

## CHAPTER 2

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### AMERICAN TRADE POLICY

THE United States, during and since the war, has consistently worked for the reestablishment of conditions conducive to freer trade. It has maintained that barriers to the flow of information on economic activity and industrial technology, aside from military matters, should be removed; that barriers to travel and residence should be minimized; that impediments to the movement of private capital and the repayment of investors should be eliminated; and that measures which discriminate against foreign enterprises and investments, or among them, should be abandoned. It has sought to obtain assurance that currencies will be made convertible; that exchange rates will be stabilized; that exchange controls and quota systems, under normal conditions, will be abolished; that control of trade will be accomplished almost entirely through tariffs; that tariffs will be substantially reduced; that tariff preferences will eventually be eliminated; and that exchange control and quota systems, while they survive, will be administered without discrimination. It has urged that restrictive financial and trading practices, whether public or private, be subjected to international control. It has entered into agreements and initiated the establishment of organizations through which nations may cooperate to these ends.

The international trade policies that have been espoused by the United States are based upon six fundamental principles. First, the United States believes that the volume of international trade should be large—larger, certainly, than it was between the wars. Second, it believes that international purchases and sales should be made, at our end of the transaction, at least, by private enterprise. Third, it be-

lieves that trade should be multilateral rather than bilateral. Fourth, it believes that trade should be non-discriminatory. Fifth, it believes that prosperity and stability, both in industry and agriculture, are so intimately related to international trade that stabilization policies and trade policies must be consistent, each with the other. And sixth, it believes that continuous international consultation and cooperation are essential to the fulfillment of all these purposes.

#### BIG EXPORTS—BIG IMPORTS

The first principle is that the volume of international trade should be large. We, in the United States, want large exports and large imports and we want them for reasons that are grounded, in large part, in our own interests. This is not to imply that we must push exports as a means of maintaining employment. That, in strict logic, is not the case. It is the opportunity to work productively, not the opportunity to work at all, that is promoted by abundant trade. If, instead of seeking both quantity and quality in our employment, we were to content ourselves with quantity alone, we could doubtless have it with little or no foreign trade. If we were to accept the necessary controls, it is conceivable that we could keep everybody steadily at work in a closed economy. But it would require a drastic readjustment for us to do so; it would necessitate increasing regimentation; it would reduce the output of our labor; it would impair the well-being of our people.

We want large exports. We shall have them, in more than ample quantity, during the postwar reconstruction boom; we shall need them when the boom has ended. An important part of our agricultural activity has long been directed toward sales abroad. And now, as a result of the war, our heavy mass-production industries are also geared to a level of output which exceeds the normal, peacetime demands of the domestic market. The maintenance of the type of plant, technology, labor force, and management that they require is essential to the preservation of our economic health and even of our national security. It will be easier for us to maintain both the quantity and the quality of our employment, it will be easier for us to insure our security, if we keep our labor at work, in so far as possible, in the industries where it is most effectively employed. And

this means that we must sell substantial quantities of our output abroad.

We want large imports. The war has made great inroads on our natural resources; we have become and will increasingly become dependent upon foreign supplies of basic materials. The quantity and the variety of our demand for consumers' goods is capable of indefinite expansion. If we are to continue to lend and sell to others, if we are to receive interest and dividends on our loans and investments, we must be prepared to accept payment in the goods that our customers and our debtors are better able to provide. Nor is this to be regarded merely as a necessary evil. Our imports are essential to our industrial strength, to the richness and diversity of our daily living.

But abundant trade will not benefit the United States alone. Many nations, particularly the smaller ones, are more dependent on foreign commerce than are we. Wider markets are needed if they are to earn the foreign exchange that will enable them to pay for the imports that they require. Increased trade, with greater specialization and more active competition, should enhance the productivity of their labor, cut their costs of production, and enlarge the output of their industry. More goods should flow from less effort and levels of consumption should be heightened all around the world. Abundant trade is not an end in itself; it is a means to ends that should be held in common by all mankind.

#### PRIVATE ENTERPRISE

Our second principle is that the foreign trade of the United States should be carried on by private enterprise. Indeed, we should prefer this pattern, by and large, for international trade in general. We should prefer it because private operation, in our view, affords the best assurance that trade will be competitive, efficient, progressive, and non-discriminatory and, finally, that it will be non-political. Businessmen will ordinarily seek to buy in the cheapest market and sell in the dearest one; governments, if actuated by something other than economic motives, may deliberately buy where prices are high and sell where they are low. Private transactions are carried on at private risk; if they are displeasing to individuals, they need not

ments; if they give rise to dissatisfaction, they are all too likely to become the subject of diplomatic representations. International relations, in all conscience, are difficult enough without creating a situation in which any purchase and any sale may assume the character of an international incident.

