The recent publication by the Commonwealth Government of a report on the United Nations Conference on International Trade, which commenced in London last October, has focussed attention upon plans being made for the regeneration of world trade.

The last twenty years have seen a mounting accumulation of difficulties and problems surrounding international commerce and they have seen, too, the disintegration of the system of virtually untrammelled interchange of goods between nations which had lasted for a century or more. Damaged, though not mortally, by the First World War, this system received a paralysing blow at the close of the twenties with the onset of the World Depression when the value and volume of international trade declined with catastrophic suddenness.

It did not wholly recover and its whole basis was radically altered. Estimates made by the Economic Intelligence Service of the League of Nations show the following changes between 1928 and 1938.

	1928 £ stg. millions	1938 £ stg. millions
Value of World Exports	6,702	4,482
Value of World Imports	7,291	5,027

Note: The difference between the import and export figures is due primarily to the inclusion in imports of transport costs.

An appreciable part of the decline in values can be accounted for by lower prices, but the physical volume of goods exchanged is estimated to have also fallen by 8 per cent. to 9 per cent. between these years — a very substantial decrease in view of the magnitude of the figures.

Growth of Bilateralism and National Self-Sufficiency

It was chiefly through its devastating financial effects that the world depression brought disaster to international trading. The collapse of the American market and its demand for the goods of other nations* meant that a large majority of countries were unable to balance their international accounts, and this led them to cut down their imports by means of high tariffs, quotas, and exchange controls. The Gold Standard, which had been the basis of financing world trade for a century, had to be abandoned, and with it went the means of financing a system of relatively free, multilateral trading whereby the importers of most nations were able to buy wherever they thought fit, and exporters to sell their products to the highest bidders in a world market. **The combination of economic necessity and fear of another world conflict led many nations to follow policies of national self-sufficiency and economic isolation.** Central European and South American countries especially resorted to bilateral trade† and clearing agreements which were, in effect, no more than the ancient system of barter with a few embellishments added in order to conform to modern bookkeeping practice. This system spread rapidly and the military dictators of Germany, Italy and Japan were quick to seize upon it as a choice means of exerting economic and political pressure upon the weaker countries. Thus, over a large area, world trade became strictly regimented and controlled, and for many nations any semblance of freedom in buying or selling abroad was lost. At the outbreak of the war the system of free multilateral trade had, to all intents and purposes, ceased to exist.

Importance of World Trade

A prosperous world requires a vigorous expanding system of international trade. It is of great economic advantage to any nation that it should be able to import goods which can be produced more cheaply elsewhere, and that it should be reasonably assured of finding export markets for those products in the grow-

* Sir William Beveridge in his book "Full Employment in a Free Society" points out that the depression caused the supply of American dollars to the rest of the world — arising from American imports and lending—to shrink from $7400 million in 1929 to $2400 million in 1932.

† The basis of bilateral trade is that country A agrees to buy from country B, only on condition that country B will reciprocate by purchasing an equivalent amount of its own goods. It is the direct opposite of multilateralism where countries are free and able to spend the proceeds of their exports wherever they wish.

ing or manufacture of which it excels as a result of its natural resources, or its own particular inheritance of skill and experience. And politically, it is of immense importance that nations should be able to share in vital raw materials and that they should be able to enjoy the benefits of an expanding foreign trade free from the unpredictable upheavals which marked the decade preceding the Second World War. **The justification of international trade on the largest possible scale is thus twofold—it aids the attainment of the maximum standards of life and it assists the cause of world peace.**

A New Approach

With a view to the achievement of these ends, the United Nations, with Great Britain and the United States of America in the van, are in process of developing entirely new plans to promote and to provide stable foundations for the future conduct of world trade.

Three major practical steps have already been taken; the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development in terms of the Agreement reached at the Bretton Woods Conference in 1943; the conclusion of the American Loan Agreement with Britain; and the First Session of the United Nations Conference on Trade and Employment recently concluded in London.

The basic purposes of the Bretton Woods Scheme are:—

First, to provide nations suffering from an adverse balance of payments with temporary financial assistance to tide them over:

Second, to enable the resumption, on a sound basis, of long-term international lending for the reconstruction of devastated countries, and for the development of less advanced areas:

Third, to preserve reasonable stability of exchange rates between the various national currencies:

Fourth, to achieve free convertibility of one currency into another, which is the foundation of the multilateral system of trade.

The second major step was the American Loan to Britain. With the abrupt ending, in August, 1945, of Lend-Lease assistance, it at once became apparent that Great Britain would need immediately some special form of assistance owing to her grave external financial situation which was her dubious reward for fighting the war harder and longer than any other nation. Without some such assistance it was clear that it would have been impossible for Britain to play a proper part in the new plans for restoring and developing world trade. As the Loan Agreement delegated the final authority in certain matters to the Administration of the International Monetary Fund, Britain was committed to immediate ratification of the Bretton Woods Scheme, and hence to the principle of free convertibility of currencies which had been a cardinal feature of the Gold Standard in pre-depression days.

The Plans Considered

The third step in this process of reconstruction, the London Conference of the United Nations, was chiefly concerned with the following important aspects of international trading:

1. The securing of a high and stable level of employment and production in every country.
2. The reduction, or elimination, of restrictions on international trade imposed by Governments, e.g., tariffs, quantitative trade restrictions, subsidies, bilateral trade or clearing agreements.
3. The curbing of restrictive private business practices which might hamper world trade.
4. The preservation of reasonable order and stability in world markets for primary commodities.

