PAMPHLET NO. 42

The International Trade Organization

by

Sister Thomasine, O.P.

and

The Subcommittee on Economic Life

A Report by the Subcommittee on Economic Life

THE CATHOLIC ASSOCIATION FOR
INTERNATIONAL PEACE
1312 Massachusetts Avenue, N. W.
Washington, D. C.

1948

THE Catholic Association for International Peace expresses appreciation to

Rosary College
River Forest, Illinois

for sponsoring the publication of this pamphlet.

The International Trade Organization

by

Sister Thomasine, O.P.

and

The Subcommittee on Economic Life

A Report by the Subcommittee on Economic Life

THE CATHOLIC ASSOCIATION FOR
INTERNATIONAL PEACE
1312 Massachusetts Avenue, N. W.
Washington, D. C.

1948

Ø NOTIS
06/25/91

This is a Report of the Subcommittee on Economic Life of the Catholic Association for International Peace, and is being issued as a Study from that Committee. It was presented to all members of the Committee who co-operated in its final form. It was then ordered to be published by the Executive Council. As the process indicates this Study is not a statement from the whole Association.

SUBCOMMITTEE ON ECONOMIC LIFE

Chairmen

Helen C. Potter
Joseph P. McMurray

Anthony J. Beck
Rev. William Bolger, C.S.C.
Linna E. Bresette
Rev. Edmund Brock
William E. Brown
Rev. Harold B. Campbell
Rev. Raymond S. Clancy
Rev. Andrew J. Corbett
Rev. John F. Cronin, S.S.
Rev. Thomas F. Devine, S.J.
Rev. Hugh A. Donohoe
Harry W. Flannery
Rev. John M. Hayes
Rev. George G. Higgins
Very Rev. Reynold T. Hillenbrand
Rev. Francis B. Hinton, C.M.
Rev. Frederick A. Houck
William S. Houck
Austin Ivory
Edward Keating
Frederick P. Kenkel
Most Rev. Robert E. Lucey
M. L. Madden
Rev. Benjamin L. Masse, S.J.
Rev. R. A. McGowan
Constantine McGuire
P. A. O'Connell
Rev. Joseph V. O'Driscoll, C.M.
John J. Raskob
August Reisweber
Bernard J. Rothwell
Sister Mary Ignatius, S.N.D.
Sister Vincent Ferrer, O.P.
Sister Thomasine, O.P.
Very Rev. Thomas J. Tobin

TABLE OF CONTENTS

THE INTERNATIONAL TRADE ORGANIZATION

I

INTRODUCTION

ONE of the most noteworthy achievements during 1948 in the international economic field was the signing of a charter for an International Trade Organization by delegates from 57 nations meeting at Havana, Cuba. Here a Committee on Trade and Employment of the United Nations Conference convinced the delegates from the vast majority of trading nations that an organization should be established to promote freer trade in the interests of world prosperity. All countries, it was agreed, should participate in the abundant production of goods made possible through specialization and a division of labor in the international sphere.

In theory, the fundamental right of every nation to reasonable access to the unevenly distributed resources of the earth is a truth that has long been admitted. In practice, many nations, because of their economic weakness and because of the barriers which confronted their endeavors to buy and sell in other markets have been unable to share in the economic benefits of higher real income, greater production and consumption and a healthy international trade.

However equal nations may feel themselves to be in political dignity, they are by no means equal in economic power. Some nations, more richly endowed with productive techniques, or natural resources, or a combination of these factors, occupy a position of comparative advantage in the international market. These nations export more than they import, perform special services for the trading world and invest their surplus funds abroad. Hence, they are known as mature creditor lender countries—countries that have come of age in the field of foreign trade.

Other nations, like the United States at the close of the first World War, although possessing vast resources, are far less influential members of the world economy. They may enjoy a flourishing export trade. They may even have ceased to borrow from foreigners, but lacking efficiency in certain types of production as well as experience in foreign lending they are still somewhat immature. These are the young creditors of the trading world.

Still other nations possess greater potential than actual economic power. They rely largely upon outsiders for both their present livelihood and their future well-being. Here may be found the traditional debtor nation of newly settled regions that are compelled to import more than they produce for foreign sale and to borrow capital from abroad. As such, they are young countries just entering the field of international trade.

In this group of debtor nations must likewise be included older trading countries which have become debtors by reason of the destruction of war. Impoverished and devastated, they are unable for the present to care for themselves or to trade with the outside world. Instead, large imports are required by them for the purpose of restoring their economies.

Notwithstanding their individual differences in economic power, there exists between all nations a fundamental economic likeness. To all nations, whether creditor or debtor nations, is abundant trade essential. The great creditors of the world, in spite of their economic advantages, need foreign trade to maintain their productive power since no country is wholly self-sufficient. To an even greater degree, the debtor nations depend upon expanding trade. The agricultural countries of the tropics must have access to foreign markets in order to live. The relatively under-developed countries in the temperate zone require foreign products in order to improve their standard of living. And the war devastated countries in every region must be able to sell abroad so that they may help themselves in the task of reconstruction.

International trade, no matter how desirable, can neither be revived nor expanded except through international co-operation. The first evidence of a determination to achieve such co-operation in the postwar world appeared in *The Proposals for Expansion of World Trade and Employment* issued in November, 1945, as a statement of experts in the several economic agencies of the United States government. Subsequently in 1946 and 1947, a series of international trade conferences, held under the auspices of the United Nations, prepared a *Draft Charter for an International Trade Organization* which, in turn became the basis for the *Havana Charter* signed in 1948. How great is the need for the establishment of such an international trade body can best be understood by a review of the outstanding trade patterns of the past.

II

TRADE PATTERNS OF THE PAST

Modern trade among the family of nations did not suddenly appear and then spread rapidly and haphazardly in all directions. Nor did it follow a blue-print designed by a group of economic experts. It developed rather according to general patterns as the trading family itself progressed from the raw material—finished goods exchanges of earlier periods to the more complex arrangements of today in which an enlarged circle of trade includes numerous nations at different stages of economic growth. Through this expansion, the mature and highly industrialized economies of Great Britain, the United States and parts of Europe became linked both to newly settled countries in the temperate zone, such as Australia and New Zealand, and to the many undeveloped lands of the tropics.

Multilateral Trade in the Nineteenth Century

Generally speaking, the rapid growth of world trade during the nineteenth century proceeded along the lines of multilateralism, according to which the various nations exchanged goods all around and across the so-called "trading circle." Introduced by Great Britain, the most influential trader and creditor of the century, the multilateral pattern soon showed itself quite adaptable to the needs of an age characterized by a swiftly expanding world economy. Under such a system, traders are not forced to limit their sales to those who will, in turn, make purchases from them. For multilateral trade, unlike barter, is not an exchange of goods for goods. It is rather a monetary system whereby traders sell in one country, exchanging goods for money, and buy in another, exchanging money for goods.

Through multilateral trade, two great advantages were gained by the family of nations. In the first place, many countries were enabled to specialize in the type of production for which their labor power and resources had best equipped them and sell their products in a world market. Australia and Argentina, for example, could risk specializing in crops for export since Great Britain, itself a highly specialized economy, assured them of a market for their goods.[1] Each of these countries, however, was by no means obliged to purchase British manufactured products in return. Instead, Australia used its funds to purchase machinery from the United States.

[1] See Henry Clay, "The Economic Outlook of the United Kingdom," *The American Economic Review* Supplement, (May, 1947) pp. 13-14.

