in power.

It is not only in the United States that "full employment" operates to close men's minds. The assumption is too readily made abroad that the instability inherent in multilateralism can be avoided through bilateral deals. Bilateralism offers no such assurance of stability. Where trade is confined to pairs of countries, one may still suffer a recession; its demand for the products of the other will accordingly be curtailed. Markets may be closed, moreover, at the whim of governments and trade shifted from country to country in the service of politics. In such a situation, vulnerability to depression, instead of being moderated, is intensified. It is only in isolation that avoidance of external influences can be complete. But stability, if thus attained, may be purchased at the cost of a level of living that is pitifully low.

Trade policies advocated in the name of "full employment" may be unwise. But they are deeply rooted in the politics of other nations and they must be reckoned with.

#### THE APPROACH TOWARD EMPLOYMENT POLICY

Many of the participants in the trade discussions asserted that greater emphasis should be given, in the *Charter*, to the objective of industrial stability. But none of them proposed that stabilization be sought through international action or that authority be delegated

to the ITO or to any other international agency to supervise domestic stabilization policies. A variety of such proposals might conceivably have been made. It might have been suggested, for instance, that stability should be promoted by the exchange, on a reciprocal basis, of minimum purchase guarantees, by the establishment of a gigantic buffer-stock agency to deal in primary commodities, or by the creation of a mammoth countercyclical international investment fund. It might have been argued that booms could be checked and slumps attenuated through the international coordination of domestic fiscal and monetary policies, the centralization of authority for the timing of national expenditures on public works, and the synchronization of the credit operations of central banks. No such proposals were actually made. Attention was directed, rather, toward the provision of escape clauses that would enable nations to combat unemployment by imposing restrictions on trade.

This objective was pursued in a variety of ways. According to one proposal, a member threatened with unemployment might ask the ITO to recommend measures by which employment might be maintained; pending the solution of its problem, it should be free to take any action it considered justified, even though inconsistent with the *Charter's* rules. Under a second proposal, one member might complain that another had prevented it from maintaining employment by falling into depression and permitting its demand for imports to decline; if the complaint were found to be justified, the complaining members might be released from concessions made in a trade agreement with the member suffering the depression and from obligations assumed toward it under the *Charter*. A third proposal was based upon the argument that one country, if it were a large factor in world trade, might exercise deflationary pressure on others by buying too little from abroad and investing too little abroad in relation to its exports. Under its terms, each member would commit itself, whenever receipts from exports exceeded payments for imports, to bring its accounts into balance by increasing its foreign purchases and investing more abroad.

This commitment, of course, would be of significance only in the case of a creditor country with a favorable balance of trade. Under present circumstances, it would have placed complete re-

United States. It might well have required our government to take on functions that most Americans prefer to leave in private hands. If the commitment were not fulfilled, a member might complain that its interests were adversely affected and might thereupon obtain from the ITO a release from its obligations toward the guilty member, that is, the United States.

None of these proposals was accepted; none of them appears in the *Charter* as it stands. But they serve to illustrate the fact that it was not the achievement of stability through international action but the preservation of freedom to seek it through nationalistic measures that was in mind.

#### EMPLOYMENT IN THE CHARTER

The *Charter* recognizes the interrelationship of trade and stabilization policies. The avoidance of unemployment, it says, "is not of domestic concern alone, but is also a necessary condition for . . . the expansion of international trade" (2-1). In undertaking to maintain industrial activity, members "shall seek to avoid measures which would have the effect of creating balance-of-payments difficulties for other countries" (3-2). In undertaking to balance external payments and receipts, they shall have "due regard to the desirability of employing methods which expand rather than contract international trade" (4-2).

The objective of employment policy is expressed, in words taken from the American Employment Act of 1946, as the provision of "useful employment opportunities for those able and willing to work." In the London draft, the *Charter* appeared to seek work for work's sake, since it spoke only of the importance of employment and demand. At Geneva, the emphasis was shifted by adding the maintenance of "a large and steadily growing volume of production" as an equal objective of policy. And the goal to be sought is not said to be "full employment" alone, but employment that is both "full and productive." There is no endorsement, in this wording, of a program of make-work.

The only commitment in the *Charter* with respect to the maintenance of employment appears, in substance, in the words originally proposed by the United States. Each member of the ITO must

employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic, and social institutions" (3-1). The commitment is not to assure employment but only to take action designed to do so; the success of such action is not guaranteed. Each member will act within its own boundaries; avoidance of unemployment, says the *Charter*, "must depend primarily on internal measures taken by individual countries" (2-2). Each country may adopt such measures as it deems to be appropriate to its institutions; no power is conferred upon the ITO or on any of its members to question their propriety.

The functions of the Organization, in this field, are strictly limited. It is to facilitate the exchange of views among members. It is to cooperate with the Economic and Social Council of the United Nations and with other intergovernmental organizations in the collection, analysis, and exchange of information on domestic employment problems, trends, and policies. It is to participate in such consultations as they may arrange for the purpose of promoting employment and economic activity (5-1). The desirability of reducing instability through concerted action is recognized, but it is clearly indicated that this is a function of bodies other than the ITO, each of them "acting within its respective sphere and consistently with the terms and purposes of its basic instrument" (2-2). In the case of an emergency, the Organization itself may "initiate consultations among Members with a view to their taking appropriate measures against the international spread of a decline in employment, production, or demand" (5-2). Such measures, if agreed upon, would be the subject of a new accord. The *Charter* itself contains no commitment to international action and confers no new powers on any international agency.

