Comment

KNUD ERIK SVENDSEN:

There is a serious omission in the paper by Niels Thygesen, as there is no consideration of the role of the profit-wage-relationship in the present crisis. It is far from satisfactory to conduct reasoning on the business cycle in terms of the changes in the oil price or in terms of various changes in the components of effective demand. One has to take into account that most of the capitalist countries *before* the short boom in 1973, which gave the inflation an extra push, and *before* the recession in 1974, had difficulties in securing sufficient profits to stimulate and finance business investments.

The discussions about income policy and in some countries about new forms of collective savings (fonds) have their origin in these problems. Income policies are, however, difficult to apply in times of high employment.

Many signs show, that the high priority presently attached to the fight against inflation as compared to the efforts to increase employment, really is nothing more than proof, that several capitalist countries think it possible to change their past full employment strategy. By this I mean, that the fear of undesirable effects of high unemployment has been considerably reduced, so that the states have more leeway in accepting a more permanent unemployment as the basis for a redistribution from wages to profits. This feeling of a greater freedom of manouver is not only based on political assessments, but also on the fact that the states now think that they have a greater degree of control over economic development so that they may prevent an escalation of the crisis, that they are able to aim at that level of unemployment which is optimal for the wage-profit-relationship.

The question of a sufficiently expansive policy is in light of this not a question of achieving closer international coordination or ensuring internal political backing of such an expansive policy. It is rather a question of a lack of interest in such an expansive policy, sometimes presented in form of warnings against repeating the errors of the past which were overexpansion with high rates of inflation as the consequence.

Economic prospects and interrelations in the Atlantic area

Sidney L. Jones:

The eminent English philosopher, Thomas Carlyle, once observed that: "No man lives without jostling and being jostled; in all ways he has to elbow himself through the world, giving and receiving offense." This description can also be applied to international economic relations. The most significant contribution the United States can make is to stabilize its domestic economy to avoid disrupting the integrated progress of the world economy. Similarly, our domestic economy will be increasingly affected by external developments.

I. *Framework of Atlantic Community Economic Relations.* The international economic goals of the United States can be summarized as follows: (1) maintain sound domestic economic policies; (2) continue the liberalization of world trade and investment to avoid "beggar-thy-neighbor" actions; (3) assist developing nations to grow to economic self sufficiency to fulfill their aspirations; and (4) maximize the benefits from the world's resources. These basic objectives are shared by all nations in the Atlantic Community because they all benefit from stable economic growth and the expansion of trade and investment based on the principles of comparative advantage. However, the individual nations are not integrated politically and each will continue to have specific domestic and foreign economic policies which will best serve its sovereign interests.

While it would be naive to expect complete unity on every policy issue it does not follow that discord within the Atlantic Community should occur. Meaningful alliances do not require that all differences be eliminated but that independent policies be coordinated to achieve our mutual goals. The tangible benefits of continuing the development of an open world economy are an important incentive for cooperation within the Atlantic Community.

Throughout 1976 and beyond, member nations of the Atlantic Community will need to concentrate their attention on economic recovery from the severe recession and reducing the existing high levels of inflation and unemployment. At the same time they must continue the basic monetary, trade and investment reforms which will determine future international economic relations.

II. *International Monetary Issues.* The patterns of exports and imports, the location of production facilities and international capital flows are all directly influenced by currency exchange rates. Unfortunately, the status of the U.S. dollar became increasingly overvalued during the 1960's but could not be adjusted under the existing monetary system despite the adverse trade developments and large capital outflows. In many nations distruptive currency devaluations occurred, often under crisis conditions. The familiar postwar monetary system based on fixed exchange rates finally collapsed in 1971 and multilateral exchange rate adjustments were agreed to at the Smithsonian Meetings at yearend. Those adjustments moved in the right direction but were not adequate to correct the overvalued condition of the dollar. In February 1973 the United States unilaterally devalued its currency and in March 1973 a period of floating exchange rates was initiated. Since then a series of reform efforts, under the direction of the International 'Monetary Fund' (IMF) have moved steadily forward leading up to the Interim Committee agreements in Jamaica in January.

In participating in the reform efforts since 1971 the United States has emphasized the following basic goals:

(1) The monetary system should remain flexible but include clear guidelines to prevent unusually large or chronic payment imbalances which would ultimately disrupt the equilibrium of the entire world economy.

(2) Each nation should retain authority to select its own preferred solutions to payment imbalances, which might include changes in domestic fiscal and monetary policies, shifts in trade and capital flow patterns, or adjustment of currency exchange rates.

