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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

United States
(Spec(82)6/Add.4)

1. The representative of the United States, introducing his delegation's submission, drew the Committee's attention to page 2 concerning the general policy orientation of his government with respect to structural adjustment. That policy was based on the premise that the government should intervene as little as possible in the market place and that structural change should proceed without government assistance, based on the cumulative effect of decisions taken by millions of individual economic agents. Under this orientation, government policy should set the general - or macroeconomic - parameters for the economy by means of tax, budget, and monetary policies but should avoid involvement in individual sectors of the economy. The United States did not have a sector specific industrial policy as did some contracting parties.
2. Nevertheless, his government did intervene from time to time directly in the adjustment process primarily in order to distribute the costs of such adjustment over a wider portion of the population and to ease the costs of adjustment. The United States contribution, beginning on page 10, gave a detailed description of how this was done, both through the use of temporary trade measures and by means of financial assistance to workers, firms and communities. The paper also described the government's action with regard to specific industrial sectors - steel, autos and footwear - where for overriding social, economic and political reasons the government had intervened. In regard to government actions in these areas, he pointed out that these occasions had occurred very rarely in the history of his country, and were considered an aberration from general United States economic philosophy.
3. He furthermore pointed out that trade, although it might play an increasing role as a factor in structural adjustment in the United States, as indicated in page 4 of his country's contribution, had traditionally not been the predominant factor stimulating change in the United States economy as it had been in some of the other economies. Historically, technical change, investment, labour developments and shifts in consumer tastes had been the basic factors stimulating change and structural adaptation in the US economy. Among these factors he emphasized the central role that investment played in the process of adjustment, both domestically and internationally. In his view, clearly investment and trade were interrelated, in the sense that if trade flows were unimpeded by restrictions, investment opportunities would be apparent. But capital

flows could also be impeded by a range of restrictions and the effect of such restrictions could hinder structural adjustment as much, if not more, than restraints on trade.

4. One member enquired how the increase in employment of 312,500 persons over twenty years in the printing and publishing industry could be reconciled with the recent decision by the Congress to extend the life of the so-called "manufacturing clause". The representative of the United States replied that the clause covered items produced by a minor portion of the printing and publishing industry so that the figure mentioned could not be related to the manufacturing clause. It was therefore not possible to give a precise answer to this question, as it was founded on an erroneous assumption concerning the amount of employment relevant to activities under that clause.

5. To the question whether the policy of regulatory reform had an identifiable effect on structural adjustment and had always promoted the most efficient use of resources, inventiveness, and the best interests of society as a whole, the representative of the United States replied that the purpose of regulatory reform was to reduce unnecessary barriers to efficiency and growth performance. Regulatory reform contributed positively to the overall functioning of the economy and thus helped create a dynamic environment in which change could be more easily accomplished. In this broad sense, regulatory reform in the United States facilitated structural adjustment. With respect to specific industries, regulatory reform might assist producers in improving efficiency. Not all regulatory reform, however, had the effect of facilitating economic adjustment at the firm level. In the area of industry deregulation for example, reform might actually create new pressures for adjustment by firms. Whether regulatory reform facilitated adjustment in some instances or created requirements for additional adjustment in others was incidental to the primary goal of improving economic performance. He went on to say that the extent to which regulatory reform promoted efficient resource allocation, inventiveness and the best interests of society as a whole was the test of how successfully the policy had been implemented. There were many valid rationales for economic regulation, particularly in instances where private and social costs diverged. Efforts by the United States did not represent an attempt to indiscriminately end economic regulation by the government. There were instances however where the particular regulation was not a cost effective means for reaching a desired social end. In such cases, the end could be achieved by better means through regulatory reform. In other instances, regulation might be currently serving very little public purpose and could be usefully eliminated. These types of decisions could only be reached following detailed examination and analysis on a case-by-case basis. This process was underway and would probably result in a reduced, cost-effective body of regulations more compatible with the healthy performance of the US economy.

6. Asked whether the current levels of the budget deficit and interest rates were compatible with the position stated in the contribution of the United States that investment played a central role in the process of adjustment, the representative of the United States replied that the current levels of the budget deficit and interest rates were not stimulative to private investment. The government was pursuing policies to

reduce the budget deficit both in dollar value and as a share of GNP as well as interest rates on a long-term basis exactly in order to stimulate investment and growth. Part of the current deficit would be reduced as the economy recovered from recession, but a large part of the deficit would have to be reduced through specific measures to bring federal expenditures and revenues into line. The recent and current difficulties should not be understood as enduring elements in the economic outlook for the US economy, but rather as measures of the difficulties to be overcome in improving performance and capacity for adjustment.

7. One member observed that the increase in the ratio of exports to final sales of goods in the period 1970-1979 as quoted in the United States contribution coincided largely with the introduction of the DISC and wanted to know whether the DISC was a significant factor in this development. The representative of the United States stated that this was not the case. As the United States had previously stated in the GATT Council, the global system of taxation, even with the DISC, provided less of an incentive for exports than the territorial system employed by other countries. Hence, it was unlikely that the DISC could have been a significant factor in the increase in exports relative to final sales during the 1970-1979 period. The growth in exports relative to final sales was a phenomenon characteristic of many countries during the 1970's. It was probably due to the trade liberalization that had occurred under GATT auspices. This was borne out by the ratio of imports to final sales which had also increased during this period.

8. Another member asked for detailed information concerning import restrictions affecting agricultural products and wanted to know also what steps were being taken to structurally adjust these industries within the United States. The representative of the United States stated that import restrictions pursuant to Section 22 of the US Agricultural Adjustment Act of 1933, as amended, were in effect on four commodity groups: cotton of certain specified staple lengths, cotton waste and certain cotton products; peanuts; certain dairy products; and sugar. Detailed information concerning the status of Section 22 actions, as well as steps undertaken to achieve structural adjustment in those sectors, could be found in GATT document L/5328, the twenty-fourth annual report to the GATT on Section 22 by the United States.

