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.

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.”

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

1U.S. Senate, Committee on Finance, Nomination of Veronica Haggard, Hearing, March 2, 1982, 97th Congress, 2nd session, p. 6.
domestic industries. The Tariff Commission proved reluctant to find injury, and presidents exhibited even more reluctance to withdraw concessions or impose import restraints. From 1951 to 1962 the Tariff Commission rejected 71 of 112 petitions. Of the 41 findings actually sent to the White House only 15 gained relief. Domestic industries suffered an even lower success ratio under the Trade Expansion Act of 1962. Until 1969 a Tariff Commission packed with supporters of the trade liberalization program made no escape-clause findings at all. In 1974 Congress modified the law, relaxing the injury standard and authorizing the use of higher tariffs or quotas to facilitate adjustment to increased competition. Over the ensuing years the escape clause gained renewed life. In the next 16 years petitioners brought 62 cases. The Tariff Commission recommended relief in 34, and the president actually provided import restrictions in 15 cases.

At the presidential review level foreign policy considerations frequently directed negative decisions on escape-clause recommendations. This pattern began in 1951 when President Truman rejected for the first time a majority Tariff Commission recommendation for import restraints on garlic imports, primarily from Italy. In accepting the State Department claim Truman insisted that substantial imports must substitute for direct foreign aid and thus assist countries like Italy to contribute to mutual defense costs.

Similar concerns led the Truman administration to reject a Tariff Commission recommendation for relief to the domestic watch industry in 1952. The State Department reminded Truman of his effort to draw Switzerland away from neutrality and to support export controls on shipments to the Soviet bloc.

During the Eisenhower years foreign policy and defense continued to drive trade administration. In 1954 Eisenhower did provide relief to domestic watchmakers, but in the belief that watchmaking skills were vital to military preparedness. The watch case had unique aspects, and Eisenhower generally avoided import restraints wherever possible. At one point he said it seemed "silly" to impose import restrictions on clothespins from 11 foreign countries to protect six small companies in the state of Maine employing 260 workers. Trade restrictions, he said, "which tend to drive away an ally as dependable as Great Britain would do much more harm in the long run to our security than would be done by permitting a U.S. industry to suffer from British competition." He proposed that in
reaching trade remedy decisions, the administration should take into account "the damage to national security which could result from restrictions which might weaken the ties which bind us to our allies in the collective security effort." 12

In one escape-clause investigation after another the State Department counseled the president to withhold relief to U.S. industries and workers. For instance, in the 1953 handblown glassware case, State warned that import restrictions would have "grave political repercussions in the Federal Republic of Germany ... and would provide the Soviet Union with unanswerable material for propaganda." In 1954 both State and Defense argued against relief to U.S. producers of scissors. State emphasized that West German production came from areas near the Ruhr where "Soviet propaganda has already had considerable effect." Defense warned that the increase of duty could have adverse effect on Germany, Italy, Japan and Britain. "The increase would affect the morale of such countries as well as their economic welfare and stability." 13

In a 1954 lead and zinc case involving several western hemisphere nations the State Department was especially insistent. Dulles advised Eisenhower that a decision to provide import relief would "gravely compromise" U.S. foreign policy objectives. "There would be strong popular resentment in Canada and Mexico, which will make our borders much less secure," Secretary Dulles said. "The great opportunity to combat communism in this hemisphere won by the success of Guatemala would be more than canceled out." Moreover, he added, "Soviet communist leaders would be elated and would redouble their efforts to divide the free world." 13

Cold War concerns also benefited the Nordic countries and Iceland. For instance President Eisenhower approved a 1954 National Security Council policy memorandum asserting that the United States should avoid trade actions adversely affecting Iceland. Washington should seek to increase free world markets for Icelandic fish in order to reduce the country's dependence on Soviet bloc trade.

Given the importance that the administration assigned to Iceland as a base for NATO operations, it is not surprising that

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President Eisenhower twice rejected escape-clause recommendations to provide relief to New England fish producers who claimed that imports from Canada, Norway and Iceland were injuring the domestic industry. The Defense Department warned in 1954 that trade restrictions benefiting New England fishermen would have effects “adverse to the security interests of the United States.” In 1956 the Tariff Commission again recommended escape-clause relief for the New England fishermen—this time unanimously. But again foreign affairs agencies scuttled import remedies. According to the International Cooperation Administration, a 50 percent duty on fish would strengthen “those elements in Iceland which wish to drive out U.S. NATO troops. As fish goes, so goes Iceland.” As a result two countries that sold virtually no fish fillets to the United States before World War II gained, with U.S. economic assistance, 20 percent of the U.S. market in 1952. Canada, which held 9 percent of the U.S. market in 1939, obtained another 25 percent. Thirty years later Canada and Iceland held over 80 percent of the U.S. market for frozen groundfish fillets.14

After the steep Kennedy Round concessions the Tariff Commission made a number of affirmative escape-clause recommendations but, predictably, the foreign affairs agencies vigorously opposed import remedies.

