

# **The Genesis of the GATT**

**Douglas A. Irwin**

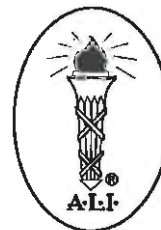
Dartmouth College

**Petros C. Mavroidis**

Columbia Law School

**Alan O. Sykes**

Stanford Law School



The American Law Institute



CAMBRIDGE UNIVERSITY PRESS  
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo, Delhi

Cambridge University Press  
32 Avenue of the Americas, New York, NY 10013-2473, USA

www.cambridge.org  
Information on this title: www.cambridge.org/9780521142069

© The American Law Institute 2008

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2008  
Reprinted 2009  
First paperback edition 2009

Printed in the United States of America

*A catalog record for this publication is available from the British Library.*

*Library of Congress Cataloging in Publication Data*

Irwin, Douglas A., 1962–

The genesis of the GATT / Douglas A. Irwin, Petros C. Mavroidis, Alan O. Sykes.

p. cm. – (American Law Institute reporters' studies on WTO law)

ISBN 978-0-521-51561-0 (hardback)

1. General Agreement on Tariffs and Trade (Organization) – History. 2. Foreign trade regulation – History. 3. Tariff – Law and legislation – History. I. Mavroidis, Petros C.

II. Sykes, A. O. III. Title. IV. Series.

K4609.5.179 2008

343'.0870261–dc22 2008015269

ISBN 978-0-521-51561-0 hardback

ISBN 978-0-521-14206-9 paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party Internet Web sites referred to in this publication and does not guarantee that any content on such Web sites is, or will remain, accurate or appropriate. Information regarding prices, travel timetables, and other factual information given in this work are correct at the time of first printing, but Cambridge University Press does not guarantee the accuracy of such information thereafter.

## Contents

<i>Executive Summary</i>	<i>page</i> ix
<i>Preface</i>	xi
<i>Foreword</i>	xiii
<b>Introduction</b>	1
<b>1 The Creation of the GATT</b>	5
1.1 After the First World War	5
1.2 The Atlantic Charter and Article VII Negotiations	12
1.3 The Structure of Anglo-American Negotiations	22
1.4 The 1942 Meade Draft for Commercial Union	27
1.5 The Washington Seminar, September–October 1943	37
1.6 Years of Deadlock and Delay, January 1944–September 1945	43
1.7 The British Loan Negotiations, Washington, September–October 1945	65
1.8 Moving Toward the GATT	72
1.9 First Preparatory Meeting, London, October–November 1946	77
1.10 Toward Geneva, December 1946–April 1947	80
1.11 Second Preparatory Meeting, Geneva, Switzerland, April–October 1947	84
1.12 Conclusion	95
<b>2 The Negotiation of the GATT</b>	98
2.1 London Calling: the London Draft	104
2.1.1 The Mandate	104
2.1.2 Institutional Issues	106
2.1.3 The Output	108
2.1.4 An Assessment	109

the generous financial support for our trade-law work from the Jan Wallander and Tom Hedelius Foundation in Stockholm and from the Milton and Miriam Handler Foundation in New York.

Lance Liebman  
Director  
The American Law Institute

## Introduction

At a conference in the *Palais des Nations*, in Geneva, Switzerland, representatives of 23 countries met from April to October 1947 and established two key pillars of the postwar world trading system. First, they created a legal framework for commercial policy by finalizing the text of the General Agreement on Tariffs and Trade (GATT). Second, the Geneva participants negotiated numerous bilateral agreements to reduce import tariffs, the benefits of which were extended to other GATT parties through the unconditional most-favored nation (MFN) clause. As a result, this landmark meeting produced a framework for postwar commercial relations in which governments agreed to rules about the use of certain trade barriers and to negotiate tariff reductions with one another. This system of multilateral cooperation has proven to be an enduring regime under which international trade has flourished for over half a century.

This book examines the origins of the GATT. There are many studies of the GATT from legal and economic perspectives, but relatively few that examine how the GATT emerged from the ashes of World War II. The goal of our study is to appreciate the original goals and intentions of its founders by reviewing the diplomatic history that gave rise to this remarkable agreement, and to understand why the GATT took the particular shape and form that it did, in terms of the various provisions included in or excluded from the text.

Chapter 1 focuses on the negotiations between the United States, the United Kingdom, and other countries during and immediately following World War II that led to the Geneva conference. The GATT grew out of discussions between government officials from the United States and the United Kingdom during the war. After seeing international trade stifled under the weight of protectionist measures during the 1920s and 1930s, officials from both countries had a compelling interest in pursuing policies that would reduce trade barriers and help expand world trade after the war. They sought to foster a more liberal trade

system by developing a broad set of rules that would restrict the arbitrary use of trade restrictions, as well as initiate the process of negotiating reductions in existing trade barriers.

While the U.S. and UK governments agreed on the most important and basic principles to be included in a trade agreement, they differed on many substantive details that affected the shape of the GATT. Once these two countries agreed on a document that could serve as a basis for negotiation, other countries were invited to participate in shaping the provisions of the GATT and the charter for an International Trade Organization. Drawing on archival documents, the diaries and memoirs of participants, published and unpublished cable traffic and government memoranda, as well as many secondary sources, we aim to shed light on the political constraints on both sides of the Atlantic that affected the commercial-policy discussions.

Chapter 2 examines the evolution of the GATT as a legal text. The first draft of a proposed charter for an International Trade Organization (ITO) emerged from the State Department in August 1944. The first publicly released draft of the charter was published by the State Department in December 1945 on the basis of bilateral U.S.-UK discussions during the British loan negotiations. A revised draft emerged at the conclusion of multilateral consultations in London from September-December 1946. Officials in London appointed a drafting committee, which met at Lake Success, New York, in January-February 1947, to produce a formal draft of both a General Agreement on Tariffs and Trade and a charter for an International Trade Organization for consideration at the April 1947 Geneva meeting. This chapter traces how the provisions of the GATT evolved as a result of these meetings, and how the composition of the countries involved at each stage affected the specific details in the GATT text and shaped the form that it ultimately took.

In Chapter 3, we assess the GATT in light of recent economic and political theories that seek to understand the specific rationale for the existence of trade agreements. These theories include the idea that the GATT is motivated by terms of trade externalities across countries, by governments seeking external commitments to reduce the power of domestic interest groups, and by broader foreign policy and national security considerations. This chapter uses the history developed in the previous chapters to enhance our understanding of the motivations (sometimes different across countries) for why they chose to sign an international agreement on commercial policy.

In addition, we present an annex with key official documents whereby the reader can trace the evolution of government proposals and negotiating strategies that eventually produced the GATT in 1947. Annex A consists of documents that give us important insight into the American and British positions regarding a trade agreement. This includes such items as a short memorandum prepared in

1942 by an economist working in the Economic Section of the War Cabinet, James Meade, which was perhaps the first official government document that explicitly envisioned a multilateral commercial agreement after the war, to various State Department cables that reveal the thinking of key officials as the negotiations evolved. Annex B includes the participants in the various committees and sub-committees that were established during the negotiation of the GATT.

The legal and diplomatic record of the 1940s is enormous and many interrelated issues were considered simultaneously by government officials. We strive to limit our focus to a narrow but important part of the bilateral U.S.-UK relationship, i.e., the commercial-policy discussions that led to the GATT. We do not address related issues, such as the 1944 Bretton Woods negotiations on the international monetary system, the British loan of 1945, or even the difficult 1947 Geneva negotiations over trade barriers and the major dispute over imperial preferences, except to provide background as they relate to the provisions of the GATT. Furthermore, given our exclusive focus on the GATT, we do not examine the ultimate failure of the ITO, a subject considered in greater detail by Diebold (1952), Aaronson (1996), Odell and Eichengreen (1996), and Zeiler (1999).

There is an abundance of excellent work on the GATT, yet many of the standard references take the GATT 1947 as their point of departure, giving only a cursory sketch of the events that gave rise to it. For example, the classic works of John Jackson (1969), Kenneth Dam (1970), and Robert Hudec (1975), have analyzed the GATT as an international legal text, and other important books, such as Gerard Curzon (1965) and Karin Koch (1969), have examined the early activities of the GATT as an international organization. Yet both types of work take the GATT as given and focus less on its origins or where the text originated.

Our work builds on the classic work of Richard Gardner, *Sterling-Dollar Diplomacy* (1956). Gardner was one of the first scholars to consider the Anglo-American economic negotiations during World War II, and his book has stood the test of time for clarity and insight. While he focuses on both the monetary and trade discussions, we focus exclusively, and in somewhat greater detail, on the trade negotiations and texts. Later works, particularly Thomas Zeiler's *Free Trade, Free World: The Advent of GATT* (1999), also examine in great detail the diplomatic maneuvering and national motivations in the negotiations that led to the GATT, as do Miller (2003) and Toye (2008). Susan Ariel Aaronson's *Trade and the American Dream: A Social History of Postwar Trade Policy* (1996) is also a notable, archival-based examination of U.S. trade-policy formation in the 1940s.<sup>1</sup> These works, however, tend to avoid discussion of the specific provisions

<sup>1</sup> There are also several country studies of trade policy, such as for Australia (Capling 2001) and Canada (Hart 1993, Rasmussen 2001), that examine how these countries responded to U.S.-UK proposals during the 1940s.

that eventually comprised the GATT text. While our book also does not aim to be a definitive history of the origins of the GATT, we hope it provides a deeper understanding of the basis for this important agreement.

We also hope that this book, which has been published shortly after the 60th anniversary of the 1947 Geneva conference that established the GATT, serves as a reminder of the remarkable and long-lasting achievements made just a little over half a century ago.

## 1 The Creation of the GATT

### 1.1 After the First World War

To understand the origins of the GATT, one must appreciate the traumatic events of the 1920s and 1930s. The period between World War I and World War II was a political and economic disaster, scarred by the Great Depression and the rise of fascism. A strong desire to avoid repeating this experience after World War II, along with the abandonment of isolationism by the United States in favor of a leadership role in world affairs, fostered support around the world for a new approach to international economic cooperation.

The outbreak of World War I in 1914 interrupted what had been a period of growing worldwide economic prosperity with moderate tariffs and expanding world trade supported by a well-functioning international monetary system (the gold standard). After the shock of World War I, the international trade and payments system recovered very slowly during the 1920s. Most countries only gradually phased out wartime controls on trade, while tariff levels remained higher than before the war. The United Kingdom did not return to the gold standard until 1925, and other countries waited even longer before restoring the convertibility of their currencies. Under the auspices of the League of Nations, the World Economic Conference of 1927 aimed to return the world economy to its previous state of vigor. But the Conference only started an international discussion of matters such as tariff levels, most-favored-nation clauses, customs valuation, and the like.

The gradual restoration of the world economy was interrupted by a worldwide recession starting in 1929. This economic downturn was met by greater protectionism, which in turn further reduced world trade. Although monetary and financial factors were primarily responsible for allowing the recession to turn into the Great Depression of the early 1930s, the spread of trade restrictions

aggravated the problem. The commercial policies of the 1930s became characterized as “beggar-thy-neighbor” policies because many countries sought to insulate their own economy from the economic downturn by raising trade barriers. Blocking imports proved to be a futile method of increasing domestic employment because one country’s imports were another country’s exports. The combined effect of this inward turn of policy was a collapse of international trade and a deepening of the slump in the world economy.<sup>1</sup>

The United States bore some responsibility for this turn of events. What started out in 1929 as a legislative attempt to protect farmers from falling agricultural prices led to the enactment of higher import duties across the board in 1930. The Hawley-Smoot tariff of that year pushed already high protective tariffs much higher and triggered a similar response by other countries. According to the League of Nations (1933, 193),

the Hawley-Smoot tariff in the United States was the signal for an outburst of tariff-making activity in other countries, partly at least by way of reprisals.

Canada, Spain, Italy, and Switzerland took direct retaliatory trade actions against the United States, while other countries also adopted higher tariffs in an attempt to insulate themselves from the spreading economic decline. The United Kingdom made a sharp break from its traditional free-trade policies by imposing emergency tariffs in 1931 and enacting a more general Import Duties bill in 1932. France and other countries that remained on the gold standard long after others had abandoned it for more reflationary policies imposed import quotas and exchange restrictions in an attempt to safeguard their balance of payments and stimulate domestic economic activity.

Many countries also turned to discriminatory trade arrangements in the early 1930s, both for economic and political reasons. At a conference in Ottawa in 1932, the United Kingdom and its dominions (principally Australia, Canada, New Zealand, and South Africa) agreed to give preferential tariff treatment for one another’s goods. This scheme of imperial preferences involved both higher duties on non-British Empire goods and lower duties on Dominion goods and drew the ire of excluded countries for discriminating against their trade. Meanwhile, under the guidance of Reichsbank President Hjalmar Schacht, Nazi Germany concluded a series of bilateral clearing arrangements with central European countries that effectively created a new trade bloc, orienting the trade of these countries toward Germany at the expense of others. In Asia, Japan created the

<sup>1</sup> See the League of Nations (1942), Kindleberger (1986), Kindleberger (1989), and James (2001).

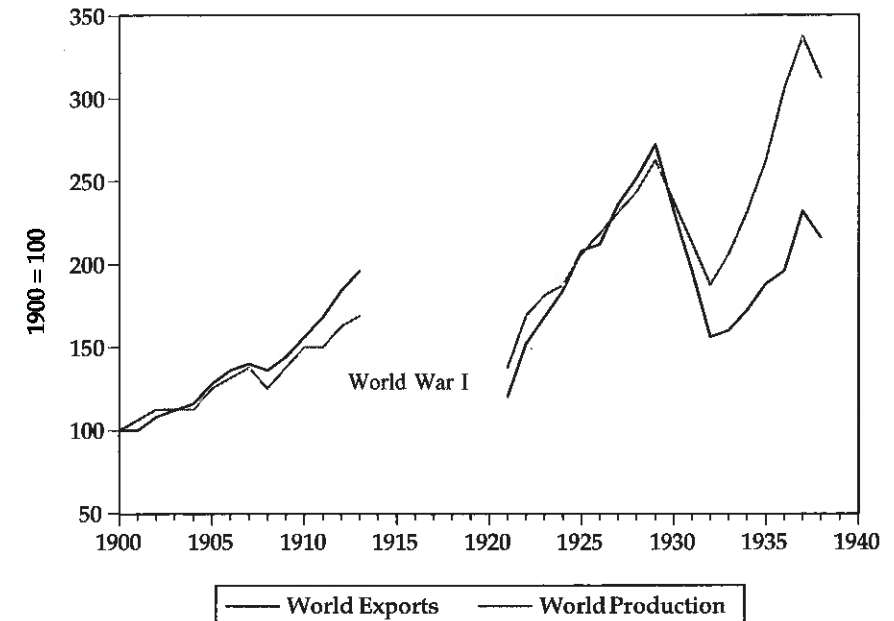


Figure 1.1. The Volume of World Trade and Production, 1900–1938. *Source:* Norbom (1962).

Greater East Asia Co-Prosperity sphere to extend its political and economic influence throughout the region and siphon off trade for its own benefit.

The outcome of these protectionist and discriminatory trade policies was not just a contraction of world trade, but a severe breakdown in the multilateral trade and payments system that the world economy had enjoyed prior to World War I and had started to revive in the late 1920s. Official conferences and multilateral meetings, notably the World Economic Conference in 1933, offered pronouncements to resist protectionism, but failed to stem the spread of inward-looking antitrade economic policies. The economic distress of the decade also had political consequences, undermining faith in democratic governments to manage their economies and hence abetting a turn to more authoritarian regimes in Germany and elsewhere.

Figure 1.1 shows the level of world exports and world production from 1900 to 1938. Although trade tended to grow faster than production prior to World War I and even in the 1920s, it collapsed to a much greater extent in the early 1930s. Even more important, having been saddled with a new and heavy layer of trade restrictions, world trade failed to rebound significantly after the recovery had

begun. Even by 1938, world trade was still well below its 1929 peak. The growth of protectionist measures had stifled world trade and thereby, in the minds of many economic officials, hindered a full and complete recovery from the Depression.

However, having initiated the move toward greater protectionism in the 1930s, the United States also became one of the first countries to try to reverse these detrimental developments. For the first time in its history, the United States began to take a serious and active role in reducing trade barriers and expanding world trade in cooperation with other countries. After the Republican party that was responsible for the Hawley-Smoot tariff in 1930 was swept from office in the 1932 election, the Democratic administration of President Franklin D. Roosevelt formulated a new approach to trade policy. Recognizing that it could not undertake a unilateral reduction in American tariffs in the midst of the depression, the Roosevelt administration sought to negotiate bilateral trade agreements to reduce tariffs in concert with others. In 1934, the Democratic-majorities in Congress enacted the Reciprocal Trade Agreement Act (RTAA), which allowed the President to reduce American tariffs by up to 50 percent in the context of bilateral trade agreements that employed the unconditional most-favored-nation (MFN) clause. With this authority, originally granted for three years and subsequently renewed, the Roosevelt administration concluded more than 20 trade agreements during the 1930s.

Although these agreements had a limited effect in boosting world trade during the tumultuous 1930s, the RTAA marked a new beginning for U.S. trade policy, shifting it in a more liberal direction. The RTAA changed the course of American trade policy in several ways.<sup>2</sup> First, by enacting the RTAA, Congress effectively gave up the ability to legislate duties on specific goods when it delegated tariff negotiating power to the executive. Congressional votes on trade policy were now framed simply in terms of whether or not (and under what circumstances) the RTAA should be continued, so vote trading among particular import-competing interest groups was no longer possible. In addition, the national electoral base of the President is often thought to make the executive more likely to favor policies that could benefit the nation as a whole (such as open trade), whereas the narrower geographic representative structure of Congress would lead its members to have more parochial interests. For instance, the President may be more likely than Congress to take into account the broader foreign-policy ramifications of trade policy that affect the country as a whole.

Furthermore, the RTAA reduced the threshold of political support needed for members of Congress to approve executive tariff-reduction agreements. The renewal of the RTAA required a simple majority in Congress, whereas prior to the

RTAA any foreign-trade treaty negotiated by the President had to be approved by two-thirds of the Senate. Tariff-reducing agreements thus needed only the support of the median legislator, not that in the 67th percentile. This meant that protectionist forces would have to muster greater support to block tariff-reduction agreements under the RTAA, by refusing to renew the legislation, than under a treaty, when a minority could (and frequently did) veto it.

Finally, the RTAA helped to bolster the bargaining and lobbying position of exporters in the political process. Previously, import-competing domestic producers were the main trade-related lobby group on Capitol Hill since the benefits to these producers of high tariffs was relatively concentrated. Exporters were harmed indirectly by these tariffs, but the cost to exporters of any particular duty was relatively diffuse, and therefore exporters failed to organize an effective political opposition. The RTAA bundled foreign tariff reductions that were beneficial to exporters with lower tariff protection for import-competing producers. By directly linking lower foreign tariffs to lower domestic tariffs, the RTAA may have fostered the development of exporters as an organized interest group opposed to high tariffs and supporting international trade agreements.

The key figure behind this shift in U.S. trade policy was Cordell Hull, Roosevelt's Secretary of State. Hull was a southern Democrat, a politician from a region and party that had traditionally and strongly supported low tariff barriers to trade. As a member of Congress during World War I, Hull grew to appreciate the global ramifications of domestic tariff policy. In his memoirs, Hull (1948, 84, 81) recalled:

When the war came in 1914, I was very soon impressed with two points. . . . I saw that you could not separate the idea of commerce from the idea of war and peace. . . . [and] that wars were often largely caused by economic rivalry conducted unfairly. . . . But toward 1916 I embraced the philosophy that I carried throughout my twelve years as Secretary of State. . . . From then on, to me, unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war. Though realizing that many other factors were involved, I reasoned that, if we could get a freer flow of trade – freer in the sense of fewer discriminations and obstructions – so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance for lasting peace.

As a result, Hull was an early advocate of international cooperation on trade matters. In 1916, he called for the establishment of a permanent international congress that would consider

all international trade methods, practices, and policies which in their effects are calculated to create destructive commercial controversies or bitter

<sup>2</sup> The academic literature on the RTAA is quite large. See Haggard (1988), Bailey, Goldstein, and Weingast (1997), Hiscox (1999), Irwin and Kroszner (1999), and Schnietz (2000).

economic wars, and to formulate agreements with respect thereto, designed to eliminate and avoid the injurious results and dangerous possibilities of economic warfare, and to promote fair and friendly trade relations among all the nations of the world (Hull 1948, 81–82).

The spread of illiberal trade policies and rise of international tensions in the 1920s and early 1930s confirmed to Hull the lessons he had learned during World War I. As he declared in 1937:

I have never faltered, and I will never falter, in my belief that enduring peace and the welfare of nations are indissolubly connected with friendliness, fairness, equality and the maximum practicable degree of freedom in international trade (Dam 1970, 12).

Having been chosen by Roosevelt to serve as Secretary of State, Hull was uniquely positioned to pursue his belief that freer trade might lead to economic and political conditions that would be more favorable to peace. Hull fought a long and hard bureaucratic battle to ensure that the official U.S. government position on international-trade policy was his State Department's vision of a world more open to trade and free from discriminatory commercial policies.<sup>3</sup> Hull helped design the RTAA and led the fight for its passage by Congress. The administration requested Congressional authority to reduce tariffs by no more than 50 percent on a selective, product-by-product basis to avoid injuring domestic industries. The goal was not "free trade" in the sense of zero tariffs, then an inconceivable objective, but simply to reduce "excessive" tariffs and allow some additional growth in foreign trade.

Hull was an especially sharp critic of imperial preferences because of their adverse effect on U.S. exports, particularly to the United Kingdom and Canada, two of America's most important markets. Testifying before Congress in 1940, Hull called imperial preferences "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life" (Gardner 1956, 19). Hull particularly desired a trade agreement with the United Kingdom and Canada to reduce the discriminatory effect against U.S. exports. In 1938, the United States and the United Kingdom signed a reciprocal trade agreement, but the negotiation was difficult and the results were limited. Despite Hull's best efforts, the agreement failed to put a dent in Britain's system of tariff preferences.

<sup>3</sup> At least initially, the Roosevelt administration was deeply divided between internationalists in the State Department, foremost among them Secretary Hull, and economic nationalists elsewhere who supported the New Deal program of government price supports (in agriculture and through industrial codes) that might be undermined without controls on imports. For a study of Hull and the early trade-agreements program, see Butler (1998). Allen (1953) also examines Hull's trade beliefs.

Furthermore, the agreement went into effect in January 1939 but was rendered moot a few months later when Britain adopted extensive controls on imports with its entry into World War II in September.

During World War II, as we shall see, Hull inspired the State Department's efforts to develop more ambitious plans to reduce trade barriers after the war "based on a conviction that such liberal commercial policies and the development of the volume of commerce would constitute an essential foundation of any peace structure that civilized nations might erect following the war." While often criticized for being naive about the linkage of trade and peace, Hull firmly believed that

a revival of world trade [is] an essential element in the maintenance of world peace. By this I do not mean, of course, that flourishing international commerce is of itself a guaranty of peaceful international relations. But I do mean that without prosperous trade among nations any foundation for enduring peace becomes precarious and is ultimately destroyed.<sup>4</sup>

Although Hull retired as Secretary of State in November 1944 and was not directly involved in the GATT negotiations, he gave the State Department a strong and lasting intellectual direction. As America's longest-serving secretary of state and imbued with a deep ideological attachment to the reduction of trade barriers, Hull shaped the State Department's approach to trade policy long after his departure. As Miller (2003, 12) put it:

When Hull initiated postwar planning in 1939, he had already enjoyed six years in which to accrue trade policymaking power for the State Department. Over the course of his tenure, he carefully chose a group of men, based upon their views about trade, to formulate his favoured policies: if the officials arrived in the Department without decided views, then senior officials quickly inculcated them. Never before had trade policy originated in such a centralised, small, and carefully controlled location. More than any of their predecessors or successors, Hull's men shared several advantages: tremendous power relative to other branches of government, uniformity of opinion and purpose, and the Secretary's passionate commitment to their work and results.

While critics mocked his single-minded focus on trade policy, Hull ultimately persevered in his quest to develop a more liberal international trading system based on multilateral cooperation. Indeed, the reciprocal trade agreements program of the 1930s gave U.S. trade officials negotiating experience that allowed them to move with relative ease into discussions over postwar

<sup>4</sup> State Department *Bulletin* 8 (April 17, 1943), 329.



arrangements. By the end of the 1939, the United States had concluded trade agreements with 22 countries. While the impact of the tariff reductions in these agreements was modest, the provisions in the agreements formed the basis for a future multilateral accord. For example, in a template trade agreement from 1941, reproduced in Annex A-1, Article 1 is the unconditional most-favored nation clause. Other articles cover internal taxes, import quotas, exchange controls, monopolies and government purchases, customs administration, withdrawal or modification of concessions, safeguards, exceptions to MFN treatment, territorial application, and provisional application, among others. These provisions served as the basis for U.S. trade proposals during the war and many were ultimately included in the GATT. Hence, the GATT was not created from scratch, but represented a continuation and expansion of U.S. efforts during the 1930s.

In some sense, the goal of Cordell Hull's life was to further the objective of trade liberalization. For almost single-handedly repositioning U.S. trade policy in the 1930s and inspiring the efforts at postwar planning during the 1940s, Hull was the most important individual responsible for what ultimately became the GATT.

## 1.2 The Atlantic Charter and Article VII Negotiations

The outbreak of the European war in September 1939, and particularly the fall of France in June 1940, put the United States in the awkward position of formal neutrality and yet having a vital stake in the survival of the United Kingdom. With American public opinion opposed to any direct military involvement in the war, the Roosevelt administration sought to provide assistance to Britain through the Lend Lease program. Despite fears that this would embroil the country in the war, Congress passed the Lend Lease Act in March 1941. This enabled the federal government to transfer billions of dollars worth of equipment and supplies to the United Kingdom and later to other allies as well.

A key provision of Lend Lease was its deliberate disavowal of any requirement for a financial settlement for the goods provided. This provision aimed to avoid the difficult problems associated with debt repayments after World War I. Instead, as compensation for the U.S. assistance, Britain was required to provide a "direct or indirect benefit which the president deems satisfactory." This unspecified benefit became known as "the consideration" and was the price that Britain would have to pay for American aid.

The decision to settle Lend Lease debts without monetary or financial repayments had a profound impact on the shape of the postwar economic system. The United States decided to extract foreign-policy promises from the United

Kingdom and required its participation in a new world economic framework. This also meant that the State Department, rather than the Treasury Department, would be the lead U.S. government agency responsible for handling the consideration.<sup>5</sup> While the Treasury Department would have primary authority for handling postwar international monetary and finance issues, the State Department took the lead in most other postwar arrangements, such as creating the United Nations and negotiating postwar trade agreements.