The United States, on its part, also benefited from the multilateral system and this despite its traditional tariff policies. American capital goods were exported toward the end of the century to newly settled countries and parts of Europe as well. Yet the principal American imports were not from those nations purchasing American products but from the tropics, a region dependent for the most part on Britain and Europe for its manufactured goods.

A second great advantage of multilateral trade was that it allowed an individual nation to settle its monetary trade balances with the world at large rather than with each country separately. In this respect the system resembled an international clearing house. If Country A, for example, enjoyed an export balance with Countries B and C, then it could use these funds to pay for an import balance with Country D.[2] Thus Germany, toward the end of the century, used its export balances from the sale of manufactured goods to the rest of Europe to settle its import balances arising from the purchase of raw materials overseas.

Such a system of international payments was, of course, involved in operation. The flow of capital and interest payments between debtor and creditor nations complicated the general course of trade. Yet it was precisely because debtors could meet their obligations to creditors *indirectly* that the system furthered economic expansion.

This type of multilateral trade, was perhaps only possible in the nineteenth century when certain conditions existed that helped enormously in making the system work. International specialization was relatively more easy in a young and growing family of nations living in an era of comparative peace. Although revolutions and regional wars occurred frequently during these years, no World War or Great Depression had as yet broken the circle of international trade. Nor had the chain of international payments been seriously "short-circuited" by a breakdown in the monetary system. On the contrary, Britain was able almost single-handed to manage an international gold standard. British sterling backed by gold became in effect a world currency so that in the nineteenth century . . . "payments moved as freely and easily between different parts of Western Europe, the Far East, the Dominions, and the Americas, as between different countries of the same state in an earlier age." [3] In Britain, too, was found the center of world-wide investment and maritime services, as well as a legal power which helped to enforce the numerous commercial treaties that granted equal treatment to traders and investors everywhere.

[2] By an export balance is meant an excess of exports over imports which may arise year after year.

[3] Sir Henry Clay, *op. cit.*, p. 14.

Yet it was in Britain, itself, that there arose the principal defect of nineteenth century multilateral trade, namely, its spirit of amoral liberalism. Traders and nations were free under this guiding social philosophy to exploit their fellow men in the common pursuit of wealth. Thus in the opinion of Lord Keynes:

"The nineteenth century carried to extravagant lengths the criterion of what one calls for short 'The financial results,' as the test of the advisability of any course of action sponsored by private or collective action. The whole conduct of life was made into a sort of parody of an accountant's nightmare. Instead of using their vastly increased material and technical resources to build a wonder city, the men of the nineteenth century built slums because slums, on the test of private enterprise 'paid,' whereas the wonder city would, they thought, have been an act of foolish extravagance, which would in the imbecile idiom of the financial fashion, have 'mortgaged the future.' . . ." [4]

Viewed against this broader economic background, therefore, the multilateral system of the nineteenth century was not without its undesirable features. Moreover, with the turn of the twentieth century, the appearance of certain broad economic changes also affected adversely this pattern of trade. As the world economy continued to expand, the use of industrial techniques began to spread from mature creditor countries to the younger members of the trading family, with a consequent shift in markets. The economy itself might have in time become adjusted to such a change, but the outbreak of World War I destroyed the possibility of gradual adjustment even as it almost entirely disrupted the former course of multilateral trade.

The Wartime Changes

The first dislocation in the world economy came with the shattering of the international gold standard. Then, Europe's increasing demand for food and munitions distorted economic growth in most of the neutral countries. Finally, with the disruption of ordinary trade channels and of international finance as well, the position of many trading nations were suddenly reversed.

Great Britain, although still a mature creditor country, soon lost many of its markets and much of its trading power. Germany, to an even greater extent, became a potential debtor nation. The United States, on the other hand, attained the position of an important creditor and lender. Other countries—Argentina and Japan,

[4] John Maynard Keynes, "National Self-Sufficiency", *The Yale Review* (June, 1933) p. 763.

for example—likewise advanced in economic power. Thus trading areas were suddenly reorganized and markets shifted once again under the pressure of war. The arrival of a peace delayed somewhat but could not prevent the ultimate effects of such changes.

Normalcy in the Twenties

The family of nations in the nineteen twenties seemed unable to realize that what had appeared to be merely temporary postwar dislocations in the world economy were in reality permanent structural changes. They endeavored, as a consequence, to rebuild trade according to the pattern of the past. For a time, an international gold standard was restored. For a few years, too, prosperity of an artificial type was enjoyed.

Even Great Britain and the United States recognized that their trading positions had been reversed, although neither nation pursued policies suited to its new role. Great Britain, faced with shutdowns in its export plants, turned to expanding its domestic industries, its agriculture, housing and consumer services, as sources of employment.[5] It attempted also to regain its international prestige by an over-valuation of the pound. Yet this policy, together with its high domestic prices, only caused further losses in British foreign trade.

The United States on its part, too, refused to assume the responsibility of its new trading position. As a creditor nation with vast resources the United States was nonetheless required to increase its import balances so that foreigners might earn dollars to pay for American goods and capital. Instead, American tariffs were raised still higher. The economic disaster that should have followed immediately from these contradictory policies and from the disturbing effects of war debts and reparation payments upon the world economy, was staved off for a few years by large foreign loans. Also as a lender, however, the United States lacked responsibility. At first, large private loans were made without question or experienced direction. Later, after numerous defaults, American capital was almost completely withdrawn from countries that had no other means of payment for imports.[6]

Disruption in the chain of international payments was increased when the traditional debtor regions became burdened and, in time, bankrupt by agricultural surpluses. The financial position of cred-

[5] See Sir Henry Clay, "Britain's Declining Role in World Trade", *Foreign Affairs* (April, 1946).

[6] See Hal B. Lary, *The United States in the World Economy,* (U. S. Department of Commerce, 1943) p. 4.

itor countries was also weakened by the flight of short term funds from one central bank to another. With the abandonment of the gold standard and the breakdown of the international investment market in 1931, the destruction of the multilateral system became complete. So ended the attempts to restore normalcy in the twenties and so began, too, the grim years of the Great Depression.

Bilateralism in the Thirties

The bilateral trade pattern of the nineteen thirties was, in a sense, a direct result of the Great Depression. To the old fear of war had been added the new fear of unemployment. Nations were no longer convinced that a dependence upon a world market would insure an expanding economy as depression had spread from agricultural areas to industrialized regions and back again. Bewildered and disillusioned, the trading family sought some escape. Lord Keynes, writing at this time, declared:

"The decadent international but individualistic capitalism in the hands of which we found ourselves after the war, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous—and it doesn't deliver the goods. In short, we dislike it, and we are beginning to despise it. But when we wonder what to put in its place, we are extremely perplexed." [7]

After the delegates to the World Economic Conference of 1933 failed to reach an agreement on tariffs and international monetary policies, most nations determined to solve their unemployment problems within their own economies. World trade was then reduced to the barest minimum as governments commenced to control imports and exchanges while at the same time promoting home industries through spending programs.

Whatever trading took place in these depression years was usually along bilateral lines, whereby an exchange of goods was made between two trading partners rather than all around exchanges within the members of a trading family circle. Creditors, caught with frozen balances in debtor nations, agreed to import commodities from these countries. Debtors, burdened by surpluses, eagerly repaid those creditors who accepted their products in return, even as they sought to please through bilateral agreements any country granting them new loans. Production for export in this way became limited to the demands of prospective partners.

Similarly, payments for goods were made directly to partners rather than through third or fourth parties. Country A's balances

[7] Keynes, *op. cit.*, pp. 760-761.

in Country B could be used ONLY for payments in Country B. They could not be sold to settle a claim in Country C.[8] Nor could an entire region, such as the tropics, function as a link in international payments since a world currency had ceased to exist and the widespread practice of devaluation, begun in 1931, had destroyed confidence in most domestic currencies.

