GATT Fifty Years Ago: U.S. Trade Policy and Imperial Tariff Preferences

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> It is an absolutely beautiful day. The lake is very blue, the hills look like a picture postcard, and the only blots on the landscape are British preferences about which I spend most of the night dreaming.[1]

Frustration within the American trade delegation at the inaugural round of the General Agreement on Tariffs and Trade (GATT) was understandable. In Geneva in the summer and fall of 1947, the British Commonwealth of Nations prevented the United States from putting its free-trade ideology into practice. Great Britain led the way in refusing to abolish the Ottawa system of Imperial tariff preferences. Winthrop Brown, the U.S. negotiator responsible for clinching an Anglo-American trade agreement after months of belabored talks, gave way to the United Kingdom.

That American free traders were forced to compromise their rather idealistic objective of erasing discriminatory commercial practices, of which preferences ranked as a pernicious form, is surprisingly not an accepted view. Some judge the United States as a selfish winner in the world economy, a nation that forced open Britain to American exports [Kolko, 1990]. Others view the assault on preferences as naive dogmatism of State Department bureaucrats who, while enamored by free-trade theory, drained the economic strength of Cold War allies [Woods, 1990]. But the GATT negotiations actually signaled a defeat for the free traders.

Rather than being selfish or unrealistic, U.S. trade policy turned out to be wise. Fireworks against preferences fizzled in the face of political pressures and economic realities that were ultimately tied up in the strategic concerns of the early Cold War. President Harry S. Truman veered from the campaign to wipe out discrimination, as pursued by State Department ideologues, to serve a national security agenda. In doing so, the United States showed forbearance toward protectionism.

Few issues caused such acrimony between the United States and the Commonwealth as Imperial preferences. Secretary of State Cordell Hull, the champion of free-trade internationalism, took up the crusade against this

[1] Winthrop Brown to Wilcox, September 30, 1947, box 286, ITF.

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discriminatory network. Preferential rates of tariffs, in which Empire members enjoyed a "margin" of lower duty rates than outsiders, were designed in 1898 as a catalyst to commercial unity. But the arrangement perfected in Ottawa in 1932, a desperate response to the Depression, was a protectionist perversion. The Dominions demanded protection for their agricultural goods in the Empire, at the expense of U.S. food exporters who were dependent on trade to the key British market. The United States' share of British imports fell from 16.1% in 1929 to 11% by 1936. By 1938, Empire nations dominated 40% of the British import market. An Anglo-American Trade Agreement in 1938 narrowed a handful of the tariff margins [Kottman, 1968, pp. 14-38, 79-271; Drummond, 1972, pp. 103-122]. But the British Commonwealth, lamented Hull, had closed "like an oyster shell" under the Ottawa system [Gardner, 1964, p. 106].

With Britain in need of economic and military aid during World War II, Hull saw an opportunity to obtain a commitment to end the preference system. American exporters, free-trade purists, and Anglophobes despised preferences. State Department planners believed that ending these barriers would clear the way for a postwar multilateral system of trade and usher in an era of mutual prosperity and peace. Preferences were a focus in the Lend-Lease talks in 1941, the ensuing Master Mutual Aid Agreement negotiations, and the Anglo-American loan agreement of 1945. Britain agreed to modify the Ottawa system in all of these accords [Woods, 1991, pp. 18-20; Dobson, 1986, pp. 35-92].

For their part, the British embraced American goals but not the timing of U.S. plans. Opposed to Empire isolation behind a wall of tariffs and cognizant of dependence on the United States, most of the War Cabinet endorsed multilateralism in the form of a global commercial union and cuts in barriers. Yet the British determined to keep their hands free to guard their beleaguered economy. Thus, they inserted phrases in the agreements that were ambiguous and elastic. In the loan accord, both nations agreed to "mutually advantageous" liberalization, a qualifier that gave Britain great leeway to await American action before narrowing preference margins.[2]

In essence, the United States would have to grant large-scale tariff concessions before Britain would act on preferences. Britain would work toward eliminating preferences, not impose new ones, and not widen existing margins. But the Ottawa system would neither be terminated immediately nor unilaterally. And the Dominions had to approve of any modifications.

