*Review and Reflection*

# EVERYTHING IS FINE BUT - - -

BY

ROBERT CLANCY

THE IMMEDIATE future is of the greatest interest to most of us. Reports of what happened, even of what is going on, and forecasts of the dim future do not absorb us as much as anticipation of what is about to happen tomorrow or for the next quarter, or the next fiscal year.

Earlier this year President Nixon's Council of Economic Advisers issued an Economic Report and naturally included expectations of what is to come. In transmitting the report to Congress, the President looked forward to "full prosperity without war, full prosperity without inflation." Since then we have had continuing war and inflation, and a state far from "full prosperity." Unemployment has remained high and we have what the Report calls the "unemployment—inflation dilemma." The stock market has alternated between sluggishness and fits and starts, the cost of everything has gone up and high taxes continue to climb higher. The high interest rates imposed, designed to curb inflation, have not done so but instead have curbed investment.

Paul McCracken, Chairman of the Council of Economic Advisers, and no doubt his colleagues too, seem to believe in the virtues of a free economy. They want to see the free market flourish, yet at every turn they encounter problems and situations that seem to require governmental action. A large percentage of the labour force has been in defence-generated employment, either working directly for the Government, or in the armed forces, or in private industry working on defence contracts. The current effort to cut back defence spending has, in part, generated the current unemployment. In spite of the desperate desire for peace, there is widespread fear of yet greater unemployment if "peace breaks out." The Council finds that the Government will have to sponsor some sort of employment to take up the slack; also that some halt will have to be called to wages and profits since "voluntary controls" do not work. This in spite of their stout defence of the private enterprise system.

Attention is paid to environmental pollution problems. The Council suggests that charges could be levied on pollution—*i.e.*, a charge on emission of harmful substances. An alternative proposal is to set "prices" for the use of air and water. This latter proposal is unfortunately only mentioned and not pursued. It deserves exploration and it bears an interesting resemblance to the proposal to pay the rental value of land to the community. The charge on emissions is more elaborately pursued. It is more complicated, but nevertheless seems to have more appeal to the Advisers, even though they are all for freedom.

This being an economic report, it is surprising that so little is said about the problem of poverty and welfare which looms so large today. However, some mention is made of public assistance toward medical care, and another dilemma is brought out; namely, that the medical program "reduces the incentive of poor persons to earn more income by making them ineligible for benefits if their income rises above a certain level." This indeed is the dilemma of all public welfare—but no solution is offered in the Report except to recommend "further efforts" to solve these problems.

A section in the report is devoted to "The United States in the International Economy" and deals chiefly with trade. Dilemmas appear in this area, too. President Nixon is quoted: "The Administration remains committed to the objective of expanding mutually advantageous world trade. The record of the United States demonstrates clearly its willingness to assume its obligations in this field. We must continue to do our part, while at the same time defending vigorously the rights of traders under international agreements."

What "obligations," what "defending," what "agreements?" In the light of the first sentence of this statement, why not just let traders trade as they find it mutually advantageous? Here is the dilemma again—the voice is that of free trade but the hand is that of protectionism. With the avowed aim of expanding world trade, the United States has been setting new and higher tariffs, imposing quotas and, looking with jaundiced eyes on foreign competition, has besought other nations to "voluntarily" restrict their imports.

One interesting observation made is that when times are good there is not quite so much anxiety about a "favourable balance of trade." "With domestic economic expansion, increases in personal incomes and prices, as well as greater pressures on productive capacity, cause a growing proportion of rising domestic demand to be taken care of through purchases from abroad."

This statement holds the key to most of the problems mentioned in the Report. A condition in which there were full employment, good wages and a brisk demand would take care of the dilemma raised. Such a condition would require the abolition of special privilege, the restoration of full natural opportunities, and consistency in applying free market principles. Unfortunately, there is little advice to this effect in the Report, in spite of its appreciation of a free economy.

Since the Economic Report is done on behalf of the Administration, it wants to believe that the economy is doing fine, but it cannot quite shake off the contradictions. The door to prosperity is still closed to current economic policies. One is reminded of the last lines of a verse recited by Lewis Carroll's Humpty Dumpty:

"And when I found the door was shut,
I tried to turn the handle, but—"
"Is that all?" Alice asked.
"That's all," said Humpty Dumpty.


# The Hidden Barriers

WILLIAM ROBERTS

ALTHOUGH tariffs are undoubtedly still a formidable barrier to international trade, they have been diminishing as the principal impediment. The reason for this is that they are being superseded by non-tariff barriers. In a way, this shift in emphasis may appear as a drift towards freer trade but we must not delude ourselves for though they are not as rigid as tariffs, non-tariff barriers are still quite formidable.

In an article that appeared in a recent edition of the *EFTA Bulletin*, R. W. Middleton traced the historical emergence of these "new" barriers and examined those that come under the heading of "technical specifications" and described the effects they can have on exporters.

According to Mr. Middleton the emphasis from tariffs to non-tariffs was changed by three events which occurred between 1966 and 1968. "On December 31, 1966, EFTA completed its programme for the abolition of tariffs on industrial goods traded between its member countries. On June 30, 1967, the Kennedy Round negotiations in the GATT came to a successful conclusion, involving average tariff cuts of about 35 per cent in manufactures traded between the industrialised member countries. And on June 30, 1968, the European Community completed its Customs Union, involving the abolition of tariff barriers on trade between the six member states." He continues with an historical analysis of their emergence noting that it was a little time before non-tariff barriers were considered in any depth, from which we may deduce that countries were rather wary of breaking with tradition.

At present, "industrial standards" or what could be more accurately defined as "technical specifications" are being seriously examined as actual or potential non-tariff trade barriers in GATT, EEC and EFTA "of which" Mr. Middleton says, "only a few, and in different ways, have a direct trade hampering effect." There are two types of technical specifications, "voluntary" and "compulsory."

The "voluntary standards" have the following aims:

(1) to establish standard nomenclature, symbols and definitions for products, parts, materials, etc.

(2) to establish standard methods of measurement, evaluation and test.

(3) to reduce variety and to agree on standard dimensions, tolerance and series.

Being "voluntary" these specifications do not represent any real trade barriers for as Mr. Middleton points out "there is no legislative obligation on the manufacturer to comply with such standards." Nevertheless there are strong reasons for industry to adopt and apply them.

The author says that "in general, trade barriers are caused only by those technical specifications which are compulsory *de jure* or *de facto*, although it could be argued that the mere existence of a body of established technical practice in one country, even though voluntary, creates difficulty for the sale of products where different practices exist.

The effects of compulsory technical specifications on the free flow of goods between nations may be of two sorts: "divergences between national specifications and those arising from any certification and approval procedures as may exist for the enforcement of the specifications."

Concerning the first sort Mr. Middleton believes that divergences distort competitive conditions rather than impede international trade: "a manufacturer serving only his national market can adjust his production to a single technical specification, thereby gaining economies of scale. Such economies are denied the exporter who has, as long as there is divergence, to adjust his production to the specification of each individual market he serves."

On the other hand the author believes that certification and approval requirements may exercise their effect on trade in two ways. "Firstly, the requirement that a foreign exporter obtains for his products a certificate or mark of conformity from a body in the importing country will normally necessitate either the shipment of a sample or samples of his production to that country for inspection and testing, or visits by inspectors from the importing country for the purpose of carrying out inspections and tests in his factory. Even if the fees for the inspections and tests are not de-