CHAPTER 19

SOME OPEN QUESTIONS

THERE are those who appear to take the view that it should be possible for the United States, in any international negotiation, to obtain precisely what it seeks, yielding nothing to nations that are committed to opposing policies. In this view, American negotiators should follow the practice of laying down their demands on a take-it-or-leave-it basis. They should concede nothing; they should never compromise. In one way or another, they should compel all other nations to sign on the dotted line.

Such a view is incredibly naïve. Such a procedure simply would not work. And even if it were workable, it would be unwise. Other countries, too, have economic problems and political necessities, long-standing traditions and established policies, a sense of dignity and national pride. Refusal to compromise would be resented. Proposals that could not be modified in any way would be rejected. Commitments that were taken under duress would be reluctantly observed. If there is to be willing adherence, obligations must be voluntarily assumed. The method of international negotiation is necessarily that of persuasion and compromise. And this is the method that was followed, at London, Geneva, and Havana, in negotiating the *Charter* of the ITO.

Since it makes concessions to opposing points of view, the *Charter* is less than perfect from the point of view of the United States. It is not to be appraised exclusively in terms of black and white. In this document, as in any other, it is necessary to strike a balance by weighing the bad against the good. In this chapter, consideration will be given to the risks that will be incurred in accepting the *Charter;* in the next, to the risks that would be run in rejecting it.

SANCTION FOR MALPRACTICE?

It must be admitted that the agreement contained in the provisions of the *Charter* is, in some cases, more apparent than real, that underlying interests are still in conflict, and that different interpretations are likely to be placed on the same form of words. In a few instances, at least, fundamental differences, instead of being resolved, are covered up by wording that is ambiguous or meaningless. Thus a recognition of the desirability of promoting industries for the processing of domestic raw materials, that was sought by certain countries, appears illogically in a paragraph that says, in effect, that nations, during the limited life of a commodity agreement, should adopt measures designed to make its extension unnecessary (57*b*). In the same way, a proposal that the ITO be empowered to raise the prices of raw materials and reduce the prices of manufactured goods appears as a provision permitting it to make studies and recommendations (72*d*). And the contention that the ITO should be required to give preferred treatment to undeveloped nations is reduced to the statement that it "shall have due regard to the economic circumstances of members, to the factors affecting these circumstances, and to the consequences of its determinations upon the interests of the Member or Members concerned" (72–2). Such provisions can do no damage in themselves, but they serve to illustrate the fact that underlying attitudes remain unchanged.

Since this is true, there is a risk that members of the Organization will attempt to exploit to the limit the exceptions permitted by the *Charter,* while giving lip service to its general rules. And if this should happen, there is danger that an accumulation of decisions granting such exceptions would come to be regarded as a codification of accepted practice, endorsed by world opinion and given status in international law. In these circumstances, restrictionism and discrimination might be preserved and sanctified and the basic principles of the *Charter* lost from sight.

Such a development is possible; but it is by no means inevitable. Unreasonable exemptions will be sought; they will also be opposed. The interests of nations, in general, will not be served by restrictive and discriminatory practices. The ITO will bring these practices into the full light of publicity. It will serve as a continuous forum in which they can be challenged and condemned. The outcome of these deliberations cannot be predicted with any certainty. It will depend upon the attitudes with which the members of the ITO approach its work. The countries that join the Organization will make or break it. If they seek to realize the general principles contained in the *Charter,* they will make it. If they place too much emphasis on the possible exceptions to these general principles, they will break it.

PLANNING FOR INTERNATIONAL DEFICITS?

The most far-reaching exception in the *Charter* is the one that permits a country with a serious deficit in its balance of payments, impairing or threatening the adequacy of its monetary reserves, to impose quotas on its imports. This is a necessary exception, but it is also a dangerous one. Under the abnormal conditions created by the war, a deficit in a country's balance of payments may be a consequence, predominantly, of factors that are beyond its control. But even under such conditions this is not entirely true. And in normal circumstances it would be even less so. A government may decide to spend so heavily on industrialization or reconstruction, armament, housing, or social services that its demand for imports is substantially increased. It may encourage inflation by failing to tax, by printing money, by extending credit, or by permitting wages and prices to mount until its exports become so costly that they are substantially curtailed. In either way, or in both, domestic policy may create or maintain a balance-of-payments deficit. Such a deficit, in all likelihood, would be a by-product, rather than an objective, of domestic policy. But it is conceivable that it might be deliberately contrived. And in either case, since the International Monetary Fund and the ITO could not avoid a finding that monetary reserves were, in fact, endangered, the exception permitted by the *Charter* would come into play.

