

CHAPTER 18

SOME CRITICISMS CONSIDERED

MOST of the criticisms of the *Charter* come from people who accept without question the objectives of multilateralism and non-discrimination and agree that some sort of an organization should be established in the field of international trade. But the criticism that is advanced with the greatest vehemence flatly rejects these purposes. It originates in Moscow and finds expression in every journal throughout the world that follows the Communist party line.

According to this criticism, the sponsors of the ITO are "professional crooks," "predatory Western capitalists," and "pretenders to world domination," working toward "economic expansionism," "imperialist aggrandizement," and "American hegemony," and brutally imposing "the mandates of Wall Street" on the other nations of the world. "The Americans," said Otto Kuusinen, president of the Karelo-Finnish Republic, writing in *Pravda* on February 19, 1947, "have worked out a broad plan creating a 'world trade and currency system' with the help of which powerful American capital can become complete master in the field of international trade and gradually take into its own hands control over the economy of most other nations." The monopolies of the United States, said *Trud*, the journal of the Soviet trade unions, on December 28, 1947, "are seeking to enslave, not only Europe, but the whole world." The *Charter* for the ITO, wrote L. Frei in a series of articles appearing in *Vneshnyaya Torgovlya*, the magazine of the Soviet Ministry of Foreign Trade, during 1948, "deprives member countries of their sovereign rights and binds them to the will of the United States"; it is designed "to

secure a monopolistic position for the United States on world commodity markets and is a weapon of the U.S.A. in its struggle for world domination." The reduction of barriers to trade and the abandonment of discrimination, he went on, "signify in fact the actual economic enslavement of states weakened by the war and their subjection to the domination of the rich monopolies and banks of the U.S.A." The International Monetary Fund, the International Bank, and the ITO, he asserted, "are based upon credits made available by the Americans" and these credits, in the words of Comrade Zhdanov, are granted as "payment for the loss by European States of their economic and then of their political independence." Said *Hoy*, the Communist daily in Havana, "The Charter of the ITO will be nothing other than another instrument in the hands of the United States to enslave the rest of the world." And this line was echoed by the representative of the Soviet Union in a violent attack on the *Charter* before the Economic and Social Council on August 11, 1948.

If the policies espoused by the United States were diametrically opposed to those embodied in the *Charter*: if we had proposed, for instance, that imports be excluded from our markets and that special privileges, denied to other countries, be granted to our own, these characterizations would fairly have applied. But greater freedom of trade opens the door of economic opportunity to all peoples, and the principle of non-discrimination protects the right of every nation to compete, on equal terms, with every other nation in the markets of the world, to sell more goods of better quality with superior service for less money, so that labor may be more productive and levels of living more nearly adequate in every corner of the globe. Equality of treatment assures to smaller states the right to buy and sell where they please, on terms as favorable as those afforded larger powers. Far from reducing them to slavery, it affords a guarantee of economic liberty. For real freedom is not to be found within the fond embraces of a single state.

TOO MUCH IDEALISM—TOO MUCH COMPROMISE

Two sweeping criticisms of the *Charter* have frequently been heard in the United States. According to the first, the *Charter* attempts to

apply the principles of impractical idealism to a world that is intensely practical and all too real. According to the second, the *Charter* has been so riddled with exceptions in the process of compromise that its ideals have lost whatever meaning they may once have had. Of course, these criticisms cannot both be true. If the *Charter* were impractical and idealistic, it would give no room to the compromises that are required to meet the practical problems of the real world. And if exceptions have been made to meet these problems, it can scarcely be said that the *Charter* remains an expression of impractical idealism.

As a matter of fact, neither of these criticisms is justified. In one sense the *Charter* is idealistic; in another sense it is not. It is idealistic in that it establishes objectives toward which all countries can agree to work. It draws on the experience of the past, but it does not direct itself to the problems of the past. It sets up goals for the future, but it does not limit itself to provisions that can work only in normal times. It is concerned with the actual problems of the workaday world. And in this sense its idealism is tempered with a realism that is clearly practical.

