ESSAYS IN INTERNATIONAL FINANCE

No. 29, March 1958

TRADE POLICY IN CRISIS

RAYMOND VERNON

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS AND SOCIOLOGY

PRINCETON UNIVERSITY

Princeton, New Jersey

This is the twenty-ninth number in the series ESSAYS IN INTERNATIONAL FINANCE *published from time to time by the International Finance Section of the Department of Economics and Sociology in Princeton University.*

The author, Raymond Vernon, spent several years as an official of the United States Government directly concerned with matters of international trade policy. He is now Director of the New York Metropolitan Region Study. Mr. Vernon was the author of an earlier, 1954, essay in this series entitled "America's Foreign Trade Policy and the GATT." The views expressed here are his own. They do not purport to reflect those of any group or institution with which he is or has been associated.

The Section sponsors the essays in this series but takes no further responsibility for the opinions expressed in them. The writers are free to develop their topics as they will. Their ideas may or may not be shared by the editorial committee of the Section or the members of the Department.

The submission of manuscripts for this series is welcomed.

GARDNER PATTERSON, *Director*
International Finance Section

ESSAYS IN INTERNATIONAL FINANCE

No. 29, March 1958

TRADE POLICY IN CRISIS

RAYMOND VERNON

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIOLOGY
PRINCETON UNIVERSITY
Princeton, New Jersey

TRADE POLICY IN CRISIS

One has to go back to the days of Washington and Jefferson to find a period in which there was as much preoccupation in the United States with its position in international affairs. Since 1945, the political leaders of the United States have been engaged in an almost constant reappraisal of this nation's foreign relations. Yet within that period of 12 or 13 years, the basic premises have shifted. The American sense of leadership and control, a sense on which the plans and policies of the 1940's were implicitly based, has shifted to one of uncertainty and uneasiness.

In one way or another, all major United States policies toward the rest of the world are beginning to show the effects of this pervasive sense of change. Inevitably, as Congress turns to its reexamination of United States trade policies in this spring of 1958, this sense will color the debate and influence the outcome. The point of departure in any reappraisal of a United States trade policy, therefore, must be some understanding of the fundamental change in the larger role of the United States in world affairs.

I. OUR SHIFTING POWER STATUS

From 1933 to 1939, we had been on the edge of the world scene, a world power in potential strength but not in actual performance. The signal political events of that period—Hitler's militarizing of the Rhineland, Japan's Co-prosperity Sphere, the Spanish Civil War, the Anschluss, the Munich Conference—had been only marginally affected by United States influence or United States views.

From 1941 to the end of the Korean War, we were the free world's undisputed leaders. Nothing of consequence could happen in the political structure of the free world in which our views were not a dominant factor and our cooperation was not crucial. In rapid succession, the United States crystallized its philosophy and its goals in the United Nations structure; the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade; the European Recovery Program; the peace treaties with Italy, Germany and Japan; and the North Atlantic Treaty Organization.

But since 1953 the United States position in world affairs has begun to take on another perspective. New forces in international politics, some of which could be subordinated in prior years to the major goals of United States foreign policy, now have to be given greater weight. For one thing, the aggressive nationalism of many of the underdeveloped nations has to be recognized as a force so powerful as to condition any foreign trade or foreign aid program in which they participate. For another, the new role of the Soviet bloc in foreign trade and investment has to be acknowledged as a fresh threat, much larger in magnitude and more profound in significance than the sporadic economic sallies which Stalin had occasionally taken in the free world.

Beyond that, we have had to take account of the return of initiative and vitality among nations to which we are closely tied. This reviving initiative became evident to all when six countries in Europe developed a European Coal and Steel Community, then followed with a European Economic Community, exceeding in scope and objective anything which United States policy makers had previously proposed. The revival in the vitality of our friends also became evident as new foreign aid programs appeared. The Colombo Plan was launched in Asia; a similar arrangement began to function in Africa; the Italians in Iran, the Germans in India, the Israelis in Ghana, all began to assert their plans and ambitions as national entities bent on survival and expansion.

Our sense of being crowded in the driver's seat was dramatically heightened by scientific and military developments. The Sputniks' role was largely that of strengthening a view which had been developing in any case. For the moment, the principal impact of the satellite contest is to drive home the realization that the Soviet Union may have matched us or outdistanced us in critical branches of military science. But most of us sense larger implications in the Soviet performance. We are beginning to realize that we have persistently underestimated the capacity of the Soviet economy for material performance. The possibility of our being outdistanced in the race to produce goods, military or civilian, no longer seems so remote and unlikely.

These are possibilities whose implications need to be sorted out and assimilated into a new structure of international relations. This sorting-out process will take time. Clearly, however, the problem of the moment is explicitly to recognize the shift in our power relationships and to begin reshaping United States trade policy along lines which will take account of this new position in world affairs.

II. TRADE POLICY IN RETROSPECT

Through a period of 24 turbulent years, the domestic symbols of our international trade policy seem scarcely to have changed. Ten times in this period, a succession of Democratic and Republican administrations have importuned the Congress to renew the Trade Agreements Act, the Act authorizing the President to reduce United States tariffs in connection with trade agreements with other countries. The forces pro and con arrayed at each renewal have become traditional; the arguments adduced have had a sameness which defies the passage of time. The very stability of the performance raises uneasy issues in the mind of the observer. Do our regular renewals of the Trade Agreements Act suggest that we have devised a principle of international relations so enduring that it applies equally well in the 1950's as in the 1930's? Or can it be that the approach is obsolete and that we have been obliged to hang on to an outworn policy, *faute de mieux*—because no proposal for a significant variation would survive the hazardous course through a hostile and ill-informed Congress?

