

SECOND SESSION OF THE PREPARATORY COMMITTEE  
OF THE UNITED NATIONS CONFERENCE ON TRADE  
AND EMPLOYMENT.

Report to Commission A by the Sub-Committee on Chapter III

CHAIRMAN: Dr. Lokanathan (India)

1. At the fifth meeting of the Preparatory Committee in Executive Session a Sub-committee, consisting of representatives of Australia, Belgium, Cuba, India and the United States of America, was appointed to consider further the draft text of Articles 3 - 5 in the light of the various amendments which had been proposed and of the views which had been expressed on the existing text. At the tenth meeting in Executive Session the Preparatory Committee instructed the same Sub-committee to examine also the proposed amendments in the other articles of Chapter III. It was indicated that the meetings of the Sub-committee might be attended by representatives of other interested Delegations, and that, in particular, the Sub-committee should hear the views of those Delegations not included in its membership which had proposed amendments.

2. The Sub-committee held ten meetings and reached agreement on the attached text which is recommended to Commission A for consideration and approval. In transmitting this text in the two working languages the Sub-committee assumes that at a later stage the French and English language versions of the entire Charter will be reviewed to ensure that they are strictly comparable in meaning.

3. In its discussions the Sub-committee has given consideration to the various proposed amendments contained in document E/PC/T/W.87 Rev. 1 and to the views expressed in the Executive Sessions of the Preparatory Committee at which those proposals were discussed. The Sub-committee has also taken account of the amendments subsequently proposed in documents E/PC/T/W.60 Rev. 1, 111, 113, 115 and 133. In the course of its work the Sub-committee has had the benefit of consultation with representatives of the Delegations of Czechoslovakia, the Netherlands, New Zealand, the Union of South Africa, the United Kingdom, and representatives of the International Labor Organization, the International Bank for Reconstruction and Development and the International Monetary Fund. A representative of the Delegation of France participated in the discussions of the Sub-committee to assist in the preparation of a valid French language text and to represent the views of his Delegation on the amendments which it had proposed.

4. Although the revisions which have been made in the text have been mainly of a drafting character requiring no explanation, on certain points the Sub-committee desires to record the justification for changes made and also the observations of the Sub-committee or of individual delegations relating to the present draft text.

5. Concerning certain terms which occur at several places in the titles and in the text it will be noted that the Sub-committee has sought to achieve substantial uniformity without undue repetition. The Sub-committee has preferred the description "large and steadily growing" to the various alternative expressions used originally in the text to describe the objective in respect of demand. This description is not repeated in full throughout the text since it appeared to the Sub-committee that if the expression were used in the principal instances it would be apparent from the context that the description was implied in the other instances. Similarly, although "demand" is explicitly described as "effective" only in the first and last instances in which the word occurs, it seemed to the Sub-committee that the description was clearly implied in all other instances without requiring its repetition throughout. The Sub-committee also considered it desirable to add "production" to "demand" and "employment", thereby taking more complete account of related aspects of economic activity without diverting the main emphasis of the Chapter from employment.

6. In connection with the terminology now proposed in this draft text of Chapter III the Sub-committee would point out the desirability of examining the language of Chapter I, when it comes up for consideration, to take account of these proposed changes in the interest of consistency.

7. The representative of Czechoslovakia suggested that the term "real income" might appear in Chapter III in order to give a more precise content to the expression "effective demand" since in his view it was conceivable that effective demand might grow without entailing a corresponding growth in the real income of all sections of the community. The Sub-committee considers that the language which it has proposed for Chapter III is in harmony with this general objective and takes appropriate account of it.

8. Concerning the proposed texts of individual articles the Sub-committee submits the following observations:

#### Article 3

9. The Sub-committee has taken the liberty of proposing a revision in the version of the amendment to paragraph 1 which had been proposed by the Delegation of New Zealand and approved by the Preparatory Committee at its fourth Executive Session. It seemed to the Sub-committee that the reference to "the realization of the purposes of the Charter .... and for the expansion of international trade" might be open to the misinterpretation that the expansion of international trade was not one of the purposes of the Charter. The text proposed by the Sub-committee is intended to remove this possible ambiguity while retaining the substance of the original amendment.

