

## CHAPTER 3

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### OBSTACLES TO AGREEMENT

AGREEMENT on economic policy in the Congress of the United States, in the legislatures of the several states, and even in city councils, is seldom easy to obtain. In international negotiations, the diversity of conditions and the conflicts of interest which obstruct such agreement are multiplied many times. Nations differ from one another in size, in population, in resources, in their degree of economic development, in the variety of their productive activities, in their dependence on foreign trade, in their ability to compete on world markets, in their forms of economic and political organization, in their ideology, in their military strength, their world outlook, and their political independence. Some are large, others small; some sparsely populated, others overcrowded; some with labor fully occupied, others suffering from chronic underemployment; some enjoying high standards of living, others always subsisting on the verge of starvation.

Some countries have resources which are rich and varied; others occupy lands that are barren, their natural wealth confined to a few products and limited in quantity. Some are highly industrialized; others dependent upon the production of foodstuffs and raw materials; others still at the stage of pastoral or nomadic life. Some are creditors; others are debtors. Some could live to themselves; others depend for their very existence on the flow of trade. Some export a great variety of products, others only one or two; some supply the world with primary commodities, others with highly fabricated goods; some are in a strong position to compete on world markets, others are not. Some countries entrust the guidance of production to

the market place; others rely, in greater or lesser degree, upon the action of the state. Some are in a position freely to choose those economic policies that they prefer; others must subordinate economic considerations to political necessity. But each of them possesses sovereign powers.

The task of obtaining international agreement on common rules to govern trade relationships would be difficult enough at any time. It is doubly difficult in the troubled world in which we live today. The preservation of the peace is not assured. The problems of post-war reconstruction are pressing. Negotiations must be carried on in an atmosphere of crisis. The war, instead of moderating the sentiment of nationalism, increased it. The belief has spread, among the undeveloped countries, that industrialization is best to be promoted by restricting trade. Elsewhere there is a deep distrust of the ability of industrial nations to avoid depressions, a willingness to sacrifice productivity to obtain security, and a conviction that defenses against the spread of unemployment must be preserved, and these attitudes, born of the Great Depression of the thirties, serve to re-enforce pressures for restrictionism that were already strong. Collectivism is on the rise and, even where production has not been socialized, there is increased reliance on central planning and public control of economic life. Faith in individual initiative, devotion to competitive enterprise, and willingness to accept the judgment of free markets do not prevail throughout the modern world.

In their approach toward the problems of trade policy, the countries participating in international negotiations now fall into four major groups. In the first group, which includes the United States, Canada, Belgium, Holland, and the Scandinavian countries, there is a strong desire to reestablish a world trading system based on multilateralism and non-discrimination. In the second group, which includes Great Britain and France, recognition of the eventual desirability of multilateralism is overshadowed by preoccupation with the immediate necessities of reconstruction. In the third group, which includes most of the countries of Latin America, Asia, and the Middle East, the predominant concern is with the promotion of industrial development. The fourth group, which includes the countries of Eastern Europe, is committed to collectivism; its economic

interests are subordinated to the political purposes of the Soviet Union. Two other countries, once major factors in world trade, no longer count; for the time being, at least, Germany and Japan are down and out.

These were the obstacles that had to be overcome in negotiating the *Havana Charter*; these were the attitudes of the countries that participated in the negotiations. These obstacles and these attitudes will now be examined in greater detail.

#### THE ATMOSPHERE OF CRISIS

Uncertainty as to the prospects for peace necessarily obstructs the conclusion of effective agreements governing national policy in the field of trade. It reduces the attractiveness of foreign investment. It makes nations reluctant to depend increasingly on foreign markets and sources of supply. It subordinates considerations of economy to those of strategy. It discourages the demobilization of authoritarian controls. The fear of war argues against the reestablishment of multilateralism. And this fear prevails throughout the world today. There is a dangerous rift in world politics; there is doubt that the United Nations can preserve the peace. This situation in itself presents a serious obstacle to agreement on commercial policy.