In answering the question, one has to recognize first of all that the seeming stability of United States policy is partly an illusion. The political forces which produced the Trade Agreements Act in 1934 were an amalgam of interests, peculiar to the 1930's. For one thing, the personalities and interests of Cordell Hull and Franklin D. Roosevelt were indispensable elements in the conditions which produced the Act. Another critical ingredient was the support of the agricultural exporters centered in our Southern states; in the 1930's, this group was grasping at straws, willing to try any measure which offered the hope of reopening foreign markets for Virginia's apples, the Carolinas' tobacco, and Georgia's cotton. Another group, a liberal element centered in the Northeast, saw the Act as a rallying point for those who wished to break down our traditional political and economic isolationism.

But the trade agreements program was much too frail an instrument to deal effectively with the turbulent international forces of the 1930's. The program had scarcely been placed on the statute books in 1934 when world events began to limit its relevance. The persistence of widespread unemployment throughout the world and the entry of Hjalmar Schacht's brand of aggressive economic warfare could hardly be countered by some puny powers to reduce tariffs through a reciprocal trade agreements program.

To be sure, one should not discount altogether the longer-run political impact of the score or more bilateral agreements negotiated by the United States in the ten-year period after 1934. These negotiations did have some marginal effect: The easy assumption of other nations that the United States was hopelessly protectionist was shaken somewhat; and the upward movement of our tariff rates was arrested and reversed.

But beyond this, larger events shaped the structure of international trade relations, pressing many nations further and further into the protectionist mold.

When the United States determined at the end of World War II to assume a position of international political and economic leadership, the trade program took its appropriate place as an element in this larger political structure. The President's powers to negotiate tariff levels under the Trade Agreements Act became much more than a vehicle for isolated bilateral agreements with a few other nations. It became a means by which the United States hoped to lead all nations into the formation of a multilateral trading structure, world-wide in scope—a structure which provided the essential rules of the game by which nations would be governed in their relations not only with the United States but also with one another. From the United States viewpoint, the main purpose of such a world trading structure was to hold in bounds the egregious interference of governments in international trade and gradually to return international trade to an open system which contained most of the elements of private enterprise and personal freedom prevailing in international trade during the early twentieth century.

To carry out these conceptions, the United States at first attempted to develop an International Trade Organization. Though a charter was drafted in 1948, the organization was stillborn for reasons which have been described in detail in another essay in this series.* But an unaccountably vigorous GATT did emerge, embodying a series of principles which reasonably well reflect a consensus of the majority of trading nations in the free world.

After ten years of GATT operations and a full-scale revision of the instrument in 1955, it is apparent that the free world is now generally agreed on the desirability of a gradual reduction in high trade barriers and discrimination in international trade. It is recognized, however, that countries in an early stage of industrial development may be justified in pursuing trading policies basically different from those of the more mature nations, containing larger elements of protection. This is no longer a temporary concession, grudgingly extended by the industrial nations to the underdeveloped countries with various strings attached; it is wide-open release, to be exercised by the latter with only nominal restraints on their behavior. Furthermore, the world now has bowed to the view—a view pressed hardest by the United States, as events developed—that trade in agricultural commodities is in a class

* See William Diebold, Jr., "The End of the I.T.O.," *Essays in International Finance*, No. 16, October 1952.

by itself; that numerous national schemes to guarantee the income of farm populations place such blocks in the way of open international trade in farm commodities as to require that nations retain a special measure of freedom to restrict such trade.

Finally, there has been a considerable movement away from the simple principle that most forms of trade discrimination by one country in favor of another are objectionable. This has given way to substantially more sophisticated appraisals of trade schemes involving discriminatory practices. Here again the United States has been a willing partner in the process. When the countries of Western Europe, as part of the European Recovery Program, undertook to relax restrictions on their trade with one another but not with the rest of the world, the United States winked at the fact that this involved increased discrimination; for it hoped—and hoped justifiably, as events proved—that the relaxation in trade restrictions among the countries of Western Europe was only an interim step in a relaxation of restrictions toward all the world. Later, when the European Coal and Steel Community was developed by six countries in Western Europe, the United States urged the world to accept the inherent discrimination which would ensue in the coal and steel trade of the six, arguing that the total economic effects had to be gauged by more complex standards than the simple one of the degree of discrimination involved. By the same token, the United States has taken a much more relaxed view toward the incipient European Economic Community among the six countries than have most other nations, even though increased discrimination against trade in United States products is inevitably involved.

The United States, therefore, has evidenced many of the characteristics of maturity and flexibility which the free world's trade leadership demanded in the post-war period. It has pressed for the continued reduction of the world's trade barriers; yet it has come to recognize that the trade problems of the underdeveloped areas are different in critical respects from those in the advanced countries. It has urged the reduction of protectionist barriers in the industrialized areas; yet it has tempered its pressure on nations with slim foreign exchange reserves, recognizing the precariousness of their situation and their limited capacities for risk taking. It has sought for the reduction of trade discrimination by other countries; yet it has recognized the possibility that increased trade discrimination by others could lead, in some cases, to lower trade barriers and greater trade.

Nevertheless, the United States position of trade leadership in the free world has gradually declined, assailed by various forces. Some of these forces stemmed from developments at home, others from changing conditions overseas. At home, the nature of public support for a liberal United States trading policy had begun to change almost at the very moment that the United States began to assume its leadership position. Shortly after World War II, those who had previously supported the trade program as a vehicle for pushing United States exports of agricultural products into foreign markets began to look to other devices to produce this result. More and more strongly, the farm groups anchored their cause to foreign aid programs, carefully tailored to dispose of United States agricultural products. As these measures took hold, the farm groups' support of the trade program became more sporadic and uncertain.

Moreover, the traditional support from the agricultural export areas of the South was being weakened by still another force, namely, the progressive industrialization of its labor force. Many of the plants drawn to the South had been attracted to that area in the first instance because they required a low-wage situation in order to survive. This sector of Southern industry was therefore of a type particularly vulnerable to competition from the even lower-wage economies of some foreign countries. Hence, localities which had previously seen their interests as bound up in promoting cotton or tobacco exports now began to see their interests as linked to excluding textile imports.