(3) The U.S. dollar should not be returned to its previous central position as the reserve currency. Furthermore, the continued

use of currency devaluations to gain competitive advantages should be prevented. At the same time the system should provide for more timely adjustments to avoid serious over- and undervaluation of national currencies.

(4) The new system should provide a meaningful surveillance authority to enforce the rules adopted. The IMF has been selected to serve that role and Section I of the suggested amendment to Article IV, which governs exchange rates, requires that countries "... avoid manipulating exchange rates or the international system in order to gain an unfair competitive advantage over other members." Section III of the proposed Article IV provides that the "... Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section I of this Article."

(5) The basic goal of international monetary reform is to restore stability to the system. The basic provision that each nation is to select its own approach to exchange rate valuation is not inconsistent with that overall objective. Real international economic stability will occur only when the underlying economic variables create the necessary environment. Simply assigning an arbitrary set of values to national currencies will not create stability unless domestic fiscal and monetary policies and international trade and capital flows are consistent with the basic economic requirements. Nor will the operating flexibility provided by recent agreements create instability or uncertainty if the underlying economic conditions are favorable. The fundamental goals throughout the Atlantic Community appear to be compatible and considerable progress has occurred culminating in the agreements reached in Jamaica in January.

The entire structure of the international monetary system will undoubtedly continue to evolve in the future. Nevertheless, the agreements reached by the Interim Committee meeting in Jamaica represent an important benchmark that will enable the broad reform measures to move ahead. The United States supports these agreements as a basis for reducing instability in exchange rates. Unfortunately, over the last two decades there have been over two hundred exchange rate adjustments. The only meaningful solution to the unwanted volatility that has persisted and the periodic currency crises that have resulten is the application of more responsible domestic fiscal and monetary policies and the coordination of international trade and financial policies which would help prevent disruptive "beggar-thy-neighbor" actions.

III. *International Trade Issues.* The United States strongly supports the growth of an open trading system. The case for free trade is based on the general concept of comparative advantage. Trade barriers typically reduce or eliminate the exchange of goods that would benefit all countries. Similarly, trade restrictions which insulate domestic producers from foreign competition reduce the pressures for controlling price increases and creative product development.

The remarkable economic development of Western Europe during the past thirty years has been a major factor in the expansion of U.S. trade. In turn, American markets have become increasingly important to European exporters. Throughout the 1960's the United

States maintained a surplus position in bilateral trade with the European Community but the gap has narrowed and moved into approximate balance in recent years. In general, both areas have benefited greatly from the expansion of trade within the Atlantic Community.

The United States has strongly supported the new round of GATT negotiations which officially began in 1973. Within the general framework of creating a more open world trading system the United States has the following goals:

(1) Reducing, harmonizing or eliminating nontariff barriers. These measures have proliferated in recent years and have often reduced or nullified the benefits of tariff cuts or completely prevented trading. Because nontariff barriers are difficult to identify and quantify they have become a major negotiating problem. Guidelines for controlling export restraints, limit the use of subsidies product and safety standards, public procurement, administrative restrictions and quantitative quotas must be improved.

(3) Introduction an improved international "safeguard" system to avoid serious disruptions of national markets resulting from sharp increases in imports.

(4) Strengthening the enforcement of international trade rules to minimize conflicts among trading nations.

(5) Providing for the special trade needs of developing nations.

(6) Preserving equitable access to supplies at reasonable prices. In dealing with commodity issues, the United States continues to believe that a case-by-case approach is essential and that restrictive agreements and pricing formulas are not useful for most commodities.

The United States has been encouraged by the relatively successful OECD Trade Pledge to avoid discriminatory trading practices during the difficult period of growing current account deficits for most industrial nations resulting from the serious international disruptions caused by the quadrupling of oil prices and the effects of the widespread economic recession. We also support the use of prior consultations within the OECD as a means of avoiding trade measures which violate the terms and spirit of the agreement. Similarly, we have supported the long negotiations attempting to develop limitations on official export credit subsidies. Both of these issues demonstrate the difficulty of preserving an open trading system during periods of unusual economic strain and domestic pressures to protect markets and jobs.

The major thrust of U.S. trade policies was summarized in the important trade legislation which was finally approved in January 1975 following many years of internal debate. That benchmark legislation was a necessary prerequisite for U.S. participation in the current Multilateral Trade Negotiations and provides the U.S. government the necessary flexibility for conducting its trade policies. Basic provisions include:

(1) Authority to negotiate for more open access to markets and supplies with emphasis on equity and reciprocity;

(2) Increasing flexibility in providing escape clause relief and adjustment assistance for American industries, workers and individual firms suffering injury from import competition;

(3) Provisions for diversifying the types of actions the United States can take in

responding to unfair international trade practices;

(4) Authority to expand normal commercial relationships with the nonmarket economies; and,

(5) Authority to fulfill the pledge to establish a plan of generalized tariff preferences for certain trade with developing nations.

