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THE END  
OF THE I.T.O

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# THE END OF THE I·T·O

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**T**ROUBLE, violence and discontent marked the close of 1950. New fears swept the United States and its allies as MacArthur's troops retreated before the Chinese forces pouring across the Yalu. A remark by President Truman was misconstrued to mean he was planning to use the atomic bomb in Korea. Prime Minister Attlee flew to Washington to discover American intentions and, if necessary, to counsel caution. Asiatic countries asked the Chinese not to cross the 38th parallel; the American Chief of Staff flew to Tokyo to see General MacArthur who had just publicly questioned the orders that prevented him from bombing the enemy's "privileged sanctuary" in Manchuria. Within the United States, mobilization dominated economic discussion. The House of Representatives voted new taxes. The President asked for still larger military appropriations. A price controller and a civil defense administrator were appointed during the first week of December.

Naturally, in such times, few paid much attention to a State Department press release about the international trade conference under way at Torquay, England. Yet there, almost lost in the long mimeographed sheet, a subordinate clause announced a major change in American trade policy. On the recommendation of the interested federal agencies, said the announcement, the President had agreed that "the proposed Charter for an International Trade Organization should not be resubmitted to the Congress. . . ."<sup>1</sup> In form the decision seemed one of administration tactics; with a crowded Congressional agenda, passage of a bill for customs simplification and the forthcoming renewal of the Trade Agreements Act were more urgent than a long debate on a trade convention that had been pending for several years. The decision meant that the United States was dropping the ITO Charter. Since no other governments wanted to create the trade organization without the United

<sup>1</sup> Department of State, *Bulletin*, December 18, 1950, p. 977. The only public harbinger of this action that I have seen is a dispatch from Torquay, England to *The New York Times*, November 10, 1950. The reporter, presumably Michael Hoffman who was covering the tariff conference then in progress, said that after noting the Republican gains in the Congressional elections that had just taken place, "both Americans and non-Americans here have written off any possibility of United States ratification in the next two years. . . . A delay of two years more is likely to mean that the Havana Charter never will be pushed forward again in its present form. . . ."

States, the most ambitious attempt ever made to reach agreement on a comprehensive code of rules for international trade quietly ended in failure.

More than nine years had passed since the Atlantic Charter registered the desire of the countries fighting fascism "to bring about the fullest collaboration between all nations in the economic field." The further formulation of that aim in pledges, commitments and institutions can be traced through the lend-lease agreements, wartime discussions, the Bretton Woods conference, the creation of the Food and Agriculture Organization and UNRRA, the Charter of the United Nations and the British loan agreement. All these acts pointed toward an eventual comprehensive agreement removing barriers to world trade. The Bretton Woods agreements, for instance, and the American act adhering to them, were premised on the forthcoming creation of effective arrangements for cooperation in international trade. Capstone, keystone, cornerstone were the words repeatedly used, but whatever the metaphor, an agreement on trade principles was to be an essential part of the structure of international economic cooperation.

That agreement was the Charter for an International Trade Organization. *Quellenforschung* aside, the Charter's history covers nearly five years of preparation in wartime, over two years of lengthy, laborious, full-dress negotiations that eventually involved over fifty governments, and then nearly three years more of waiting and arguing, ending with what an Italian journal has called a "second-class funeral" in the dying days of 1950.<sup>2</sup> There followed a coda as other governments chimed in and announced that in view of the American decision they would not act on the ITO Charter.

From the first, the ITO was primarily an American idea. Only constant drive from the United States turned sketchy projects into concrete proposals and brought the long negotiations to completion. As late as January 1950, in his State of the Union message, President Truman called for Congressional action on the proposed Charter. He echoed the language with which he had submitted it to Congress in April 1949: "This Charter is an integral part of the larger program of international economic reconstruction and development. . . . An essential forward step in our foreign policy. . . ." Then, at the end of 1950, this favored American project was quietly dropped, and the American public, like the rest of the world, scarcely noticed its fall.

What had happened? How did it come about that this "necessary part" of the "solid foundation of continuous cooperation in economic

<sup>2</sup> *Italian Economic Survey* (Rome) January-February 1951, p. 1. The end was so quiet and unceremonious that on April 26, 1951 *The New York Times* was still discussing the effect of the Torquay conference on the Administration's case for the Charter before Congress.

affairs," as the President had called it, should now disappear "not with a bang, but a whimper"? The explanations seem to me to fall broadly into three categories: changes in the world setting between 1945 and 1950, the political situation in the United States, and the defects of the Charter from the point of view of American business. The pages that follow set out some of these explanations. They do not give a documented, play-by-play account of events. Many of the details are still locked away in archives or, in this telephonic age, perhaps only in men's memories. Those that are published are available elsewhere. This is an essay in interpretation, not an historical narrative.

## I. THE WORLD SETTING

The ITO appeared on the world stage in preliminary form in December 1945 when the American loan to Britain was negotiated.<sup>3</sup> The war was not long over. The postwar world which had excited so much hope and such thoughtful attempts to foresee its difficulties realistically was at hand. The United Nations was getting under way. The organs and arrangements for postwar international cooperation prepared so carefully while the battles still raged were now to come into their own. Soon, many hoped, they would dominate the scene. Plans for economic reconstruction usually envisaged a "transitional period" in which war damage would have to be repaired and dislocation set right. The United States was prepared to help. The time would be used, too, to create the most favorable possible conditions for the kind of international economic relations prescribed in the Bretton Woods agreements, the *Proposals* and other postwar plans. The economic aims of the recovery plans were well-phrased in Article VII of the lend-lease agreements. There was to be "expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples." The victors would move toward "the elimination of all forms of discriminatory treatment in international commerce; to the reduction of tariffs and other trade barriers. . . ."

It would not be any easy task to create this kind of a world, but with good will, care, effort and some luck it could be done; that was the prevalent mood. There were danger signals. Lend-lease had been cut off abruptly, before arrangements had been made to ease our

<sup>3</sup> It was presented in *Proposals for Expansion of World Trade and Employment*, prepared by United States officials after consultation with the British. In September 1946 a more elaborate draft appeared, called *Suggested Charter for an International Trade Organization of the United Nations*, which the United States presented to the Preparatory Committee created by the Economic and Social Commission, which had its first meeting in London in October.

European allies, and particularly the United Kingdom, into a position where they could pay for essential imports. The strains and suspicions of the wartime alliance with Soviet Russia were growing; Potsdam had not been a pleasant conference. The ITO itself was very late; negotiations should have been much farther advanced before peace set in. Yet it was an essential part of the structure. Clair Wilcox, chairman of the United States delegation, put the dominant view clearly at the outset of the first ITO negotiations in London in October 1946:

Of the many tasks of economic reconstruction that remain, ours is by all odds the most important. Unless we bring this work to completion, the hopes of those builders who preceded us can never be fulfilled. If the peoples who now depend upon relief are soon to become self-supporting, if those who now must borrow are eventually to repay, if currencies are permanently to be stabilized, if workers on farms and in factories are to enjoy the highest possible levels of real income, if standards of nutrition and health are to be raised, if cultural interchange is to bear fruit in daily life, the world must be freed, in large measure, of the barriers that now obstruct the flow of goods and services. If political and economic order is to be rebuilt, we must provide, in our world trade charter, the solid foundation upon which the superstructure of international cooperation is to stand.

Few questioned the need for some kind of trade organization. The great differences of opinion were about the powers the international body should have, the practices that were to be outlawed, the extent to which existing trade barriers were to be lowered, and how soon the rules were to come into play for countries whose economic position had been seriously damaged by the war. This last issue became familiar in the ITO negotiations as the question of what exceptions to the general rules should be provided for countries in balance-of-payments difficulties. For Western Europe a large part of the answer—perhaps most of it, according to the thinking of 1945 and 1946—depended on how much financial aid the United States was prepared to give. Unless the help were adequate, the European governments saw no chance of reducing trade barriers and ending discrimination; with substantial aid, and the further protection of escape clauses if their difficulties recurred, they could look forward, with varying degrees of hope and skepticism, to a successful transition period after which an agreement liberalizing international trade could come fully into play. It was no accident that the ITO *Proposals* were launched at the time the British loan was negotiated. Britain and the United States were the key countries, without whose concerted action a world trade agreement would be sadly restricted, if it were workable at all. The loan agreement was a kind of

capsule of the prevalent thinking about the postwar world economy. The joint statement on commercial policy, which supported the ITO *Proposals*,<sup>4</sup> stood for the economic world that was to be; the loan was a substantial fraction of the American aid that was to make that world possible.

By March 1948, when the *Draft Charter for an International Trade Organization* was signed at Havana, the postwar world had shown itself to be quite different from that envisaged in 1945. European reconstruction had proved to be a harder task than was expected. Prewar levels of production had been reached in many fields but were proving inadequate to satisfy the postwar expectations of Europeans plus the need for increased exports. The transition period was obviously going to be longer than that contemplated in 1945. What it was a transition to was becoming doubtful. Relations between the United States and the USSR had changed from uneasy alliance to cold war. Communists seized control of the government of Czechoslovakia just a month before the Charter was signed. When the negotiators came home from Havana, Congress was debating the Marshall Plan which registered two major changes in postwar plans: more American aid for Western Europe and a stronger political motive for providing it.

The hopes embodied in the ITO were not dead, but they were dimmed. The Marshall Plan showed that the period during which governments would be in financial troubles requiring the continued use of trade controls was likely to last for a while yet. The ITO negotiations themselves showed how important the exceptions to the rules favoring liberal trade had become. The political alignment of the cold war was not a serious barrier to putting the Charter into effect. Few had expected that Russia would join the organization.<sup>5</sup> Czechoslovakia, which had participated throughout the negotiations, signed the Charter; Poland came to Havana but did not sign. In any case, the Iron Curtain countries accounted for a very small part of world trade; the ITO could work without them. On the other hand, the ITO had little to contribute to the cold war. It could be argued that in the long run international trade on the ITO pattern would strengthen the free world and make it a better place to live in, but that was a distant prospect. For the immediate future the attraction lay in measures, like

<sup>4</sup> The *Proposals* were American; the *Joint Statement* said that the British government was "in full agreement on all important points" and would "use its best endeavors to bring [international] discussions to a successful conclusion, in the light of the views expressed by other countries." There were, of course, some misgivings, especially among the British. And some Americans put more store in the long run political consequences of strengthening Britain than in facilitating a liberal system of world trade. But for most these aims appeared to merge.

<sup>5</sup> However, early drafts of the Charter contained a provision in the state trading section intended to provide a Soviet *quid pro quo* for tariff reductions on Russian exports.

the Marshall Plan, that promised quick political and economic gains. Any immediate benefits from removing trade barriers could be obtained through the General Agreement on Tariffs and Trade (GATT), negotiated in 1947 as an interim arrangement pending adoption of the ITO.