Other post-war changes in domestic support for the reciprocal trade program also were taking place. The groups which before World War II had used reciprocal trade as the rallying point against American political isolation now had other programs of a more pressing nature demanding their support. At first, the United Nations, the European Recovery Program and NATO, later the annual battle for an adequate foreign aid program, commanded their attention. For 8 or 10 years after World War II, then, public interest in a liberal trade program steadily declined to low ebb.

Though public interest declined, the work of the groups with a stake in trade protection continued full tilt. Eventually, the shift in the balance of pressure began to appear in statutes affecting our foreign trade policies. In the field of agriculture, the Congress began to place increasing emphasis on the United States right and intent to ward off imports and subsidize exports. The Agricultural Adjustment Act was amended in 1951 in such a way as to place greater pressure on the President to restrict imports which threatened to interfere with agricultural price support programs. At the same time, export subsidy operations were broadened, culminating in the vast program of "dumping" export surpluses which is now being pursued as part of our foreign aid operations. Cotton exports were subsidized despite the concern of Brazil, Peru, India, and Egypt. Dairy products were offered to the world through export subsidies despite objection from New Zealand, Australia, Denmark, and the Netherlands. Wheat was sold on the same basis, in the face of strong protests from Canada, New Zealand, and Australia. Citrus fruit was dumped in competition with South Africa and the nations of the Mediterranean basin.

In the same vein, the Trade Agreements Act was gradually weakened; with each renewal of the President's tariff-negotiating authority, amendments were added restricting his power to make new tariff concessions and to maintain existing ones in the face of increased imports. In 1955, a "defense production" amendment was added to the Trade Agreements Act—an amendment generally regarded as more responsive to the pressures of the independent oil producers and the electrical equipment industry than to the security needs of the nation.

Meanwhile, the changing economic position of the free world which became apparent in the early 1950's offered added challenges to our leadership position. By that time, the other principal trading nations had not only begun to recover their ability to export goods but had even begun to retrieve some of their lost gold reserves, giving them slightly greater freedom of economic action. By that time, too, our foreign aid program had begun to stress the military at the cost of the economic, underlining the fact that we were no less hostage to our allies than they were to us. On top of this, doubts about the realism of our military strategy began to emerge at home and abroad, raising queries among some of our allies whether there was any greater safety in military alliance than without it. In many countries, the possibility of pursuing a foreign policy embodying greater parity with the United States began to be considered. This was the atmosphere which contributed in part to the European Coal and Steel Community and, later, to the European Economic Community.

Inevitably, the visible changes in domestic support for the United States trade policies and the subtle shifts in the position of the United States abroad found their reflection in the President's administration of his trade powers. A self-imposed discipline which had previously led the Executive to avoid most trade measures which would undermine the United States position of leadership now began to soften. Increasingly, the President began to exercise his executive discretion on a pattern which assumed that the position of United States trade leadership in the free world was no longer quite so vital to its interests, and that we could afford to expose that role to greater risks if domestic interests demanded it. This change in approach led to a series of measures restricting United States trade. The President raised the duty successively on watches and bicycles, on linen toweling and dried figs, on clover seed, clothespins, and woolen textiles. He importuned Japan and Italy to cut down the flow of textiles to the United States and he advised our own importers "voluntarily" to restrict their imports of oil. A few of these steps had significant trade impacts; most did not. But all were recognized as a sensitive barometer of the United States approach to international trade problems.

This shift in the position of the United States noticeably affected its role in international trade meetings. As the 1950 decade went on, control of the GATT proceedings slipped somewhat from United States hands and was more aggressively shared by others. The dominant voice of the United States in the trade deliberations of the Organization for European Economic Cooperation—already muted by the changing nature of our aid to Europe—was even further hushed. Whereas the United States had played a major role in shaping the trade provisions of the European Coal and Steel Community treaty in 1950 to 1952, its role in the much more significant European Economic Community negotiations of 1955 to 1957 was exclusively that of a half-informed observer.

Signs of United States backpedalling were visible in other international activities affecting world trade. In 1954, United States efforts to find a way of dealing with the harmful effects of international cartels were hastily arrested and reversed; instead of responding to the interest which we had aroused in Germany, Norway and other countries, we refused to consider further international measures in this direction. In the International Monetary Fund, the one international organization, other than the World Bank, in which the United States still had a major position by virtue of a weighted vote, trade discussions were slowed down to a desultory pace. In sum, the United States slipped back from a position of clear leadership in international trade matters to one of moderate participation or passive observation.

III. THE NEXT DECADE

The Political Background

While the battle of the satellites has aroused United States public attention to the perils of missile warfare, it seems to have diverted that attention for the present from any other form of international threat. This result has been produced partly by a sense that nothing else matters until the missile peril has been met. It has been produced also partly by a half-conscious reversion to the Fortress America concept—the concept that the only effective defense is the power of the United States to retaliate from its own home bases. Because these conceptions have numerous adherents in the Congress, the Administration is likely to have no difficulty in securing from Congress all of the funds it requests for missile warfare, but may have much greater difficulty in gaining support for an adequate foreign aid program, a trade agreements act, or an act to enlarge the international exchange of atomic secrets.

A very different point of view, to which the writer subscribes, also has its influential adherents. This is the conception that the development of crushing nuclear power on both sides has created a close military balance; that this balance is likely to remain close for a long time to come; and that, as long as this is the case, both sides will avoid resort to large-scale military operations. Meanwhile, the risks to the United States, in this view, lie largely in being "nibbled to death" by the Soviet bloc. The Soviets have a variety of weapons in their arsenal, including propaganda, subversion, trade and aid devices, and—if need be—the willingness to foment limited local wars. Their strategy will be that of winning by little steps—of avoiding the creation of any issues so large that the United States would be willing to risk the destruction of New York or Chicago in order to prevent the pending loss.

We face this threat, weakened by divisive forces both in the United States and abroad. Abroad, our total preoccupation with nuclear warfare and the uncertain quality of our leadership have spurred the growth of a tendency among other nations—a tendency which would have existed in any case—to develop political groupings which have the collective military strength to operate without the participation of the United States. At home, our willingness to flirt with the Fortress America illusion and our sometimes seeming indifference to any issue which does not relate to the short-term military threat, are offering opportunities to domestic pressure groups which they have not had for more than a decade.