5. State Trading in the international sphere and the making of inter-governmental agreements or arrangements.

In addition, the Conference considered the early establishment of a new International Trade Organisation to act as a central agency for keeping a continuous watch on, and possibly for exercising some control over, all aspects of future world trade. The basis of the approach to these problems was the restoration, **so far as is practicable**, of multilateral trading free from tariff or other restrictions, discrimination or preferential treatment, and any form of controlled or "blocked" financial arrangements.

During the discussions, substantial modifications to the original draft plans placed before the Conference, which emanated from the United States, appear to have been made. According to reports in "The Economist" of 30th November, 1946, these changes were on the whole improvements. One important modification is summed up by "The Economist" as follows:—

> "The principle is now explicitly accepted that it is part of a country's economic duty to its neighbours to preserve full employment within its borders and not to allow the total of its effective demand for other countries' products to fall away suddenly because of instability at home. If a country sins in this respect, it can, in principle, be excluded from the benefits of the Charter."

Coupled with this there appears to have been another important alteration in that the rules relating to the imposition of quantitative restrictions on imports have been made much more elastic. Another change, that may also be of special importance to Australia, is the addition of new clauses to the draft plans covering special exemptions for "developing" areas from the general provisions relating to the removal of trade barriers.

The proposals finally drawn up at the London Conference are so lengthy and complicated, that worthwhile criticism or commentary on the details at this early stage by the detached observer is exceedingly difficult. Broadly speaking, however, it can be said with confidence that the achievements of the Conference were considerable and that the nations are proceeding along sound lines. Further consideration of the plans will be given at a second Conference to be held in Geneva in April, when an attempt will be made to negotiate reductions in tariffs, on a reciprocal basis.

Differences Between New Style and Old Style Multilateralism

It must not be thought that these attempts to revive international trade add up to no more than a reversion to free trade on the old model, which collapsed so disastrously in the thirties under the impact of the world depression. **There are many and profound differences between the new style multilateralism and the old.** The old system was governed by the gold standard and was automatic and rigid in its operation. The new system aims to combine the free convertibility of currencies, an outstanding advantage conferred by the gold standard, with a sufficient margin of elasticity to enable the system to withstand the inevitable strains and stresses of international commerce. Under the gold standard exchange rates were free to fluctuate only between the narrowest of limits. The new system, while aiming at the stability in exchanges which is essential to orderly trading, allows a country reasonable freedom to alter the exchange value of its currency.

Under the old system the plight of the nation with an adverse balance was generally aggravated by the withdrawal of liquid short-term capital. Under the new plans debtor countries will be in exactly the reverse position. They will be entitled to draw on the resources of the International Monetary Fund to assist them with their embarrassments.

In the old system each nation was free to act, and generally did act, individually; under the new system it is intended that the nations should work together in close co-operation, and that the stronger should aid the weaker. **Whereas under the old system the outcast in international trade was the nation with an adverse balance of payments, under the new the nation with a persistently favourable balance will not entirely escape its measure of responsibility for restoring equilibrium.**

Australia and the Plans

Australia, more than most countries, has a special interest in the welfare of world trade, as the income we receive from our exports and the terms on which we can purchase our imports profoundly influence Australian prosperity and standards of life. Relative to her population, Australia is a very large producer of some of the most important primary commodities such as wool, wheat, meats, butter and fruit. Much of this production must be sold abroad and, equally, we have to continue to import heavily if our customary standards of life are to be maintained, let alone raised.

A further, and most important, factor which would seem to indicate that Australia should take an enthusiastic part in this world-wide effort to reach a more stable and prosperous basis for international trade is that our economy is so closely linked with Great Britain. For good or for ill, Britain has become a leading member of the Bretton Woods Scheme and, for good or for ill, she is committed to assist toward a general reduction of trade barriers and the restoration of multilateral trading. In view of these considerations, **Australia's failure so far to ratify the Bretton Woods Agreement appears to reach the heights of folly, and indicates an unimaginative "little-Australian" approach to these great matters on the part of those opposing ratification, which is, to say the least, highly disturbing.**

Only incredible ignorance and foolishness could lead Australia to pursue an external economic policy which disregards or cuts across, in a fundamental sense, the wishes and ideas of the majority of other nations, and especially those of Great Britain and the United States. As Professor Herbert Burton aptly said to the 1947 Summer School of the Australian Institute of Political Science, "After all, we are not well cast for the role of 'a big shot' in power politics."

Willing co-operation with these great powers is esential both to our security as a nation and to the well-being of our industrial and commercial structure. In common with most other countries, we are committed to a domestic policy of avoiding unemployment and, if such a policy is at the same time to contribute toward the steady improvement of our standards of life—in other words, if it is not to degenerate merely to "sweeping leaves"— it must be linked with the policies of other nations so as to allow of steady expansion in our overseas trading. In case there should be any misunderstanding, it needs to be said that this co-operation does not imply that we will be compelled, or even expected, to do away overnight with tariff protection or to sacrifice the basic structure of our economic secondary industries; if that were so we would be justified in standing aloof.

It is imperative on all counts that Australia should throw her full weight behind these attempts at restoring world trade.

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