

CHAPTER 20

WHAT WE HAVE AT STAKE

THE restoration of a freer trading system has repeatedly been promised to the people of the United States and the other peoples of the world: in the *Atlantic Charter*, in the lend-lease agreements, at Bretton Woods, in connection with postwar lending, and in the inauguration of the European recovery program. If the *Havana Charter* is ratified, this promise will be kept; if the *Charter* should be rejected, it would be violated. For the United States, ratification will carry certain risks, as we have seen. But rejection, too, would have its risks. And these risks are too serious to be ignored.

Our government has been engaged continuously, during and since the war, in promoting the conclusion of agreements, the adoption of programs, and the establishment of institutions for the reconstruction of the world economy. This undertaking was conceived and developed as a unit. Each of its parts fits into a common pattern; if any one of them were lacking, the pattern would be incomplete. Each part depends upon the others; the failure of one would spell the failure of the whole.

We have already invested several billions of dollars in this enterprise. We have committed ourselves to invest some billions more. We have contributed heavily to the International Bank and the International Monetary Fund, set up to "facilitate the expansion and balanced growth of international trade." We have made extensive loans to other countries on the condition, among others, that they join us in reducing barriers to trade. We have asked the nations participating in the European recovery program to cooperate in re-

ducing barriers and exchanging goods among themselves and with the other nations of the world. If we were now to turn away from this objective, our investments would be imperiled and one of the purposes for which we made them would be lost.

THE FUND AND THE BANK

It is the purpose of the International Monetary Fund, by contributing to the stabilization of currencies, to bring about the eventual elimination of exchange controls. But there would be little point in abolishing national regulation of the use of monies if freedom to license imports were retained. For any restriction that a nation was forbidden to accomplish by regulating its exchanges, it could effect with equal certainty by imposing a quota system on its trade. Unless quantitative restrictions, as well as exchange controls, are brought under international supervision, the purpose of the Fund can be circumvented with the greatest of ease. Unless the Fund is supported by the ITO, its possible contribution to the restoration of a freer trading system will be insignificant.

A nation that is short of foreign monies with which to pay for imports may be able to obtain them, for a time, by selling its own money to the Fund. It is the purpose of such a loan to tide the nation over until it can balance its accounts by selling more abroad. But exports cannot be increased unless markets are opened, and markets will not be opened unless nations reduce their barriers to trade. If imports are increasingly to be restricted, the Fund can not go on lending very long. If trade is not accorded greater freedom, the effort to stabilize currencies will eventually break down. The future of the Fund is thus dependent upon the establishment and operation of the ITO.

The International Bank is designed to make and to guarantee long-term loans for reconstruction and development. It was not set up to give money away. Borrowers are expected to pay interest and to retire their debts. But they will not meet these payments unless they can acquire exchange by making sales abroad. And their ability to do so will depend upon the character of the regulations that govern international trade. If trade is tightly to be restricted, the funds provided through the Bank will turn out to be not loans, but

gifts. The future of the Bank, as that of the Fund, is bound up with the prospects of the ITO.

THE EUROPEAN RECOVERY PROGRAM

The reduction of barriers to trade was pledged by the sixteen nations belonging to the Committee of European Economic Cooperation whose report, in response to the proposal made by Secretary Marshall at Harvard University, was published in September 1947. "To achieve the freer movement of goods, the participating countries are resolved," in the words of their report, "to abolish as soon as possible the abnormal restrictions which at present hamper their mutual trade" and "to aim, as between themselves and the rest of the world, at a sound and balanced multilateral trading system based on the principles which have guided the framers of the Draft *Charter* for an International Trade Organization." This objective was recognized as one of the major purposes of American assistance to Europe in the reports made by the President's Committee on Foreign Aid, the Council of Economic Advisers, and the Select Committee on Foreign Aid of the House of Representatives in November 1947. Cooperation in facilitating and stimulating the interchange of goods and reducing barriers to trade was established by Congress as prerequisite to American assistance under the terms of the Economic Cooperation Act of 1948 and was required by the agreements concluded with each of the participating countries in June of that year.

The nations of Europe would have been willing to accept our assistance if no such condition had been attached. Its inclusion in the agreements arises from our concern that the world move away from restrictionism toward freer trade. It is obvious that this transition cannot be effected overnight. The objective of multilateralism is one that cannot finally be reached until the work of reconstruction has been completed, trade brought back into balance, and the recovery program brought to an end. But, in the meantime, it can give direction to national policy.