It is true that the *Charter* contains a great many exceptions. But these exceptions are carefully defined; many of them are temporary; all of them are limited in extent; and no nation will be able to use any of them unless it satisfies the conditions on which all nations have agreed. If it were not for the exceptions, the *Charter* would not be practical, and it is because it is practical that it can be expected to work.

It is true, too, that the *Charter* is a product of compromise. So is almost every law that was ever passed by Congress or by the legislature of any state. So is every treaty between any two powers. So are the Charter of the United Nations and the constitution of every international agency that has been established since the war. Compromise is a virtue, not a defect. It means that the *Charter* will not be imposed by force; that it will not be rejected because it is one-sided, but can be voluntarily accepted because it meets the needs of many states. Commitments taken under pressure are fulfilled with reluctance; those taken willingly are more likely to be observed.

TOO LONG, TOO TECHNICAL, TOO COMPLICATED

It is said that the *Charter* is too long and too complicated; that its language is too vague or too precise; that it is hard to read and difficult to understand. This difficulty has been well described by Herbert Feis *: "Its articles, sections and paragraphs interweave with one another in so many ways as to baffle memory. Some of the provisions of real substance are so greatly trimmed with appended ideas that the basic meaning is hard to discern. Language admitted into some articles for the purpose of enabling some national delegation to show back home that its point of view had been recognized is offset by other words intended to deprive the 'gift' language of importance. The weight and meaning of each part of the *Charter* is dependent on the conditions and exceptions contained in many others. Thus the pattern of obligation is so intricate and qualified that summary is hard and certain to prove a little wrong. Life exists at the heart of this most involved accord, but only the learned can communicate with it, and then only in code."

In this comment there is more than a little truth. The process of negotiating wording affecting national interests, in several different languages, with delegates from more than fifty countries, is unlikely to produce a masterpiece of literary style. The *Charter* is long and complicated. It contains nine chapters, more than a hundred articles, and several thousand words. It deals with many matters that are technical in character, relates one subject to another through numerous cross-references, and seeks precision in minute details. The *Charter* is probably shorter than some acts of Congress; it is certainly simpler than the income-tax law; but it is still long and complicated. It is complicated because the laws and regulations that govern international trade are complicated. It is complicated because it is realistic and practical. But the multitude of technical details in the document serves only to emphasize the character of the agreement that has been achieved.

TO MAKE TRADE FREER IS NEGATIVE

It was argued by many of the countries participating in the trade negotiations that the provisions of the *Charter* were purely negative.

* *International Organization*, February 1948, p. 42.

In their view, the stabilization of employment, the maintenance of commodity prices, and the promotion of industrial development, rather than the reduction of barriers to trade, should be the major objectives of international policy. And affirmative action was required if these objectives were to be attained. The *Charter*, however, consisted principally of prohibitions limiting the freedom of governments to restrict world trade. And prohibitions are not affirmative.

It is true that the *Charter* contains no guarantee that employment will be stabilized, prices maintained, or industrialization actually achieved. These objectives, in the main, must be sought by other means. Action for the stabilization of employment is left to national governments. Freedom to maintain prices through intergovernmental agreement is strictly limited; adjustment to changing markets remains a matter of domestic policy. Industrialization will be promoted by private capital and enterprise, assisted by other public agencies; the ITO will have no money to lend and no equipment to provide. Its main task will be that of reducing barriers to trade and eliminating discriminatory practices. It is true that this task is negative, in the same sense in which the work of a surgeon who removes a diseased appendix is negative. But for proposing an operation that is required to restore the body economic to full health, it is unnecessary to offer an apology. The *Charter* is designed to make provision for the expansion of world trade. And in this it is affirmative.

TOO MANY IMPORTS

It has been charged, in the United States, that the *Charter* would require this country to surrender its autonomy in tariff matters to the ITO and that its adoption would commit us to absolute free trade. This, of course, is not so. The ITO would have no authority whatsoever to fix any rate of duty or to require that it be raised or lowered or maintained. Its members would be committed to negotiate for the reciprocal reduction of tariffs. But each of them would retain complete control over the concessions that it might choose to make. There is no hope and no danger that such negotiations would result in the elimination of all protective barriers. The world can move toward freer trade without going all the way to free

trade. No nation has proposed and none is ready to adopt complete free trade.