In the circumstances, the ITO lacked urgency. No one could argue that its main principles would quickly take effect and change the face of the free world's economy. The opposition to Soviet policy that had helped pass economically enlightened measures like the British loan and the Marshall Plan did not generate support for the ITO. The Administration had its hands full getting other measures through Congress and could see no gain in loading one more controversial item onto a crowded schedule. As a result, the Charter was held over until the new Congress met in 1949. In April of that year President Truman sent the Charter to the Hill and asked for a joint resolution authorizing American participation. But by then Congress was busy with the North Atlantic Treaty, the Military Defense Assistance Program, and legislation for the second year of ECA. The Administration apparently agreed with Congressional leaders that it was better not to press for quick action on the ITO since these other foreign affairs measures took precedence. The slight recession of mid-1949 brought on a series of complaints about unemployment allegedly traceable to imports, thus helping to create a poor atmosphere for the ITO. Not until April and May 1950 did the House Committee on Foreign Affairs hold hearings on the joint resolution. The Committee did not report, and the matter never came to the floor of the House.

By the end of 1950, when the ITO was dropped, all these factors had intensified. Americans, and their United Nations allies, were fighting in Korea. General Eisenhower was getting ready to take command of a new allied headquarters in Europe. The United States was feeling its way toward some kind of mobilization economy. The aspirations of 1945 seemed more remote than ever. The Charter was adrift in a world for which it was never made.

## II. AMERICAN POLITICS AND THE ITO

Depression is traditionally a poor time to get acceptance of trade barrier reduction. Yet the Reciprocal Trade Agreements Act, the most effective step the United States has taken to reduce its tariffs in at least half a century, was put up to Congress in 1933 and passed in 1934, both depression years. Part of the explanation is that the Act was presented largely as a means of fostering exports, and so helping recovery, by breaking down foreign trade barriers. It was presented as a contrast to the Hawley-Smoot Tariff, the retaliations which followed it and the in-



creased use of quotas and exchange controls by foreign countries to close markets to American goods. While Cordell Hull always emphasized that trade was "a two-way street" and stressed the element of reciprocity in the program, it was the prospect of larger exports, not larger imports, that won votes for the bill.

Even more important was the Democratic landslide of 1932 and the composition of the new Administration. In power for the first time since Woodrow Wilson, the victors naturally felt that Democratic policies should be substituted for Republican ones in as many fields as possible. The tariff was an issue on which the tradition of party difference was strong. This may have been something of a myth, at least in the twentieth century, but in some circumstances it could be an effective myth. The traditional Democratic attitude toward the tariff, together with newer ideas for making the policy effective by keeping the tariff out of Congress, were embodied in Cordell Hull, the Secretary of State. Hull's position was particularly strong as an alumnus of Congress and a leading figure in what became the conservative wing of the Democratic party, a key element in the coalition by which Roosevelt kept power. Hull won a sharp fight within the Administration on the kind of trade policy to be advocated and thereafter the field was his. The Trade Agreements Program was not part of the mainstream of economic and social reform of the New Deal. It had a different logic from the NRA, the AAA, and the monetary policy that upset the London Economic Conference, and it clashed concretely with those measures at certain points. Still, its rationale was politically effective, and it is an aspect of the New Deal's pluralism and eclecticism that the break from existing trade policy should have taken this form.

Once enacted, the Trade Agreements Program gained the advantages of inertia that belong to "established policy." The President's power to cut tariffs was used very cautiously. It was concentrated on "excessive protection," the tariff margin that American producers did not need to compete successfully against lower-cost imports. The selective cutting of rates provided a degree of flexibility that could also be used, when necessary, to temper the program to the requirement of votes for renewal every three years. Mr. Hull continued to regard the Trade Agreements Program as a major feature of his foreign policy. Mr. Roosevelt continued to back Hull. The American electorate continued to give Roosevelt large majorities. The Democratic members of the House and Senate continued to follow the leadership of the White House. After war broke out in 1939, the impact of tariff reductions was reduced. Then the Trade Agreements Program became linked to war aims and probably gained a certain amount of support—or at least

avoided some overt opposition—on this count. It costs little to vote for an inoperative ideal.

The general pattern of the legislative history of the Trade Agreements Act and its renewals in Hull's and Roosevelt's time was about as follows. The initiative and main drive for the program came from the State Department. Renewal of the Act was regularly a "must" on the President's list of requests to Congress. A minority of the Democrats in Congress opposed the program, for the most part because of protectionist sentiment in their constituencies. The majority that supported the program included men who favored its principles or whose constituencies included an active export or trading interest, and also a number of "doubtful" Senators and Representatives who might well have voted against the Act on one ground or another, or at least remained indifferent to it, had it not been for the arsenal that a strong Administration has at its command when "must" legislation is at issue. To determine how great the otherwise "doubtful" vote would require careful analysis of the votes at each renewal<sup>6</sup> but there is little doubt that it was sizable and that in some years, at least, the Administration's ability to sway it was decisive in continuing the Trade Agreements Program.

Though there was always some Republican support for the Trade Agreements Program, most of that party's representatives in Congress usually voted against renewal. When the Trade Agreements Act came before a Republican Congress for the first time, in 1948, the President's power was circumscribed by the introduction of "peril points" below which he could not reduce duties without explaining his action to Congress. This provision was eliminated in 1950 but made its reappearance—along with other limitations—in the 1951 renewal, when there was a Democratic majority no longer so strongly under the influence of the White House as in Roosevelt's presidency and when the Secretary of State's status on the Hill was not what Mr. Hull's had been.<sup>7</sup>

This rough sketch of the political pattern on which the Trade Agreements Act depended helps us to understand some of the ITO's diffi-

<sup>6</sup> In some years it is hard to say which was the critical vote since the passage of the bill often got the support of men who had shortly before voted for modifications or delaying motions which, if carried, might well have drastically altered the shape of the program.

<sup>7</sup> The Administration's insistence that it never reduced tariffs if that would harm American producers weakened its case against the peril points which, it could be argued, were merely legislative assurance of the same practice. This is a fallacious argument, but I am not here discussing the case for or against the Trade Agreements Program. The point illustrates the difficulty of building up political support for a fairly complex, and to some extent procedural, case, especially when the alternative has the attraction of ambiguity.

culties. The issues were not identical, of course. The Charter covered a broader field and entailed new obligations. One might, therefore, support the Trade Agreements Program while opposing the Charter.<sup>8</sup> Important segments of the business community did just this and thereby played a significant part in bringing about the demise of the ITO.

What these businessmen did not like about the ITO is the subject of the next section. The fact that the merchant and export groups who regularly supported the Trade Agreements Act were split over the ITO removed an important prop on which the Administration's case with Congress would otherwise have rested. It is impossible to say that business opposition meant so-or-so many votes in Congress and thus made passage of the ITO resolution impossible. Only the Administration officials and Congressmen who engaged in the actual head-counting that must have preceded the decision to drop the matter could estimate that. Perhaps we shall someday learn how close the count stood, what the pattern of support and opposition was, who might have been brought around if the Truman Administration had possessed the persuasive forces the Roosevelt Administration used to have. Lacking that, we do not even know for a certainty that the crucial votes may not have been those of a few men whose unwillingness to support the Administration in this matter may have rested on considerations irrelevant to the Charter. Certainly the Republican gains in the elections of November 1950 added to the Administration's difficulties in mustering support for the ITO.

In any case the opposition of certain business groups was undoubtedly a major factor in the defeat of the ITO. The loss of business support worked in two ways. Congressmen close to the business groups and likely to be much influenced by their views became opponents instead of supporters of the ITO. It was not only their votes that were lost but also their help in the intra-Congressional discussion and log-rolling which are so important in putting through a measure of this sort on which there is a sizable doubtful vote. Secondly, the more or less neutral Representatives and Senators, whose convictions and whose constituents' direct interests were not already heavily committed, would be much harder to rally in support of the ITO if they saw that major groups directly affected by the measure were opposed or uninterested.

<sup>8</sup> On the other hand, supporters of the Charter would have to support some kind of Trade Agreements Act so that the United States could carry out its obligation to negotiate in good faith with other members of the ITO for the reduction of tariffs. It could have been argued, however, that a modified form of the Act would be consistent with this obligation. Without reference to the ITO, Senator Vandenberg apparently regarded his co-sponsorship (with Senator Millikin) of the original peril-point procedure as a measure of bipartisan foreign policy consistent with preservation of the spirit of the Trade Agreements Act.

Of course, certain business groups had regularly opposed the Trade Agreements Program but it was kept alive despite them. Not their opposition, but the opposition of merchants and manufacturers who had supported the Trade Agreements Program, marked the difference in the position of the ITO Charter before Congress.

Apart from this shift in business support, the line-up for and against the Charter was similar to that called forth by the Trade Agreements Program in recent years. Except for America's Wage Earners' Protective Conference—the protectionist wing of the AF of L—and certain unions in protected industries, labor generally supported the Charter, but acceptance of the ITO was not a major concern of either the CIO or the AF of L. The American Farm Bureau Federation and the National Farmers Union supported the Charter while the Grange hedged. The farmers' main foreign trade bogey was laid by provisions, introduced into the Charter on American initiative, permitting the use of import quotas in connection with farm programs. Farmers had an interest in the removal of foreign trade barriers on their exports, but the ITO did not promise enough immediate action to stimulate much enthusiasm. Many civic organizations and women's groups endorsed the ITO, and some committees were organized especially to urge American adherence to it, but the Charter's length and complexity, among other things, prevented it from becoming an object of great public interest.

Professional economists and academic people concerned with foreign affairs for the most part favored the ITO, but usually with explicit recognition of its limitations and often with a feeling that it was desirable principally because the other possible alternatives were so unattractive. This somewhat reserved attitude, stemming from the Charter's mixture of high principle with detailed compromises that were distasteful, even if necessary, checked the growth of enthusiastic activity among independent liberals. Even those who had a firm conviction that acceptance of the imperfect Charter was in the American interest admitted that the ITO might not work out as they hoped. Beneath these doubts and reservations was the realization that the Charter was an attempt—a necessary and proper attempt, but one whose chances of success were inevitably uncertain—to bridge a gap between a doctrine of the sound ordering of international trade and a situation in which many of the premises of that doctrine were no longer valid. This was an understanding, and in my opinion correct, view of the matter, but it was not one to generate the kind of political steam needed to pass the Charter.

Two other factors probably played a part in reducing the ITO's chances of success. Great export crops like cotton and tobacco were no longer quite so important as they had been in the South, traditional

home of Democratic free trade attitudes. Foreign aid programs were helping to provide current export markets. Peanuts, meat and dairy products were providing a growing share of the South's farm output; industry, especially the manufacture of textiles, was expanding. Some of these new activities, instead of increasing the South's interest in exports, were protected from foreign competition by tariffs and other import controls. So the South could no longer be counted on for solid support on measures aimed at reducing trade barriers. The other factor was that the ITO lacked a backer of the political power of Cordell Hull who could have mobilized more active support for the ITO within the Administration. Nor did any postwar Secretary of State have as great a personal interest in trade barrier reduction as had Hull.

While it is hard to judge how important each of these many factors was, there can be little doubt that business opposition and the Administration's lack of influence with Congress, compared to Roosevelt's day, go far to explain why the Charter was dropped. It remains to explain the business attitudes.

### III. BUSINESS CRITICISM OF THE ITO

The men who propounded the ITO were trying to be very realistic. They wanted to avoid the errors which had led to the failure of many efforts to remove world trade barriers in the 'twenties and 'thirties. They were also anxious to produce an agreement that would be acceptable to a large number of countries. These praiseworthy efforts contained the seeds of the ITO's failure.