To be sure, the political currents affecting international trade policy are not all running in one direction. For one thing, despite the progressive industrialization and growing protectionism of the South, many business groups are beginning to identify their interests with the maintenance and expansion of the export markets which they have managed to develop in the past decade. These markets have grown especially fast in various types of chemicals, pharmaceuticals, machinery, and similar products—that is, in products where price competition is subordinate to performance or other quality characteristics—creating new business interests in overseas markets.

More significant still have been signs of a growing recognition that the United States trade program is functionally related to the larger program of international political relations. If the tenor of testimony before Congressional committees is any guide, members of the business community and others who support the program do not feel quite the same compulsion to justify their support exclusively on "hard-headed" considerations—on visible short-term economic advantages to the United States. These shifts in sentiment offer major opportunities for a new approach and a strong lead.

The Pressing Problems

In this setting, it may be well to consider the specific trade problems which are likely to arise in the next decade and which, if they develop, are likely to offer new openings to the Soviet bloc offensive. High among such issues is one which has haunted international trade relations since the 1930's—the risk of a depression in the United States or in Western Europe, transmitting its income effects, by way of falling imports, to other nations of the world. Here the risk is one of restriction and counter-restriction, retaliation and counter-retaliation, among the free world's nations. If the process should once begin, two things will be needed to arrest it: vigorous domestic counter-cyclical measures by the major nations; and the closest kind of communication and reassurance among them, aimed at nipping the cycle of trade-retaliation in the bud. It is hard to assess the size of the risk or the vigor with which the remedies will be applied. But we cannot lose sight of the risk, nor will the rest of the free world.

A second trade problem of the free world is that of agricultural protection. The universality of the practice in industrialized nations is one of the less understood mysteries of political science. But agriculture has been under steady pressure in all such countries, squeezed by a rising productivity on the one side and a sluggish demand on the other. Perhaps these are the conditions under which political response tends to be sharpest and most prolonged. Yet, even though United States protectionism is as intense as it has ever been in this field and is matched by French, British, Canadian, and German measures of a like character, there is a chance that the problem will decline in importance from this point forward. As we have already observed, the number of predominantly agricultural areas in the United States is rapidly declining, along with the proportion of the United States work force on the farm. The number of Congressmen and Senators who find the farm vote critical to their survival is fewer than ever before; and the number who do not also represent a large urban constituency is smaller still. Yet the agricultural trade problem still remains, a sharp stone in the path of international trade relations.

The third problem is the Soviet Union's awakening to the use of trade as an economic weapon. A great deal has already been written on this development and there is no need to recapitulate at length. In briefest summary, one of the devices by which the Soviet Union has been tying Egypt, Syria and Afghanistan to its political camp has been the use of trade agreements. These agreements have been designed to take burdensome surpluses off the hands of the selling nations and offer them badly needed capital in return. To be sure, there have been occasional cases when the agreements have misfired, creating more seeming irritation and bitterness than political advantage. But in general the agreements are being developed with increasing skill. We must now conjure with the operations of a monolithic trading body, insensitive to its national structure of comparative costs, catering to a national demand which can absorb more of virtually any product, offering to buy and sell wherever a political advantage is to be cheaply gained. We must recognize the limited means we possess to deal with such a force in the existing framework of our trading institutions.

Finally, transcending and subsuming some of the forces suggested earlier, we must take account of the drive on the part of other friendly countries to build up their economic bargaining strength *vis-à-vis* the United States and one another—a drive which accounts in part for the European Economic Community, the Nordic common market project, the Latin American customs union proposal, the suggested economic union of India, Pakistan, Ceylon and Burma, and many similar proposals.

Once again, we tread on ground which has been partially covered in other publications.* The point to be made here is that although these new economic unions may bring added strength to the countries which participate, they will also bring a new independence of action. How that independence may be used—whether to participate more vigorously with the United States, the United Kingdom and others in closer economic ties or to veer toward a course of neutralism and autarky—is not

* See Miriam Camps, *The European Common Market and American Policy* and *The European Common Market and Free Trade Area* (Center of International Studies, Princeton University, 1956 and 1957).

yet clear. The participants themselves are of two minds; the critical question for them is what the policies of the United States and the United Kingdom may be.

IV. COURSES OF ACTION

The Present Trade Program

In the face of these formidable problems, the Administration is centering its efforts on still another renewal of the trade agreements program. The terms of the renewal, as framed in the Administration's current proposals, come to this: They would continue the President's authority to negotiate tariff reductions under the Trade Agreements Act for another five-year period, under a formula which generally would allow him to reduce existing tariff levels by one quarter. "All safeguards for American industry contained in the present act would be continued," and several minor innovations would be introduced to speed and extend tariff increases for the protection of "threatened" American industry. In addition, the Administration's desultory efforts of the past two years to have the Congress authorize United States participation in an Organization for Trade Cooperation will apparently be continued. In related areas, the Administration will continue to offer its political support to the various plans for regional trade arrangements, notably the European Economic Community. And it will try to enlarge its past programs for subsidizing the export of our domestic agricultural surpluses.

These programs are offered as measures designed to meet the current international problems of the United States to the extent that trade policies can contribute to such an end. But in fact they are the vestigia of earlier policies, based on appraisals of world conditions as of 1953 and earlier. At that time, the Commission on Foreign Economic Policy —a joint Presidential-Congressional Commission headed by Clarence B. Randall—had formulated a series of cautious proposals to continue the tariff-reducing program at a somewhat decelerated rate and to adopt some useful, albeit minor, measures of liberalization in other trade fields. Some of the measures were adopted; others were abandoned. But none of any significance has since been added.