Back of these charges, however groundless, there is the fear that tariff reductions will make it difficult for American industry to compete with foreign producers in the markets of the United States. But if there is fear of foreign competition in America, there is even greater fear of American competition abroad. And this fear is easier to understand. Among all our major competitors we find physical destruction, obsolescence, loss of man power, malnutrition, economic disorganization, and political uncertainty. In the United States we find the greatest productive plant on earth, well equipped and physically unimpaired, at the peak of technical efficiency, with ample supplies of highly skilled labor, with the world's highest wages and its lowest costs, producing for a mass market, directed by the genius of private enterprise. In the face of this comparison, it is difficult to believe that American industry, in general, cannot meet competition and survive.

The foreigner who would sell in the American market suffers two other handicaps. First, he must pay the costs of transportation, breakage, insurance, and consular fees. Second, he must surmount the tariff wall. Yet many a producer in this country complains that he would be ruined if that wall were lowered by an inch. In isolated instances, that may be true. But for American industry as a whole it certainly is not. It has never been shown that our industry has suffered from the tariff reductions that have been negotiated under the provisions of the Trade Agreements Act. But the fear that it may suffer at some time in the future is still expressed.

Producers fear imports because they have assumed that we cannot take more products from abroad unless we produce just that much less at home. They have directed their attention exclusively toward the size of their share in the domestic market, taking it for granted that the whole of the market cannot grow. But the size of the market is not forever fixed; it may be larger when we have a thriving foreign trade. And when this happens foreign producers and domestic producers may both increase their sales and the share of each in the domestic market may be maintained. But even if the share of the domestic producer were actually to decline, he might still be better

off than he was before. Simple arithmetic should demonstrate that a smaller share of a larger market may bring more business than a larger share of a smaller one. Ninety per cent of \$100 million in sales is \$90 million; 80 per cent of \$150 million in sales is \$120 million; with the size of the market increased by half, the domestic industry can see its share in the market decline by a tenth and its total sales increase by a third. A growing market provides increasing opportunities for everyone, not only for the foreign producer, but for the domestic producer as well.

In view of the great interests that are now at stake, in international economics and world politics, those who prophesy calamity would appear to be suffering from a curious sense of disproportion. They are in the position of one who thoughtlessly throws a million dollars down the drain while he worries that he may someday lose a dime. Surely there will be more advantage, for everyone in this country, in big markets than in little markets, in freedom than in regimentation, in economic peace than in economic war. And this is the advantage that the *Charter* is designed to gain.

TOO FEW IMPORTS

The real danger that faces us, according to other critics, is not that we shall import too much but that we shall import too little. If we are to maintain our export trade, imports should catch up with exports; if we are to accept payment on our loans, imports should exceed exports. And if this is to happen, it is argued, we must permit foreign goods to displace domestic goods in our market; our less efficient producers must shift to other products or other industries. But the sentiment of protectionism still abounds in the United States. In our negotiations under the provisions of the Trade Agreements Act, we have refused to make concessions that would necessitate adjustment to the requirements of a world economy and we have retained the right to withdraw concessions if the necessity for such adjustment were ever to arise. And even if this cautious policy were to be reversed, we could not hope to import in quantities large enough to rectify the imbalance in our trade.

This argument has more substance than the previous one. There is reason to hope, however, that time will demonstrate its fallacy.

It is unlikely that we shall find it necessary to import more than we export for many years to come. Given a reasonable prospect of economic and political stability, we should be able to accept payment for a large part of our exports in the form of ownership in enterprises located outside our borders, claims against foreign earnings, and services rendered to Americans traveling abroad. Our imports of goods will depend upon the scale of our industrial activity. If we avoid depression, income, employment, and demand will be maintained. As the output of our industry expands, we shall import increasing quantities of raw materials. As our own resources are depleted, we shall require more lead, zinc, copper, iron ore, bauxite, and other minerals from foreign sources of supply. As our population grows we shall consume more sugar, coffee, cocoa, tea, bananas, hides, and vegetable oils. As our standard of living rises, we shall buy more wines, jewels, laces, furs, perfumery, and other luxury goods. A surplus of imports may be expected to develop in the course of time.