10. The reference in paragraph 2 to action supplementing domestic measures has been revised after taking account of remarks made by the representatives of Cuba and the United States of America concerning authority vested in the Economic

and Social Council and the remarks of the Netherlands representative relating to concerted action.

11. The Sub-committee has also re-worded slightly the amendment, now appearing as paragraph 3, which had been proposed by the Delegation of Cuba and adopted by the Preparatory Committee, in order to make the "exchange of information and views" specifically applicable to the subject of the Chapter, i.e. "the field of employment and economic activity".

12. With reference to the additional paragraph which the Delegation of Cuba had proposed for insertion at the beginning of Article 3 the representative of Cuba suggested that the Sub-committee recommend to the Preparatory Committee that the report of the Second Session relating to this Chapter might contain an observation to the effect that:

"The Members recognize the interdependence of demand, production and employment in the achievement and maintenance of economic and social progress. They also recognize that the development of demand, production and employment is primarily the responsibility of governments, in the discharge of which all sections of society must cooperate."

13. The other members of the Sub-committee expressed the view that the points raised by the proposal of the representative of Cuba were already covered in the present text of the Chapter. In the circumstances the representative of Cuba did not press his proposal.

14. The representative of Czechoslovakia inquired whether the words "able and willing to work", as employed in paragraph 1 of this article, could be interpreted as including not only those who are at the present time able and willing to work but also those who might become so if a country were to offer inducements, such as vocational training and guidance. It was the view of the Sub-committee that this interpretation was not inconsistent with the intention of the article, which deals with the achievement and maintenance of opportunities to work for those able and willing to do so, whatever their number.

#### Article 4

15. The representative of New Zealand informed the Sub-committee that his Delegation would prefer not to discuss the amendment which it had proposed in Article 4 (E/PC/T/W.113) until Article 33 and related parts of the Charter had been discussed. He indicated that in the meantime the New Zealand Delegations would reserve its position in respect of Article 4 and that subsequently his Delegation might wish to reopen the question of further amending that article.

15. With reference to the words "other purposes", which appear in the present text as well as in the earlier versions of this article, the representative of Czechoslovakia inquired whether it was clear that the purposes mentioned are confined to those stated in Chapter I and do not extend to other incidental "purposes" which might appear elsewhere in the Charter. The Sub-committee considers that these words refer to the purposes set forth in Chapter I, although it recognizes that such general purposes may be mentioned or elaborated in other chapters. The Sub-committee suggests that when the scope of the purposes to be included in Chapter I is under discussion all other sections of the Charter should be examined to ensure that all purposes mentioned in the Charter are covered comprehensively in that chapter. The Sub-committee did not consider it within its competence to determine whether it would be desirable or feasible to assign any order of precedence to the various purposes of the Charter.

Article 5

17. It will be noted that the Sub-Committee proposes the addition of a sentence to Article 5 referring specifically to the International Labor Organization. The Sub-Committee considered the various alternative versions of the sentence which had been proposed to cover co-operation with "the appropriate inter-governmental organizations". In the light of the discussion both in the Preparatory Committee and in the Sub-committee it seemed appropriate to include a reference to the ILO. The inclusion of this reference would take appropriate account of the special position occupied by that Organization in this field without excluding co-operation with any other organization whose activities extend to the subjects dealt with in the Article.

18. The representative of the Union of South Africa discussed with the Sub-Committee the amendment proposed by his Delegation. In the discussion it appeared that the principal difference between the proposed amendment and the version as revised by the Sub-committee arose over the use of such expressions as "fair labor standards" and "sub-standard conditions of labor" in the latter version. The Sub-committee appreciated the difficulty in defining such terms precisely. The Sub-committee considered, however, that such terms, when related to productivity as they are in the text, are valid and useful concepts, particularly when account is taken of the progress achieved by the ILO and other bodies in giving concreteness to those terms. One of the main reasons leading the Sub-committee to recommend the retention of these terms is that they explicitly recognize the existence of a relationship between unfair competition in international trade and conditions of labor, particularly in the export industries, when such conditions can be shown to be below accepted minimum standards.