9. To the question whether actions taken under the cover of the United States GATT waiver had altered the pattern of structural adjustment that might otherwise have been expected, the representative of the United States said that the waiver, granted to the United States in 1955 by the CONTRACTING PARTIES, had not significantly altered the pattern of structural adjustment in the agricultural sector as the waiver was only in effect for the four commodity groups mentioned. Import fees were in effect for sugar. Sugar imports also were subject to quotas established pursuant to the Trade Expansion Act of 1962. The quotas were intended as a temporary measure in support of the fee's system. The GATT waiver allowed the United States to use import measures to prevent interference with domestic support programmes pursuant to Section 22 of the Agricultural Adjustment Act. That provision empowered the President, on the basis of an investigation and report by the USITC, to regulate imports of commodities when that importation was found to render or tend to render ineffective, or

materially interfere with, the price support or stabilization programmes of the United States. Under United States law, application of Section 22 was limited to supported commodities only, and could not be legally utilized for any other commodities. Under current legislation, supported commodities included wheat, feed, grains, rice, cotton, tobacco, flax seed, sugar, peanuts, wool, milk, naval stores and honey. Of those supported commodities, the United States had used the GATT waiver on only four: sugar, peanuts, dairy products, and cotton products.

10. As the United States submission noted, considerable structural adjustment had taken place in the agricultural sector over the last fifty years. There had been both a rapid decline in the number of farms and a change in the land-use of such farms. These changes were accompanied by a doubling of the productivity index between 1940 and 1979. In addition, the majority of the support programmes of the 1930s were either phased out or substantially altered in recent decades. Farm policy in the United States had shifted toward equilibrium. The programmes described on page 29 of the submission provided more detail concerning the introduction of flexibility in United States farm policy and its contribution to adjustment in the agricultural sector as well as to overall structural adjustment in the United States.

11. Finally, it had to be remembered that although the United States was committed to a market oriented policy in agriculture, such a policy could not be sustained unilaterally. As long as other contracting parties found it necessary to subsidize exports and restrict imports of agricultural products, the United States would be compelled to take action to maintain the viability of its programme.

12. As regards a question concerning the change in the structure of the work force over the last fifteen years, the representative of the United States pointed out that the figures on page 3 of his country's submission indicated the significant changes that had taken place.

13. Upon request by a member, the representative of the United States provided information on changes in US imports and exports as a percentage of total imports and exports over the last fifteen years in the following four sectors: food and live animals, chemicals, basic manufactures, and machine and transportation equipment. The information is contained in Spec(82)6/Add.4, Suppl.1, pages 5 and 6.

14. One member thought it difficult to define exactly what was meant by the term structural adjustment. In his view this term had become a synonym for economic change in general and as a consequence discussion on that subject tended to lack in precision. In his view the submission of the United States, although it could serve in its completeness as a model for presentations of this kind, contained a number of categorical general statements, the essence of which was not necessarily shared by all other countries. He referred in this context to the problem of allocation of resources dealt with on page 2 of the submission, and also to the statement on the same page that "open market economies are best able to respond efficiently to secular changes in the domestic and international economies" which, in his view, seemed to be contradicted by other assertions in the submission relating to government intervention in this economic process.

He thought also that the comment relating to labour market changes at the end of page 3 of the submission did not seem to be supported by available data. As regards the role of investment in the process of structural adjustment, dealt with on page 5 of the submission, he was of the view that the mandate of the Working Party related mainly to trade barriers and did not cover the question of influence of investment restrictions on capital flows in the context mentioned. He considered it also desirable that information should be provided on structural adjustment in the United States textile sector. As to agriculture he wanted to know whether measures were being undertaken by the United States government in order to create conditions which would allow it to dispense with the agricultural waiver.

15. Concerning the request for information on the textile sector, the United States representative, while referring to the work on structural adjustment going on in the Textiles Committee, stated that there existed adjustment assistance programmes for the textiles industry which were similar to the ones described for the footwear sector. As to the agricultural sector he pointed out that also there, significant adjustment had taken place and the items covered by the GATT waiver had decreased considerably over the years. The policy tools had also changed in the direction of a much more market oriented approach. As to the establishment of conditions which would make the renunciation of the agricultural waiver possible, he stated that this could not be achieved unilaterally by the United States.

16. One member observed that, according to the experience of his country, structural adjustment, if left to market forces alone, was a very long process and therefore government policy measures were necessary to speed up this process and to ensure that it penetrated all sectors of the economy. Without such government measures it might be difficult for certain industries in particular in the high technology field to maintain their competitiveness.

17. Another member stated that the United States submission, while giving a rather complete picture of the pattern of adjustment within the United States, was lacking to a certain extent information on the sharing of the costs of adjustments between trading countries. For instance the role of trade for adjustment in the agricultural sector was not sufficiently covered. In this context he raised the question whether the United States government believed, as was the case for the industrial sector, that structural changes were essential also for the maintenance of a healthy agricultural sector. He wondered also whether the serious injury concept, as outlined in the section of the United States submission dealing with the escape clause and adjustment, did make any allowance for structural adjustment.

18. The representative of the United States said that the escape clause and safeguard programme was not intended to encourage long-term measures. Actions taken under that programme had been terminated after a certain time allowing market forces to play a role. The main purpose of the programme was to spread the cost of structural adjustment over a period of time. Although such action might have slowed down the process of structural adjustment to a certain extent, it had never prevented it from taking place.