Seventh International Conference to Promote Land-Value Taxation and Free Trade, Swanwick, Derbyshire, England—14th to 21st August, 1949.

Can International Trade Problems be solved Internationally?

Presidential Address

By the Hon. Bue Björner
(*Member of the Danish Parliament*)

Ten years have elapsed since our previous International Conference was held in New York, and the greater part of the time has been spent in a colossal effort by the democratic powers to combat a despotism of the basest and most brutal description.

As this Conference is held in Great Britain, where the signs of the Great War are still seen and its effects still felt, it might be appropriate to express at this place the gratitude, which I am sure was felt in all democratic countries of the world, for the tremendous efforts and sacrifice which Great Britain had to carry, and at a critical time had to carry on her own shoulders alone. It is not pleasant to think what the world would have looked like, if the evil forces had not been overcome.

At previous Conferences of this Union we have pointed to the fact that world peace and world trade were inseparable, and already while the war was still raging we felt that the problem of re-establishing international trade was a matter of great concern to statesmen and economists.

In July, 1944, an International Currency Conference was held in Bretton Woods in the U.S.A., attended by economists from forty-three countries. The problem set before it was how to facilitate international trade by re-establishing some sort of international system of payment, and at the same time the problem of providing funds for the investments required in order to re-organise the war-stricken means of production. The result of the Conference was the establishment of both a Currency Fund or International Monetary Fund (the I.M.F.) and an International Investment Bank. In the statutes for the Currency Fund it was said that the aim should be the furthering of international trade and the stabilising of the currency of member states. The goal of the whole Bretton Woods plan was first and last the abandonment of bilateral trade arrangements and an effort to re-establish free international trade so that the exchange of goods should be paid in free currencies, enabling every country to buy their imports where they listed. An amount of about

19,000 million dollars was fixed for this purpose; about 9,000 million for the Currency Fund and 10,000 million for the International Bank.

When the war ended it soon became clear that the means placed at disposal by the Bretton Woods plan would not be sufficient for the revival of international trade. Europe had its special problems. The damage of war had reduced its productive capacity; the military expenditures had exceeded Europe's financial capacity; the supply of over-sea raw materials had failed; trade between the Western European countries amongst themselves and between Eastern and Western Europe had shrunk; the displacement of labour and disorganised employment in a number of countries, together with greatly increased indebtedness, increased social expenditures and an over-dimensioned bureaucratic administration—all this had the result that Europe was no longer competitive in the over-sea markets.

Although many of Europe's problems were indirectly caused by the war, others were not. Subsequent upon the Ottawa agreement in 1931 one European country after the other adopted restrictionist policies, trying to use import possibilities for trading against other countries' export desires. Much more than any previous barriers against foreign trade, such as tariffs, etc., the quantitative trade restrictions and bilateral trade arrangements are to blame for the fact that currencies were disordered and dislocated.

Under free competition the countries will naturally concentrate their productive power in those industries which can compete successfully; but under bilateral trade agreements, the industries which cannot stand up to competition will press their claims for export business and capital-investment on their behalf; and labour will automatically be shifted from the (natural) economically efficient and productive industries to the (unnatural) artificially encouraged enterprises which can only run at a loss.

Under this development there comes the distinction between "high cost" and "low cost" countries; and if there is not the classic convertibility of currencies, the countries which produce more cheaply become countries of so-called "hard" currency, and countries with expensive production become countries of "soft" currency.

During the war the problem of the Western European countries had not become acute because it was assuaged by the lend-lease policy by which U.S.A. pumped goods into Europe. But shortly after the war ended with the capitulation of Japan, President Truman on August 24th, 1945, informed the world that the lend-lease policy would be abolished. Immediately it became evident that not alone the financial problems of Great Britain were acute, but that there was a world problem, namely the question of the shape that international economic relations were to take for the future.

In Great Britain the first reaction was that the economic independence of the Sterling area as against the Dollar had to be defended. Very soon, however, it was felt that, in spite of all differences the mutual interests of Great Britain and U.S.A. were so intimate that discussion of British/American economic relations was imperative, and the talks thereon began on September 11, 1945, in Washington.

By December 6, 1945, an agreement was reached by which the U.S.A. showed its willingness to furnish Great Britain with a great loan which should bridge the span between the countries of the Sterling and the Dollar areas respectively. Plans were laid for progressively freeing international trade from the many restrictions which had steadily grown in volume and application during recent decades.

