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PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE
ON TRADE AND EMPLOYMENT

DRAFT REPORT OF COMMITTEE I

I

The Work of Committee I

1. The main committee has held four meetings. At our first and second meetings, after appointing Dr. WUNSZ KING, the leader of the Chinese Delegation, as our chairman, we had a general discussion of the issues involved and decided to divide our work into the two following parts:

(a) International agreement relating to the achievement and maintenance of high and steadily rising levels of effective demand, employment and economic activity.

(i) General undertakings of members.

(ii). Recourse in case a member is damaged by failure of another member to fulfil undertakings.

(iii) Consultation and exchange of information.

(iv) Assignment of functions.

(b) International agreement relating to industrial development.

2. By a previous decision of the Preparatory Committee industrial development was to be considered jointly by Committees I and II. The joint committee which was accordingly set up, has covered item 2 of the above agenda. We appointed a Sub-Committee consisting of delegates from Australia, Brazil, Cuba, India, the United Kingdom and the United States, under the chairmanship of Dr. WUNSZ KING, to

work out a detailed agenda including all the proposals hitherto raised in connection with item 1 of the above agenda, and to prepare a synopsis of these proposals.

3. The Sub-Committee had before it the passages dealing with employment in the United States "Proposals for Consideration by an International Conference on Trade and Employment" and "Suggested Draft of a Charter for an International Trade Organization of the United Nations", as well as papers by the Delegations of Australia, Belgium, Brazil, Cuba, India, the Netherlands and the United Kingdom, and by the Polish Observer. The Sub-Committee had the benefit of hearing the views of the Belgian Delegation and of the observers from the International Labour Office, the International Monetary Fund and the International Bank for Reconstruction and Development.

4. The Sub-Committee held four meetings. It started to prepare a synopsis of the various proposals, but found that it was able to collate all the various texts into a single draft on which all the members of the Sub-Committee were prepared to express their tentative agreement as a basis for discussion by the main Committee.

5. At its third meeting, the main Committee considered the report of the Sub-Committee and made a few amendments to the draft clauses and the draft resolution on employment, which the Sub-Committee had prepared for it. At its fourth and final meeting, the main Committee adopted its final report, which we now present for the consideration of the Preparatory Committee.

6. Before we conclude this short account of our meetings, we wish to express our appreciation of the skill, tact and friendly but firm guidance with which our Chairman has conducted our meetings and to which we owe, in large measure, the agreement which we have been able to reach. Our work has also been greatly facilitated by the efficient services of the Secretariat.

II

General Instructions to the Drafting Committee.

(1) The Meaning and Importance of "Full Employment"

7. We have attached great importance to the problem which we have been considering. In order to maintain international trade at a high and stable level, it is necessary to maintain a high and stable level of demand for goods and services throughout the world as well as to achieve a reduction in trade barriers. At the same time, full and productive employment and the maintenance of high and stable levels of effective demand cannot make their maximum contribution to raising standards of living without the reduction of harmful trade barriers.

8. It is a main purpose of the United Nations, recognized in Article 55 of the Charter of the United Nations, to promote "higher standards of living, full employment, and conditions of economic and social progress and development". We have had some discussion as to the meaning to be attached to the phrase "full employment". In the less industrialized countries whose economies are more essentially based on primary production, a deficient demand shows itself not so much in mass unemployment (the common form in industrialized countries) as in under-employment or unprofitable employment among their primary producers. For this reason, we have defined the main objectives of employment policy to include the avoidance of under-employment as well as of unemployment.

9. It has also been pointed out to us that if the phrase "full employment" were to be interpreted in the literal sense, that no-one able and willing to work should ever be unemployed for however short a period, countries might be held to be committed to types of action which they would not in fact be prepared to carry out. It should, of

course, be open to any country to adopt as strict an interpretation as it desires; but for our present purpose it seems appropriate to interpret "full employment" as a condition in which useful employment opportunities are available to all those able and willing to work. It is the maintenance of such a condition and of the high and stable level of demand associated with it, which is of real concern from the international point of view.

(2) The Maintenance of Domestic Employment

10. There is general agreement that the countries of the world owe a responsibility not only to their own citizens but to other countries, to do all that is within their power to maintain full and productive employment and high and stable levels of demand within their own territories. A decline of demand in an important country, by reducing its imports from other countries or by causing a burdensome surplus in world markets of commodities which it was previously producing for its own consumption, is liable to lead to the spread of unemployment or under-employment outside its borders. For this reason, countries should agree to take action designed to achieve and maintain full and productive employment of their domestic labour and high and stable levels of effective domestic demand. The type of measure which each country might take for this purpose should, of course, be left to the decision of the Government of that country, which must be free to choose the measures which are appropriate to its own domestic institutions. This choice should be unfettered, provided, of course, that the measures chosen are compatible with the other purposes and provisions of the International Trade Organization.