Thought about the postwar world began early in the Second World War. Those who planned and who thought about plans tried to find guidance in the peace settlement after the First World War and in its unsatisfactory aftermath. They were especially bent on avoiding "the errors of last time." Perhaps they were too much influenced by what they thought of the past and failed to show enough ingenuity and imagination in anticipating some of the less attractive possibilities of the postwar world. However that may be, two conclusions from the interwar experience with international trade policy had great influence in shaping the ITO.

One was that many of the interwar efforts to remove trade barriers had failed because international conferences had limited themselves too much to recommending the endorsement of broad principles, leaving it to each government to act according to the exigencies of its position. As a result, little came of the pledges to reduce trade barriers. This lesson the drafters of the ITO Charter tried to apply by making their document detailed, and including in it specific commitments to avoid

particular trade practices except under certain extenuating circumstances, which they also tried to specify.

The second conclusion was that "commercial policy cannot be considered by itself. . . . It must be considered as a part of the more general constructive policies agreed among governments for the prevention (or mitigation) of economic depressions and assurance of social stability."<sup>9</sup> Moreover, in the past the emphasis on tariffs, quotas, taxes, subsidies, etc., slighted the special problems of raw materials that gave rise to private or public commodity agreements and left out of account cartels, monopolies, and private restrictive practices in international trade. Wartime developments stressed and gave immediacy to this view of the weaknesses of the older approach. One after another governments were committing themselves to "full employment" as the primary and overriding aim of national economic policy. Plans abounded for bringing "stability" to the world's raw material markets. Economic warfare and the seizure of alien property were producing reams of material on cartel connections and practices, many of them linked to German aggression.

Therefore, the drafters of the ITO gave their creation a much broader scope than any previous international trade agreement. There were to be detailed rules not only for tariffs, quotas, exchange controls and state trading, but also for international commodity agreements and inter-governmental measures to check restrictive trade practices. Provisions concerning the maintenance of full employment in each country and the avoidance of policies that would create unemployment abroad were left rather general because no one could devise detailed provisions likely to be acceptable to fifty governments.

The desirability of including such a wide range of subjects in the Charter was emphasized by widely-held views in other countries. There, as the American drafters knew, employment policy and raw materials problems were considered much more important than the removal of trade barriers. To make substantial progress in the removal of trade barriers it seemed necessary to show that the United States was not proposing merely to get rid of quotas and reduce tariffs without regard to other conditions affecting international trade. The League report noted above had spoken of "the absolute necessity of adapting commercial policies to the circumstances influencing national balances of payments." Wartime conversations with the British had made it clear that there was no hope of any comprehensive trade agreement's being

<sup>9</sup> League of Nations, Economic, Financial and Transit Department, *Commercial Policy in the Interwar Period: International Proposals and National Policies* (Geneva, 1942) p. 157. This report authoritatively sets out a number of views, widely held among economists and officials, which influenced the making of the ITO.

adopted unless there were escape clauses for countries in balance-of-payments difficulties. The Chapultepec Conference of 1945 had emphasized that economically underdeveloped countries were unwilling to talk about removing trade barriers unless it were very clear that their infant industries were exempted. The United States itself was not prepared to accept the logic of a liberal foreign trade policy in all fields, notably agriculture and shipping. How far it would go in the reduction of tariffs remained to be seen.

Casting a shadow on all calculation and discussion was the fear that when the insatiable war demand ended, the United States would plunge into depression. Apart from the special problem of reconversion, it was also widely held that the American economy was inherently unstable and might at any time in the future set off another world depression. Foreign countries naturally wanted to protect themselves, though the means of doing this were far from clear and the chances of success none too good. But the apprehension colored the attitude of many governments, leading them to look for possible safeguards against too close a link with the United States and in any case to demand a free hand to try to protect themselves against an American depression by the use of trade and exchange controls.

Recognizing all this, the drafters of the ITO tried from the first to make their proposals "realistic," by recognizing the limits on governments' willingness to carry out liberal trading principles, and by trying to reach agreement on terms and procedures for applying exceptions to the basic rules laid down in the Charter. This, they felt, was better than proposing a rigid body of principles which would not be carried out by the signatories. Moreover, they wanted to show from the first that the United States understood the difficulties of less favored countries and was prepared to try to accommodate them in the proposed trade organization.

These endeavors—to be specific, to be comprehensive, and to recognize the problems of other countries—explain much of the character of the ITO. The Charter's length, its complexity, and the mixture of general principles with extensive lists of exceptions to them, all stem from these efforts. The American policy that led to these results was understandable, consciously arrived at with a recognition of the risks involved, and seemed to most informed observers at the same time to be the only course feasible if the aim was to get a charter acceptable to enough governments to cover a substantial portion of world trade. But this essay does not aim at re-arguing the case or suggesting whether another course of action would have produced better results (or of

judging what "better" results would be).<sup>10</sup> Here the significant point is that the effort to be realistic produced a document that proved to be unacceptable to that reputed arch-realist, the American businessman.

Business opposition to commercial policies that are alleged to go too far in removing trade barriers is an old story. The new element in this case was the opposition the Charter met from businessmen who felt it did not go far enough in removing trade barriers. The people who took this view were not primarily concerned about the effect of the Charter on American trade barriers. Their objection was that the Charter would do little to remove the trade barriers set up by foreign countries and might even strengthen some of them. The essence of this view was that the exceptions to the Charter's general rules, and the escape clauses applicable to special circumstances, were so numerous that most foreign countries could comply with the Charter without actually freeing trade from existing restrictions. Moreover, the businessmen who took this view usually also believed that the Charter went too far in subordinating the international commitments of signatory countries to the requirements—real or imagined—of national economic plans and policies. They believed, too, that the Charter was too heavily laden with the ideological and practical paraphernalia of government regulation and control, so that it would not help, and very likely would hinder, the development of private enterprise. In short, the businessmen who took these views held that the Charter was not "liberal" enough and not "internationalist" enough. Because of their emphasis on these imperfections in the Charter, and their desire for an instrument that approached nearer to their ideals of economic policy, it will be convenient, and not too unfair, to call this group the "perfectionists," in contrast to the "protectionists" who opposed the Charter for quite different reasons, and about whom I shall say a word later in this essay.

There have always been people who felt that the Trade Agreements Program was too modest to make a major contribution to the improve-

<sup>10</sup> The American literature for and against the Charter is extensive. The authoritative defense of the ITO, by one of its principal authors, is Clair Wilcox, *A Charter for World Trade* (New York: Macmillan, 1949). See also, W. A. Brown, *The United States and the Restoration of World Trade* (Washington: The Brookings Institution, 1950). A shorter statement favorable to the Charter is Percy W. Bidwell and William Diebold Jr., "The United States and the International Trade Organization," *International Conciliation*, March 1949. An endorsement that emphasizes the difficulties and risks is given by Jacob Viner in "Conflicts of Principle in Drafting a Trade Charter," *Foreign Affairs*, July 1947, 612-628.

The fullest statement of the business case against the Charter appears in the statements and documents presented in the Congressional *Hearings* cited below. See also the writings of Michael Heilperin, especially "How the U.S. Lost the ITO Conferences," *Fortune*, September 1949, 80-82, which argues that a different negotiating technique would have produced a better charter. For an extreme case against the ITO, see Philip Cortney, *The Economic Munich* (New York: Philosophical Library, 1949).



ment of world trade. But they supported it for what help it could be, and because the alternative seemed a less liberal policy. That perfectionist sentiment should be important enough to constitute a major influence on the shaping of American commercial policy, and that it should work *against* a measure designed to remove trade barriers, are something new in American politics.

Protectionists aside, not all business groups took the perfectionist view. The National Council of American Importers supported adherence to the Charter because "the United States and the world have more to gain than to lose by its acceptance. . . ." The Committee for Economic Development recommended that the Charter be adopted if the provisions concerning international investment were eliminated. Other businessmen, acting as individuals or as members of such organizations as the National Planning Association and the Committee for the International Trade Organization, also supported American adherence. But the United States Chamber of Commerce, the National Association of Manufacturers, the National Foreign Trade Council and the United States Council of the International Chamber of Commerce all opposed the Charter. The NAM and the U.S. Chamber of Commerce are the largest of the business organizations; their position on international economic matters is not easily predictable since their membership includes firms benefiting from tariff protection as well as those favoring freer foreign trade. The U.S. Council of the ICC is traditionally internationally-minded. The National Foreign Trade Council, made up exclusively of firms concerned with foreign trade and investment, is generally regarded as the principal spokesman for the foreign trade community as a whole. The Council has been a consistent supporter of the Trade Agreements Program and still maintains that position. The difficulty the Council had in reaching a conclusion about what stand to take on the ITO may be guessed from the remarkable fact that the *Final Declaration* of the Thirty-fifth National Foreign Trade Convention held by the Council in November 1948 said not a word about the ITO, though it contained recommendations on twenty-one subjects, including many suggestions for executive or legislative action and a thirteen-page essay on the conference's theme: Private Enterprise is the World's Best Hope. A few weeks later the Council came out against the Charter. Additional evidence of divided counsels is the presence of some businessmen on the committees or boards of several organizations, some of which endorsed the Charter while others opposed it.

The attitude of the business groups opposing the Charter on non-protectionist grounds varied somewhat in the emphasis given to one argument or another, and in the interpretation of certain parts of the Charter. Nevertheless the common ground was wide enough so that a

survey of its main features can stand as a sketch of the perfectionist position without great violence to the views of any one group.<sup>11</sup>

The perfectionists did not seriously object to the principles of trade policy laid down in the Charter. Their complaint was that the principles were not carried out. The exceptions and escape clauses seemed so numerous and extensive that the Charter held little promise of leading to the removal of trade barriers. Objections were particularly strong to the complicated rules sanctioning the use of import quotas—sometimes discriminatory ones—by countries in balance-of-payments difficulties. True, many governments were already engaging in such practices but in the Bretton Woods Agreements and elsewhere most nations had professed their desire to eliminate controls as soon as they could safely do so. The Charter, according to the view of these business groups, made no progress along this road; it was more likely to perpetuate the undesirable practices and so seemed a step toward the restriction of trade, not its liberation.

Two special considerations gave a particular edge to this argument. One was the prevalent view among businessmen that economic difficulties could not be cured by exchange controls and quotas. Convertibility, freer trade and freer play for the profit and price system seemed to them essential for the adjustments that national economies had to undergo; at some point each country would have to take the medicine of such a course; perpetuation of the controls only delayed the day and made the dose harder to swallow. The second consideration arose out of Article 21, paragraph 4(b) of the Charter which appeared to mean that no country could be required to alter policies directed toward the maintenance of full employment or the promotion of economic development even if these created balance-of-payments difficulties. This looked like a perfect loophole for the indefinite retention of controls, especially since most of the businessmen believed that government-sponsored full employment policies were bound, if they worked, to be inflationary and so to exercise pressure on foreign exchange reserves. Moreover, the way to engineer balance-of-payments difficulties seemed not only paved but marked.

