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Source: *Current History*, Vol. 42, No. 250 (JUNE, 1962), pp. 356-361
Published by: University of California Press
Stable URL: https://www.jstor.org/stable/45310750
Accessed: 19-11-2023 06:14 +00:00

Discussing United States trade policies during the past 17 years, this specialist observes that the "Kennedy approach" resembles our "past policy" because it too is marked by "adaptation to changing circumstances." These adaptations "have been influenced by the need to conduct trade policy as part of the broad foreign policy of the United States."

Trade Policies since World War II

By William Diebold, Jr.
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Some half dozen strands must be followed to get a reasonably full picture of American trade policy since the end of the war. The first, and biggest, American effort—to establish a comprehensive international organization and set of rules governing trade—failed. Yet out of that effort came a body which in spite of somewhat unsure political and economic foundations has played a major part in shaping multilateral trading relations within the free world.

Operating under extensions and amendments of the Trade Agreements Act first passed in 1934, the United States made substantial reductions in its tariff but then suffered a certain erosion of its policies. Another strand in the story is the exclusion from the tariff-reducing process of a number of important commodities. One of the most striking elements in the development of postwar American trade policy has been its adaptation, largely on foreign policy grounds, to the emergence of regional trading arrangements in Europe, and the new emphasis on the needs of underdeveloped countries.

The final stage in the story is the bold initiative taken by the Kennedy administration in late 1961 and early 1962 which both embodies some of the earlier experience and introduces measures that are new in scope and character.

When the war ended the United States and its allies were already well advanced in organizing for the postwar world economy. The United Nations Relief and Rehabilitation Agency, the International Monetary Fund, the International Bank for Reconstruction and Development, the Food and Agriculture Organization, and the United Nations with its Economic and Social Council were all either in action or almost ready to go. The obvious omission from the array was an organization and a set of rules concerned primarily with trade, the principal element in international economic relations. This was not, of course, an oversight. Public and private postwar planners had done much work on trade problems and a large number of proposals were in circulation.

It was a commonplace of these discussions that an agreement on trade was needed to crown the work of building the postwar world economy.

The problem was to work out concrete agreements. When they signed the Atlantic Charter on a battleship off Newfoundland in 1941, Churchill and Roosevelt called for "the fullest collaboration between all nations in the economic field" and said that their countries would "endeavour with due respect for their existing obligations, to further the enjoyment by all states . . . of access, on equal terms, to the trade and raw materials of the world. . . ." The qualifying words—which in this case referred principally to the system of tariff preferences within the British Commonwealth and Empire created at Ottawa in 1932—were typical of the problems that were to plague trade negotiations throughout the postwar period; to be effective, an agreement should be firm, but to be accepted an agreement had to take adequate account of each nation's special interests.

THE ITO THAT NEVER WAS

Early in 1942, Article VII of the lend-lease agreement between the United States and Britain set the goals of later cooperation on trade: "expansion . . . of the exchange and consumption of goods . . . the elimination of all forms of discriminatory treatment in international commerce . . . the reduction of tariffs and other trade barriers . . ." The same language was later incorporated in agreements linking most of the allied nations. Conversations continued throughout the war, but it was not until the fall of 1945 that the next big step was taken. Then, when a major loan agreement was signed between the United States and Britain, the British gave their support in broad terms to a set of comprehensive trade proposals put forward by the United States.[1]

There followed a series of international conferences that finally, at Havana in March, 1948, produced a Charter for an International Trade Organization. The lengthy Charter laid down both principles and detailed rules for the reduction of tariffs, the eventual elimination of quotas, and the creation of conditions for the expansion of multilateral trade on equal terms. It set up rules for international commodity agreements and the governmental regulation of business practices that might restrain international trade. It recognized the need for governments to relate foreign trade policies to domestic measures to assure stability and full employment and it provided some of the elements of a code for private international investment.[2]

Although a few countries started the process of ratification, almost all waited for the United States before taking decisive action. For the ITO was primarily the result of American initiative and was imbued with the principles the United States had been advocating throughout the war. An important part of its impact on the world would result from American adherence to it.

In April, 1949, President Truman submitted the Havana Charter to Congress. In the spring of 1950, the House Foreign Affairs Committee held hearings but never reported a bill. In December, the President quietly announced that the Charter had been dropped. This was the end; no other countries pushed ahead on their own and the United States never again reopened the question of the Charter.