This put Cordell Hull and the State Department in a much stronger position to eliminate imperial preferences than they had been in 1938 when they sought to do so in a reciprocal trade agreement. In 1941, Britain was in a much weaker position and desperately required American assistance. Hull therefore aimed to use "the consideration" to extract from the United Kingdom a pledge to abolish imperial preferences and to support a more liberal and nondiscriminatory international trade regime. Early State Department drafts of the lend-lease agreement called for the elimination of all imperial preferences.<sup>6</sup>

In June 1941, John Maynard Keynes, representing the UK Treasury, was dispatched to Washington to discuss the possible terms of a mutual aid agreement. At this point, Britain's goal was to postpone any specific commitments on postwar economic policy.<sup>7</sup> But U.S. officials were not to be dissuaded. On July 28, 1941, Assistant Secretary of State Dean Acheson presented Keynes with a draft aid agreement. Article VII of the draft read:

The terms and conditions upon which the United Kingdom receives defense aid from the United States of America and the benefits to be received by the United States of America in return therefore, as finally determined, shall be such as to not burden commerce between the two countries but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations; they shall provide against discrimination in either the United States or the United Kingdom against

<sup>5</sup> In May 1941, President Roosevelt gave the State Department the principal responsibility for negotiating a Lend Lease agreement with the United Kingdom (FRUS 1941, III, 5). As Treasury Secretary Henry Morgenthau wrote, "As far as I am concerned, I am licked in the State Department . . . Every time the President asks me to do something, Mr. Hull goes into a sulk and gets mad. . . . I am through being the President's whipping boy on the foreign affairs staff. . . . Let the President of the United States tell Mr. Hull what kind of document he wants. . . ." Quoted in Kimball (1971, 248).

<sup>6</sup> Reynolds (1982, 275ff) suggests that State Department officials Sumner Welles and Dean Acheson, rather than Franklin Roosevelt or Cordell Hull, argued for this tough position.

<sup>7</sup> "The Foreign Office advised stalling on any suggestion for commitment on post-war policy. . . This firm stonewalling reflected British optimism that either there would be no Consideration at all or that it might be largely and acceptably non-economic" (Pressnell 1986, 31).

the importation of any product originating in the other country; and they shall provide for the formulation of measures for the achievement of these ends (FRUS 1941, III, 15).

Keynes asked whether this raised the question of whether imperial preferences, exchange controls, and other trade measures would be restricted in the postwar period. Acheson replied that it did, but assured Keynes that

the article was drawn so as not to impose unilateral obligations, but rather to require the two countries in the final settlement to review all such questions and to work out to the best of their ability provisions which would obviate discriminatory and nationalistic practices and would lead instead to cooperative action to prevent such practices (FRUS 1941, III, 11).

This produced a long outburst from Keynes, who was dismayed at what he perceived to be an attempt to force unilateral obligations on the United Kingdom by taking aim at imperial preferences and other trade controls that might be desirable in the postwar world.<sup>8</sup> Keynes privately dismissed this first draft of Article VII as the "lunatic proposals of Mr. Hull" (Harrod 1951, 512). In Keynes's view, the State Department had "taken the opportunity to introduce their pet idea in language which they meant to be technical; whereas the President himself had nothing so definite in view and meant only to require that we should agree to co-operate and to do so in a certain spirit and with a certain good purpose" (Pressnell 1986, 36).

Keynes made no promises and told Acheson that the British government was divided over postwar trade policy; some wanted a return to free trade, another group (including Keynes) believed in the use of import controls, and a third

<sup>8</sup> According to Acheson's minutes of the meeting: "Mr. Keynes then spoke for some time quite strongly about this provision. He said that he did not see how the British could make such a commitment in good faith; that it would require an imperial conference and that it saddled upon the future an ironclad formula from the Nineteenth Century. He said that it contemplated the impossible and hopeless task of returning to a gold standard where international trade was controlled by mechanical monetary devices and which had proved completely futile. He said that the only hope of the future was to maintain economies in balance without great excesses of either exports or imports, and that this could be only through exchange controls, which Article VII seemed to ban. He went on to say that the language used in Article VII had a long history; that it permitted all sorts of cunningly devised tariffs, which were in fact discriminatory and prohibited sound economic monetary controls. Finally, he said that at the end of the war we will probably have a great excess of exports, the British would require a considerable excess of imports, and that the formula provided in Article VII was wholly impossible. I replied to Mr. Keynes that I thought he was taking an extreme and unjustified position and that it must be clear to him that no one would be less likely to impose a rigid and unworkable formula upon future developments than the President." FRUS 1941, III, 12.

group wanted to maintain imperial preferences (FRUS 1941, III, 13). However, Keynes came around – "at the end of our talk he seemed more reconciled to the Article, but by no means wholly so," Acheson reported – and promised to take the draft to London for review.

The next day, after he had calmed down, Keynes wrote to Acheson:

I should not like it to be thought because of my cavilling at the word "discrimination" that the excellence and magnanimity of the first part of that Article VII and of the document as a whole had gone overlooked. . . . My so strong reaction against the word "discrimination" is the result of my feeling so passionately that our hands must be free to make something new and better of the postwar world; not that I want to discriminate in the old bad sense of that word – on the contrary, quite the opposite. . . . But the word calls up, and must call up – for that is what it means strictly interpreted – all the old lumber, most-favored-nation clause and the rest which was a notorious failure and made such a hash of the old world. We know also that won't work. It is the clutch of the dead, or at least the moribund, hand. If it was accepted it would be cover behind which all the unconstructive and truly reactionary people of both our countries would shelter. We must be free to work out new and better arrangements which will win in substance and not in shadow what the President and you and others really want. As I know you won't dispute this, we shall be able to work something out. Meanwhile forgive my vehemence which has deep causes in my hopes for the future (FRUS 1941 III, 16–17).

Still, Keynes was shocked, in this instance and many others, at what he viewed as the State Department's outdated 19th-century *laissez-faire* ideology of simply reducing government trade intervention in the postwar era. For example, Keynes (1980, 239) dismissed one State Department memo on trade as

a dogmatic statement of the virtues of *laissez-faire* in international trade along the lines familiar forty years ago, much of which is true, but without any attempt to state theoretically or to tackle practically the difficulties which both the theory and the history of the last twenty years has impressed on most modern minds.

Keynes strongly believed that government economic planning would be required to ensure full employment in the postwar period. Such planning, in his view, would necessarily include government controls on international trade.<sup>9</sup>

<sup>9</sup> An economic official at the U.S. Embassy in London, E. F. Penrose (1953, 18), recalled about this period: "At that time and later I did my best to impress on Mr. Keynes and other government economists that the desire for freer and for non-discriminatory trade in the State Department should not be written off as the product of a nineteenth century

The State Department and other U.S. agencies took a very different view. Not only did they want nondiscrimination as a key part of the world trading system, but they also wanted to ensure that most international trade would be left in the hands of private enterprise, not government planners.

The clash between Keynes and Acheson over imperial preferences would be repeated at nearly every Anglo-American meeting over the next six years. The next occasion for an exchange of views was in August 1941, when President Roosevelt and Prime Minister Winston Churchill met at Placentia Bay off the coast of Newfoundland. The two leaders sought to issue a joint declaration on the purposes of the war against fascism and the guiding principles to be followed after the war. Churchill presented a first draft of the Atlantic Charter that included the pledge that the two countries would

strive to bring about a fair and equitable distribution of essential produce . . . between the nations of the world (Wilson 1991, 164).

Under Secretary of State Sumner Welles tried to introduce tougher language that called for the "elimination of any discrimination." Roosevelt softened this to say that mutual economic relations would be conducted "without discrimination," but even this proved to be unacceptable to Churchill. When presented with a draft stating that the countries

will endeavor to further the enjoyment by all peoples of access, without discrimination and on equal terms, to the markets and to the raw materials of the world which are needed for their economic prosperity,

Churchill asked whether this would apply to the Ottawa Agreements. Wells said yes, but assured the Prime Minister that the phrase "will endeavor" meant that no commitments would be made. Churchill replied that any change in imperial preferences would require consultations with the Dominions and therefore discrimination could be eliminated only "with due respect for existing obligations" (Wilson 1991, 163–172). Over the strong objections of Welles, Roosevelt accepted this language.<sup>10</sup>

*laissez-faire* attitude toward economic affairs, untouched by recent economic thought and experience. . . . In conversations in Washington both Acheson and Hawkins showed themselves progressive in outlook and under no illusion that freer trade alone was panacea for all economic ills. However, it soon appeared that the contrary view had been expressed to British officials in Washington by some U.S. officials outside the State Department." Markwell (2006) provides a good study of Keynes's views on international economic matters.

<sup>10</sup> As Welles later put it, "I said that in my own judgment further modification of that article would destroy completely any value in that portion of the proposed declaration. I said that it was not a question of phraseology, that it was a question of a vital principle which was

The final version of the Atlantic Charter read:

. . . .

Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;

Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement and social security;

While the British were relieved at this outcome, Cordell Hull and other State Department officials, who were not present at the summit, were dismayed. Hull (1948, 975–976) later recalled that he was "keenly disappointed" with the fourth article because the "with due respect" qualification "deprived the article of virtually all significance since it meant that Britain would continue to retain her Empire tariff preferences against which I had been fighting for eight years." Indeed, State Department officials would not give up their attack on imperial preferences, which in their view "combined the twin evils of discrimination and politicization of foreign trade" (Woods 1990, 18).<sup>11</sup> Hull immediately sought clarification of the language with his British counterparts and pushed for stronger language in future meetings.

Meanwhile, American and British civil servants continued drafting the specific provisions and language of the Mutual Aid Agreement. The United

involved. I said that if the British and the United States Governments could not agree to do everything within their power to further, after the termination of the present war, a restoration of free and liberal trade policies, they might as well throw in the sponge and realize that one of the greatest factors in creating the present tragic situation in the world was going to be permitted to continue unchecked in the post-war world. . . . I said, however, that it seemed to be imperative that we try to agree now upon the policy of constructive sanity in world economics as a fundamental factor in the creation of a new and better world and that except through an agreement upon such a policy by our two governments there would be no hindrance whatever to a continuation later to the present German practices of utilizing their trade and financial policies in order to achieve political ends." FRUS 1941, I, 362.

<sup>11</sup> As the State Department saw it, "Britain under the Ottawa Agreements granted special low tariff duties and signed long-term bulk-purchasing agreements with empire trading partners in order to monopolize their raw materials and make sure that they took only British-manufactured products," writes Wood (1990, 18). "Imperial preferences could be used, then, not only to monopolize the trade of a particular nation or region; it also could be used to isolate and punish political and military rivals. In a political as well as an economic sense, the structure established by the Ottawa Agreements seemed the antithesis of multilateralism."

Kingdom did not respond to Acheson's draft of Article VII, which he had given to Keynes in July, until October 1941. The British reply contained a weak and ambiguous pledge to avoid discrimination with the qualification that any policy change would require the approval of the Dominions.<sup>12</sup> Acheson delivered an American redraft in December 1941, which added that the two countries would take action, "open to participation of all other countries of like mind," to expand world trade and seek "the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers" (FRUS 1941, III, 43–45). In explaining this language to the U.S. Ambassador in London, Cordell Hull insisted that unilateral obligations were not being imposed on the United Kingdom and that "with respect to the provision concerning discrimination, all that we ask is that the British sit down with us to work out the problems which lie ahead so that we may avoid substituting trade warfare in peacetime for the present wartime cooperation" (FRUS 1941, III, 49).

Despite these reassurances, British officials did not quite trust the State Department's continued attentive focus on imperial preferences and did little to resolve this impasse.<sup>13</sup> The British chose a strategy of delay not only because they had no desire to constrain future policy by any such commitments, but they also believed that Cordell Hull and the State Department were the only faction in the Roosevelt administration that really wanted the elimination of imperial preferences.<sup>14</sup> For example, in January 1942, six months after the Atlantic summit, Winston Churchill wrote to the UK Ambassador to the United States:

All this fussing about what is to happen after the war is premature at the present time, when we are probably a long way from any satisfactory conclusion. It is only the State Department which is pressing. . . . I told the President

<sup>12</sup> The British draft retained the language of the American except: "they shall provide for joint and agreed action by the United States and United Kingdom, each working within the limits of their governing economic conditions, directed to securing as part of a general plan the progressive attainment of a balanced international economy, the avoidance of harmful discriminations, and generally the economic objectives set forth in the joint Declaration made by the President of the United States of America and the Prime Minister of the United Kingdom on August 12th [14th] 1941." FRUS (1941 III, 42).

<sup>13</sup> The U.S. Ambassador to the United Kingdom, John Winant, reported that "I could not get the Prime Minister himself to seriously consider the issue or the arguments." FRUS (1941, III, 50).

<sup>14</sup> As Winant cabled Washington, "The reason for failure to treat our position with sufficient seriousness is based on an assumption here that both the President and Mr. Morgenthau are themselves indifferent to that position and that it is rather a special position taken by Mr. Hull based on his general economic policy as expressed in the trade agreements which he has advocated so consistently for so many years. There is a further feeling that no great difficulty will be encountered in persuading the Congress to make the necessary appropriations under Lend-Lease now that we are in the war." FRUS (1942, I, 528).

that the Imperial Preference would raise great difficulties in England if raised as a separate issue now but that if raised at the end of the war as part of a large economic settlement, in which the United States would become a low tariff country, it would probably be easy to handle. He seemed to think this very sensible. . . . I should recommend you to stall any demand from the State Department with the usual diplomatic arts (Pressnell 1986, 50–51).

The precarious political position of the Churchill government was the key reason for its caution. Churchill himself had been a lifelong supporter of free trade and opponent of imperial preference. In 1903, Churchill left the Conservative party and joined the Liberals over Joseph Chamberlain's plan to introduce tariff preferences for the Empire, although he later rejoined the Conservatives. But as leader of a coalition wartime government, Churchill refused to take a strong stand on the issue. This is because the Conservative faction in the government, led by Leopold Amery, the Secretary of State for India, strongly supported close ties to the former colonies.<sup>15</sup> The Conservatives threatened to revolt, possibly bringing down the government, if a promise was made to dismantle imperial preferences. Amery was allied with Lord Beaverbrook, the newspaper baron and Minister of Supply, who clung to the ideas of imperial unity, freedom from foreign entanglements, and a distant relationship with the United States. By contrast, the Labour Party prided itself on anti-imperialism, professed indifference to imperial preferences, and had a stronger free-trade than tradition the Conservatives.

Consequently, the British government was sharply divided over the Anglo-American mutual aid agreement. The Foreign Office supported accepting the American terms, while the Treasury – perhaps influenced by Keynes – opposed the agreement. The cabinet remained deadlocked, with a small but determined Conservative minority adamantly opposed.<sup>16</sup> As a result, Britain was unable to move.

<sup>15</sup> At the time of the Chamberlain debate, Amery attacked free trade in newspapers and wrote *The Fundamental Fallacies of Free Trade* (1906). According to Amery, the volume of British trade mattered less than remedying the country's deficiency in raw materials and foodstuffs by the export of its manufactures and services in partnership with the Empire's primary producers.

<sup>16</sup> In Winant's analysis: "The opposition is political. It is based on fear of a division in the Conservative Party. The idea that an agreement should be made with the United States in which the sovereignty of the unity of the Empire is questioned, even in the field of economics by the inclusion of the no discrimination clause in article 7, is opposed by Empire preference Tories who, in my opinion, are nothing more than imperialists. They represent a small but determined minority among the Conservative membership of the Parliament. [Anthony] Eden is the only man in the government who really fights to support our position and this in spite of the fact that Keynes and other economists have come to agree with our position." FRUS 1942, I, 528.

Yet the British belief that America's opposition to imperial preferences was simply a State Department obsession misread the stance of the U.S. government. The United States had a longstanding hostility to British imperialism and colonial trade networks. Furthermore, Hull reported directly to President Roosevelt; even if imperial preferences was an issue that only concerned Hull, if he could convince the president that it was an important issue, then the future of the Anglo-American relationship hinged on its resolution. To demonstrate that it was not just a State Department concern, Hull persuaded Roosevelt to cable Churchill and express his firm support for the draft. On February 11, 1942, Roosevelt telegraphed Churchill and urged him to conclude the mutual aid agreement soon.<sup>17</sup> But he added this reassurance:

I want to make it perfectly clear to you that it is the furthest thing from my mind that we are attempting in any way to ask you to trade the principle of Imperial Preference as a consideration for Lend-Lease

because Britain was:

no more under an obligation to get rid of Imperial Preference than the Americans were to get rid of their protective tariffs.<sup>18</sup>

Hull could not have been pleased with the President's language, but Roosevelt's assurance broke the deadlock in the British war cabinet. This persuaded Churchill, according to Cabinet minutes, that "Article 7 contained no commitment in advance to abolish Empire Preference, which should be excluded from our discussions," whereas Roosevelt clearly stated that everything should be put on the table and that nothing was excluded (Wilson 1991, 278, 369, n. 108). The

<sup>17</sup> While Roosevelt believed an agreement should be concluded quickly, he privately thought that the difficulties about discrimination were "unwarranted by the text" and even believed that "Further attempts to refine the language of Article VII would be wholly unprofitable and time-consuming" because of the "persistent misunderstanding of Article VII in London" (FRUS 1942, I 526).

<sup>18</sup> Roosevelt continued: "All I am urging is an understanding with you that we are going to have a bold, forthright, and comprehensive discussion looking forward to the construction of what you so aptly call 'a free, fertile economic policy for the post-war world.' It seems perfectly clear to me that nothing should now be excluded from those discussions. None of us knows how those discussions will turn out, although, as I told you when you were here last, I have great confidence that we can organize a different kind of world where men shall really be free economically as well as politically. . . . What seems to be bothering the Cabinet is the thought that we want a commitment in advance that Empire preference will be abolished. We are asking for no such commitment, and I can say that Article 7 does not contain any such commitment. I realize that that would be a commitment which your government could not give now if it wanted to; and I am very sure that I could not, on my part, make any commitment relative to a vital revision of our tariff policy." FRUS (1942, I, 535-536).

next day, Churchill informed the War Cabinet of Roosevelt's message when it met to discuss on Article VII and the mutual aid agreement. Roosevelt's assurance persuaded the War Cabinet that the Article VII language was acceptable and they endorsed the agreement.

This Cabinet decision paved the way for the Mutual Aid Agreement, which was signed in Washington on February 23, 1942. The key provision read:

#### ARTICLE VII

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the 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; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on Aug. 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments.<sup>19</sup>

Unfortunately, not only did this agreement fail to specify the precise terms of the consideration, but also both governments clung to different interpretations about what had been agreed to. Some in the State Department believed that Britain had definitively committed itself to eliminate imperial preferences. Yet UK officials believed that they had merely agreed to put preferences on the bargaining table as something to talk about at a future date. In its view, altering imperial preferences required consultation with the Dominions, which might perhaps agree to some preference reductions in exchange for American tariff

<sup>19</sup> Department of State *Bulletin*, February 28, 1942, pp. 190ff.

reductions. This divergence in interpretation persisted right down to the final hours of the Geneva GATT negotiations in October 1947.<sup>20</sup>

### 1.3 The Structure of Anglo-American Negotiations

The problems in securing an agreement over the language in Article VII foreshadowed the difficulties that the two countries would have in future negotiations over tariffs and trade preferences. Many of the difficulties concerned the substantive issues at stake. But there were important domestic political constraints that shaped the negotiating positions and attitudes of both sides as well. The structure of governmental decisionmaking, as well as domestic political views on the issue of trade, and even personality differences, had a critical impact on the negotiations and their outcome.

The U.S. and UK governments were not monolithic entities. Each was comprised of several departments and ministries, each of which had different institutional responsibilities and reflected different interests. Each bureaucratic agency had a different outlook on postwar economic problems and sought to have its views reflected in the shape of the postwar world trading system. Furthermore, within each agency a distinction can be made between the staff level and the political level of decision-making. The staff level (career civil servants or academics on leave from university) formulated policy options, drafted texts, conducted the actual negotiations, and attempted to resolve technical differences. Most of the bilateral contact was made at the staff level, and these specialists, often economists, on both sides were frequently willing to liberalize trade and set rules to a point far beyond where the political-level officials might be comfortable. Of course, ultimate decision-making powers rested with political-level officials, usually cabinet officers or appointed department heads who reported to the president or prime minister. These officials were constrained by a broader set of political forces, including interest-group pressure, electoral considerations, and legislative mandates, than were the civil-servant staff. They also had to deal with many foreign-policy issues in addition to trade and were usually not as committed as the staff to a particular outcome in the negotiations. On both sides of the Atlantic, at one time or another, the civil servants became very frustrated with decisions (or indecisions) of their political-level superiors.

In the United States, the Department of State was the lead agency in the trans-Atlantic commercial-policy negotiations.<sup>21</sup> Led by Secretary Cordell Hull,

<sup>20</sup> See Pressnell (1986, 57–59) on how Churchill's misinterpretation led the War Cabinet to approve the agreement.

<sup>21</sup> Of course, the Department of Treasury (and Assistant Secretary Harry Dexter White) led the American delegation at the Bretton Woods conference that created the International Monetary Fund.

State Department officials strongly supported cooperative efforts to arrive at international agreements to reduce trade barriers and expand trade. Hull's State Department was also implacably hostile to discriminatory trade arrangements, foremost among them the British system of imperial preferences. While Hull provided the broad vision that became the State Department's mission, after his retirement in 1944 his goals were shared by and implemented at the political level by William Clayton. A southern businessman who established a successful cotton-brokerage firm, Clayton moved from the Commerce Department to the State Department in 1944, where he served first as Assistant Secretary and then Under Secretary of State for Economic Affairs. In some ways, Clayton was even more firmly committed than Hull to trade liberalization and the destruction of imperial preferences.

The State Department civil servants responsible for the actual trade negotiations were clustered in the Division of Commercial Policy and Trade Agreements.<sup>22</sup> This department had very close ties to Cordell Hull and Will Clayton due to their own deep interest in trade matters. The longtime head of this division was Harry Hawkins, an economist who earned universal respect in that position.<sup>23</sup> Hawkins had been an assistant professor of commerce at the University of Virginia before he joined the State Department in 1924. In 1944, Hawkins became Minister-Counselor for Economic Affairs at the U.S. Embassy in London.<sup>24</sup> In 1945, Clair Wilcox, a professor of economics at Swarthmore College,

<sup>22</sup> Notter (n.d.) provides a detailed history of this particular section of the State Department.

<sup>23</sup> Hull had enormous faith in Hawkins and relied on him for almost all commercial-policy-related issues. In his memoirs, Hull (1948, 366) praised Hawkins this way: "No one in the entire economic service of the Government, in my opinion, rendered more valuable service than he. Hawkins was a tower of strength to the department throughout the development of the trade agreements, and especially in our negotiation with other countries, which at times were exceedingly difficult." Notter's history of the Division of Commercial Policy attributes much of the Division's success to Hawkins's abilities. He notes that, under Hawkins's guidance, the Trade Agreements Committee never took a vote because he was so good at reaching a committee-wide consensus. In James Meade's view, Hawkins "has a most interesting and responsible job which he thoroughly enjoys and does extremely well. . . . In our commercial policy talks, he has been consistently acute and on the spot, but at the same time very sensitive to any difficulties or embarrassments which we may have been in; and instead of trying to score off any such embarrassments, he has always tried to help us out of our difficulties" (HM, 133). Riding in a car with John Fuqua, a State Department civil servant, Meade wrote: "We spoke about Hawkins who is his chief and whom he clearly worships (not unjustifiably I think)" (HM, 139). Another State Department civil servant, John Leddy, who drafted that GATT, said that Hawkins "was probably the most influential and important man second to Cordell Hull, in launching, operating, and administering the Reciprocal Trade Agreements program." <http://www.trumanlibrary.org/oralhist/leddyj.htm#transcript> (last visited Jan. 17, 2008). Unfortunately, Hawkins published very little, but did author a 1948 article on the ITO and a 1951 book on trade negotiations.

<sup>24</sup> In 1948, he moved to the Fletcher School of Diplomacy at Tufts University.

became director of the Office of Trade Agreements. In that position, Wilcox led the U.S. delegation (under Clayton) at the 1947 Geneva GATT negotiations and the 1947–1948 Havana ITO negotiations.

However, the political level of the State Department, as well as the president, had to be more attuned to the political constraints than the staff. In particular, they had to be very sensitive to the views of the Congress, which had constitutional authority over trade policy and delegated negotiating powers to the executive branch. Partisan factors also played a role in the relationship between the executive and legislative branches. The Democrats had long advocated lower tariffs, whereas the Republicans supported protectionist tariffs such as the Hawley-Smoot tariff of 1930, for which it was responsible. For most of this period discussed in this chapter, Presidents Franklin Roosevelt and Harry Truman enjoyed the support of a Democratic majority in both chambers of Congress, a majority that was broadly sympathetic to the administration's objectives. This enabled the critical 1945 renewal of the RTAA to move successfully through Congress, although with important constraints, as we will see. However, in November 1946, the Republicans captured the Congress and nearly derailed the 1947 Geneva conference on more than one occasion.

The State Department's enthusiasm for lower trade barriers was also somewhat restrained by other government bodies that participated in an interagency process to arrive at a unified government position. These agencies included the Departments of Agriculture, Labor, and Commerce, as well as the Treasury and the Tariff Commission. However, the State Department was clearly the lead agency, causing some resentment among the others, because the chain of command was clear: the Secretary of State reported directly to the President and could bypass other agencies if need be. As long as the Secretary had the support of the President, the State Department maintained a powerful hold on the administration's trade policy.

In the United Kingdom, policy formulation was quite different from that in the United States. Britain's cabinet government meant that policy was set by consensus at the cabinet level, rather than directly by the Prime Minister. (Parliament also played a secondary role, whereas Congress was always looming in the background in the United States.) Unlike Roosevelt, who did not rely on a cabinet consensus and whose party controlled Congress, Churchill had to compromise in order to ensure the survival of his wartime coalition government that was composed of both Conservatives and Labour ministers. These parties took differing positions on postwar trade policy. The Conservatives supported protectionist policies in the past and strongly defended imperial preferences with the Dominions. Conservative ministers, in particular Leopold Amery, the Secretary of State for India, Lord Beaverbrook, the Minister of Supply, and R. S. Hudson, the Minister for Agriculture, all opposed liberalizing trade or

eliminating trade preferences. Meanwhile, the Labour party wanted to expand trade, but was also wedded to economic planning and socialism. They faced the daunting task of reconciling their desire for both a more socialist system and more liberal commercial policies to allow the expansion of world trade. Churchill actually received more support from Labour on the government's commercial-policy initiatives with the United States, but in order to maintain his coalition government he could not completely ignore the Conservative voices in his cabinet.

The Board of Trade was the lead government agency responsible for the commercial-policy negotiations. The Board formulated policy options and coordinated the approval process with other agencies before any proposal reached the Cabinet level. The Board was headed by Hugh Dalton (a Labour MP, a former student of Keynes, and previously a reader at the London School of Economics) from 1942 to 1945. From 1945 to 1947, the Board of Trade was headed by Sir Stafford Cripps (Labour MP), who played a pivotal role at the 1947 Geneva negotiations. The key civil servant at the Board of Trade was the Second Secretary, initially Sir Percivale Liesching (1942–1946) and later James R. C. Helmore (1946–1952).

The development of Britain's commercial policy was also influenced by the Economic Section of the War Cabinet Secretariat. The Economic Section, akin to the postwar Council of Economic Advisers in the United States, was staffed more by academics than career civil servants. From 1941 to 1945, the Section was headed by Lionel Robbins, a distinguished professor of economics from the London School of Economics. The wartime staff included economists James Meade and J. Marcus Fleming.<sup>25</sup> Previously, Meade had been a Fellow and Lecturer in economics at Hertford College, Oxford, and had worked at the Economic Intelligence Service at the League of Nations in Geneva. In 1940, Meade published a short book entitled *The Economic Basis of a Durable Peace* in which he examined the principles that might serve as the basis for a postwar international economic order. Echoing Cordell Hull, Meade (1940, 11) believed that an international economic body should be created as part of a postwar settlement because

to a certain extent, the causes of international conflict are economic in character; and for this reason only an International Organization which is based upon a stable, just, and efficient economic foundation can hope to succeed in its primary political tasks.