Accordingly, the present policies of the United States Government consist of pushing at a well-barricaded set of established positions, to achieve a series of objectives whose relevance to present international conditions is continually declining. Since each word and comma of the Trade Agreements Act is hallowed ground, bought in prior years with the sweat of many embattled pressure groups, every change demands a heavy price. The record of recent years emphasizes the fact that each new effort in the framework of the present trade agreements program is likely to involve new concessions to the domestic opposition, rendering the program progressively more ambivalent and directionless.

Yet, even though the scope and force of the Administration's proposals fall so conspicuously short of what our current problems demand, the outcome of the Administration's efforts will still be a factor of prime importance in international relations. This is another of those situations, so common in international affairs, where little will be gained by success and a great deal will be lost by failure. Wisely or not, the renewal of the Trade Agreements Act has been set up by the Administration as the test of strength between those who welcome closer economic ties with the rest of the world and those who oppose such ties. If the Administration lost in the test, the universal interpretation in other nations would be that a period of uninhibited protectionism had finally returned to the United States and that they must look to their trade defenses. The deteriorating forces which already have been straining the economic ties among the free nations—the idea of the protectionist trading bloc, the willingness to reorient trade to the Soviet orbit, and so on—would gain measurably in power. In that event, any steps which the United States might attempt at some later date in order to recoup its losses in international relations would labor under handicaps much greater than the formidable difficulties with which they are presently faced.

A Modest Trade Offensive

It is, therefore, important that the Administration's proposals be accepted by Congress. But we can not rest there. The recent advances of the Soviet Union have stimulated enough introspection and uncertainty in the minds of Americans to offer fresh opportunities for leadership. What is called for, in part, is an effort to reestablish in the minds of the rest of the world the expectation which had begun to crystallize by 1951 or 1952, that is, the expectation that the United States would continue to move more or less unwaveringly, albeit slowly and cautiously, in the direction of closer economic ties with other friendly nations.

We have already pointed out that this expectation has since been largely liquidated; today, the working assumption in the trade ministries of most nations is that the United States is slowly reverting toward increased protectionism and that a major acceleration in the process could well occur. This is one of the forces lying behind some of the outstanding trade problems of 1958—the urge toward regional blocs, the almost universal policy of agricultural protectionism, the willingness to entertain Soviet trade blandishments.

One can scarcely afford to be optimistic about the chances that the United States Congress will adopt any new programs of trade liberalization, however urgently they may be needed. It would be a mistake, on the other hand, to forecast Congressional response simply on the basis of its action on traditional trade agreement matters in recent years. The forces which teeter over each familiar phrase of the Trade Agreements Act are now so firmly anchored in traditional positions that reactions of opposition or support are almost automatic, with little regard to new facts and changed circumstances. The problem of any leader in this situation is to lift Congressional and public consideration of any new program out of its old settings, where entrenched positions and conditioned reflexes govern in place of reason.

One element in such a fresh program might involve arming the President with a new kind of negotiating power, one which could be exercised with considerably more effectiveness than the kind of power he now derives from the provisions of the Trade Agreements Act. To appreciate what is involved in a suggestion of this sort, we shall have to dip briefly into the esoterics of tariff negotiation. Under the present Act, in accordance with 24 years of precedent, the President's power to reduce tariff rates pursuant to a tariff negotiation is defined in terms of each tariff rate; he may reduce any given rate by x percent in a stated time period; or he may reduce a rate to the 50 percent level, if it exceeds that level. Every prospective reduction must individually survive an examination to ensure that the "peril point" for that rate has not been breached, that is, to ensure that the reduction will not lead to such increased imports as seriously to affect domestic production in the product.

In accordance with this sort of power, it has been the practice of the United States, prior to any tariff negotiation, to scan its tariff schedules item by item; to offer other countries such tariff reductions as the President felt could be made in light of the "peril point" provisions; and to demand a reciprocal set of reductions in return. When the other country has been a reluctant bargainer and has offered little in return, the United States has withdrawn its offers one by one until finally a bargain has been achieved at the level set by the more reluctant participant.

The whole approach has been rendered obsolescent by a variety of factors. For one thing, since 1948 when the first post-war tariff negotiations were conducted, all sides in such negotiations have grown progressively more chary about offering tariff concessions. As the fat has been peeled off inflated tariff rates and as added reductions have begun to cut into the meat and sinew of protection, this approach has yielded thinner and thinner tariff-reduction agreements. Accordingly, other governments—more realistic than the United States and less effectively hampered by traditional legislative provisions like those contained in the Trade Agreements Act—have begun to experiment with new techniques for reducing trade barriers. One such approach has been embodied in the OEEC quota-liberalizing exercises which began in 1949. A variant on the approach was adapted to tariff negotiation in the development of a so-called French tariff plan two or three years later. And another variant was incorporated still later in the provisions of the European Economic Community treaty.

This approach takes the form of agreements in which the participants undertake to reach some average goal in trade-barrier reduction, such as an overall average reduction of some stated percentage, but in which each country retains some limited freedom to select the specific items which will be affected in order to achieve the agreed statistical average. Negotiations based on such a principle allow the nations concerned to make a single initial decision based broadly on the national interest—a decision to reduce their system of trade barriers by some stated percentage. Once that decision is made and agreed among the international negotiators, it is for the individual country to decide how best to meet its general obligation. The overall scope of the reduction is no longer derived incidentally as the result of negotiations on individual tariff items. The reluctant bargainer must take its stand once and for all at the outset of the process, and thereafter must find the means to meet the agreed goal.

Experience suggests that nations confronted with a single international decision of this sort are prepared or can be persuaded to go further in trade-barrier reduction than through the process of negotiation on individual items. As a practical matter, this is the most promising technique of tariff negotiation now at hand. And it is an approach which meshes well with the plans of the European Economic Community for the creation of a common external tariff applicable to the products of outside nations. In order for the United States to employ the approach, however, the President's authority would have to be broadened so that the power to make overall average reductions in the United States tariff would take precedence over any application of the "peril point"; in such circumstances, the "peril point" concept might be applied only in a relative sense, that is, in requiring the President to select his reductions on a basis which minimized the direct injury done to American business.