In the matter of full employment, the business groups objected to the principles they saw in the Charter. The articles on employment were rather general and somewhat vague because, it will be recalled, the

<sup>11</sup> The survey that follows is based principally on a number of reports issued at various times during the ITO negotiations by committees of the business organizations mentioned. The final positions of all but the United States Council of the International Chamber of Commerce are presented in *Membership and Participation by the United States in the International Trade Organization, Hearings* before the Committee on Foreign Affairs, House of Representatives, 81st Congress, 2d Session (G.P.O., 1950). The U.S. Council's Executive Committee issued a mimeographed *Statement of Position* on May 9, 1950.

negotiators had felt the need to recognize the link between trade and employment but had not found any precise rules acceptable to all governments. When Administration spokesmen pointed out that the language of the ITO Charter's provisions conformed to American legislation and that obligations were carefully qualified to allow each country to find its own way of maintaining a high level of economic activity, the businessmen answered that if the employment provisions meant nothing they had better be left out of the Charter. Otherwise, governments that put faith in them were bound to be disappointed. Furthermore, the provisions might be read as relieving countries of all their obligations concerning trade policy in times of recession, and particularly if the recession occurred in the United States. The businessmen were really concerned about more than the ITO Charter. Their criticisms reflected general uneasiness about the implications of statements that governments were responsible for the level of employment. In part, their attitude was a carryover from the domestic debate at the time of the passage of the Employment Act of 1946 when the proposition that the United States Government should commit itself to maintaining "full employment" had become a symbol of government intervention, the New Deal, the welfare state and all the other large issues that had disturbed American political economy since the depression. To some extent, indeed, the presence of the employment provisions may have stood for the businessmen as an indication that the Charter was not a trade-liberalizing document of the traditional sort, but an instrument linked to planning and government control.

Concern over governmental controls also led the perfectionists to oppose the Charter's chapter on international commodity agreements. The aim of the chapter was to limit the use of such agreements to certain circumstances, to specify what might be done under a commodity agreement, and to establish rules that would insure fair treatment, for instance by requiring equal representation for consumers as well as producers. Prewar commodity agreements had not come up to these standards. Nevertheless, the business groups were inclined to oppose the whole chapter on the ground that it went too far in sanctioning governmental restriction of production and regulation of trade. "Private cartels are bad, . . . government cartels are worse," read a statement by the National Association of Manufacturers.

As to the sections of the Charter dealing with private cartels and restrictive practices, the attitude of the business groups was a little less clear cut. They all abjured restriction and took a stand in favor of competition. But they were dubious of the Charter provisions. On the one hand there seems to have been some feeling that the scope of the provisions was uncertain, so that governments or international agencies

might interpret them to ban useful business arrangements as well as undesirable ones. On the other hand, the fact that the Charter's provisions left each government with a good bit of discretion in the enforcement of the ban on restrictive practices suggested to the business critics that the rules would turn out to mean different things in different countries. What one government held to be legal another might ban. The result would be not only confusion and legal uncertainty, but an advantage for one businessman over his foreign competitor. Underlying this concern was the suspicion that an active Anti-Trust Division in the United States would be diligent in the prosecution of cases, while in Western Europe and elsewhere general tolerance of cartels and industrial agreements would result in the acceptance of quite a different standard of business behavior.

One of the greatest stumbling blocks for the business groups was the Charter's treatment of investment. The Committee for Economic Development, which accepted the rest of the Charter, objected to the articles on this subject. The basic complaint was that the Charter did not provide private foreign investments with any firm protection against confiscation or discrimination by governments. The crucial passages were full of adjectives like "just," "reasonable," and "appropriate." Nothing was done to check the freedom of action of countries receiving foreign investment to decide what investment to permit and on what terms. So far as equal treatment was concerned, governments merely undertook "to give due regard to the desirability of avoiding discrimination as between foreign investments."

Such provisions, said the businessmen, were worse than nothing at all. "This article not only affords no protection for foreign investments of the United States but it would leave them with less protection than they now enjoy."<sup>12</sup> By committing itself to the Charter, ran this argument, the United States would give up its right to take independent action to protect American investors. Acceptance of the Charter would weaken the efforts being made publicly and privately to create a proper "climate" for private investment. This would discourage private capital and postpone the day when the governments of underdeveloped countries would come to realize that in their own interests they would have to provide more freedom and security for potential investors.

There was a good bit of irony in this situation. The offensive passages would not have been in the Charter at all if it had not been for the efforts of American business. The first drafts of the Charter had said nothing

<sup>12</sup> Statement by the National Foreign Trade Council, *Hearings*, cited, p. 200. Moreover, another article pledged all ITO members to cooperate in helping the economic development of others. The businessmen regarded this as a surrender of American bargaining power and undue emphasis on the role of government capital. Government spokesmen challenged this interpretation.

about investment. American business groups complained to the State Department about this omission. Foreign investment, they pointed out, was an important factor in international trade; moreover, as the main potential source of capital the United States had an interest in seeing to it that a sound legal framework should be constructed that would encourage investment. State Department officials, resisting these suggestions, undoubtedly pointed out that the chances were poor of getting the kind of investment provisions the businessmen wanted. The United States was already having to bargain hard on the trade provisions. Safeguards for investment worked out by a sizable group of nations, many of them underdeveloped, were likely to be much weaker than those that might be arrived at in bilateral negotiations with countries anxious to have American capital for their development. The elaboration of a comprehensive investment code might prove at least as complicated as the working out of the trade charter, which had already taken several years.

However, the business groups stuck to their position, the State Department finally yielded, and the American representatives at the Geneva conference proposed an article on investment. Its final version, reached only after difficult negotiations, "instead of promising to stimulate the flow of private capital, threatened to check it," according to Clair Wilcox, head of the American delegation.<sup>13</sup> So the subject was reopened at the final conference in Havana and, after another round of hard bargaining, new articles were substituted. No one claimed the new provisions went very far toward providing what American business wanted but the representative of the National Association of Manufacturers at Havana called them "the most important gains made by the United States delegation" and said that they "offer foreign investors greater protection than they ever had previously against unjust, arbitrary acts by governments." On further reflection, the National Association of Manufacturers and other business groups rejected this view and made the investment provisions one of their main targets in attacking the Charter.

It is not the purpose of this essay to discuss the validity of the businessmen's criticisms of the Charter, some of which are open to serious objection. Supporters of the Charter maintained that the compromises to which the perfectionists objected were essential to any comprehensive

<sup>13</sup> Wilcox, cited, p. 146. Some language about investment had been introduced into the Charter at the first ITO conference in London where the underdeveloped countries pressed for inclusion of an article saying that members would not put "unreasonable impediments" in the way of others' getting the facilities they needed for development. This was matched by a provision that the receiving countries would "take no unreasonable action injurious to" the suppliers of capital. The business groups objected to the inadequacy of the latter provision, but they did not argue that it was positively harmful.

trade agreement. They claimed that within the framework of the ITO the United States could work for improvement of the unsatisfactory provisions and could check the abuse of escape clauses. The business groups disagreed. They saw the whole history of Charter negotiations as a retreat from what the United States wanted (or ought to want) and held that if the ITO were set up the process would continue. Since each government would have only one vote under the Charter, they thought it certain that the United States would consistently be on the losing end of arguments, with debtor countries, or control-minded governments, or underdeveloped countries, or countries in balance-of-payments difficulties, combining to defeat it on major issues.

The businessmen thought the Charter too one-sided to be of any great commercial value to them. Tariff reductions made by the United States would be effective, and this country would be bound by the general provisions of the Charter. But most other countries, being in balance-of-payments difficulties, or underdeveloped, or in need of special measures for economic reconstruction, would be able to take advantage of the exceptions. They would maintain barriers on the importation of American goods and would be allowed to discriminate against exports from this country. Their tariff concessions would mean little because their trade would be held down by quotas and exchange controls. Supporters of the Charter pointed out that the countries in question were doing these things anyhow. Failure to adopt the ITO would not improve matters, while the Charter's exceptions at least laid down rules to govern the application of trade restrictions, provided means of policing them, and gave some hope of eventually getting rid of the restrictions as world economic conditions improved. But the perfectionists would not accept this reasoning. They took the view that by ratifying the Charter the United States would be sanctioning these undesirable trade practices. It would not only have agreed that they were right in principle but would have given up the freedom to use its own economic strength to press for the removal of the foreign controls.

The whole perfectionist case was clearly summarized in one paragraph by the Executive Committee of the United States Council of the International Chamber of Commerce in its *Statement of Position* on the Charter:

It is a dangerous document because it accepts practically all of the policies of economic nationalism; because it jeopardizes the free enterprise system by giving priority to centralized national governmental planning of foreign trade; because it leaves a wide scope to discrimination, accepts the principle of economic insulation and in effect commits all members of the ITO to state planning for full employ-

ment. From the point of view of the United States, it has the further very grave defect of placing this country in a position where it must accept discrimination against itself while extending the Most-Favored-Nation treatment to all members of the Organization. It places the United States in a permanent minority position owing to its one-vote-one-country voting procedure. Because of that, membership in the ITO based on this Charter would make it impossible for the United States to engage in an independent course of policy in favor of multilateral trade.

This is strong language. It is worth bearing in mind that by the time this and similar statements were written the business groups were actively working against the Charter. Blunt, categorical and rather extreme statements may have seemed more effective than more balanced analyses. Provisions that in other circumstances might have been regarded as dubious but tolerable because they were necessary parts of an acceptable compromise could be denounced as violations of fundamental principles once it had been decided to oppose the Charter. But we cannot be sure that tactical considerations of this sort provide the principal explanation of the all-out condemnation of the Charter by the perfectionists. Many American businessmen—especially when they come together in a group—seem to feel that their constant combat against “government control,” “socialism,” and the like requires the propagation of basic principles in very clear, simple and absolute terms. Naturally, these statements depict a world in which blacks and whites appear to be more sharply defined than they are in fact. Sore subjects excite extremism; many postwar statements about free enterprise have been heavily freighted with ideology. It is not always easy to tell when these statements are setting out utopian ideals and when they are describing a state of affairs the business groups think is really attainable. Because the drafters and negotiators of the ITO Charter were trying to bridge gaps between different kinds of economic systems and different philosophies of economic organization, their document inevitably diverged considerably from the pure principles subscribed to by many American businessmen. Tactics apart, this taint undoubtedly played its part in stimulating the perfectionist reaction.

Statements made in 1950 were also colored by the hopeful signs the businessmen saw in the improvement in Western Europe's payments position (even before Korea), the defeat of socialist governments in several countries (including Australia and New Zealand), and a widespread relaxation of governmental controls. The devaluations of September 1949 were regarded as a big step toward equilibrium in international trade. The difficulties of low production and dollar shortage that lay behind many of the ITO's exceptions and escape clauses

were held to be largely overcome. Therefore, some perfectionists felt, the Charter was "now obsolete." The same evidence could have been used to demonstrate that the Charter as it stood would be less obnoxious than the perfectionists claimed because, as their payments positions improved, governments would lose the right to invoke many of the escape clauses.