We can determine how trade is to be conducted within our own borders; we cannot determine how it is to be conducted abroad. Nationalization has made great progress since the war. Some countries have taken over the entire operation of their economies, guiding production according to the requirements of a central plan. Others have committed substantial segments of their industry and trade to public ownership under varying patterns of control. We may not welcome this, but there is very little that we can do about it. Where American investors are expropriated, we can demand prompt and effective compensation. Where loans are requested, we can, if we choose, refuse to grant them. But Ruritania's organization of her internal economy is Ruritania's business and if she embraces—or tolerates—collectivism, the best that we can do is to accept her course as one of the facts of life.

Our problem here is difficult, but it is one to which a solution must be found. We do not wish to isolate ourselves from unlike economies, to permit the diversity of economic systems to divide the world into public-trading and private-trading blocs. Nor do we believe that the forms and methods of collectivism should be employed in carrying on the whole of the world's trade simply because they provide the most convenient method of dealing with the small fraction of that trade that is in public hands. The solution must be found, rather, in an arrangement which will enable the free-market economies and the controlled economies to trade with one another on a basis of fair dealing and mutual advantage. The rules that govern international commerce should be so drafted that they will apply to the two systems with equal justice and with equal force. They may differ in detail; they should not differ in principle.

#### BILATERALISM AND MULTILATERALISM

Our third principle is that international trade should be multilateral rather than bilateral. Bilateralism in trade, of course, is akin

use your money to buy where you please. Your customer insists that you must buy from him if he is to buy from you. Imports are directly tied to exports and each country must balance its accounts, not only with the world as a whole, but separately with every other country with which it deals.

Particular transactions, to be sure, are always bilateral; one seller deals with one buyer. But under multilateralism the pattern of trade in general is many-sided. Sellers are not compelled to confine their sales to buyers who will deliver them equivalent values in other goods. Buyers are not required to find sellers who will accept payment in goods that the buyers have produced. Traders sell where they please, exchanging goods for money, and buy where they please, exchanging money for goods.

This arrangement is the rule in the domestic market; it has its counterpart in international trade. Thus, in years before the wars, each country sought to balance its accounts with the world as a whole, but not with every other country with which it dealt. The United States bought from Brazil twice what we sold her and from Malaya ten times as much as we sold her while, at the same time, we sold the River Plate countries twice and the United Kingdom three times as much as we bought from them. Asia and Latin America sold raw materials to us, bought manufactured goods from England. England, in turn, exported heavily to the tropics, imported heavily from the United States. This is the sort of trading pattern that we should like to have restored.

The case against bilateralism is a familiar one. By reducing the number and the size of the transactions that can be effected, it holds down the volume of world trade. By restricting the scope of available markets and sources of supply, it forces disadvantageous transactions and limits the possible economies of international specialization. By freezing trade into rigid patterns, it hinders accommodation to changing conditions. Bilateralism places the essential decisions as to the volume of trade, the direction of exports, and the sources of imports in the hands of the state. It substitutes the judgment of the bureaucrat for the judgment of the market place. It necessitates increasing regulation of domestic trade. It begets discrimination in

power to gain at the expense of weaker ones. It tends to shift the emphasis in commercial relations from economics to politics.

A multilateral trading system, on the contrary, makes for a larger volume of trade, for greater economy in production, and for readier adjustment to changing conditions. It permits the trader to follow market opportunities in a search for purely economic advantage. It establishes conditions that are conducive to the preservation of private enterprise. It permits the policy and encourages the practice of non-discrimination. It protects the weaker bargainer against the stronger one. It places its emphasis on economics, not on politics.

#### NON-DISCRIMINATION

Our fourth principle is that international trade should be non-discriminatory. This principle has been embodied in all of our commercial treaties, beginning with France in 1778 and Great Britain in 1794. It was commended by President Washington in his Farewell Address. The United States has always believed that every nation should afford equal treatment to the commerce of all friendly states. It believes that discrimination obstructs the expansion of trade, that it distorts normal relationships and prevents the most desirable division of labor, that it tends to perpetuate itself by canalizing trade and establishing vested interests and, finally, that it gives rise to international irritation and ill will. For all of these reasons, the United States has been opposed and is opposed to preferential tariff systems and the discriminatory administration of import quotas and exchange controls. Discrimination begets bilateralism as bilateralism begets discrimination. If we are to rid ourselves of either one of them, we must rid ourselves of both.

#### STABILIZATION POLICY AND TRADE POLICY

Our fifth principle is that prosperity and stability, both in industry and in agriculture, are so intimately related to international trade that stabilization policies and trade policies must be consistent, each with the other. It must be recognized that the reestablishment and the survival of liberal trade policies will depend upon the ability of nations to achieve and maintain high and stable levels of employment and upon their willingness to afford to the producers of staple

commodities some measure of protection against the sudden impact of violent change. It should be recognized, too, that the advantages of abundant trade cannot be realized if nations seek to solve their own employment problems by exporting unemployment to their neighbors or if they attempt, over long periods, to hold the production and prices of staple commodities at levels that cannot be sustained by world demand. Programs that are directed toward the objectives of prosperity and stability, on the one hand, and abundant trade, on the other, will not always be in conflict. But when they are, they must be compromised.