Similarly with the so-called "escape clause" of the Trade Agreements Act—the clause which requires the President to withdraw any concession previously negotiated, whenever imports threaten seriously to impair United States production in the affected product. Here too, the exercise of the clause would have to be limited to those circumstances in which the withdrawal did not impair the President's authority to reduce the United States tariff by some stated statutory average.*

The President's powers to liberalize United States import restrictions, however, are deficient in more respects than this. So far, the President can lower existing tariffs only in connection with a tariff negotiation, that is, only in circumstances in which he has exacted trade concessions from other countries and in accordance with the other limitations of the Trade Agreements Act. What is more, the President is obliged to maintain import restrictions on agricultural products, willy-nilly, as long as such imports threaten to interfere with a United States agricultural program.

Unlike the executives of many other major countries, therefore, the President has no power to alter a tariff rate unilaterally or to relax an agricultural import restriction simply because the national interest requires it. The need for some such powers has existed for some years, a fact which should long since have been evident in view of our extensive foreign aid operations. The need has been heightened, however, by the recent enlargement of the Soviet Union's role in the trade field, armed with plenary power to buy, sell, barter or lend in trade with foreign nations. What little the President has been able to do as a counter to Soviet moves in this field, he has achieved by the ungainly manipulation of foreign aid grants, developing occasional outlets in third countries for the surplus products of hard-pressed nations which were being tempted by baited Soviet trade offers. Clearly, the times call for arming the President with exceptional powers to lower United States trade barriers.

The proposal to authorize the President to lower United States import restrictions unilaterally, whenever the national interest requires it, should not be regarded as a proposal indiscriminately to play the Soviet trade game. To try to match each Soviet purchase with a tariff or quota reduction by the United States would be to match artillery against cap pistols; it would increase the risk that some nations may attempt to

* There are many detailed aspects of this clause which in any case are undesirable and inimical to United States interests. But these cannot be adequately discussed without a lengthy technical digression.

play the United States off against the Soviet Union; it would invite charges from other friendly countries that the United States was slipping into trade policies with heavy overtones of discrimination; and it would by-pass an opportunity for joint action leading to the opening of markets by other free world nations with relevant demands for the products involved.

Instead, one should contemplate that the proposed power might be used in pursuance of programs developed jointly by a larger group of free-world nations. To find an acceptable international institutional framework for such an effort would not be simple. NATO has seemed unacceptable for analogous programs, partly because some of its members have not wished to enlarge the geographical jurisdiction of the organization beyond the confines of Europe, and partly because of the stigma attaching to its activities in the eyes of some of the uncommitted countries. OEEC has sometimes been suggested as an alternative, notably in connection with Italy's recent suggestion for a new development fund for the underdeveloped areas, but the inclusion of neutral Switzerland, Sweden and Austria in the OEEC structure presents difficult problems. Yet the organizational difficulty does not seem insuperable, witness the operations of that curious international creature, COCOM, which for nearly ten years coordinated the free world's controls over East-West trade. The organizational problem might well fall into place with a sufficient determination on the part of the United States to launch the substantive international effort.

The possibility of broadening NATO's work beyond the military field and adding to the solidity of the free world alliance comes up in other contexts as well. This possibility is an old chestnut in international relations, of course, one which NATO ministers examine periodically whenever the other binding ties in the treaty seem to be weakening. The latest such efforts in the fall of 1957, like various earlier attempts, culminated in little more than a few hortatory phrases in the final communiqué of the NATO Council.

The blocks to non-military programs in the NATO structure have always seemed to be the same: the fact that non-military international activities were already being handled in such international organizations as the World Bank, the IMF, the GATT, UNESCO, and the FAO; that many of these non-military activities lent themselves better to global than to NATO-oriented organizations; and that, to the extent that these organizations were falling short of an effective program, there was no reason to anticipate that a NATO-affiliated organization would do much better.

There is one area of potential economic collaboration, however, which is closely linked to the NATO military mission. Most nations in the NATO alliance have taken economic measures from time to time, purportedly based on defense considerations, which have been harmful to the interests of the others. The United States has enforced a "Buy American" statute in government procurement, basing its policy partly on defense grounds; it has subsidized domestic minerals production, to build up an "adequate mobilization base"; it has diverted 50 percent of any United States financed cargoes to American bottoms, assertedly because an American merchant marine was critical to its defense; it has justified its "voluntary" system of oil import restrictions on defense considerations; and it has set up a procedure under the Trade Agreements Act for considering other import restrictions on defense grounds. The British, the French and the others follow similar policies, sometimes in formal fulfillment of statutory provisions and sometimes as a matter of administrative choice. Because these measures are ostensibly taken in the name of defense, none of them is effectively reviewable in such organizations as GATT and the IMF. And because the defense justification for many of them is so tenuous and contrived, the use of the justification has come to be regarded as a gambit in gamesmanship—a device for shutting off international discussion without formally breaking international rules.

The NATO organization offers one of the few international structures in which the defense contentions of each of its partners could be examined with relative candor and competence. The fact that it has not been used for this purpose so far is due to two things: the slightly soiled state of the hands of most of the NATO nations in this segment of international relations; and the realistic concern that the United States and others might balk sharply at an international probing into this preserve of protectionist interests. The lead for such a probing must come from the United States. With the swift change in the prevailing concepts of prospective warfare, it may be that we are now prepared to provide such a lead.

The list of trade measures which the United States might realistically undertake to add strength and cohesiveness to the free world's economic structure could easily be enlarged. For instance, our efforts to demonstrate to the rest of the world that private competitive enterprise can be non-exploitative, dynamic, and constructive would have more force if they were accompanied by a resumption of our earlier efforts to develop an international agreement for the control of harmful restrictive business practices. The history of the United States position on this subject has been one which has invited and received a cynical and knowing reaction from other nations.

