ALTERNATIVE TRADE POLICIES

By Kenneth L. Robinson

Two types of decisions are involved in formulating a trade policy. Each nation must decide, first, where it wants to go; and second, how it will get there. I will discuss both trade policy objectives and some of the steps a nation might take in order to achieve its goal.

TRADE POLICY OBJECTIVES

Turning first to the question of trade policy goals or objectives, the major alternatives as I see them are as follows:

1. No trade (self-sufficiency)
2. Protection
3. Modified free trade
4. Free trade

The first and last alternatives represent the extremes. A country which chose to follow the first alternative, that is, a policy of complete self-sufficiency, would not permit any international trade. A country which chose to follow the other extreme, that is, a free-trade policy, would eliminate all import quotas, exchange controls, and tariffs except perhaps minor ones for revenue purposes only. The alternatives which lie in between these extremes are much less clear-cut. Actually, one could list an almost infinite number of intermediate alternatives. I have chosen to discuss two intermediate policies which I consider the most realistic. By protection is meant a policy aimed at maintaining relatively high tariffs and at least some import controls or other restrictions on products which compete directly with domestic industries, but low tariffs and no controls on items not produced at home. By modified free trade is meant a low tariff policy and no import licensing provisions, import quotas, or other quantitative restrictions.

At the present time, none of the major countries attempt to follow either of the two extreme policies. All nations, even those behind the iron curtain, find it advantageous to carry on some foreign trade. In fact, for practically all countries, self-sufficiency is no longer a real alternative. But not a single country goes so far as to permit completely free trade. Even countries such as England and the Netherlands, which once maintained essentially free-trade policies, now impose tariffs and import controls on a great many products. Today, most countries follow a protectionist policy although the degree of protection, of course, varies greatly from country to country.

UNITED STATES TRADE POLICIES

During the past century, the United States has revised tariff rates frequently, but, for the most part, has maintained what amounts to a protectionist policy. Since the end of the Civil War, Republican administrations generally have tried to maintain or raise tariffs while Democratic administrations have attempted to reduce import duties. Following World War I, protectionist sentiment was particularly strong in Congress. At that time, agricultural leaders, many of whom had been against tariffs in previous years, joined with industrial leaders in demanding higher duties. As a result, Congress raised tariffs twice within ten years, once in 1922 and again in 1930. Tariff rates during the early thirties were the highest in the history of this country. But in 1934, our high tariff policy was reversed. Since the middle thirties, tariff rates have been cut substantially; nevertheless, tariffs on many products are still so high that foreign manufacturers cannot sell the things they produce in this country.

At the present time, tariffs constitute only one of several barriers to the entry of foreign goods into the United States. For many industrial products, our complex tariff rate schedules and antiquated customs procedures are even more of a barrier than tariffs. In addition, quantitative restrictions and licensing requirements have been imposed on a number of agricultural commodities in recent years. Tariff quotas, for example, have been applied to such products as cattle, butter, potatoes, sugar, and wheat. Import licensing provisions have been used to limit imports of fats and oils, rice, and peanuts. The federal government is now authorized to impose restrictions on the entry of practically any agricultural product whenever unrestricted importation would interfere with farm price-support operations.

Within the next year, Congress will again be asked to make a decision on our future trade policy. Obviously our congressmen are not going to take seriously, at least at the present time, any proposal which would involve abolishing all tariffs or other restrictions on imports. But few, if any, would want to go to the opposite extreme and raise tariffs or other barriers so as to eliminate foreign trade altogether. The recent report of the President's Materials Policy Commission points out that the United States must import much larger quantities of raw materials in the future than it has in the past even to maintain our present output of goods. The real issue now facing the United States is whether we should maintain a protectionist policy with respect to items which might compete with goods produced in this country or adopt what may be called a modified free-trade policy. During recent years, the executive branch of our government has tried to move in the direction of a modified free-trade policy. But legislation passed by our Congress has, in many cases, conflicted with this objective. The United States has been accused by other governments (quite justly) of being inconsistent in its trade policy. While United States delegates at international conferences have been expounding the virtues of freer trade, some of our congressmen have succeeded in piling on new import restrictions. Clearly, it is time the American people made a clear-cut decision either for or against reducing trade barriers.