<sup>25</sup> Fleming later served at the International Monetary Fund, where he helped develop the famous Mundell-Fleming model of open-economic macroeconomics (for which Mundell won the Nobel prize in 1999, Fleming having died in 1976).

International trade policy, he noted, would be one of the major concerns of such an organization. He joined the Economic Section in 1940 and was primarily responsible for developing the early commercial-policy proposals. After the war, Meade directed the Economic Section from 1946 to 1947 before taking a position at the London School of Economics, where he wrote his classic two-volume work *The Theory of International Economic Policy* for which he won the Nobel prize in economics in 1977.

The Economic Section provided advice and analysis to the Board of Trade in support of its commercial-policy initiatives, and Robbins and Meade were often included in the discussions with the United States. The interagency process was also more fluid in the British system. For example, unlike the United States, the Treasury played an important role in shaping Britain's position in the trade negotiations. Here, the formidable Cambridge economist John Maynard Keynes was a critical presence. Keynes was skeptical of the trade liberalism emanating from the Board of Trade and Economic Section, both because he doubted an acceptable multilateral agreement could be reached and because he did not want to limit domestic discretion to use trade controls (such as import quotas) as a means of ensuring full employment. Keynes was not a consistently strong supporter of the open, multilateral trading system, something that dismayed other economists, such as Meade, Robbins, and Fleming. Throughout the 1940s, the Treasury was constantly concerned about Britain's postwar balance-of-payments problems. In addition, the Dominions Office feared that any erosion in imperial preferences would offend the former colonies.

One of the remarkable aspects of the wartime Anglo-American trade discussions was that the staff level consisted of a small number of dedicated and internationally minded civil servants and economists who met each other frequently and grew to know each other well.<sup>26</sup> Harry Hawkins and his staff met frequently with Liesching, Robbins, and Meade. Relations were quite cordial and, at this level, they could convince one another of the merits of a particular

<sup>26</sup> See Ikenberry (1992). As E. F. Penrose (1953, 12–13), an economic official at the U.S. Embassy in London, put it: "In London, Ottawa, and Washington small groups of civil servants played a large part in the initiation as well as in the detailed preparation of plans for the postwar period. They were made up of an effective combination of permanent officials and of temporary officials who were drawn into government service for the war period, and some of whom were outstanding economists. The union of these two types of officials in wartime was fruitful in many ways: not only were the newcomers able to fill gaps which could not be filled from the ranks of permanent officials, but the experience and intellectual equipment of each type supplemented those of the other to the advantage of both of them. No such array of economic talent had ever before been mobilized in the service of government in the three capitals."

position. For the most part, these economists did not always agree with decisions made at the political level, but they could do little to alter those decisions. One difference between the two countries at the staff level was that the Americans felt free to express their own views and speculate as to what might be possible, whereas the British felt constrained by their government's official instructions.<sup>27</sup>

However, bilateral relations at the political level tended to be more difficult mainly because these higher officials were responsible for handling disagreements that could not be resolved at the staff level. These disagreements brought into play more important national priorities and more sensitive domestic interests. Will Clayton and Stafford Cripps clashed frequently at the 1947 Geneva conference, for example, although those disputes were more about the degree of tariff reductions and elimination of imperial preferences than the provisions of the multilateral commercial convention.

We know a great deal about the Anglo-American trade discussions because many of the British participants, including Keynes, Meade, Robbins, Amery, and Dalton, kept diaries and other personal papers from the period. On the American side, unfortunately, there are no notable diaries; although Hull and Acheson have memoirs, there is not detailed discussion of commercial policy in them. However, there is an abundance of cable traffic and departmental memos in the National Archives and the *Foreign Relations of the United States* volumes that provide insight into the internal U.S. discussions.

The Anglo-American trade discussions took place during a unique period in history when a few individuals had enormous influence over the shape of postwar policy. These key officials, often internationally minded economists who had witnessed the interwar debacle, were set upon a special mission: to restore world trade to its previous flourishing condition.

#### 1.4 The 1942 Meade Draft for Commercial Union

Having finalized Article VII of the Mutual Aid Agreement, government officials from the United States and the United Kingdom began to focus on the broad outlines of the postwar system of monetary and commercial relations. Soon after the Atlantic Charter was issued, British officials took the initiative and began drafting proposals on postwar economic policy before the Americans became committed to their own scheme. In June 1941, R. J. Shackle, a civil servant at

<sup>27</sup> As Meade noted, "Some Americans have no appreciation of the fact that when British civil servants have no instructions from senior officials or from ministers they necessarily become, in accordance with the traditions of their service, particularly constipated – unlike the Americans who in such circumstances feel freer than ever to express their most personal opinions without any sense of corporate responsibility" (HM, 121).



the Board of Trade, wrote a memorandum on postwar economic reconstruction that emphasized getting American support for a multilateral system of open trade, convertible currencies, and limited exchange-rate flexibility (Cairncross and Watts 1989, 96; CAB 123/53). Shackle stressed the importance of restoring convertible currencies as a means of financing trade, and his memorandum stimulated official thinking about the postwar economic system. James Meade at the Economic Section of the War Cabinet Secretariat promptly endorsed this proposal:

The Board of Trade is right in emphasising the need for a regime of multi-lateral international trade after the war . . . as opposed to any system based upon bilateral barter, and preferential trade treatment between particular countries (Miller 2003, 132).

The importance of convertible currencies was widely recognized to be a prerequisite to a fully functioning multilateral trading system. This meant that the design of the postwar international monetary system was going to be a critical element of any agreement between the United States and the United Kingdom. As a result, John Maynard Keynes drafted a proposal for an International Clearing Union in late 1941, which was issued as a government paper in August 1943.

In July 1942, nearly a year after Shackle's memorandum, Meade wrote a short memorandum entitled "Proposal for an International Commercial Union," a precursor to what would eventually become the GATT (Annex A-2).<sup>28</sup> Meade argued that "if ever there was a community which had an interest in the general removal of restrictions to international commerce, it is the United Kingdom" and that it, "above all other countries," would gain from "a removal of those discriminations and rigid bilateral bargains which remove the opportunities for multilateral trading." But, he added, the country's strategy should be

to implement these [Article VII] undertakings in a way which leaves room for state trading and which does not preclude us (a) from imposing restrictions or discriminations against us or (b) from restricting our payments to other countries if and when balance-of-payments difficulties make such action inevitable.

<sup>28</sup> "If any one event can be designated as marking the origin of the International Trade Charter and the International Trade Organization proposed at Havana in 1947, it took place in Whitehall in the latter part of 1942," wrote E. F. Penrose (1953, 89–90), an economic attache at the U.S. Embassy in London. "If any one person can be described as the originator of the movement for an International Trade Organization it is James Meade, who at the time was a member of the Economic Section of the War Cabinet secretariat."

Meade highlighted several features of a possible multilateral trade convention. In his view, an International Commercial Union would have three essential characteristics: (i) open membership to all states willing to carry out the obligations of membership, (ii) no preferences or discrimination (with an exception for imperial preference) among the participants, and (iii) a commitment to

remove altogether certain protective devices against the commerce of other members of the Union and to reduce to a defined maximum the degree of protection which they would afford to their own home producers against the produce of other members of the Union.

The exception regarding preferences would allow "discrimination of any degree desired against countries which were not members of the Commercial Union" and "would also permit discrimination of a defined and moderate degree in favour of a recognized political or geographic grouping of states, and would thus permit the continuation of a moderate degree of Imperial Preference."

Meade stated that the multilateral reductions in trade barriers would "not, however, imply laissez-faire, and are in no way incompatible with a system of state trading." Finally, a charter would create an International Commerce Commission "of a semi-arbitral semi-judicial nature" to which members could refer complaints "in order to obtain an opinion on whether the Charter of the Union was being broken by any particular action of a particular member of the Union." Meade viewed the dispute-settlement mechanism as "an essential part" of the Commercial Union, but noted that it was "premature at this stage to make detailed suggestions about the constitution of such a body."

Meade sent his draft to Hugh Gaitskell, the Principal Assistant Secretary at the Board of Trade, who reworked it and, in August 1942, passed it along to Hugh Dalton, the president of the Board of Trade. Impressed by the paper, Dalton got behind the proposal: "I agree generally with the policy proposed, though many points of detail are of first-class importance – and first-class controversial value," he wrote to Gaitskell (Pimlott 1985, 399).<sup>29</sup> Dalton requested that Meade

<sup>29</sup> As Dalton (1986, 476) noted in his diary entry for August 18, 1942: "Read, before going to bed, a paper by Meade and Gaitskell on Commercial Union. This is quite bright, though with some little defects, and ties up pretty well with the paper on the Clearing Union. I discuss this with Gaitskell next morning and agree that I will put it round to the officials, with a laudatory Minute, so that it shall emerge as a Board of Trade official paper. This will be better than a ministerial paper, since it is rather free trade and might, therefore, provoke outbursts from more than one quarter." Dalton was a Labour MP who, in his 1935 book *Practical Socialism for Britain*, advocated reducing import barriers with other countries either multilaterally or bilaterally. Such a proposal had an uneasy relationship with the economic planning that he and many in the Labour party later envisioned. See Toye (2000, 192, 195).

be seconded to the Board of Trade to help formulate the commercial-policy proposals in greater detail. In November 1942, Dalton circulated the paper to other ministries "having taken account, but not too much account of all the frightened and too prudent shrieks of my higher officials" (Dalton 1986, 506).

Dalton then formed an interdepartmental committee, headed by Arnold Overton Permanent, the Secretary of the Board of Trade, to formulate a consensus position on the country's commercial policy. In December 1942, the Overton Committee broadly endorsed the Meade proposal. Calling attention to the urgent need to expand world trade after the war, the committee proposed "a large-scale clearance of pre-war impediments to trade between nations" to enable British exports to grow sufficiently to pay for imports. Specifically, the Board of Trade called for a multilateral trade convention that would seek (i) deep multilateral tariff reductions, (ii) a three-year phase out of all quantitative restrictions (starting two years after the end of the war, after which they could be used only with the permission of an international commercial commission), and (iii) a cut in existing preferences and a ban on new ones. The Overton Committee even specified the degree of tariff-cutting: all countries, it was proposed, would agree to a 25 percent ceiling on MFN rates, 25 percent cut in all rates, subject to a right not to go below 10 percent, and a 50 percent reduction in preference margins, with a right not to reduce the margin below 5 percent (Cairncross and Watts 1989, 101). "By far the best course now is to seek big cuts in tariffs everywhere, and in other trade impediments, within a new international association, world-wide if we can make it so; if not, as wide as possible," the report stated.

Politically it will be easiest to strike while the iron is hot and face transitional difficulties while the will for international cooperation is still strong. In many countries, especially enemy countries and those liberated after long occupation by the enemy, all will be fluid and all the vested interests at their weakest (Culbert 1987, 389).

A draft of the Overton report circulated within the British government in January 1943. It quickly became apparent that, while economists at the Board of Trade and Economic Section were pleased to support the plan for freer trade in the postwar world, not everyone in the British government agreed, not even other economists, particularly those in the UK Treasury. In a series of letters and memos in December 1942 and January 1943, John Maynard Keynes condemned the Overton report. In his view, the majority went much too far and exhibited a "strong free trade bias – too strong until we know more about the set-up of the postwar world" (Keynes 1980, 253). Keynes believed that postwar economic policy should put the highest priority on maintaining full employment.

Achieving this objective, in his view, would likely require the use of trade controls and exchange restrictions. As Keynes (1980, 261) wrote to Overton:

I do not like the appearance of special hostility to import regulation, since it seems to me to be, not merely temporarily, but permanently much the best technique open to us for the sort of things we are likely to want to do. I am not clear that it is yet fully appreciated how the growth of state trading and planning generally is likely to favour import regulation as the better technique compared with tariffs or subsidies.<sup>30</sup>

Keynes (1980, 251) also doubted that the United States was serious about liberalizing its import policy:

We have to remember that the free trade element in the State Department, with whom we are in direct contact, represents almost nothing but themselves.<sup>31</sup>

Writing to Meade, Keynes (1980, 273) discounted the likelihood of a multilateral trade agreement because of the political difficulties it would cause in the United States. Keynes's harshly negative reaction to the trade-liberalization proposal led Meade and other economists to become wary of his illiberal and pessimistic tendencies on commercial-policy matters.

The Overton report also produced a sharp dissent from another Treasury economist, Sir Hubert Henderson (1955), who argued that the problem of postwar commercial policy should be approached in a spirit of cooperation but with this caution:

Nonetheless, the fact that our means of paying for imports have been seriously reduced as a consequence of the war is necessarily a source of anxiety to us; and we are bound to have regard to that fact and to its implications

<sup>30</sup> At another point, Keynes (1980, 268) wrote that he was "arguing in favour of import regulation, not merely on balance of trade grounds, but also on the ground of maintaining stability of employment in new staple industries." Curiously, Keynes's own Clearing Union plan was designed to facilitate international payments in a multilateral system of credits without bilateral balancing and import quotas, and indeed specifically condemned quantitative restrictions (Pressnell 1986, 104).

<sup>31</sup> Although Keynes's view on this proved inaccurate, it was not completely without foundation. As Acheson (1969, 88) later recalled, "President Roosevelt's virtual exclusion of Secretary Hull from high-policy decisions during the war had more far-reaching effects than its contribution to the estrangement of the two men. It led directly to the theoretical and unreal nature of the State Department's – and hence the government's – thinking on postwar problems. Largely detached from the practicalities of current problems and power relationships, the Department under Mr. Hull became absorbed in platonic planning of a utopia, in a sort of mechanistic idealism."

in considering what commercial arrangements may be possible for us when the war is over (Henderson 1955, 209).

Henderson argued that the war had brought about "a drastic alteration" in the country's balance of exports and imports, wherein the loss of foreign markets produced a shortfall of exports in comparison to imports that could not be easily recovered. Hence, the "essential problem is to reconcile the aims of an expansion of international trade and equilibrium in the balance of payments." He therefore insisted that Britain's balance-of-payments situation after the war would not permit the abandonment of import restrictions: "so long as we have to correct an adverse balance of payments," Britain must "reserve the right to limit the volume of our imports by other means, such as some form of quantitative import control. . . we think it essential to make it clear that we see no likelihood. . . of being able to dispense with quantitative import control, as a means of correcting our adverse balance of payments for a considerable period after the war is over."<sup>32</sup> Because the options of countries facing a balance-of-payments deficit were narrowly circumscribed, countries with a balance-of-payments surplus (i.e., the United States) should be required to do the most to restore equilibrium by removing impediments to imports.

Henderson (1955, 215) also questioned the goal of nondiscrimination in trade:

We cannot . . . accept the view that our preferential system is objectionable in principle, on the grounds that it entails discrimination. . . . In our view, the possibility ought not to be excluded that it may be desirable in post-war Europe to permit, and even to encourage, similar preferential systems between neighbouring groups of States, whose political solidarity it may be important to foster, but who may not desire to go so far as a complete Customs Union.

Keynes (1980, 253) praised Henderson's dissent as "a magnificent document, which, in my judgment, knocks the Overton Report sideways." Still, Keynes concluded that "the most advisable course very likely lies between the Overton Report and Henderson's critical rejoinder. But Henderson's impresses me as the more fundamental line of approach. His is a most powerful paper, and he makes the majority report look superficial."

<sup>32</sup> As Henderson (1955, 217) explained, "When a country is faced with the necessity of correcting an adverse balance of payments, quantitative regulation may be by far its most satisfactory means of conserving limited resources of foreign exchange for essential needs; and, as already indicated, we contemplate the probability that we shall have to use it ourselves for this purpose." Dalton (1986, 542) viewed Henderson's dissent, "as is usual with him, dangerously plausible and completely negative."

In early January 1943, the Overton Committee debated the draft proposal, but Henderson found himself "quite isolated" at the meeting (Dalton 1986, 542). At the concluding gathering, a majority accepted the report with only Henderson dissenting (one of the two Treasury officials). Though he was not a member of the Overton Committee, eventually Keynes came around and approved the "general layout" of the plan after having raised objections to it.

A higher-level committee, led by Sir Alfred Hurst, then prepared the plan for consideration by the War Cabinet. The Hurst Committee produced a new draft in February 1943, which weakened the Overton proposal and attached "great importance to the retention, unimpaired, of the power to regulate imports" (Pressnell 1986, 105). This reflected the growing belief that the country's balance-of-payments situation after the war would be dire and would require it to discriminate between countries that would and would not accept UK exports on a favorable basis.

On April 8, 1943, the War Cabinet considered a memorandum prepared by the Board of Trade and the Dominion Secretary that outlined three possible approaches to postwar commercial policy based on the Hurst report.<sup>33</sup> View A involved a general multilateral reduction in trade barriers. View B was a less extensive plan that would give domestic authorities full discretion in the use of import restrictions for balance-of-payments purposes (i.e., a country would not have to request permission from an international body). View C anticipated modest international cooperation on trade barriers because it assumed that quantitative import restrictions would be used extensively as a part of national economic planning.

Amery (1988, 880-881) strongly endorsed View C and forcefully represented the skeptical faction in the government. With the Treasury worried about safeguarding the balance of payments, Amery (1988, 878) attacked a liberal, multilateral approach to trade on the grounds that other governments simply would not be interested in a proposal for more open trade after the war:

no one would look at it and that it would not suit even our own interest. . . . Today our best chance lay in securing special terms for our exports by giving in return special facilities in our rich home market.

Amery (1988, 880-881) was not impressed by Churchill's conduct of the meeting, calling it:

The most hopeless affair possible. Winston had read none of the papers and hadn't the slightest idea of the nature of the problems involved. Endless time was wasted in trying to make him even understand that some sort of

<sup>33</sup> PRO CAB 66/35 WP (43) 136.

restriction of imports was going to be necessary to protect our exchange after the war. . . . Winston had no notion of what were really the points at issue, and wanders about from one point to another revealing the most pitiful ignorance. . . . Winston has no doubt great qualities as a war leader, but when it comes to economics he is a quite out of date old man unaware of anything that has happened since 1880.<sup>34</sup>

But Amery reflected a minority position. Dalton (1986, 578) thought that Churchill knew from the start that View A should be adopted and “was most anxious that, whatever we said, we should ‘use the right language.’ We should make our approach in terms of the freest possible exchange of goods and services, freedom rather than restriction, abundance and not scarcity.”

Eventually, “after much meandering and trite talk,” Churchill asked for a vote on View A as amended to allow the use of quantitative import restrictions to safeguard the balance of payments as determined by national authorities and not an international body (Dalton 1986, 577). The cabinet voted 15 to 2 in favor of option A with the balance-of-payments reservation.

No decision was made on imperial preferences. Although Churchill was personally opposed to imperial preferences, he recognized that Conservative members of the cabinet (led by Amery) would revolt if they were dispensed with. However, Churchill insisted that it would be better to decide upon British policy first and then consult the Dominions, rather than try to formulate a wider imperial agreement on postwar trade policy.<sup>35</sup>

Having settled upon a general position on postwar commercial policy, the British government contacted the Dominions about the implications of a multilateral trade arrangement for their future relationship. The Dominions Secretary circulated a draft aide-memoire in April 1942 in preparation for a meeting of Commonwealth trade representatives.<sup>36</sup> Of all the Dominions, Canada was the most enthusiastic supporter of Britain’s commercial-policy initiative. Canada was unique among the former colonies in having very close economic ties to the United States as well as to the United Kingdom. As such, Canada had a strong interest assuring its continued access to both markets by encouraging Anglo-American cooperation to develop a truly multilateral trade accord. From Canada’s perspective, the worst possible outcome would be having to choose between the two markets, either continuing with imperial preferences but

<sup>34</sup> Churchill apologized for being rusty on matters of trade policy, but perked up when someone mentioned buffer stocks, which he heard to be “butterscotch.”

<sup>35</sup> As Amery (1988, 880) noted, Churchill made clear “his dislike of having to consult the Dominions at all, ‘these people’ as he called them and he tried very hard to insist that we should consult the United States first.”

<sup>36</sup> Reproduced in DCER 9, 638–639.

with American protectionism intact, or concluding a bilateral agreement with the United States but facing restricted access to the British market. As the governmental advisory committee in Canada concluded in May 1943:

the negotiation of a multilateral convention of commerce, providing for the tariff reductions and limitations and the removal of other barriers to the exchange of goods, is the soundest method of securing satisfactory conditions of trade between nations after the war. It is especially in Canada’s interest, first, because our trade extends over many countries and it would be difficult, if not actually impracticable, to achieve any pattern of bilateral agreements which would serve our interest so effectively, and, second, because the United States will undoubtedly press for the removal of preferences” (DCER 9, 643).

If the United States and the United Kingdom could not agree, Canada would be put in the difficult position of trying to obtain better access to both markets.<sup>37</sup>

Trade representatives from the Dominions met in London for consultations in late June 1943.<sup>38</sup> Only the United Kingdom and Canada supported the multilateral approach, whereas Australia, South Africa, and New Zealand saw the merits in bilateral negotiations (McKenzie 2002, 99). The British quietly preferred the multilateral option because they feared that the Dominions, with an eye on the large American market, might be willing to trade away tariff preferences for access to the U.S. market in bilateral agreements.<sup>39</sup> Canada supported the multilateral approach to the reduction in trade barriers as a more efficient method of reducing trade barriers than the bilateral approach, but insisted that any reduction in imperial preferences should be contingent upon a significant,

<sup>37</sup> A memorandum from Norman Robertson, Canada’s Undersecretary of State for External Affairs, to the Prime Minister noted that “it is strongly in Canada’s interest to encourage and support” the U.S.-UK commercial-policy discussions because “Their approach, on the basis of a multilateral Convention of Commerce provide for tariff reductions and the removal of other barriers to the exchange of goods, is the only really sound and comprehensive method of securing satisfactory conditions of trade and perhaps, in the long run, of political security. . . . We would have very little, therefore, to gain by further negotiations on a bilateral basis. And must look to a multilateral convention, on the broad lines of the British proposal, if we are to secure ready access to the United State and to world markets. We should, therefore, I think, throw our whole weight behind the British proposal” DCER 9, 640.

<sup>38</sup> For a report, see DCER 9, 680–688. See also McKenzie (2002, 95ff).

<sup>39</sup> Sir Alexander Clutterbuck, the Dominion’s Office representative on the Overton Committee, warned that the dominions might be willing to sacrifice imperial preferences for U.S. tariff reductions in bilateral agreements, so Britain had a stake in a multilateral agreement with everyone at the table; otherwise, “we are quite likely to see imperial preferences whittled away by the Dominions in return for little counterbalancing advantages for ourselves” (McKenzie 2002, 41).

across-the-board (nonselective) reduction in the high U.S. tariff. Australia also wanted priority put on measures to ensure full employment while also allowing protection of infant industries. New Zealand was generally supportive of the British proposal, South Africa made a "long and not always relevant statement" (according to the Canadian account) on the matter, while India did not want to rule out policy measures to promote industrialization.

Following these consultations, Canada discussed the London meeting with American officials. Norman Robertson, Canada's Undersecretary of State for External Affairs, repeatedly pushed the United States to think about bold and sweeping plans for postwar commercial policy. He insisted that the bilateral and selective approach of the RTAA was too cumbersome and should be abandoned for a multilateral approach. He also proposed that action be taken quickly because large tariff reductions could be implemented now while vested interests were disrupted, whereas it would be difficult to accomplish once the world's economies returned to normal conditions.<sup>40</sup>

State Department officials were encouraged by Canada's support, but were unable to move with the urgency that Robertson wanted. While the United Kingdom had moved ahead in 1942 by formulating its position around the Meade proposal, the United States had put commercial policy on the back burner. In 1941, the United States had cautiously put forward proposals for bilateral trade agreements with Australia, Canada, and the United Kingdom, but they were eventually dropped.<sup>41</sup> The year 1942 was lost as the United States entered the war following Japan's attack on Pearl Harbor. And in early 1943, rather than formulate an ambitious plan for postwar economic cooperation, the State Department focused on renewing the expiring trade-negotiating authority in the Reciprocal Trade Agreement Act. This effort was successful, given the large Democratic majorities in Congress and the sense that the renewal was

<sup>40</sup> As the U.S. Embassy in Canada reported: Robertson "is convinced that the best time to negotiate basic tariff reductions is during the depths of a depression when the inefficient industries have been driven to the wall and eliminated, or at a time, like the present, when because of the exigencies of war normal trade has been disrupted and directed into new channels which, under the control of governmental agencies, should be efficient channels. . . . With vested interests for the time being in the background he feels that this is the time to take basic action toward reducing tariffs. If we do not strike now, he is afraid we will drift back into the old pre-war methods under which, he feels, it will be impossible to effect adequate reduction of tariff barriers." FRUS 1943, I, 1104-05.

<sup>41</sup> See FRUS 1941, III, 112-128. According to this volume, "These trade agreement exploratory discussions were carried on for some time but did not lead to the opening of actual negotiations, apparently because of critical war conditions and the handling of wartime trade through Lend Lease operations."

superfluous in time of war. When Congress renewed the RTAA in June 1943, however, it did so for only two years with the understanding that it could not be used as the basis for designing a new postwar system of trade.

Still, the legislative renewal energized the State Department to pursue the issue of trade policy more aggressively. An interagency process was activated that considered a broad range of trade-related issues – not just tariffs and preferences but also quantitative restrictions, subsidies, cartels and restrictive business practices, and investment – that were of interest to the United States. In August 1943, Cordell Hull asked the U.S. ambassador in London about the latest British position and the status of the commercial-policy negotiations. Hull signaled his intention to resume discussions on these and other subjects covered by Article VII of the Mutual Aid Agreement (FRUS 1943, VI, 107-108). Having consulted with the Dominions, the UK government also cleared the way for a fall meeting with the United States on these matters. The Anglo-American discussions on postwar commercial policy were about to begin.

### 1.5 The Washington Seminar, September-October 1943

In September-October 1943, a delegation from the United Kingdom met in Washington with their American counterparts to discuss postwar economic issues. Led by Richard Law, a Minister of State in the Foreign Office, the UK delegation included officials from the Treasury (John Maynard Keynes), the Board of Trade (Percivale Liesching and James Meade, seconded from the Economic Section), the Economic Section (Lionel Robbins), and others from those offices and related government ministries. They met with a number of mid-ranking American officials, led by Harry Dexter White of the Treasury Department on financial policy and Harry Hawkins of the State Department on commercial policy. The purpose of the meeting was not to conduct formal negotiations involving official government commitments. Rather, these informal consultations allowed the two sides to exchange views and discover the areas of agreement and disagreement regarding postwar economic policy with the hope of formulating an agenda for higher-level Article VII negotiations.<sup>42</sup>

<sup>42</sup> As Pressnell (1986, 116) put it: "The informal, non-committal talks of September-October 1943 were the most important Anglo-American exchanges on economic issues not only during the war but also for many years before and since. They were indeed unique; they were conducted at a high intellectual level, ranging frankly over virtually the whole field of economic policy, and they have been appropriately described as having been 'in the spirit of a university seminar rather than of a formal international conference.'" Richard Gardner (1956, 104) used the term "university seminar" to describe the meeting.

Keynes, White, and the Treasury teams discussed postwar monetary and financial arrangements. Both sides recognized that any agreement on commercial policy was predicated on an agreement regarding postwar exchange rate and financial policy. Indeed, international trade could not flow smoothly without a well-functioning system of international payments and exchange rates in place. However, the discussions between White and Keynes did not go easily. Their strong personalities clashed frequently, and they tended to lace their comments with snide remarks and dismissive asides.<sup>43</sup>

By contrast, the commercial-policy discussions proceeded smoothly and cordially. Liesching, Meade, and Robbins discussed trade and commercial-policy issues with Harry Hawkins and other American officials. Both sides agreed on the fundamental idea that barriers to international trade should be reduced as much as politically possible. After the first few meetings, both Hawkins and Meade agreed that "phenomenal progress" had been made (HM 121). Meade was thrilled with this initial success, noting in his diary for September 21, 1943:

Little did I think when, in May or so of last year, I first penned the words "Commercial Union" that I should now be present on the occasion when they were handed over by the British to the Americans, blessed by the War Cabinet, or that the Americans would receive them with such a welcome (HM, 111).