The trade reform legislation is a further step in promoting a more liberal trade policy. However, some foreign critics have described it as being potentially a protectionist measure. In fact, there have been many expressions of concern in Europe about the possible growth of protectionist sentiment in the United States, particularly the recent action to analyze foreign steel and automobile imports for possible "dumping". This is frankly a puzzling viewpoint which is not supported by law to investigate all formal complaints of alleged "dumping" of foreign products in the U.S. markets but there has been no evidence of any overt effort to tighten the existing restrictions nor is there any indication of any growing protectionist movement. To the contrary, the protectionist pressures appear to be moderating as the major swing in trade continues. The increase in investigations is due to all pending cases received over the past few years being completed all at once under the Trade Act limit. Major changes are occurring in comparative unit labor costs, energy costs and other competitive factors which have combined with flexible exchange rates to significantly improve the outlook for U.S. exporters. The strong U.S. economic recovery that started in April 1975 has also reduced the risks that protectionism in America will become a serious threat to Atlantic Community trading relations.

IV. *International Investment Issues.* Member nations of the Atlantic Community have also avoided the widespread adoption of capital controls despite the distortions created by economic recession and oil price changes. Foreign direct investment and short-term credit to finance trade have played an important role in the economic development of the entire region during the postwar period. Unfortunately, short-term capital flows can also be disruptive if they are contrary to domestic stabilization goals or create significant balance-of-payments problems. Most short-term capital flows are temporary and self-reversing. However, it is occasionally necessary to neutralize these flows. For example, a basic role of the IMF is to provide official financing to assist members in overcoming short-term payments dificits. Other examples can be given in which individual countries have adjusted their fiscal and monetary policies. A third approach is to directly limit capital movements. The United States, for balance-of-payments purposes, instituted three such programs in the 1960's. The Interest Equalization Tax was applied to securities sold in U.S. capital markets by developed countries (except new Canadian issues) and long-term bank loans beginning in 1963. In 1965 the Federal Reserve Voluntary Credit Restraint Program created voluntary guidelines for capital flows from banks and other financial institutions. At the same time voluntary restraints on direct investment were established; this program became mandatory in 1968. Unfortunately, such programs also create serious distortions in the efficient allocation of resources. The relaxation of capital controls began in 1969 and they were finally revoked in January 1974. Since then the United States has avoided controls and our financial markets have been open to domestic and foreign governments and companies.

The U.S. government has reaffirmed its intention to avoid additional restrictions on foreign investments in America. There have always been specific requirements that foreign investors conform to U.S. laws and certain types of investments – such as ownership of communication companies, nuclear energy facilities, mineral resources on Federal properties, certain transportation companies and a few others – are prohibited. But in general foreign investors receive the same treatment as domestic investors. During the period of maximum concern about the possibility that OPEC funds would flow into America to buy up basic industries various bills were submitted in the Congress to severely restrict foreign investment. The Administration strongly opposed such actions and no additional barriers were created. The OPEC nations have given no evidence of any effort to buy up American firms. At the same time the inflow of investment frof Europe continues to increase steadily and U.S. foreign investment continues at a somewhat moderated pace. As of the end of 1974, the total book value of U.S. foreign direct investments totaled $ 119 billion. Of the total amount $ 45 billion, 38 percent, was committed to Western Europe. From the opposite viewpoint, foreign direct investment in the U.S. was $ 22 billion of which $ 14 billion, or 64 percent, was by European investors.

V. *Outlook*. It remains as true today as ever that the economic performance of each nation will depend upon the effectiveness of its domestic fiscal and monetary policies and how well it adjusts to the competitive environment created by the increasing integration of the world's economic system. Member nations of the Atlantic Community continue to share the same basic economic goals and they all face the same problems in their achievement. Fortunately, the disruptive experiences of the past when co-operation failed provide strong incentives to continue working toward a more open international monetary, trade and investment system. The specific day-to-day reform negotiations will be slow and occasionally abrasive. However, these temporary frustrations should not cause us to lower our goals but to use more realism and determination in achieving them.

Finn Gundelach:

Our recent economic experience has more than ever before shown us the necessity of close co-operation between the US and the EEC. We may have a number of differences between us, but the recent economic upheaval has clearly shown the interdependence between the US and the EEC. It has underlined the joint responsibility of the US and the EEC for the world economy. This responsibility involves co-ordination of major economic issues partly among the industrialized countries and partly between the industrialized and the third world.

Amongst the industrialized countries we have learnt that the really big issues in economic relations between industrialized countries are not the outstanding trade problems,