#### CONSULTATION AND COOPERATION

The sixth and final principle is that continuous international consultation and cooperation are essential to the reestablishment and preservation of abundance, private enterprise, multilateralism, non-discrimination, and stability in the world's trade. The consequences of purely unilateral action in matters of trade policy were well described by President Truman in a speech at Baylor University on March 6, 1947. "One nation," said the President, "may take action in the interest (whether fancied or real) of its own producers without notifying other nations, or consulting them, or even considering how they may be hurt. It may cut down its purchases of another country's goods, by raising its tariff or imposing an embargo or a system of quotas on imports. And when it does this, some producer in the other country will find the door to his market suddenly slammed and bolted in his face. Or a nation may subsidize its exports, selling its goods abroad below their cost. And when it does this, a producer in some other country will find his market flooded with the goods that have been dumped. In either case, the producer gets angry, just as you or I would get angry if such a thing were done to us. Profits have disappeared; workers are dismissed. He feels that he has been wronged, without warning and without reason. He appeals to his government for action. His government retaliates, and another round of tariff boosts, embargoes, quotas, and subsidies is under way. This is economic war. And in such a conflict there can be no hope of victory."

The alternative to economic warfare is agreement to abide by common rules, to cooperate in the solution of common problems, to

enter into consultation where interests come into conflict, to submit disputes to peaceful settlement. But there can be no assurance that nations, in general, will follow this course, completely or consistently, unless there is international organization in the field of trade. An international trade organization, said Mr. Truman, "would apply to commercial relationships the same principles of fair dealing that the United Nations is applying to political affairs. Instead of retaining unlimited freedom to commit acts of economic aggression, its members would adopt a code of economic ethics and agree to live according to its rules. Instead of taking action that might be harmful to others, without warning and without consultation, countries would sit down around the table and talk things out. In any dispute, each party would present its case. The interests of all would be considered, and a reasonable solution would be found. In economics, as in politics, this is the way to peace."

#### THE AMERICAN PROPOSALS

This is the background of the American *Proposals for the Expansion of World Trade and Employment* which our government published on December 6, 1945, and submitted for consideration to the American people and to other governments of the world. These proposals were based upon the conviction that human energies can best be directed toward the improvement of standards of living if the world, instead of regimenting its trade, will seek to restore the greatest possible measure of economic freedom. They were designed to reverse the prewar trend toward economic isolationism and to resist the tendency to fasten the pattern of wartime controls upon a world at peace. Their provisions may be outlined in a few words.

It was proposed—

1. That devices by which governments have distorted the natural flow of private trade, whether through the restriction of imports or the artificial stimulation of exports, be modified or abandoned; that tariffs be substantially reduced and preferences eliminated; that internal taxes and regulations be imposed without discrimination; that common principles be adopted to govern tariff valuation and the application of antidumping and countervailing duties; that customs formalities be simplified; that full publicity be given to laws and regulations affecting trade; that import quotas be limited to really necessary cases and adminis-



tered without discrimination; that subsidies, in general, be the subject of international consultation and that subsidies on exports be confined to exceptional cases, under general rules.

2. That governments conducting public enterprises to buy and sell abroad agree to accord fair treatment to the commerce of all friendly states, making their sales and purchases on purely economic grounds.

3. That nations agree to act, individually and cooperatively to prevent private cartels and combines from restricting the trade of the world.

4. That any international agreement adopted to protect the many small producers of primary commodities, in the event of surplus production, against the impact of sudden and violent changes in world markets, be designed to facilitate correction of the causes of their difficulties, not to perpetuate them; that measures restricting exports or fixing prices, where they are unavoidable, be limited in duration; that they be so administered as to provide increasing opportunities to satisfy world requirements from the more economic sources; that they be attended, at every stage, by full publicity; and that consuming countries be given an equal voice with producing countries in their formulation and administration.

5. That all of these commitments be embodied in a world trade charter and carried out through an international trade organization, established under the charter, in appropriate relationship to the Economic and Social Council, as an integral part of the structure of the United Nations.

These were the proposals that related to trade. If they were to gain acceptance, assurance was also required that the nations of the world will seek, through measures that are not inconsistent with them, to achieve and maintain industrial stability. For this reason, it was proposed, finally, that each nation agree to take action, within its own jurisdiction, designed to provide regular and useful employment opportunities for those who are able, willing, and seeking to work; that no nation attempt to solve its domestic employment problem by measures that would contract world trade; and that all nations cooperate in an effort to stabilize production by exchanging information and participating in consultations with respect to antidepression policies.

