

1947
NEW ZEALAND

TRADE
and
EMPLOYMENT

GENEVA
CONFERENCE

STATEMENT BY
THE RIGHT HON. WALTER NASH
MINISTER OF FINANCE
AND CUSTOMS

on

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TRADE AND EMPLOYMENT

At its First Session in February 1946 the Economic and Social Council of the United Nations, of which New Zealand is now a member, set up a Preparatory Committee on Trade and Employment to carry out the preliminary work for a World Conference on the same subjects.

The First Session of this Committee met in London in October 1946 and the Second Session opened in Geneva, Switzerland, on 10th April last. The Government authorized me to act for New Zealand at the Second Session, and I now desire to present a preliminary report on some of the issues which are before the Committee at Geneva for consideration and subsequent report to the World Conference mentioned above.

The negotiations now proceeding are linked up with Article 55 of the Charter of the United Nations which, under the heading *International Economic and Social Co-operation*, reads:—

“With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:—

“(a) Higher standards of living, full employment, and conditions of economic and social progress and development;

“(b) Solutions of international economic, social, health, and related problems, and international cultural and educational co-operation; and

“(c) Universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.”

At Geneva representatives of eighteen nations are preparing the draft of a Charter to provide agreed conditions and rules for World Trade and Employment. The Agreement if reached is intended in the fields of employment, economic development, and trade to contribute to the realization of the objective of United Nations, just as the Security Council, the Economic and Social Council, and the various international specialized agencies brought into relationship with United Nations are contributing to this objective in their own particular ways.

The Geneva talks have fallen into two phases. First, there is the phase of tariff bargaining with a view to reducing tariff barriers to the international flow of goods. This bargaining is proceeding in a great number of bilateral combinations, but concessions so negotiated

are to be multilateralized—that is, they are to extend equally to all countries which join the proposed international trade organization. The second and more important phase of the talks is concerned with the drawing-up of an international employment and trade charter; the establishment of an International Trade Organization to administer the Charter, and the conclusion of an interim multilateral international trade agreement between the nations represented at Geneva embodying the negotiated tariff concessions and the principal obligations of the Charter. This agreement is to be signed by the interested nations pending the World Conference, at which it is hoped to adopt the Charter in its final form.

In the first phase, participating countries are endeavouring to drive the best bargain that they can, and, even in the case of the second and more fundamental phase, it would not be incorrect to say that each country is most watchful of its national interests. This is, after all, natural; but in respect of both phases, and especially the second, it is true to say that countries are honestly trying to find a way to realize the objectives of United Nations while at the same time protecting their own positions.

There can be no doubt that there is widespread appreciation of the imperative necessity to make the experiment in a world order succeed. As far as New Zealand is concerned, she has in all international fields clearly and forthrightly taken her stand in support of this policy; and while there are, and must always be, respects in which she feels called upon to criticize, the intention is to adhere to this policy.

INTER-WAR NATIONALISM

At its best the urge towards a world economic order springs from recognition of the heavy cost of the economic nationalism which spread from 1919 to 1939. In this period, and especially in the "thirties," countries, in an endeavour to protect their economies from adverse, externally promoted effects, erected trade barriers against one another and managed their currencies after the abandonment of the gold standard with the same quite understandable purpose. The effect of this was to split up the production and trading system into a number of systems in which countries endeavoured to maintain living standards by measures aimed at making themselves progressively more self-contained, irrespective of the cost to the economies of other countries—and to their own.

Of necessity, this destroyed much of the international specialization which is as valuable to world trade and living standards as division of labour is to production and living standards in a single economy. In place of this specialization the policies of countries and groups of countries were aimed at building up their individual

industries, primary and secondary, irrespective of the economic cost, with the result that international trade became more and more concentrated on raw materials as distinct from foodstuffs and secondary commodities, which all were trying to produce for themselves. The volume of international trade contracted alarmingly, and almost every one became poorer. This deepening poverty, associated with rearmament and increasing competition for raw materials, had much to do with the outbreak of war.

NEW INITIATIVES

The nations have recognized this war dynamic, and the international conferences of the last three years have been largely concerned to create a world in which it will have no place. The Conferences at Dumbarton Oaks and San Francisco were concerned with the establishment of an organizational framework for international co-operation in all fields, and they pointed the shape of the whole United Nations structure. The earlier Hot Springs Food and Agriculture Conference was concerned with so ordering the food resources of the world as to guarantee standards of high nutrition for all, and the Conferences of the Food and Agricultural Organization since held have worked along the line that world production and world needs must be matched, regardless of problems of effective demand. The International Monetary Fund was a move to provide universal, stable, and freely convertible, currencies which would facilitate the free international flow of goods and services. Finally, the development of the International Trade Charter and the International Trade Organization is designed to complete in the physical field the removal of obstacles to the full utilization of material and human productive resources and the maximum exchange of goods and services.