Uncertainty, moreover, is not confined to politics: the economic future also is in doubt. In those countries that were devastated by the war, economic life has been disorganized: plant and man power have been impaired; investments and markets have been lost; debts have mounted; financial stability has been destroyed; costs and prices have risen; currencies have been thrown into chaos. There is a pronounced imbalance in the world's trade. Goods everywhere are in short supply. Even under the best of circumstances, the struggle to restore production, to halt inflation, to stabilize currencies, to establish new patterns of trade, and to restore balance in economic relationships will be long and hard. And fair weather, unfortunately, is not assured. The most pressing of economic problems, therefore, are those of reconstruction. In such a situation, questions of long-run commercial policy must necessarily be relegated to a secondary place.

After the American *Proposals* were published, the conditions of

world trade went from bad to worse. Great Britain, in accordance with the provisions of the *Anglo-American Financial Agreement*, relaxed her restrictions on the convertibility of sterling on July 15, 1947. The world-wide demand for goods that were available only in the dollar area provoked a run on the pound. Britain's dollar reserves and her American credit rapidly approached exhaustion. Convertibility, assumed thus prematurely, had to be abandoned on August 20, 1947. And this step had its repercussions all around the world. Not only did Britain reenforce restrictions on her imports, but countries selling to her and buying from the United States also imposed restrictions so that their dwindling supplies of dollars might be conserved. Disaster impended; the only hope for the economic future of Europe and indeed for that of the Western world was offered by the Marshall Plan. But the nature and the extent of American aid was yet uncertain. In an atmosphere verging on panic, the final preparations for the conference at Havana were carried on.

#### THE ATTITUDE OF GREAT BRITAIN

The task that confronts the United Kingdom is formidable in the extreme. If she is eventually to relax the restrictions that she now imposes on her imports, she must obtain relief from the remaining burden of her war-time debt and she must nearly double the prewar volume of her export trade. She must increase her exports in order to make up for the loss of purchasing power occasioned by the decline of earnings from foreign investments and shipping services and the disappearance of former markets, in order to service her large foreign debt, and in order to pay for the heavy imports that she will require to feed her people and reconstruct her industries. If she is to achieve the necessary volume of exports, she must stimulate inventiveness, increase efficiency, and develop salesmanship. She must produce new goods and better goods at lower costs and prices and sell them in competition on the markets of the world.

Britain has improved her foreign-exchange position, since the crisis of 1947, by the application of direct controls. She has drastically restricted domestic consumption. She has greatly expanded her industrial output and her foreign sales. But British industry has long lacked its former drive; its plants have grown obsolete; its sales

methods have become outmoded ; it has feared to face competition ; it has sought the shelter of market sharing and price fixing through domestic and international cartels. Many of the policies of the present government, moreover, have operated to impair the competitive position of British firms. In certain industries, the ever present threat of nationalization inhibits new investment, the enhancement of efficiency, and the reduction of costs. The immigration of badly needed labor has been restricted; working time has been curtailed; consumption has been subsidized; goods have been rationed and prices controlled; the incentive to work has been impaired. The government has gone forward, too, with social programs that, however laudable, exceed the resources now at its command. Projects for housing, medical care, and education, involving large-scale construction, serve both to increase imports and to check exports, thus impeding the restoration of balance in external trade. Britain's military commitments, at the same time, have remained far larger than her economy could well afford. For all of these reasons, her progress toward stability has been less rapid than might otherwise have been the case.

In this situation, British opinion on long-run trade policy has been sharply divided. According to one school of thought, the United Kingdom cannot expect to compete, on an equal basis, with the other nations of the world; her hope for exports lies in markets that are sheltered by preferences, bilateral agreements, and barter deals. Britain, accordingly, must employ the power implicit in her trading position to drive bargains that will accrue to her advantage when she trades with weaker states. Avoiding the risks of multilateralism, she must seek her salvation in the deliberate and systematic practice of discrimination. But this course, too, involves its risks, for it is based upon the assumption that Britain would be allowed to follow it alone; that other powerful traders, including the United States, would not retaliate. And this assumption might not prove to be correct.