#### PROTECTION FROM EXTERNAL INFLUENCES

At the insistence, primarily, of Australia and the United Kingdom, recognition has been given in the *Charter* to the influence of external factors upon the preservation of domestic stability. Members of the ITO are asked to pursue policies that will make it easier for other members to maintain employment. And the Organization is instructed to recognize that members may need to raise barriers

In the London draft of the *Charter*, it was asserted, in effect, that a persisting excess of exports over imports in the trade of one country might involve other countries in persistent balance-of-payments difficulties which would handicap them in maintaining stability. The country with the favorable balance was therefore required to make its full contribution to action designed to correct the maladjustment. This formulation was clearly inadmissible. It applied exclusively to the United States. It carried the possible implication that instability in other countries was attributable solely to the policies of the United States. And it imposed an obligation on the United States alone.

At Geneva, the implication of sole responsibility was removed and the obligation was generalized. As it appears in the *Charter*, the provision now asserts that the persistence of a highly favorable balance in the trade of one member may be a major factor in a total situation in which other members find themselves involved in balance-of-payments difficulties; there may be other factors in the situation for which these members are themselves responsible. In such a case, it is still provided that the member with the favorable balance shall make its full contribution to the solution of the common problem. But it is now explicitly stated that members that are in difficulties must also take appropriate action to extricate themselves (4-1). The nature of the contribution to be made in the one case and the action to be taken in the other is not specified. In the words of the London report: "The particular measures that should be adopted . . . should, of course, be left to the government concerned to determine." The ITO is given no authority to intervene.

As it stands today, the article still highlights the pronounced imbalance in trade that exists between the United States and the other countries of the world. But this imbalance is an overwhelming fact that we must deal with and will deal with, in one way or another, whether the *Charter* is ratified or not. The article requires us to do no more than we should have done in any case. It is unlikely that we shall go on indefinitely selling without buying, making huge public loans, and giving goods away. Sooner or later, balance must be restored. If the fulfillment of our obligation should be called into question, the present wording of the article would afford us an opportunity to suggest the action that might appropriately be taken

by other countries to restore the balance of trade. Such an interchange might well be salutary in its effects. It should not be necessary to solve the problem by releasing other members from *Charter* obligations unless this solution were dictated by the facts.

It is recognized, in a subsequent article, that a serious or abrupt decline in foreign demand may exert deflationary pressure on a member's economy and it is asserted that members may need "to take action, within the provisions of this Charter, to safeguard their economies against inflationary or deflationary pressure from abroad." The Organization is therefore directed to take these facts into account "in the exercise of its functions under other articles" (6). This injunction may afford a basis for argument when an application for an exception, under some other provision of the *Charter*, is made. But it adds nothing in the way of substance: no new escape is provided; no new power of release is conferred.

If the United States should fall into depression, the decline in its demand for the products of other countries would unquestionably be serious and abrupt. Deflationary pressure would thereby be exerted on the economies of other states. The curtailment of their exports would almost certainly threaten their monetary reserves. And freedom to impose quantitative restrictions on imports, under the relevant provisions of the *Charter*, would then be obtained. This prospect is not attractive to the United States. But it would be illusory to hold that liberal trade commitments can be enforced when the world is suffering from depression. The willingness of nations to observe such commitments when times are good depends upon the possibility of obtaining release from them when times are bad. It is the flexibility afforded by such provisions that gives ground for hope that the pattern of multilateralism established by the *Charter* may survive the shocks of economic change.

#### FAIR LABOR STANDARDS

The inclusion in the *Charter* of provisions relating to industrial stability, expressed in terms of maintenance of the volume of employment, evoked a number of less relevant proposals having to do with the conditions of employment. It was proposed, for instance, that the *Charter* encourage the adoption of social-security legislation; that it spell out an obligation to provide equal pay for equal



work; that it effect an international coordination of national employment services; that it control the movement of migratory workers and guarantee them protection against discrimination; and that it require the gradual elimination of barriers to immigration. The only recognition accorded any of these proposals in the *Charter* is to be found in a clause which authorizes the ITO to cooperate with the Economic and Social Council and other intergovernmental organizations in studying the international aspects of population and employment problems (5). A proposal introduced at Havana by the United States calling for the condemnation of forced labor elicited no support.

There was an insistent demand from a number of Latin American countries that each member of the Organization be relieved of all obligations toward any other member whose labor standards were lower. Such a rule would have enabled all other nations to discriminate against the countries of the Orient and would have left the United States with no obligation toward any other country in the world. No reference to labor standards was contained in the *American Proposals*. An article dealing with the subject was written into the *Charter* in London and elaborated at Geneva and Havana. But the effort to employ it as an avenue of escape was not attended with success.

The article sets forth the propositions that unfair labor conditions, particularly in production for export, create difficulties in international trade; that all countries have a common interest in the achievement and maintenance of fair labor standards related to productivity; and that wages and working conditions should be improved as increases in productivity permit. It obligates each member to "take whatever action may be appropriate and feasible" to eliminate unfair labor conditions within its territory. And it asks those who are also members of the International Labor Organization to cooperate with that agency in giving effect to this undertaking. If one member questions whether another has fulfilled these obligations, the ITO is required to consult and cooperate with the ILO (7). It is unlikely that such a question could be raised concerning the labor standards existing in the United States. It is possible, however, that the article might apply some leverage for