The bilateral agreements which many nations were thus compelled to undertake were generally of two types. At times, these pacts involved governmental control of import quotas and the payment of export subsidies. As this system of bilateral quotas became more widespread, more effective, and therefore more easily abused, the power of international cartels and state trading monopolies was likewise increased.

At other times, as in the case of clearing agreements, the arrangements were monetary in form but barter-like in effect. Importers in Country A paid for goods bought in Country B at a central bank in A. The bank, in turn, used this domestic currency to pay exporters in Country A, who had sold their goods to B. Since this same procedure was carried out in Country B, and equivalent values of goods were exchanged, it is obvious that no international currency was needed. The barter feature of the deal was the requirement that imports be compensated by exports of equal value.

Despite the partial recovery of various individual economies during the thirties, the rise in world trade was slow and uncertain. Even the peak year, 1937, failed to equal the volume attained in 1929, for the number and size of transactions as well as the market area are always limited in a bilateral system. International specialization, too, became less advantageous and a family-like relationship between the nations, less possible.

With the intrusion of power politics into trade agreements, bilateralism soon degenerates into economic warfare. As Professor Howard Ellis states: "The gamut of contra-economic interferences in international trade connected with bilateral balancing is not complete until we have named protection, autarky, totalitarian control, and political skullduggery both at home and in relations with other countries. These are admittedly not necessary parts of bilateralism; but it is well to bear them in mind in any attempt to appraise the results of the system in actual operation."[9] The principal defect of bilateralism was its tendency to become a state-controlled system. Moreover, while unregulated multilateral trade was often amoral in

[8] Margaret S. Gordon, *Barriers to World Trade* (New York, 1941) p. 134. See also chapters on clearing agreements.

[9] Howard Ellis, *Exchange Control in Central Europe* (Cambridge, 1941) p. 336.

practice, the abuses of bilateralism in the thirties were unquestionably immoral. Nazi Germany, for example, used bilateral devices not only to exert powerful political pressure over weaker areas, such as the Danubian countries, but also to effect a type of economic enslavement. Nor were the efforts of the various nations successful in their attempt to prevent such abuses through reciprocal trade pacts and regional agreements. By the end of the decade it was clearly realized that bilateral trade between self-centerd nationalistic economies was no more conducive to the well-being of the family of nations than was the decadent international capitalism of an earlier period.

III

THE INTERNATIONAL TRADE ORGANIZATION—A PLAN FOR WORLD TRADE CO-OPERATION

Beginnings of Economic Co-operation

In spite of the prevailing bilateral system of the nineteen thirties, a series of negotiations were concluded during these years which established freer trade within certain areas. The United States in its Reciprocal Trade-Agreements program enacted in 1934 strove to secure foreign markets for American products and to promote world trade. An unconditional most-favored-nation clause contained in each of these pacts extended concessions to many other nations and thus tended to make the program multilateral in its effects.

Other efforts were made to assist trade through co-operation in monetary matters. The Tripartite Monetary Agreement of 1936, concluded between the United States, Great Britain and France and adhered to by most of the countries of Western Europe, was a step in this direction. These countries implicitly agreed that currency manipulations could obstruct trade quite as much as quantitative restrictions and that an excessive under-valuation of money could become, as one British expert insisted, "an immoral policy."[10]

Throughout these years both the moral aspects of trade and the need for economic co-operation were repeatedly stressed by those who deplored the abuses of the times. Pope Pius XI, for one, was particularly fearless in his pronouncements on international economic relations. As early as May, 1931, the Pope declared that . . . "it would be well if the various nations in common counsel and en-

[10] Geoffrey Crowther, *An Outline of Money* (New York, 1940) p. 276.

deavor strove to promote a healthy economic co-operation by prudent pacts and institutions, since in economic matters they are largely dependent upon one another's help." [11]

Later, in the years of the Great Depression, the Pope warned the world against a spread of exaggerated and unjust nationalism.[12] Then, in March, 1937, His Holiness once more pleaded for economic co-operation. "In international trade," he urged, "let all means be sedulously employed for the removal of those artificial trade barriers which are the effect of distrust and hate. All must remember that the peoples of the earth form one family in God." [13]

Although these attempts to secure joint action seemed futile after a second World War had begun, a new pope continued nonetheless to plead for economic collaboration. In his Christmas peace message of 1939, Pope Pius XII affirmed that since an exhausted world economy would face great difficulties in effecting economic and social reconstruction in the postwar period, the conditions of a just and honorable peace should be clearly understood by all. Among these conditions, he noted, was the right of each nation, powerful or weak, to life and independence and the obligation of all peoples to create or reconstruct international institutions which would guarantee such rights.[14]

The Allied nations, meanwhile, sought to avoid the errors of the interwar years by making their peace plans well in advance. In August, 1941, the United States and Great Britain promised in the Atlantic Charter to bring about the fullest collaboration between all nations in the economic field and to permit all states access, on equal terms, to the trade and raw materials of the world. In his peace message of that same year, Pope Pius XII further elaborated on the same point, declaring that in a new order founded on moral principles "There is no place for that cold and calculating egoism which tends to hoard economic resources and materials destined for all, to such an extent that the nations less favored by nature are not permitted access to them." [15]

The Mutual Aid or Lend-Lease Agreements of 1942 represent the earliest practical application of co-operative principles. Here the Allied nations planned not only to avoid the burden of war debts that so plagued the world in the nineteen twenties but more espe-

[11] Pope Pius XI *Forty Years After* (N. C. W. C. ed. Washington, D. C.. 1936) p. 29.

[12] "Allocution to College of Cardinals", *Principles of Peace* ed. by Harry C. Koenig (Washington, D. C., 1943) p. 471.

[13] Pope Pius XI, *Atheistic Communism.* (N. C. W. C. ed., Washington, D. C., 1937) p. 51.

[14] Pope Pius XII, "Allocution", *Principles of Peace,* pp. 635-637.

[15] Pope Pius XII, "To the Whole World", *loc. cit.,* pp. 757-758.

cially to pool their resources for the common objective of victory. They recognized in these agreements, too, that postwar prosperity would largely depend upon the elimination or modification of trade barriers and commercial restrictions.

It was not until the later years of the war, however, that specific plans for promoting international trade appeared. After the Bretton Woods Agreements had been ratified in 1945, *The Proposals for the Expansion of World Trade and Employment* were issued by experts from the United States government. In a subsequent series of international trade conferences sponsored by the United Nations, these proposals became the basis of *The Havana Charter for an International Trade Organization* which was signed by delegates from 57 nations in the spring of 1948.

The Structure of the I.T.O.

The International Trade Organization may be defined as a voluntary association of nations parties to a World Trade Charter, whose most important general task is to see that member nations fulfill their obligations toward each other according to the provisions of the Charter. Structurally, the Organization is to consist of a Conference, an Executive Board, such commissions as may prove necessary for carrying out the functions of the Organization, a Director General and Staff. In the Conference, made up of one representative from each of the member nations, are vested the powers and duties conferred by the Charter upon the I.T.O. In the Conference, too, rests the final authority to determine the policies of the Organization, whose actual execution devolves upon an Executive Board composed of representatives from eighteen member nations. To this Board is also entrusted the general supervision of the Commissions and of the Director General appointed by the Conference upon recommendation by the Board.