In the negotiation of the ITO Charter, the United States had pressed hard for the inclusion of a chapter dealing with the control of restrictive business practices in international trade. The ITO project foundered in 1950, assailed by various groups in the United States on many grounds. However, the restrictive business practices provisions had constituted only a minor part of the Charter and public objection to these provisions had not figured prominently in the articulated opposition to it. Accordingly, the United States in 1952 sought to secure a separate international agreement embodying those provisions. Meanwhile, in many countries of Western Europe, respect for the concept of enforced private competition had been growing significantly. Though scarcely publicized in the United States, the concept had found its way into legislation in the United Kingdom and Germany and had been the basis for some effective anticartel action not only in these countries but also in the Netherlands, Norway and the European Coal and Steel Community. A spark had been kindled, feeble and uncertain at times, but inspiring and exhilarating to those in the United States and Europe who hoped for the spread and growth of the private competitive concept.

In the course of this development, the United States reversed its position, withdrawing its support for an international agreement on the subject. To other nations, the grounds for this reversal have seemed dangerously disingenuous: that any such agreement would tend to dilute the present high standards of the United States in the enforcement of its laws against international restrictive practices; that such an agreement would be used primarily as a device to harass American business overseas; and that any special provisions relating to governmental enterprises would offer an escape to other nations which would lead to a lopsided and discriminatory application of the competitive concept. As long as the United States clings to this position, other nations will hear a hollow ring in its affirmations in favor of the private competitive concept.

The illustrations suggested here are not exhaustive; they are only intended to provide a sense of the scope and direction of measures which the United States might take to recast its image as a trading nation in the eyes of the rest of the world and to buttress the free world's economic solidarity. They should also serve to underline the point that dramatic changes in the position of the United States and the free world are scarcely to be expected by this route. At best, this is a program of an evolutionary sort. The program would not survive an international political atmosphere, flatly hostile to its achievement. Nor would the program offer explicit solutions to a number of major problems, such as how to deal with the dumping of agricultural surpluses. But it does suggest the means by which the atmospheric conditions in which these problems arose might be measurably improved.

Economic Unification

We cannot forget for very long that any economic program which is adopted and pursued by the United States will take place in a setting in which the Soviet Union makes continued strides as an economic and military power. Moreover, the only prudent assumption is that the Soviet Union will be developing more and more skill in the use of trade agreements and credits as devices for capturing the allegiance of the new countries of Asia and Africa, perhaps even of countries closer to home.

If realism is to dominate our assumptions, we shall have to anticipate also that a program of the dimensions suggested here will not be proposed or adopted in the next two or three years. It would be much more realistic to suppose that the Trade Agreements Act will be renewed once more, weakened somewhat further by the added concessions which seem the inevitable price of renewal. It would be realistic to suppose also that trade relations in the free world will grow progressively more strained, under the pressures of the shrinking scientific and economic lead of the United States, the fluctuation in United States import demand, the growth of regionalism, and the dumping of agricultural surpluses. Eventually, as the interplay between international trade and international politics follows its course, we may be pressed into a situation which can be labelled as crisis. It is not too early today to consider what course of action the United States could pursue at that stage to deal with its critical problems.

Our aim at such a stage, stated in its most general terms, would be to bind the nations of the free world together in a common purpose which would arrest the Soviet Union's nibbling progress. Our problem would be drastically to alter the image which we had managed to project into the minds of other nations—an image of growing protectionism and progressive withdrawal from the world trading system. We would be playing to an audience of nations acutely conscious of the fact that they had once been lulled into supposing that the United States had abandoned its traditional policies of economic self-sufficiency. Our proposals would be received in a setting in which other nations had already taken heroic economic risks, by any normal standard, in joining such organizations as the European Economic Community and possibly a European Free Trade Area. In such a setting, the impact which the situation would demand probably could not be achieved by any proposal less than one for the economic fusion of the free world's nations.

Whatever form such a proposal took initially, one can readily foresee some of the elements which would have to be included before it offered a serious basis for negotiation. The proposal might contain the usual elements of a customs union, such as the elimination of tariffs and quantitative import restrictions among its members, and the "harmonization" of any restrictions which applied to the imports of countries not joining the union. But it would not be all that easy; for if the proposal were limited to the reciprocal elimination of restrictions of this sort between themselves and the United States, most nations would regard the plan as an arrangement which only aggravated their problems. Most nations still assume that unrestricted trade with the United States would lead to the latter's cornering of all the gold reserves of the nations joined in the union.

Much more would be needed. For one thing, the relatively unimpeded movement of capital and of labor would almost certainly have to be envisioned. Measures with regard to capital would at least open up the possibility that American firms might greatly step up their exports of capital abroad, perhaps manufacturing much more extensively in foreign countries in order to supply their American markets. Steps for the liberalization of the movement of labor would offer another potential channel for adjustment between the economies of the countries concerned.

In addition, all nations concerned would require the most elaborate safeguards against a misfiring of the scheme. Any such process of union would have to be gradual, stretching over as long as a quarter century or more. It would have to be bolstered by undertakings by which the "strong" nations in the system would agree to extend great blocks of credit to the weaker nations to tide them over their balance-of-payment difficulties. It would have to offer a special regime to underdeveloped nations which might choose to join, allowing them extensive powers to protect their "infant industries" despite the general provisions of the plan. It would surely involve an international fund to ease the pain of unemployment and of capital liquidation in segments of any economy hard-hit by the process of integration. And it would imply, if it did not actually require, a degree of integration of national monetary and fiscal policies which would exceed anything now practiced in international affairs.

Our purpose here is not to espouse a plan of these dimensions. The support of any such plan is never an altogether rational process in any case. Its implications are too extensive and too devious to be traced out with any measure of certainty. In the end, the decision to support any such step inevitably involves a broad leap into darkness—something akin to an act of faith. Our concern here is only to consider what reactions might be engendered once circumstances had generated a serious consideration of the possibility.