INTERNATIONAL SOCIALISM, GLOBAL PLANNING

It is said, in criticism of the *Charter*, that it should have contained an explicit denunciation of collectivism and an affirmation of faith in private enterprise. It is argued, moreover, that the absence of such a statement can somehow be interpreted as constituting an endorsement of socialist philosophy. This is obvious nonsense. It is true that the *Charter* does not require that industry, in every country, be operated by private enterprise. Nor does it forbid governments to engage in foreign trade. This fact, however, cannot be taken as compromising the position of the United States. No other nation has sought to alter our belief that the operation of industry, in general, should be in private hands. But it must be recognized that there are many nations who do not share our view. General agreement on a single form of industrial ownership and operation is not to be obtained. Other countries cannot be forced to abandon socialism, and the United States certainly will not consent to abandon private enterprise. The only alternative, therefore, is to restore and maintain an international economic order that is conducive to the preservation of private enterprise within all those countries that

choose it for their own economies and, at all hazards, to prevent the emergence of an order in which it would become increasingly difficult for private enterprise to survive. It is more practical and more important to devote our energies to this undertaking than to a vain effort to obtain agreement on a statement of abstract principles. And it is the former, rather than the latter, that the framers of the *Charter* sought to do.

It is asserted, further, that the ITO will engage in global economic planning, allocating production and markets among the nations of the world and subjecting business, in every country, to the dictates of a socialist bureaucracy. Provisions requiring the removal of restrictions are thus labeled as restrictive, and measures looking toward the restoration of free markets are said to involve the creation of a planned economy. Nothing could be a greater perversion of the truth.

The *Charter* does not provide for global economic planning. It does not give the ITO any power whatsoever to determine what any country shall produce, or how much, or what it shall export, or how much, or to whom, or what it shall import, or how much, or from whom. It does permit governments to enter into agreements under which they may temporarily regulate trade in primary commodities. They possess this power, of course, at the present time. The *Charter* does not deprive them of it. What it does is strictly to limit the circumstances under which the power may be used and the manner in which it may be exercised. The *Charter* does not prohibit commodity agreements; it does not promote them. In fact, it would prevent agreements of the types that have existed in the past. Its rules are designed to safeguard the interests of consumers, to encourage adjustment to changing conditions, and to facilitate the early restoration of free markets. This is not a design for global planning; it is an effort to keep such planning within narrow bounds. The alternative, it should be remembered, is not a situation in which there would be no commodity agreements, but one in which there might be many such agreements to which no safeguards whatsoever would apply.

It should be emphasized that the whole purpose of the *Charter* is not to multiply restrictions, but to minimize them; not to increase

controls, but to reduce them. Instead of regimenting world trade, it seeks, through international agreement, to liberate trade from the forms of regimentation imposed on it by national governments.

SURRENDER OF SOVEREIGNTY TO A SUPERSTATE

Another argument, appearing in company with the previous one, asserts that the *Charter* would require the United States to surrender sovereignty over its domestic economic life, transferring to the ITO authority to determine its internal policies. This simply is not true. The ITO will not be a supranational government; it will have no powers—legislative, executive, or judicial—that would impinge upon the sovereignty of member states. The *Charter*, like any other international instrument, contains commitments that limit the freedom of action of the signatory powers. But these commitments are narrowly limited and carefully defined; they are to be assumed voluntarily. No nation need enter the ITO unless it believes that it would be to its advantage to do so, and no nation can be compelled to remain within the Organization if it feels that its interests would not be served. Voluntary agreement for mutual advantage has always been the method by which order has been established in international affairs. There seems to be no reason why this method should not be applied to international trade.