The main issues in the commercial-policy discussions were tariffs and preferences, quantitative restrictions, investment, employment, cartels, and state trading. Despite broad agreement on the basic principles, there were important differences of approach in each area. With respect to tariffs and preferences, the United States leaned toward bilateral negotiations to reduce tariffs on a product-by-product basis, as had been the practice under the RTAA. The United Kingdom strongly favored multilateral tariff reductions on an across-the-board basis in order to free up international trade to the fullest extent possible.<sup>44</sup> As

<sup>43</sup> As Meade recorded in his diary: "It augurs ill for the future unless these negotiations can somehow or another be got out of the hands of two such prima donnas as White and Keynes. There must be a growing accumulation of exasperation and bad temper as long as it goes on in this way" (HM 133). Meade went so far as to say that Keynes was "a menace in international negotiations" and that the monetary discussions were "seriously marred, I fear, by Keynes's ill-manners" (HM 135, 139).

<sup>44</sup> October 11, 1943, Meade recorded in his diary: "Went to a meeting of the Anglo-American Commercial Policy Group. What a battle! It appeared that some of them, particularly Ryder [Chairman of the U.S. Tariff Commission], really did believe that we might have an international convention outlawing quantitative restrictions and yet leave tariffs to be dealt with by bilateral agreements. We, i.e., Liesching, Robbins, and I battled with this and did our utmost to make it clear that there was no possibility of agreement whatsoever on those lines. . . . I hope that our firmness will at least have made it clear how much depends upon

the discussions progressed, the British representatives began to persuade their American counterparts about the merits of a broader multilateral approach, something that Canadian officials had also previously emphasized. U.S. officials did not rule out a multilateral approach to tariff reduction, and Hawkins himself seemed to favor it, but it ran counter to the traditional bilateral approach that had been pursued under the RTAA. Hawkins could not guarantee that the State Department would embrace it. Indeed, Meade was warned by a member of Hawkins's staff that

Hawkins was a courageous and disinterested man who was running a terrific risk with his personal career in taking the grand line he was taking in favour of a multilateral approach to Commercial Policy, because the Secretary of State is an ultra-cautious man.

Meade drew the conclusion that "Hull is still extremely unconvinced of the multilateral approach, and that there may be real trouble when our joint report on Commercial Policy goes to higher authorities in the USA" (HM 139).

On the contentious issue of imperial preferences, the Americans demanded the elimination of all tariff preferences. The State Department maintained that cutting preference margins by 50 percent was insufficient because they were discriminations that had to be eliminated under Article VII of the Mutual Aid Agreement. They insisted that domestic politics in the United States required that preferences be addressed in a significant way. The British representatives resisted this effort, citing the close ties of kinship that bound Britain to the people of Canada, Australia, and New Zealand. The UK delegation stressed the domestic sensitivities regarding imperial preferences and argued that the extent to which preferences could be reduced was contingent upon the degree to which the United States would reduce its tariffs. But Meade admitted

I feel some difficulty in helping to wage [the battle], as I feel that the American case is indeed very strong (HM 118).<sup>45</sup>

their deciding to overcome the technical (and political) difficulties in the way of getting a radical reduction of tariffs" (HM, 135).

<sup>45</sup> The final text on preferences stated that the governments would "provide for agreed action looking not only toward the reduction of tariffs but also toward the elimination of all forms of discriminatory treatment in international commerce. No convention of the kind proposed would give final effect to these obligations unless it makes definite provision both for an adequate reduction of tariffs and for the ultimate substantial abolition of preferences. There remains for determination at the proper time the difficult question of what reduction of tariffs, at one step or by stages, would be adequate to make possible the substantial abolition of preferences. It has become clear in the course of the discussions that United States opinion would not consider it equitable or reasonable to contemplate drastic and

Still, both sides agreed on the centrality of the most-favored-nation clause. Regarding the MFN clause and the treatment of nonmembers, Meade reported:

The Americans are in very much the same mind as ourselves on these issues; but they want it to be made compulsory for members of the Commercial Union not to extend the advantages of membership to non-members (HM 120).

Both sides agreed that quantitative restrictions should be eliminated in principle, but the United Kingdom insisted that they be permitted during a transition period and in case of balance-of-payments difficulties. On subsidies, the U.S. position was that export subsidies could not be abolished unless other countries restricted their use of domestic subsidies. The British took a more relaxed view of domestic subsidies but wanted to reign in export subsidies.

Cartels and restrictive business practices were also discussed and some differences arose. The United States took a firm line against cartels and restrictive business practices, essentially advocating the extension of its domestic antitrust laws, with their strong sanctions against any monopolistic behavior, to international trade.<sup>46</sup> The United Kingdom resisted the wholesale rejection of cartels and advocated a case-by-case policy with respect to monopolistic practices.

Despite these differences, both sides found remarkable agreement on the overarching principles of a multilateral agreement.<sup>47</sup> By October, Meade reported that:

The Americans are drafting a report on Commercial policy, rather along the lines of our Commercial Union proposals, which is to be jointly agreed with us. Where there are unresolved differences, both views will be expressed. There could not be a more desirable outcome to our deliberations. . . . Ten years ago at Oxford I should never have dreamed that an economist could live

comprehensive reduction of tariffs (assuming this to be feasible) if it were not accompanied by the simultaneous substantial abolition of preferences" (DCER 9, 783–784).

<sup>46</sup> The U.S. position was presented by Corwin Edwards and Edward Mason, both notable industrial-organization economists at the time, the former from the University of Oregon who served in the Antitrust Division of the Department of Justice, and the latter a professor at Harvard University. See Edwards (1945) and Mason (1946).

<sup>47</sup> Meade summed up his reaction: "Sensible principles have been agreed for Commodity Policy. On Cartels we are taking back a good understanding of the American ideas, which will stimulate us to real work on this. On employment and investment very little has been done; but one can't ask for everything. . . . I think that we can be very pleased indeed with this final outcome, when one looks back on the expectations with which we started out. But there are plenty of snags ahead – and not only on tariffs and preferences" (HM 1990, 139, 141)

in such a heaven of practical application of *real* economic analysis! . . . Our commercial policy report will be revolutionary if it finds acceptance and can be actually brought to birth (HM, 124, 130, 139).

On October 16, 1943, the two sides agreed to a joint statement (not publicly released) on the principles for a future commercial agreement (Annex A-3). The UK delegation left Washington in late October 1943 satisfied that the exchange had usefully clarified areas of agreement and disagreement, and that much had been accomplished on the possible shape of a postwar trading system. Of course, this small cadre of civil servants from the State Department, Board of Trade, and Economic Section were economists of a similar mind-set and all strongly supported the goal of reducing trade barriers.<sup>48</sup> Opposition to their plans lay elsewhere and would be revealed as the issues they discussed moved up to a higher political level. As a U.S. memorandum on the meeting noted:

It is stressed that the United States Government had not formulated any position on the questions discussed, and the American officials participating in the conversations did so in their individual capacities. Thus the enclosed statement does not in any sense indicate the position of the United States Government, but is rather an annotated agenda of certain problems on which it appeared that official positions should be formulated for possible future discussions of a more formal character (FRUS 1943, I, 1115).

This caveat applied to the British side as well.

State Department officials quickly followed up on the joint discussions by forming a committee to set out concrete proposals for how to proceed. In December 1943, the committee issued an Interim Report that set out the two major postwar commercial-policy objectives of the United States:

- (1) the greatest possible expansion of international trade on a sound and non-discriminatory basis; and (2) the conduct of that trade so as to give widest possible scope to private competitive enterprise.

The Report argued that the United States was the only country that could take a leadership position in bringing this policy to fruition and that the war provided

<sup>48</sup> This explanation only goes so far because both Keynes and White were also economists, but dealing with more contentious macroeconomic issues. Still, the collegial commercial-policy discussions built a bond among these individuals that served both countries well in the future. As Penrose (1953, 16) wrote, the "informal and unobtrusive exchanges of personal views on postwar matters continued throughout the war, helping to clear the way for organized, official negotiations, removing misunderstandings, keeping a small and discreet group of officials in each capital in touch with the development of thought among their counterparts in the other and establishing a spirit of cooperation in a common Allied cause."

“a uniquely favorable time for thoroughgoing trade-barrier reform.” And it is here that the British discussions left their mark: the British had convinced Hawkins and his staff that a multilateral approach would be superior to the RTAA’s bilateral approach.

It has seemed clear to the Committee, also, that not only should the various types of trade barriers be handled simultaneously, but that they should be dealt with simultaneously among a large number of countries, that is, on a multilateral basis. This approach is indicated primarily by the complexity of international trade relationships; i.e., by the fact that the volume of trade between any two nations is necessarily influenced by the trade barriers of other nations as well as their own (16).

The report continued:

If workable multilateral tariff provisions acceptable to a large number of nations providing for a drastic reduction of tariffs without nullifying exceptions and reservations can be found, they would be superior to bilateral provisions alone. They would be superior because they would accomplish tariff reductions more quickly and because they would make it easier to accomplish the elimination of quotas and other nontariff trade restrictions (20–21).

However,

In the event that the project for a general multilateral commercial policy convention should be abandoned, the Committee contemplates that the material prepared in connection therewith would serve as a basis for formulating more limited multilateral agreements (among a few large countries or restricted to one or two types of trade barriers) or a program of bilateral agreements (18).

Thus, the Report concluded:

At a later stage, after further study and discussion, it is contemplated that specific recommendations, fully documented, will be prepared, including draft provisions for a proposed general multilateral convention on commercial policy.

In January-February 1944, the United States and Canada held discussions about a possible multilateral trade agreement. Canadian officials thought it “highly desirable to negotiate a multilateral commercial convention covering both import restrictions and tariffs” and recommended that it include all

countries (developed and developing, private enterprise and state planned). They specifically proposed a uniform 50 percent reduction in import duties with a ceiling and floor on tariff levels. They also held that:

import prohibitions and import restrictions such as quotas and licensing systems are among the devices most destructive of international trade, as, as part of a multilateral convention, should, except in certain special cases which would be held to a minimum and closely defined, be prohibited.

Finally, Canadian officials warned the United States that it would be unrealistic to expect the elimination of imperial preferences except by gradual erosion.<sup>49</sup>

With this advice, and on the basis of the Interim Report, the State Department spent much of 1944 coordinating a broad interagency process to arrive at specific proposals for international discussion.

### 1.6 Years of Deadlock and Delay, January 1944–September 1945

Although the Keynes-White Treasury discussions had been contentious, the American and British governments moved quickly to invite many countries to participate in the Bretton Woods monetary conference in New Hampshire in July 1944 (Pressnell 1986, Dormael 1978). This conference established an international monetary regime based on fixed but adjustable exchange rates, and two institutions: the International Monetary Fund for short-term balance-of-payments lending, and the International Bank for Reconstruction and Development (World Bank) for reconstruction and development assistance.

Yet, despite the broad Anglo-American agreement on trade and commercial-policy objectives, these negotiations languished for more than a year, mainly due to growing opposition within the British government. In reporting the results of the Washington discussions to his cabinet colleagues, Richard Law encountered fierce skepticism and hostility to the project from Conservatives in the cabinet (Amery, Hudson, and Lord Beaverbrook once again). This reluctance to reduce trade barriers stemmed from their support for imperial preferences in order to maintain close ties to current and former members of the British Empire. They also voiced strong support for the discretionary use of quantitative restrictions to limit imports and support the balance of payments. Hudson as Minister of Agriculture and Fisheries worried about exposing British farmers to foreign competition. Amery expressed skepticism that multilateral freer trade would

<sup>49</sup> See the report in DER 11, 1944–1945, 70–78.



resolve the problem of large prospective balance-of-payments deficits after the war:

Is there the slightest possibility of our covering this [deficit] by increased exports, merely in consequence of some lowering of American and other tariffs, not to our exclusive advantage but to all the world under most favoured nation conditions? If Empire countries stand out, are we then, according to the Washington proposals, to be obliged to impose higher duties on them than on foreign countries which join the Commercial Union? Is Imperial Preference to be superseded by anti-Imperial discrimination? (Amery 1988, 926).

He pressed the point that “no general lowering of world tariffs . . . could compensate us for the loss of favoured markets in the Empire” (Amery 1988, 928).

Law attempted to counter all of these arguments. He reminded the cabinet that

if we insist, for reasons of administrative convenience, upon retaining our right to impose quantitative restrictions upon agricultural products, other countries will have the same the same freedom to impose quantitative restrictions upon manufactured goods.

That, Law maintained, could have a devastating impact on Britain’s export trade:

surely it should not be beyond the wit of the Minister of Agriculture to fulfil his pledge to the agricultural industry without wrecking the whole economy of the country, and without mortgaging the incomes of the poor and future of the export trades (Miller 2003, 23).

But Law’s arguments did little to quell the dissenters. As Pressnell (1986, 131, 134) writes about this period:

On the trade proposals, Mr. Law’s efforts did not satisfy the Cabinet doubters. Their flow of memoranda, verging on outright obstructionism, increased during the spring of 1944. The critics gained breathing space from Commonwealth considerations, which thrice during the early part of 1944 gave occasion or excuse for hesitation about commercial policy. Time was gained for determined opposition to harden towards the Washington proposals which, as had been feared, lost their impetus. In contrast to the protracted delays before the 1943 talks, it was now London that evaded, and the American administration which was anxious to resume, Article VII talks. . . . The main impression of British policy during these discussions was clear: cold feet were developing.

Imperial preferences remained the central issue. Churchill himself believed that “world free trade would entirely justify the abandonment of the Ottawa Preferences,” but he did not wish to impose his views for fear of losing the support of Conservatives in his fragile coalition government (Miller 2003, 231). Despite their differences, the War Cabinet agreed on one major point:

We do not wish to abandon the Imperial preference unless or until we are in presence of a vast scheme of reducing trade barriers in which the United States is taking a leading part (Miller 2003, 229).

Still, the divisions within the British government brought the trans-Atlantic commercial-policy discussions to a halt. After the Washington meetings, Robbins (1971, 203–204) recalled, everything came to a stop on the British side:

For more than twelve months there was silence on our side; we were forbidden to say anything to our American opposite numbers. Even after that, conversations were only resumed in London in the most informal way on the most strictly hypothetical basis.<sup>50</sup>

These ministerial equivocations dismayed the UK civil servants who had been involved in the commercial-policy negotiations.<sup>51</sup> Unfortunately, even Keynes remained an obstacle to those who sought a liberal multilateral trade agreement. As Cairncross and Watts (1989, 110) note:

Keynes’s correspondence during this time shows continuing efforts by the Economic Section to convince him – or keep him convinced – that the commercial policy proposals gave sufficient freedom to the UK to make justifiable use of quantitative import controls, and also that a change in

<sup>50</sup> In Robbins’s words, “What had happened was that certain ministers had been alarmed at the progress of the initial talks in Washington; and under the leadership of Lord Beaverbrook, then as always the evil genius of British politics with his capricious enthusiasms and venomous hatreds – especially hatred of America and Americans – they had staged a revolt at the Cabinet level, a revolt which could invoke in its support many public attacks on the policy of multilateral expansionism, from both the extreme Right and the extreme Left, each propagating its own form of economic nationalism.”

<sup>51</sup> On August 11, 1944, U.S. Ambassador Winant cabled Washington: “The following estimate of the present position here is based in part on further personal talks with leading officials concerned with commercial policy, who have expressed themselves frankly in strict confidence. The general position here since very early in the year has been that officials had given their advice, which was in favor of a prompt resumption of conversations on the basis of a progressive commercial policy. This advice was not acted on because of the ministerial position described in previous messages. The officials concerned were greatly irritated by ministerial attitudes and expressed themselves strongly in private to Ministers. One of them said he had been so annoyed that for some time he gave up working on the subject and turned full time to other work within his responsibilities.” FRUS (1944, II, 67).

the exchange rate would be an effective way of improving the balance of payments in normal conditions and preferable to permanent quantitative import restrictions.

With the international monetary agreement moving toward fixed but adjustable exchange rates, Meade worked hard to develop an objective indicator of balance-of-payments difficulties – based on the level of foreign-exchange reserves – so that one could know if recourse to import quotas was justified. In addition, Meade sought to develop a method of ensuring the nondiscriminatory use of import quotas by auctioning off licenses. Yet Keynes and Treasury officials were dismissive of these efforts as they wished to preserve maximal domestic autonomy to impose quantitative measures when they deemed them necessary without any external constraints.<sup>52</sup>

Keynes was uncooperative in the efforts to rebuild a liberal trading system; Meade later agreed with the characterization of his attitude as “grumpy” (Worwick and Trevithick 1983, 130). Despite his misgivings, however, Keynes was not prepared to oppose the plans for a multilateral trade arrangement. In January 1944, Keynes (1980, 284) explained his position this way:

In the case of the power to regulate imports, we are up against a very deep-seated difference of opinion. . . . James [Meade] seems to me to fail to give the only answer which carries any conviction to me, namely, that, if all the other countries in the world agree to fall in with the stipulations of his Commercial Union (which, in my judgment, is extremely unlikely), we shall gain more on the swings than we shall lose on the roundabouts. That we shall lose something on the roundabouts is, in my judgment, indisputable.

<sup>52</sup> Keynes and Meade had deep and fundamental disagreements about the efficacy of an exchange-rate depreciation in improving the trade balance and the balance of payments. In the event of a deterioration in the balance of payments, Keynes believed that imports had to be restricted to divert spending to domestic goods. Keynes feared that an exchange-rate depreciation would fail to expand exports and might deteriorate the terms of trade. Meade contended that exports would respond sufficiently to a fall in the exchange rate to remedy any shortfall in the balance of payments. Keynes (1980, 289) accused James Meade and Marcus Fleming of having “*laissez-faire* appendicitis,” arguing: “I have no sympathy with the idea, which . . . I regard as vestigial, that, if imports have to be restricted, it is in some way sounder to raise their prices by depreciation of the exchanges than by any other technique.” Fleming replied: “May I first make a few observations about ‘*laissez-faire*’, the price system etc. Perhaps I am just a relic of a by-gone age, but I certainly retain a strong attachment to the price system, not because I think it works perfectly, but because the alternative appalls me. In the past few years I have attended a good many meetings where people were engaged in allocating scarce resources between alternative uses; and no matter how high-minded and intelligent the allocators, I have always felt that the most imperfect of markets would have made a better and more sensitive job of it.” See Keynes (1980, 291). Keynes was also very skeptical of Meade’s plan to auction import quota rights as a way of ensuring their nondiscrimination application. See Meade’s reply in Keynes (1980, 275-278).

Nevertheless, I am ready to be persuaded not to oppose the scheme, on the ground that our discretion is only restricted if others are also conforming to a strict code, and that the latter, if by a miracle it does come about, may be to our very considerable advantage.

Still, British indecision allowed the trade discussions to stall for many months. In February 1944, Dalton (1986, 705) complained that

It is incredible how these rambling discussions succeed one another, every few months, with no new arguments and no one changing sides and never any really firm decisions.

A Commonwealth economic conference, held in London in February-March 1944, merely reinforced the resistance. Canada proposed a general 50 percent reduction in tariffs, with a lower limit of 10 percent, and an unbinding of all residual preferences. UK officials objected that this scheme would fail to narrow the gap between high- and low-tariff countries. They proposed a more modest tariff reduction, roughly 10 to 25 percent, with a tariff ceiling of 25 percent. Australia continued to emphasize full-employment policies, and along with New Zealand and South Africa expressed greater support for imperial preferences than they had in previous meetings (McKenzie 2002, 117ff, CDER 11, 65–66). Australia was particularly concerned that the United States would sink back into an economic depression after the war and bring other countries down with it unless some trade measures could be used to prop up domestic employment.

On April 14, 1944, Richard Law and Hugh Dalton made an attempt to secure Cabinet approval for the Commercial Union plans. After a contentious meeting, they backed off. Amery (1988, 978) reported that

Dalton I think was frightened by the course of the discussion and instead of asking for immediate publication [of the Commercial Union] now suggested that his scheme would not be right until there has been further discussions with the American experts.

This outcome depressed the supporters of the commercial-policy initiative on both sides of the Atlantic. In April 1944, Dalton (1986, 738) recorded in his diary that “the State Department is very vexed at our delays” on commercial policy and

it is generally realised at Washington, and that the Canadians understand in much more detail . . . that we are stuck, split, and in recession on Commercial Policy. The State Department is also pressing, in rather heated and indignant telegrams to the Foreign Office, and in high-level telegrams from President to PM, for an answer to their proposal to set up a Steering Committee on international economic problems.

Britain continued to stall by falling back upon the need to “consult with the Dominions.”<sup>53</sup> In early May 1944, Britain’s War Cabinet met with Dominion Prime Ministers and the outcome provided yet another opportunity for delay (McKenzie 2002, 122–126). Once again, Canada strongly supported efforts to secure a broad multilateral trade agreement on liberal terms. But the others dumped cold water on the proposal. The Prime Ministers of Australia and New Zealand spoke strongly in favor of continued high protection for industry, the importance of maintaining imperial preferences, and the necessity for quantitative restrictions on imports. The South African PM expressed doubt that the United States would ever reduce its tariff.<sup>54</sup>

With the exception of Canada, this lack of support at the highest political level in the British Commonwealth suggested that there was no consensus to move forward. Any momentum that had been achieved as a result of the Anglo-American discussions in September–October 1943 had been completely lost. Even though the United Kingdom needed to expand its exports drastically in the postwar period, Dalton (1986, 742) depressingly concluded that “there is just no hope of getting on, and that it would be a great tactical mistake even to suggest further discussions with the U.S. on this.” With much regret, Dalton observed that moving forward on commercial policy

was now quite impossible for political reasons in this country. There had been strong representations against it by the Conservative Party to the PM, who himself was in favour of it, so far as he had had time to study it, and there had even been a threat of resignation by at least one Conservative minister (Amery, though I did not name him). Liesching afterwards said to me that he quite realised the thing was now politically impossible here, and that he supposed what was most likely was a series of bilateral arrangements between the U.S. and the various Dominions, in which each of the latter would make concessions which would be helpful to them but not to us. None the less, by this most unsatisfactory means, the British Empire would be able to escape any American charge of bilking on Article VII. After an interval it may be possible, I think, to resuscitate our general plan. But not yet.

<sup>53</sup> On April 27, 1944, Dalton (1986, 739) noted in his diary: “War Cabinet on Commercial Policy. New subject! Finally agreed that I should prepare a fresh paper – this will be about No. 100! – to be put in for the Dominions P.M.s next week, making it as non-controversial as possible, and explaining that ministers here are not united and that an all-party government finds it much more difficult than a party government would, to reach agreement. Amery presses to be allowed to put in to the Dominion PMs an alternative programme, but the PM, very bored with him, shakes his head violently and says, ‘No, no, no.’ The PM is on my side – he says to me tonight, ‘I agree very much with many of the things you say’ – but is troubled by the split, and the active pro-Preference agitation, in the Tory Party.”

<sup>54</sup> As for India and Southern Rhodesia, Dalton (1986, 742) noted, they “are rather obviously treated as being ‘below the line.’”

After the Prime Minister’s conference, Dalton (1986, 745–746) met Canada’s Norman Robertson “who is very sad at what he calls the ‘confused and ignoble end of the Commercial Policy proposals.’” Indeed, Canadian officials watched with growing concern the crumbling of British support for multilateral trade initiatives. In March 1944, Robertson observed that

The distance between the United States and the United Kingdom positions appear to have widened a good deal since they first met in Washington in October. In general, objectives seem to be shrinking and receding.

If the multilateral approach failed, Robertson suggested that Canada would have to cut its own bilateral deal with the United States:

It seems to me that, as the multilateral programme becomes more modest and more remote, we shall have to look more seriously and more quickly at the specific problem of Canadian-American trade relations. I had envisioned a bilateral agreement with the United States, supplementing a general multilateral tariff reduction, but if effective multilateral action is to be indefinitely deferred and, when achieved, prove modest, then I think we may have to look at the question again from the continental perspective (DCER 11, 67).

Meanwhile, State Department officials grew increasingly frustrated with Britain’s dithering, but proceeded with their own plans.<sup>55</sup> In the aftermath of the October 1943 meeting with UK officials and the December 1943 Interim Report, the United States began to formulate its own proposals on trade. In May 1944, the Executive Committee on Economic Foreign Policy (headed by Dean Acheson) appointed a Committee on Trade Barriers (chaired by

<sup>55</sup> In July 1944, Dalton (1986, 766) noted that “when months passed without replies to their suggestions and inquiries [on commercial policy], we gave the impression of having all gone to ground, and of being sulky, reserved and non-committal. This irritated the Americans a good deal.” In September 1944, Cordell Hull wrote to Roosevelt noting that the British government faced strong and growing pressures to retreat from plans for a liberal postwar commercial policy. To put the postwar world “on as sound an economic foundation as possible must be accompanied by vigorous British efforts to join with us in pressing a world-wide program of multilateral reduction in barriers to international trade. . . . The British must be urged to implement these arrangements, and to join with us – through the Article VII conversations and otherwise – in thorough consideration of the remaining elements of our international economic program. It is of fundamental importance to the interests of the United States and to the establishment of the kind of economic conditions which we hope to see prevail in the post-war world that . . . we have assurances from the British that they will actively cooperate with us in achieving them. You are aware of the political situation in the British government which has impeded this, and I know you will agree that it is time that some forward steps be taken to resolve it” (FRUS 1944, III, 56).

William A. Fowler of the State Department) to draft a possible convention as the basis for further discussion. In mid-1944, the State Department circulated an options paper that weighed the pros and cons of five approaches to tariff reduction. Proposal A called for a horizontal tariff reduction plus safeguards to protect domestic industries harmed by imports. Proposal B called for selective tariff reductions on a bilateral basis, which could be accomplished under the existing RTAA legislation. Proposal C anticipated bilateral negotiations to reduce tariff and nontariff barriers. Proposal D suggested horizontal tariff reduction and supplemental bilateral trade agreements. Proposal E envisioned multilateral negotiations over nontariff barriers, cartels, commodities, and other areas, and then bilateral negotiations to reduce tariffs on a selective basis. Most State Department officials favored Proposal A, but recognized that proposal E might be more politically feasible (Aaronson 1996, 42–43). Assistant Secretary of State Will Clayton indicated that he preferred the multilateral to the multilateral-bilateral approach.<sup>56</sup>

In October 1944, the State Department-led interagency group completed a draft convention and presented it to Acheson's committee. The "Proposed Multilateral Convention on Commercial Policy" went far beyond the template reciprocal trade agreements of the 1930s (Annex A-4). The group suggested that the United States adopt the negotiating position of calling for a 50 percent horizontal tariff reduction, subject to a 10 percent floor, and a five-year window in which import quotas could be used in case of serious injury to any industry resulting from increased imports. All tariff preferences would be eliminated or reduced, and quantitative restrictions would be abolished, subject to permanent exceptions (when imposed under commodity agreements or in conjunction with measures to restrict domestic output) and temporary exceptions (liquidation of government surpluses) for no more than three years after the war. Other sections of the proposed convention dealt with exchange controls, state trading (guaranteeing equality of treatment), subsidies (both export and domestic prohibited, except transitional export subsidies and for products in chronic world surplus), and provisions on restrictive business practices, something President Roosevelt himself had instructed Hull to include.<sup>57</sup> Another provision gave developing countries more flexibility in adhering to the convention.