Fortunately, belief in the long-run advantages of bilateralism is neither the prevailing nor the official view. It is recognized that Britain is peculiarly dependent on her external trade; that she must import essential goods and export non-essentials; that she would

suffer more than almost any other country if the commerce of the world were to be organized on the basis of systematic discrimination; that she stands to gain more than almost any other country from the opening of markets and the freeing of trade. Multilateralism is thus the long-run goal which Britain seeks.

But multilateralism is clearly regarded as a long-run goal. In the present imbalance of her trade, Britain is convinced that restrictionism and discrimination are necessities. And she pursues them, for the moment, without regard to their ultimate effects. Her officials are preoccupied, not with the policies that will be appropriate five years hence, but with those that will produce results in the next five months or in the next five weeks. And in the situation in which they find themselves, a certain myopia is not difficult to understand.

#### THE FETISH OF INDUSTRIALIZATION

There has been a resurgence of nationalism since the war: new states have been created; areas that were once dependent have attained equality of status; colonial peoples have been set free. In all these regions, moreover, there is a conviction that political independence must be reenforced by independence in economic life. In many relatively undeveloped countries, new industries were established during the war and the desire to preserve and expand them is strong. In backward areas throughout the world, there is an insistent demand that standards of living be improved and an irrational belief that this improvement is to be obtained only through a rapid industrialization of their economies. Almost everywhere it is the view that this industrialization cannot be achieved unless severe restrictions are imposed on foreign trade. There is a pronounced reluctance, therefore, to assume commitments that would limit the freedom of nations to impose such restrictions, and proposals looking in this direction are certain to be denounced as attempted infringements of national sovereignty.

“Economic development” is a slogan that always evokes a favorable response. Nobody is really opposed to economic development; every nation stands to gain from the enhancement of productivity and the expansion of purchasing power throughout the world. But the phrase is all too often used to give protective coloration to poli-

cies that may do more harm than good. Plans for the advancement of production in agriculture and the extractive industries arouse little real enthusiasm among the spokesmen for undeveloped areas; when they say "development" they mean "factories." Sound industrialization is certainly to be desired; but many countries seem to hold that manufacturing is a good thing in itself and that it is therefore unnecessary, in the selection and location of industries, to apply the test of comparative costs and ultimate competitive efficiency. Development is therefore held to justify protectionism and the two words have come to be used as if they were synonymous. The drive for industrialization thus brings powerful support to the opponents of freer trade.

#### INDIA AND LATIN AMERICA

In India, as in other undeveloped countries, the original American *Proposals* were regarded with deep suspicion. They were designed exclusively, it was said, to serve the present needs of the industrial powers. They offered no hope of reducing disparities in living standards between the nations of the world. They afforded no positive program for the development of backward areas. Their approach was wholly negative; they would deny to undeveloped nations freedom to use the very devices by which the industrial powers had established their preeminence. It was their apparent motivation to keep the one group in a position of dependence so that the ascendancy of the other might be preserved. It was the basic policy of India, on the contrary, to promote rapid and large-scale industrialization, and the effectuation of this policy required the imposition of direct controls on foreign trade. Such controls should not be judged by themselves but by the purposes for which they were employed. And the purpose of economic development was clearly justified. In this fundamental conflict of interests between the developed and the undeveloped states, India should assume no obligations that would tie its hands. So ran the argument, and it should be noted that it appeared to be influenced less by the substance of the *Proposals* advanced by the United States than by the fact that the United Kingdom had accorded them its formal support.