It is easily seen, then, that the I.T.O. is to function in the world economy as something more than a fact-finding and advisory board. As an institution possessing quasi-judicial and administrative powers, its duties will be both to interpret the Charter and to issue rulings based on these interpretations. How wide the scope of the Organization actually may well be is a question for which only time and the practical functioning of the institution can give an answer. However, a general examination of the problems facing the Organization in its endeavor to put into effect the five principal objectives of the Charter will suffice to show the magnitude of the task which confronts it. In this the I.T.O. resembles other international institutions which, according to Pope Pius XII, . . . "have so high a mission and such difficult and grave responsibilities." [16]

The Principal Objectives of the Charter

As a plan of action subscribed to by nations whose type of economy varies from that of the free enterprise system to that of rigid state control, the World Trade Charter is of necessity a compromise agreement. It is, nevertheless, a document of unique importance in its recognition of the need for rules to govern world trade. As set forth in the introduction to the Charter . . . "The Parties to this Charter undertake in the fields of trade and employment to co-operate with one another and with the United Nations for . . . the attainment of . . . higher standards of living, full employment and conditions of economic and social progress and development." [17]

The five principal objectives thus to be attained through co-operative international action are: (1) the maintaining of conditions of full employment and a large and steadily growing volume of real income within each member country; (2) the encouragement of economic development and reconstruction throughout the world; (3) the modification of trade barriers and commercial restrictions; (4) the prevention of restrictive business practices; (5) the control of inter-governmental commodity agreements through mutual understandings, consultation and co-operation. A detailed explanation of each of these objectives is found in the several chapters of the Charter.

Maintaining Employment

The first objective which the members of the I.T.O. have pledged themselves to seek is 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. Such an objective must take fully into account the rights of workers and the necessity of upholding fair labor standards since the member nations recognize that . . . "unfair labor conditions, particularly in production for exports, creates difficulty in international trade." [18] Here the Charter is in agreement with Pope Pius XII when he insists that it is neither sound nor natural for nations to increase their productive capacity

[16] Pope Pius XII, "Allocution", *Principles of Peace*, p. 637.

[17] *Havana Charter for an International Trade Organization* (March 24, 1948) p. 5.

[18] Ibid., p. 7.

through the oppression and despotic exploitation of labor and the needs of the individual.[19]

According to the Charter, again, the member nations should co-operatively seek a balanced and equitable state of full employment. They should participate in the arrangements sponsored by the Economic and Social Council of the United Nations and endeavor alike to collect and exchange information on national economic conditions, to encourage studies on population and employment problems and to consult with one another on intergovernmental policies affecting world prosperity.

Freer trade will never be enjoyed, it is now admitted, unless each nation strives to avoid a domestic depression during which its imports as well as its foreign investments are drastically reduced. A depression as severe as that of the 1930's tends to spread rapidly among the interdependent members of the trading world. Even such a powerful and relatively self-sufficient country as the United States cannot maintain normalcy, let alone prosperity, in a world in which a severe depression afflicts foreign markets.

In regard to the proper means of combatting a depression within a national economy, however, the Charter makes no specific provisions. On the contrary, leaving member nations free to adopt employment programs appropriate to their economic and political institutions, it stipulates only that such programs should be compatible with international objectives. For even so purely an economic good as a full employment program cannot be adopted without considering its effects upon other members of the world economy.

Likewise, it is not enough for each country to promote economic expansion within its own territory. Consideration must also be given to other countries. Hence, regarding this first objective of the Charter, the I.T.O. is urged to investigate the conditions which create a persistent maladjustment in a member country's balance of payments. Should a creditor country, for example, continue over a period of time to sell more goods than it buys and to limit its foreign investments, the I.T.O. must inform this country that it is creating unbalance in the world economy. Similarly, the I.T.O. is obliged not merely to warn irresponsible debtor nations but also to assist them toward greater productivity and higher levels of income. Both debtor and creditor countries may at times require special consideration from the Organization because of a serious or abrupt decline in foreign demand. In this event, the Organization must have regard, in the exercise of its functions under other Articles of the Charter, for the need of countries to safeguard their economies.

[19] Pope Pius XII, *Address to Cardinals,* June 2, 1948.

Thus, the I.T.O. in seeking to expand world trade through greater economic activity must be ever mindful of the difficulties which threaten the well-being of each member nation. Such a broad and humane attitude toward international prosperity is in full accord with the recent pronouncements of Pope Pius XII. "National economy, the economy of a people incorporated in the unity of a state," the Pope asserts, "is itself a natural unity demanding as harmonious development as possible of all means of production within the whole territory inhabited by a people." [20] Production within these single national economies, the Pope states elsewhere, should be so prudently organized and balanced by the productivity of related economies that all may have access to international markets and individuals as well as nations enjoy a sufficient share of an abundant world product.[21]

Encouraging Economic Development

The second objective of the Charter requires the members of the I.T.O. to assist in the general economic development of the trading world particularly in those countries with resources as yet underdeveloped and in those with economies devastated by war. To this end, members shall take action within their own territories and cooperate with one another as well as with appropriate intergovernmental organizations. Studies should be made of each member's natural resources and industrial potentialities in order that plans may be drawn up for the development or reconstruction of the various economies and trading regions.

The execution of these plans will require adequate supplies of capital funds, materials, modern equipment and technical and managerial skills, and protection for infant, decreasing-cost industries. The European Recovery Program, to be sure, has already helped to guarantee such supplies to war devastated nations. The World Trade Charter has been amended to permit countries undergoing reconstruction the use of special protections for new industries.

What remains to be accomplished is the proper planning and providing for younger under-developed regions. Although technology is gradually transmitted from older to younger trading nations, this shift may, at times, cause real hardships. Such was the case when the United Kingdom, after the collapse of the multilateral trading system in the 1930's, lost to younger competitors a considerable portion of the export markets in the primary producing regions

[20] Pope Pius XII, *Address to Congress on International Trade Policy*, May, 1948.

[21] Pope Pius XII, *Address to Cardinals*, June 2, 1948.

which it had developed during previous decades.[22] At other times, the transition may be less costly. Since these economic changes will ultimately take place, however, it develops upon the I.T.O. to further and direct them for the benefit of the trading world.

Just how this will be practically effected was debated at both the Geneva and Havanna Trade Conferences. First, there was the problem of tariff protections. Here the delegates of the under-developed countries pleaded with "highly developed dialectical skill and vocal powers," [23] that their countries be exempted from most of the provisions of the Charter until they had completed their various economic programs. A growing nation in the process of developing its industrial resources, these delegates held, cannot as yet compete in a world market. It must, therefore, be protected against competition if its new industries are to mature.

The United States and other industrialized powers have been willing to concede to younger nations their right to be exempted from certain provisions of the Charter, but feel that there should be some guarantee as to the length of time in which protective devices will be required by these nations. Also, older countries advise that before large industrialization programs are undertaken, there should be some assurance that each country possesses the diversified resources and manpower essential to such a development.

A second problem connected with world economic growth is that of imperialistic policies. Regarding this, too, the delegates of the debtor countries have defended their right to self-development. Capital-rich countries, they point out, have often in the past attempted to control backward areas for the purposes of amassing profits, restricting production and dominating new markets thus carrying out a policy of economic or political exploitation.

In reply, the delegates of the creditor countries lost no time in reminding younger nations of the hazards surrounding foreign investments where governments are unsuitable and national economic policies, not wholly trustworthy. It is the debtor rather than the creditor, these delegates insist, who is frequently the stronger party in modern times. Such was the position of many Latin American countries in the late nineteen twenties. During the thirties, too, bilateral agreements often favored the debtor country. Thus, on the basis of their disillusioning experiences in recent years, the United States and other creditor countries have asked that foreign loans to under-developed lands be treated with at least the same respect as

[22] *Industrialization and Foreign Trade* (League of Nations, New York, 1945) p. 120.