<sup>56</sup> Letter to William Fowler, 31 December 1944, National Archives II, LF 57-D, Box 60, 284.

<sup>57</sup> In September 1944, President Roosevelt wrote to Hull reminding him that the United States had "developed a tradition in opposition to private monopolies" and that "this policy goes hand in glove with the liberal principles of international trade." He urged Hull to keep an eye on ways to restrict cartels that interfered with the free flow of commerce between countries. Hull pledged to do so. FRUS (1944 II, 71–72, 87).

In November 1944, Dean Acheson testified before Congress and gave one of the first public discussions of the administration's postwar commercial-policy plans. Acheson (1944, 660) warned:

The pre-war network of trade barriers and trade discrimination, if allowed to come back into operation after this war, would greatly restrict the opportunities to revive and expand international trade. . . . Action by governments, working together to reduce these barriers and to eliminate these discriminations, is needed to pave the way for the increase in trade after the war which we must have if we are to attain our goal of full employment.

With the approaching transition from war to peace, he continued, the world was

presented with a unique opportunity for constructive action in cooperation with other countries. . . . We therefore propose to seek an early understanding with the leading trading nations, indeed with as many nations as possible, for the effective and substantial reduction of all kinds of barriers to trade. The objectives of such an endeavor would be:

To eliminate all forms of discriminatory treatment in international commerce;

To make exchange restrictions on commercial transactions unnecessary, . . . .

To achieve the progressive elimination of quotas, embargoes, and prohibitions against exports and imports;

To reduce import tariffs;

To lay down fair rules of trade, with reference to government monopolies and state trading, including trade between countries where private enterprise prevails and those where foreign trade is managed by the state;

To create an international-trade organization to study international-trade problems and to recommend practical solutions.

We propose, in other words, that this Government go on with the work which it has been doing during the last 10 years, even more vigorously, with more countries, and in a more fundamental and substantial way.

Finally, Acheson concluded,

It is our purpose in the Department of State to press forward as firmly as we can in the general direction I have outlined, consulting fully with the

appropriate committees of the Congress. If exploratory discussions with representatives of other governments give encouragement to our efforts, a trade conference of the United and Associated Nations should be held at the earliest practicable date for the negotiation of an agreement for the reduction of all kinds of barriers to trade. This agreement would of course be submitted to the Congress for its consideration.

In December 1944, American and British officials met to discuss commercial policy for the first time since October 1943. Harry Hawkins briefed his British counterparts in London on the new U.S. proposals for a multilateral commercial agreement. According to Meade (1990, 14), the pertinent elements of the draft included

a declaration about domestic employment policies; a cut in all tariffs by 50 per cent with a floor of 10 per cent; preference margins to be squeezed by applying these tariff cuts to the non-preferential rates and not to the preferential rates, with a maximum percentage limit to preference margins; quantitative restrictions to be permitted for five years from the signing of the Convention (provided the quota were not less than actual imports in a pre-war base period) and then to be continued only with the agreement of the proposed International Commercial Policy Organisation (IPCO) on a "tailing-off" basis and such quantitative restrictions could be imposed again later with the permission of the ICPO (which would be bound to allow them if they were necessary to ease a re-adjustment of industry due to some structural change) again on the basis that they would be "tailed-off" over a period of years.

Meade was enthusiastic about the American plan, believing that it "puts commercial policy on the map again. . . . It is difficult to see how we can lightly refuse an offer to halve the American tariff, when the Americans have gone out of their way to meet us (i) on employment policies, (ii) on not demanding the total elimination of imperial preferences, and (iii) on the quantitative regulation of trade" (HM 14, 18).

However, even as the commercial-policy civil servants welcomed the plan – Hawkins noted that their reaction was "wholly favorable" – other British officials reacted with skepticism and emphasized the outstanding problems.<sup>58</sup> Meade (1990, 18) noted:

The talks with Hawkins have been continued. He has finished outlining the American proposals, which do not mention anything more very startling,

<sup>58</sup> See the U.S. account of the meeting in FRUS 1944, II, 99–101.

but are bold and sensible. There was then a meeting of UK officials to decide how to proceed. Lionel [Robbins] tells me that this meeting was terrible. At it Liesching produced a paper by Shackle which was certainly lamentable – all full of the difficulties of a general multilateral agreement and emphasising every difficulty and disadvantage in the American proposals and overlooking all the many advantages of them. I really believe that the professional economists are the only people among officials (apart from Clutterbuck of the Dominions Office) who really wish to get an agreement. And yet an agreement is so patently in our interests and failure to agree with the Americans on it so patently dangerous.<sup>59</sup>

In fact, Britain responded to the American proposals by retreating from them. Ambassador John Winant cabled Washington with the disappointing British response, that there were "doubts as to the ability of the United Kingdom to fit itself into a multilateral system in the peculiar environment in which the country would find itself immediately after the war." They also wanted to create a special arrangement for agricultural trade outside any main agreement.<sup>60</sup> On state trading, "The United Kingdom officials emphasized strongly their desire to avoid having any words hostile to state trading either in the convention or in the records of negotiations."

These setbacks, in the form of new conditions and delays, delighted British opponents of a multilateral trade agreement. Amery (1988, 931) was heartened

<sup>59</sup> Hawkins sensed this negative British reaction. After a December 1944 dinner, Meade (1990, 20) wrote in his diary that Hawkins made "a very sad remark which wrung my withers. He argued how, if the USA and the UK really agreed together on the desirability of a liberal commercial policy, it would be irresistible throughout the world; and he said with a sigh that just as now the USA was turning rapidly towards the old English tradition of liberalising trade, just at that very moment the UK seemed to be moving as rapidly towards the evil old American tradition of high protectionism."

<sup>60</sup> See FRUS (1944, II, 99–104). "The United Kingdom have abandoned the idea of bringing agriculture wholly within the general provisions of the multilateral convention on commercial policy and instead have framed a plan for multilateral provisions for trade in food products which would be included in a multilateral convention on commercial policy. They support this stand on the ground that agricultural production is particularly subject to wide fluctuations and that ideas developed at Washington are not adequate for dealing with this problem. . . . Their conclusion is that such stability cannot be attained unless imports are regulated, that no single method is adequate for the purpose of such regulation, and that either tariffs or subsidies or quotas or a combination of two or all of them might have to be used in particular cases. They have therefore, as far as primary foodstuffs go, departed from the views expressed in Article VII talks in Washington favoring the use of subsidies instead of quotas and tariffs and do not wish to be restricted as to method of controlling imports, but will accept certain limitations on their use such as those outlined below" (FRUS 1944, II, 99–101).

that the increasing stress on full employment rather than trade liberalization appeared to slow the movement toward an agreement:

Once things are seriously discussed from the angle of employment and wages I fancy that we shall hear little more of the American attempt to push us back . . . into nineteenth century free trade and nondiscrimination. I believe we are slowly but steadily winning all along the line.

Keynes continued his skepticism about the commercial-policy discussions. In January 1945, Meade recorded a conversation with him in which Keynes reflected the prevailing attitude of indifference towards the American proposals. Meade (1990, 26) lamented that

As often on this subject, Keynes was not at his best. He seemed to think that the thing to do was to go for a general "gentlemen's agreement" or statement of principles as to what countries would or would not generally do . . . I maintained that many senior officials here were not simply trying to show Hawkins our very real difficulties; but they wished to put off the whole question, and this, I maintained, was riding for certain catastrophe as the USA certainly intended sooner or later to have some real liberalisation of commercial policy."

By early 1945, the European war was drawing to a close and the postwar era was no longer some distant period. Still, the plans for commercial policy had not yet reached an advanced stage. At this critical juncture, there were important personnel changes on both sides of the Atlantic. In the United States, after serving as Secretary of State for 11 years, Cordell Hull retired in November 1944. Although his successors (Edward Stettinius from November 1944 to June 1945 and James Byrnes from July 1945 to September 1946) did not share Hull's passionate beliefs about trade policy, Will Clayton, the new Assistant Secretary of State for Economic Affairs, embraced the cause of nondiscriminatory trade liberalization with even greater fervor than Hull. In December 1944, the incoming Clayton wrote to the retired Hull:

The first letter I sign on State Department stationery is to you. . . . I want to assure you that your foreign policy is so thoroughly ingrained in my system that I shall always work and fight for it (Fossedal 1993, 136).<sup>61</sup>

Also in late 1944, Harry Hawkins left his position as director of the Division of Commercial Policy and Agreements and became the Minister-Counselor for

<sup>61</sup> As Clayton (1963, 501) said: "I have always believed that tariffs and other impediments to international trade were set up for the short-term, special benefit of politically powerful minority groups and were against the national and international interest."

Economic Affairs with the U.S. Embassy in London where he continued to play a key role in the Anglo-American negotiations. In early 1945, Clair Wilcox, an economics professor at Swarthmore College, became the director of the State Department's newly named Office of International Trade Policy. Finally, President Roosevelt died in April 1945 and was succeeded by Vice President Harry Truman.

Britain also experienced important transitions. The wartime coalition government was dissolved after Germany's surrender and Winston Churchill's Conservative party lost the General Election of July 1945. Clement Attlee led a new Labour government that was committed to economic planning and full employment. Hugh Dalton left the Board of Trade and became Chancellor of the Exchequer. Sir Stafford Cripps, a staunch socialist Labour MP, became the new President of the Board of Trade. This left British policy in a very uncertain state. While the Labour party was not as wedded to imperial preferences as the Conservatives, and Dalton at the Board of Trade had supported multilateral freer trade, the Labour party was in a "theological maze" in trying to reconcile planning with a liberal trade system, according to a Treasury official.<sup>62</sup>

These transitions could have completely derailed the commercial-policy negotiations: President Truman could have held different views on commercial policy, the State Department without Hull could have abandoned its belief in the importance of liberal trade in the postwar era, and the Labor government could have halted the process by focusing exclusively on full employment and economic planning at home to the neglect of foreign-trade policy. Yet, despite these changes in personnel, American and British policy remained remarkably unaffected. In the United States, Truman and Clayton assured policy continuity. Truman had been a faithful adherent to the long-standing Democratic position on trade policy. In his first press conference as president, just days after taking office, Truman stated:

I am for the reciprocal trade agreements program. Always have been for it. I think you will find in the record where I stood before, when it was up in the Senate before, and I haven't changed.<sup>63</sup>

In Britain as well, the Labour government opted for continuity, and was even more favorably disposed to open multilateral trade than Churchill's War Cabinet

<sup>62</sup> See Toye (2000) and Miller (2003, 204). Hugh Dalton summed up his view: "When people ask me whether I believe in free trade or protection, I reply, 'Neither, I believe in planning'" (Miller 2003, 254).

<sup>63</sup> This did not mean that he understood all the details of the negotiations or the issues at stake. After Clayton briefed the new president on the status of the postwar plans for commercial policy, Truman sighed, "I don't know anything about these things. I certainly don't know what I'm doing about them. I need help" (Fossedal 1993, 152).

had been.<sup>64</sup> In February 1944, a time when Conservatives such as Amery and Beaverbrook were causing problems and holding up decisions on commercial policy, Clement Attlee told Churchill and the War Cabinet that he favored the approach taken at the September-October 1943 Anglo-American meeting (Dalton 1986, 705). Once in power, however, Labour leaders found it difficult to relinquish imperial preferences under American pressure.

U.S. officials remained concerned about the languishing state of the trade negotiations. In February 1945, Secretary of State Edward Stettinius – who, coincidentally, had been a student of Harry Hawkins at the University of Virginia in the early 1920s – wrote to President Roosevelt that Churchill had the impression that the president was not interested in the Article VII discussions:

This mistaken impression on the part of the Prime Minister has tended to encourage the British to take an unyielding attitude on the matter of their Empire preferences and trade barriers.

Roosevelt immediately wrote to Churchill, affirming the importance of the Article VII talks and urging that they be “re-invigorated” by his appointing a high-level delegation to meet with U.S. officials (FRUS 1945, Yalta, 962). Churchill rejected this suggestion and stalled again by citing the need to consult with other countries.<sup>65</sup>

In early 1945, the State Department’s first trade-related priority was to renew the negotiating authority in the Reciprocal Trade Agreement Act, which was due to expire that summer. This renewal would be unlike previous ones because it would provide the statutory basis for the postwar tariff negotiations. The Roosevelt administration decided to ask for authority to reduce tariffs by up to 50 percent from their 1945 level, not their 1934 rates as in previous renewals, in executive agreements that did not require Congressional approval. This new tariff-cutting authority was sought because duties had been reduced significantly from their 1934 level under previous reciprocal trade agreements and the State Department wanted to be prepared for new and extensive tariff reductions in postwar negotiations.

The State Department also grappled with the key question of whether to ask for permission to reduce tariffs on an across-the-board basis or on a selective basis. The selective, product-by-product basis granted in previous RTAA renewals had been designed to avoid tariff reductions that would adversely affect

<sup>64</sup> See Toye (2000) on the Labour government’s approach to foreign economic policy.

<sup>65</sup> According to Churchill, “The War Cabinet do not wish to commit themselves at this stage of the war to sending a high-powered delegation to Washington. This must involve bringing other countries into the discussions, notably France, at an early stage and of course the present mood of the Dominions must be ascertained before we go further on general policy.” FRUS (1945, VI, 21).

import-sensitive industries. In discussions with Britain and Canada, however, State Department officials had been persuaded of the merits of a broad, horizontal tariff reduction as a more expedient way of reducing import duties. This was written into the draft RTAA renewal legislation that the administration circulated for Congressional consideration.

In March 1945, senior State Department officials consulted with key leaders on Capitol Hill and reported that the initial reaction of the Speaker of the House Sam Rayburn and the chairman of the Ways and Means Committee was “very discouraging.” While the Congressmen saw no problem with a three-year renewal of the negotiating authority under Section 1 of the proposed RTAA legislation, or even with the new 50 percent tariff reduction authority in Section 2, they regarded Section 3, permitting across-the-board tariff reductions as opposed to the selective approach, as very problematic. A State Department memo reported the reaction of Congressional leaders: “While they seemed to like the objective of the section, they were fearful that its inclusion would complicate and prolong Congressional consideration” of the new 50 percent authority and “make it very difficult, if not impossible, to get Section 2 unqualified by some form of Congressional approval. They did not close the door to Section 3 but Departmental officers who met with them came away with the feeling that the leaders felt very strongly that it should be dropped” (FRUS, 1945, VI, 27–28).

This left the State Department pondering whether to opt for the authority to reduce tariffs by up to 50 percent on a selective basis, or to reduce them by a smaller amount on a horizontal basis. Hawkins and other civil servants did not want to compromise and advocated pushing for the 50 percent authority on a horizontal basis. From London, Ambassador John Winant cabled Washington with his view that “the greatest importance should be given” to initiating multilateral negotiations along the lines of the general (not selective) authority, warning:

I do not think renewal of the Reciprocal Trade Agreements Act, even with powers to make greater reductions in tariffs, would in itself make a great enough impression in UK to counteract the views either of the reactionaries who do not like article VII or the honest doubters who wish to support it but fear that we shall not do our part in implementing article VII. . . sooner or later it will be necessary to obtain Congressional approval for a commercial policy measure that will go far enough to make a deep and convincing impression here and get the support of the British government (FRUS, 1945, VI, 29–30).

In the end, however, Dean Acheson and Will Clayton decided to ask for the authority to reduce tariffs by up to 50 percent on a selective basis.<sup>66</sup> On

<sup>66</sup> E. F. Penrose (1953, 106-107), an official with the U.S. Embassy in London, later recalled: “My impression is that most of the leading U.S. officials concerned with trade questions

March 26, 1945, the Roosevelt administration formally requested the enactment of legislation to this effect. In making the request, President Roosevelt stated that “trade is fundamental to the prosperity of nations” and:

the reciprocal trade agreement program represented a sustained effort to reduce the barriers which the Nations of the world maintained against each other's trade. If the economic foundations of the peace are to be as secure as the political foundations, it is clear that this effort must be continued, vigorously and effectively. I shall continue therefore to explore the possibility also of reaching a common understanding with the friendly Nations of the world on some of the other international trade problems that confront us. . . . The purpose of the whole effort is to eliminate economic warfare, to make practical international cooperation effective on as many fronts as possible, and so to lay the economic basis for the secure and peaceful world we all desire.<sup>67</sup>

While Democrats were firmly in control of Congress, suggesting that the outcome of the 1945 renewal process should not have been in great doubt, the result clearly

believed that a percentage reduction of all tariffs was a sounder and simpler method of reducing postwar tariffs than the method followed in the reciprocal trade agreements. There were indeed a number of difficulties of application, but they were not insuperable and it seems fair to say that if the decision could have been based on economic effects alone Washington and Whitehall would have been in substantial agreement on the subject. . . . The outcome of the discussion on this question was determined, not by economic reasoning, nor on grounds of equity but by what the Assistant Secretaries in the State Department believed it possible to pass through Congress. Here again the administration spokesmen had committed themselves, in the hearings on the renewal of the powers to negotiate reciprocal tariff reduction, to the principle of reciprocity and to the principle that each country should be left free to select the goods on which it was willing to reduce tariffs. They did not believe that Congress could be induced to go beyond the limits set by their Reciprocal Trade Agreements Act. In retrospect the validity of their judgment on this matter is doubtful, and in any case it seemed to some of us at the time that the attempt ought to have been made even if it failed.” As State Department official John Leddy recalled: “And they – Acheson and Clayton – decided to go for 50 percent authority to cut tariffs, but on a selective basis, product by product. There were last minute appeals to the Department by the British and Canadians. Notably, one I recall, when Norman Robertson of Canada (Under Secretary of State in Canada at that time) came down here in a very strong appeal to Clayton that this was a disastrous decision. That if we went ahead on this basis that the chances of getting a really effective postwar agreement would be gone, go glimmering, and therefore, he appealed. He said, ‘Almost anything would be better than what you seem to be thinking of doing.’ And Clayton said, ‘Well, I’m sorry but this is the way it is in this country. We just have no choice. We have no choice except to either throw up our hands at getting some kind of an improvement in the international situation or this, even though it may not meet your desires for a horizontal reduction.’ And so the Canadians just sighed and went back home, and were really downhearted about this, but we put up the legislation and got it through.” <http://www.trumanlibrary.org/orallhist/leddyj.htm> (last visited Jan. 17, 2008)

<sup>67</sup> “Recommendation for Renewal of the Trade Agreements Act,” State Department *Bulletin*, April 1, 1945, 532–533.

mattered more than in any previous renewal. Unlike the pro forma 1943 renewal, Congress was now very wary of granting the new authority. As State Department official John Leddy noted: “during the hearings on the Act we have played up selectivity probably more than during any previous renewal. . . to get the authority. There is likely to be considerable opposition to any plan involving horizontal reductions” (Aaronson 1996, 47).

Because of the strict majority-party rules in the House, which limited debate and the ability to offer amendments from the floor, the House's passage was expected to be relatively straightforward. Still, as in past renewals, Republicans repeatedly tried to restrict the president's powers and hoped to entice a few Democrats to support their more cautious approach. Republicans complained about the unchecked concentration of power in the executive branch over the life and death of American industries, as they put it. They supported a one-year extension without the authority to reduce tariffs by 50 percent from their 1945 level, a move that Democrats defeated. Then Rep. Harold Knutson (R-MN) proposed deleting all of section 2 of the proposed bill, the new 50 percent tariff-cutting authority, which was in his words “the crux of the whole fight” (Congressional Record, May 26, 1945, 5124). This move must have been anticipated because House Speaker Sam Rayburn then took to the floor to warn that “there is a big chance here to make a big mistake.” He argued that the trade-agreements program should be strengthened to meet the demands of postwar cooperation and then read a letter from President Truman pledging that American industry and labor would not be sold out in the trade agreements.<sup>68</sup> The proposed amendment to eliminate section 2 was narrowly rejected by a vote of 174 yeas to 197 nays. A swing of just 12 members of the House could have reversed the outcome of this crucial vote and brought down the plans for extensive trade liberalization after the war.

Galvanized by the president's appeal, the Democratic leadership helped defeat the remaining amendments (12 in all) that would have given Congress veto power over any agreement, reduced or eliminated the new authority, or otherwise eviscerated the bill. Dean Acheson, who was the senior official responsible for ensuring its passage through Congress, was unimpressed by the Congressional debate which focused mainly on the impact on domestic

<sup>68</sup> The president wrote: “I assume there is no doubt that the act will be renewed. The real question is whether the renewal is to be in such a form as to make the act effective. For that purpose the enlargement of authority provided by section 2 of the pending bill is essential. I have had drawn to my attention statements to the effect that this increased authority might be used in such a way as to endanger or ‘trade out’ segments of American industry, American agriculture, or American labor. No such action was taken under President Roosevelt and Cordell Hull, and no such action will take place under my presidency.” Congressional Record, May 26, 1945, 5148.



industries, not the foreign policy implications. As he noted at the time, it was

a dreary and wholly unrealistic debate. Few of the claimed virtues of the bill were really true and none of the fancied dangers. The true facts lay in a different field from that where the shells from both sides were landing (Acheson 1969, 107).

Finally, in May 1945, the House voted 239–153 to renew the RTAA for three years. As usual, the final vote was largely along party lines: 95 percent of Democrats favored renewal while 81 percent of Republicans were opposed. Although the final margin was comfortable, Acheson (1969, 107) noted that “this does not tell the true story. It was very close on the critical amendments which would have killed the bill.”

The renewal faced more dangers in the Senate. At the instigation of Sen. Robert Taft (R-OH), the Senate Foreign Relations Committee voted 10–9 to eliminate section 2 of the bill. The Senate rejected this recommendation by a vote of 33–47. Democrats defeated a bevy of other hostile amendments, including ones to require Senate ratification of any trade agreements, to prohibit any cuts in duties on agricultural commodities, to impose import quotas on textiles, and so forth. On June 20, 1945, the Senate voted 54 to 21 in favor of the RTAA’s extension.

Buoyed by their success in Congress, the State Department sought to rejuvenate the languishing commercial-policy plans by resuming contact with their British counterparts.<sup>69</sup> However, British officials did not realize the choice the State Department had to make about the limitations in the legislative renewal. On June 27, 1945, in London, Harry Hawkins informed his British counterparts that, although Congress had approved legislative authority to undertake significant tariff reductions, it would only permit selective and not horizontal tariff cuts. Therefore, the United States proposed going ahead with a “multilateral-bilateral” approach wherein countries would negotiate on a bilateral, product-by-product basis with the principal supplier of the good in question, and the resulting tariff reductions would be generalized to other participating countries via the most-favored-nation clause (FRUS, 1945, VI, 57).

The British were sorely disappointed at this news. This was a huge blow to their ambitious hopes for a large multilateral tariff reduction on a uniform

<sup>69</sup> At this time, Meade (1990, 90–91) reported that the Americans “have now made it clear that they have a definite programme: first, they wish to agree with us behind the scenes a statement of principles on commercial policy; secondly, they intend then to publish it on their own initiative as their own document, after some discussion with Congress behind the scenes and possibly after some discussion with other countries; and finally, they intend to call a trade conference on the subject, this latter stage to be reached early in 1946.”

and nonselective basis. Wilfrid Eady of the UK Treasury told Hawkins that the abandonment of the multilateral approach with a general tariff cut “would be the end of all we hope to achieve . . . the end of everything worth having . . . the UK would go into [the negotiations] with no heart and no expectation of anything worthwhile coming out of it” (FRUS, 1945, VI, 58). Lionel Robbins made several objections to the U.S. approach: the length of time it would take to conduct bilateral negotiations, the negotiating complexity of undertaking multiple bilateral deals (a “nightmare conception”), and the lost psychological advantages of a simple uniform percentage reduction in all tariffs in which all countries sacrifice at once (FRUS 1945, VI, 57). Liesching also added that the Board of Trade only had enough qualified personnel to negotiate one commercial treaty at a time, reminding them that the 1938 US-UK trade agreement took 10 months to complete. He further argued that “the chances of dealing successfully with preferences would be much greater if a substantial uniform all round cut were made than if an attempt at gradually whittling down by a multitude of reciprocal pacts were made” (FRUS 1945, VI, 58). Robbins agreed that the United Kingdom would find it much easier to swallow a reduction in preferences in a multilateral context than it would under the bilateral method.<sup>70</sup>

The British officials also put forward a Draft Statement of Principles as a response to the American draft presented by Hawkins in December 1944.<sup>71</sup> The UK draft strongly favored a single international trade organization with subsections on commercial policy, commodity policy, and restrictive practices, and a separate section on employment, which had drawn the opposition of Meade and other economists.<sup>72</sup> But they now questioned whether an organization

<sup>70</sup> E. F. Penrose (1953, 109), who had been present at that meeting, later recalled: “I do not think that Whitehall ever again showed the zeal for tariff reduction which it had shown while hope remained for a comprehensive and fairly simple method of reducing tariffs at a single international gathering.” However, the British government was also under pressure from the Agriculture Ministry to abandon the uniform method of tariff reduction, at least on agricultural products.

<sup>71</sup> These can be found as “Article VII: Specimen Draft of a Possible Statement of Principles,” June 1945, PRO FO 371/45680. According to Meade (1990, 106), “Our statement of principles is, of course, put forward without commitment, merely as an illustration of the form which such a statement might take, etc. etc. Nevertheless it was only put forward after consultation with the Chancellor of the Exchequer and the President of the Board of Trade and in fact it marks a very definite step forward in the negotiations. The statement covers commercial policy, commodity policy and cartel policy in a quite unexceptional manner. It does, however, also have a section on Employment policy.”

<sup>72</sup> The section on employment policy covered trade aspects of employment policy and contained a pledge to maintain full employment. In July 1945, Meade (1990, 106–107) wrote in his diary: “This seems to me to be all wrong, and Marcus Fleming and I have done our best to persuade Lionel Robbins that it is wrong. Of course, we want to get an international recognition of the fact that it is the international duty of countries to maintain their demand

could play an effective role under the bilateral arrangements envisioned by the Americans. Hawkins offered little prospect for a change in the U.S. position. He countered with the hope that a small nuclear group of important trading countries (the United States, the United Kingdom, and the Commonwealth, at a minimum) could get together and negotiate bilaterally but simultaneously and achieve something approaching a uniform tariff reduction.

In July 1945 in Washington and in Ottawa, Will Clayton and his deputies met with their Canadian counterparts to discuss the commercial-policy options.<sup>73</sup> The Canadians were also informed that the United States was constrained by the RTAA to undertake selective tariff reductions on a bilateral basis, rather than an across-the-board horizontal tariff reduction. Canadian officials were "deeply disappointed and dismayed" with this news. They said that this would require "a complete reappraisal of what could be expected to be accomplished in the trade-barrier field as well." They also warned U.S. officials that, while a horizontal approach might make a dent in imperial preferences, a selective approach would fail to do so (FRUS 1945, VI, 63, 67; DCER 11, 100). Canadian officials repeated the British view that the multilateral-bilateral approach would take years to complete because of the multiplicity of bilateral negotiations.