The position of many of the countries of Latin America was

even more extreme. Wealth and income, they argued, should be redistributed between the richer and the poor states. Upon the rich, obligations should be imposed; upon the poor, privileges should be conferred. The former should recognize it as their duty to export capital for the development of backward areas; the latter should not be expected to commit themselves to insure the security of such capital, once it was obtained. The former should reduce barriers to imports; the latter should be left free to increase them. The former should sell manufactured goods below price ceilings; the latter should sell raw materials and foodstuffs above price floors. Immediate requirements should be given precedence over long-run policies, development over reconstruction, and the interests of regionalism over those of the world economy. Freedom of action, in the regulation of trade, must be preserved. The voluntary acceptance, by all states, of equal obligations with respect to commercial policy must be rejected as an impairment of sovereignty and a means by which the strong would dominate the weak. These views are not to be attributed to every state in Latin America, but they have been expressed with such frequency and such vigor as to color the approach to trade negotiations throughout the area.

#### THE FEAR OF DEPRESSION

One of the consequences of the depression of the thirties is the determination of many states to place stability above efficiency and security above progress in their hierarchy of values. Policy is directed toward the prevention of depression and measures adopted for this purpose are grouped under the label of "full employment." Depression, it is held, is not to be prevented unless the state itself assumes a large share of responsibility for the direction of economic activity. But the best laid plans for stabilization may be upset if exports drop or imports rise. Employment is more easily to be maintained in a closed economy. Emphasis upon employment thus obstructs agreement on measures that would expand trade. Stability argues for independence; freedom of trade creates interdependence; if both are to be sought, the conflict between them must be compromised.

In this situation, the major factor is the economic weight of the



United States. Our country produces half of the world's output of manufactured goods and uses half of its output of raw materials. When our industrial activity falls off, our demand for raw materials falls off proportionately and, since we can then obtain a larger share of them at home, our demand for imported materials falls off even more. Prices fall, production declines, and employment is curtailed. Depression in the United States is thus communicated to the countries from which we buy. They find themselves dragged up and down as we move through successive phases of the business cycle. And they come to the conclusion that close dependence on the American economy involves a heavy risk.

If the United States could assure the other nations of the world that it would not again be visited by deep and prolonged depression, one of the major obstacles to agreement on liberal commercial policies would be removed. But no such assurance can be given. We in the United States are confident that we shall not repeat the experience of the thirties. We have in our hands new knowledge, new resources, and new instruments of control. We shall certainly seek stability, but we cannot guarantee that we shall attain it. And so other nations, distrusting our determination and our capacity to do so, argue that they must retain the power to insulate themselves against us. They may go along with us in policy while times are good, but their defenses against the migration of depression must be preserved.

More articulate than any other country in advancing this thesis is the Commonwealth of Australia. At every opportunity—at the United Nations Conference in San Francisco, at the Conference on Food and Agriculture in Hot Springs, at the International Labor Conference in Philadelphia, at Bretton Woods, and at each of the meetings where the world trade *Charter* was prepared—Australia has focused attention on the international importance of employment policy. She has insisted that agreement to maintain employment is prerequisite to agreement on the reduction of barriers to trade and has urged that every nation commit itself, through domestic action, to preserve stability. And in every case she has obtained recognition for her point of view.

There is some impertinence, of course, in an argument that as-

sumes that the United States is both ignorant of the problem of stability and indifferent to it. There is weakness, too, in a policy which concentrates upon employment to the exclusion of considerations of productivity and real income. But it must be recognized that there is a factual basis for the Australian case. The prices of raw materials fall farther in depressions than those of manufactured goods, and the price of wool, throughout the business cycle, fluctuates more violently than the prices of other raw materials. Nine-tenths of Australia's exports to the United States consist of wool. When our mills are running, she enjoys prosperity. When they shut down, she is plunged into depression. She has a stake, therefore, in the maintenance of employment in the United States. And it is this that has caused her to emerge as the major spokesman for the dependent economies.

