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AMERICAN PEOPLE WILL DEMAND --- A NEW ORDER
OF THEIR OWN

Alfred E. Eckes

TRADING AMERICAN INTERESTS

In the aftermath of the Cold War the United States has the opportunity to stop trading access to the American market for foreign policy favors. Import concessions should generate reciprocal export opportunities for American goods and services in foreign markets, not votes in the United Nations or goodwill in diplomatic negotiations.

For 45 years a succession of presidents, beginning with Harry Truman, have consciously subordinated domestic economic interests to foreign policy objectives. To strengthen free world economies and help contain Soviet expansionism the executive branch has rolled back tariffs and removed trade restrictions, opening the giant American market to the world's manufacturers.

This strategy produced some impressive foreign policy victories, but also much domestic dislocation. Trade liberalization accelerated recovery from World War II in Europe and east Asia, and ignited export-led growth in many developing countries. It helped revive international capital flows and hasten the globalization of production. Consumers found that the market system could produce and distribute goods at affordable prices, while state planning could not. The success of free markets therefore exposed the failures of the Soviet empire and contributed to its collapse.

Freer trade has its costs. The record suggests that for diplomatic and national security reasons the U.S. government sacrificed thousands of domestic jobs to create employment and prosperity elsewhere in the noncommunist world. Bowing to external pressures and foreign policy concerns, presidents from Truman to Reagan refused to grant import relief to trade-sensitive industries in the interests of winning the Cold War. In doing so they may have compromised America's

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future competitiveness and alienated public support for international cooperation in the post-Cold War world.

II

Introduced in 1934 as a temporary recovery measure to restore the American living standard, the reciprocal trade program acquired new significance after World War II—becoming a powerful tool for reshaping international economic relations. From 1947 to 1972 the United States agreed to reduce its tariffs from an average 32.2 percent ad valorem on dutiable goods to a negligible 8.5 percent. Thus by January 1972, when the Kennedy Round concessions were fully implemented, tariffs no longer sheltered high-wage American workers from low-paid labor abroad. American producers and workers now found themselves competing in a relatively open international economy at a time when other improvements in transportation and communications and the emergence of many new suppliers intensified competition.

Former Senate Finance Committee Chairman Russell Long (D-La.) was one of the first to perceive that the executive branch's enthusiasm for free trade to assist overseas allies clashed with this nation's long-term economic interest in maintaining high-paying jobs and a viable manufacturing base at home. For nearly twenty years, until his retirement from Congress in 1987, Senator Long regularly criticized the State Department for using trade concessions as bargaining chips in foreign policy negotiations or to buy votes in the United Nations. He charged that to "save the World from a great war" the State Department believed "it would be worth giving away every industry we have."[1]

The trade agreements program increasingly became an instrument of administration foreign policy after World War II. Britain and other World War II allies lay exhausted—their industries generally outmoded, their finances weakened—while the Axis powers were left with devastated economies. For nearly a decade after 1945 a "Marshall Plan mentality" caused Washington to pursue economic foreign relations designed to make overseas allies self-sustaining participants in

[1] U.S. Senate, Committee on Finance, *Nomination of Veronica Haggart*, Hearing, March 2, 1982, 97th Congress, 2nd session, p. 6.

a thriving open international economy, even at the expense of domestic American economic interests.

As part of the overall containment strategy U.S. economic foreign policy had three principal goals. First, it sought to facilitate the recovery and economic viability of Britain and other west European allies so that they might stand as bulwarks against the expanding influence of the Soviet Union. Second, the United States sought to integrate former enemies Germany, Italy and Japan into a thriving international economy, and thus anchor these nations to the West economically and militarily. And third, the United States sought to deny the Eastern bloc valuable Western technology.

To achieve these ends Washington initially provided reconstruction assistance and then sought to make Europe and Japan self-supporting. From 1946 to 1953 the United States extended some $33 billion in nonmilitary aid, an amount equal to one-fourth of all its exports. This aid helped rebuild steel mills in Europe and textile mills in Japan, while offshore defense procurement also enabled friendly countries like Japan to build up production bases. Over the longer term, however, American officials encouraged aid recipients to become self-supporting and competitive in the international economy.