[23] "Interim Report on Geneva", *The Economist* (London) June 14, 1947, p. 942.

other types of loans. In brief, they have asked that creditors also be assured of fair treatment.

A third problem affecting economic development is that of maintaining a free flow of equipment and technical skills between older and younger trading nations. Debtor countries, it is evident, are eager to share in modern technological improvements. They object to powerful nations and international cartels which prevent a shift of skills and equipment in their direction. They have even proposed that older countries contract some of their established industries so as to permit technical expansion in under-developed regions.

To most creditor countries, however, such generosity hardly seems advisable at present. In their views, prudent industrial expansion on the basis of joint ownership and direction is to be preferred to haphazard economic growth. These nations are convinced that once capital and technical skills are free to move from country to country, the I.T.O. will co-operate with existing governments and industries in planning further development.

According to the World Trade Charter, all three of the above problems of economic development are met by some type of compromise. First, under-developed countries are permitted by the I.T.O. to invoke trade controls during the early stages of an industrialization or agricultural program. These permissions are always subject to careful scrutiny, and the I.T.O. is obliged to consult with member nations whose trade would be affected. The Charter thus establishes a new principle in international relations: that import quotas are not to be employed, without international sanction, for the development of infant industries.[24] Secondly, while the I.T.O. warns creditor countries that foreign investments are not to be considered as a basis for interfering in the internal affairs of member countries, it likewise requires debtor nations to guarantee fair treatment to foreign loans and a just compensation in the event that these investments are nationalized. Finally, upon the I.T.O. devolves the duty of preventing member nations from placing any obstacle in the way of a free flow of capital and technical skills from one country to another, for such impediments will injure creditor and debtor alike.

A wise program of developmental investment, on the contrary, will be twice blessed. As Kenneth Boulding has so aptly stated: . . . "it will bless him that receives with roads, airfields, machinery and modern equipment and will bless him that gives with a breathing space in which to perform the vital task of economic educa-

[24] *A Constitution for World Trade* (U. S. Department of State), 1947, pp. 9-10.

tion."[25] Indeed, the second objective of the World Trade Charter—the fostering of economic development through the productive use of the world's human and material resources—is in direct agreement with the moral teachings of the Church. In a Statement on International Order, the Bishops of the United States declare:

"In fostering and promoting international co-operation (an international organization) must seek to guarantee to the weak and poor nations economic opportunities which are necessary to give their peoples reasonable standards of living, and it must seek to prevent selfish monopolistic control of raw materials which are needed for the economic stability of other nations. Effective international co-operation lays definite duties on favored nations. No nation may view with unconcern conditions that permit millions of workers in any country to be without the opportunity to secure from their labor adequate family support. Nations rich in natural resources must remember that ownership of property never dispenses from the social obligations of stewardship. Nations gifted with inventive and productive genius are obligated to serve the reasonable needs of other nations."[26]

Modifying Trade Restrictions

The third objective of the Charter which the I.T.O. will endeavor to attain is the development of a trading world where equality of opportunity rather than discrimination prevails. This aim calls for governments to abandon, or at least to modify, their use of tariffs and of quantitative restrictions such as quotas, subsidies and exchange controls. State trading groups also are required to act in conformity with this objective since international trade must be free from obstacles over an extensive area if private trade is to survive and grow.

The modern devices by which governments control trade were first adopted on a wide scale during the nineteen thirties when totalitarian states and bilateralism both appeared. Since the close of the war, these controls have become almost commonplace. Principally because of shortages of goods, imports and exports have been directed and controlled by governments as to quantity, source and destination. Foreign exchange, too, has been under rigid governmental supervision. As a consequence, the prospects for freer trade are somewhat uncertain. Pope Pius XII, in an address to a Congress on International Trade Policy, calls attention to the contrast between the disorder in economic exchange that has for some time ruled in

25 Kenneth Boulding, *The Economics of Peace* (New York, 1945) p. 189.
26 "On International Order", *Bishop's Statement,* November 16, 1944.

many countries and the law of harmony and order that God has stamped on all creation. "Goods whose exchange should serve to establish and maintain an economic balance among nations," the Pope observes, "have been the object of political maneuvering and not only material goods but often man himself, degraded to the status of exploitation." [27]

The United States, as the leading advocate of freer world trade, was faced with three alternatives at the close of the war. First, it might have concluded that the rest of the world was so committed to restrictions that any attempt to free trade was impossible. Secondly, because of its great power, the United States might have—without success—tried to persuade the rest of the world to adopt a simple set of idealistic rules for trade. Thirdly, it could have approached the question more realistically by not merely setting forth principles on which all nations could agree but by making detailed provisions for emergencies. This last alternative was ultimately chosen.[28]

At each of the various trade conferences, therefore, the American delegates have sought to harmonize their views with those of other countries, such as Great Britain, which have adopted a program of quantitative restrictions. To the United States, these restrictions seem far more detrimental to world trade than tariffs because they tend to regiment commerce under a political bureaucracy. American delegates concede that governments will need to manage exports and imports until world recovery is under way, yet they are convinced that, if the controls already in existence were to become the permanent trading machinery of the future, the economic errors of the nineteen thirties would be tragically repeated.

In British and Latin American views, on the contrary, certain trade restrictions seem necessary for an indefinite period of time. Such controls, they argue, must be allowed debtor nations as a means of safeguarding their balance of payment positions. According to their own views, furthermore, restrictive devices cannot be denied to other countries as long as the United States itself retains high tariff barriers.

In attempting to reconcile these opposing views and to satisfy groups within their own countries who were by no means of one opinion, the delegates at the conferences adopted a series of compromises aimed at the gradual attainment of ordered free trade. At Geneva, a General Agreement on Tariffs and Trade was signed by 23 nations who were responsible for three-fourths of the world's trade before the war. Here the nations agreed that the tariff schedules

27 Pope Pius XII, *Address,* May 1948.

28 William S. Clayton, *Radio Address,* Sept. 10, 1947.

and trade controls should not be altered without previous consultation with other members; that tariffs rather than quantitative restrictions eventually should be the principal means for regulating and promoting trade; and that non-discrimination should be the objective of the trade policy of the "contracting parties," preferential treatment being permissible only in special circumstances. In this Agreement, too, the signatory nations for the first time consented to apply unconditional most-favored nation treatment.[29]

The Havana Charter upholds these same general aims but contains specific compromises with regard to the various types of trade restrictions. Thus, while the members of the I.T.O. are committed to a substantial reduction of tariffs in the future, exceptions are granted in the case of postwar balance of payment difficulties and of economically undeveloped or war damaged countries. In each instance, however, these exceptions are subject to the authority of the I.T.O.

Similarly, the exceptions to the general rule of the Charter forbidding quantitative restrictions on exports and imports are limited by time and circumstances. Quotas, for example, may be used to relieve postwar difficulties but a member must consult with the I.T.O. to determine the effects of its restrictions on other countries. Export subsidies, too, are placed under the supervision of the Organization and are generally permitted only in the case of intergovernmental commodity agreements. Exchange controls also must be directly or indirectly approved by the I.T.O., acting in collaboration with the authorities of the International Monetary Fund.