(3) The Development of Domestic Resources and Productivity

11. Full employment of labour in any given country is not the sole condition which determines the level of effective demand on the part of that country for the products of other countries. A country which

fails to develop its resources effectively, or which fails to take every opportunity to raise the productivity of its labour, will, in effect, be failing to expand to the maximum its effective demand for goods and services. Accordingly, all countries should recognize that they have a common interest in the productive use of the world's resources, and should agree to take action designed progressively to develop their economic resources and to raise their standards of productivity. Here again the choice of measures should be left to the Government of each individual country, provided that the measures chosen are compatible with the other purposes and provisions of the International Trade Organization.

(4) Fair Labour Standards

12. If full employment is to make its due contribution to the "higher standards of living" and "conditions of economic and social progress", to which Article 55 of the Charter of the United Nations refers, it is necessary that a fair share of the product should accrue to the worker. All countries have a common interest in the maintenance of such fair labour standards, particularly in the case of production for export, since otherwise one country's products may be undercut by those of another in which labour is unfairly exploited. Labour standards, cannot, of course, be uniform in all countries, but must be related to national productivity. But there is wide support for the view that all countries should agree to take whatever action may be appropriate and feasible to eliminate sub-standard conditions of labour in their production for export and generally throughout their economies.

13. A few Delegations have expressed some doubt whether an agreement on this subject should be included in these employment provisions.

These doubts have been based on two grounds:

(a) It would be wrong to attempt to set too high a standard in certain countries, since this would seriously handicap the expansion of production in those countries which, having plentiful supplies of labour but relatively little capital equipment or industrial skill, must for a time base their development on lower remuneration than that in more developed countries.

(b) Since the International Labour Organization is the specialized agency which has been specially charged with this problem, it would lead to a duplication of functions to include an agreement on this subject in the articles of the proposed International Trade Organization.

14. On point (a) it is generally agreed that, if any agreement on labour conditions is included in the employment provisions, it must be made clear that there cannot be any single standard of fair labour conditions appropriate to all countries, but that the standard must in each case be related to the productivity of the country concerned.

15. On point (b) it is generally agreed that the main work on this question should continue to be carried out by the International Labour Organization, and that, if any agreement on this subject is included in the articles of the International Trade Organization, those countries which are also members of the International Labour Organization should co-operate closely with that organization in carrying out the agreement. The reason for proposing that some agreement on this subject should nevertheless be included is that labour standards in any country, and in particular in its production for export, is a matter which vitally affects the employment of labour and the flow of international trade.

(5) The Removal of Maladjustments in the Balance of Payments

16. A country, even though it is maintaining full employment at home, is developing its economic resources and raising its standard of productivity and is maintaining fair labour standards, may, nevertheless, exercise a deflationary pressure upon other countries. This will be so if it is persistently buying from abroad and investing abroad too little in relation to its exports. Indeed, its export surplus may be the means whereby it is maintaining its own domestic employment.

17. It is not suggested that countries which are experiencing difficulties through unfavourable balances of payments may not themselves be partly responsible for the maladjustment. For example, countries with adverse balances of payments, whose difficulties are being intensified by flight of capital from their currencies, might properly be called upon to put a stop to such capital export. But insofar as the pressure on their balances of payments is due to the failure of countries with excessively favourable balances of payments to spend their external purchasing power on imports or to utilize it for productive investment abroad, the main responsibility for the necessary re-adjustment should not fall on the countries which are under pressure.

18. There is wide support for the view that in case of a fundamental disequilibrium in its balance of payments involving other countries in persistent balance of payments difficulties which handicap those other countries in maintaining employment, a country should make its full contribution to action designed to correct the maladjustment. What particular measures should be adopted (e.g. the stimulation of imports or the removal of special encouragements to exports, an appreciation of the country's exchange rate, an upward revision of its internal price and cost structure, an increase in foreign investment, etc.) should, of course, be left to the country concerned to determine. The

problem here lies in a sphere in which the International Monetary Fund has a very special concern; and it is most desirable that in this field both the national governments concerned and the International Trade Organization should co-operate fully with the International Monetary Fund.

(6) Safeguards for Countries Subject to External Deflationary Pressure

19. We have considered further the position of countries whose economies are subjected to deflationary pressure as a result of a serious or abrupt decline in the effective demand of other countries; and it is generally agreed that there must be adequate safeguards to meet this contingency.