CONSEQUENCES OF ALTERNATIVE TRADE POLICIES

In order to help reach a decision on this important issue, let us examine briefly some of the consequences of following each of the two major alternatives I have outlined, first a protectionist policy, and second a modified free-trade policy. Suppose we increased our tariff rates and either maintained our present quantitative restrictions on imports or added new ones, what might be the result? One could be almost certain that there would be an increase in trade barriers imposed by other countries and a decline in the total volume of goods traded internationally. If the United States increased its trade barriers, other nations would probably retaliate by raising tariffs on such items as American-made automobiles, typewriters, fountain pens, electrical appliances, and textiles just as they did following the passage of the Smoot-Hawley Tariff Act in 1930. This, of course, would make it more difficult for United States manufacturers to sell their products abroad.

Even if foreign countries did not retaliate as they did in the early thirties, United States producers of export commodities would suffer a loss in income if we introduced new trade restrictions. Foreign countries cannot continue to buy from us unless they obtain loans or earn dollars by selling goods and services to us. If, for example, Switzerland could no longer sell watch movements and cheese in this country because of an increase in tariffs or other import restrictions, she would be forced to reduce purchases of American goods. A loss of foreign demand for American products would mean price-depressing surpluses of tobacco, cotton, and wheat in this country and unemployment in many of our industries.

Foreign trade is a much more vital factor in the economic health of most countries we count as our allies than it is in the case of the United States. A reduction in the volume of United States imports would have very serious repercussions on the economies of such countries as Canada, England, Switzerland, Italy, Germany, and Brazil. If additional trade restrictions were put into effect by us, the economies of nearly all non-communist countries would be weakened and, of course, a weakening of the economic strength of our allies would play into the hands of Russia. Loans and gifts from the United States might prevent this, but additional appropriations for direct economic aid would mean either higher taxes or more inflation at home.

An increase in tariffs or the extension of import quotas to new products would obviously benefit certain types of domestic producers but at the expense of consumers who would have to pay higher prices for the protected products. The housewife would be forced to do without some of the things she now enjoys such as fine woolens, china, and pottery while the farmer would pay more for a number of items used in farm production. Under a protectionist policy, the United States consumer would be paying the equivalent of a subsidy to high-cost domestic producers.

By restricting trade, countries forego the economic advantages which exist under a system of international specialization. We would have fewer goods in this country today than we actually have if each state tried to protect all its own industries by restricting importations of goods from other states. The same thing would occur on an international scale if trade barriers between nations were increased.

The probable consequences of following a protectionist policy can be summarized as follows: first, retaliation by other nations and a reduction of the volume of our products sold abroad; second, continued and perhaps increased demands for United States dollar aid abroad in order to bolster the economies of our allies; and finally, protection for certain American industries, but at the expense of higher prices to consumers and a somewhat smaller volume of goods available for distribution throughout the world. A reduced foreign trade might have the effect of weakening our allies and lead to more foreign aid.

Now let us turn to the second alternative. Suppose the United States decided to follow a modified free-trade policy, what might be the consequences? We can be quite certain that if the United States were to reduce tariffs, eliminate import quotas and licenses, and improve our customs procedures, the volume of goods sold by foreign nations to American customers would increase. This would give foreign countries more dollars with which to buy American-made goods. Other countries are eager to buy our goods, but they do not have enough dollars at the present time to pay for the things they want. If foreign countries were able to earn additional dollars by selling more goods and services to the United States, they would buy more of our machinery, perhaps additional wheat and cotton, and probably larger quantities of luxury items such as automobiles, nylon stockings, and fruit.

Of course, no one can deny that a modified free-trade policy would make it more difficult for some American firms who now benefit from tariff protection to continue selling the same products. But such firms would not necessarily have to go out of business. These firms merely would have to shift production to some new product or service which foreign countries want from us. Readjustments of this type, of course, would be nothing new to American business. Changes in consumer tastes, the discovery of new products or production techniques, and improved methods of transportation, have necessitated continual changes in the pattern of both agricultural and industrial production in this country during the past 150 years. Fortunately, our American economy is still flexible enough to meet the challenge of changing market conditions. We cannot be sure just how much the present pattern of industrial production would have to be altered if the United States were to follow a modified free-trade policy. However, the available evidence suggests that relatively few businesses would find it necessary to make major readjustments. Mr. Doumeratzky, a retired tariff expert of the United States Department of Commerce estimates that even if the United States went so far as to eliminate *all* tariffs and other import restrictions on goods produced in western Europe (the area which competes most directly with us in manufacturing), less than 10 percent of American industry would be adversely affected. However, the position of our allies would be strengthened materially.