Even state trading enterprises of member nations must submit to the same rules that govern private traders. Since price or quality considerations may no longer be of prime importance to a state monopoly, these groups are inclined to discriminate in accordance with political aims. Under the Charter, however, State enterprises must act in a manner consistent with the general principle of most-favored-nation treatment, buying and selling on the basis of commercial considerations.[30]

All of these concessions viewed as a whole may appear to weaken the Charter. They do not, in reality, nullify its powers. For in seeking the third objective—the relaxation of trade barriers, and restrictions—the I.T.O. must adapt principles to the changing times. All parties to the Charter admit in principle that nations should open world lanes of commerce and that protective national legislation

[29] Melvin J. Fox, *Some Aspects of the Tariff Changes at Geneva* (U. S. Dept. of State, 1947).

[30] See *A Constitution for World Trade*, pp. 5-6.

for legitimate economic interests must not impede the flow of international trade.[31] What must eventually be achieved is the putting into practice of these principles in a trading world wherein not only postwar economic difficulties have been surmounted but also national distrust and hatred, overcome.

Preventing Restrictive Business Practices

According to the fourth objective of the Charter, each member nation agrees to prevent as far as possible private or public commercial enterprises from restraining trade or fostering monopolies through such undesirable business practices as price fixing, allocating customers, suppressing technology and fixing production quotas. Since these practices are to a greater or less extent the accepted policies of international cartels and certain powerful corporations, the I.T.O. is obliged to regulate this type of international economic activity.

A cartel may be defined as an international arrangement between business enterprises to avoid some or all forms of competition and particularly the effects of excess industrial capacity. The growth of international cartels has accompanied periods of depression in which the world's productive capacity is always greater than its power of consumption. That cartel arrangements are continued in prosperous years would seem to indicate, nevertheless, that cartels are formed for some other reason apart from mere expediency. Business groups appear to have discovered on an international scale a fact which monopolists have always known, namely, that it is more profitable for a small group to control trade and limit production than to expand it.

In pre-war Europe, and especially in Germany, cartels were long regarded as an efficient means for carrying on international trade. Even during the second World War, plans were made either to resume old cartel connections or to form new ones. In Britain, the war years witnessed a rapid growth of various cartel-like arrangements on the part of export industries. Neither did certain American business groups hesitate to plan with their foreign associates, whether in Allied or enemy countries, for the resumption of cartel agreements in the postwar period.[32]

Sometimes, as in the case of most American concerns, cartel members have pursued policies of a purely business nature without regard for political considerations. Again, cartels have followed

[31] *Bishop's Statement,* November 16, 1944.

[32] Corwin D. Edwards, *Economic and Political Aspects of International Cartels* (Washington, D. C., 1944) p. 76. See also "British Trade Associations", Planning, May 12, 1944.

business interests while also serving the purpose of a particular country. Such has been the record of German-dominated cartels. But in either case, the ultimate aim of cartelization has been to gain profits or power through restrictive devices.

In the field of international trade cartels have tended to frustrate two of the basic policies advocated in the World Trade Charter. Always to a degree opposed both to tariff reductions and plans for world-wide economic development, cartel agreements ordinarily contain a provision whereby market territories are divided between member countries. Producers of steel in Country A, for example, will agree with producers in Country B that each keep its national territory as an exclusive market. If high tariffs exist in Country A as well as in Country B, it will be easier to hold to the cartel agreement. In fact, according to one authority, the main purpose of many entrepreneurs in entering international cartels is to prevent the import of commodities to their home market by foreign entrepreneurs and through private agreements to reinforce trade barriers established by their governments.[33]

Even in countries where no such trade barriers have existed, as in Great Britain during the nineteen twenties, a cartel such as that of the Imperial Chemical Industries was able to impose its own prohibitive tariffs. Members of certain cartels, to be sure, may at times limit domestic production in order to support world market prices. Yet as a rule, international cartels seek tariff protections not only to preserve market arrangements between its members but also to prevent competition from foreign firms which do not belong to the cartel.

For somewhat the same reasons international cartels desire to prevent the spread of economic techniques and industrial skills throughout the world. Such developments, cartel members maintain, will only add to the problem of excess capacity and declining prices. Hence, they have sought by various methods to limit economic expansion.[34] At times, the construction of more efficient plants to replace obsolescent ones is delayed. At other times, the development of substitutes that might permanently reduce the market for an older product is also retarded. Then, too, new enterprises that might be unwilling to collaborate in cartel policies are usually discouraged.

If the International Trade Organization, therefore, is to attain its general aims, it must also regulate those cartel practices that tend to restrict trade or foster monopolies. In order to do so, the I.T.O.

[33] Ervin Hexner, International Cartels (North Carolina, 1945) p. 109.

[34] These reasons were submitted by Corwin D. Edwards in his report to the Kilgore Senate Committee in 1944. See Edwards, *op. cit.*, pp. 29-41.

is empowered by the provisions of the Charter to act as a cartel court—to receive complaints of member nations, conduct hearings and make recommendations on all such business practices that seem to constitute an unfair restraint of trade. It will also urge member countries to prevent by legislation or any other method the growth of monopolies within their own territories.

Countries which have already legalized cartels will no doubt consider this function of the I.T.O. as one limiting their freedom to participate in foreign market arrangements. To those whose governments have assumed a neutral attitude toward business combinations, any anti-monopoly action on the part of the I.T.O. will be viewed with some suspicion. In Great Britain, for example, cartels are generally judged as being "not all white or all black" but as requiring, at the same time, full publicity and some governmental regulation.[35] This regulation, in British views, cannot be imposed from the outside by an international mechanism upholding the policies of the Sherman anti-trust laws. For, as the *London Economist,* in commenting on this third provision of the Charter, states:

"Shermanism, is, in general, a very healthy doctrine and a stiff dose of it is particularly needed in Great Britain. . . . But it would be unrealistic to suppose that it can possibly be enforced on any country from the outside. It is certainly right that countries should agree not to allow their industrialists to commit abroad what would be regarded as sins if committed at home. But it is going too far to say that they should regard as sins, if committed abroad acts that would be quite innocent at home." [36]

In the opinion of many Americans, on the contrary, the powers given to the I.T.O. are far from adequate. Although they realize that legal prohibitions of monopolies do not exist in any country except the United States and that even here these laws are far from effective, they are nonetheless convinced that antitrust boards should be established in every industrialized country. For Americans are keenly aware that if a large part of world commerce is cartelized, then the terms of trade will be turned against traders from a free enterprise economy. They will eventually be forced to enter into large export combinations such as those permitted under the Webb-Pomerene Act of 1918. Freer trade, as a consequence, will soon disappear.

Whether or not the establishment of antitrust boards can be considered possible at the present time, it is clear that the first step in the control of cartels is complete support of the I.T.O. policies.

35 See Edward S. Mason, Controlling World Trade (New York, 1946).

36 "Trade Argument", *The Economist* (London) October 26, 1946, p. 653.

Then, certain unilateral action may be adopted whenever international co-operation is delayed. In addition, a real effort must be made to secure high levels of production and employment in each member country so that prevailing economic conditions will be unfavorable to the growth of cartels.

Meanwhile, however, this objective of the World Trade Charter represents a definite step forward. Any such commitment would have been impossible in the inter-war years. A principle has been established—one in complete harmony with the Church's attitude toward large trusts and corporations which evade their social duties. This principle can be used as a criterion for investigation and action on specific cases. Beyond this, as one American official concludes, it is not now practicable to go on planning for the prevention of monopolistic hindrances to the growth of international trade.[37]

Controlling Commodity Agreements

The fifth and last objective of the Charter deals with intergovernmental agreements which may be adopted by member nations to regulate the production and sale of primary products when they are subject to damaging price and output fluctuations. Such fluctuations, especially in periods of surplus stocks and declining prices, have frequently provoked world-wide depressions. Hence, although these intergovernmental agreements may at times resemble government sponsored cartels in both their form and objectives, they are permitted by the I.T.O. as the only means yet devised for maintaining balance in production of primary products including chiefly raw materials during short run periods.