The Administration took the view that the Charter would have to be accepted as it stood; reservations would invite similar action by other governments, pulling apart the agreement already reached; renegotiation was impossible. "For better or worse," wrote Clair Wilcox, the Havana Charter "is the only charter that can be considered or adopted by the nations of the world."<sup>14</sup> The perfectionists did not disagree. They felt they had shot their bolt on modifications of the Charter in proposals made during the course of negotiations. Their suggestions as to what the United States should do instead of ratifying the agreement came almost as an afterthought, produced under questioning by their critics. The National Foreign Trade Council simply urged action under the Trade Agreements Act, the negotiation of more commercial treaties, and pushing ahead with Point Four. The other business groups also supported the idea of making more bilateral agreements on trade with countries willing to accept principles the United States could endorse. The National Association of Manufacturers and the U.S. Council of the International Chamber of Commerce suggested that a commercial policy commission under the United Nations Economic and Social Council might provide a means of advancing the interests of multilateral trade on sound principles. The U.S. Chamber of Commerce proposed an agreement limited to strictly trade matters, centering on a simple statement of basic principles, containing a declaration in favor of free enterprise, including no restrictions on domestic freedom of action of member countries, and operating with a system of weighted voting. Such an agreement, they thought, might be negotiated by representative business delegations under the aegis of the International Chamber of Commerce, thus smoothing the way to governmental action.

Opinions about these alternative courses played no appreciable part in the demise of the ITO. The perfectionists opposed the Charter because it was not good enough, not because they were sure they had something better to offer. This is not the place to criticize the alternative proposals or to rehearse the debate about the businessmen's objections to the Charter. Nor need I speculate on the interesting possibility that in this case the businessmen were the "hopeless idealists" while the bureaucrats and college professors who supported the Charter, without being enamored of it, were the "realists." For present purposes, the

<sup>14</sup> Wilcox, cited, p. 199.



exposition of the perfectionist point of view is sufficient; it helps explain why the ITO lacked the support needed for American ratification.

Of course, not all the opposition to the Charter came from perfectionists. Protectionists were against it, too. Statements opposing the Charter were submitted to the House Foreign Affairs Committee from a familiar array of protected industries: chemicals, dairy products, livestock and allied industries, nut growers, makers of glassware and glass containers, woolen manufacturers, independent petroleum producers, rayon manufacturers, the paper and pulp industry, the makers of woven wire cloth, and the National Labor-Management Council on Foreign Trade Policy in which a number of protected industries are represented. The American Tariff League was in its accustomed place. The line-up was similar to that on renewals of the Trade Agreements Act, but there were some striking differences in what was said. The protectionist groups presented their familiar arguments warning against the effect on the American economy of permitting freer entry of low-cost foreign goods. But in most of the protectionist statements the emphasis was on the more broadly conceived disadvantages of the ITO—its one-sidedness, its alleged support for governmental control and planning, the freedom of most countries to use escape clauses. In short, the protectionists found it convenient to present much of their position in terms of perfectionist arguments. Observing this, Representative Fulton ironically remarked, “. . . the American Tariff League is the most liberal organization that I have heard before this committee for a long time because they throw the pebble clear out in the pond and say, ‘Here is this high level that we want to reach that is even above what the New Dealers ask. And if the charter is not that progressive and so highly moral in principle, we are not going into the charter with its present practical exceptions because it is based on conditions as they now exist.’”<sup>15</sup>

Many of the protectionist groups used other arguments as well, frequently of an “anti-internationalist” sort. They pictured the ITO as a superstate capable of directing American trade policy. Some spoke as if the ITO were going to set tariff levels. There was a certain amount of concern about changes in American laws that would be required by adherence to the Charter and an even greater emphasis—supported by the American Bar Association—on the alleged unconstitutionality of delegating certain powers to an international body.

Whether the protectionists’ use of perfectionist arguments was merely “the homage vice pays to virtue” or whether it has some deeper significance as a sign of the times does not concern us here. The fact that groups traditionally in favor of the removal of trade barriers were

<sup>15</sup> *Hearings*, cited, p. 406.

against the ITO enabled those who opposed the removal of import barriers to take the same stand without sharply delineating their real position. The result was to make business opposition to the Charter seem more of a piece than it really was.<sup>16</sup> More important than the appearance was the political reality. In a manner new to the history of American commercial policy, the ITO was whipsawed between the protectionists and the perfectionists.

#### IV. IS IT THE END?

Nominally, all the President did in December 1950 was to withdraw the Charter from Congress. There was no Congressional action. No one repudiated the American signature. The Charter retained its legal status of an international agreement awaiting ratification.<sup>17</sup> But in 1951, Secretary Acheson testified before a Congressional committee that it was his firm policy that the Charter would never be resubmitted to Congress. Subsequent official remarks on foreign trade policy have referred to the Charter only occasionally, in quick-passing historical reminiscence. United States Government opinion appears to favor putting GATT on a more nearly permanent basis, with the implication that the ITO is dead. No one has suggested that the Charter might be modified to be more acceptable or to fit changed world conditions. Among government officials there is an understandable revulsion from the idea of trying to renegotiate this complex instrument which has had such little political magnetism. Nor can the objective observer who would be spared the grueling grind of negotiation make much of a case for the view that renegotiation would be desirable.

Many suggestions have been made as to how the Charter's chances of passage might have been improved. If businessmen had been on the American delegation from the first, would they have had a better understanding of Washington's point of view? Would they have been more heavily committed to the Charter? Would the State Department have made more headway if it had offered less defense of the weaker parts of the Charter and instead had singled them out as unsatisfactory but unavoidable features that the American representatives would try to

<sup>16</sup> The agreement on the end to be achieved, regardless of a difference about the reasons, probably also helped organizations that included both protected industries and those concerned with increased foreign trade to take clear-cut positions on the Charter. It is interesting to note that the U.S. Chamber of Commerce—which opposed the Charter on perfectionist grounds—was represented at the Havana conference by Elvin Kilheffer who appeared before the House Foreign Affairs Committee on behalf of several protectionist groups in the chemical industry.

<sup>17</sup> Only Liberia ratified the Charter unconditionally. Australia and Sweden ratified it, but made their adherence conditional on similar action by the United States and, in the former's case, also Britain.

change, or at least prevent the misuse of, once the ITO was set up? Could a system of weighted voting have been devised that would have reduced opposition at home and still been acceptable abroad because it reflected the actual bargaining power the United States would have in any trade organization regardless of voting arrangements? Would the Charter have been more acceptable if it had been in two parts: a code of principles toward which the signatories were to work, and an interim "code of exceptions" that would apply in an initial transitional period and in later times of abnormal difficulties? Ought the State Department to have suggested that Congress agree to American adherence to the Charter but at the same time pass a resolution expressing dissatisfaction with some parts of it, directing American delegates to work for its improvement, and stating the principles to which the United States would commit itself?

Any of these questions is good for an argument. But there is little present profit in hypothetical history. None of the devices suggested by these questions holds any serious promise of regaining acceptability for the Charter. The circumstances of world conditions and United States politics that contributed to the rejection of the Charter have not changed in ways favorable to it. There have been no indications of a change of heart among the protectionists. The protectionists, or at least many of them, appear to be growing more active in the course of 1952. In the election campaign no party has taken a stand on the Charter, and its prospects of revival by the new Administration, of whatever party, seem absolute zero. Nor does there appear to be any force outside the United States pushing for acceptance of the Charter. Early in 1951 several governments withdrew the Charter from their parliaments, explaining that there was no point in going ahead with the project so long as the United States had dropped it. Without American leadership there can be no revival of the ITO or of any reasonable facsimile. The direction of American foreign trade policy is in doubt, but the least likely direction for it to take is the revival or renegotiation of the ITO Charter.

So the ITO is dead. But some of its parts are still alive. Certain of its provisions have acquired a sort of shadow existence by incorporation in other agreements. For instance, the OEEC's Code of the Liberalization of Trade says that state trading should be conducted "in accordance with the general principles laid down" in the Havana Charter. The Code incorporated by reference the Charter's definition of dumping. The Schuman Plan treaty empowers the High Authority to recommend action against countries that do not belong to the coal and steel community if they or their nationals "are engaging in dumping operations or other practices condemned by the Havana Charter." The Charter's

definition of an acceptable customs union as one in which the external trade barriers are about midway between those previously applied by member nations turns up frequently.<sup>18</sup> There are several other instances of Charter provisions achieving some kind of legal status even though the Charter itself is dead.

The Charter's provisions concerning intergovernmental commodity agreements have also had a kind of independent existence. In a resolution of March 1947, reaffirmed in September 1951 after the ITO was plainly dead, the United Nations Economic and Social Council recommended that member countries "accept the principles" of the commodity chapter of the Charter "as a general guide in inter-governmental consultation or action with respect to commodity problems."<sup>19</sup> Under the 1947 resolution an Interim Co-Ordinating Committee for International Commodity Arrangements was set up with a chairman representing the Preparatory Committee that was working on the Charter. Later the nominating function passed to the Interim Commission for the ITO and then, in 1951, it was given to the Contracting Parties to GATT. Each year the Co-Ordinating Committee publishes a *Review of International Commodity Problems* that gives particular attention to international consultation on commodity problems, the work of various commodity study groups, and the terms of commodity agreements proposed or adopted. While dropping hints and leaving implications,<sup>20</sup> the *Reviews* have not formally passed judgment as to whether the Charter's principles are in fact being fully applied.

In a somewhat different way, the Economic and Social Council has acted on the Charter's provisions regarding restrictive business practices. On the initiative of the American representative, the Council in September 1951 recommended that member governments take measures "based on the principles set forth in Chapter V of the Havana Charter

<sup>18</sup> This definition is in any case binding on a number of countries because it is incorporated in GATT. For comments on the imprecision and possible meaninglessness of the criterion, see Jacob Viner, *The Customs Union Issue* (New York, 1950) pp. 66-68.

<sup>19</sup> The language quoted is from the 1951 resolution. The earlier version was that governments should "adopt as a general guide" the principles of the commodity chapter. The words "pending the establishment of the International Trade Organization" which had appeared earlier were dropped in 1951. The Economic Commission for Latin America passed a similar resolution (pertaining only to countries that had signed the Charter) at its first meeting in 1948.

<sup>20</sup> For instance, the 1949 *Review* says of the tea agreement of that year, "It will be seen from the text . . . that the present arrangement, although controlling exports, nevertheless does not provide for equal representation of producing and consuming countries." Such equal representation was one of the principal requirements of the Charter; it is applied in the wheat agreement, the most important intergovernmental commodity agreement of the postwar period. In the same *Review* the Committee suggested that somewhat more publicity might be given to discussions in various commodity study groups; this, too, is in line with Charter principles.

...” to prevent harmful restrictive practices. A committee was set up to propose international measures that would achieve these purposes and provide for continuing consideration of the problem. At several key points the resolution borrows language from the Charter and in reciting the rationale of the recommendation it states that restrictive practices “may have harmful effects on the . . . aims and objectives listed in Chapter I of the Havana Charter.”<sup>21</sup> In the discussion of the resolution there was some objection to inclusion of the ITO principles on the ground that “attempts to resuscitate parts of a dead body” were a “deplorable procedure.”<sup>22</sup> Although Isador Lubin, the American representative, had cited examples of how restrictive practices inhibited economic development, spokesmen for a number of underdeveloped countries showed their old suspicion that the United States was trying to impose free competition on the world. However, the Uruguayan delegate explained that he had proposed that the Charter’s cartel chapter be taken as a guide just because it did not condemn all restrictive practices, but only those having harmful effects. He interpreted the Charter as sanctioning various government monopolies regarded as essential to Uruguay’s development. There was no real challenge to the substance of the Charter’s chapter (except from the Iron Curtain representatives, who regarded the whole thing as a fraud), and the Belgian and Canadian delegates maintained that the Charter was the logical starting place because it embodied a satisfactory compromise between those who wanted to check restrictive practices as such and those who condemned them only when they had clearly harmful effects.