"The purpose," in the words of the *Proposals*, "is to make real the principle of equal access to the markets and the raw materials of

the world, so that the varied gifts of many peoples may exert themselves more fully for the common good. The larger purpose is to contribute to the effective partnership of the United Nations, to the growth of international confidence and solidarity, and thus to the preservation of the peace.”

#### THE GRASS ROOTS

These proposals were not prepared in haste: they were developed by a series of committees, drawn from the various departments and agencies of the government, that met continuously in Washington, under the chairmanship of the Department of State, from the spring of 1943 to the autumn of 1945. They were built upon experience: they carry forward policies that have been incorporated in our commercial treaties and in our trade agreements over many years; they further develop suggestions that were advanced at international economic conferences between the two world wars; they draw upon the lessons from history that were set forth by the Economic and Financial Committees of the League of Nations in their last reports.\* The *Proposals*, however, are distinctively American: in substance, if not in detail, they parallel the comprehensive programs that have been presented by such bodies as the Committee on Economic Development, the Committee on International Economic Policy of the Carnegie Endowment for Peace, the National Foreign Trade Council, the National Planning Association, the Twentieth Century Fund, and the Special Committee on Postwar Economic Policy and Planning of the House of Representatives; † they follow the line of policy that has been recommended by every American scholar who has written on the sub-

\* Economic and Financial Committees of the League of Nations, *Commercial Policy in the Postwar World* (Princeton, 1945).

† Committee on Economic Development, *International Trade, Foreign Investment and Domestic Employment* (New York, 1945); Committee on International Economic Policy, *World Trade and Employment* (New York, 1944); National Foreign Trade Council, *A Proposed Foreign Economic Policy for the United States* (New York, 1946); National Planning Association, *America's New Opportunities in World Trade* (Washington, 1944); Twentieth Century Fund, *Report of the Committee on Foreign Economic Relations* (New York, 1947); House Special Committee on Postwar Economic Policy and Planning, *Postwar Foreign Economic Policy of the United States* (Washington, 1945).

ject in recent years;\* they embody principles that have been approved by major groups representing American business, labor, and agriculture, the women's organizations, and the churches, by the all but unanimous voice of the nation's press † and, according to every poll of public opinion that has been taken since the war, by the overwhelming majority of the American people.‡ The world that is pictured in these proposals is the kind of world that Americans want.

Public opinion, in the United States today, stands in sharp contrast to that prevailing in the years which followed the First World War. Then we made new loans to the rest of the world; now, again, we are making such loans. But then we sought to recover, with interest, the sums that we had advanced to our allies to finance the prosecution of the war. And, at the same time, we raised our tariff so fast and so far as to make it difficult, if not impossible, for any of these debts to be paid. Now, however, we have written off the war-time balance of the lend-lease account and we have taken the lead in reducing barriers to trade. We have come, at last, to recognize the requirements of our position as the world's greatest creditor. We have demonstrated that we can learn from history.

\* See, e.g.: Percy W. Bidwell, *A Commercial Policy For the United Nations* (New York, 1945); Norman S. Buchanan and Friedrich A. Lutz, *Rebuilding the World Economy* (New York, 1947); J. B. Condliffe, *The Reconstruction of World Trade* (New York, 1940), and *Agenda for a Postwar World* (New York, 1942); Herbert Feis, *The Sinews of Peace* (New York, 1944); Alvin H. Hansen, *America's Role in the World Economy* (New York, 1945); Michael A. Heilperin, *The Trade of Nations* (New York, 1947); Calvin B. Hoover, *International Trade and Domestic Employment* (New York, 1945); Otto T. Mallery, *Economic Union and Durable Peace* (New York, 1943), and *More Than Conquerors* (New York, 1947); Oswald G. Villard, *Free Trade—Free World* (New York, 1947).

† Among the editors of country papers replying to a poll in January 1947, 9 per cent favored and 69 per cent opposed a return to high tariffs. Opposition to liberal trade policies, in the metropolitan press, is confined almost entirely to the Hearst papers, the *Chicago Tribune*, the *New York Sun*, the *Wall Street Journal*, and the *Daily Worker*.

‡ The American Institute of Public Opinion reported in May 1945 that 75 per cent of the people favored continuance of the trade-agreements program. The National Opinion Research Center reported in February 1947 that 73 per cent of the people favored and 10 per cent opposed reciprocal tariff cuts; that 83 per cent favored and 7 per cent opposed world trade organization. The Fortune Survey reported in March 1947 that 57 per cent favored lower tariffs and 19 per cent higher tariffs. The Gallup Poll reported in December 1947 that 63 per cent favored and 12 per cent opposed the Geneva tariff agreement and in May 1948 that 80 per cent favored and 8 per cent opposed renewal of the Trade Agreements Act.