OPPOSING PHILOSOPHIES

There is agreement upon the objective of world plenty, but there are opposing views as to how it is to be attained. These views, which are not always clearly, and rarely completely, expressed, can for convenience be simplified into two fundamental and opposite philosophies, both of which receive some recognition in the draft International Trade Charter.

The free-market philosophy is the first one. It pervades and dominates the Charter. A summary of it would show that both nationally and internationally the free play of market forces—of supply and demand—is affirmed to be the best means of so combining productive resources and so distributing the fruits of that combination as to solve the problem of national and world plenty. Accordingly, the draft affirms that interference with market

forces is evil—traders' decisions are assumed to be the highest expression of the needs of the market and must not be supplanted by the planning decisions of Governments.

The advocates of the free market affirm that the excesses of the inter-war economic nationalism provide support for their case. They contend that, in the absence of economic nationalism, a world of full employment and plenty would be realized and maintained merely through the agency of the free market. The greater part of the text of the draft International Trade Charter serves this viewpoint. Chapter I, for example, dealing with the purposes of the proposed Trade Organization, lists as one of its purposes "the furtherance of access by all member countries on equal terms to the markets, products and productive facilities which are needed for their economic prosperity and development." This has been regarded as synonymous with the access of traders on equal terms to markets, products, and productive facilities, and various articles of the Charter seek to provide for this in specific ways. Thus one most important article (No. 14) prescribes with minor modifications general most-favoured-nation treatment, which means that all member countries undertake not to discriminate between sources of supply when buying from one another or between buying sources when selling to one another. The following article (No. 15) goes further, and, in effect, says that not only are countries to put the producers and traders of all other members on the same footing in their dealings with them, but they are also to put these foreign producers and traders on the same footing as their domestic producers and traders. The main part of the Charter is devoted to outlawing industrial, financial, and trade practices which would in any way handicap these two significant developments, and with providing for the progressive elimination of barriers to their realization.

The advocates of the free market philosophy recognize, however, that their objective cannot be achieved all at once. Accordingly, the principle of non-discrimination is qualified by the right to maintain tariffs, including existing tariff preferences, and by the right in certain circumstances to subsidise domestic producers. Only in exceptional circumstances would other measures, such as quantitative regulation of trade, associated with import selection, be permitted to modify the principle of non-discrimination.

REGULATED EXPANSION

On the other hand, there is the opposing outlook, which can be called the philosophy of planning. According to it, untrammelled market forces cannot by themselves be relied upon to ensure that combination of material and human resources which will best solve

the problems of national and world full employment and plenty. Therefore, planning of industry, finance, and trade, together with public enterprise where called upon, is necessary in greater or lesser degree to ensure full employment, maximum production, maximum trade, and the highest feasible living standards. For those who think this way, when the Charter speaks of equal access to materials, products, and productive facilities, the intention is to guarantee peoples' access to resources, and not only traders' access to markets. To proclaim the infallibility of traders' decisions is to contradict the whole concept of economic planning.

The draft charter makes some concessions to economic regulation, but these apply mainly in the case of a country the industry and trade of which are completely State-operated. These modifications of the free market philosophy of the Charter, which were designed to accommodate the Soviet Union within the International Trade Organization, do not, however, for the most part apply to countries which have mixed economies such as Norway, Czechoslovakia, and New Zealand. As far as they are concerned, the free-market legislation of the Charter is not significantly modified.

In all the discussions at Geneva this fundamental philosophical difference reveals itself. The success of Geneva and the subsequent World Conference will depend largely on the extent to which the two philosophies can be accommodated in the one industrial and trading world.

MULTILATERALISM AND BILATERALISM

Undoubtedly particular countries and the world have much to gain from the multilateral exchange of goods and services. By means of it alone is it possible to develop the complete degree of international economic specialization, and, therefore, interdependence, which will spread human and material resources farthest. Therefore, the idea of an international currency, the effect of which is aimed at by the International Monetary Fund, and the idea of removing obstacles to the international movement of goods and services, which is aimed at by the Trade Charter, are good.

However, it is necessary to realize that the complete multilateralism of the text-books never did exist, and cannot exist, in the real world. The international exchange of commodities has always been, and must be expected to continue, on a bilateral basis. Multilateral trading has accounted for only a fringe of trade, which, although important, has been far less important than the basic bilateral movement of goods. For example, New Zealand has always sold the bulk of her exports to Britain, and purchased the bulk of her imports from her. If anything should arise to undermine this two-way movement of trade between the United Kingdom and New Zealand, both

countries in the world as organized to-day would find it difficult, if not impossible, to develop alternative markets or sources of supply, with the result that both would be worse off.