Part of the explanation of this reversal lies in changes in the world scene. The Korean War, the cold war, Nato and European reconstruction, all made the ITO seem less urgent than before. Shifts in American politics contributed, making it harder for the President to get congressional approval. The character of the Charter itself helped bring about the demise. The American negotiators had had a difficult task. Few countries besides the United States were in an economic position to carry out liberal trade policies right away. Having in mind the uselessness of agreements that only state aspirations, the negotiators had sought to be very realistic and specific, so the rules were accompanied by detailed exceptions for countries with balance of payments difficulties and other problems.

Drawing on another lesson of interwar experience, the negotiators had recognized the link between trade policies and measures governments would feel bound to take to insure domestic stability and full employment. The result was more uncertainty about the firmness of the pledges to reduce barriers and guarantee equal treatment. The effort to provide for international understandings on raw materials and cartels introduced further

[1] ". . . But its terms were the result of prolonged and difficult negotiations with the British." William Adams Brown, Jr., *The United States and the Restoration of World Trade: An Analysis and Appraisal of the ITO Charter and the General Agreement on Tariffs and Trade* (Washington: Banta Co., for the Brookings Institution, 1950), p. 54. This is the most detailed account.

[2] The clearest exposition of the charter, by its principal American negotiator, is Clair Wilcox, *A Charter for World Trade* (New York: Macmillan Co., 1949).

complexities. Finally, the investment provisions, which were added to the Charter at the behest of American business in the first place, had emerged from the negotiations in a form that appeared to offer few safeguards to investors and that seemed to some businessmen to make their problems worse.

As a result, the Charter was opposed not only by protectionists who would have objected to it in any case, but also by business groups who felt it was not liberal enough or was too one-sided in applying rules to the United States and exceptions to the rest of the world. Another kind of liberal opinion acknowledged the Charter's imperfections but argued that they reflected difficulties in the world that would continue to exist and that could be dealt with better with the Charter than without it. These latter counsels did not prevail and so the most ambitious initiative in foreign trade policy the United States had ever undertaken failed.[3]

A MOST USEFUL BY-PRODUCT

In order to get down to the business of concrete reduction of trade barriers, most of the governments involved in the ITO negotiations subscribed to a more modest instrument called the General Agreement on Tariffs and Trade (Gatt). At the same time that they drew up this agreement at Geneva in the summer of 1947, 18 governments negotiated an extensive series of tariff reductions. Though some of the bargaining was bilateral, all of the results were made multilateral by extending the concessions to all members under a most-favored-nation clause that was a central feature of the agreement. Its other major provisions largely paralleled those of the ITO Charter, as far as trade policy proper was concerned, but nothing was said about full employment, commodity agreements, cartels or investments. Gatt also differed from the Charter in that governments' obligations extended only to measures they could take by executive action, without the passage of legislation.

The original idea was that Gatt would be absorbed by the ITO. When the ITO failed to come into existence, many thought Gatt would die too, sooner or later. Instead, Gatt has become the center of free world trade cooperation. The agreement has been amended and revised; the membership has grown; multilateral tariff negotiations have continued—those at Annecy, France, in 1949 and at Torquay, England, in 1950–1951 were particularly extensive.

Most important of all, however, Gatt—or more exactly the governments that belong to it—has developed working procedures and rules which have not only made effective tariff negotiations possible but have also provided for adjustments, consultation, the settlement of disputes, and the accommodation of members' special problems without destroying the framework of general principles or setting in motion the debilitating process of trade retaliation. The price of this pragmatism and flexibility has been an inability to assure the full application of the principles at all times; departures from the rules have been tolerated. But the processes of negotiation and cooperation have been kept going.[4]

As more countries have come into a healthy economic position the exceptions made for them, especially those permitting import restriction and discrimination on balance of payments grounds, have been put aside. The result has been to make the principles more effective over a larger amount of world trade (a very high proportion of the free world's trade is carried on among Gatt members). When European countries formed first their Coal and Steel Community and then the Common Market, provisions of the General Agreement concerning customs unions, free trade areas and departures from the principles of equal treatment required them to justify their actions to their fellow members. Gatt became the sole established world forum where the effects of these measures of regional integration on outside countries could be systematically examined and debated.

[3] I have examined the process more fully in *The End of the ITO,* No. 16 of *Essays in International Finance* (Princeton University, International Finance Section, 1952).

[4] A good account of how Gatt has worked can be found in Raymond Vernon, *America's Foreign Trade Policy and the Gatt,* No. 21 of *Essays in International Finance* (Princeton University, International Finance Section, 1954).