By the agreement the U.S.A. furnished Great Britain with a loan of 4,400 million dollars, equal to about 1,100 million pounds sterling. A small part of the money was to be used for closing the Lend-Lease account, but the major part was given in order to enable Great Britain to reconstruct or rebuild. The aim was to help Great Britain to keep sufficient reserves of gold and dollars and at the same time put Great Britain in the position to return to multilateral trade. A condition of this loan arrangement was that Great Britain should join the Bretton Woods plan, that the rate of exchange between sterling and dollar should be stabilised, that both parties should work energetically for a demolition of the trade barriers, and that other States should be invited to join in this work.

The effort of combating international trade restrictions through international political co-operation was taken up by the United Nations, under a committee instructed to work out proposals for the formation of an international trade organisation (I.T.O.). Discussions on this problem were started in London in 1946 and were resumed in 1947 in Geneva, where already twenty-three countries took part, and the discussions were pursued to a conclusion at the International Trade Conference in Havana, which lasted from the fall, 1947, till the spring, 1948.

To this Havana Conference members as well as non-members of the United Nations were invited, but thirteen countries, among them Soviet Russia, did not accept the invitation. For the first time in world history a constitution for world trade was formed, the I.T.O. charter, which has the following three main goals: (1) To assist in improving conditions for greater material prosperity and a higher standard of living in all countries; (2) to lay down rules for the business method of international trade. The charter rejects or prohibits methods which limit trade, or which lead to economic warfare, and at the same time the member countries are obliged to create favourable conditions for trade and other economic activity; (3) the formation of the I.T.O. (International Trade Organisation), through which members of the organisation are compelled to consult upon their problems concerning foreign trade and work for a demolition of all barriers to international trade, not alone high tariff rates but especially the trade restrictions which since the 1930's have led to confining trade along the channels of bilateral agreements.

It soon became evident how difficult it was to achieve unity in these matters. The U.S.A. on account of its ever growing production was specially interested in the freeing of world trade, or at least in freer importation by other countries; but most European countries were not in a hurry. The British Empire with its world-embracing system of preference did not seem so interested, and in many less developed areas, such as South America and Asia, opposing interests ruled the situation. The result of this play of forces is that the underlying principle of the charter, its denunciation of import and export restrictions, has been punctured by the number of exceptions and reservations.

The I.T.O. charter has not yet been ratified, but in the meantime the attempts to overcome the difficulties impeding international trade have proceeded on other lines.

Under the United Nations a regional commission, the Economic Commission for Europe (E.C.E.) started to work in 1947 with the following aims: (1) To assist the co-operation for the economic rebuilding of Europe; (2) to increase and co-ordinate the economic activity of Europe; (3) to strengthen the economic relations between the European countries internally, and with the rest of the world.

As previously stated, Europe's problem is that Europe is no longer competitive in the over-seas market. Already before the war the U.S.A. with a population of about 6 per cent. of the world's population had more than 44 per cent. of the world's industrial capacity. Since the war, it has become still more evident that European countries will have to reach such a position in which they can trade with the U.S.A. and the rest of the world. Some figures from the trade balance of the European countries may be of interest in this connection.

Europe's Trade Balance

Milliards of Dollars	1938	1946	1947	1948
Surplus on trade balance (*actually a minus quantity*)	—1.8	—5.1	—7.5	—6.2
Income from investments	+1.2	+0.5	+0.6	+0.5
Other income and expenditures, including freight, net	+0.6	—1.2	—0.7	+0.1
Total balance (*minus quantities*)	—	—5.8	—7.6	—5.6

The currency problems which Europe was fighting before the war have now sharpened themselves into a dollar-problem, but that problem in reality is nothing but a lack of goods in qualities and at prices which can compete in the American market and in other markets enjoying comparatively free conditions of trade.

In 1947 the dollar problem of the European countries and the general problem of convertibility reached a critical point.

The international division of labour had been smashed. Although the export capacity of Europe was undamaged before the war, Europe's export and other incomes on the payment balance could finance about 75 per cent. of her imports. In 1947, however, Europe's income could only finance 40 per cent., and in 1948 only 50 per cent. of the imports. The balance was covered by loans, gifts, etc.

At a critical time, in June, 1947, George C. Marshall, U.S.A. State Secretary, in a speech held at the Harvard University made an appeal to the European countries to re-establsh international co-operation and stabilise European economy; and his appeal was supported with the promise of American help to Europe to enable it to help itself out of its mess.