The lesson to be learned from this is that, although the widening of the multilateral fringe can often be fairly taken as a barometer of expanding world production and trade, this can only be so so long as multilateralism in action does not knock out sources of supply and, hence, demand. In other words, the fundamental bilateral character of trade must be protected, and modified by multilateral exchange only when this will increase international specialization, and hence efficiency, without reducing the production and share of trade of any one country. Therefore, bilateral and multilateral trade must co-exist.

THE PROBLEM OF CONVERTIBILITY

The new bias towards multilateral trade creates a problem which does not arise in purely bilateral dealing, and which has not been adequately provided for either in the International Monetary Fund or the draft charter of the proposed International Trade Organization. This is the problem of multilateral convertibility of currencies.

In bilateral deals claims and counter-claims are to a degree set off against each other, but under conditions of multilateral clearing the idea is that all countries buy from and sell to one another without any attempt to strike a balance in sales and purchases between any two countries. Because all claims are offset by counter-claims in existence somewhere in the international trading system, it is presumed that every country gets paid for its exports and pays for its imports, and its own balance of trade is in equilibrium.

In the real world, and especially at the present time, this theory does not work out. In the first place, over the world as a whole claims exceed counter-claims because some countries, and especially those of North America, are selling much more than they buy. The latest figures for the United States show exports at 16 billion dollars worth of goods, and imports at only half that sum. Ultimately, even in a multilateral clearing system, if the United States are to be paid, they must be paid in dollars for all that they export to other countries, but these countries, under present conditions, are unable to procure the dollars, directly or indirectly, with which to pay for their imports from the United States. Similarly, Britain, by exporting to western Europe, has accumulated large credit balances with several European countries, but, because these countries cannot send Britain the goods she requires or, alternatively, sell other goods elsewhere and, directly or indirectly, obtain sterling with which to cancel their indebtedness,

they must allow these British claims on them to accumulate until such time as their war-devastated economies are able to export sufficient to enable them to settle in sterling.

BRITAIN'S DANGER

In a situation such as this the credit balances of certain countries are a menace to world trade and production. Thus, since Western European countries cannot find the means of paying for British exports, their demand for them cannot be indefinitely sustained. This must depress industry in Britain. Moreover, non-payment for British exports reduces Britain's capacity to import raw materials and, later, export manufactured goods. In any case, the fact that the United States are not buying as much as they are selling makes it impossible for debtors to pay them in full, and, being unable to pay them, their effective demand for United States' exports must decline. If that point is reached, everybody, including the United States, will be much poorer.

Both the International Monetary Fund and the draft International Trade Charter attempt to deal with the problem of convertibility. The Fund agreement provides that where the shortage of a country's currency is such as to prevent debtors from paying for goods received from that country, the International Monetary Fund may empower other countries to limit imports from the scarce-currency country in order to protect their balance of payments, and, in effect, compel the scarce-currency country to make more of its currency available by buying more. The Trade Charter also approves such action.

The weakness in these provisions is that, although they enable debtor countries to limit imports from countries which are exporting more than they are importing, this does not necessarily compel the creditor countries to increase their imports accordingly. It may, indeed, have only the effect of anticipating the insolvency of debtor importers by arbitrarily limiting imports from the creditor source of supply. This could only mean impoverishment in the debtor countries which now would be starved for imports, while it would ultimately bring a similar fate to the creditor exporter as the decline in external demand caused prices to fall and unemployment to spread.

One solution frequently suggested is that the creditor exporter should maintain the level of its exports by lending to other countries or their business concerns the difference between exports and imports. This, of course, would create the necessary financial counter-claims in the world money market to enable complete multi-lateral clearing of all trade accounts to be theoretically accomplished.

Whilst it may for many years be desirable and expedient to continue international loan arrangements, it will in the ultimate be found that such lending does not guarantee the success of multi-lateral clearing. If the current of lending is such as to substitute sources of supply and deflect sources of demand, sooner or later the effect will be to undermine the employment and trade structures of the adversely affected countries. If these countries are important in the world production and trading system, the breakdown of their demand can generate world depression.

The conclusion to be drawn is, then, that multilateralism is only likely to be desirable when in practice complete convertibility of all currencies used in trading deals is feasible, and when also it does not undermine the current production and trading structures of countries.

TARIFFS AND SUBSIDIES

In a world of bilateral trading the dependence of trade upon the maintenance of national production is obvious. This dependence has tended to be obscured, and therefore ignored, by the multi-lateral philosophy. However, the draft charter has recognized it sufficiently to approve the retention of tariffs, and, in certain circumstances, subsidies, as means of protecting the production system of a country, and hence its contribution to international trade. For practical purposes, tariffs and subsidies are the only exceptions which the charter recognizes as opposed to all other expansionist and protective devices employed by national economies.

