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DISCUSSION PAPER ON ADJUSTMENT POLICY

Themes for Discussion

This paper is intended to initiate an exploration of the rôle the CONTRACTING PARTIES may play in the area of structural adjustment by listing and describing the main conceptual issues that need to be clarified in dealing with the adjustment problems and identifying some of the considerations that may be relevant to the development of adjustment policies.

1. Basic conceptual issues

(i) Structural adjustment could in general be understood to refer to those changes by which an economy responds to shifts in comparative advantage. In any economy, whatever its degree of development, the redeployment of resources in response to changes in comparative advantage consists essentially in abandoning lower and moving to higher productivity employments.

(ii) In a market economy which is responsive to factor returns and is open to international competition, a liberal trade policy ensuring the stability of trading conditions and aiming at the progressive reduction of trade barriers is in itself a most effective promoter of structural adjustment.

(iii) However, a number of factors such as market rigidities, lack of information, etc. could affect the spontaneous working of the adjustment process and the pace at which adjustment takes place. Specific measures to deal with the internal obstacles or difficulties which are preventing the economy or particular economic sectors from adjusting to change may thus be deemed necessary. The difficulties in the process of adjustment are likely to be particularly pronounced when the economy as a whole is growing slowly.

(iv) In the context of foreign trade, ~~measures to promote adjustment may~~ be seen as affecting the pace at which adaptation or reallocation of resources takes place in the face of pressures exerted by external competition.

(v) At the same time, adjustment cannot be regarded as simply a response to pressures arising from external trade. The growth of an economy consists essentially of innovation and adjustment to it. In the trade context, one's concern is with innovation and changes proceeding in other economies; but essentially the same adjustment takes place in response to domestic innovation and change. The latter is indeed very often the more important cause of adjustment.

(vi) It follows that there may be need for a searching examination in each case as to how far the adjustment problems of an economy are due to endogenous factors or are related to changes in comparative advantage associated with international competition. It also follows that in many countries policies assisting adjustment to trade changes may have no separate existence from those assisting adjustment to internally generated change. In any case, it is the totality of these policies that would need to be taken into account.

(vii) If adjustment is defined as change permitting an economy to respond to shifts in comparative advantage, there could still be a question of determining what constitutes a successful adjustment policy. Neither changes in employment or a composite index of employment and production, nor the increase in imports in sectors subject to adjustment may serve this purpose as it may be impossible to identify the precise rôle played by policies in bringing about these results. On the other hand, the ability of resources to find productive employment in a particular branch of activity without the need for artificial measures of protection may be a good indication that the process of structural adjustment is working smoothly and of the success of an adjustment policy. Likewise, a trend towards the proliferation of protective measures could be an indication of underlying problems of adjustment affecting the sectors in question or the economy as a whole.

2. Listing and scrutiny of adjustment measures

Against this conceptual background, adjustment measures may be looked at according to their instrumentalities and their field of application and also according to the objectives they are designed to serve.

(i) Thus, one set of measures that may be distinguished are those of policy which seek overall to improve the capacity of an economy to adjust to change. These may be measures to improve labour market mobility, to encourage research and innovation, provide facilities for the acquisition of new skills and training and to reduce the structural rigidities that might interfere with a speedy re-allocation of resources in the light of comparative advantage. In the final analysis such policies may be conceived as part of a government's overall growth policies rather than a separate and distinct line of government activity.

(ii) Adjustment policies may, however, also be seen as requiring selective discretionary actions involving, for example, the negotiated restructuring of a particular industry. Also governments may adopt measures of adjustment assistance that are specifically trade-related, as for instance, those which seek to strengthen the financial position of enterprises so that they can better face up to external competition. Other such measures may be those which compensate labour or owners of capital for the losses in existing employment or investments which are seen to be caused by imports and seek to facilitate the relocation of resources to other lines of activity.

(iii) In examining measures designed to deal with difficulties in particular sectors, the intention or goal of the policy could be a particularly important consideration. Is it the aim of policy to increase the productivity or international competitiveness of a particular import competing industry (which might be called rehabilitation policy) or is it the aim to facilitate the withdrawal of resources from an industry under pressure? Another way of looking at the matter may be to distinguish between a policy which has as its objective or effect to dampen the process of adjustment and one which accelerates it.

3. Constraints on adjustment policy arising from requirements of information

Policies to facilitate adjustment depend critically on the availability of information regarding developments in the economy as a whole or in particular branches of activity including changes in product and factor markets, technology, etc. The quality of the information available to entrepreneurs and governments could be an important question, particularly where it is a matter of governments arriving at their own assessments of the requirements of the economy independently of the private judgements of entrepreneurs actively engaged in particular lines of production. In general, it could be said that the more selective and anticipatory adjustment policy seeks to be, the greater is likely to be the difficulty arising from the need for information.

4. International aspects of adjustment

An exchange of information at the international level could take the form of a review of the experience with adjustment policies and measures in different countries and the purposes they are designed to serve. The purpose of such an exchange could, however, also be to help bring about a closer concertation of national adjustment policies aiming at the same industry.

(i) Some approaches strongly stress the contribution which the sharing of information between governments and entrepreneurs in different countries could make towards a better perception, both at the government and private levels, of shifts in comparative advantage and thus to the efficient allocation of resources. Evidently the requirements of information would be rigorous and extensive if there is to be guidance or orientation that is meaningful.

(ii) Two more limited points also arise in this connexion:

(a) In cases of adjustment policy involving government assistance to enterprises, the avoidance of adverse affects on industries of other countries could be seen as requiring prior co-ordination among governments;

(b) Also timely discussion of sectors, where difficulties were or seemed to be emerging could help national policy makers to avoid measures to which other countries may object. For example, one or more governments anticipating adjustment difficulties in a particular market may consider that a review of developments in the relevant industry may be helpful from the point of view of trade relations.