The Western European countries immediately accepted the idea of the Marshall Plan or the European Recovery Programme (E.R.P.) as it is called, and after ten months of difficult discussions the Marshall-Plan materialised in the European Cooperation Administration (E.C.A.), with which nineteen countries are associated.

It is hard to say to what extent political or even military reasons have played a role in connection with the Marshall aid, but amongst the peoples of Europe the E.R.P. policy has been accepted with gratitude as a most needed and welcome help from the great American nation, whose tax-payers must certainly feel the heavy weight of the expenditure. The amount in the fiscal year 1948/49 is nearly 5,000 million dollars. The greater part of the Marshall aid was given right out as a gift. Importers were to pay for the goods received, but the respective central bank might, as far as the gift-part was concerned, use the payments for combating the inflation which the war brought to many European countries. The balance was to be considered as loans which should be repaid once Europe has regained its economic stability and competitive ability.

The Marshall aid was primarily given for re-organising and rationalising the productive power of Europe—and not for consumption—and the aim of the plan was that Europe as a whole after five years of support of this kind should again be able to trade freely with other nations, including the U.S.A., and the dollar-area as a whole.

In order to ensure that the Marshall aid is really spent in accordance with this aim, the Economic Co-operation Administration (E.C.A.) in Washington has established a special European office in Paris with a staff of about 500 persons, as well as special missions in the capitals of the countries receiving the Marshall aid. With a home organisation of the same size in Washington it is not surprising that the E.C.A. has thrown many questions into the arena during the first year of the Marshall aid. The benefited countries for their part had to see to it that there was somebody at hand to reply to all the questions. This has brought into being a further organisation, with its seat in Paris: the Organisation for European Economic Co-operation

(O.E.E.C.), which employs at present about 900 persons, besides those delegates and experts from all the European Marshall-countries who permanently or periodically fill the 130 committees and sub-committees under the O.E.E.C. Furthermore, numerous administrative bodies and advisory committees have been established in all the various countries which receive the Marshall money.

Thus, although one of the aims was to liquidate trade-restrictions and superfluous administration, it may be seen, right here, that bureaucratism is flourishing under the Marshall-administration. But before going deeper into the question of the spirit in which the Marshall aid is administered I shall try to complete my very summary survey of the post-war international efforts to do away with obstacles to international trade.

An important part of the work of the O.E.E.C. for reviving co-operation amongst the Western European States has been the question of establishing an inter-European system of payments, a sort of multilateral clearing. The lack of convertibility between the European currencies has made it impossible for one country to spend its exchange-surplus in one country for payment in others and each is consequently tempted to carry on a strictly bilateral foreign trade. On October 1, 1948, an Inter-European Payments Arrangement was actually put into force under administration of the B.I.S. (The International Bank in Basel) acting as agent for O.E.E.C. Within certain limits the bank makes a monthly clearing of the amounts which the member nations may have acquired against one another. In order to facilitate this clearing system, part of the Marshall aid has been taken into use through the so called "drawing rights," by which countries which are expected to become net-creditors against other countries furnish these net-debtors with the necessary funds and in return receive a right to draw dollars from the Marshall aid.

Although the quantitative trade restrictions with their subsequent bilateral trade agreements to-day form the worst obstacle against international trade—at least against trade between "soft" currency countries—tariff restrictions must not be forgotten, and have not been forgotten by the I.T.O. The twenty-three countries which in 1947 worked out the proposal for the I.T.O. charter at the same time discussed the question of mutual tariff-reductions. The first result was the General Agreement on Tariffs and Trade (G.A.T.T.) by which a number of tariffs between these twenty-three countries were reduced. A greater G.A.T.T. Conference, in which thirty-five States participated, began in April, 1949, in Annecy, in France. The outcome of the Annecy Conference is yet to be seen, but discussions are very slow. The discussions were to be held between the thirty-five countries in the way of an "all against all" tournament. Two hundred and seventy-five bilateral discussions were planned but up to the middle of June this year only seven out of these 275 discussions had reached finality. Right away about a hundred discussions were cancelled because the parties concerned had not made sufficient preparation.

Without being unduly pessimistic, one can be a bit sceptical as to the result of the entire Annecy Conference.