This resistance to free trade reflected immense economic problems. London projected a ruinous balance-of-payments deficit after the war. The eventual dollar reserve crisis led the government to suspend currency convertIbility in 1947 after less than two months and to devalue the pound in 1949. The Commonwealth rallied to defend Britain's economy with import, trade, and exchange controls. John Maynard Keynes argued that British difficulties merited the use of tariffs to expand output and increase employment [Irwin, 1996, pp. 189-206]. Thus, Imperial preferences would help insulate full employment agendas from the open market and also promote economic reconstruc-

[2] Negotiations on Commercial Policy, November 6, 1945, box 83, ITF.

tion. This was also politically popular – and prudent – for the United States might not behave properly as a creditor by granting aid, stabilizing currencies, and drastically lowering its tariffs.

On the eve of the GATT negotiations, America's ability to lead the world economy had indeed become a major worry. The Americans arrived with negotiating authority to drop tariffs on selected items rather than by bold, across-the-board cuts. The Democratic leadership in Congress had blocked the path of State Department free traders in 1945 by refusing to sweep aside entire sections of the U.S. tariff code in the renewal of the Reciprocal Trade Agreements Act (RTAA). Still, it should be noted that the law authorized the President to halve U.S. duties.

More ominous was the new Republican majority on Capitol Hill in 1947. GOP protectionists occupied the 80th Congress but an internationalist wing, led by Michigan Senator Arthur Vandenberg, urged bipartisanship in foreign policy. He thus advised Truman to compromise and hold off the protectionists. GATT agreements would include an escape clause to withdraw concessions that might hurt certain producers. In return, all but the most rabid protectionists promised not to disrupt the GATT proceedings [Kelly, 1963, pp. 124-127]. Forced to concede, the President could not disguise the fact that the Geneva meetings opened under a cloud of protectionism.

The cloud broke into a thunderstorm over U.S. wool tariffs once the Geneva round began. A wool bill, amended with an import fee, reached Truman's desk in June 1947. And the administration bowed to domestic pressure and offered only to freeze the raw wool tariff rather than reduce it. Australia, the world's top wool exporter, stopped negotiating in Geneva when Congress passed the wool bill. The Commonwealth applauded. Canberra vowed not to lower any preferences, which were popular with its fruit producers, until Truman vetoed the legislation. The President responded appropriately. Then, in August, the State Department cut the wool duty by 25% [Hussein, 1993, pp. 57-60]. Australia returned to the table and the crisis over wool ended. But the U.S. delegation was now well aware of Commonwealth leverage.

The American effort in Geneva involved a tactical game of deciphering Commonwealth pledges on preferences. The Dominions played a pivotal role, for they had a say in determining whether margins would be closed. For instance, Australia speculated that its employment program would founder without the Ottawa system. Herbert Coombs, the delegation leader, noted that nearly 70% of Australia's exports remained within the Empire. One-fifth were covered by preferences on key goods like fruit, butter, and beef. The possibility of jeopardizing guaranteed export markets "sent cold shivers up many Australian spines," as it did for New Zealand, South Africa, and even free-trading Canada [Coombs, 1981, p. 1]. Like Britain, they sought both access into the large American market and the benefits of intra-Empire trade. Thus, the Commonwealth would use preferences as a negotiating card to wheedle concessions from the United States.[3]

[3] London Meetings, January 1947, 711/1/3/2, A1838/1, CA 18.

The Americans were willing to oblige. They offered to bind eighty-six percent of duty-free British goods and subject most dutiable imports to decreases or bindings. About three-quarters of the cuts were in the high 36-50% range. The concessions would drop the average U.S. rate to 27%, below the Underwood Tariff of 1913, and thereby provoke vociferous protest from Congress [*FRUS, 1947*, I:911-913]. Truman approved, however, to ensure success in Geneva. As the GATT round opened in April, delegation chief Will Clayton even claimed that he was not "especially interested [in the] complete elimination" of preferences. He would settle for selected cuts.[4]

Yet this bait did not draw out the Commonwealth. The dollar crisis became most acute in the spring of 1947, prompting Britain to retreat within the walls of the Ottawa system. London would abolish two minor margins, moderately reduce those on just one-quarter, and leave the rest off its concession list. Preferences were negotiable, Canadian Prime Minister Mackenzie King told Truman, but the Commonwealth would lessen them "only for some specific tariff reductions on the part of the U.S."[5] Will Clayton, who carried the free-trade banner upon Hull's retirement, expressed his disappointment at such stinginess.[6]

His frustration had just begun. The British did not seek strict reciprocity at the GATT talks but demanded that the United States make one-sided sacrifices. And London splashed cold water on the U.S. assault on preferences. Bargaining leverage was the issue. Britain sought margins no lower than 20% ad valorem, for if "too big a bite" were taken out of the Ottawa system there would be little "room to manoevre at subsequent negotiations," wrote a Foreign Office official.[7] Since each Commonwealth nation was both an exporter enjoying a margin and an importer affected by it, no preference would be cancelled. Thus, each country would be free to adjust rates as it saw fit.