The United States has participated in Gatt under the President's power to make executive agreements and in the tariff negotiations through the powers given him in the Trade Agreements Act. Congress has sometimes gone out of its way to make explicit that it did not endorse Gatt, but occasional efforts to end American membership have failed. The Randall Commission on Foreign Economic Policy recommended in 1954 that "the organizational provisions" of Gatt—never very clearly defined—should be renegotiated and embodied in a treaty which would be submitted for congressional approval. The Eisenhower administration put forward a bill for American membership in an Organization for Trade Cooperation intended to give Gatt a more permanent structure, but this was never acted on.

From time to time the United States has found itself in violation of Gatt provisions or has had to ask for exceptional treatment, for instance, when it imposed import quotas on certain agricultural products or withdrew most-favored-nation treatment from Czechoslovakia. . Probably the greatest significance to the United States of belonging to Gatt has been the assurance of a multilateral framework for the shaping of international trade policies, our own and those of other nations. Some of the basic principles embodied in the ITO have been preserved and put into practice to a significant degree through Gatt.

THE TARIFF BARGAINING POWER

A good part of the history of postwar American trade policy lies in the extension and modification of the Trade Agreements Act which is the basis of the President's power to reduce tariffs in agreements with foreign governments. In 1945, the President's powers were increased by allowing the established maximum reduction of 50 per cent to be applied to duties already reduced since the original passage of the Act in 1934. This formula was kept through five renewals between 1948 and 1954, but in 1955 the President was restricted to a reduction of five per cent a year, a figure continued for another four years in the 1958 renewal. [5]

LIMITS ON TRADE POWERS

A series of steps from 1948 on altered the law to limit the President's use of these powers or to strengthen by other means the protection of domestic producers. The first Republican Congress to pass on the Trade Agreements Act, in 1948, introduced a provision requiring the Tariff Commission to determine in advance of negotiations the lowest level to which it thought each tariff rate could be reduced without hurting domestic producers. If the President went below this "peril point" in an agreement, he had to explain his action to Congress.

Since the mid-1940's, United States trade agreements have included an escape clause permitting the withdrawal of concessions if imports seriously damaged domestic interests. Since 1951, the terms of the escape clause have been determined by law and repeated changes have been made to make it easier for American producers to claim renewed protection. Almost every postwar renewal has involved substantial political struggles, especially between Congress and the President (of whichever party). Five times the delegation of power was limited to one or two years. The cumulative effect was to leave the future of American trade policy very much in doubt at the beginning of the 1960's.

Between 1945 and 1956, appreciable reductions were made in the American tariff, largely as a result of multilateral bargaining under Gatt.[6] Although statistical measurement is difficult, it appears that relatively little reduction was made between 1957 and 1962; (I have not yet been able to assess the importance of the most recent agreement in which the main bargaining was with the European Community). During the whole period, the escape clause was used with restraint.

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[5] In the 1955 Act, the 5 per cent power expired each year if it was not used but the 1958 Act permitted a four-year agreement to be made anytime during the life of the law. Somewhat different provisions applied to very high or low duties.

[6] Price rises also contributed because they reduce the relative burden of specific duties which impose a fixed charge on each unit of quantity.

Out of 126 applications it acted on between 1948 and the spring of 1962, the Tariff Commission sent only 40 cases to the President. In 25 of these, Truman, Eisenhower or Kennedy refused to raise duties.[7] The 15 cases that were acted on led to increased duties on some important products, notably watches, bicycles, carpets and glass, and a quota on lead and zinc. Although frustrated applicants argue that the escape clause does not give enough protection, American importers and foreign sellers decry the uncertainties it introduces into the United States tariff.

OTHER BARRIERS

Other kinds of import barriers have also been imposed in the postwar period. Quotas limit imports of a number of agricultural products, often as a corollary of American price support programs. In the interest of domestic oil and coal producers, crude oil imports are held down under the national security amendment of the Trade Agreements Act. Buy American legislation dating from the depression has been markedly liberalized during the postwar period but still requires government agencies to give preference to domestic suppliers even when foreign goods can be had more cheaply.