Thus, two important chapters of the Charter have attained a limited sort of existence despite the failure of the ITO. There have also been fairly extensive international discussions and proposals in the fields of economic development and international action to check depressions but with much less reference to the Charter. However, the principal survival of the Charter is in the field of commercial policy—GATT, the General Agreement on Tariffs and Trade.

Conceived as an interim measure, GATT was a kind of advance installment of the Charter. It put into effect temporarily most of the provisions of the Charter’s chapter on commercial policy and provided

<sup>21</sup> The text of the resolution, as passed, appears in U.N., Economic and Social Council, *Official Records*, Thirteenth Session, 549th Meeting, 13 September 1951, (E/SR549), pp. 645-646. The discussion took place at that meeting and the three previous ones. The original American resolution made no specific reference to the Charter, though it incorporated its gist and some of its language. The paragraph establishing Chapter V as a guide was introduced in a Uruguayan amendment, and the reference to Chapter I by Chile.

<sup>22</sup> Statement by the Chilean representative, 548th meeting, p. 634. The Indian representative took much the same view and the Chinese spokesman doubted the propriety of mentioning the Charter since it had not been widely accepted.

for multilateral negotiations to reduce tariffs, which were carried out at Geneva in 1947, Annecy in 1949, and Torquay in 1950-51. GATT also obliges its signatories "to observe to the fullest extent of their executive authority the general principles" of most parts of the Charter "pending their acceptance of it in accordance with their constitutional procedures." The limitation, "to the fullest extent of their executive authority," applies also to many of the commercial policy provisions since the protocols under which the signatory countries apply GATT exempt them from the need to change existing legislation in many important matters. Indeed, the only articles not included in this exemption are those covering general most-favored-nation treatment, the granting of tariff concessions, the territorial application of the agreement, frontier traffic, customs unions and free trade areas, the joint action of the contracting parties, and a number of provisions essential to carrying out the agreement.

GATT, to which 33 countries now adhere, was originally concluded for three years. During this time, in addition to negotiating tariff reductions, the signatories settled some trade disputes among members and passed on various issues concerning the application of the Agreement's provisions to particular cases. As the failure of the Charter to gain acceptance became evident, considerable energy had to be put into extending GATT, and in particular into preventing extensive cancellation of tariff concessions previously negotiated. These things were done at Torquay, when the agreement was renewed for three years. GATT also lacks a continuing organization and for a secretariat has been relying on the Interim Commission for the ITO, another orphan.

GATT, then, differs from the ITO in covering a narrower sphere of policy, requiring little if any legislative action by signatories, lacking a permanent organization, and committing signatories less firmly (they may withdraw on 60 days' notice). These differences are sources of both weakness and strength.

Because the commitments are less binding, GATT has been more easily accepted than the ITO was. But the counterpart of this advantage is an element of uncertainty, a threat that governments may not stick to GATT if the going gets rough. At the opening of the sixth session of the contracting parties Sir Hartley Shawcross stressed the fact that Britain had only committed itself to GATT provisionally. Since then the wisdom of continued adherence to the agreement has been repeatedly challenged in Parliament and government spokesmen have answered that they were still considering the matter. And in the United States, Congress made it plain that it was not endorsing GATT when it extended the Trade Agreements Act in 1951.

The fact that GATT is largely limited to traditional commercial policy subjects protects it from the disputes that arose over other parts of the ITO Charter. But by the same token this limited coverage makes GATT somewhat unsatisfactory to those who are particularly concerned that tariffs and quotas shall not be considered separately from the problems of raw materials, economic development, restrictive practices, and measures to check depressions. The Norwegians have proposed the inclusion in GATT of the Charter's main provisions on the maintenance of full employment. While this proposal, opposed by the United States, has been withdrawn, there is no evidence that it is dead. When the Economic and Social Council was discussing the American cartel resolution in September 1951, the British representative said that his delegation "felt strongly that restrictive business practices could be satisfactorily dealt with only in a body which was equally concerned with tariffs, quantitative restrictions and similar measures affecting trade. . . . His Government believed that in those circumstances the only appropriate body to deal with restrictive practices was represented by the Contracting Parties to the General Agreement on Tariffs and Trade."

There is nothing surprising in these views. They have the same rationale as that followed by the drafters of the Charter. Therefore, they inevitably point to the same result. As one observer expressed it, "If these claims are met in part or fully, a kind of new Charter might be the result which, in turn, would come up against the same strong opposition that has brought the full Havana Charter to its fall. Clearly, if the GATT is to be successful within its narrower sphere it must remain a relatively narrow agreement, retaining, in particular, its present legal characteristics as a multi-nation trade agreement that can be kept in force without ratification by the United States Congress. . . ."<sup>23</sup>

Similarly, there is a widespread opinion that GATT should be given a firmer, clearer juridical status, and there is a general feeling that it requires its own secretariat and some separate organizational existence. But on this matter, too, Sir Hartley Shawcross registered British doubts in the statement already referred to. There is also danger that attempts to strengthen the form of GATT and the national commitment to it will be regarded in the United States as an attempt to slip across the essence of the ITO without benefit of Congress. O. R. Strackbein, a protectionist spokesman, has already transferred to GATT virtually the same attack that was made on the ITO as a super-state. While acknowledging that the Contracting Parties did release the United States from its most-favored-nation commitment to Czechoslovakia

<sup>23</sup> Heinz Heymann, "The G.A.T.T. at Crossroads," *Skandinaviska Banken, Quarterly Review* (Stockholm) July 1951, pp. 58-64 at 63.

under the Agreement, and sanctioned this country's use of the escape clause to withdraw a tariff concession on women's fur felt hats and hat-bodies, he demanded to know, "how it has come about that action of the United States Congress and action of the President in carrying out powers delegated to him by Congress are now subject to review by an international body . . . when such authority of review was never conferred upon it by Congress."<sup>24</sup>

\* \* \* \* \*

Thus GATT is the ITO *manqué*. There is a constant striving to fulfill the original pattern. If this striving should be satisfied, GATT would risk going over the same precipice as the Charter. So long as the striving is frustrated, GATT's strength is in doubt and it becomes the vortex of many strong and conflicting pressures. These pressures would exist without GATT; GATT may be able to survive them and to help control them, but the issue is in doubt.

## V. WHAT NOW?

Much might be said about the ways and means of improving or strengthening GATT. The canvassing of these possibilities is an important part of the reconsideration of American foreign trade policy. But, in order to sketch the problems that face us, let us instead look briefly at the kind of pressures to which GATT and some other multi-lateral trading arrangements are subjected.

American participation in GATT is by executive action under the Trade Agreements Act. When Congress renewed the Act in 1951 it stipulated that the Tariff Commission must investigate all complaints that American producers were being damaged by imports resulting from tariff concessions made under the Act. If it finds the complaints to be justified, the Commission is to recommend remedial action to the President who must explain himself to Congress if he does not order the tariff increased. This virtual invitation to try to counter tariff reductions—what can the producer lose?—has been responded to with a wave of applications for the withdrawal of concessions. At the time of writing, a few have been turned down and a few have been acted on. Some concessions made under GATT have been withdrawn, with the result—as the Agreement provides—that countries affected have withdrawn some matching concessions on American exports. To check imports of products on which there are no concessions, producers have appealed directly to Congress to raise the tariff, as in the case of tuna fish. By a rider to the Defense Production Act, imports of cheese have been re-

<sup>24</sup> Radio address reprinted in the *Congressional Record*, January 14, 1952, pp. A124-A125.



stricted by quotas, in violation of GATT. Other amendments were proposed, but defeated, that would have treated feed grains the same way and curtailed imports of goods made from scarce materials.

There is, then, a new wave of protectionism in the United States. Its material results are not yet clear. Its causes are probably numerous. A contributing factor is undoubtedly the weakening of the Administration's foreign trade policy, accelerated by the events with which this essay has been concerned. Accompanying the drive for higher import barriers is a tendency for Congress to reassert its authority over foreign trade matters, a familiar phenomenon in many fields during the dying months of an Administration.

Along with the attempt to raise new trade barriers has come a resistance to attempts to remove existing ones. The Administration's efforts to get Congress to simplify customs administration have been fruitless, in part because the bill would have reduced what Percy Bidwell named "the invisible tariff." Despite the Secretary of Defense's finding of several years ago that it would be against the national interest to apply Buy American clauses to all military procurement, there is still a marked preference for the domestic product, even at a higher price. Even the provisioning of American troops abroad shows some of the marks of such a policy. As a *New York Times* reporter commented, "An Army that is still hauling canned beer 4,000 miles to be drunk by people living in Heidelberg and Munich presents a formidable psychological problem. . . ."

Of course, the United States was never prepared to accept the pure principles of the ITO in all its own commercial behavior. Loopholes of American design were built into the Charter to permit the use of import quotas in connection with domestic farm programs and the withdrawal of tariff concessions if imports damaged domestic producers. Shipping was excluded from the Charter largely because the United States was not prepared to alter its subsidy policy. But the recent protectionist drive raises the specter of a sharper reversal in trade policy. Events seem to be bearing out a fear expressed by Jacob Viner in 1947. Writing about the ITO he said, "The old schoolmen distinguished between the grace which inspires good resolutions and that other grace which provides the will to fulfill them. There is great danger that the American supply of the latter will fall far short of the State Department's supply of the former."<sup>25</sup>

GATT, and the general approach to trade problems it embodies, have been challenged from other quarters as well. At the tariff-bargaining session at Torquay in 1950-51 the United States was unable to conclude

<sup>25</sup> Jacob Viner, "Conflicts of Principle in Drafting a Trade Charter," *Foreign Affairs*, July 1947, pp. 612-628 at 614.

any new tariff agreements with the United Kingdom or with several major members of the Commonwealth because these countries were unwilling to make further substantial reductions in the margins of preference they granted to one another under the Ottawa agreements of 1932. Some American officials interpreted this to mean that Britain was unwilling to go any farther in the making of global multilateral trade agreements and was withdrawing to the shelter of imperial preference-sterling area trading. The return to power of the Conservative Party plus the renewed payments crisis have stimulated a demand in Britain for getting free of the limitations GATT puts on the extension of imperial preference. This attitude, coupled with the building up of a case against recent trends in American trade policy—which to some extent has exaggerated the material effects of the new protectionist drive—may presage proposals for loosening GATT. If the United States remains in violation of GATT as a result of such measures as the cheese import quotas, or if it has to resort more frequently to the escape clause, this country will be in a poor position to defend the agreement against British pressure for change. The outcome might well be steps sanctioning the American actions in return for adjustments to meet the desires of other countries, such as the granting of greater freedom of action for the British on imperial preference. The result would be to leave GATT considerably weaker.