Article 6

19. The Sub-committee has proposed a number of changes in Article 6 after an examination of the amendments proposed by the Delegations of Australia, France, the United Kingdom and the United States of America. The Sub-committee considers that the revised version of this article describes more precisely than the previous text the situation which it is intended to cover and that the responsibilities of members in such a situation are more clearly stated. In addition to certain drafting changes, the Sub-committee would draw attention to the significant alterations proposed in the text.

20. The Sub-committee has replaced the words "fundamental disequilibrium" by the expression "persistent maladjustment within the balance of payments". In the view of the Sub-committee the term "fundamental disequilibrium" was not satisfactory for the reason that it appears in the Articles of Agreement of the International Monetary Fund with a special meaning which might not be always applicable to the conditions envisaged in this paragraph.

21. By a maladjustment within a country's balance of payments the Sub-committee intends to refer to a situation in

which an abnormal or undesirable relationship exists between the different items which make up that balance and in particular where a balance is achieved only by means of an undue movement of items of the type which enter into monetary reserves.

22. The characterisation of the state of affairs as one in which the persistent maladjustment "is a major factor in a situation in which other Members are involved in balance of payments difficulties" is intended to stress, firstly, that balance of payments difficulties are not necessarily caused by maladjustments within another country's balance of payments, and secondly, that the Article is intended to apply only when the persistent maladjustment is a major factor in the situation,

23. The Sub-committee has expanded the phrase in the former text, "handicap them in maintaining employment" to "handicap them in carrying out the provisions of Article 4 without resort to trade restrictions". This change is designed to make it clear that the purpose of the Article is that suitable action should be taken so that Members may be able not merely to pursue the objective of maintaining employment, production and demand; but also to do so without resorting to trade restrictions as a means of remedying their balance of payments difficulties.

24. The words "together with appropriate action on the part of the other Members concerned" have been added to make it clear that all Members involved in the situation have a responsibility to take what action they appropriately can to assist in overcoming the difficulties.

25. There are various means by which situations of this kind can be corrected, some of which have been indicated in Section E on page 5 of the Report of the First Session (E/PC/T/33). It seems desirable, however, that wherever possible, methods which expand rather than contract international trade should be employed. With this consideration in mind, the Sub-committee has suggested the addition of the second paragraph of this Article.

#### Articles 7 and 8

26. It will be noted that the order of Articles 7 and 8 has been reversed. This re-arrangement of the text resulted from the Sub-committee's discussion growing out of amendments proposed by the representatives of France and the Netherlands. The text proposed by France with respect to Safeguards for Members subject to External Deflationary Pressure provided for the convening of an inter-governmental conference by the Organization in such a situation and, where a Member considered that there had been unreasonable delay in this procedure, permitted that Member to take emergency action, which would have to be withdrawn if subsequently disallowed by the Organization. The Netherlands amendment suggested that affected Members might need to take action "separately or in conjunction with other Members".

27. The first conclusion of the Sub-committee in considering these proposals was that the Chapter should be strengthened by providing that the Organization should initiate

consultations among its Members if an urgent situation arose involving the international spread of a decline in employment, production and demand. Cases might arise in which the contemplated arrangements for consultation and planning of concerted action under the auspices of the Economic and Social Council would involve undue delay, thus leading to a further deterioration of the position of the Members affected and increasing the likelihood of their adopting restrictive measures of defence. It was therefore felt that, consistently with the authority of the Organization under Article 61(b) to facilitate consultation among Members on all questions relating to the provisions of the Charter, a new paragraph should be added to the article dealing with Consultation and Exchange of Information, permitting the Organization itself to initiate consultations in such a situation. It also appeared logical, at this point, to transpose Articles 7 and 8, in order to emphasize further the desirability of seeking consultation for the purpose of resolving economic difficulties wherever possible without resort to release from Charter obligations.