Eager to promote "trade, not aid," and thus lighten the direct costs of reconstruction, officials actively encouraged U.S. imports, not exports. The State Department, Commerce Department and Economic Cooperation Administration all promoted foreign exports to the dollar bloc, as did U.S. occupation forces. They wanted to reduce the U.S. merchandise trade surplus in order to relieve a dollar shortage abroad. They approached this task with enthusiasm, unconcerned about long-term competitiveness and employment issues or the need to secure market access for U.S. exporters. Indeed, in communicating to domestic audiences, the State Department espoused the view that this country's balance of trade surplus posed a "serious" problem: "We have an unfavorable balance of trade, unfavorable to the taxpayer and unfavorable to the consumer. . . . We must become really import-minded."[2]

Public officials seem to have had complete confidence in America's ability to lead during the 1940s and 1950s. At a time

[2]U.S. Department of State, *The United States Balance of Payments Problem*, Commercial Policy Series No. 123, Department of State Publication 3695, December 1949, pp. 8–14.

when imports of goods and services were less than four percent of gross national product they spoke and acted as if American manufacturing would remain permanently strong, efficient and invulnerable to foreign competition. A 1953 report, prepared by President Truman's Public Advisory Board for Mutual Security, even called for the United States to eliminate "unnecessary" tariffs on industries producing automobiles, machinery and consumer electronics, such as radios and televisions. These industries are so "highly developed and very efficient" that "this country has nothing to fear."[3]

President Truman was concerned that foreign policy matters should take priority over domestic economic interests: "Our industry dominates world markets. . . . American labor can now produce so much more than low-priced foreign labor in a given day's work that our working men need no longer fear, as they were justified in fearing in the past, the competition of foreign workers."[4]

This emphasis on opening the huge American market to aid foreign allies first surfaced during the 1947 Geneva trade negotiations, which produced the General Agreement on Tariffs and Trade (GATT). American officials were initially determined to crack the discriminatory British Commonwealth preferential system, but, when the Labour government refused, neither side wanted to break off negotiations. London desired Marshall Plan aid to facilitate European recovery and Cold War cooperation, and Washington shared these goals. So, apparently convinced that an unbalanced deal was better than no deal at all, the United States signed an agreement that cracked open only one market—its own. The State Department acknowledged that Washington gained concessions at Geneva with a trade value of $1.19 billion, but yielded concessions worth $1.77 billion. American tariff reductions averaged 35 percent on dutiable items.

Participants in the talks commented on the way U.S. negotiators abandoned their quest to open the British preferential system. According to declassified British records, the agreement came after British negotiators were invited to make "innocuous improvements" on offers that would enable the U.S. chief negotiator to "dress up his statistics so as to have. . .

[3] Public Advisory Board for Mutual Security, *A Trade and Tariff Policy in the National Interest*, Washington: GPO, February 1953, pp. 18–21.

[4] Unpublished pages from "Memoirs," Truman Library, Independence, MO.

a chance of getting away with it with Congress."[5] In an unusual display of dissension among U.S. delegates, Tariff Commissioner John Gregg refused to approve the result, believing the United States had received inadequate compensation for its many concessions.

As it turned out many of the claimed U.S. gains were placed in cold storage. Convinced that the foreign dollar shortage hampered unregulated two-way trade, the United States acceded in 1947 to discrimination against U.S. exports on balance-of-payments grounds. Thus the pattern was established. In the interests of global economic recovery and containment the United States would lower its duties on imported goods while tolerating continued discrimination against dollar exports.

III

Reviving the economies of wartime adversaries presented special difficulties in light of negative public opinion. Determined to bind these former enemies to the West the United States extended most-favored-nation trade treatment to Italy, Germany and Japan after the war and also sponsored their membership in GATT.

The bilateral trade agreement signed with Japan in 1955 was the most egregious example of sacrificing domestic interests for foreign policy advantage. Concerned about Japan's economic viability and political stability, Washington embarked on a program of one-sided tariff concessions to stimulate Japanese exports. In August 1952 the National Security Council insisted that the United States should "facilitate the entry of Japanese goods into the U.S. market.

State Department officials championed efforts to promote Japanese exports. They actively lobbied European allies to buy Japanese products, argued for Japan's membership in GATT and sought a bilateral trade agreement to facilitate Japanese exports. The Commerce Department opposed that recommendation, fearful of ruinous competition from cheap labor. In June 1953 it yielded to the foreign relations judgment of the State Department, that anything less than Japanese accession to GATT would jeopardize U.S. objectives in Japan.

x President Eisenhower strongly backed a program of trade

[5]U.K. delegation to Foreign Office, Oct. 2, 1947, Board of Trade 11/3648, British Public Records Office, London.

concessions for Japan. He accepted the State Department argument that "Japan cannot live and Japan cannot remain in the free world unless something is done to allow her to make a living." Indeed Eisenhower told Republican congressional leaders that "all problems of local industry pale into insignificance in relation to the world crisis."[6]

The president's preoccupation with foreign policy considerations troubled businessmen in his own cabinet, including Treasury Secretary George Humphrey and Commerce Secretary Sinclair Weeks. They felt that Eisenhower's policy was wrong, and they anticipated that cheap foreign labor would bring vast unemployment to this country.