There is only one way in which nations could be deprived of the power to make themselves eligible to use import quotas by incurring external deficits. The ITO could be given authority to intervene in their internal economic policies. But this is what the *Charter* explicitly declines to do. According to its provisions, "The Members recognize that, as a result of domestic policies directed toward the fulfillment of a Member's obligations . . . relating to the achievement and maintenance of full and productive employment and large and steadily growing demand, or its obligations relating to the reconstruction or development of industrial and other economic resources and to the raising of standards of productivity, such a Member may find that demands for foreign exchange on account of imports and other current payments are absorbing the foreign exchange resources currently available to it in such a manner as to exercise pressure on its monetary reserves which would justify the institution or maintenance of restrictions. . . . Accordingly, no Member shall be required to withdraw or modify restrictions which it is applying . . . on the ground that a change in such policies would render these restrictions unnecessary" (21–4*b*). Interference in the domestic affairs of nations is thus expressly prohibited and freedom to get into balance-of-payments difficulties is retained.

The same issue arose, in connection with currency depreciation and exchange controls, under the *Articles of Agreement* of the International Monetary Fund. And the Fund, as the ITO, was forbidden to require adjustments in "the domestic social or political policies" of its members. Here, as in the case of the ITO, the effect is to weaken the force of the agreement.

It must be recognized, however, that no nation is prepared to surrender sovereignty over internal economic policy. And this is true, in particular, of the United States. Neither the ITO nor the Fund could be given authority to influence domestic policies affecting the international position of other countries without being given similar authority to influence such policies in the United States. And it is certain that any such provision, even if it could have been accepted by other countries, would have been rejected by our own.

There is danger, therefore, that the balance-of-payments exception in the *Charter* will be broader than might otherwise have been the case. But it may be doubted that important trading nations will deliberately direct their policies toward the creation and maintenance of external deficits. Balance, both in domestic budgets and in international accounts, has its advantages. Sound policy in monetary and fiscal matters, while it cannot be guaranteed, may well prevail. The test of the pudding will be in the eating.

INDUCEMENT TO STATE TRADING?

The most effective way to solve the problems created by state-trading operations abroad would be to adopt state trading at home, forcing the state monopolies in other countries to deal with similar monopolies in our own. To do this, however, would be to require private enterprise to surrender to socialism without a struggle. And no such surrender could be contemplated by the United States. An entirely different approach toward the problems of state trading was suggested in the original American *Proposals,* adopted at London and Geneva, and accepted at the Havana conference. The *Charter* accordingly attempts to fit state trading into the pattern of multilateralism and non-discrimination, subjecting it to the same principles that apply to the public regulation of private trade. State-trading countries must enter into negotiations directed toward the expansion of exports and imports; they must be guided by commercial considerations in selling and buying; they may not employ discrimination to serve political ends. They may not resort to restrictive business practices to prevent the expansion of trade. These are the most effective provisions that it was possible for anyone, in business or in government, to devise. They are sound in principle. But it cannot be contended that they will be easy to enforce.

It is a simple matter, in the case of a country whose trade is in private hands, to determine whether the government is permitting the demand of consumers for foreign goods to be more nearly satisfied. One has only to observe whether tariffs have been reduced, import quotas abandoned or enlarged, and exchange controls abolished or relaxed. But in the case of a state-trading country, no such determination can readily be made. A state monopoly will buy as much, or as little, as the government chooses. And no one can say with certainty how much more would have been imported if consumers had been free to make the choice. The *Charter* requires that domestic demand be fully satisfied at the established price. But it will be difficult for outsiders to estimate the extent of that demand.

A similar difficulty arises in connection with the rule of non-discrimination. When a private-enterprise country discriminates, that fact is clearly revealed by the existence of preferential rates in its tariff, by the structure of its quota system, or by the administration of its exchange controls. But when a state-trading enterprise discriminates, the fact can be demonstrated only by a cost-accounting study of its books. And the results of such a study might well be open to dispute. It is too much to expect that state-trading operations will never be employed as instruments of national policy. Discrimination may often be motivated by political rather than economic purposes. But this fact is scarcely to be established without resort to the practice of psychiatry.

The state-trading provisions of the *Charter*, admittedly, are weak. And since control over other methods of regimenting trade is likely to be more effective, there is some risk that this inequality might serve as an inducement to the further monopolization of trade by governments. But this risk would appear to be more theoretical than real. Pressure for the restriction of imports, in any country, comes from private interests who seek relief from the necessity of facing foreign competition. These interests would not be served by a program of nationalization. They are unlikely to burn down the house to roast the pig. Socialism involves much more than freedom to interfere with foreign trade. In its acceptance or rejection, this factor will scarcely be determining.

