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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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TROUBLE, 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. . . ."¹ 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

¹ 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 1950.² 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

² *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.³ 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

³ 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*,⁴ 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.⁵ 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

⁴ 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.

⁵ 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 renewal⁶ 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.⁷

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

⁶ 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.

⁷ 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.⁸ 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.

⁸ 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.