The ITO will have no power whatsoever to intervene in the domestic wage, employment, or development policies of member states. Each of its members will agree “to take whatever action may be appropriate and feasible” to eliminate unfair conditions of labor within its territory. Each of them will agree “to take action designed to achieve and maintain full and productive employment.” And each will agree to “take action designed progressively to develop . . . industrial and other economic resources and to raise standards of productivity.” But, in each case, the nature of the action to be taken by any member state is for it alone to choose. No power is conferred upon the ITO to tell a member what action for the elimination of unfair conditions of labor would be “appropriate and feasible.” No state is asked to guarantee that its efforts to stabilize employment will succeed. And if they do not, the ITO is given no authority to say what steps it should have taken or to dictate the

steps that it should subsequently take. So, too, with economic development. Each of the less developed countries will make its own decisions as to the industries it wishes to promote. The ITO will have no right to decree that a particular industry should not be developed or that another should be promoted in its place. Whenever the statement is made that the Organization will possess dictatorial power of any sort over the internal economies of member nations, the answer can be given categorically that this is not the case.

ONE-SIDED OBLIGATIONS

It is frequently asserted that obligations, under the *Charter*, will be imposed exclusively upon the United States and freedom granted to all other nations to pursue whatever course they choose. This argument appears in three forms. According to the first, the provisions of the document itself will bind us hand and foot while opening escapes to everybody else. According to the second, these provisions may be fairly balanced, but we shall live up to them, while no other country can be trusted to keep its word. According to the third, nations may live up to the letter of the law, but they will outvote us whenever differences arise.

The first of these contentions was examined at some length in Chapter 17 and found to be erroneous. The second reveals a self-righteousness that will not endear us to our neighbors; it impugns the honor of every other country in the world. Only the third requires examination here.

In some of the procedures envisaged by the *Charter*, the question of voting power is irrelevant. Where members of the ITO are called into consultation, any action that may result will be taken, not on the basis of voting, but by common consent. Where negotiations are entered into, each participant will influence the content of the bargain and accept or reject it, on balance, according to his choice. It is only where the fulfillment of obligations is questioned or exceptions from obligations requested that the issue would be settled by a vote. Here, to be sure, a majority of the members of the Organization might decide that one of their number, whose fulfillment of an obligation had been questioned by the United States, was not guilty of violation; or a majority might decide, upon the complaint

of another member, that the United States had violated an obligation in a certain case. So, too, a majority might vote against an exception that we favored or for an exception that we opposed. But these possibilities need give no occasion for alarm. For it is unlikely, in practice, that the vote would invariably—or frequently—run against the interests of the United States.

In some cases, countries requesting exceptions must obtain the consent of other parties to trade agreements; such parties may veto their requests. In the case of the balance-of-payments exception, the most important in the *Charter*, the ITO is bound by determinations made by the International Monetary Fund, and the United States casts a weighted vote in the Fund. In certain other cases, decisions taken by the Organization require a two-thirds majority. But even where a simple majority suffices, it cannot be assumed that a majority of members would seek to form, and succeed in forming, a cohesive voting bloc. There is no single sharp division of interest that will appear in every case. The line-up of votes will be constantly shifting, from issue to issue and from time to time. The influence of a major power, moreover, cannot be limited to the weight accorded to its vote. The United States, at the Havana conference, obtained acceptance of three important provisions that were sought by it alone: the finality of determinations on financial matters by the IMF, the outlawry of numerous forms of discrimination against imported films, and the provision of greater freedom to subsidize exports of primary commodities. Neither in these cases nor in others was the assumption that other nations will combine to vote us down, at every opportunity, borne out in fact. It would be unreasonable to expect that the United States will win on every vote that will be taken in the ITO. It would be equally unreasonable to expect that it will always lose. On the balance of gains and losses, our country, as every other, will have to take a chance. If the balance should tip against us, we could withdraw from membership.

KILL IT—MAKE IT OVER—LET IT WAIT

Three different lines of attack are followed by those who oppose ratification of the *Charter* in the United States. One group contends that international agreement and organization are not needed; that

trade will go on without them; that American business can look out for itself. Another group professes to favor agreement and organization but insists that the proposed agreement should be revised and the proposed organization set up along different lines. A third group, also supporting agreement and organization in principle, contends that they are not urgent and might well be postponed.