How seriously would agriculture be affected by the elimination of quotas and reductions in tariffs? Not long ago, Dr. D. Gale Johnson of the University of Chicago undertook to answer this question. He compared job opportunities in agriculture under present policies and those that might exist under a freer trade policy. His conclusion is as follows: "...As a whole, freer trade would have little or no net direct effect on the number of job opportunities in agriculture. It is likely that the losses in job opportunities in sugar, wool, sheep, beef, butter, cheese, fats, and oils would about offset gains in cotton, tobacco, hogs, corn, fruits, and wheat."[1] Dr. Johnson also points out that the prices of certain industrial products needed for farm production probably would fall under a modified free-trade policy. The gain from lower prices for industrial products undoubtedly would more than offset any direct loss to farmers incurred as a result of the elimination or reduction of trade barriers.

Not only the demand for goods and services, but also the demand for direct economic aid to foreign countries would be affected by a change in our trade policy. Between 1948 and 1951, the United States government spent an average of nearly five billion dollars a year on foreign economic aid. This money was used to buy goods and services from the United States, but we obtained neither goods nor services in return. Had foreign countries been able to sell their products in this country, we would have had more goods to share and lower taxes. Contrary to popular opinion in this country, our friends abroad do not like to be on Uncle Sam's payroll. The English shop-

[1]D. Gale Johnson, *Trade and Agriculture,* John Wiley and Sons, Inc., New York, 1950, p. 52.

keeper, for example, knows that American aid helped his country restore industries damaged during the war, but, like any individual with a sense of pride, he does not like being on relief. He knows that England made her place in the world by trading goods and services with other countries to the advantage of both buyer and seller, and he would like to restore this type of mutually advantageous trade. In other words, he would rather sell goods to America than receive United States government aid. If the United States had accepted additional goods and services from abroad valued at only about 2 percent of all goods and services produced in the United States between 1948 and 1951, our allies would have earned the equivalent of all the dollars we gave them in the form of direct aid.

American prestige suffers abroad when Congress puts restrictions on United States imports. The Communist press plays this up as evidence of United States hypocrisy. They accuse us of pursuing what they like to call "imperialist policies" despite our talk of improving world living conditions. A reduction in United States trade barriers undoubtedly would give this country increased prestige with the non-communist nations and a decisive round in the battle for the moral leadership of the world. The easing of United States import restrictions might easily start a trend towards freer trade in other countries, just as our actions fostered the growth of protectionism during the early thirties. A general reduction in tariffs, the elimination of import quotas, and the easing of exchange controls would permit more international specialization. Each country could then produce more of the products in which it has a relative advantage and exchange these goods for things which could be produced more cheaply in other countries. International specialization increases the total quantity of goods available for distribution. With more goods to share, families in all countries could live better.

The major consequences of following a modified free-trade policy can be summarized as follows: First, imports into this country would increase. This would necessitate some readjustments in both agricultural and industrial production. But many industries would benefit from increased demands for their products. Second, the United States consumer could obtain a number of products at lower prices. Third, direct economic aid to foreign governments might be reduced. Fourth, the position of the United States as leader of the non-communist world would be strengthened. And finally, there would be a larger quantity of goods than at present to share among the nations of the world.

METHODS OF ACHIEVING TRADE POLICY OBJECTIVES

Now that we have examined the consequences of alternative trade policies, let us turn briefly to the means of achieving trade policy objectives. Tariffs or other trade restrictions can be altered either on a unilateral basis or by means of bilateral and multilateral trade agreements. Prior to 1934, this country operated largely on a unilateral basis; that is, we raised or lowered our tariffs without consulting other countries. In recent years, however, United States tariffs have been reduced as a result of reciprocal trade agreements with individual countries and multilateral agreements involving many countries.