VI

The labor-intensive nonrubber footwear industry offers an excellent example. Domestic producers repeatedly filed petitions for escape-clause relief in the Nixon, Ford, Carter and Reagan administrations. Although the shoe industry usually persuaded the independent ITC on the merits of the case to find injury and recommend a global import restraint program, it never succeeded in obtaining comprehensive relief at the presidential review level.

The story begins in 1970, as a 50 percent cut in nonrubber footwear duties granted in the Kennedy Round took effect. Shoe imports soared—especially from Italy, Japan and Spain. Indeed the quantity of imports rose from 18 percent of

14Department of Defense to Bureau of Budget, June 7, 1954, and Nov. 8, 1956, White House Central Files, Eisenhower Library.
domestic consumption in 1967 to 30 percent in 1970, while the number of production workers fell from 202,000 to 185,000.

In January 1971 an evenly divided Tariff Commission sent the White House escape-clause findings that included a recommendation for higher duties on women's and men's leather footwear. Swiftly the State Department swung into action. Secretary William P. Rogers warned President Nixon that a decision to impose restraints on nonrubber footwear might invite retaliation against U.S. exports in the EC and against military bases in Spain, as well as arousing opposition to U.S. goals in Japan. Import restrictions would undermine efforts of Mexico, India, Brazil and other developing countries to diversify their economies. Given the intensity of State Department opposition, it is not surprising that President Nixon disapproved trade restrictions and authorized instead only adjustment assistance.

The import assault continued to hammer the shoe industry. Domestic producers lost another 11 points of market share and laid off nearly 50,000 workers. In February 1976 the ITC made a unanimous injury recommendation. But once again international concerns doomed the shoemakers' petition. National Security Adviser Brent Scowcroft told President Ford that the "communists would seize on any U.S. import action against shoes... to argue that the U.S. was harming Italy during a time of economic crisis." He warned of similar negative reactions from Brazil, Korea and Taiwan as well. President Ford concluded that shoe restraints were not in the "national economic interest," and he too authorized only adjustment assistance to dislocated shoe workers.

Imports surged again. Nonrubber footwear producers filed another escape-clause petition, hoping the Carter administration would be more sympathetic. In February 1977 a unanimous commission found injury, and five commissioners recommended import restraints, including a global tariff quota. But National Security Adviser Zbigniew Brzezinski opposed assistance to the shoe industry as harmful to the administration's overall foreign economic policy. He warned that trading partners "see shoes as a test case" and indicated that import restraints could sour the atmosphere for the London economic summit. Weaker European economies, such as Italy, Britain and France, might "erect trade barriers of their own." Moreover implementing the ITC remedies would hit developing countries "hardest" and "raises serious doubts about our
commitment to the economic well-being of the Third World. Furthermore Spain and Greece warned that footwear exports were "vital" to their respective bilateral relationships with the United States.

Under enormous pressure from domestic as well as foreign interests President Carter sought a compromise. Rejecting the ITC recommendation on the ground that it did not provide balance among the contending interests, Carter authorized more adjustment assistance and directed his trade negotiators to conclude orderly marketing agreements (OMAS) with major foreign suppliers. The administration successfully concluded such pacts with Taiwan and Korea—but not with Italy, Spain or Brazil.

OMAS helped restrain Asian competition, but not competition from other sources. The domestic industry continued to lose market share. After OMAS were removed in 1981 the nonrubber footwear industry in the next three years lost another 20 points of market share, and 28,000 jobs. In 1985, when a unanimous ITC again found injury and recommended restraints, President Reagan declined to use trade restraints. This time the president criticized protectionism as a crippling cure more dangerous than any economic illness. And so the shoe industry continued to move offshore and to lay off domestic workers.

In 1992 imports had 88 percent of the U.S. market and domestic producers employed only 54,100 production workers, a loss of nearly 148,000 production workers since the Kennedy Round tariff concessions.

VII

The pattern of trading away specific domestic interests for foreign policy reasons is not confined to labor-intensive industries like footwear. Available documents in the National Archives and various presidential libraries reveal that similar considerations influenced decisions affecting high-wage industries producing automobiles, steel and consumer electronics, among many others. During the Johnson administration, for instance, the State Department fashioned an automotive products market-sharing agreement with Canada to forestall a

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15 Scowcroft to President Ford, April 12, 1976, Seidman Papers, Ford Library, Ann Arbor, MI; Brzezinski to Carter, March 16, 1977, and Special Trade Representative to Vice President, Feb. 4, 1977, White House Central File, TA4–12, Carter Library, Atlanta, GA.
countervailing duty determination by the U.S. Treasury that had been expected to damage bilateral political relations. The result was a one-sided “free trade agreement” opening the U.S. market to Canadian automotive products. But only original equipment manufacturers could import vehicles and parts freely into Canada; consumers could not. Other separate understandings between U.S. auto producers and the Canadian government effectively transferred auto production and jobs to Canada. The result: a $657 million automotive products trade surplus with Canada in 1965 turned negative. Over the last 25 years the United States has experienced automotive deficits with Canada in all but one year.