According to the first of these groups, the United States should not concern itself with the restrictive and discriminatory practices of other nations and should take no commitments on its own account. If other countries wish to raise barriers against imports, they should be permitted to do so. If they wish to discriminate against American exports, that is their own business; it is no affair of ours. The world will always need our goods. Our industry is powerful; it can force its way into other markets, however surrounded with restrictions, on advantageous terms. If need be, our government can retaliate; we can fight fire with fire. So speak the economic isolationists who have opposed the *Charter* from the beginning and will continue to oppose it to the end. Their voice emerges from a fools' paradise, counseling a policy of drift. Fortunately, it is the voice of a small minority.

Those who follow the second line of attack argue that the *Charter* should be rewritten and the structure of the Organization overhauled. But there appears to be no agreement as to the changes that should be made. It is said, for instance, that all of the escape clauses should be eliminated; that general principles should be brought together at the beginning of the *Charter* and transition-period exceptions relegated to an appendix; that the date on which commitments would become binding should be postponed; that the *Charter* should be confined to statements of principle that would have no binding force; that the functions of the ITO should be purely advisory; that the ITO should offer no advice, but limit itself to codifying and publishing the provisions of existing treaties and agreements affecting international trade. For one or another of these purposes, it has been suggested that a conference to renegotiate the *Charter* should be called. It may be doubted, however, that this suggestion would be greeted with enthusiasm by any of the eighteen nations that devoted eighteen months to the negotia-

tion of the present draft or by the forty other nations that joined them for four months in the winter of 1947-1948. The *Havana Charter*, for better or for worse, is the only charter that can be considered or adopted by the nations of the world. Renegotiation is not within the realm of possibility.

According to the third group of critics, the *Charter*, while ultimately desirable, has lost its urgency. The one real task that now confronts us is the promotion of world recovery. And our decision to undertake this task insures that our exports will find a market for the next few years. During this period, the program of reconstruction should have priority. If it should fail, the chance of obtaining agreement on commercial policy will have been lost. If it should succeed, agreement can be reached, under happier circumstances, in more normal times.

It is true, of course, that many of the nations that were stricken by the war cannot participate, on equal terms, in the world's economy until their reconstruction is assured. It must be recognized, too, that restrictionism and discrimination can not be abandoned until the world has rectified the great imbalance that now afflicts its trade. But it does not follow that the problems of long-run policy can safely be postponed until a better day. If we do not now see to it that our long-run policies are right, we may find ourselves confronted, at the end of the recovery program, with restrictions hardened into a mold too tough to break. There would be little sense in making heavy contributions to reconstruction if we had small hope that conditions in the 1950's would be any better than they are today. We must know, as we work our way out of the chaos left by war, in what direction we are headed, and why.

It is argued, finally, that the *Charter* might safely be shelved, since the most important of its commitments are also contained in the *General Agreement on Tariffs and Trade*. There is danger, however, that the *General Agreement* would not survive the abandonment of the *Charter*. The *General Agreement* is in effect provisionally, not definitively; it can be denounced on short notice. The *Charter* and the *General Agreement*, while independent of one another, were conceived and negotiated as related parts of a common plan. If the United States were to renounce the one, many of

the contracting parties might withdraw from the other. If this were to happen, tariffs would rise, quota systems and exchange controls would be maintained and strengthened, bilateralism would persist, and discrimination would be intensified; in almost every country, outside of the United States, detailed administrative regulation of exports and imports, instead of being the exception, would become the general rule. And even if this were not to happen, much of the ground that has been gained in the *Charter* would be surrendered: the hard-won agreements on cartel and commodity policy would be sacrificed; the opportunity to establish an international trade organization would be lost.

It is obvious to everyone today that the structure of international trade relationships must be rebuilt. But time is short; our power as social architects is greater this year and next than it will be a few years hence. If we delay, our last opportunity to reconstruct world trade on the pattern of freedom may well be lost. The time for action is now.