Nonetheless Secretary of State John Foster Dulles discounted any future Japanese commercial challenge. At a meeting with visiting Japanese Prime Minister Shigeru Yoshida in November 1954 Dulles held up a "brightly patterned flannel shirt made in Japan of cheap material, copying a better quality cloth made in the United States" and commented that "this is one of the reasons the Japanese have difficulty in expanding their trade." A year later, in August 1955, he told Japanese officials there "will always be an imbalance in Japan's direct trade with the U.S." Dulles and the State Department took the view that trade concessions were necessary to secure Japanese cooperation in mutual defense activities and in national-security export controls.

State won the interagency battle, asserting that national security required taking steps to bind Japan to the free world. At the White House officials also considered "the Japanese negotiations . . . vastly more important than efforts to raise minimum wages in Puerto Rico." Thus the Eisenhower administration continued to subordinate U.S. domestic commercial interests to foreign policy considerations.[7]

What tangible benefits did the United States obtain from its bilateral negotiations with Japan and with third countries in 1955? Despite official claims that the United States received concessions on exports valued at $394 million, while yielding

[6]Dwight D. Eisenhower, *Public Papers*, 1954, pp. 585–90; Feb. 8, 1955, Whitman File-Legislative, Eisenhower Library, Abilene, KS.

[7]U.S. Department of State, *Foreign Relations of the United States*, 1952-54, XIV, p. 178; *FRUS*, 1955-1957, XXIII: pp. 112-113; Carl Corse memorandum, Oct. 22, 1954, White House Central File, Eisenhower Library.

concessions of only $123 million, the reality was an unbalanced agreement loaded with bogus concessions—benefiting Japan.

The *Mainichi Daily News* reported that "domestic industries in Japan will not suffer any unfavorable influence. . . . Fifty-six out of 75 tariff rates concessed [sic] by Japan are reduced only by less than 5 percent"; the *Nippon Times* also cited Japanese government sources who "anticipated that the adverse effects the Japanese concessions would bring on the domestic industries would be negligible as compared with the benefits Japan would gain."[8]

While Japan provided few major tariff concessions, the United States granted extensive tariff reductions covering almost all of Japan's major export items: many of them labor-intensive manufactures like earthenware, chinaware, textiles, apparel, tile and electrical products. Furthermore it was understood that the United States would not immediately gain the benefit of Japanese concessions, because Japan continued to retain other trade and exchange controls to conserve foreign exchange reserves.

The 1955 agreement contained other controversial aspects. For example Washington cut duties on products of primary interest to third countries in exchange for their extending export opportunities to Japan. Negotiated at a time when other nations actively discriminated against Japanese goods, official Washington viewed these tariff cuts as essential to helping Japan establish a viable pattern of expanding trade. Such benefits went to Canada, Denmark, Finland, Italy, Norway and Sweden. U.S. officials therefore purchased market share in Europe and Canada for Japanese exports at the expense of American producers and workers.

How did the reciprocal trade agreement with Japan affect bilateral trade? From 1955 to 1960 Japan more than doubled its share of America's manufactured imports, from 7.6 percent to 15.4 percent, and Tokyo achieved its first postwar trade surplus with Washington in 1959. Over the same period, however, the U.S. share of Japan's manufactured imports declined from 66.3 percent to 51.7 percent.

In subsequent tariff negotiating rounds this pattern of exchanging access to the U.S. market for foreign policy advantages continued. During the Dillon Round of GATT,

[8] *Mainichi Daily News* and *Nippon Times*, Tokyo, June 10, 1955.

which concluded in 1962, the Kennedy administration sacrificed import-sensitive domestic producers and agricultural export interests to appease Britain and the European Community. Eager to reach a commercial agreement with Britain and to encourage the movement for European integration, the State Department persuaded the White House to ignore the Tariff Commission's peril-point recommendations on some 70 tariff items—including steel, machine tools, tableware, ferrochromium, toweling and linen handkerchiefs. Even though the Tariff Commission had made statutory findings that cuts below the peril-point might injure domestic industries, President Kennedy decided to accommodate foreign trading partners. On agriculture the United States made another particularly damaging concession. It acquiesced to the EC's highly protective Common Agricultural Policy, over objections from the U.S. Department of Agriculture.

The State Department's insensitivity to domestic concerns during the Dillon Round created bitter feelings on Capitol Hill. Several months later Congress retaliated in passing the Trade Expansion Act. It established the special representative for trade negotiations and stripped State of its dominant role in trade policy.