While Clayton indicated that the door was not completely closed to the idea of a horizontal tariff reduction, a joint U.S.-Canadian account of the meeting noted: "Both Mr. Acheson and Mr. Clayton were firmly convinced that, even apart from considerations growing out of the increased trade-agreements authority,

for their goods. But it is quite wrong to connect this specially with the International Trade Organization, for two reasons. First, Employment Policy concerns monetary policy just as much as, if not more than, trade policy. It should, therefore, form the main task of the Economic and Social Council of the new world organization to co-ordinate action on employment policy. This task has already been recognised as belonging to the Economic and Social Council, and we should not therefore set up the International Trade Organisation as a rival in this field. Secondly, there is a very dangerous trend of thought in the USA, of which Will Clayton in the State Department may be taken as a symbol, that the way to cure unemployment is to have stable exchange rates and free trade rather than (what is much nearer the truth) that the only way to achieve the conditions in which one can establish freer trade and more stable exchange rates is for countries to adopt suitable domestic policies for maintaining employment. . . . My fear is that if employment policy is made a central feature of the trade convention we should get the cart before the horse once more and find the emphasis on the fact that we want free trade to give employment rather than that countries like the USA must take domestic measures to maintain employment if they want other countries to reduce trade barriers. My own view of the correct course is (i) that the trade convention should only have a passing reference to employment policy in its preamble and (ii) that the Trade Conference should pass a resolution saying that the successful operation of the trade convention depends upon domestic policies for full employment and asking the Economic and Social Council to get on with the subject."

<sup>73</sup> U.S. reports on the meetings can be found at FRUS (1945, VI, 61-74), while the Canadian report is DCER (XI, 99-106).

legislative approval of the plan for horizontal tariff reduction could not be obtained and that it would be virtually useless to make the attempt" (FRUS 1945, VI, 68).

Canadian officials suggested that other countries should propose the horizontal approach as a way of forcing Congress to move in that direction, but the Americans rejected this, saying that Congress would be suspicious of such a proposal coming from other countries. Canada repeated its interest in a bilateral trade agreement with the United States should the multilateral initiative fail to materialize.

While disappointed with the multilateral-bilateral approach proposed by the United States, Canadian officials made a suggestion that soon took on immense importance. If the multilateral-bilateral approach had to be taken, the Canadians suggested, it would be undesirable to attempt to negotiate tariff reductions with many countries at the bargaining table:

"judging from past experience, the presence at a general international conference of the less important, and for the most part protectionist-minded, countries, would inevitably result in a watering-down of the commitment which a smaller number of the major trading nations might find it possible to enter into" (FRUS 1945, VI, 71-72; CDER 11, 104).<sup>74</sup>

Therefore, Canadian officials suggested that a small "nuclear" group of eight to twelve nations start things off.<sup>75</sup>

This Canadian proposal is the first hint that something along the lines of a GATT might be a useful precursor to an ITO. And Canada's idea had an immediate impact on U.S. policy. As a result of these discussions, in late July 1945, the Executive Committee on Economic Foreign Policy recommended abandoning the multilateral-bilateral approach that had been proposed and instead adopting the "selective nuclear multilateral-bilateral" approach (FRUS

<sup>74</sup> For example, although U.S. and Canadian representatives agreed that employment measures were an important component of the trade package, "they also agreed that adoption of the extreme views put forth by the Australians, favoring a rigid international commitment to maintain employment and advocating an 'escape' clause from international commitments if employment were not maintained, would be impracticable and unwise" (FRUS 1945, VI, 64).

<sup>75</sup> They also worried about free riders under the selective approach. "Under the plan for horizontal tariff reduction it would have been possible to compel reluctant countries to participate in the plan by threatening to withhold the tariff benefits if they did not participate. This would have been politically feasible internationally because the requirements under the plan for a horizontal cut would be equitable, simple, and easy to understand. Any selective method of tariff reduction would be complicated and to some extent inequitable vis-a-vis outsiders and could not well be used as a weapon to force them in" (DCER 11, 100-101). Canada also proposed giving duty-free treatment for goods in which there was substantial bilateral trade.

1945 VI, 74–76). Under the selective nuclear multilateral approach, a group of about a dozen countries would negotiate bilateral agreements for selective tariff reductions and reach informal agreement on a code dealing with tariff preferences and nontariff barriers. This agreement would then be presented to a general international conference consisting of many other countries.<sup>76</sup> Thus, by July 1945, the United States had a rough conception of the process by which it could move from draft proposals to negotiated agreements, and also had in mind a two-track procedure that would lead to a GATT as distinct from the ITO.

In August 1945, Clayton met with British officials in London to discuss these plans. In the view of U.S. officials attending, “the general attitude of UK officials at this meeting was extremely pessimistic” as the British raised one objection after another (FRUS 1945, VI, 92).<sup>77</sup> They emphasized that the proposed separation of negotiations over tariffs and preferences was a nonstarter. British officials insisted that preferences should not be viewed as a distinct category of nontariff barriers, but must be discussed in the context of overall tariff reductions. They strongly criticized U.S. proposals on import quotas and export subsidies. They believed that granting permission to impose import quotas if limits were placed on domestic production, as the United States had in agriculture would open the door to all sorts of objectionable restrictions.<sup>78</sup> They also rejected allowing export subsidies on commodities in world surplus as blatantly inconsistent – Liesching called it “almost immoral” – with the overall proposal. On the other hand, the British also wanted fewer restrictions on the use of import quotas for balance-of-payments

<sup>76</sup> “Should the British refuse to accept the nuclear-multilateral procedure, this would provide an immediate and obvious occasion for reexamining the multilateral-horizontal approach with the Congress,” the committee concluded (FRUS 1945, VI, 76). In August 1945, the State Department considered 11 countries as possible members of a nuclear group: the United Kingdom, Canada, Australia, New Zealand, South Africa, France, the Netherlands, Belgium, the Soviet Union, China, and Brazil. They excluded India because “the strongly protectionist sentiment in India makes it unlikely that India could be persuaded to join the nuclear group in expeditious tariff reduction” (FRUS 1945, VI, 88–89). In October, the United Kingdom requested that India be included.

<sup>77</sup> For the UK account of the meeting, see DBPO III, 6–10.

<sup>78</sup> “UK officials strongly criticized US proposals on quotas, maintaining that the provisions would permit quotas on the whole front. They did not agree that the provision that corresponding domestic restrictions must be imposed was a satisfactory check on the undue use of quotas. Shackle and Robbins maintained that it was most difficult to ascertain by how much domestic production was effectively restricted and whether such restriction was equivalent to the import restriction. Liesching, Robbins and Shackle objected to the proposals for subsidies on commodities in world surplus. Robbins said the main objection was to the idea that once it was agreed that a burdensome world surplus existed there should be a ‘free-for-all’ struggle with the use of export subsidies as a bludgeon to compel agreements that might not be satisfactory to all parties. Shackle said that distress at home should not be relieved by creating disturbances in other countries.” FRUS 1945, VI, 92.

purposes.<sup>79</sup> Finally, they continued to pour cold water over the proposed bilateral negotiating approach: Keynes called it impracticable; Liesching said there were not enough qualified officials in Britain, let alone other countries, to negotiate with so many countries simultaneously; and Shackle thought that bilateral discussions would “drag on interminably” (FRUS 1945, VI, 91).<sup>80</sup>

Clayton said that the United States recognized the necessity for temporary controls on imports for a transition period of three to four years, but the British officials questioned whether that period would be sufficient (DBPO III, 60). Despite the advantages of the horizontal approach, Clayton believed that even a 20 percent horizontal cut would have been impossible to get through Congress. Still, the United States was determined to move forward. The two sides also differed over the number of countries that should participate, the United States favoring a small nucleus of about 10 countries, while the United Kingdom proposed no fewer than 17.<sup>81</sup>

### 1.7 The British Loan Negotiations, Washington, September–October 1945

In August 1945, shortly after Japan’s surrender ended World War II, President Truman abruptly terminated Lend Lease aid to Britain and the allies. Clayton and others strenuously objected to this rash decision, but Truman (who later regretted the move) had been persuaded by aides who believed that he had no choice under the law’s requirements. The decision stunned the British, who still lacked the ability to pay for vital imports of food, fuel, and raw materials. Keynes (1979, 410) warned the government that, without financial assistance,

<sup>79</sup> Commenting on the Anglo-American draft in July 1945, Keynes (1980, 325–326) said, however, “the discretion we retain for quantitative regulation is insufficient. . . . You must have some way of shutting off imports which you cannot afford. Of the various alternatives quantitative regulation is at the same time much the most effective and much the most in tune with the modern world. To try and create an international system which excludes quantitative regulation is out of date and, I should have thought, impracticable.” He also described the American “multilateral-bilateral” method as “absolutely fatal from our point of view.”

<sup>80</sup> However, they did concede that selective approach might make the infant-industry question and UK agricultural sensitivities easier to handle.

<sup>81</sup> According to the UK account of the meeting: “The Americans favoured as small a ‘nucleus’ as possible, so as to get quick results (indeed Mr. Clayton personally would have favoured the ‘Big Five’ Powers alone – including France and China). We on the other hand pointed out the risk of too narrow a limitation, which might lead to the formation of opposition blocs at the eventual Conference: we felt that there would have to be not less than 17 countries in the nucleus, while the Americans thought 15 should probably be the maximum” (DBPO III, 7, 9).

the country was facing a “financial Dunkirk.” He was soon dispatched to the United States to seek transitional financing in order to cover Britain’s postwar balance-of-payments shortfall.

Britain sought to secure a sizeable American loan on generous terms without any commitments on commercial policy.<sup>82</sup> In the expectation (or hope) that the negotiations would only concern financial matters, the British delegation consisted of Keynes and other Treasury officials alone. But in Washington, Clayton insisted that transitional finance would not be available for Britain without a satisfactory agreement on commercial policy. Although Keynes was confident that he could handle the trade negotiations by himself, U.S. officials rejected the idea of bilateral discussions without the participation of British commercial-policy experts. In fact, even British officials became alarmed at the thought of Keynes handling commercial-policy issues without supervision. Meade’s (1990, 132) diary reaction for September 16, 1945 gives a flavor of the view in London:

[Keynes] got himself sent to Washington without the commercial policy boys (Liesching, Lionel Robbins and Enfield) on the grounds that the mission was solely a financial one. He has now got set up in Washington an Anglo-American committee to discuss commercial policy, which he proposes to conduct himself, having at the last moment in England (while Liesching and Lionel Robbins were on leave) more or less sold to Ministers the crazy, lunatic, self-contradictory idea that we should join in with American in a general convention to reduce obstacles to trade all around but should maintain completely unfettered rights to programme (i.e. to restrict) our imports *ad infinitum* to any extent we desire! This week there has been a most resounding counter-attack on the part of Liesching and Lionel Robbins. Cripps at the Board of Trade has been magnificent, insisting on the need for a convention which prevents other countries from restricting their imports of our goods. (Query: How does this antiimport restriction view square with his apparent desire to “plan” everything quantitatively?) Dalton, to whom I sold the idea of the Commercial Union in the first place, who himself first launched the idea in Whitehall, who used to rant against us for not being willing to brush aside import restrictions quickly enough, and who used to pour scorn on Keynes’s excursion into this field – now that he has moved from the Board of Trade to the Treasury seems to have swallowed this Keynes nonsense at least temporarily. But he was completely routed at the Ministerial meeting. Definite instructions have been cabled to Keynes instructing him not to touch commercial policy and to wait for a properly constituted team on the subject.

<sup>82</sup> The UK objectives for the mission are set out in DBPO (III, 74–77).

The British trade experts arrived in Washington in late September. With the financial future of the United Kingdom and the hopes for cooperation on postwar trade arrangements on the line, the stakes were very high; in Robbins’s view, “there is nothing less at stake in this business than the future solidarity of the Western World” (HM 222).

Liesching and his colleagues began by proposing to narrow outstanding differences rather than to finalize the text of the proposed draft agreement. The Anglo-American negotiators first agreed that tariff negotiations among a select group of countries should be held in March 1946 and be followed by a general conference on trade and employment in June 1946. The officials then agreed to discuss five key issues: tariffs and preferences, subsidies, state trading, exchange controls, and cartels.<sup>83</sup>

Imperial preferences continued to be the most contentious issue and the United States handled it very clumsily. Clayton repeatedly tied American financial assistance to the elimination of imperial preferences, implicitly threatening that U.S. aid would not be forthcoming if Britain insisted on keeping preferences. Congress, he insisted, would not approve a loan unless Britain promised the complete abolition of discriminatory preferences. However, State Department civil servants took a softer line than Clayton, assuring their counterparts that there was no *quid pro quo* between preferences and financial assistance. Indeed, the U.S. Embassy in London warned the State Department that a heavy-handed American demand for an immediate and complete abolition of preferences as a condition for a loan would create a severe backlash in the United Kingdom. Whereas the United States thought the linkage was simply a form of conditionality, the United Kingdom viewed it as blackmail, as exploiting the country’s weak economic position to America’s advantage. However, Clayton and his staff were sending different signals to the British, and hence the U.S. message was somewhat contradictory: on the one hand, they wanted the two issues discussed in the same forum, but they did not insist that one depended upon the other.

Whatever the case, the British position was fixed: preferences should be subject to negotiation, but only in the context of American tariff reductions, and officials could not commit to their elimination without seeing the American tariff offers. British officials insisted that a unilateral abolition of preferences was neither equitable nor politically feasible. Liesching took the “uncompromising stand” that preferences should be discussed with all other tariffs, and not

<sup>83</sup> See the U.S. account in FRUS (1945, VI, 138) and on the British account in DBPO (III, 181–183). Keynes said that the U.S. draft commercial convention was “acceptable to us and indeed valuable,” but there were four points of difficulty: preferences, state trading, import quotas, and the Bretton Woods provision about exchange controls.

considered as a separate category of non-tariff barriers.<sup>84</sup> Britain might be willing give up preferences in exchange for a major reduction in U.S. import duties, but noted that even a 50 percent reduction would still leave those tariffs at a much higher level than British tariffs. Liesching emphasized the domestic political sensitivities over eliminating preferences and again fell back upon the need to consult with the Dominions before committing to a major change in policy.

Even the British economists, who generally opposed preferences, were dismayed by the hard-line U.S. position. Robbins described the American stance as “crude and unimaginative” and Liesching thought it was “base” (HM 227). Like Churchill and Meade, Robbins was not a supporter of imperial preference and had opposed it at the time (in 1932), but confessed in his diary:

I must say with complete sincerity that taking all the economic and political factors into account, I could not advise UK ministers to do anything but resist this kind of pressure (HM 228).<sup>85</sup>

He added that the Americans insisted that “an outright surrender of Imperial Preference is the price necessary to get the financial arrangements through Congress. As this is the one way in which we could *not* undertake to get rid of preferences, there is obvious trouble ahead” (HM 226).

Confronted with this resistance, U.S. negotiators ultimately backed down and accepted the British position that elimination of preferences was not a

<sup>84</sup> Hugh Dalton, now the Chancellor of the Exchequer, cabled Keynes and the British mission with this advice: “We have repeatedly expressed our willingness to consider preferences as part of a satisfactory tariff settlement, but not to treat them separately. Certainly there will be a very violent reaction here if preferences issue is formally linked, not with commercial talks, but with financial deal. Indeed, a financial settlement otherwise acceptable might be wrecked on this issue.” DBPO III, 200.

<sup>85</sup> As Robbins (1971, 202-203) explained in his memoirs: “I do not think that any of us on the British side had any special penchant for discrimination per se. Some of us indeed, in earlier capacities, had played some part in elaborating the general arguments against it. . . . Nevertheless, there was an element of dogmatism in the American case which we all found it very difficult to swallow. Why should customs unions be permissible – as they were in the U.S. draft proposals – while anything short of complete union in the shape of mutual preferences be regarded as an ultimate iniquity? . . . Were the effects of Imperial Preference on the volume of world trade so manifestly more restrictive than those of the U.S. tariff as to deserve treatment as if in an entirely different category of offences? For all these reasons, even those who like myself had deplored the preferential innovations of the thirties, found no intellectual difficulty whatever in arguing, as our ministers had insisted, that preferences must be treated on all fours with other measures of trade regulations and that any progress towards their ‘elimination’ must be contingent on the nature of the bargain offered in the shape of reduction or elimination of other obstacles. And, in spite of much pressure from the other side, that remained our fundamental position to the very end. We were willing to enquire into possibilities. But we were not prepared to sign away anything until we saw what we were to get in return.”

condition for American financial assistance. By November, the two sides agreed that “action for the elimination of preferences will be taken in conjunction with adequate measures for the substantial reduction in barriers to world trade on a broad scale” and that existing commitments would not stand in the way of actions to reduce preferences. Furthermore, no margins would be increased nor would new margins be introduced and the negotiated reductions in MFN tariffs would automatically reduce the margins of preferences (FRUS 1945, VI, 152).<sup>86</sup> In Meade’s account (1990, 164–165):

After sweating blood and tears with the Americans, Britain’s position remained largely intact, although the introductory and concluding words . . . were drafted with the most skilful ambiguity so that the Americans, in explaining to their public, would be able to express greater hopes that in the negotiations on tariff and preferences to be undertaken next March preferences would be completely eliminated than we should be willing to admit. The Americans have in any case abandoned completely the idea that preferences should be eliminated in return for financial assistance; . . . but what they will not admit openly at any rate is that there is precious little prospect of us and the Dominions being offered a sufficient quid pro quo (particularly in view of the limitations under the US Trade Agreement Act for the extent to which they can reduce their duties) next March for us to feel able completely to eliminate preferences then.”<sup>87</sup>

However, the United States insisted that further delay was no longer an option, that substantial progress had to be made toward an agreement on commercial policy by issuing a joint proposal at the conclusion of the negotiations. This proved easier than finalizing the details of the American loan because there was broad existing agreement on commercial policy and the United States accommodated the UK position on most outstanding issues. For example, there was no major difference in view with regard to *staté* trading. On export taxes, the United Kingdom dissented from the American position that they should be

<sup>86</sup> The text of the agreement is in FRUS (1945, VI, 160–161). The final language in the *Proposals*: “In light of the principles set forth in Article VII of the mutual aid agreements, members [of the ITO] should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariff preferences, action for the elimination of preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous arrangements contemplated in this document” (Annex A-5).

<sup>87</sup> After getting involved in drafting the language on preferences and Article VII, Meade (1990, 166) vented his frustration: “This is not economics. It is the psychology of symbols and is all very mystifying. How much easier affairs of state would be if rational men having agreed on a rational course of action were then permitted to give a rational account of it!”

abolished outright, preferring instead that export taxes be subject to negotiation just like import tariffs. As Robbins noted,

To our great delight we were informed that they [the State Department] had completely accepted our views on state trading and export taxes. General subsidies and export subsidies are obviously going to be more difficult (HM 231).

On subsidies, the U.S. and UK positions were diametrically opposed: whereas the Americans planned to phase out domestic (agricultural) subsidies, it wanted to preserve export subsidies. Britain accused the United States of tailoring the text to its own domestic circumstances; instead, the United Kingdom wanted to keep domestic agricultural subsidies but abolish all export subsidies. Liesching announced his “uncompromising opposition” to the U.S. proposal to allow export subsidies on surplus commodities (FRUS 1945 VI, 140). In the final text, the two sides agreed that “members should undertake not to take any action which would result in the sale of a product in export markets at a price lower than the comparable price charged for the like product to buyers in the home market” within three years of an agreement, with a special provision for commodities in surplus.

On cartels, the United States continued to press for outright prohibitions on certain types of business practices in line with its domestic antitrust laws. Britain believed the proposed U.S. language was too strict. Although prepared to oppose cartels and restrictive practices in principle, British officials did not want to prohibit cartels whose effects were not considered harmful. They proposed a more flexible case-by-case approach rather than broad and sweeping prohibitions.<sup>88</sup> In this, as in most other areas, the United States essentially accepted the UK position.<sup>89</sup> After clashing on cartel policy, for example, Robbins was astounded to have the Americans return with a new draft that “more or less conceded our position. . . . [we could] scarcely believe our eyes” (HM 232).<sup>90</sup>

<sup>88</sup> Keynes still managed to annoy his hosts by sticking his nose into such issues as cartel policy. At one point Keynes interjected, “Isn’t our scheme intended to get things done, whereas yours will merely provide a living for a large number of lawyers?” which produced an explosion from his American counterpart (Skidelsky 2000, 416). Dean Acheson (1969, 83) recalled that “Keynes did not like lawyers. He thought the United States ‘a lawyer-ridden land’ and believed that ‘the Mayflower, when she sailed from Plymouth, must have been entirely filled with lawyers.’”

<sup>89</sup> These positions are reported in FRUS (1945, VI, 140ff).

<sup>90</sup> According to Robbins, one British negotiating strategy was simply to take advantage of the different positions of different U.S. agencies. For example, the negotiations on subsidies were “so far as we [i.e., the British] were concerned, very easy going; they quarreled so much among themselves (State Department versus Agriculture Department) that by invoking one or other of the antagonists, it was always possible to have a majority for our views. I

By the end of October 1945, the only remaining issue was the use of import quotas for balance-of-payments purposes during the transition period. Britain insisted upon the freedom to discriminate among different import suppliers in using quotas during the transition period, a disagreement that was resolved by requiring nondiscrimination after an unspecified transition period. In early November, Secretary of State James Byrnes reported to the U.S. Ambassador in London: “on all vital issues substantial agreement has been achieved or is in sight” and the draft proposal on commercial policy was soon transmitted to London (FRUS 1945, VI, 155–156). Britain consulted with the Dominions throughout the negotiations and received pledges of support from Canada and South Africa, but severe reservations from Australia and New Zealand.<sup>91</sup> On November 6, 1945, the British Cabinet approved the commercial-policy agreement after Hugh Dalton (Chancellor of the Exchequer) and Sir Stafford Cripps (President of the Board of Trade) strongly endorsed it (McKenzie 1998, 86).

The more difficult and protracted financial negotiations were completed a month later, in early December, when the details of a \$3.75 billion U.S. loan were finalized. At the conclusion of the negotiations, President Truman and Prime Minister Attlee issued a joint statement congratulating themselves on having made progress “in establishing a world trading and monetary system from which the trade of all countries can benefit and within which the trade of all countries can be conducted on a multilateral, non-discriminatory basis.”<sup>92</sup>

hate taking advantage of their lack of solidarity; for although, in part, it springs from bad organization and discipline, in part, it springs from greater candor and honesty than we regard as diplomatically appropriate. However, I go on doing it when necessary” (HM, 229).

<sup>91</sup> See McKenzie (1998, 138–155). According to a U.S. report, “The only serious British difficulty on commercial policy was with the Australians, where the Dominion’s Secretary was said to be having “a hell of a time” with the Australian Minister for External Affairs “who is pouring in forcible protests against the commercial policy understandings” (FRUS 1945, VI, 153). Meade (1990, 171) noted that “Australia is making itself a frightful nuisance on the commercial policy draft by insisting on complete and absolute freedom from any shadow of a commitment on any part of it before the trade conference foreshadowed for March of next year.” Robbins also noted: “Each delegation true to form – Canada first rate, South Africa debonair and friendly, New Zealand banal, Australia surly and unhelpful” (HM 233). Australia refused to recognize the priority of multilateral trade plans over full employment. In Canada’s view, it was not objectionable and Canada did not oppose the substance. It actually “serves as a theoretical defense against a demand for the removal of trade barriers and the reduction of tariffs. It has a strong basis in the fact that, if full employment cannot be attained consistently with a high level of international trade, the political demands for protective measures are likely sooner or later to become irresistible. It is, however, in our view a dangerous doctrine if it is used to prevent or handicap an effort to secure full employment together with international specialization” (DER 11, pt. 2, 94).

<sup>92</sup> State Department *Bulletin* 13 (December 9, 1945), 906.

The Anglo-American commercial-policy discussions in October 1945 proved to be a critical breakthrough that ended two years of inaction.<sup>93</sup> Both sides agreed that the State Department should publish the proposed multilateral convention and invite 13 or 14 other countries to a March 1946 meeting that would negotiate tariff reductions. In December 1945, the State Department released its "Proposals for Expansion of World Trade and Employment" to the public, the first time that they were publicly disclosed (Annex A-5). The Proposals sought to address the four factors said to be responsible for the small volume of international trade: government trade restrictions, private trade restrictions (cartels and combinations), fear of disorder in primary commodity markets, and irregularity in domestic production and employment. Regarding the first factor, the Proposals stated that:

Barriers of this sort are imposed because they serve or seem to serve some purpose other than the expansion of world trade. Within limits they cannot be forbidden. But when they grow too high, and especially when they discriminate between countries or interrupt previous business connections, they create bad feeling and destroy prosperity. The objective of international action should be to reduce them all and to state fair rules within which those that remain should be confined.

The *Proposals* called for an international conference on tariffs to be held "not later than the summer of 1946" and noted the following: "no government is ready to embrace 'free trade' in any absolute sense. Nevertheless, much can usefully be done by international agreement toward reduction of governmental barriers to trade."

### 1.8 Moving Toward the GATT

The United States now proceeded quickly on two tracks. First, with the publication of the Proposals in early December 1945, the State Department invited 15 countries to participate in a meeting of "nuclear" countries that would negotiate tariff reductions. By January 1946, 14 countries had accepted: Australia, Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, France, India, Luxembourg, the Netherlands, New Zealand, South Africa, and the United Kingdom. The Union of Soviet Socialist Republics (USSR) was invited but apparently never responded.<sup>94</sup>

<sup>93</sup> One British official told the Americans that the delay over the previous year has served the negotiations well by allowing all parties in the United Kingdom to become comfortable with the issues (FRUS 1945, VI 153). Notes from the concluding meeting are in FRUS (1945 VI, 178-184).

<sup>94</sup> In Moscow, George Kennen of the U.S. State Department requested a meeting to discuss Soviet participation in the upcoming conference. Soviet officials never granted this request and never responded one way or another to the U.S. invitation, despite the fact that

In August, at the request of the United Nations, Chile, Lebanon, and Norway received invitations as well.

Second, in February 1946, at the Economic and Social Council of the United Nations, the United States proposed convening a general UN conference on trade and employment. Although developing countries wanted prior assurances that their infant industries could still be protected, the United Nations agreed to move ahead and form a preparatory committee to prepare an agenda for such a conference. The goal of the UN conference was to prepare a charter for an International Trade Organization, not to undertake tariff negotiations. However, the preparatory committee would work in parallel with the smaller nuclear group that was planning on exchanging tariff reductions.

A February 1946 State Department memo indicated how the two tracks would be linked (Annex A-6):

It is considered that the best means of preparing for the general world conference would be to develop in advance a body of definite and concrete international commitments on the various aspects of the Proposals which a broadly representative group of nations, including the major trading nations, would be prepared to support and adopt. Accordingly, it is believed

their delegates had participated in the UN Economic and Social Council discussion of the resolution-on-trade conference and voted for resolution. The State Department was skeptical that the Soviet Union, given the state monopoly control on foreign trade, could participate in a useful way in the tariff negotiations. Still, despite the lack of response from Soviet officials, the State Department decided to include the USSR on the list of countries with which it intended to negotiate, leaving the door open for their participation (FRUS 1946, I, 1354-1355). The U.S. Embassy in Moscow cabled back with this message: "We have noted with interest several recent reports from London of conversations with Soviet officials giving various explanations why Soviet Government does not participate in many international meetings, particularly ITO. Reasons given for nonparticipation range from lack of personnel to Soviet preoccupation with questions of security. While there may be some modicum of truth in these arguments, we believe that in regard to such institutions as the International [i.e., World] Bank, ITO and PICAQ [i.e., Provisional International Civil Aviation Organization], the principal, if not the only, reason the Russians do not join is that they do not wish to. Kremlin insistence on keeping its independence of action in world affairs has even on occasion been frankly expressed by certain responsible Soviet officials, and, in any event, is self-evident in every aspect of Soviet policy in action." Furthermore, the cable added, for the Soviets "to join any organization which would require them to give statistics on national income, international trade, balance of payments and gold production, would imply a complete reversal of a basic and scrupulously maintained Soviet policy of state secrecy in such matters. On the other hand, whenever they stand to gain something concrete by participation in an international organ or run the risk of losing something important by failure so to do, they appear to find no difficulty in effecting such participation (UNRRA, telecommunications, whaling). It would appear unreal, therefore, in the absence of concrete evidence to the contrary, to base any policy on the belief that Russians actually desire to join such organs as ITO but are precluded because of personnel or other administrative considerations" (FRUS 1946, I, 1355-1356).

that the objective of the preliminary meeting should be to negotiate, and reach substantial agreement upon, a detailed international instrument incorporating such commitments (FRUS 1946, I, 1281).