28. With these changes made, it was agreed that the new Article 8 (formerly Article 7) should be retained without amendment. The Sub-committee noted the fact that "the provisions of this Charter" referred to in this Article include clauses in Articles 26, 28, 30, 34, 35, 52 and 66. It recognized in this connection that a serious or abrupt decline in external demand might constitute a "situation ... which has the effect of nullifying or impairing any object of this Charter" within the meaning of paragraph 2 of Article 35, or the "exceptional circumstances" referred to in paragraph 3 of Article 66. It took note of the intention of the Preparatory Committee as expressed in the Report of the First Session (E/PC/T/33), particularly in Section F on page 5, paragraphs 4(b) and 4(c)(i) on page 11, paragraphs 3(1) on page 15 and Section D.2 on page 22, to insure that there be adequate safeguards in the Charter to meet situations referred to in Article 8, but to recommend non-restrictive solutions for such situations if possible either through the Organization or through the assistance of other international bodies. The Sub-committee endorses these views and recommends that the various articles referred to be re-examined to ensure that the drafting adequately meets these requirements. It also suggests that consideration be given to inserting in, or annexing to, the final report of the Second Session a reference to the inter-relationship between Article 8 and the other articles in question.

ANNEXURE TO THE REPORT OF THE SUB COMMITTEE ON CHAPTER III

CHAPTER III

EMPLOYMENT AND ECONOMIC ACTIVITY

Article 3.

Importance of Employment, Production and Demand in  
Relation to the Purposes of this Charter.

1. The Members recognise 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 a large and steadily growing volume of production and effective demand for goods and services is not of domestic concern alone, but is also a necessary condition for the realization of the purposes of this Charter, including the expansion of international trade, and thus for the well-being of all other countries.

2. Members agree that while the avoidance of unemployment or under-employment must depend primarily on domestic measures, such measures should be supplemented by concerted action under the sponsorship of the Economic and Social Council of the United Nations in collaboration with the appropriate intergovernmental organizations, each of these bodies acting within its respective sphere and consistently with the terms and purposes of its basic instrument.

3. Members furthermore agree that the regular exchange of information and views among Members is indispensable for successful co-operation in the field of employment and economic activity and should be facilitated by the Organization.

Article 4.

Maintenance of Domestic Employment.

1. Each Member shall take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own jurisdiction through measures appropriate to its political, economic and social institutions.

2. Measures to sustain employment, production and demand shall be consistent with the other purposes and provisions of this Charter. Members shall seek to avoid measures which would have the effect of creating balance-of-payments difficulties for other Members.

Article 5.

Fair Labour Standards.

Each Member, recognising that all countries have a common interest in the achievement and maintenance of fair labour standards, related to productivity, shall take whatever action may be appropriate and feasible to eliminate sub-standard conditions of labour in production for export and generally throughout its jurisdiction. Members which are also members of the International Labour Organization shall co-operate with that organization in giving effect to this undertaking.

Article 6.

Removal of Maladjustments within the Balance of Payments.

1. In the event that a persistent maladjustment within a Member's balance of payments is a major factor in a situation in which other Members are involved in balance of payments difficulties which handicap them in carrying out the provisions of Article 4 without resort to trade restrictions, the Member shall make its full contribution, together with appropriate action on the part of the other Members concerned, towards correcting the situation.
2. Action in accordance with this Article shall be taken with due regard to the desirability of employing methods which expand rather than contract international trade.

Article 7.

Exchange of Information and Consultation.

1. The Members and the Organization shall participate in arrangements made or sponsored by the Economic and Social Council of the United Nations, including arrangements with appropriate intergovernmental organizations:
  - (a) For the systematic 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;
  - (b) For consultation with a view to concerted action on the part of governments and intergovernmental organizations in the field of employment policies.
2. The Organization shall, if it considers that the urgency of the situation so requires, initiate consultations among Members with a view to their taking appropriate measures against the international spread of a decline in employment, production or demand.

Article 8.

Safeguards for Members Subject to External  
Deflationary Pressure.

The Organization shall have regard, in the exercise of its functions as defined elsewhere in this Charter, to the need of Members to take action within the provisions of this Charter to safeguard their economies against deflationary pressure in the event of a serious or abrupt decline in the effective demand of other countries.