GATT is not the only multilateral arrangement dealing with the conditions of international trade, and the others are also subject to disturbing pressures. The trade liberalization program of the Organization for European Economic Cooperation, and the related provisions of the European Payments Union, led to the removal of quotas on a portion of trade among the European Marshall Plan countries and to the introduction of a considerable degree of non-discrimination among them. Progress in these matters, which began late in 1949, was hampered first by a German balance-of-payments crisis which curtailed the area of liberalized trade and then, more seriously, at the end of 1951 and early in 1952 by British and French measures restoring import restrictions to check drains on their foreign exchange reserves. The French and British actions were in large part a response to economic disturbances caused by the impact of the Korean War, rearmament and the expectation of rearmament.

A third multilateral trade and payments arrangement is the sterling area. Within the group, current payments are free from exchange control and trading privileges are exchanged which are not extended to outsiders. But here, too, there have been disturbances, leading to new trade restrictions within the sterling area and added strains in its relations with the rest of the world. It has apparently come as some-

thing of a shock to many Britons to discover that the process of putting each sterling area country's foreign accounts in balance may involve cuts in imports from the United Kingdom as well as from the United States. The recurrence of dollar difficulties raises the specter of a breaking-up of the sterling area, or at least the partial withdrawal from it of members who feel they could make out better in their dollar affairs, and perhaps their external trade and payments generally, if they operated independently of the sterling area dollar pool.

These three arrangements for the removal of barriers to multilateral trade—GATT, the OEEC program, and the sterling area—do not dovetail neatly. GATT, which includes substantially all of the countries in the other two groups as well as the United States and Canada, is based on the most-favored-nation principle. The OEEC quota reductions are for the most part limited to trade among member countries (but a country is not forbidden to extend these concessions to outsiders). So long as the pound is inconvertible the sterling area entails discrimination against payments in hard currencies. The preferential tariff arrangements in the British Commonwealth, largely overlapping the sterling area but not identical with it, introduce still further complications. The absence of a link between quota reductions in the OEEC and tariff reductions in GATT creates trouble for low-tariff countries in Western Europe. The Schuman Plan will create a customs union for iron, coal and steel among the member countries, requiring further derogation of the most-favored-nation rights of outside countries. The discrepancies among these trading arrangements cause some current difficulties and, looking at the long run, both the sterling area and the OEEC trading program raise a basic problem in relation to GATT: How much "regionalism"—a misleading word with its geographic connotations—is compatible with the "globalism" of GATT (and of the ITO principles)? Can trade barriers be removed by both approaches until they merge, or is the inherent exclusiveness of regionalism bound to hamper cooperation in the larger area?<sup>26</sup>

The forces that curtail the area of liberalized trade within each of these trading arrangements may also increase the discrepancies between GATT and the two "regional" groups. The OEEC's trading system and the sterling area are both based on discrimination against American goods and if the troubles that manifest themselves as "the dollar shortage" grow, the severity of the discrimination may grow. But the disruptive forces work within each group as well. It seems illogical that nations should raise trade barriers instead of lowering them at a time

<sup>26</sup> For a fuller discussion of these issues see Howard S. Ellis, *The Economics of Freedom* (New York), 1950, pp. 431-443, 493-507, and my *Trade and Payments in Western Europe* (New York), 1952, pp. 405-417.

when a more effective international division of labor would enable them to carry the burden of rearmament more easily. But unless there is a strong binding force—and even that of the sterling area, the most cohesive of the groups, may not be sufficient—each government is likely to try to deal with its own particular set of problems by the most effective *national* action open to it. To safeguard the balance of payments, import barriers are likely to be the easiest method at hand.

Rearmament not only disrupts trade and checks efforts to remove trade barriers. It substitutes a whole set of different criteria for the principles embodied in multilateral trade agreements such as GATT. The flow of strategic materials must be controlled, not set free. Prices may have to be manipulated, not left to the market. Cost must sometimes be disregarded. In a time of cold war, non-discrimination becomes strategically unwise and insistence on it would be stultifying. When last renewing the Trade Agreements Act, Congress excluded the countries of the Soviet orbit from its benefits by directing that American tariff concessions to them be withdrawn and that they be denied most-favored-nation treatment. In trade terms the consequences were not great or the resulting sanctions very strong. The gesture was largely emotional. But the denial of the principle of non-discrimination goes much further, especially in the matter of export controls. “. . . For if there is anything that strategic considerations demand,” says Professor Viner, “it is discrimination in the treatment of different countries, according as they are friends, or foes, or would-be neutrals.”<sup>27</sup>

Serious as it is, rearmament is not the main challenge to international trade policy. If it were, the debate would be whether the best course was to put the liberal ideals on ice for the time being or to try to find a way of applying multilateral trading principles within NATO, or some other free-world grouping, while applying the principles of economic warfare to the rest of the world. This is one of the problems we face. Another is how to check protectionist tendencies that conflict with the purposes of programs for strengthening the free world and that increase the need for foreign aid by making it harder for countries to support themselves by exports. But there is another basic problem of continuing importance that exists independently of the present crisis in world politics. If there were no rearmament and no cold war, we should still be confronted by the question: Can the principles on which GATT and the ITO are based be successfully applied in the contemporary world?

Although political tension has increased the economic difficulties of many countries and has made some postwar adjustments more difficult than they would have been in a less threatening world, cold war cannot

<sup>27</sup> Jacob Viner, *Rearmament and International Commercial Policies*, Department of State, Foreign Service Institute (Washington, 1951, multigraphed) p. 9.

be considered the primary cause of some major difficulties that plagued the drafters and negotiators of the Charter and that would have continued to plague the ITO if it had been established. Mere enumeration is sufficient to indicate the kind of difficulties I have in mind: the troubles that express themselves in the chronic dollar shortage; extensive government controls over both domestic and foreign transactions; price-fixing and subsidies, whether aimed at keeping prices high or low; widespread inflationary pressures coupled with professed fears of the onset of recession; the contrary pulls of the desire for domestic stability at all costs and the desire for international stability.

Out of each of these circumstances comes a horde of troubles for any attempt to fit the traditional methods of a liberal trade policy to current circumstances. Only a few of these difficulties can any longer honestly be set aside as phenomena of the "transition period"—even if that term retains any meaning. Some of the difficulties arise from practices not covered by the old rules, such as state trading, for which new rules have to be invented, without great success so far. In other cases, the adaptation of old rules produces peculiar results; it has long been plain that allocating shares in import quotas according to the pattern of trade in a base period is a very different kind of "equal treatment" from the avoidance of tariff discrimination among competing suppliers. In still other cases, formal application of old principles in new circumstances produces results contrary to intentions. This is the case, for instance, when "you accept prices as the regulator or allocator of production and the regulator of where commodities should go, even though these prices may reflect nothing more than the arbitrary whim of a dictator or the snap judgment of a petty bureaucrat."<sup>28</sup>

One way of summarizing these difficulties is to say that the trade theory underlying GATT and ITO is largely a nineteenth-century product that does not fit twentieth-century facts. Another is to say that the world can have a flourishing multilateral trade based on national specialization only if free enterprise or the price system are allowed greater roles, internationally and within each country, than they have had for some time. These and other ways of stating the issue all contain part of the truth, but whatever the formulation, the basic fact is that there is a gap between major features of the present world economy and the known means of securing the most economical pattern of international trade. The ITO was an attempt to bridge that gap. How it might have worked we shall never know. Everyone concerned had reservations about the prospects and, as we have seen, the Charter proved unacceptable partly because of lack of confidence in what it could do. It is conceivable that the problem will be largely eliminated

<sup>28</sup> Same, p. 23.

by the freeing of markets and the dropping of policies that conflict with liberal trading principles. But the evidence that this will happen is not very persuasive; the political forces in most countries seem to set more strongly in the other direction. At best only part of the problem is likely to be solved in this way. In any case, we are left with the question of what is to be done if events work out differently.

"The time is out of joint." But we cannot simply suspend trade policy until the world is again orderly and then hope to resume a course based on the old principles. The main end of the principles is certainly valid: an international division of labor that permits maximum production. But, more obviously than ever before, we lack the means of achieving this end. It is not just political support for a wise course that is lacking. We also lack an intellectual reconciliation between multilateral international trade based on a high degree of specialization and the concept of managed and stable national economies. Perhaps there is no reconciliation. Insoluble problems exist. At some points we seem to have come to an intellectual impasse, but there is still much work to be done in clarifying issues before we can say that these problems really defy solution. Meanwhile, men must conduct their affairs and governments their foreign trade policies as best they can, improvising where known methods prove inadequate. And it would not be unprecedented if the intellectual solution followed instead of preceded the evolution of practice.

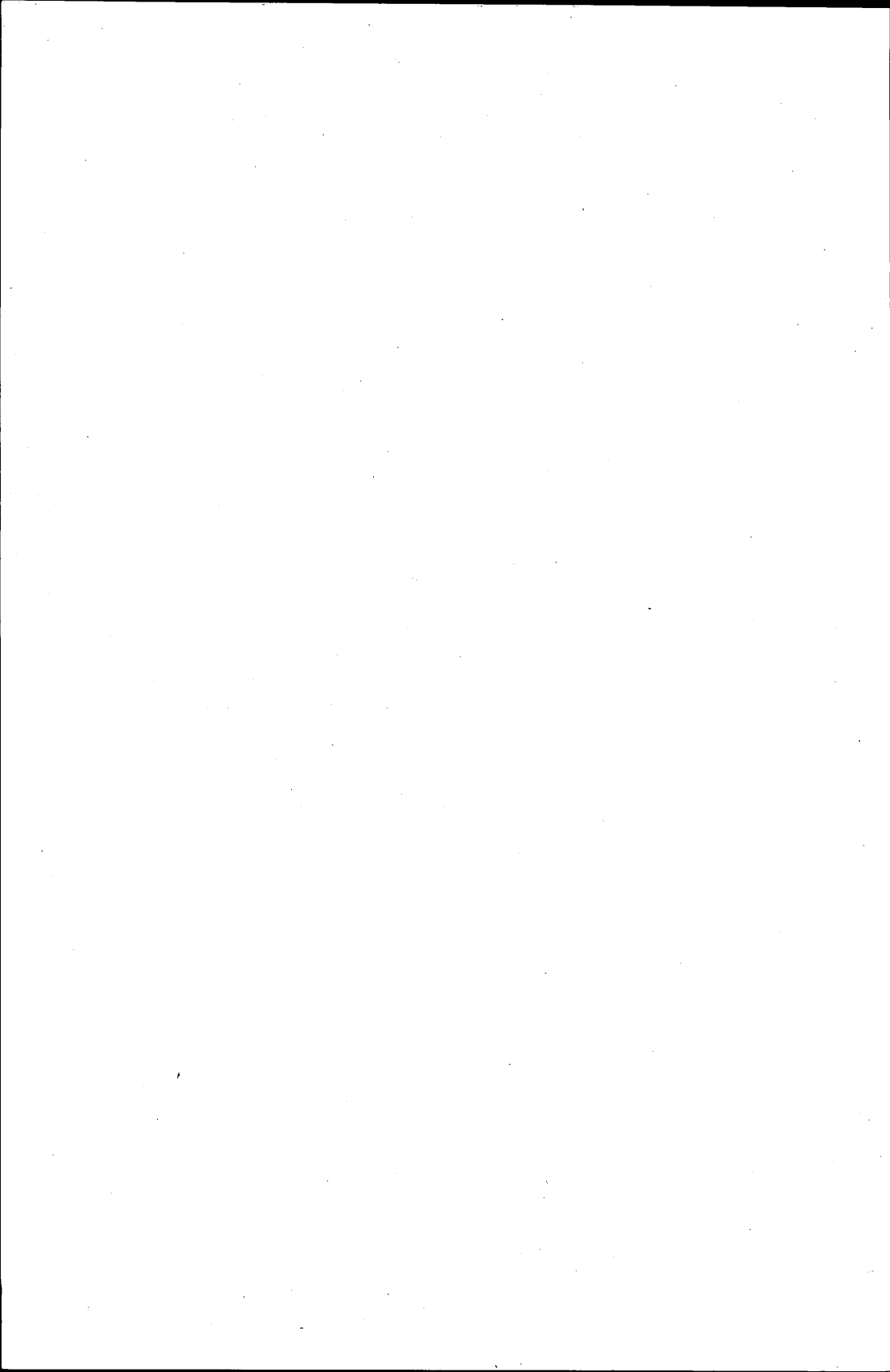
The ITO was an attempt to find a practicable compromise between the old aims and methods and the new ones. It contained some inventions that may seem worth resuscitating. But the way of the ITO is closed and we face the problem of starting again. In which direction should the United States try to go? We may attempt to keep GATT in as good repair as possible and build on it an adaptation of the multilateral approach. We may seek a liberal trading world by bilateral or even unilateral measures. We may revert to a greater degree of economic nationalism. We may put principles on the shelf and improvise to keep our footing in an unsettled world where the aims of foreign trade policy seem to change frequently. Or we may devise some wholly new line of approach. The new Administration, whatever its party, will have to face these issues, not only because the Trade Agreements Act expires in June 1953 but because a convergence of forces has pushed the underlying trade problems to the surface. Whether or not a consciously elaborated policy is adopted, action will be taken or not taken which will be a policy in fact.