Will Clayton searched for a way to abolish key margins, fearing a backlash in Congress and abhorring protectionism. Members of his delegation set their sights lower, thankful that Britain was willing, for the first time, to negotiate preference rates. Also, British Prime Minister Clement Attlee had no mandate from the rest of the Commonwealth to bargain away margins.[8] And the dollar crisis, inflation, and consumer shortages forced him in August 1947 to renege on freer trade commitments and impose an austerity program. Surely, Clayton's "sweeping and rigid dogma of non-discrimination" would do "more harm than good" [*The Economist*, 1947, pp. 228-230].

The British stuck to their position that the ball was in America's court. It was enough that Britain had agreed not to impose new margins or widen existing ones. It was *America's* contribution that was inadequate; anything less than a halving of U.S. tariffs would not raise imports sufficiently. Sir Richard

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[4] RG 59, 560.AL/4-1747.

[5] April 23, 1947, J13.

[6] Clayton/Helmore conversation, May 8, 1947, box 138, ITF.

[7] Marten to Makins, FO 371 62288, UE1922/37/53.

[8] Wilcox/Hawkins to Clayton, April 30, 1947, box 138, ITF.

Stafford Cripps, President of the Board of Trade, admitted that U.S. offers "tipped [the scales] perhaps somewhat in our favour," but that was imperative in light of the economic crisis. He told an infuriated and shocked Clayton in July to simply withdraw some offers if unhappy with British concessions.[9]

Worried about getting a deal that would satisfy Congress, Clayton began a long retreat punctuated by pleas, demands, and recrimination toward the British. He first tried to entice Britain and Canada, two nations deemed amenable to free-trade doctrine, to close sixty-five margins. Cripps merely countered with an offer to abolish preferences on frozen salmon and motor bikes, items of lesser significance than other American exports affected by Ottawa margins.[10]

Clayton then reminded Britain of its wartime and postwar commitments to lower trade barriers. But Cripps parried this grievance by noting that in the "original contract" of the loan agreement, the two nations were to "work toward" eliminating preferences, with the Dominions' consent. Britain was "prepared to get rid of the preferences as a system," Cripps added. But it would not, as a "matter for bargaining," permanently abandon them while America had only to honor its concessions until the next renewal of the RTAA. For "these reasons the United Kingdom was anxious not to go too far." Clayton then held out a carrot. If Britain would reduce margins by 20% a year over a certain period, "it would be possible to come to an understanding." Cripps promised to consult the Cabinet and the Dominions but warned against high expectations.[11]

Back in London in late July, Cripps declared victory. The discussions had "gone reasonably well"; Britain would not have to depart in substance from its refusal to abolish preferences.[12] The Dominions and Colonies presented Britain with a long list of margins to be excluded from the GATT talks and Cripps promised to respect their wishes. As the dollar crisis hit, Britain then dug a deeper trench around its discriminatory trade policies. Cripps would negotiate in Geneva but because of British economic woes, he surmised that "Geneva would produce no substantial tariff reductions" [*FRUS, 1947*, I:969-970].

The State Department scrambled for another answer. Because he held that Britain "has had no intention of making concessions that involve any real progress toward the elimination of preferences," Clair Wilcox, Clayton's deputy, drew up a "short list" of margins to be abolished. If Britain balked again, then Clayton should end the negotiations.[13] Handing Cripps the list in mid-August, Clayton lamented that "we have got almost nowhere" on preferences. On the contrary, replied the President of the Board of Trade, America had "got quite a way." After all, over time, the Commonwealth was

[9] Trade Negotiations, FO 371 62308, UE6502/37/53.
[10] Beale to Clayton, July 11, 1947, box 138, ITF.
[11] U.S./U.K. talks, July 12, 1947, box 138, ITF.
[12] Cripps memorandum, FO 371 62309, UE6706/37/53.
[13] Wilcox to Clayton, August 6, 1947, box 138, ITF.

obligated to curb the Ottawa system in some fashion. Cripps promised a response by September 9.[14]

Clayton was not naive; he predicted a negative response. In that event, he advised the administration to end the talks with Britain and seek a multilateral deal with others. An accord with GATT parties other than Britain would protect Truman from charges of caving in on preferences, obtain a modicum of progress after months of negotiations, and place the onus of failure on Cripps. Anglo-American trade and foreign relations might suffer, but Clayton determined to defend his free-trade principles [*FRUS, 1947*, I:977-979]. This turned out to be pure bluff.