The *Charter* marks the first attempt to subject the practices of state trading enterprises to international control. The ITO will serve as a medium through which these practices can be criticized, defended, and modified. It may well operate to moderate the violence that they would otherwise do to the principles of multilateral trade. And if it works, it may protect countries preferring private enterprise from being forced into nationalization in their own defense.

RECOVERY A FAILURE?

The chances for successful operation of the ITO are bound up with the success or failure of the European recovery program. And that program has been recognized to involve a calculated risk. It may prove to be a political impossibility for the nations of Europe to make the internal adjustments that would be required to balance their budgets, check inflation, and stabilize their currencies. It may prove to be an economic impossibility for them to carry production to levels that will balance their accounts or to reduce costs and prices to a point that will enable them to compete on equal terms in the markets of the world. The year 1952 may find them still facing substantial international deficits and requiring external aid. Indeed, it has been suggested that pronounced imbalance in the world's trade may turn out to be chronic, enduring for a generation or more.

If this were to happen, and if the United States were not indefinitely to continue to finance Europe's deficits, the hopes for the restoration of a freer trading system would certainly be lost. The ITO would doubtless be destroyed as the United States turned to restrictionism and discrimination in an effort to cope with similar practices abroad. If it survived at all, it would concern itself, not with observance of the *Charter's* general rules, but with the elaboration of escapes.

The United States faced the risk of failure when it embarked upon the program of aid to Europe. We did not allow that risk to deter us from action; we should not allow it to influence our decision on the ITO. If the effort to reconstruct the world's economy should end in failure, the fate of the ITO would be but an incident. The whole structure of international cooperation might well be destroyed.

IS IT TOO LATE?

The risk of failure comes also from another source. The economic and political structure of many countries has undergone a fundamental change. Competition has given way to monopoly, private enterprise to socialism, and economic freedom to public control. Security of employment and income has come to be valued above efficiency and progress. Monetary and fiscal policies are dominated by national objectives. Domestic wages and prices are insulated against the movement of world markets. Adjustment to changing demands is everywhere resisted. The allocation of resources is frozen into a predetermined mold. Politics robs economic life of flexibility. Adaptation to the requirements of a world economy is not permitted to occur.

It is sometimes argued, by those who view these changes, that liberal trading principles, being the product of eighteenth century minds and nineteenth century practice, are hopelessly outmoded; that a freer trading system can never be restored; that the tide is running so strongly toward collectivism, regimentation, and restrictionism that it is futile to attempt to turn it back. It follows, presumably, that we, too, should collectivize, regiment, and restrict, so that, in our trade with other nations, we may fight quotas with quotas, match discrimination with discrimination, and confront public trading monopolies abroad with a public trading monopoly in the United States.

Surely this is a counsel of despair. It asks us to accept the certainty of disaster today because there is a chance that we may come to disaster in the end. It is possible, of course, that the American *Proposals* came twenty-five years too late. But it is possible, too, that a new economy of freedom can be built. For this country to surrender its principles without a struggle, simply because the going may be rough, would be neither necessary nor wise.

"THE CHARTER IS NOT PERFECT"

One phrase ran through the final statements made by country after country, at London, Geneva, and Havana, as a continuous refrain: "Of course, the *Charter* is not perfect." And this opinion will be shared in the United States. But perfection, in international agreements, is neither to be expected nor attained. Invariably, nations have to settle on something that falls short of Utopia.

The *Charter* may be appraised, in the United States, from either of two points of view. It may be compared with an ideal American blueprint for international trade. Or it may be compared with the conditions that will inevitably exist in the world if it is not adopted. In the first comparison, the *Charter* will be found to be disappointing. In the second, it will be found to afford a means of averting chaos and restoring order in the world's economy.

The *Charter* is an affirmation that fair dealing in economic relationships is a matter of joint responsibility. It will substitute the method of consultation for that of conflict. It will subject restrictionism and discrimination to international supervision. Case by case, it will build up a body of accepted principles. Increasingly, as its influence is established, it will bring the national policies that govern trade into conformity with the general rules of international law.

AND WHAT OF AMERICA?

If there are risks, in the *Charter,* for the United States, there are also risks for every other country that will join the ITO. Attention abroad is centered less on the issues that were discussed above than on the prospects for stability in the American economy and for continuity in American foreign policy. There is danger that we shall experience another great depression. There is danger that our foreign economic policy will some day be reversed. In the face of these dangers, other countries, as well as the United States, will have to weigh the relative risks of accepting or rejecting the *Charter* and decide, on balance, which chances are the wiser ones to take.