Tariffs and subsidies are sometimes most effective means of protecting domestic industries, but often they are quite ineffectual. If the domestic producers whom it is desired to protect are nearly as efficient as their foreign competitor, a reasonable tariff affords their product ample protection, while a wealthy country can subsidize domestic producers to the point where foreign competition is quite pushed out.

On the other hand, if the domestic industries are comparatively inefficient by reason of their lack of capital equipment and of their undeveloped technology, no tariff, however high, will give the necessary protection at reasonable cost. If, as is usually the case, the domestic industry cannot supply the entire home market, the high tariff on imports will operate to drive up the cost of the commodity to consumers. In most under-developed countries, where the need for protected industrial development is greatest, the populations lack the purchasing-power with which to purchase high-cost commodities.

Subsidies in under-developed countries have the serious drawback that they are not a feasible protective measure because there is no residue from the income of the people from which the necessary taxes can be raised. Nor are subsidies permanently possible for a

country largely dependent on a few important products the prices of which fluctuate considerably and the cost of subsidising which would be unduly heavy. The subsidy is pre-eminently the protective weapon of a wealthy diversified economy which can progressively raise its bid until its industry and trade are safeguarded against outside competition.

Tariffs and subsidies are accordingly inadequate for the developmental and protective needs of countries whose economies are only partially developed or highly vulnerable to external influences. The failure of the International Trade Charter, in its present form, to make greater provision for legitimate developmental and protective needs, is its most serious defect and one which, if not repaired at Geneva, will militate against the adoption of the Charter at the subsequent World Conference.

ESSENTIALS OF A WORLD ORDER

There are already portents of a breakdown in international trade, and hence world production, because of the inability of European countries to command the means of payment for their imports while undeveloped countries are unable to make their full contribution to their own and world living standards because of their retarded capital development.

There is some urgency—much urgency—that Geneva should succeed at an early date. If the Geneva Conference is really to succeed in laying the foundation of a world production and trading system, there are several fundamental principles which have yet to be adequately reflected in the Trade Charter.

First, the World Employment and Trade Charter must have as its justification, not an abstract faith in the efficacy of unfettered market forces and the machinery of multilateral exchange, but a positive undertaking by all sovereign States to develop their territories to the full, to maximize their production, and to make available to others all that they do not themselves consume.

Accordingly, the Charter should be concerned not so much with the negative objective of removing obstacles to the free access of private traders to markets, as with the positive objective of creating conditions in which organized communities can obtain access to the productive resources necessary to maintain and raise their living standards.

Second, wide variations in economic systems—which are really the means with which particular communities attack the economic problem—must be admitted and accommodated in the International Employment and Trade Charter.

The free market system, with its faith in the interaction of supply and demand, as expressed by the decisions of private traders, is appropriate to certain communities at a certain stage of development

and should therefore be provided for. At the other extreme the completely State-operated system, such as obtains in Russia, should also be provided for. And, perhaps more important still, it is necessary to provide for economies which fall between the two extremes—that is, economies wherein market forces are modified by a substantial degree of public enterprise, public planning, and public regulation.

Third, the right of sovereign States to modify the most-favoured-nation principle and employ domestic protective devices must be frankly acknowledged and assisted so long as the policies of the States in question are expansionist and not restrictive in their effect on production, trade, and living standards.

Consequently, the Charter should go beyond tariffs and subsidies and concede the right of countries to use intelligently such measures as quantitative regulation of trade associated with import selection; encouragement and planned control of capital development; regulation of prices, service charges, &c.; and control of the volume and use of money.

Fourth, with the exception of countries which require loan capital for development, all countries must buy approximately as much as they sell in order to create the conditions for the practical operation of the multilateral clearing system. If countries do not buy as much as they sell, they should lend the difference. Moreover, the current of such international lending should not be such as merely to substitute one source of supply for another, thereby knocking out areas of production and trade, and breaking down the multilateral trading system, but should in all cases provide for an expansion of production.

Fifth and most important—under-developed countries must be provided with capital equipment and raw materials on terms which will enable them to develop their resources as quickly and effectively as possible. Similarly, countries with developed capital structures and skilled populations must be provided with the raw materials that will enable them and the world to reap the benefits of their ability, experience, and technology.

Since the period of the industrial revolution, areas where industrial plant has been established have attracted raw materials and population to them and world production and trade are still dominated by this bias. The International Trade Organization's success might well be measured by the extent to which it is based on recognition of the fundamental fact that world progress demands that a way must be found of taking plant and raw materials to populations as well as populations and raw materials to plant.

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