The pledge in the aid agreements, however, is a general one. It can come to have meaning only as it is spelled out explicitly in commitments that will have binding force. This is what is done, in part, for some of the participating countries, in the *General Agree-*

ment on Tariffs and Trade. It is what is done, over a wider area, for all of them, in the *Charter*.

The aid agreements will have expired by the time that completion of the recovery program makes it possible to bring these commitments fully into force. Reliance for the subsequent fulfillment of their promise must be placed on the continuing obligations contained in the other instruments. Without the *Charter* and the ITO, there would be nothing to take over where the recovery program leaves off. Without them, that program might well become a mere handout and the Economic Cooperation Administration another agency for the distribution of relief.

WORLD LEADERSHIP

In considering our position on the *Charter*, we might ignore the promises and the investments of the past and look only toward the future. But even so, we should find that serious risks would be incurred if we were to refuse to ratify. Of these, the first would be the loss of our position of leadership in international economic policy.

In its origin, the program of economic reconstruction has been predominantly an American program. And this is true, in particular, of the part of that program that has to do with international trade. The United States prepared and published the original *Proposals for the Expansion of World Trade and Employment*. It obtained the agreement of the British, French, and other governments to the important points in these proposals. It issued the original invitations to negotiate for the reduction of tariffs and other barriers to trade. It introduced the resolution that was adopted at the first session of the Economic and Social Council providing for the United Nations Conference on Trade and Employment and setting up the Preparatory Committee. It wrote the *Suggested Charter for an International Trade Organization*, circulated it among the members of the Preparatory Committee, and discussed it with them during the summer of 1946. It was this American document that the Committee adopted as the basis for its deliberations in London in the fall of that year. It was this document that set the pattern for the *Charter* that was finally completed in Havana in the spring of 1948.

The ITO is recognized everywhere as an American project. Our country brought the rest of the world along on it, step by step, over a period of five years. If we were now to abandon it, as we abandoned the League of Nations a generation ago, there is small chance that the world would seriously consider another such program proposed by the United States for years to come.

Leadership in international affairs is not lightly to be tossed away. But there are those who look upon a concern for our international position as mere sentimentality and insist that every proposal be appraised from the standpoint of domestic interests alone. So it would be well to examine the *Charter* in cold blood and ask what risks would be involved in its rejection from the purely selfish point of view of the United States.

OUR FOREIGN TRADE

The most obvious of these risks is that we should ultimately suffer a sharp decline in the volume of our foreign trade. And this could turn the ink in our accounts from black to red. We cannot afford to let our exports drop back from the present level of \$15 billions to the prewar level of \$2 or \$3 billions. We cannot afford to let our imports drop from \$6 billions to \$1 or \$2 billions.

We need large exports. During the years of the recovery program, our export position will be a source of economic and political strength. But when that program has ended, it may well be a source of weakness. Before the war, we sent 2 per cent of our farm output abroad; during the war we greatly increased this output; now we send a tenth of it abroad. Our producers of cotton and tobacco, wheat and flour, oats and rye and barley, corn and hogs, canned and dried fruits and milk, salmon and sardines, among others, depend heavily on foreign markets. If they are not to be forced seriously to contract their operations, these markets must be preserved. Under the stimulus of war, we also expanded our industrial plant; and now that plant is geared, in many lines, to a level of output which greatly exceeds our normal demands. The producers of iron and steel products, trucks and passenger cars, sewing machines, refrigerators, radios, electrical equipment, office appliances, farm machinery, factory machinery, diesel engines, power

cranes and shovels, and many other goods, now sell extensively abroad. Foreign markets normally take less than a tenth of our total output, but in certain areas and for certain industries the fraction is much higher, and even a tenth may spell the difference between a profit and a loss. Millions of Americans—on farms, in factories, on the railroads, in export and import businesses, in shipping, aviation, banking, and insurance, in wholesale and retail establishments—depend on foreign trade for some portion of their livelihood. If millions of dollars invested in these industries are not to be lost, if thousands of laborers employed in these industries are not to be thrown out of work, the markets for their products must be maintained.