Initial signs that Clayton had influence quickly dissolved. The Canadians urged Britain to accept the short list and State Department advisor Paul Nitze prepared a cautionary note for the President to send to Attlee. But Nitze, Undersecretary of State Robert Lovett, and Truman all recoiled from a walkout. Foreign policy considerations merited a conciliatory approach. Explained Lovett, there was a good "likelihood that [the] USSR will exploit fully any such differences between [the] US and U.K. just as they are now trying to capitalize on British weakness by increasing pressure throughout Eastern Europe and [the] Near East." A breakdown at the GATT would be dangerous [*FRUS, 1947*, I:980-982].

National security officials, not free-trade experts, made the ultimate decisions regarding the Geneva round. Lovett advised merely trimming some offers would encourage Britain to resume negotiations once the dollar crisis subsided. A "thin agreement" that would preserve trade cooperation, instrumental to U.S. foreign economic and security policy, was "better than none" [*FRUS, 1947*, I:980-982]. Truman agreed to withdraw concessions in the event that Attlee refused the short list.

Consultations with the Dominions and the Cabinet yielded the expected rejection on September 9. The Dominions wanted more concessions. In the midst of the austerity program, Britain was in no mood to relent on protection. Attlee had "[g]rave doubts about the whole thing," for he felt caught between Commonwealth demands and those of the United States. Because the Prime Minister was unclear on "where we are getting to in these Geneva negotiations," he authorized Cripps to continue the Anglo-American talks but not relinquish any more concessions.[15]

After mentioning the importance of the GATT to the pending vote on the Marshall Plan in Congress and promising higher levels of U.S. imports, Clayton's assistant, Clair Wilcox, then issued another offer. America would make no further demands on preferences, accepting Britain's tabled offers for three years. Afterward, margins would be phased out over ten years, subject to the continued lowering of U.S. tariffs under the RTAA. This plan was generous. It allowed the retention of all margins in the Colonies and Southern Rhodesia, 80% in Britain, 61% in Canada, and from one-third (New Zealand)

[14] U.S./U.K. talks, August 20, 1947, box 138, ITF.

[15] LNH to CMP Brown, August 29, 1947 and Attlee memorandum, PREM 8 490.

to over three-quarters (South Africa) in the Southern Dominions. Australia would sacrifice just 4% of its margins. The plan addressed the dollar crisis, honored previous pledges, and would "dispose of the argument" that U.S. concessions were temporary but Britain's were "forever," said Wilcox [*FRUS, 1947*, I:983-993].

Clayton sent this third offer in an aide-memoire to Cripps, who remained unmoved. The British had reached the limit of their concessions. Besides, it was unlikely that America would depart in a huff from Geneva. Frankly, the Cabinet had a "large number of people who would not shed tears if the negotiations broke down altogether," Cripps told Clayton on September 19.[16] Foreign Secretary Ernest Bevin tried to soften the blow. He confessed to Clayton and the American Ambassador to the United Kingdom, Lewis Douglas, "that the British have not had much luck in living up to commitments which they have taken up in the recent past and do not want to take up commitments which they cannot live up to in the future" [*FRUS, 1947*, I:995-996].

The British were also aware of the impact of the Cold War in American thinking and trade policy. Cripps guessed that Truman's top-level advisors would choose not to poison the Marshall Plan and permit a breakdown of the GATT, and thereby "strengthen the hands of the Russians and the Communist parties in Western Europe."[17] Secretary of State George Marshall, in short, would prevent Clayton from elevating free-trade ideology over pragmatic foreign policy objectives.

This was an accurate assumption. All observers knew that the economically punch drunk British were incapable of rational engagement in the GATT exercise. Thus, Winthrop Brown of the U.S. Committee on Trade Agreements, which set concession offers, advised getting "the most we can on preference eliminations" while limiting America's offers to disguise the appearance of a giveaway in Geneva. "In the overall picture of success, the comparative failure on preference negotiations will not loom large." The GATT round would "end in an atmosphere of success and good will" and the Russians would be denied "the propaganda material they need..." [*FRUS, 1947*, I:996-998].