IV

Despite this reorganization, foreign policy concerns continued to drive U.S. participation in the Kennedy Round. Eager to continue the trade liberalization process begun in 1947 the executive branch initially sought an accommodation with the emerging EC on outstanding trade problems, especially agricultural protectionism. Indeed President Johnson warned in April 1964 that the United States would enter no agreement unless Kennedy Round participants made progress toward liberalizing trade in agricultural products. Another important negotiating objective was to modify the Japanese government's highly protective attitude toward its industries.

Preoccupied with managing the Vietnam War President Johnson gave little attention to details of the Kennedy Round negotiations. When the EC refused to yield on agriculture, and when Japan stonewalled on market access, his negotiators reluctantly abandoned the farm export issue and recommended that Johnson accept an agreement on industrial products that left the United States in substantial deficit with Japan. At the moment of decision Johnson heard from his advisers what foreign negotiators had long suspected: the U.S. interest in a "successful" Kennedy Round outcome required accepting a compromise that did not satisfy principal U.S. negotiating objectives.

Failure to achieve an agreement, a staff aide informed the president, risked "spiraling protectionism" and "even more serious" political implications. "It would encourage strong forces now at work to make the EC into an isolationist, anti-U.S. bloc, while, at the same time, further alienating the poor countries." Thus the Kennedy Round ended with a face-saving agreement intended to sustain the multilateral process and demonstrate U.S. support for European unification.[9]

From this distance, however, Japan appears to have won the Kennedy Round tariff-cutting negotiations. While average post-Kennedy Round duties on nonelectrical machinery fell to 5 percent ad valorem for the United States and 6.6 percent for the EC, Japan insisted upon retaining rates averaging 12 percent. Moreover Japan retained its discriminatory industrial policies, including subsidies and import restrictions, and continued to bar access to the Japanese market. Indeed on nonelectrical machinery Japan's average tariff in 1972 actually exceeded 1954 levels, reflecting increased protection for computers and other office equipment.

For transportation equipment the average import duty at the end of the Kennedy Round was 3.8 percent in the United States, 7.1 percent in the EC and 12.2 percent in Japan. Moreover many countries, including Japan, imposed high nontariff barriers, such as excise taxes and registration fees on large American-style vehicles.

Not surprisingly the Japanese press hailed the Kennedy Round agreement as paving the way for continued export expansion. Government sources in Tokyo indicated that "Japan will gain much eventually . . . because U.S. products to be affected by the Kennedy Round include many heavy industrial and chemical products, which this country [Japan] intends to emphasize in the future." Another reason for anticipating that Japanese exports would rise more than imports from the

[9] Francis Bator to Johnson, May 10, 1967, National Security File, Johnson Library, Austin, Texas.

United States was that Japan excepted "almost all strategic industrial goods" from tariff cuts.[10]

Early in the Kennedy Round in March 1964 economist John Kenneth Galbraith, a former ambassador to India, had written President Johnson the following warning: "If we are screwed on tariffs this will have an enduringly adverse effect on the balance of payments. It will be a serious problem for you for years to come."[11]

Galbraith's forecast was prescient. As Kennedy Round tariff cuts were implemented, the U.S. merchandise trade surplus vanished. From 1893 to 1970 U.S. exports consistently had exceeded imports, but beginning in 1971 the United States generated merchandise trade deficits in 19 of the next 21 years. Some economists attributed the emerging trade deficit to inflation, an overvalued dollar and ballooning energy costs, but a series of Tariff Commission investigations reached a different conclusion. At the industry-specific level the commission found that rising imports, resulting from tariff concessions, were a major factor causing unemployment among workers producing shoes, radio and television receivers, audio equipment, flatware and textile products. President Nixon concurred in those findings and authorized federal adjustment assistance.

V

Congress was not oblivious to the domestic consequences of trade liberalization. Repeatedly, in renewing the trade agreements program, Congress made procedural changes intended to assure that domestic industries injured as a result of tariff concessions obtained escape-clause relief. In 1947, for instance, President Truman agreed that an independent agency, the Tariff Commission, forerunner of the International Trade Commission (ITC) would hear complaints from domestic industries and make a recommendation to the president. If the commission found that increased imports of a product granted a tariff reduction caused serious injury to the domestic industry, it could recommend withdrawal or modification of the appropriate tariff concession.

But in practice the escape-clause process seldom benefited

[10] *Mainichi Daily News*, May 17, 1967.

[11] Galbraith to Johnson, March 11, 1964, White House Central File, Confidential, Johnson Library.