Raw materials constitute an important part of world trade. Many countries, such as the one or two crop countries, depend exclusively on an international market for the sale of their products. Some industrialized economies purchase almost their entire supply of food and raw materials from other nations. Even the so-called "diversified economies" are not completely self-sufficient in natural resources. Thus, to plan for expanding world trade without considering surpluses and shortages in raw materials would be to neglect a basic problem in a general program.

This problem was not always as challenging as it is at present. In the nineteenth century, when the world economy was expanding and competitive markets prevailed, the problem of commodity sur-

[37] Clair Wilcox, "The London Draft of a Charter for an International Trade Organization", *American Economic Review Supplement* (May, 1947), p. 540.

pluses rarely existed. Whenever surpluses did occur, they were managed by various market adjustments.[38] Then, as technical knowledge began to spread, the total output of raw materials was so increased that it soon exceeded the world's power of consumption. This condition, which was particularly evident in postwar and depression years, might have been at least partially avoided if the producers of raw material had not been unwilling to store their surpluses for the purpose of stabilization. But in the opinion of Lord Keynes, indeed, it is . . . "an outstanding fault of the competitive system that there is no sufficient incentive to the individual enterprises to store surplus stocks and materials, so as to maintain continuity of output and to average, as far as possible, periods of high and low demand."[39]

As a result of this failure of private enterprise to make adjustments during the Great Depression of the thirties, various governments sought to control the production of raw materials through buffer stocks[40] and quota schemes. Yet it was soon discovered that apart from some form of international co-ordination, these governmental programs often degenerated into economic warfare. Thus, Country A would "dump" its surplus products in Country B; Country B would then retaliate by passing anti-dumping laws while at the same time attempting to sell its own surplus stocks at less than cost in Country C. Ultimately, this type of warfare ended in the creation of various international commodity agreements for supporting prices and dividing markets.

The prospect of future surpluses in raw materials had led some governments and private groups to advocate the adoption of similar arrangements in the present postwar period. Great Britain, in particular, has urged that national buffer-stock schemes, such as those created in the interwar period to control tin, rubber and tea production, should be incorporated into an international buffer-stock plan.[41] Some American economists, again, have suggested that an International Commodity Corporation be established to act as a raw material market.[42] In any event, they agree that some form of inter-governmental institutions must be created and continued until

[38] Edward S. Mason *op. cit.*, p. 200.

[39] John M. Keynes, "The Policy of Government Storage of Foodstuffs and Raw Materials," *The Economic Journal* August, 1938, p. 448.

[40] Buffer-stocks are stocks of storable commodities which are used to offset fluctuations in raw material production. Additions are made to these stocks in periods of surpluses and declining prices whereas in times of scarcity, stocks are released for sale.

[41] Ervin Hexner, *International Cartels* (North Carolina, 1945) p. 109.

[42] Alvin Hansen, *America's Role in the World Economy* (New York, 1945) pp. 122-123.

the time when freer trade is generally established and the partial industrialization of under-developed countries, accomplished. Otherwise, it is argued, nations will resort to bilateral and unilateral devices to combat the effects of chronic raw material surpluses. Anti-dumping tariffs and the like will all be practiced and to a much greater extent than before.[43]

Not all governments or private groups, however share these same convictions. There are those who oppose commodity agreements as such, insisting that they should be outlawed along with international cartels. Buffer-stock schemes, it is maintained, failed when adopted by national economies in the interwar years; hence, they should not be undertaken now by the world at large. Another objection to the agreements is made on the plea that they favor producer interests—high prices and restricted outputs—at the expense of the consumer. Disapproval is also expressed toward any arrangement whereby food prices are bolstered through the distribution of surpluses to relief areas. Such plans are held to be unfair to importing countries who must buy food on a strictly commercial basis. Furthermore, it is said that this provision contradicts the general aims of the World Trade Charter. For while the third and fourth objectives are concerned with the removal of trade restrictions, the fifth one approves of plans that involve import quotas and export subsidies.

The I.T.O. in attempting to meet all of these objections has more than ever been forced to hold a strictly neutral position, according to which intergovernmental commodity agreements are neither prohibited nor fully approved. They may not be bilateral in form but must rather be open to any member of the Organization and give an equal voice to both consumer and producer groups. All such agreements require careful planning, full publicity and frequent inspection.

Since the long run solution to the problem of raw material production is not to be found in governmental schemes alone, it is hoped that production of various commodities will in time be centered in countries possessing superior advantages. Within a country, the more efficient producers should be favored so that the resources of the world will not be wasted but wisely distributed among the trading nations. World consumption, too, must keep pace with production by means of every sort of device to increase the purchasing power of less favored countries. If inter-governmental arrangements are planned according to these principles, they may then serve the common good during the periods of adjustment. For, as Pope Pius XII has so wisely declared, under present conditions, especially in view of the enormous destruction and fluctuation caused by war, every social

[43] Edward S. Mason, *op. cit.*, pp. 223-240.

reform is strictly bound up with the question of a prudent organization of production, according to which human values and natural resources will not be unjustly exploited.[44]

IV

THE I.T.O. IN A CHANGING WORLD ECONOMY

The International Trade Organization is about to begin its task at a time when economic difficulties far exceed those anticipated by Allied planners during the war. In the first place, food and raw material shortages have continued throughout the world for a much longer period than was expected. Most governments in food producing countries have retained strong controls over exports in the postwar period in the hope that existing supplies would not only be better distributed among needy nations abroad but also serve to check inflationary trends at home.[45]

A second difficulty confronting the I.T.O. is the monetary requirements of nations whose economies have been seriously devastated or distorted by war. The need for foreign exchange is much greater than either the Monetary Fund or the International Bank have been able to meet. Such a situation was not foreseen at Bretton Woods. As the *Second Annual Report of the Bank* states:

"We know now that the problem is deeper and more difficult than was envisaged at Bretton Woods. The deadening effects of the utter and prolonged disruption of trade has been more serious than was anticipated in 1944, delays in satisfying the most elemental needs for food and fuel have been greater, and the dislocations of the industrial mechanism, of governmental organizations and patterns, and of human resources, have been of more profound significance." [46]

As the nations of the world have found it increasingly more difficult to pay for American goods, they have been forced to adopt new import controls. Great Britain, for example, has limited its imports to relatively necessary goods. Other nations have shifted their purchases from hard to soft currency countries. Many more have entered into bilateral trading pacts.

In addition to these unforeseen developments, the positions of the principal trading nations have also been altered. The United States

[44] Pope Pius XII, *Address to Cardinals,* June 2, 1948.

[45] See Henry Chalmers, "Current Trends in Foreign Trade Policies," *Foreign Commerce Weekly* (February 8, 1947).

[46] *Second Annual Report of the International Bank* (Washington, D. C., 1947) p. 7.

has both retained its role as leading creditor and lender and become the world's foremost producer. Above all other countries, it is now more able to supply the world with manufactured goods. As a result, international trade, under present conditions, as Pope Pius XII notes, is really little more than a one-way flow of goods from the United States and other fortunate countries to needy peoples—a flow prompted by motives of Christian charity and a more or less disinterested benevolence.[47] Yet unless its imports or foreign loans are notably increased in later years, the United States will never be able permanently to maintain or even approach its present level of exports.