We need large imports. As our own resources are depleted, we shall require increasing quantities of raw materials from abroad. As our population grows and our standard of living rises, we can absorb increasing quantities of consumers' goods. We have loaned a good many billions of dollars to other countries. If we are going to collect the interest and the principal on these loans, we must permit the borrowers to pay their debts. We want to go on selling goods abroad. If we don't want to give these goods away or finance them by constantly increasing loans, we must allow their buyers to pay for them. And we must accept these payments in the only ways in which they can be made: by using foreign services and importing foreign goods.

We need our foreign trade. But if the program embodied in the *Charter* were to be rejected, the volume of that trade would almost certainly decline. Tariffs, instead of coming down, would go up. Preferences, rather than being narrowed, would be widened. Far more serious than this, however, is the fact that most other nations would impose quotas on imports and that many nations would so administer these quotas as to discriminate against goods coming from the United States.

Quotas are much more effective than tariffs as a barrier to trade, and discriminatory quotas are much more effective than preferences as a method of excluding particular goods. Under tariffs, the volume of trade is still determined by private buyers and private sellers. Goods can come in over a tariff wall if the duty is paid. But under

a quota system, the volume of trade is rigidly fixed. A country may say, for instance: "During the month of March, we will take 57 automobiles: 11 from France, 17 from England, and 29 from the United States." And that is all that comes in; not a single one above these numbers is admitted.

Adherence to such a system, on a permanent basis, by other nations, is the worst thing that could possibly happen to the trade of the United States. It would necessitate an extremely painful readjustment in our economy. Farmers would have to contract the acreage devoted to export crops. Manufacturers producing for export would have to close their plants and take their losses. Workers, thus displaced, would have to live on insurance benefits while they looked for other jobs. Foreign traders, bankers, and insurance companies would have to get along on less business. Our merchant marine, with smaller cargoes, would have to lay up many of its ships.

This is the disaster that the United States has been seeking to prevent. For, in the absence of the American trade program, the world would be headed straight toward the strangulation of its commerce through the imposition of detailed administrative controls. The resulting pattern would make the restrictionism of the thirties look like absolute free trade. Our country has been standing like the boy who thrust his thumb into the crack in the dike. If the flood should break through, we should probably survive it, but we should certainly suffer a serious loss. This is not a matter of sentiment; it is a matter of dollars and cents.

PRIVATE ENTERPRISE

The United States unquestionably prefers to adhere to its traditional system of employing tariffs as the means of controlling imports. This system is consistent with the preservation of private enterprise; the quota system is not. Quotas are fixed, not by private traders, but by public officials. And the movement of goods between any two countries, under a quota system, is determined by the figures on which their officials have agreed. If we, in the United States, are to be faced by quotas all around the world, we shall have to bargain our way into foreign markets, country by country, product by product, and month by month. And we shall certainly have to

set up a sizeable bureaucracy to carry on the continuous negotiations that would be involved. It is not unlikely that our officials, backed by the wealth and power of the United States, would be able, in many cases, to drive shrewd bargains and make advantageous deals. But, sooner or later, our government would find itself under pressure to increase its bargaining power by establishing an import quota system of its own. And if it were to yield to this pressure, it would shortly be in the business of allocating foreign goods among importers and foreign markets among exporters and telling every trader what he could buy or sell, and how much, and when, and where.

Since the end of the war, the United States has pursued the policy of removing controls and restoring freedom to private enterprise. But if we were forced to regiment our foreign commerce, this policy would have to be reversed. Export and import programs would have to be made out and approved in advance. Export and import allocations would have to be assigned to individual traders. Licenses would have to be obtained for individual transactions. The businessman, instead of buying and selling whatever he chose, at the time and the place and the price that he chose, would have to fight his way through a maze of controls. Private trade would be tied up tighter than it ever has been in time of peace. And if our foreign commerce were to be regimented so completely, one may well question how much real freedom of enterprise we could preserve at home.

Nor is the fate of private enterprise at stake in the United States alone. If the plans for the liberalization of world trade were to fail, their failure would hasten the spread of nationalization among the other countries of the world. If private enterprise is to survive abroad, it must be afforded an opportunity to live and grow. If that opportunity is denied, it will almost certainly be doomed. There may be those who would say that we should let the rest of the world stew in its own juice. But that is one thing we cannot afford to do. We cannot insulate ourselves against the movements that sweep around the globe. If every other major nation on earth were to go socialist, it would be difficult, if not impossible, to preserve real private enterprise in the United States.