#### STATISM AND FREEDOM OF TRADE

In logic and in practice, freedom of international trade depends upon the preservation of freedom in domestic economic life. In both cases, production is guided by the free choice of consumers, expressed through market price, and governed by competition between independent enterprises in free markets. Freedom in the domestic economy fits into the pattern of multilateralism and non-discrimination in world trade. Regimentation in the domestic economy makes for bilateralism and discrimination. The two world wars and the Great Depression curtailed the scope of free markets and increased reliance on public authority throughout the world. Collectivism, public planning, and centralized control now govern an increasing fraction of the world's work. In different countries, in varying degrees, faith in private initiative and competitive enterprise has disappeared and statism has taken hold. Through inertia and through the pressure of vested interests, controls once established tend to persist and grow. The trend, outside of the United States and but a few other countries, is away from freedom and toward regimentation and it does not encourage agreement on the liberation of world trade.

The realization that the interests and objectives of many other nations differ so sharply from our own has come to many Americans

as something of a shock. In certain cases, the first reaction to this discovery has been a feeling that we might as well wash our hands of the effort to establish common trading principles and go it alone, relying solely on our economic strength. But this hasty conclusion can scarcely survive a second thought. For it should be obvious that our position, both in world economics and in world politics, makes such a course impossible. And it must be acknowledged that our own devotion to the principles of economic freedom has been less wholehearted than we like to think.

#### THE BEAM IN OUR OWN EYE

The United States has championed active competition in open markets, but it has taken pains to insure, in many cases, that competition will not be too active and that markets will not be opened too wide. The Buy-American Act of 1933 requires that purchases for public use be confined to goods produced or manufactured from materials originating in the United States. Credits extended by the Export-Import Bank may be used only to pay for the services of American individuals and firms and to finance the purchase of materials and equipment produced or manufactured in the United States. According to a resolution adopted by Congress in 1934, exports financed by such loans must be carried in vessels of American registry wherever such vessels are available. American bottoms are granted a monopoly of our coastwise trade. American competition in transoceanic shipping is subsidized.

We are accustomed to speak as if the practice of economic planning were anathema in the United States. But in a major segment of our economy this is not the case. We are no more willing than any other country to leave production in agriculture to the mercies of the market. The maintenance of farm prices at levels unrelated to those obtaining elsewhere in the world is a settled policy of our government. When supplies are ample, this means that we control production and marketing. Where we produce a surplus to sell abroad, we subsidize in order to compete. Where we produce less than we consume at home, we restrict imports so that they will not undercut the established price. The wisdom of our agricultural policy is not here in question, but the fact that it is inconsistent with our

belief in private enterprise and with our efforts to restore a freer trading system should be clear.

Measures that we may wish to employ in the interest of our national security may also come into conflict with our purpose of removing barriers to trade. We may seek to curb the military power of a potential enemy by checking exports of raw materials, capital goods, and industrial technology. We may seek to build up strategic industries by forbidding imports and requiring the use of domestic materials. We may seek to conserve or develop near-by sources of supply by discriminating in our purchases of strategic materials. Considerations of security are over-riding, but it must be recognized that they, too, may lead to the adoption of restrictive policies.

The American *Proposals* took the position that quantitative restrictions, export subsidies, and discriminatory internal taxes and regulations should be condemned in principle. The United States prohibits the exportation of tobacco seed. It has imposed quotas on the importation of cotton, wheat, coffee, sugar, and certain products originating in the Philippines. It has conferred authority upon the Secretary of Agriculture to impose quotas on other imports that may interfere with the maintenance of domestic prices. It has subsidized the exportation of cotton and wheat. It has imposed discriminatory internal taxes on certain fats and oils. It has required the mixing of synthetic materials with crude rubber in the manufacture of rubber goods.

All these things are pointed out to American negotiators whenever they seek a relaxation of foreign barriers to trade. And frequently there is a convincing display of moral indignation in the statement of the case. For Americans have no monopoly of self-righteousness. They may demonstrate, of course, that the record of the United States, in these matters, is cleaner than that of almost any other country in the world. But the pot does not persuade the kettle when he calls him black. Other nations are frankly skeptical that we, ourselves, will conform, in particular cases, or that we will adhere, for many years, to the principles that we now espouse. And in this skepticism we encounter another obstacle to our efforts to reduce the barriers to trade.