One might be tempted to assume that United States traditions of economic self-sufficiency and the United States balance of domestic economic interests were so powerful as to prevent any project of economic integration from being given serious consideration. But any such easy conclusion would bespeak a gross insensitivity to the nature of the political process. One has only to recall the astonishment and delight with which the world reacted to Jean Monnet's creation, the European Coal and Steel Community, when it was proposed in 1950 by French Premier Schuman. The French performance in ratifying the European Coal and Steel Community and the European Economic Community—two steps which invited the trade competition of Germany, Italy and Benelux in French markets—suggests that political reactions on such matters are much more complex than simply counting noses.

The French reaction was a product of many forces. One of them was France's recognition that its power was becoming too limited to allow for effective dealings with the United States, the USSR, Germany, or the British Commonwealth. Another was France's desire to gain irrevocably committed partners in the struggle to retain its African interests. A third element in the French reaction—but easily a less important one—was the hope that the arrangement could be turned into a device for excluding the goods of outsiders from the area. All of these reactions stemmed from a recognition that the power of France as a national state could only be preserved by merging it with that of other powers. And this recognition, it should be remembered, is the very situation which the United States may yet have to face.

Accordingly, the issue was lifted from the question of weighing coal tariffs against steel tariffs to that of national strength and national survival. Political forces which could not be stirred by the prospect of reducing the tariff on steel were moved by the prospect of eliminating all restraints on the movement of goods and capital and people. The debate that ensued in the Assemblée Nationale took place on a different level with different participants than a tariff discussion. Familiar domestic pressures still took a prominent hand; but their role was principally a defensive one, a process of exacting small concessions in the face of a movement which largely swamped them.

Those familiar with the pattern of the European Economic Community will recognize the provisions suggested earlier as a macrocosmic enlargement of the Community. One is entitled to ask, therefore, why nations like the United Kingdom—which resolutely refused to join the Community—could seriously be expected to consider joining a much larger movement of a similar nature.

There are numerous indications that the United Kingdom would not reject the proposal out of hand. The United Kingdom, like France, is becoming more and more concerned at the seeming development of its isolation and its impotence. The extent of this growing concern is illustrated by the proposal made early in January by Sir David Eccles, a Conservative Cabinet minister, for an "economic union" with the United States. More remarkable than the suggestion was the fact that there was no apparent outcry in the United Kingdom against it.

The United Kingdom and other nations outside the European Economic Community have held back from joining in some such economic merger partly because they have been unwilling to relinquish large elements of control over their domestic economies and partly because they have refused to be drawn away from their association with other trading nations of the free world such as the sterling area. The first of these inhibitions is still very strong, though it has been weakening slightly as the practice of consultation on "domestic" monetary and fiscal policies has become a habit in various international organizations. The second of these inhibitions might be overcome by the wide geographical scope of the proposed economic fusion. We need not assume, therefore, that an imaginative proposal for economic integration, once launched by the United States, would be scratched before it had entered the international obstacle course it would eventually have to face.

There is always the possibility, of course, that a United States initiative along these lines might create more divisions in the free world than it healed; for the proposal, after all, is the time-honored device of substituting a seemingly impossible problem for a series of difficult ones. For one thing, the United States administration which proposes the plan might be unable, in the end, to deliver United States support for it, just as the French eventually failed to support the French-conceived European Defense Community. For another, the estimate which we have offered of the reaction of other countries could prove unduly optimistic.

But the attractions of the proposal, in the circumstances in which it was made, might outweigh such risks. For one thing, the possibility that the European Economic Community and like projects may constitute a divisive force among the free world's nations would fade, once the larger project were set in train. For another, the danger that free world unity may be worried to death by the little incursions of small nationalistic groups would probably be greatly reduced. Finally, the proposal might fill the pervasive widely-felt need in the free world to strive for some constructive unifying goal which offered greater well-being and security to its member nations.

If the United States should one day make such a proposal, it will develop out of a recognition that the choice being offered the United States is not whether to take great risks or to avoid them. The risks in any case are thrust upon it by events. The question will be whether to assume these perils as they are created by events or to have a hand in determining their form.

V. CONCLUSION

The 1958 debate over the renewal of the Trade Agreements Act, therefore, must be regarded as the prelude to a longer struggle. It is strongly to be hoped that the Administration's proposals will be approved by Congress. But even if they are, the United States will have to contemplate another effort of much larger dimensions in order to strengthen its economic ties with other nations. If renewal is defeated, or granted with weakening amendments, these ties will be weakened even further and the efforts to recoup our position will have to be all the more strenuous.

Whatever the outcome of the Congressional debate in the spring of 1958, the longer we thereafter postpone greater efforts to recast the image of the United States in the eyes of the rest of the world, the larger will be our risks and the more heroic the proportions of our ultimate counterattack. In the end, if internal division and vacillation force the United States to accelerate its present drift toward protectionism and economic withdrawal, nothing less heroic than a proposal for economic fusion with other countries may be sufficient to rebuild the measure of political unity needed to resist the nibbling advances of the Soviet bloc.

RECENT PUBLICATIONS OF INTERNATIONAL FINANCE SECTION

The International Finance Section publishes from time to time papers in three series. These may be ordered directly from the Section. The STUDIES are distributed without charge to persons abroad, but a charge of $0.25, in coin or stamps, is made to cover postage and handling costs for United States residents. The ESSAYS and the SPECIAL PAPERS are distributed without charge by the Section to all interested persons, and standing requests to receive new numbers as they are published will be honored. Only the following papers in these three series are still in print.

SPECIAL PAPERS IN INTERNATIONAL ECONOMICS

A Survey of International Trade Theory. By Gottfried Haberler. (September 1955)

PRINCETON STUDIES IN INTERNATIONAL FINANCE

The First Three Years of the Schuman Plan. By Derek Curtis Bok. (December 1955)

Negotiations for Benelux: An Annotated Chronicle, 1943-1956. By James E. Meade. (March 1957)

The Import Dependence of Britain and Western Germany: A Comparative Study. By H. H. Liesner. (December 1957)

ESSAYS IN INTERNATIONAL FINANCE

Trade Policy in Crisis. By Raymond Vernon. (March 1958)