20. In this connection, we have noted that the Articles of Agreement of the International Monetary Fund contain some important safeguards,

(a) First, there is nothing to prevent the control of capital exports, so that no country suffering from an external deflationary pressure need find its troubles intensified by flight of capital from its currency.

(b) Secondly, a country which found itself in a "fundamental disequilibrium" as a result of the maintenance of its own domestic prices, costs and incomes in conditions of external deflation, could apply for an appropriate depreciation of the exchange value of its currency; and such a depreciation could not be frustrated by competitive depreciation on the part of other members of the Fund who are not in a similar "fundamental disequilibrium". In this connection we have noted that the Executive Directors of the International Monetary Fund have interpreted the Articles of Agreement of the Fund to mean "that steps which are necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, are among the measures necessary to correct a fundamental disequilibrium".

(c) Thirdly, if a country or group of countries has so large an export surplus that its currency becomes "scarce" in the Fund, other countries would be permitted to restrict their purchases from it to the necessary degree without restricting their purchases from each other.

21. The Articles of Agreement of the International Trade Organization should also contain adequate safeguards. It is in any case proposed that countries in balance of payments difficulties should be permitted to impose quantitative restrictions on their imports; and it is recognized this would constitute an important safeguard of the type which we have in mind. We have not considered it our task to examine in detail this or the other various safeguards which might be contained in the other Articles of the International Trade Organization. We suggest that, when they come under discussion, this and the other relevant clauses of the other chapters of the constitution of the proposed International Trade Organization should be carefully examined to ensure that there are adequate safeguards for a country subjected to pressure as the result of a decline in the effective demand of other countries.

22. It was generally felt that the clauses relating directly to employment, which it has been our task to examine, should give general recognition to this need for adequate safeguards by requiring the International Trade Organisation to have regard, in the exercise of its functions as defined in the other Articles of the Trade Organization, to the need of countries to take action, within the provisions of the International Trade Organization, to safeguard their economies against deflationary pressure in the event of a serious or abrupt decline in the effective demand of other countries.

(7) International Action to Maintain Employment

23. In present circumstances the direct action necessary to maintain full and productive employment and a high and stable level of effective

demand must, in the main, be the sum of individual national efforts.

Nevertheless, there are certain ways in which the appropriate international specialized agencies might, acting within their respective spheres and consistently with the terms of their basic instruments, make some direct contribution to the maintenance of employment and the stability of world demand.

24. The Economic and Social Council, in consultation with the appropriate international specialized agencies, might usefully study the possibilities in this field. In addition to a consideration of the effects on employment and production of a lowering of barriers to trade, such studies might well cover such measures as: the synchronization of credit policies so as to ease terms of borrowing over a wide area in times of general deflationary pressure; arrangements to promote stability in the incomes, and so in the buying power, of producers of primary products; the timing of expenditure on international capital projects; and the encouragement of a flow of capital in periods of world deflationary pressure to those countries whose balances of payments need temporary support in order to enable them to maintain their domestic policies for full and productive employment.

(8) The Functions of the Economic and Social Council and of the International Specialized Agencies

25. We have considered what international structure may be necessary to achieve these employment objectives. Effective action in this sphere will involve separate action by national Governments and by a number of international specialized agencies. Yet such action must be properly concerted if the national and international measures for offsetting a general depression are to be properly timed and of the right magnitude.

26. There should, accordingly, be some international body under whose sponsorship national Governments and international specialized

agencies can consult with a view to concerted action to maintain employment; and the appropriate body for this purpose would seem to be the Economic and Social Council of the United Nations together with its Economic and Employment Commission and its Sub-Commissions to whom this task has already been entrusted.

27. The functions which the Economic and Social Council should either perform itself or sponsor through arrangements with the appropriate international specialized agencies cover (i) the regular collection, analysis and exchange of relevant information; and (ii) the organization of consultation with a view to concerted national and international action in the field of employment. In addition to these continuing functions the Economic and Social Council should initiate those studies of possible direct international action for the maintenance of employment to which we have made reference in paragraph 24 above.

28. The work of the Economic and Social Council and the international specialized agencies concerned will be of great importance. The information which is to be collected should, as far as possible, cover the level and composition of the national income and expenditure and of the balance of payments, as well as statistics of employment, unemployment, production, etc. As far as is appropriate and practicable, it should cover future programmes and probable future trends in order that the needs of employment policy may be intelligently anticipated. Close and regular consultation for concerted action by national governments and international specialized agencies will be necessary in order to see how far national policies (e.g. for expenditure on public works) or any relevant international policies can be timed so as to make their most effective joint contribution to the maintenance of world demand.