Furthermore, these countries would exchange tariff reductions and therefore “the provisions of the Charter dealing with trade barriers would have a more definitive status (in respect of the countries participating in the preliminary meeting) than would the remainder of the Charter.” The ITO charter itself would not deal with specific tariff reductions, so a protocol would have to be attached to the charter with the negotiated agreements to reduce or bind tariff rates. The resulting tariff schedules would be multilateral “both in scope and in legal application.”<sup>95</sup>

But the State Department also envisioned that the protocol would enter into force before, and independent of, the ITO charter:

It is proposed, therefore, that the Protocol, consisting of the tariff schedules and of the non-tariff trade barrier provisions of the draft Charter which it may be agreed to incorporate in the Protocol by reference, should, at the close of the preliminary meeting, be signed and published by the countries participating in that meeting and should come into force, independently of the Charter, in accordance with provisions to be worked out. In order to make perfectly clear the relationship between the Protocol and the Charter, provision might be made whereby the Protocol could later be adapted to any changes in the provisions of the Charter relating to non-tariff trade barriers which might result from the action of the world conference (FRUS 1946, I, 1281).

Thus, by February 1946, the United States had a clear sense that a protocol (the GATT) would precede but ultimately become a part of the ITO.

However, the planned March 1946 meeting of nuclear countries never materialized. That date was simply too ambitious when invitations had only been issued just four months before. In April 1946, the State Department revised its

<sup>95</sup> “It has been the past international practice, with few exceptions, to confine negotiations on tariffs to agreements between two countries. In these bilateral agreements, such as those heretofore concluded by the United States under the reciprocal trade-agreements program, each of the two countries parties to the agreement granted reductions or bindings of its import tariffs on products of which the other was a principal or important supplier. While these concessions were, as a rule, generalized to third countries, either by virtue of most-favored-nation obligations or as a matter of policy, third countries had no contractual right to them independently of the existence of the bilateral agreement in which they were embodied. In other words, tariff reductions have been effected in the past either unilaterally or by means of a network of bilateral instruments, each separate from the other and dependent for its existence and continuation in force upon the policies and decisions of the particular pair of countries concerned” (FRUS 1946, I, 1282).

schedule. Under the procedure established by the Reciprocal Trade Agreements Act, the federal government would have to release a list of items contemplated for duty reduction and allow time for public comment. The State Department anticipated giving public notice of the intent to negotiate in May 1946, holding public hearings in July, and then starting the tariff negotiations in September. President Truman received a memorandum in April 1946 asking for his permission to proceed on this schedule. The State Department warned that “experience has shown that once this list is published, minority interests will put strong pressure on the Administration for commitments that particular tariff rates will not be cut” and urged resistance to such pressures (FRUS 1946, I, 1307).

The timing of this request triggered alarm bells at the White House and State Department due to the upcoming November 1946 Congressional elections. When British officials requested permission in April to announce a specific date for the opening of the tariff negotiations, Secretary of State James Byrnes quickly replied that a date had not been set and hinted that it might be postponed (FRUS 1946, I, 1309). Just days later, Byrnes formally announced the decision – made jointly by him and the president – to delay the conference until early 1947. The rationale for the delay was that the Truman administration did not want to give the required 90-day public notice of the tariff items that would be subject to negotiation before Congress acted on the British loan sometime in mid-1946.<sup>96</sup> But then the public notice and public hearings would come uncomfortably close to the November elections. Therefore, to avoid stirring up political controversy over the trade proposals, Truman and Byrnes decided to issue the public notice immediately following the midterm elections, meaning that the negotiations could not begin until early 1947. Clayton sent an impassioned memo asking that Byrnes adhere to the original schedule because other countries were ready to act and further delay would risk the expiration of the 1945 RTAA renewal and possibly run into the 1948 election (FRUS, 1946, VI, 1311–1312). However, the decision had been made and this plea failed.

The State Department civil servants shared Clayton’s fear of losing momentum, but also feared the politicization of the trade negotiations. In addition, they gained additional time to draft specific language for the charter and consult with other countries over its provisions. The United States circulated a draft charter in the summer of 1946 that was a slight revision of the December 1945 proposals. Hawkins visited France, the Netherlands, Belgium, Norway, and Czechoslovakia to test their interest in joining an International Trade Organization. He reported that Norway and Belgium expressed unqualified support, the Netherlands

<sup>96</sup> The United Kingdom also wanted to wait until the fate of financial agreement in Congress was determined before undertaking tariff negotiations (DBPO IV 293–294).



qualified only with respect to the interests of Dutch East Indies, while France expressed some doubt due to conflicting domestic political elements and Czechoslovakia much greater doubt due to its political relationship with the Soviet Union (FRUS 1946 I, 1347). All countries were concerned about transitional arrangements and objected to the cartels and intergovernmental commodity provisions, mainly because they did not share America's hostility toward cartels and commodity agreements.

From August to October 1946, other State Department officials went to Canada, Cuba, Brazil, Chile, New Zealand, Australia, South Africa, India, and China to brief them on the draft charter and get their reaction.<sup>97</sup> Canada was reported to be the most supportive of the whole effort, while the United Kingdom criticized the draft charter only as it differed from the December 1945 *Proposals*.<sup>98</sup> One State Department document summarized the reactions this way:

A definite different opinion is to be found in the less-developed countries (Australia, New Zealand, India, China, Cuba, Brazil, and Chile) with regard to the reduction of trade barriers. These countries, deeply concerned with the problem of industrialization and full employment, want to use restrictive measures to protect their infant industries. In general, they remain unimpressed with our contention that subsidies offer the least objectionable method for this purpose. They point out that, while tariffs and subsidies both amount to charges on their economies, the very real difficulties in raising the revenue to pay subsidies make the latter impractical for them. The Cubans are reluctant to give up their preferential position in the US market, as are the New Zealanders in the UK. The British, however, are willing to negotiate on preferences if convinced of the sincerity of the US intention to lower substantially our tariff wall, as a defense against which the Empire preferential system was developed. A major point of difficulty will be faced in connection with our cartel provisions. The Dutch, the Czechs and the Belgians are not willing to concede that all cartels are bad. They would be willing to have the Charter state that certain practices may have undesirable effects, but they object to having the burden of proof put on those engaging in cartel arrangements, as our draft Charter now provides (FRUS 1946, I, 1349).

<sup>97</sup> Not surprisingly, Australian officials believed the draft failed to give sufficient emphasis on efforts to expand domestic demand (DAFP 10, 174–176).

<sup>98</sup> After reading the draft U.S. charter in September 1946, Meade (1990, 327) wrote: "A grand sign of the intention, at least of the [Truman] Administration, really to take this all seriously; and I personally confess that I am rather glad to hear that they propose next week to publish the whole draft charter, though the official view here is that this is dangerous since it will frighten off a number of countries. On the contrary, I believe now that anything which brings it all nearer to finality is to the good."

In light of these comments, the State Department revised the December 1945 *Proposals* and issued the U.S. *Suggested Charter* in September 1946.<sup>99</sup>

### 1.9 First Preparatory Meeting, London, October–November 1946

Although the tariff negotiations among the nuclear countries had been postponed until early 1947, plans for the ITO conference continued under the auspices of the United Nations. The first meeting of the UN Preparatory Committee for the International Conference on Trade and Employment convened at Church House in London during October–November 1946.<sup>100</sup> The U.S. delegation was headed by Clair Wilcox, the Director of the State Department's Office of International Trade Policy, with Harry Hawkins, the Minister-Counselor for Economic Affairs at the U.S. Embassy in London, as his principal deputy. The UK delegation was headed by H. A. Marquand, a member of Parliament, and included Helmore and Meade.

The London preparatory conference was the first formal meeting in which countries other than the United States and the United Kingdom were invited to participate. These countries included Australia, India, China, Ceylon, Lebanon, Brazil, and Chile, among others. As a result, the participation of others now began to shape the outcome of the multilateral convention. As will be discussed in Chapter 2, only Brazil and India submitted comprehensive reactions to the U.S. *Suggested Charter*. But many nations felt free to offer their criticism of the American proposals. For example, both Australia and Canada criticized the lack of disciplines in agriculture and sought greater constraints, but there was no consensus for stronger language.<sup>101</sup> (Chapter 2 explores the changes in the draft in detail.)

<sup>99</sup> "Suggested Charter for an International Trade Organization of the United Nations," State Department Publication No. 2598, September 1946.

<sup>100</sup> The documentation for the conference was published by the Economic and Social Council of the United Nations document series E/PC/T, which includes verbatim reports of plenary and committee meetings. The official report of the conference is in E/PC/T/33.

<sup>101</sup> Australia objected to the exclusion of agriculture from the general rules in the U.S. draft, that is, quantitative import restrictions and export subsidies were permitted in agricultural goods that would be detrimental to developing-country exporters. On Australia's view of the London meeting, see DAFP X, 400–407. "The Canadian delegation took the position that there should be no weakening of the Geneva draft which, in its opinion, had opened the door so widely that agriculture was almost written out of the Charter. . . . The exception which permitted the use of import restrictions on any agricultural or fisheries product, if associated with production control or a surplus disposal programme, was of great concern to the Canadian Delegation, for, if used, could nullify import concessions obtained from Members in the General Agreement on Tariffs and Trade" (Hart 1989, 38).

In a confidential summary of the meeting (Annex A-7), Wilcox wrote that:

The strongest support for the United States came from Belgium, France, Norway, and the Netherlands, with Canada and Cuba also agreeing with the U.S. approach. The strongest opposition came from Australia and India. These countries had two of the most effective delegations at the meeting. The Indians came with a chip on their shoulder. They regarded the Proposals as a document prepared by the U.S. and the U.K. to serve the interest of the highly industrialized countries by keeping the backward countries in a position of economic dependence. . . . The Australians were able, intelligent, and reasonable. . . . The differences between us were more a matter of emphasis than of substance and we succeeded in meeting their political necessities without surrendering anything that we regarded as a matter of fundamental principle" (FRUS 1946, I, 1362).

The main goal of the developing countries – particularly Australia, along with India, China, Brazil, and Chile – was to shift attention toward employment and economic development and to ensure that rules did not prevent them from using quantitative import quotas to promote those goals. As a result, new chapters of the draft ITO charter were included on both issues (FRUS 1946, I, 1361). Australia, in particular, stressed the importance of employment provisions and the necessity of countries to take affirmative action to undertake expansionary domestic policies to ensure full employment.<sup>102</sup> They believed that measures to ensure that the U.S. economy kept growing steadily would contribute much more to the expansion in world trade than simply reducing tariffs, many of which they wanted to retain in order to promote domestic industry. While Australia insisted on having a chapter on employment in the Charter, Wilcox (1949, 41–42) noted that no government “proposed any positive international measures directed toward that end. . . . The only affirmative provision with respect to the maintenance of employment adopted at London made it a matter of domestic policy; this was the proposal that had originally been made by the United States.”<sup>103</sup>

<sup>102</sup> On Australia's position, see Crawford (1966) and Capling (2000).

<sup>103</sup> Hawkins (1948, 276) made this distinction between Australia's demand for full-employment provision and America's insistence upon disciplining the use of trade policy: “the difference between the problems presented is the difference between asking a man to obligate himself to remain prosperous and asking him to agree to a rule against deliberate attacks on the prosperity of his neighbors.” With respect to the obligation to remain prosperous, it “could not, of course, be as absolute as in the case of the other matters which lie entirely within the volition and control of nations assuming the obligations of the charter.” The United States resisted allowing exemptions from tariff discipline based on insufficiently full employment, but indirectly allowed them through the balance-of-payments exception. In other words, if the United States sank into depression, thereby affecting the exports of other countries, those countries might have recourse to trade remedies due to any export shortfall that materialized in the balance of payments.

Australia also joined with India in demanding a “developing country exception” that would permit the use of QRs to foster industrialization. To accommodate this, the U.S. delegation drafted a new chapter on economic development that permitted the ITO to allow the limited use of import quotas by developing countries. Wilcox noted that: “this was the only important concession made by the United States during the meeting and it was this that brought about the virtually unanimous acceptance of the charter as a whole” (FRUS 1946, I, 1361, Annex A-8).

At the same time, the United States sought to impose greater disciplines on the use of QR than in the *Proposals*. Indeed, Wilcox argued that:

The major objective of the United States was the adoption of a rule that would outlaw the use of *import quotas* and other quantitative restrictions as a matter of principle, permitting them only with international approval in exceptional cases and requiring that they be administered, in such cases, without discrimination. In the absence of such a rule, it is virtually certain that all other nations will impose quotas on imports and that many nations will so administer these quotas as to discriminate against American goods (FRUS 1946, I, 1360).

The United States sought to end the transition period that allowed QRs for balance-of-payments purposes in December 1949, after which QRs would be permitted only in cases of severe balance-of-payments difficulties and only in conformity with the principle of nondiscrimination. Furthermore, after 1949, a country seeking to impose QRs for balance-of-payments reasons would be obliged to consult with the ITO. If the ITO members requested the removal of the QR and the country did not comply, the members could retaliate. Britain resisted this provision and held out for more discretionary use of QRs for balance-of-payments purposes. Although they were concerned that widespread use of QRs would have an adverse effect on their exports, British officials wanted a longer transition period and no ITO consultation.

As a result of the landmark London meeting, the participants agreed on most of the provisions of a draft charter for an International Trade Organization, although the draft was not yet binding on governments. The participants agreed to include a chapter on the need for countries to take measures to ensure a high level of employment and on the limited use of quantitative restrictions, exchange controls, and export subsidies, except under specific circumstances. In addition, chapters set out rules regarding state trading, economic development, restrictive business practices, intergovernmental commodity agreements, and the structure of the International Trade Organization.

Among the issues left unsettled at London were relations between member and nonmember countries, the conduct of state monopolies in foreign trade,

and various technical articles on tariff valuation, freedom on transit, and the like. A staff memo to Clayton noted that:

The new draft charter that has emerged is a truly international document to which all delegates at the conference have contributed. It embodies the essential principles of the American position as well as the contributions of other countries and is a better balanced and more complete document than the original American draft (FRUS 1946, I 1359).

More importantly, definite plans were made for a provisional agreement, the GATT, to take effect among the nuclear countries prior to the approval of the ITO charter.<sup>104</sup>

### 1.10 Toward Geneva, December 1946–April 1947

After the London meeting, a UN drafting committee met at Lake Success, New York, in January-February 1947 to improve the language of the articles where substantial agreement had been reached.<sup>105</sup> This meeting produced the first full draft of the GATT by drawing on the commercial-policy chapters of the draft ITO chapter. The GATT was considered necessary to protect the negotiated tariff concessions.<sup>106</sup> The New York meeting also decided that the GATT would not include articles involving domestic policy exclusively, which would be included in the ITO Charter, and that the GATT obligations would not take immediate effect but only after a transition period (E/PC/T/C.6/55 1947).<sup>107</sup> This, in turn,

<sup>104</sup> See in particular, E/PC/T/C.II/58, November 21, 1946.

<sup>105</sup> Lake Success, just outside of New York City on Long Island, was the temporary location of the headquarters of the United Nations.

<sup>106</sup> State Department official John Leddy assumed primary responsibility for drafting the GATT. As he later recalled, "Well, let's put it this way, I guess I was the guy who sort of pulled together and helped to guide through the interagency executive committee the old multilateral convention on commercial policy, that I spoke to you about, including various provisions on MFN, national treatment, marks of origin, customs formalities, customs valuation, quotas, the whole lot, . . . We had in the U.S. Government worked on these provisions drawing them from the old bilateral trade agreements, as well as various multilateral instruments that had existed, like the Freedom of Transit Convention, the Convention on Abolition of Prohibitions and Restrictions, etc. In other words, we drew from both U.S. and international sources." <http://www.trumanlibrary.org/oralhist/leddyj.htm> (last visited Jan. 17, 2008)

<sup>107</sup> In his report on the Lake Success meeting, Leddy wrote: "The atmosphere at the New York meeting was generally good. The delegations of the United Kingdom, Canada, Australia and Cuba contributed substantially to the work of the meeting. Particular note should be taken of the attitude of the United Kingdom, which appeared to be much more cooperative than at the London meeting. . . . The Indian delegation did not, as at London, press for destructive amendments. . . . The delegations of Brazil and Chile were represented primarily by persons unfamiliar with the background or the subject matter and the attitude of the Brazilians was

cleared the way for the Second Preparatory meeting in Geneva set to open in April 1947.

Meanwhile, the United States consulted with the other "nuclear" countries about the procedures for negotiating the tariff reductions. Following the midterm elections in November 1946, President Truman approved the plans for the April 1947 conference in Geneva, signing off on the publication of the list of goods on which the United States was prepared to offer concessions.<sup>108</sup> But the outcome of the November 1946 election was stunning: a Republican sweep gave them control of Congress for the first time since 1932. Given the traditional Republican support for protection and past hostility toward the RTAA, this cast a threatening shadow over the impending negotiations. As more and more public concerns were aired about the impact of tariff reductions on import-sensitive industries, some conservative Republicans called for postponing the April meeting or even repealing the RTAA. In December 1946, Sen. Hugh Butler (R-NE) wrote a forceful letter to Will Clayton stating that the voters had repudiated the administration's tariff-reduction program and therefore the Geneva negotiations should "be temporarily suspended until the new Congress shall have an opportunity to write a new foreign trade policy." As Butler put it:

The attempt to use the authority of the Trade Agreements Act, previously wrested from a Democratic Congress, to destroy our system of tariff protection, seems to me a direct affront to the popular will expressed last month.

Clayton rejected and countered every point in the Butler letter and refused to postpone the Geneva meeting.<sup>109</sup>

at times hostile. The Czechoslovak delegate, while personally friendly, made no constructive suggestions and was apparently under rigid instructions to avoid any amendments which would strengthen the provisions dealing with state trading. The delegations of China and New Zealand confined themselves to repeating, whenever appropriate, reservations made at London." Leddy to Wilcox, "U.S. Summary Report on the Interim Drafting Committee of the Preparatory Committee of the International Conference on Trade and Employment (Lake Success, New York)," p. 16. From National Archives II, Lot File 57D-284 – Box 8.

<sup>108</sup> As Wilcox (1949, 43) explained: "Public hearings on the tariff list were opened before the Interdepartmental Committee on Reciprocity Information in Washington on January 13, 1947. The statements presented in these hearings were then examined by the Interdepartmental Committee on Trade Agreements, together with studies made by the Tariff Commission and other relevant materials. On the basis of the recommendations made by this Committee, the President then set the limits within which the United States was permitted to negotiate."

<sup>109</sup> For example, he pointed out that "Far from intending 'to destroy our system of tariff protection,' our Government is entering into the projected trade negotiations for the purpose of insuring that tariffs, rather than discriminatory import quotas, exchange controls, and bilateral barter deals, shall be the accepted method by which nations regulate their foreign trade. If it were not for the initiative which our Government has taken in this matter,

In January 1947, Rep. Thomas Jenkins (R-Ohio) of the House Ways and Means Committee introduced a resolution to postpone the Geneva negotiations until the U.S. Tariff Commission had studied and reported on the impact of lower tariffs on domestic industries. Given the time it would take for this analysis to be completed, the Jenkins resolution would effectively derail the Geneva conference.

To avoid the impasse, two senior Republican leaders, Senators Arthur Vandenberg (R-MI) and Eugene Millikin (R-CO), chairmen of the Foreign Relations and Finance Committees, respectively, met with Under Secretaries of State Acheson and Clayton. Vandenberg supported multilateral negotiations to reduce tariff rates, but felt that the State Department put too much weight on foreign-policy considerations and discounted the potential harm to domestic producer interests as it sought tariff reductions. The Congressional leaders wanted to limit the executive's authority over tariffs without jeopardizing the entire trade-agreements program. These discussions resulted in an agreement that allowed the Geneva conference to go forward. In February 1947, Vandenberg and Millikin issued a statement that it would be "undesirable" to postpone the April conference in view of the extensive preparations for it, and that legislative changes to the RTAA would be "made more appropriately" in 1948, when it was up for renewal. However, they added, there was "considerable sentiment for procedural improvements leading to more certain assurance that our domestic economy will not be imperiled by tariff reductions and concessions." In particular, they requested several procedural changes to counter the fear that a "tariff adequate to safeguard our domestic economy may be subordinated to extraneous and overvalued diplomatic objectives" (Congressional Record, February 10, 1947, 912). In essence, Vandenberg and Millikin wanted escape-clause procedures that would make it easier for domestic industries to receive temporary protection.

A few days later, President Truman issued an executive order embracing most of the Vandenberg-Millikin recommendations. The executive order established a process for considering and acting upon complaints from domestic firms regarding the harmful impact of foreign competition as a result of a negotiated tariff reduction. The order mandated that, in all future trade agreements, the United States would retain the right to withdraw or modify concessions "if, as a result of unforeseen developments and of the concession granted by the United States on any article in the trade agreement, such article is being imported in such increased quantities and under such conditions as to cause, or threaten,

the world would be headed straight toward the deliberate strangulations of its commerce through the imposition of detailed administrative controls. I need hardly tell you that such a development would be seriously prejudicial to the essential interests of the United States." The exchange of letters was published in the Department of State *Bulletin*, January 26, 1947, 161-163.

serious injury to domestic producers of like or similar articles" (Congressional Record, February 26, 1947, 1411).<sup>110</sup>

In announcing the new procedures, Truman insisted that "the provisions of the order do not deviate from the traditional Cordell Hull principles," but "simply make assurance doubly sure that American interests will be properly safeguarded." This executive order did not incorporate all of the senators' suggestions, in particular one in which the Tariff Commission would recommend tariff limits below which a negotiated reduction should not go for fear of endangering a domestic industry. Still, Vandenberg and Millikin welcomed the president's action as "a substantial advance in the legitimate and essential domestic protections which should be part of an equally essential foreign trade program" (Congressional Record, February 26, 1947, 1413).

This compromise prevented a serious rift between the Republican Congress and the Democratic administration about the upcoming multilateral negotiations. While it did not necessarily win Republican support for trade liberalization, it at least secured their acquiescence to the Geneva Conference.

A month before the start of the Geneva conference, President Truman threw his support behind the meeting in a major speech at Baylor University in Waco, Texas. In a strong statement, Truman argued:

If the nations can agree to observe a code of good conduct in international trade, they will cooperate more readily in other international affairs. Such agreement will prevent the bitterness that is engendered by an economic war. It will provide an atmosphere congenial to the preservation of peace. As a part of this program we have asked the other nations of the world to join with us in reducing barriers to trade. We have not asked them to remove all barriers. Nor have we ourselves offered to do so. But we have proposed

<sup>110</sup> In fact, the escape clause, permitting the withdrawal of tariff concessions when imports were causing serious injury to a domestic industry, was developed and inserted into the template reciprocal trade agreement in 1941 by the State Department. They did so in response to Congressional concerns, expressed during the 1940 renewal of the RTAA, about the impact of trade disruptions on American industries during and especially after World War II. State Department officials, who did not necessarily like the clause, acted to preempt Congressional action mandating such a provision. This clause allowed any domestic producer that felt harmed by foreign competition to petition the inter-departmental Committee on Trade Agreements for relief from imports. (At that time, the Committee was made up of representatives from the Departments of State, War, Navy, Treasury, Agriculture, Commerce, and the Tariff Commission.) The Tariff Commission would investigate the application and make a recommendation to the president "for his consideration in light of the public interest." If the Tariff Commission found grounds for restricting imports to prevent injury, the president then had the option of imposing restrictions on imports or rejecting the advice. The escape clause was first inserted in the 1942 U.S.-Mexico trade agreement.

negotiations directed toward the reduction of tariffs, here and abroad, toward the elimination of other restrictive measures and the abandonment of discrimination. These negotiations are to be undertaken at the meeting which opens in Geneva next month. The success of this program is essential to the establishment of the International Trade Organization [and] to the strength of the whole United Nations structure of cooperation in economic and political affairs. . . . The negotiations at Geneva must not fail (State Department *Bulletin*, March 16, 1947, 483).

On April 3, 1947, Dean Acheson, Will Clayton, and Winthrop Brown (chairman of the interdepartmental Committee on Trade Agreements) met with President Truman to review the tariff concessions that the State Department was prepared to offer at Geneva and discuss the political sensitivities involved, particularly in the case of zinc, woolen textiles, cotton textiles, rubber, and tin. When told that he could expect strong political protests from some special interests, Truman replied, "I am ready for it." He then approved the recommendations (FRUS 1947, I, 914).

### 1.11 Second Preparatory Meeting, Geneva, Switzerland, April–October 1947

On April 10, 1947, the Second Preparatory meeting of the United Nations Conference on Trade and Employment opened at the *Palais des Nations* in Geneva, Switzerland. The purpose of the meeting was to prepare a draft version of the ITO charter for final discussion and ratification at the UN conference at Havana later that year. In addition, the meeting would allow the "nuclear" countries to negotiate tariff reductions and secure those reductions with an interim measure, a General Agreement on Tariffs and Trade.

The higher stakes of the meeting, as well as personnel changes on both sides of the Atlantic, meant that the negotiations lacked the cordiality of previous staff discussions. On the British side, Sir Stafford Cripps had replaced Hugh Dalton as head of the Board of Trade, and James Helmore had replaced Percivale Liesching as the Second Secretary. On the American side, Will Clayton continued in his role, assisted by Clair Wilcox.<sup>111</sup> As the highest-ranking officials, Clayton and Cripps met occasionally to discuss the most difficult and unresolved issues, while Wilcox, Helmore, and their staffs conducted most of the detailed negotiations. Despite the fact that the conference involved many countries, the final outcome

<sup>111</sup> Harry Hawkins and James Meade did not play as large a role as they had in the past. Furthermore, by this time, Lionel Robbins had returned to the London School of Economics, and John Maynard Keynes had died in April 1946.

still hinged largely on American and British decisions as their participation was crucial to the meeting's success.

The tariff negotiations started immediately, but detailed consideration of the multilateral convention did not begin until May 15, 1947. As Wilcox (1949, 44) later noted, "the text of the charter was reorganized, obscure passages were clarified, inconsistencies were removed, and the appearance of the document was generally improved." Because of the extensive negotiations in London, as Chapter 2 documents, the changes to the GATT text and ITO charter were relatively minor.<sup>112</sup> In July, Wilcox reported that the work on the employment, commercial policy, investment, and cartel sections of the charter were virtually complete.<sup>113</sup> From the American perspective, the charter received the most support from Belgium, the Netherlands, and Canada. The main area of dispute continued to be quantitative restrictions on imports, and Wilcox noted the "continuous assaults that are being made from all sides upon the controls developed at the London meeting dealing with the use and imposition of quantitative restrictions." In London, the United States reluctantly agreed to broaden the permission given to countries to introduce quantitative restrictions in the event of balance-of-payments difficulties. In Geneva, there was further pressure to widen the scope for using quantitative measures including general permission for developing countries to use them for the purpose of economic development. There was also pressure to eliminate the requirement that countries seeking to impose QRs had to justify their action and receive permission from the ITO before doing so. While the United States did not want to see a weakening in the discipline of QRs, countries such as New Zealand, Cuba, China, Chile, India, and Czechoslovakia wanted them for reasons dealing with state trading, economic development, and

<sup>112</sup> "Almost without exception," Wilcox (1949, 44–45) reported, "the changes that had been suggested in the United States were accepted and the draft was amended accordingly. Of particular importance was the inclusion of two new articles, one limiting the freedom of nations to discriminate against foreign motion-picture films and the other dealing with the treatment of foreign investment. The latter article, while unacceptable in substance, did serve to bring the subject of foreign investment within the scope of the Charter. On only one point did the United States suffer a reversal: at the instance of Canada, the Committee adopted an amendment forbidding the use of export subsidies without the prior approval of the trade organization. On this point the position of the United States was formally reserved."