OUR NATIONAL SECURITY

Our national security rests in part upon our military strength. It rests in part upon the structure of international cooperation that has been built up since the war. Our military strength requires ready access to scarce supplies of strategic materials. It requires access to markets wide enough to keep our heavy, mass-production industries in vigorous operation, their technology advancing, their labor skilled, their managements alert. The rules of the *Charter* would prevent the imposition of export quotas on strategic materials and the administration of export license systems in ways that might deliberately divert supplies from the United States to other powers. They would open up the markets that we require if we are fully to operate our strategic industries. American sponsorship of these rules was based upon the belief that we shall be weaker if we attempt to isolate ourselves from the other nations of the world and stronger if we bind their economies to ours with ties of trade.

So, too, with the agencies of international cooperation. If we, with others, will agree to bring our differences on economic matters to the council table, we may achieve a peaceful settlement. But if each of us insists on retaining freedom to take action without first considering how it would affect our neighbors, we shall provoke bad feeling, retaliation, and economic war. Nations cannot expect to achieve an enduring peace through agencies of political cooperation if anarchy is the rule in economic affairs. The world tried that once and it didn't work. The International Trade Organization is an indispensable part of the United Nations. To reject it would be to jeopardize every effort we have made to organize the world for peace.

ON BALANCE

In this matter of international trade policy there are now two alternatives—and only two—before the world. The one is a situation in which every country, acting in its own interest and without regard for the interests of others, will maintain and increasingly impose detailed administrative regulations on its foreign trade. The other is a situation in which all countries, acting in their common

interest, under the terms of the *Charter* and the *General Agreement on Tariffs and Trade*, will voluntarily agree to keep such detailed regulations within narrow bounds.

If the *Charter* and the *General Agreement* were to be rejected, it is certain that the world would be headed back toward the jungle of isolationism, economic warfare, and anarchy in trade relationships. If they are accepted, we shall be given an opportunity, through continuing cooperation, to bring order out of chaos, to achieve a measure of stability, and to maintain economic peace. In rejection, there is the certainty of disaster; in acceptance, the possibility of deliverance.

Nothing in this world is guaranteed. In any course of action, we must weigh the risks, strike a balance, and take a chance. In the case of the *Havana Charter*, the balance should be clear. On the one side, we have the risk that some of the exceptions in the *Charter* will be abused, the danger that some of its provisions cannot be enforced, the possibility that the recovery program will fail to restore balance in the world's trade, and the fear that the trend toward collectivism is so strong that it cannot be reversed. On the other side, we have at stake our investments in reconstruction, our leadership in international economic policy, our foreign trade, our system of private enterprise, our national security, and our hopes for world peace. It should not be difficult for us to determine where the balance of our interest lies.

In *An Address to the People of the State of New York*, John Jay had this to say concerning the pending ratification of the Constitution of the United States:

“The men who formed this plan are Americans, who had long deserved and enjoyed our confidence, and who are as much interested in having good government as any of us are or can be. . . .

“They tell us, very honestly, that this plan is the result of accommodation. They do not hold it up as the best of all possible ones, but only as the best which they could unite in and agree to.

“Suppose this plan to be rejected; what measures would you propose for obtaining a better? Some will answer, ‘Let us appoint another convention . . . they will be better informed than the

former one was, and consequently be better able to make and agree upon a more eligible one.’

“This reasoning . . . takes one thing for granted which appears very doubtful; for although the new convention might have more information . . . yet it does not from thence follow that they would be equally disposed to agree. The contrary of this position is most probable. . . .

“Let those who are sanguine in their expectations of a better plan from a new convention, also reflect on the delays and risks to which it would expose us. Let them consider whether we ought . . . to give other nations further time to perfect their restrictive systems of commerce, reconcile their own people to them, and to fence, and guard, and strengthen them by all those regulations and contrivances in which a jealous policy is ever fruitful.

“But if . . . the new convention, instead of producing a better plan, should give us only a history of their disputes, or should offer us one still less pleasing than the present, where would we be then?

“Consider, then, how weighty and how many considerations advise and persuade the people of America . . . to have confidence in themselves and in one another; and, since all cannot see with the same eyes, at least to give the proposed Constitution a fair trial, and to mend it as time, occasion, and experience may dictate.” *

* Elliot, Jonathan, *Debates in the Several State Conventions on The Adoption of the Federal Constitution* (Philadelphia, 1891), v. 1, pp. 496-502.