The core of the postwar trade policy of the United States was the ITO, which was in many ways the fusion and highest development of the main elements in the policies that had gone before, since 1934. The

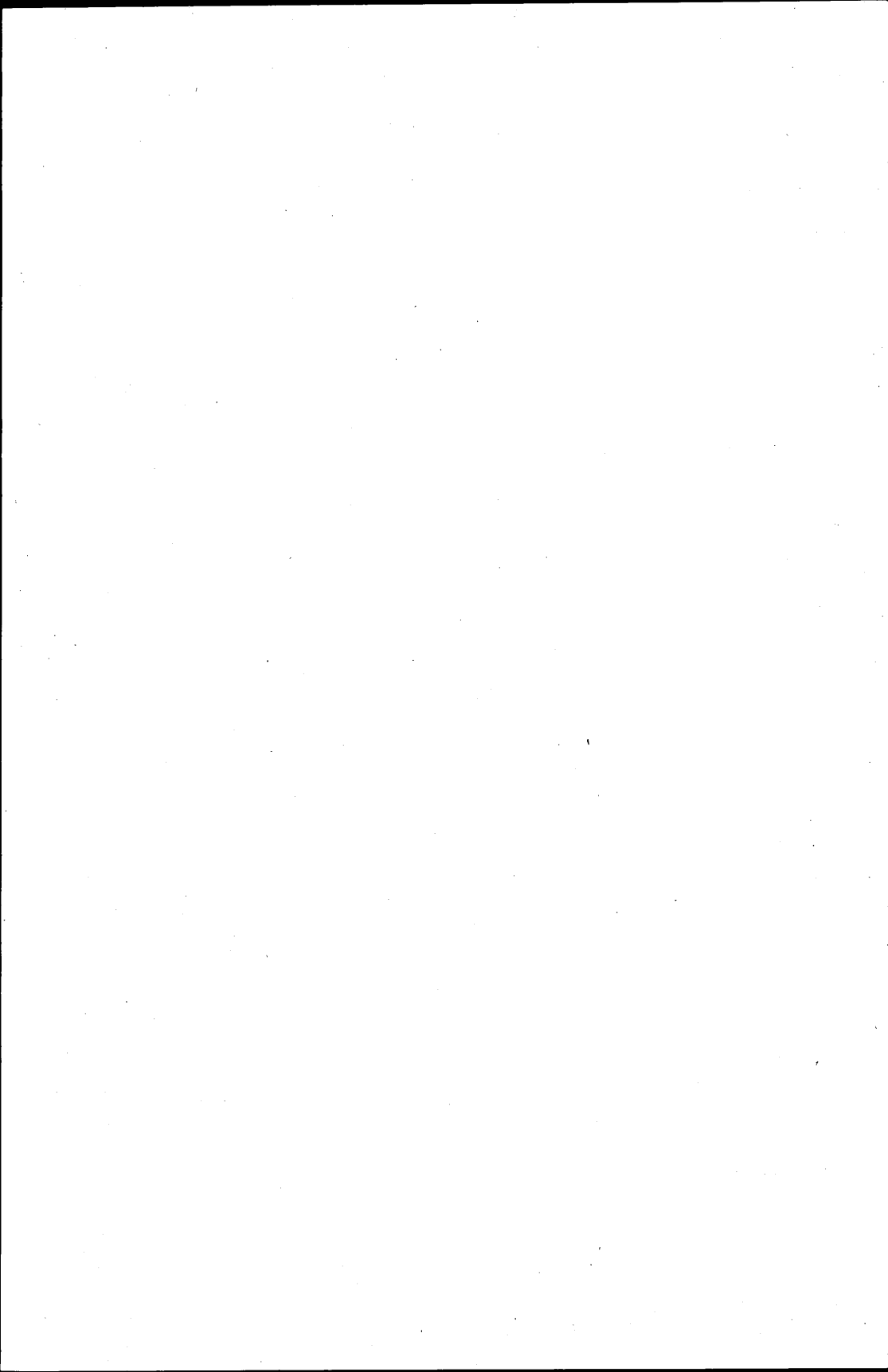
ITO failed in part because the world was not the kind of world on which the Charter was premised. The world has not changed back. The ITO failed in part because of shifts in American politics. Those shifts, and others, are still going on. The ITO failed, finally, because not enough people had confidence in the way it tried to bridge gaps between different concepts of the nature of the economic process, between the supposed interests of the United States and most of the rest of the world, and between faith and practice. The gaps are still there; they may narrow or widen; but a multilateral trading arrangement, covering most of the free world, cannot be successful unless it can bridge them.

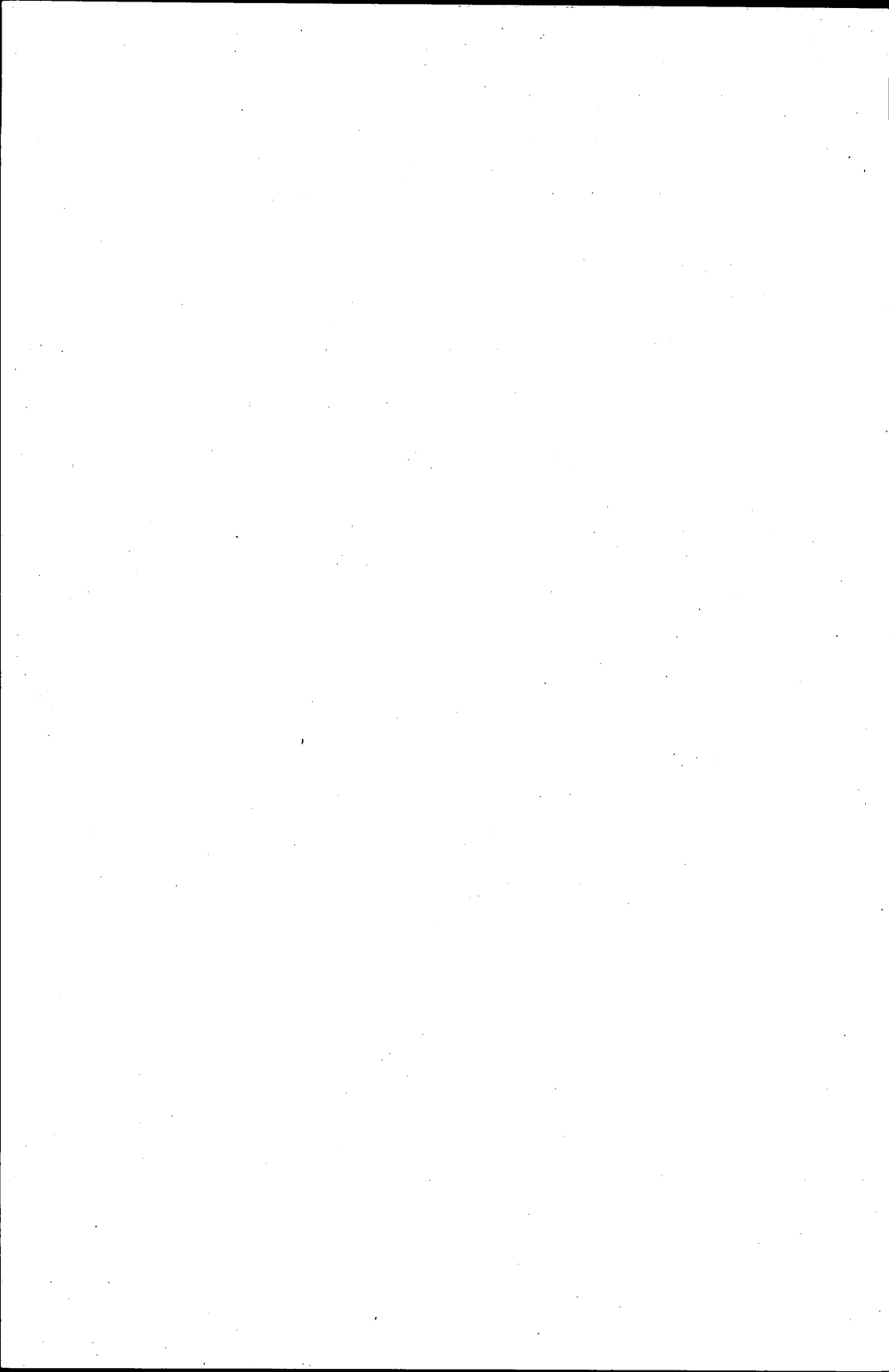
The failure of the ITO leaves the United States with only the remnants of a foreign trade policy. It is doubtful that they can survive the buffeting, internal and external, political and economic, that they are now undergoing. The postwar planners were right when they said that an international understanding on trade policy was essential to the success of most other measures of international economic policy, so the whole structure of the free world is affected.

The need for a new foreign trade policy is clear and urgent. But the shape that policy ought to have is obscure. How much can we adapt from past policies? Can we invent new means of attaining old aims? How can we devise a policy that is not only promising but politically acceptable? The dynamics of the world of the 1950's are different from those of the world for which the ITO and its companion international agreements were made. We do not seem to know the commercial policy corollaries of the new propositions; indeed we are not even sure of the new propositions themselves. Our need is for a restatement of what we are after and a fresh analysis of how to get it. The end of the ITO has forced us to face these problems but it has provided no clear guides to their solution.









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