BILATERAL TRADE AGREEMENTS. In 1934, the United States first began experimenting with bilateral trade agreements. Under the Reciprocal Trade Agreements Act of 1934, the President was given authority to negotiate tariff reductions with other countries. Congress has authorized the continuation of this program in modified form seven times since 1934. The most recent authorization extends to June 1953. Under the original Trade Agreements Act, the maximum tariff reduction that representatives of the United States could grant on any item was limited to 50 percent of the tariff rate existing on that item in 1934. Since the end of World War II, Congress has authorized a further reduction of not more than 50 percent of the rates existing in January 1945. Authority has thus been granted for total tariff reductions of up to 75 percent of those in effect in 1934. Reductions in United States rates are given in exchange for reductions in tariff rates by foreign countries. The actual negotiation of a trade agreement is carried on by a special State Department staff which is advised by a committee consisting of representatives designated by the Secretaries of Agriculture, Labor, Commerce, Defense, and other government agencies.

Between 1934 and 1945, the United States concluded reciprocal trade agreements with over 25 countries including Canada, England, France, Switzerland, and most of the Latin American republics. As a result of these agreements, substantial tariff reductions were made by foreign countries on a number of products exported by the United States, including tobacco, wheat, canned and dried fruit, pork, and dairy products in return for tariff concessions on our part.

General agreement on tariffs and trade. The bilateral trade agreements program proved to be an effective means of reducing barriers with individual countries, but the process was slow. Since the end of World War II, the United States has joined with other nations in an attempt to speed up the mechanism for reducing trade barriers by making multilateral trade agreements. Under a multilateral agreement, tariff concessions granted by one country to a second country are extended automatically to all other countries who sign the agreement. This amounts to making bilateral agreements on a wholesale basis. Three international trade agreement conferences have been held since 1947. The United States has participated in all these conferences. At the Geneva conference, a General Agreement on Tariffs and Trade (commonly known as GATT) was prepared after months of negotiations. This agreement reduced tariffs and import restrictions on a wide range of products. It was signed by over twenty nations including the United States. Nine additional countries joined the original signatories of the General Agreement to exchange tariff concessions at Annecy, France, in 1949. The following year, seven more countries participated in a trade conference held at Torquay, England. At the present time, thirty-eight countries which import more than 80 percent of the total value of all goods traded internationally have signed the agreement. In return for concessions granted by other nations, this country has reduced tariffs on many agricultural as well as industrial products. But despite these agreements, the total volume of United States trade has not expanded as much as some countries had hoped. This has been due partly to the fact that we have maintained quantitative restrictions on imports of certain agricultural products. Our failure to streamline customs procedures also has limited the effectiveness of the tariff reduction program. But perhaps the greatest barrier has been the ever-present threat that if other countries did succeed in expanding exports to this country, we would impose new import restrictions.

It would be possible, of course, for the United States to carry out either a protectionist or a modified free-trade policy on a unilateral basis. In order to achieve the objectives, Congress would merely have to authorize increases or decreases in tariffs or modify other import regulations. If the objective is to reduce trade barriers, however, bilateral or multilateral agreements offer obvious advantages. Under a reciprocal trade agreement program, tariff concessions on products we export can be obtained in return for reductions in tariffs or the elimination of quantitative restrictions on products we import.

CONCLUSION

Recent attempts to raise tariffs on such items as Swiss watches and the so-called "buy American" amendment to the latest extension of the Defense Production Act have brought to the attention of the American people the need to examine once more our international trade policy. The United States government has created confusion both at home and abroad by trying to follow policies which are not consistent. It is time we made a clear-cut decision on this issue. The real choice, as indicated, is not between the extremes of complete free trade or complete self-sufficiency, but rather between what I have called a protectionist policy and a modified free-trade policy. If the United States were to adopt the former policy, certain industries would receive protection but at the expense of consumers and other industries which now export products to other countries. Furthermore, under such a policy, it undoubtedly would be necessary to continue appropriating large sums of money for direct foreign economic aid. If, on the other hand, we were to adopt a modified free-trade policy, the total volume of imports and exports would increase. This would mean a strengthening of the economic position of our allies and more goods for all to share. Temporarily, at least, some domestic industries would be placed at a disadvantage, but they would have opportunities to shift the use of their facilities to the production of goods for which export demands would increase.

In trade policies, as in other affairs of state, it is impossible to please everyone. Some individuals will gain under a protectionist policy while others will gain under a modified free-trade policy. The difficulty lies in the choice. Either we lose friends abroad and gain friends among a few industries at home by restricting imports or we gain friends abroad and lose some at home (but gain among potential exporters) by eliminating trade barriers.

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