Such an argument swayed Secretary of State Marshall. He was under pressure from Clayton to suspend the GATT talks. But he recognized Britain's predicament and, above all, the danger to the anticommunist cause posed by Anglo-American squabbling in Geneva.[18] Marshall sympathized with Clayton's concern about Congress but he preferred to play the diplomatic card.

The crusade against preferences was over. Winthrop Brown traveled to Geneva in October to negotiate the final details of an agreement with James Helmore of the Board of Trade. Australia conceded a cut in fruit preferences, India gave away cotton textile margins in Canada, and Ottawa threw in a reduction in the apple preferences in Britain. Helmore added an offer to reduce British preferences in the Colonies, in exchange for guarantees of adequate

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[16] U.S./U.K. talks, September 19, 1947, box 83, ITF.

[17] Cripps memorandum, September 24, 1947, PREM 8 490.

[18] Bevin to Inverchapel, FO 371 62318, UE9151/37/53.

levels of U.S. rubber imports. America improved tariff cuts for beef and butter. But the most significant result of the Brown-Helmore talks was an accord for a three-year grace period on any reductions on preferences and a flexible timetable thereafter. Britain would enjoy much freedom; margins would be narrowed by a mere 5% over two decades after the Marshall Plan expired in 1952 [*FRUS, 1947*, I:1006].

The Commonwealth appreciated the Anglo-American accord. The Dominions were happy and most important, Attlee could announce that no major preference had been affected. Indeed, only 3% of British preferences would be discontinued and those subject to termination (such as autos) were of negligible value to major producers. The moderate cut in the tobacco preference would earn Southern Rhodesia's admission into the GATT. Three-quarters of margins in the Colonies would remain as long as Britain suffered a payments imbalance. The Brown-Helmore proposals, noted Edmond Hall-Patch of the Foreign Office, "do not represent the end of imperial preferences nor even a damaging inroad into them."[19]

The first round of the GATT ended in mid-October 1947. The State Department applauded the results, skimming over the deal on preferences to cover its flank in Congress. That America gave two concessions for each one received was justifiable owing to its huge trade surplus and the needs of recovering allies. But the lack of movement on preferences, even after Canada renounced fixed margins, did not come close to honoring the terms, much less the spirit, of prior British commitments to abolish the Ottawa system. Britain's economic troubles, Cold War concerns, the unity of the Commonwealth in Geneva, and the need to conclude the GATT talks prevented a deal that met even the most moderate of American demands. That was because those demands, shaped by free-trade idealists, had been unreasonable.

That free-trade doctrine had been rejected was clear. Indeed, the successful defense of the Ottawa Agreement might have played a role in Will Clayton's resignation following the talks. Press reports indicated that he quit under pressure from his wife or because of his advanced age [Fossedal, 1993, pp. 256-259]. But Prime Minister MacKenzie King of Canada confided that Clayton was unwilling to be a party to appeasement on the preference issue.[20] His almost theological dogmatism against discrimination had been blocked. America had recognized the political gains from easing back on the campaign against preferences.

The scuttling of America's top trade priority – to abolish the discriminatory Ottawa system of tariff preferences – signaled that free-trade idealism was neither possible nor desired. To be sure, preferential tariffs were replaced by much more effective import quotas and exchange regulations as protectionist devices. Still, while free traders tolerated quantitative barriers as temporary deviations from multilateral principles – indeed, the United States imposed its own quotas on agricultural imports – they continued to rail at Imperial prefer-

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[19] Hall-Patch minute, FO 371 62321, UE9512/37/53.

[20] October 16, 1947, J13.

ences. At the third round of GATT talks in 1950-1951, State Department negotiators actually refused to sign a trade agreement with Britain because of London's refusal to discuss preferences. The Ottawa system persisted for decades, eventually fading away as an issue once Britain joined the European Common Market. But the earlier setbacks experienced by the free-trade idealists reflected concerns outside the realm of pure economic theory.

They were also indications that the GATT, as well as U.S. trade policy, would pursue moderate trade liberalization. British economic conditions and American politics were major obstacles to putting free trade theory into practice in 1947. From that time onward, the GATT has shunned free-trade orthodoxy by including protectionist loopholes in its rules and principles [Goldstein, 1993]. The battle over Imperial preferences, resolved by politicians and strategists rather than by ideologues, was thus an initial indication that the GATT would embed protectionist constraints within the framework of trade liberalism for the next five decades.

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