A postwar policy of expanding loans and imports is thus essential to the revival of trade. The Paris Committee on the Marshall Plan explicitly states: "The maladjustments can never be corrected on a basis of expanding trade unless market conditions on the American continent permit Europe to sell goods there in increasing quantities and permit other countries to earn dollars there and use them to purchase from Europe." [48] In time, greater imports should bring about the conservation of American resources, a higher standard of living for low income groups, more competition within the American economy and a means of collecting the vast sums that the government is now lending and investing abroad.

Since even a richly endowed country, such as the United States, cannot go on indefinitely increasing its imports and public loans, American private investments should likewise be encouraged through the regulatory powers of the Monetary Fund and the I.T.O. Only then, perhaps, will Americans become more willing to place their savings in foreign projects. At present, as Professor Viner asserts, . . . "The bloom is off the peach of foreign investments . . . from the private investor's point of view." [49]

For these reasons, too, Britain and Western Europe must to some extent regain their trading power through a revival of intra-

[47] Pope Pius XII, *Address to Congress on Trade,* May, 1948.

[48] "Text on Report on Paris Conference", *The New York Times* Sept. 24, 1947. Regarding the possibility of United States purchasing European goods in indefinitely increasing quantities see "Dollars—An American Problem," *The Economist* (London) June 3, 1948. Here it is stated that American balance of payments may be out of equilibrium even if there is a return to multilateral, non-discriminatory, unrestricted trade as envisaged by the I. T. O. Charter. Although it was easy for nineteenth century Britain to behave like a creditor, it is difficult for the United States. The latter now holds an unprecedented trade position because its needs to buy from the outside world are relatively elastic while the world's demand for American products is so great that a natural balance of payments is almost impossible of attainment (pp. 4-5).

[49] *American Economic Objectives* (New Wilmington, Pa., 1942) p. 28.

European trade and co-operative production for newly developed overseas markets. Former patterns of trade, it is now apparent, have disappeared and a new structure, quite unlike any known before, must soon be developed.[50] In this way alone can some type of multilateral system be established wherein members of one economic region are free to buy and sell their goods in all parts of the world. In this way, also, will the advantages of regional specialization and an international division of labor be once again enjoyed.

Such a system of international trade, however, should not be patterned according to either the decadent capitalism deplored by Lord Keynes at the end of the twenties or the totalitarianism of the nineteen thirties. No magic automatic formula or one that denies genuine liberty to human beings will put at the disposal of all members of society in a stable manner those material goods required for their cultural and spiritual growth. In the words of Pope Pius XII, it is not enough to establish free world trade for commodities when natural freedom is denied individuals.[51]

What is therefore urgently required for the proper functioning of the I.T.O. in the postwar world is a reorganization of social and economic life in harmony with Christian principles. Here governments as well as intergovernmental agencies will co-operate with employer, labor, farmer and professional groups organized around their specialized works. In such a fraternal collaboration of all peoples for the purpose of achieving and maintaining full production and freer world trade, ". . . Christian principles of social life must have their word, and the final word, if people really wish to be Christians and to show themselves as such in all their activity." [52]

[50] See John H. Williams, "The Task of Economic Recovery," *Foreign Affairs* (July, 1948) when he writes: "There is nothing in economic history comparable with the structural change that has occurred in Europe's international position. The pattern of international trade that developed in the nineteenth century has been entirely altered. We saw this only gradually after the war, and the Marshall Plan is the product of our better insight. . . . It is now three years since the war has ended; the Recovery Program is to cover another four, and no one knows what the structure or the conditions of the world economy will be then, except that it will conform to nothing that we heretofore have known as normal" p. 626.

[51] Pope Pius XII, *Address to Congress on Trade,* May, 1948.

[52] *Ibid.*

THE Catholic Association for International Peace is a membership organization. Its object is to further, in accord with the teachings of the Church, the "Peace of Christ in the Kingdom of Christ," through the preparation and distribution of studies applying Christian teaching to international life.

It was organized in a series of meetings during 1926 and 1927 — the first following the Eucharistic Congress in Chicago, the second in Cleveland that fall to form an organizing committee, and the third during Easter week, 1927, in Washington, when the permanent organization was established.

The Association works through the preparation of Committee reports. Following careful preparation, these are discussed both publicly and privately in order to secure able revision. They are then published by the organization. Questions involving moral judgments are submitted to the Committee on Ethics.

The Association solicits especially the membership and co-operation of those whose experience and studies are such that they can take part in the preparation of Committee reports.

Many of the reports contain study outlines to facilitate personal use and for Study Clubs in universities, colleges, and lay organizations.

Annual and regional conferences are held.

The committees of the Association since the beginning of the war have placed emphasis on studies for post-war international organization and action.

A junior branch of the Association was composed of students in International Relations Clubs in more than a hundred Catholic colleges and in Catholic clubs of secular universities. The separate clubs were united in geographical federations known as Catholic Student Peace Federations and received the co-operation and assistance of the parent organization. These Student Peace Federations have formed the nucleus of the more recently organized International Relations Commission of the National Federation of Catholic College Students, in relation to which the Catholic Association for International Peace stands in an advisory and consultative capacity.

PUBLICATIONS OF THE C. A. I. P.

Pamphlet Series: 15c a single copy; 10% discount on orders from $1.50 to $7.50; 20% on orders over $7.50.

No. 1—International Ethics *
No. 2—Latin America and the United States * †
No. 3—Causes of War, and Security, Old and New †
No. 4—Haiti, Past and Present †
No. 5—Francis de Vitoria, Founder of International Law †
No. 6—American Agriculture and International Affairs * †
No. 7—Puerto Rico and the United States †
No. 8—Europe and the United States * †
No. 9—The Ethics of War †
No. 10—National Attitudes in Children †
No. 11—Tariffs and World Peace *
No. 12—Manchuria—The Problem in the Far East *
No. 13—International Economic Life * †
No. 14—The Church and Peace Efforts * †
No. 15—War and Peace in St. Augustine's "De Civitate Dei"
No. 16—Peace Education in Catholic Schools
No. 17—Peace Action of Benedict XV
No. 18—Relations Between France and Italy
No. 19—Catholic Organization for Peace in Europe
No. 20—The United States and the Dominican Republic †
No. 21—An Introduction to Mexico *
No. 22—A Papal Peace Mosaic (1878-1936) †
No. 23—Arbitration and the World Court *
No. 24—Agriculture and International Life *
No. 25—Patriotism, Nationalism, and the Brotherhood of Man * †
No. 26—The Church and the Jews * †
No. 27—The Obligation of Catholics to Promote Peace, and the Rights of Peoples *
No. 28—America's Peace Aims †
No. 29—The World Society
No. 30—The Morality of Conscientious Objection to War *
No. 31—Transition from War to Peace * and Retributive Justice After the War
No. 32—A Peace Agenda for the United Nations
No. 33—A Papal Peace Mosaic (1878-1944)
No. 34—The Pattern for Peace and the Papal Peace Program
No. 35—The Catholic Revival in Mexico *
No. 36—The United Nations Charter
No. 37—Catholic Life in the West Indies *
No. 38—Peace in the Atomic Age *
No. 39—Symposium on Africa
No. 40—The Marshall Plan
No. 41—Timeless Rights in Modern Times
No. 42—The International Trade Organization

MISCELLANEOUS SERIES

Appeals for Peace of Pope Benedict XV and Pope XI (1917 and 1930) 10c
Suggested Readings in Ibero-American History 1c
Inter-Credal Cooperation † 10c
Secularism's Attack on World Order 5c
Preserving Peace on Four Fronts 1c
Catholics and Jews—A Study in Human Relations 30c
Monthly News Letter (October-June) .... per year $1.00

* Study Outline Appended. † Out of print.