(9) The Form of the Employment Provisions

29. The suggestion that the Economic and Social Council should continue to fulfil these general functions in employment policy need not conflict with the special link that should exist between employment and trade. Countries may find it difficult to assume the commercial obligations of the proposed International Trade Organization in the absence of undertakings by others to do their best to maintain a high and stable level of effective demand; and employment policies must not conflict with commercial obligations. It is necessary for these reasons to link the trade obligations and the employment obligations closely together. We are inclined to the view that for this reason it would probably be most appropriate to include the employment undertakings in the Articles of Agreement of the International Trade Organization.

30. There is, however, one point concerning employment which it will probably prove better to treat differently. In paragraph 24 above it was suggested that the Economic and Social Council and the appropriate international specialized agencies should be invited to consider what international action might be taken to assist in maintaining full and productive employment and a high and stable level of world demand. We are inclined to the view that this invitation might best be extended in a separate resolution.

(10) The Draft Clauses and Draft Resolution

31. As a means of summarizing the general principles which we have examined, we append to our report a series of draft clauses on employment covering those points which might be covered in the Employment Chapter of the Article of Agreement of the proposed International Trade Organization, together with a draft resolution on international action relating to employment.

III

APPENDIX

(1) Draft Clauses on Employment

1. Members recognize that the avoidance of unemployment or under-employment through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of high and steadily rising effective demand for goods and services is not of domestic concern alone, but is a necessary condition for the expansion of international trade and, in general, for the realization of the purposes of the organization. They also recognize that measures to sustain demand and employment should be consistent with the other purposes and provisions of the organization, and that in the choice of such measures, each country should seek to avoid creating balance of payments difficulties for other countries.

They agree that, while the achievement and maintenance of effective demand and employment must depend primarily on domestic measures, such measures should be assisted by the regular exchange of information and views among members and, so far as possible, be supplemented by international action sponsored by the Economic and Social Council of the United Nations and carried out in collaboration with the appropriate international specialized agencies, acting within their respective spheres and consistently with the terms and purposes of their basic instruments.

2. Each member shall take action designed to achieve and maintain full and productive employment and high and stable levels of effective demand within its own jurisdiction through measures appropriate to its political and economic institutions and compatible with the other purposes of the organization.

3. Each member, recognizing that all countries have a common interest in the productive use of the world's resources, agrees to take action designed progressively to develop economic resources and to raise standards of productivity within its jurisdiction through measures compatible with the other purposes of the organization.

4. Each member, recognizing that all countries have a common interest in the maintenance of fair labour standards, related to national productivity, agrees to take whatever action may be appropriate and feasible to eliminate sub-standard conditions of labour in production for export and generally throughout its jurisdiction.
 5. Each member agrees that, in case of a fundamental disequilibrium in its balance of payments involving other countries in persistent balance of payments difficulties which handicap them in maintaining employment, it will make its full contribution to action designed to correct the maladjustment.
 6. The organization shall have regard, in the exercise of its functions as defined in the other Articles of this Charter, to the need of members to take action within the provisions of the International Trade Organization, to safeguard their economies against deflationary pressure in the event of a serious or abrupt decline in the effective demand of other countries.
 7. Members agree to participate in arrangements undertaken or sponsored by the Economic and Social Council of the United Nations, including, arrangements with the appropriate international specialized agencies
 - (a) for the regular collection, analysis and exchange of information on domestic employment problems, trends and policies, including as far as possible information relating to national income, demand, and the balance of payments; and
 - (b) for consultation with a view to concerted action on the part of governments and international specialized agencies in the field of employment policies.
- (2) Draft Resolution on International Action Relating to Employment
- Whereas a significant contribution can be made to the achievement and the maintenance of full and productive employment and of high and stable

levels of effective demand by international action sponsored by the Economic and Social Council and carried out in collaboration with the appropriate international specialized agencies acting within their respective spheres and consistently with the terms and purposes of their basic instruments;

The United Nations Trade and Employment Conference resolves to invite the Economic and Social Council, in consultation with the appropriate international specialized agencies, to undertake at an early date special studies of the form which such international action might take, and suggests that, in addition to covering the effects on employment and production of a lowering of barriers to trade, such studies include a consideration of such measures as:

1. the concerted timing, to the extent which may be appropriate and practicable in the interests of employment policy, of national and international measures to influence credit conditions and the terms of borrowing;
 2. national or international arrangements, in suitable cases, to promote due stability in the incomes of producers of primary products, having regard equally to the interests of consuming and producing countries;
 3. the timing, to the extent which may be appropriate and practicable in the interests of employment policy, of capital expenditure on projects which are either of an international character or are internationally financed;
 4. the promotion, under appropriate safeguards, of an international flow of capital in periods of world deflationary pressure to those countries whose balance of payments needs temporary support in order to enable them to maintain domestic policies for full and productive employment.
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