It will be understood that since economists like Mr. Keynes and Mr. White five year ago broached the ideas which materialised in the Bretton Woods plan, innumerable economists and statesmen have made tremendous efforts to find a way out of the jungle of trade restrictions, bilateral trade-agreements and planned economy which prevent post-war recovery. But so far the results have been modest, to put it mildly. One may ask why? If you study the "long-term" programmes of the various countries, in which they explain how they intend to administer the Marshall aid you will immediately see that the spirit of Liberty has been sacrificed to the considerations of "national economic security." The suggestions they give for re-organising or rationalising home industries are to a large extent of purely "mercantilistic" character and the O.E.E.C. has had no easy task in trying to co-ordinate them.

One may say that these programmes present a new record of "planned" or writing-desk economy. Though many a kind word is said about the desirability of attaining free international trade you find little or no understanding of the fact that only by the simple method of free competition will the development of really sound enterprises take place. The decades of quantitative trade restrictions, bilateral trade agreements, etc., have fostered an army of writing-desk economists in every country and they have certainly had "the time of their life" in working out their five-year plans. They affect to show how the Marshall money shall be spent and—of course—they wish to control the entire economic life through which the Marshall aid flows in order that their country may have overcome its economic difficulties by 1952 and may then be able to stand on its own feet so as to take up free trade relations again! Is there really anybody who believes that further State control and further planned economy will put a country back on a competitive basis?

For seventeen years Denmark has lived under the curse of trade-restrictions and bilateral trade with the consequent government control—ever growing—over every phase of industrial and private activity. Our people have tired of the restrictions and in January, 1949, a Royal commission was set up for the purpose of investigating ways and means out of this suffocating system. A report of 175 pages has just been issued and the writing-desk economists have in reality come to the conclusion that nothing can really be done—at home. Of course, the idea of doing away with all barriers to free international trade has their best sympathy but what '*we*' can do about it is: "From the Danish side one must naturally work towards the end that in the other countries the ruling trade-political restrictions be abolished; but this work must mainly take place through the various international organisations; and even if the international work on these lines succeeds, Denmark's participation in the international agreements which may be arrived at might mean that we must accept certain obligations, and these obligations it will be for us to fulfil given the possibilities and if we are in the position to do so."

This sounds very familiar, does it not? It is the old protectionist argument; "Of course free-trade is the ideal, but as long as the other countries, etc., etc."

Or to look to the tariff question. Denmark has had a comparatively liberal tariff policy and on account of increase in prices without any changes in tariffs levied on quantity or weight, the total amount of duties fell from 8.1 per cent. of the value of our total import in 1938 to 3.5 per cent. of the value of 1947 imports. On the value of dutiable goods alone, the figures were 18.3 per cent. in 1938 but only 7.8 per cent. in 1947. (In U.S.A. the average duty on dutiable goods amounted to 37 per cent. in 1939 and 28 per cent. in 1945 as against our 3.5 per cent in 1947.)

Although Denmark had a Liberal Government in the beginning of 1947 this government planned a doubling of all Danish tariffs, so that there would be something to bargain with at forthcoming international conferences. Thanks to the work of the Danish Free-Trade Club these plans were quashed. But anybody wonder that the Annecy talks are tough if the delegates meet in this sort of a "liberal" spirit?

How can we expect any results from any international endeavours to abolish barriers against foreign trade, as long as the delegates are out to *bargain for* the liberation of world trade?

Charity begins at home. That is also the place to practise common sense. We have to realise that though we hurt other countries with our tariffs and our restrictive trade policy, we primarily injure ourselves. We have to realise that the planned economy is upsetting our own balance and is preventing us from preserving our competitive ability. Let us go home from this Conference without making any appeal for further international discussions to solve basic economic problems internationally. Let each and everyone of us work with the goal that our own nation may take the sensible step of breaking down its own barriers, regardless of what others will do. We know the internal obstacles we have; we know that fear of unemployment and depression and crises everywhere, are responsible for the lack of will to make our world a brotherhood, but we also know the remedy. Let us expound the teachings of that truly great economist Henry George in such a way that the common man understands that free trade can be advantageous to him. For unless he understands and unless he is willing to tear down economic barriers internally and externally we shall not attain the ideals which we have in common with innumerable people throughout our world.

Published by the International Union for Land Value Taxation and Free Trade, 4 Great Smith Street, London, S.W. 1—August, 1949. Price 6d.
Printed by H. J. Rowling & Sons, Ltd. (T.U.), 36 York Road, Battersea, S.W. 11.