Starting in the mid-1950's, Japanese sales to the United States of a number of products—most importantly cotton textiles—have been limited by export restrictions in Japan which, while nominally voluntary, are in fact the result of negotiations with the United States. A recent multilateral agreement on cotton textiles extends the same kind of arrangement to other low-cost producers of cloth and garments, notably Hong Kong, India and Pakistan. The agreement provides for a five per cent annual increase in imports, provided domestic markets are not disrupted, and should give some producers a better chance than they have had to sell to Continental Europe; but the driving force behind the agreement was the desire to reduce the pressure for stricter unilateral import controls in the United States.

Although the record is mixed, close observers are substantially agreed that over the last ten years there has been a distinct erosion of American trade policy. Legal restrictions on the President's power to reduce tariffs, political obstacles to the full use of the power he had, and positive action to impose new import restrictions have all contributed to this process. One of the best analysts of trade problems has described the situation pungently: "An unending series of little concessions to domestic pressures has turned our trade legislation into a group of ambivalent statutes which hamstring the President in any effort to reduce the trade barriers of the United States and which constantly threaten to force him to increase the existing restrictions on imports."[8]

A NEW APPROACH

President Kennedy proposes not only to end the stagnation of recent years in trade policy but to make a fresh start. The Trade Expansion Act of 1962, as submitted to Congress, would go further than any legislation proposed in the postwar period to enlarge the President's tariff bargaining power and limit the restrictions put on him by the peril point and escape clause provisions and *their ilk*. To be sure, the Act permits protection of domestic interests and to prepare for its passage the President made compromises with protectionism, as in the case of the textile measures. But the main emphasis of the Act is clearly on the other side. While negotiation with the European Common Market has provided a main theme of discussion, it is important to realize that the stress on most-favored-nation treatment and multilateral trade puts the Act directly in the line pursued by this country in the ITO, Gatt, and, before them, in the earlier, original Trade Agreements Act.

There is something else which the Kennedy approach has in common with past policy.

[7] These figures have been brought up to date from the best study of the escape clause I have seen: William B. Kelly, "The 'Expanded' Trade-Agreements Escape Clause, 1955–1961," *The Journal of Political Economy*, February, 1962, pp. 37–63.

[8] Raymond Vernon, "A Trade Policy for the 1960's," *Foreign Affairs*, April, 1961, pp. 458–70.

It represents adaptation to changing circumstances. As the war ended, the United States pressed hard for the non-discriminatory reduction of trade barriers. When the dollar shortage and the requirements of European reconstruction proved greater than had been expected, the United States, without giving up the principle, made what were for the time being largely one-sided tariff reductions and accepted extensive discrimination against dollar exports. American support for European integration made necessary some changes in the outline of the world trading economy toward which the United States was working. In its relations with the underdeveloped countries the United States, although it believes in reciprocity, has to a considerable degree accepted the view that they may protect their infant industries while getting freer access for their exports to the markets of industrialized countries. To help draw Japan fully into the free world, the United States has imported more freely from that trading island than other Western countries have and has championed Japan's case for equal treatment in Gatt.

TRADE AND FOREIGN POLICY

Some of these adaptations of policy were forced on the United States. Some have been made incompletely or imperfectly. Still more adjustment will be needed. All these measures have been influenced by the need to conduct trade policy as part of the broad foreign policy of the United States. The erosion and stagnation in trade policy that developed during the 1950's threatened this country's flexibility and the economic and political advantages that could be gained therefrom. For nearly 15 years war and reconstruction had sheltered much of the American economy from strong foreign competition. That changed when European and Japanese producers began exporting heavily during the 1950's—taking advantage, among other things, of tariff concessions made earlier by the United States.

To the extent that the United States responded to this competition by protective measures, it was seeking to avoid one kind of adjustment in its economy. The price, if the process continued, threatened to take the form of another kind of adjustment—higher costs at home, smaller export markets, and, very importantly, a loss of the means of taking advantage of changes abroad to pursue major aims of United States economic and foreign policy. Adjustment cannot be avoided. The question to be decided is what form it should take.

CONCLUSION

The significance of the Kennedy proposals rests in large part on the fact that it attempts to provide means suitable to the 1960's for advancing toward the kind of multilateral trading world the United States has professed to want for some time past. Conditions in the free world are much more favorable for this kind of effort than at any time in the last 20—and probably 30—years. But to take advantage of those circumstances one proposition advanced by the Kennedy administration may be of special importance. "The concept that we must protect every American industry against the adjustments required by competition is alien to the spirit of our economy," Under Secretary of State George Ball told the National Foreign Trade Council on November 1, 1961. If that view is accepted and applied, 1962 will be an important landmark in the history of United States foreign trade policy.

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