During Tokyo Round negotiations the archival evidence also indicates that the Ford and Carter administrations rejected trade-remedy petitions from U.S. industries to avoid unsettling allies and disrupting multilateral negotiations. Indeed at the November 1975 Rambouillet economic summit President Ford specifically pledged to deal with bilateral trade problems on a “common sense basis.” He said: “Where flexibility exists under our domestic law and procedures, I am prepared to exercise it.”

Consistent with his word Ford then rejected import restraints in five of six escape-clause cases. The exception was specialty steel, where the administration faced a certain congressional override. Meanwhile the Treasury strained to avoid imposing countervailing and antidumping duties on foreign producers of automobiles, steel and canned hams. In each instance the available record suggests that foreign policy considerations influenced the trade-administration process.

Similar episodes occurred in the Carter and Reagan years. In 1978 and again in 1984 the ITC recommended import restraints to restrict surging copper imports and, consequently, two presidents faced difficult decisions. In the first instance Special Trade Representative Robert Strauss endorsed a tariff-rate quota as a way to head off efforts in Congress to limit presidential discretion in administering trade laws and to increase congressional receptivity to Tokyo Round agreements. He lost. President Carter sided with the State Department, the National Security Council and other agencies opposing protection. They warned that import restrictions

\[16\] Notes of Rambouillet Summit, Nov. 16, 1975, Seidman Papers, Ford Library.
would damage relations with Canada, Peru, Chile, Zambia and other copper exporters, while violating commitments made at the Bonn and London economic summits to resist protectionism.

President Reagan also rejected import restraints on copper. Political instability in Chile reportedly intensified opposition—at the State Department and the NSC—to relief for the domestic producers. Like his predecessors President Reagan assigned priority to free-trade pledges made at economic summits, and his decision pleased manufacturers who consumed large quantities of copper.

According to Clyde Prestowitz, a Commerce Department official in the 1980s, the executive branch was also reluctant to defend U.S. producers from subsidized Japanese and European competition. In the Houdaille machine-tool case Prestowitz notes that President Reagan declined to impose sanctions that would embarrass his friend, Prime Minister Yasuhiro Nakasone, and harm the overall bilateral relationship with Japan. When the administration considered challenging European subsidies to Airbus—Boeing’s leading competitor—Secretary of State George Shultz exhibited similar aversion. Vigorous representations would have upset European governments and harmed cooperation on national security issues.

Although the Cold War is over, officials in Washington continue to play the old game of trading access to the U.S. market for cooperation on nontrade issues. Each year the Bush administration renews low, most-favored-nation tariff rates for China, in an apparent trade-off for cooperation in the United Nations on matters involving Libya, Yugoslavia and Iraq. As a result China has become the leading U.S. supplier of shoe imports and is a major provider of apparel, toys and other labor-intensive items.

At the July 1992 economic summit in Munich officials of the Group of Seven leading industrialized nations discussed economic aid for eastern Europe. Most-favored-nation status and eligibility for one-way free trade privileges are among the lures enticing Russia and other remnants of the Soviet Union to

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cooperate on arms control, human rights and political issues. At first glance each such transaction appears to have merit. Certainly it is important to cooperate on arms control and to strengthen international peacekeeping. It is advantageous to draw the former Soviet Union and China away from autarkic nationalism. It is desirable to promote respect for human liberties.

However, from the standpoint of U.S. workers and producers, such deals lack commercial reciprocity. China pursues highly protectionist import substitution policies—using stiff tariffs, import licensing and other barriers to exclude U.S. and other foreign goods. As a result Washington last year experienced a $12.7 billion trade deficit with Beijing; this year the deficit may widen to $19.9 billion. In effect China is rapidly becoming a second Japan: a nation that restricts foreign access to its own market while feasting on the open U.S. market.

A similar lack of reciprocity may emerge with eastern Europe. Given the West's enormous interest in promoting democratization and securing continued cooperation on military issues, the United States and the EC face a painful political choice. Either they continue direct aid programs, which are unpopular with voters, or they acquiesce to discriminatory and nonreciprocal trading relationships, as the Truman administration did to facilitate European and Asian reconstruction after World War II.

America's current economic problems have roots in those one-sided trade policies. A series of unilateral and nonreciprocal concessions have contributed, cumulatively, to a demise of domestic manufacturing and to the loss of production jobs. Indeed implementation of the final Kennedy Round tariff cuts in 1972 coincides with the beginning of a twenty-year decline in domestic earnings and manufacturing jobs. In 1991 American workers earned average weekly wages 20 percent below 1972 levels. Meanwhile the textile and apparel industries lost over 600,000 jobs, while steel and automobiles sacrificed another 500,000 positions. Measured in declining income and jobs, the burden of global leadership thus has fallen heavily on low-skilled American workers. Labor-intensive manufacturing jobs have moved abroad to low-cost Third World countries, leaving a caste of poorly skilled American workers living in Third World conditions here in the United States.

Not surprisingly the loss of jobs is associated with a revival of protectionism at the grass roots. From World War II to the early 1970s public opinion data show Americans generally