<sup>113</sup> "Mr. Wilcox informed the Delegation that the United States negotiators have succeeded in having amendments to the Charter adopted to meet practically all of the suggestions made by the Senate Finance Committee, by the Foreign Trade Council, by the National Association of Manufacturers, by the International Commerce Commission and by the various interested parties who appeared at the public hearings on the Charter held in various cities throughout the United States. No changes, Mr. Wilcox said, have been made in the substance or patterns of the Charter. The changes that have been made related to matters of detail." FRUS 1947, I, 962.

balance of payments. The United States found that it had little choice but to accede to these demands.

Thus, by mid-August, the final text of the GATT and the draft ITO Charter had been finalized.<sup>114</sup> The purpose of the GATT was to prevent the tariff concessions from unraveling in the period before the ITO Charter took effect.<sup>115</sup> But at this point, there were few tariff reductions to be preserved because the tariff and preference negotiations were in a terrible state.<sup>116</sup>

Going into the conference, the United States faced the choice of revealing all of the authorized tariff reductions, showing the maximum degree to which the U.S. delegation could reduce its duties and thereby minimizing strategic bargaining, or holding some concessions back in the hopes of striking a better deal. As an act of good faith and to build good will, Clayton decided to put all of the American offers out from the start. Unfortunately, other countries professed not to be impressed, held back their offers, and the stalemate began. Canada's lead delegate, Dana Wilgress (1967, 153–154), later wrote:

much frustration was experienced in getting the tariff negotiations started; each country had a good excuse for putting them off. . . . Some of the countries had come to the conference intending to obtain all they could in the way of concessions without giving too much in return. The United States . . . found it necessary to be very tough and this toughness brought forth recriminations, particularly from the Cubans.

In fact, the outcome of the negotiations was not guaranteed to be a success. The leading countries had some rough contingency plans for their trade strategy should the Geneva negotiations fail: Canada would seek a bilateral trade agreement with the United States, while the United Kingdom would retreat into the sterling bloc.<sup>117</sup>

<sup>114</sup> The official report of the conference was published in August 1947 as United Nations Publication E/PC/T/186. See Annex A-8 for the U.S. report on the Geneva negotiations.

<sup>115</sup> As Wilcox (1949, 47) put it, "All of these concessions were safeguarded by general provisions to prevent participating countries from canceling them out by resorting to other forms of restriction or discrimination. These provisions, paralleling the rules of the Charter, covered restrictive methods of customs administration, discriminatory internal taxes and regulations, quota systems and exchange controls, and the operation of state-trading enterprises. They insured the application of the principle of most-favored-nation treatment to a major part of the world's trade."

<sup>116</sup> See Zeiler (1999) and Toye (2008) for detailed discussions of the difficulties of the Geneva negotiations with respect to tariffs.

<sup>117</sup> On Canada's consideration of a trade agreement with the United States, see Hart (1989). In Britain, Toye (2003, 921) notes: "although the Attlee government, and Cripps in particular, continued to hope that the forthcoming conference would be a success – in spite of the fact that they did not anticipate the complete elimination of the preference system – they began

One important and politically sensitive commodity took on critical importance: raw wool. The American delegation was not authorized to reduce the tariff on wool at all. Even worse, as the Geneva conference began, the Republican Congress was in the process of enacting legislation that would further tighten restrictions on imported wool. This outraged the Australian delegation. Wool was the largest export of Australia and the main commodity on which they sought foreign tariff reductions. They threatened to leave the conference and take other members of the British Commonwealth with them if the United States failed to grant any concessions. This threat was credible: although a small country in world trade, Australia was a key player and, if it decided to pull out of the negotiations, Britain and the rest of the Commonwealth were likely to follow.

Clayton flew back to Washington to intervene at the highest political levels. Truman granted Clayton and his Secretary of Agriculture, Clinton Anderson, who supported the bill, 15 minutes each to make their case. Clayton urged the president to veto the bill, arguing that it would wreck the Geneva negotiations. Anderson argued that the president should sign the bill, maintaining that the Geneva meeting was a failure and the legislation would help rural farmers. Clayton managed to convince Truman to veto the bill on the grounds that it "contains features which would have an adverse effect on our international relations and which are not necessarily for the support of our domestic wool growers" (June 26, 1947).<sup>118</sup>

But Truman did more than this: he immediately gave Clayton the authority to reduce the wool tariff by 25 percent in the Geneva negotiations. The president's approval of a significant reduction in the wool tariff after Congress had just approved an increase was, in Clayton's (1963, 499) mind, "the greatest act of political courage that I have ever witnessed." Although the Australians grumbled about the small size of the tariff reduction, Truman and Clayton saved the conference with their quick and decisive action. Once the authorization to reduce the wool tariff was made official in August, the impasse over tariff reductions was broken and more offers were forthcoming.

With the wool problem resolved, the Geneva negotiations concentrated on the difficult and contentious issue of Britain's imperial preferences. On this issue, the conference had begun on an inauspicious note. At an opening press

to plan for other eventualities. In January 1947, the Cabinet agreed to the establishment of a group of outside economists, which would study the alternative policies which might be adopted in the event of a complete or partial breakdown of plans for an ITO. This was to be kept top secret. As it turned out, the group, which met from March to October, was unable to devise any satisfactory alternative to participation in a multilateral world trading system, and had little impact on policy."

<sup>118</sup> Hussain (1993) examines the wool issue in detail.

conference, when asked if a 50 percent U.S. tariff reduction would be sufficient to eliminate imperial preferences, Stafford Cripps tersely replied "no" (Toye 2008). He also gave a speech that harshly criticized the United States and disparaged the importance of tariff negotiations and the charter.

The negative British attitude cast a shadow over the conference. In June, the U.S. delegation in Geneva reported:

In our opinion Helmore is not approaching negotiations here in spirits shown by Liesching and Robbins in Washington. We are convinced he desires face-saving charter draft and trade agreement but has no intention making serious modification in system of Empire preference. We believe he wishes to place responsibility on us for failure of conference to achieve purposes contemplated (FRUS 1947, I, 953).

This was not just the American perception; even the Canadians shared this view. As their delegation cabled back to Ottawa, "the UK delegation should have been led by someone from the Foreign Office capable of taking a long view rather than by technicians from the Board of Trade" (Hart 1993, 42).

In a key meeting on July 12, 1947, Clayton and Cripps clashed over preferences. Clayton insisted that the time had come for Britain to eliminate imperial preferences. Cripps completely rejected this demand. They squabbled over the degree to which the United States had reduced its tariff and thereby earned a reduction in preferences. Part of the difference between them was technical: Americans assessed the value of concessions by the percentage of items on which duties were reduced or bound, whereas the British used the prewar value of trade on which duties bound or reduced. But the British did not even pretend to make serious concessions. A U.S. cable described Cripps as "marked by complete indifference bordering on open hostility toward the objectives of the Geneva conference" (FRUS 1947, I, 965). At one point, Cripps

made the amazing suggestion that a better balance might be achieved by the withdrawal or reduction of our offers. Helmore has sought an early termination of tariff negotiations and has indicated that we should be satisfied with modest results. In respect to preferences, the Commonwealth has placed us at a disadvantage in negotiations by taking the position that we must purchase every reduction or elimination of a preference twice – once from the country that receives it, and once from the country that grants it. On the basis of performance to date, it would appear that the United Kingdom will attempt to extract every concession that we will make toward easing their short-run situation without making any appreciable concessions with respect to long-run trade policy. The vested interests that have been built up under the preferential system are strong, and the United

Kingdom has shown no willingness to take the political risks involved in reducing or removing the protection afforded them by the preferences which they enjoy. It appears that no concessions are made without the permission of the industry concerned. The real obstacle to effective action on preference exists, not in the Dominions, but in the United Kingdom (FRUS 1947, I, 975).

The Americans were flabbergasted that Cripps would suggest that the United States should withdraw some of its offers if it believed it had not received adequate concessions. Clayton was furious over Cripps's "callous disregard of their commitment on preferences" (FRUS 1947, I, 979). Canadian officials watched with grave concern the deterioration in the Anglo-American relationship at the conference:

It is evident that temperamental differences between Clayton and Cripps have grown to the point at which they constitute a real obstacle to agreement (CDER 1947 13, 1192).

Cripps repaired some of the damage a few days later by publicly supporting the goals of the Geneva conference. But Wilcox was completely exasperated and warned that "there is a grave danger that the whole trade program will end in defeat."<sup>119</sup> In August, Wilcox reported that

it now appears probable that we shall come out of the Geneva negotiations with a Charter that will be more acceptable in the United States than the earlier drafts. The prospective results of the tariff negotiations, however, are extremely discouraging. . . . It has been apparent, throughout the negotiations, that the United Kingdom has had no intention of making concessions that involve any real progress toward the elimination of preferences (FRUS 1947, I, 974).

Some context is needed to appreciate the intransigence on both sides. From Clayton's perspective, his personal credibility was at stake. In many statements before Congress, from the 1945 RTAA renewal to the British loan, he assured

<sup>119</sup> "American opinion regards the Hawley-Smoot tariff and the Ottawa system as related parts of inter-war trade restrictions. We are undertaking the liquidation of the Hawley-Smoot rates. We cannot support this action at home unless we obtain, in the process, the liquidation of the Ottawa system. We now have in our hands bargaining weapons that we may never possess again: (a) Our excellent offers on tariff reduction; (b) a cut on wool; (c) the possibility of easing the British financial crisis through relaxation on discrimination in the short run; and (d) the prospect of aid under the Marshall Plan. If we cannot now obtain the liquidation of the Ottawa system, we shall never do so. What we must have is a front-page headline that says "Empire Preference System Broken at Geneva." With this, the success of this whole series of negotiations is assured. Without it, there is grave danger that the whole trade program will end in defeat" (FRUS 1947, I, 976).

lawmakers that the British Empire would be cracked and the Geneva meeting would mark the end of Britain's discriminatory practices. Believing that Britain had agreed to eliminate imperial preferences as far back as the Atlantic Charter in 1941, he overestimated his ability to deliver on these promises. But Britain had always equivocated on this point. His State Department staff had a more realistic view of what could be achieved and tried to temper his view. They even had to persuade Clayton not to abandon the Geneva conference simply because Britain refused anything more than token compromises on preferences. As State Department official Winthrop Brown later recalled:

Mr. Clayton wanted to get total elimination of all preferences. We civil servants knew it wouldn't be possible to do that. Mr. Clayton at one time really thought that Sir Stafford Cripps had agreed with that and there was a terrible misunderstanding. He was very hard to convince that we had to go ahead even without that total elimination having been agreed. So, we came to this impasse. At that point the boys came in with the total results of the tariff negotiations and each side found that so much had been accomplished that it could not be lost. This total accomplishment just had to be saved somehow.<sup>120</sup>

For his part, Cripps also took a very hard and uncompromising line in defense of imperial preferences.<sup>121</sup> His austere and stubborn personality may have played a role in exacerbating the tensions between the two sides, according to Toye (2008). But this intransigence was also related to the extreme economic difficulties that Britain faced after the war and the lingering resentments over the British loan negotiations in late 1945. The harsh winter of 1946–1947 required greater spending on imported fuels, depleting reserves that could have been spent on food and other consumer goods, and thereby necessitating additional austerity measures. Furthermore, under the terms of the loan agreement, the United Kingdom made the pound sterling convertible on June 15, 1947, shortly after the start of the Geneva conference. This early convertibility proved to be a disaster. The United Kingdom quickly lost a massive amount of dollar reserves due to pressure on foreign-exchange markets (Newton 1984).

<sup>120</sup> <http://www.trumanlibrary.org/oralhist/brownwg.htm> (last visited Jan. 17, 2008).

<sup>121</sup> As Toye (2003, 923) concludes: "there was some truth in Clayton's allegation that the British were not playing ball. They were not making all possible efforts to secure waivers from Commonwealth countries; rather the reverse. In July, Cripps warned the Cabinet that Canada's desire to be released from her own obligations to Britain represented a dangerous breaking of ranks: 'it sets a precedent to break away from agreements on preferences between Commonwealth countries, which . . . might lead to a gradual disintegration of the system.' These were not the words of a man negotiating in good faith for the abolition of preferences and frustrated only by the recalcitrance of other countries."

In a few short weeks, Britain spent a significant portion of its precious American loan defending the pound, and the government was forced to suspend sterling convertibility on August 20, 1947. The Attlee government also announced new austerity measures to stem the deteriorating balance-of-payments deficit.

Given the hard bargaining over the loan and the early convertibility requirement, the British were in no mood to make further concessions to American trade negotiators that might increase imports further.<sup>122</sup> With convertibility suspended, the United Kingdom informed the Geneva participants that it could not put the nondiscrimination clauses into force because of its severe balance-of-payments problems. The UK delegation further suggested that it could only apply the agreement "ad referendum" with no definite commitment to its coming into effect (FRUS 1947 I 967–973). "This would have been a body blow against the whole project of trade multilateralism," Toye (2003, 929) notes, "as it would have been very difficult to enact the Geneva tariff reductions without any general rules governing them." The United States insisted that the agreement should be signed and implemented as planned.

Britain's economic weakness was reflected not just in its concerns about the balance of payments, but its role in the world. The strong defense of imperial preferences could be read as reflecting fears about Britain's diminishing role as a world power. Britain clung to the Commonwealth as a way of boosting the perception that it remained a great power; indeed, in some ways, Britain needed the Commonwealth countries more than they needed Britain.<sup>123</sup> As the United Kingdom scaled back its global commitments, the United States increased its role further. When Britain withdrew its troops from Greece and Turkey in February 1947, President Truman responded by announcing the next month that the

<sup>122</sup> Britain was also dismayed by several U.S. policy actions that it believed detracted from stated goals of the GATT conference. First, the U.S. insistence on an escape clause was seen by Britain and others as potentially limiting the value of the negotiated tariff reductions. Second, the United States concluded a trade agreement with the Philippines in 1946 that gave the country an extended period of transition to tariff autonomy as the country achieved independence. The U.S.-Cuba preferential trade agreement also rankled the British who saw these as a marked contradiction in the U.S. stance against discriminatory trade arrangements. Clayton opposed these deals, the Philippines preferences would be phased out over 28 years, but Truman signed it (Zeller 1990, 90).

<sup>123</sup> As Mackenzie (2002, 266) points out, "British officials continued to rely on the Commonwealth as a buttress to Britain's world position. Britain's enduring attachment to the Commonwealth option derived from the unshakeable conviction that international greatness was a birthright. Moreover, an historic identity as a global power could not be cast away lightly or suddenly." As Toye (2003, 917) also points out, "The Labour Party increasingly supported the preference system out of gratitude for the help afforded by the Dominions during the war."



United States would support Greece and Turkey with economic and military aid to prevent them from falling into the Soviet sphere (the Truman Doctrine).

Britain's economic and political weakness ensured that the United States would not push it too far in the trade negotiations. Indeed, the State Department had great concerns about the health of the entire European economy in 1947. In traveling throughout Western Europe in the spring of that year, Clayton became so concerned about the fragile state of the economic recovery that he wrote an impassioned memo warning of adverse political consequences if the situation did not improve. These dire warnings prompted Secretary of State George Marshall to propose a new program of aid for Europe—the Marshall Plan—at the Harvard commencement in June 1947. In Clayton's view, the Marshall Plan of foreign assistance made the Geneva trade negotiations "more important than ever because without sound permanent program of reciprocal multilateral trade, no temporary emergency program could possibly have any permanent worthwhile results" (FRUS 1947, I, 955).

American concerns about the political ramifications of economic weakness in Britain and in Europe played a key role in the end-game of the GATT negotiations. In late August, with the GATT text finalized but the tariff negotiations still at an impasse, Clayton cabled Under Secretary of State Robert A. Lovett in Washington and outlined four options:

- (1) conclude an agreement without substantial elimination of preferences;
- (2) conclude an agreement without substantial elimination of preferences by withdrawing some U.S. offers on tariff reductions, as twice suggested by Cripps;
- (3) discontinue negotiations with the United Kingdom and conclude agreements with others on multilateral basis;
- (4) adjourn the tariff negotiations indefinitely (FRUS 1947, I, 978).

Clayton was so dismayed with the British attitude that he endorsed the third option, although his staff disagreed with his negative assessment.

Lovett discussed the alternatives with President Truman. Truman rejected options (1) and (4) and favored (2) over (3), but did not want to raise the issue with Prime Minister Attlee. Lovett reported that the State Department officials agreed with the president that option (2) was the lesser of two evils. In explaining the decision, Lovett made it clear to Clayton that foreign-policy considerations were paramount. In particular, the President and State Department officials were concerned that a failure at the conference would further weaken Britain's economic and political position in the world and strengthen that of the Soviet Union.<sup>124</sup>

<sup>124</sup> Lovett noted that "we are attempting to give UK every assistance in getting over this difficult period and in avoiding irretrievable damage to their long-run position. Believe

This presidential decision, overriding Clayton's council to abandon hopes of an agreement with Britain because of its refusal to reduce its imperial preferences, ultimately ensured the success of the Geneva tariff negotiations. Many difficult maneuvers were still to be performed in the final agreement over preferences, but in late October 1947, the tariff negotiations were concluded. To Clayton's disappointment, Britain's imperial preferences remained largely intact.<sup>125</sup>

On October 29, 1947, President Truman hailed the completion of the General Agreement on Tariffs and Trade as

a landmark in the history of international economic relations. Never before have so many nations combined in such a sustained effort to lower barriers to trade. Never before have nations agreed upon action, on tariffs and preferences, so extensive in its coverage and so far-reaching in its effects. . . . [and] it confirms the general acceptance of an expanding multilateral trading system as the goal of national policies.<sup>126</sup>

In Canada, Prime Minister Mackenzie King praised the outcome as

the widest measure of agreement on trading practices and for tariff reductions that the nations of the world have ever witnessed. . . . For Canada, the importance of the general agreement can scarcely be exaggerated. The freeing of world trade on a broad multilateral basis is of fundamental importance for our entire national welfare.<sup>127</sup>

course of action leading to rupture trade negotiations inconsistent with policy we are following regarding financial agreement. (President referred to inconsistency our position if we should take alternative (3).) Important from point of view of successful relaxation convertibility and nondiscrimination provisions that some progress, even though slight, be made in commitment to reduce trade barriers. Believe alternative (3) likely to lead to strong resentment British public and considerable confusion and criticism in US. Would make more difficult consideration by Congress further assistance UK and Europe generally. As you know, UK Govt now under intense pressure from left wing members Labor party to curtail sharply UK foreign commitments, reduce arm forces and to withdraw British forces from Greece and Italy. We are concerned over likelihood that USSR will exploit fully any such differences between US and UK just as they are now trying to capitalize on British weakness by increasing pressure throughout Eastern Europe and Near East. Consequently best course seems to be to get best agreement possible in present highly unfavorable circumstances and reserve part of our negotiating position for use at more propitious time by trimming our offers correspondingly. From standpoint of public and congressional opinion here thin agreement of this kind we believe better than none, especially if made clear that present agreement only an initial stage in dealing with this problem" (FRUS 1947, I, 981).

<sup>125</sup> See Zeiler (1999) and Toye (2008) for details on the conclusion of the negotiations.

<sup>126</sup> On December 16, 1947, Truman issued proclamation 2761A "Carrying Out General Agreement on Tariffs and Trade Concluded at Geneva, October 30, 1947," making the agreement effective, provisionally, for the United States on January 1, 1948. 61 Stat. 1103; 3 CFR, 1943-1948 Comp., 139.

<sup>127</sup> Canada, House of Commons Debates, December 9, 1947, 99.

By contrast, British officials were more muted in their praise of the Geneva conference and more defensive about their participation. Speaking in Parliament, Harold Wilson, the President of the Board of Trade, noted that

we have agreed to reductions in our own tariff or to reductions or eliminations of the preferences we enjoy in other Commonwealth countries only in return for concessions which we consider equivalent in terms of the trade thereby opened up to us. . . . I should like to repudiate here and now the suggestions made in certain quarters that we have at any time been putting pressure on other Commonwealth countries either to break up the preference system in general or to agree to any concession on preferences to which Commonwealth countries are contractually entitled. . . .<sup>128</sup>

What had been achieved at Geneva? The finalization and implementation of the GATT text, the focus of Chapter 2, was a major accomplishment. The actual tariff and preference reductions, as well as the tariff bindings, were symbolically very important of the new direction in postwar commercial policy. In the first Geneva round, the 23 participating countries made no fewer than 123 agreements covering 45,000 tariff items related to about one-half of the value of world trade (GATT 1949, 11). But the reductions in duties were rather modest at the time, and many of those reductions had little effect on trade because quantitative restrictions and exchange controls remained in effect (Irwin 1995b, 139).

There are no precise estimates on the depth of the tariff cuts for most of the GATT participants. For the United States, according to official calculations, had the duties negotiated at Geneva been in effect in 1947, the average tariff on dutiable imports would have been 15.3 percent, instead of the actual 19.4 percent, a reduction of 4 percentage points, or 21 percent (U.S. Tariff Commission 1948, 19). About half of dutiable imports were subject to a tariff reduction, and the average reduction here was about 35 percent. The tariff reductions were not across the board or applied to import-sensitive sectors, such as agricultural goods or labor-intensive manufactures, but concentrated on industrial goods.

Because many import duties were specific duties, however, postwar inflation had a greater effect in reducing the ad valorem equivalent of duties than

<sup>128</sup> Hansard's *Parliamentary Debates*, 29 October 1947, 873. "We have further proceeded on the principle laid down at the London Session of the Preparatory Committee that the binding of a low tariff is equivalent to a reduction in a high tariff. Since, of course, our own tariff is made up predominantly of low rates, the agreement consequently includes a number of such bindings of low tariffs in exchange for reductions in some of the high rates in overseas tariffs."

negotiated tariff reductions.<sup>129</sup> In the case of the United States, the average tariff on dutiable imports turned out to be 13.9 percent in 1948, not 15.3 percent, and higher import prices accounted for the difference. Import prices rose 10.5 percent in 1948, which would have reduced the tariff by about 6.7 percent (Irwin 1998). Thus, in this one pivotal year (1947), fully one-third of the U.S. tariff reduction was due to higher import prices.

And despite all of the Anglo-American conflict over imperial preferences, postwar inflation also undermined much of their discriminatory effect. In the late 1930s, about half of British exports to and imports from the Commonwealth enjoyed preferences on the order of nearly 20 percent, on average. Therefore, the average preference on all trade was about 10–12 percent. By the early 1950s, the average margin of preference had shrunk to about five percent, about half way back to the pre-Ottawa levels, largely the result of higher import prices on specific duties (MacDougall and Hutt 1954).

## 1.12 Conclusion

The GATT took effect while the UN Conference on Trade and Employment was meeting in Havana, Cuba, from November 1947 to March 1948. Because this book focuses exclusively on the GATT, we will not examine the ITO Charter or its ultimate failure.<sup>130</sup> However, it is worth noting that, while the GATT was expected to be superseded by the ITO, there was also a foreboding sense that things may not work out as planned. As the chief U.S. negotiator, Clair Wilcox (1949, 47) later recalled:

The [Havana] conference opened with a chorus of denunciation in which the representatives of thirty underdeveloped nations presented variations on a single theme: the Geneva draft was one-sided; it served the interests of the great industrial powers; it held out no hope for the development of backward states. Some eight hundred amendments were presented, among them as many as two hundred that would have destroyed the very foundations of the enterprise. Almost every specific commitment in the document was challenged.

As early as December 1947, Wilcox held the view that "it is unlikely that we will be able to get wide agreement on a Charter which is close enough to the

<sup>129</sup> Specific duties are a nominal amount charged per imported quantity, not an ad valorem (percentage) tax on the value of imported goods. The ad valorem equivalent of a specific duty is inversely related to the price of the imported good.

<sup>130</sup> On the ITO Charter, see Wilcox (1949) and Brown (1950). On the failure of the ITO, see Diebold (1952), Aaronson (1992), Zeiler (1999), and Odell and Eichengreen (1996).

Geneva draft to satisfy us" (FRUS 1948, I, 824). In February 1948, Wilcox reported that representatives from the major developed countries were

buried in gloom. Wilgress [Canada] saw no hope at all. Coombs [Australia] was saying that we should adjourn the Conference and put the whole project on ice for a year or more (FRUS 1948, I, 872-873).

Even if the Havana negotiations had gone well, by 1948 the political environment in Washington had changed from what it had been just a few years earlier. More than two years had passed from Congress's extension of the RTAA in June 1945 to the completion of the GATT negotiations in October 1947. The era of grand economic institution building, as with the Bretton Woods conference in 1944, had passed, and the heady optimism of the early postwar period had given way to the Cold War. Policymakers in Washington had begun to focus on the Marshall Plan in 1948 and the creation of the North American Treaty Organization (NATO) in 1949. In January 1948, British officials reported that:

Clayton admitted very frankly that he had found considerable difficulty in getting United States authorities at Washington to take any concerted interest in the Charter, their attention being almost entirely directed to Marshall Aid. This was one of the reasons why he was, he said, most apprehensive lest [the] Charter would be crowded out unless completed very shortly (Toye 2003, 294).

Clayton's sense turned out to be correct.

Congress insisted that the 1945 RTAA did not authorize the creation of any international trade-related institution or U.S. participation in any trade-related organization. Hence, the GATT was envisioned as an interim arrangement, not an organization, until the ITO charter could be formally approved by Congress. The GATT was not a treaty or an organization, but merely a trade agreement put into effect by executive order. As a result, participants were not "members" but "contracting parties" and State Department officials invented the Protocol of Provisional Application to bring it to effect. Parts I and III of the GATT were consistent with the negotiating authority granted in the 1945 RTAA, but Part II, which contained many of the trade rules, could only be brought into force only insofar as it was not inconsistent with existing legislation. Therefore, they were to be applied provisionally (Parts I and III applied definitively) until the Congress approved the Charter for the International Trade Organization. The original Article XXVIII of GATT bound tariff levels for only three years; only in 1958 did the bindings become indefinite.

This chapter has made clear that the GATT would not have come into existence without the leadership of the United States. However, there were

many junctures in which the United States and the United Kingdom could have abandoned the plans for a multilateral commercial agreement. In addition, other countries played an important role in shaping the GATT. Britain was responsible for pushing the United States into thinking in terms of a multilateral approach rather than a bilateral one. Canada was responsible for proposing that a small set of nuclear countries negotiate tariff reductions separately, rather than attempt to make reductions and finalize a charter at a large multilateral gathering. It is interesting to note that, despite its overwhelming economic strength in comparison to other countries, the United States could not dominate or dictate the outcome to other countries. Rather, the United States often accommodated the demands for exceptions or weaker language at various points in the negotiations to ensure the continued participation of other countries.