

Proposed Statement by the Secretary of the Treasury to the House Committee on Foreign Affairs on the ITO Bill

February 11, 1950

Mr. Chairman and Members of the Committee:

I appreciate your invitation to appear before the Committee to discuss House Joint Resolution 236, authorizing United States acceptance of membership in the International Trade Organization.

There is very little on the general considerations involved in the Charter that I can add to the forceful message which the President sent to the Congress when he transmitted the Charter last year; or to his observations on the subject in his State of the Union message last January; or to ~~Under~~ Secretary ^{Acheson's} ~~Keble's~~ statement. And, before I proceed, let me state that I claim no expert familiarity with the detailed technical aspects of the ITO Charter. Therefore, I shall confine myself primarily to the general policy issues involved in the bill as they affect the activities of the Treasury Department and the National Advisory Council on International Monetary and Financial Problems.

I regard the establishment of the International Trade Organization as an important step in an over-all program designed to bring about sensible and orderly relationships in the world economic structure. A healthy world economy requires an increase in the level of productivity to create new wealth, and at the same time, assurance that the fruits of this increased productivity will be readily interchangeable in the world markets for the mutual benefit of all. On the trade side, the world must adopt practices which enable goods to move readily, so that countries can sell

what they produce to buy what they need. On the financial side, we require an environment of confidence regarding the eventual payment for goods sold and the value of such payments when received.

The commercial and financial policies necessary for such a healthy world economy are not only closely interrelated; they are in fact completely interdependent, because international action on the financial front must be closely coordinated with similar action on the commercial front if it is to attain maximum effectiveness on a world scale. In the Bretton Woods Agreements Act of 1945, the Congress expressly recognized this interrelationship by declaring it to be the policy of the United States to seek further international agreement looking toward the liberalization and expansion of world trade. The ITO Charter, ~~presented in response to this Congressional mandate,~~ is designed to provide the necessary machinery, on the commercial side, for international cooperation in striving toward such a healthy world economy.

This desired goal of commercial relationship cannot, of course, be realized if countries continue to pursue the short-sighted policies so frequently underlying trade embargoes, tariff barriers, quotas, exchange controls, preferences, discriminations, and other restrictive devices. Although such devices appear to afford quick solutions to the immediate problems of today, they multiply the problems of tomorrow. The only possible outcome of resort to such measures is retaliation in kind, direct and indirect, which not only stifles world trade, but so seriously interferes with necessary

international financial movements as to create widespread instability. In the absence of a set of rules governing international trade, such as are embodied in the ITO Charter, there is virtually no limit to the restrictionism that nations can practice.

The Charter has the dual purpose of dealing as realistically as it can with the problems of today, while at the same time building towards the requirements of a better tomorrow. All of us are aware of the severe balance of payments problems of the present. These difficulties have led most countries to adopt restrictive trade measures in the hope of achieving a balance between demand for and availability of foreign exchange. The Charter realistically recognizes the nature of those difficulties and provides a mechanism for dealing with them, but it also sets up procedures that will control the use of the emergency measures; and establishes long-range standards to limit restrictive measures to financial conditions with a view to the attainment of genuine multilateral trade as the foundation of international commercial relations.

In brief, the Charter, through international agreement, will establish a basic structure of rules for trade relations among the members of the Organization. In this connection, it is considered that the Charter will supersede the trade provisions contained in Section 9 of the Anglo-American Financial Agreement. After the Charter has come into effect, with the United States and the United Kingdom as members pursuant to the authorization of the Congress and the Parliament of the United Kingdom, future trade relations involving our countries will be governed by the provisions of the Charter.

A somewhat more detailed consideration of the provisions of the Charter which are of particular interest to the Treasury brings us to Articles 21, 23, and 24. These "balance of payments" articles constitute a recognition that, with most of the world practicing import controls, discrimination and bilateral trading, we cannot hope for immediate unqualified transition to world multilateral trade. The Charter aims to remove the trade barriers based upon financial stringency as swiftly as the financial difficulties themselves disappear. By facilitating the process of freeing trade from artificial barriers, the ITO will play its part in quickening the financial recovery which must go hand in hand with the establishment of true multilateral trade. These provisions of the Charter constitute a realistic approach to the conditions likely to prevail in the near future, and provide a constructive mechanism for bridging the gap between disorganization in world economic affairs and the reestablishment of those sounder and more stable conditions which are our constant goal.

The Charter recognizes that the balance of payments of each member country is of concern to other members, and that each country is responsible for safeguarding its external financial position and achieving and maintaining equilibrium in its balance of payments, by methods which, wherever possible, expand international trade. These balance of payments articles do, however, permit countries which are in balance of payments trouble to use quantitative restrictions on imports as a means of temporarily relieving their financial difficulties, and, under certain circumstances, to discriminate in the application of such restrictions

as a further temporary relief from their financial problems. Thus, they constitute an important exception to the general rule forbidding the use of quantitative restrictions or resort to discrimination.

In view of the unbalanced state of international payments today, it is likely that most prospective ITO members will maintain extensive quantitative restrictions, and, indeed, discriminatory ones, under these Articles, in the next few years. However, the provisions are designed to limit their scope even in times of financial stringency, and to exclude their widespread use under more normal conditions, by imposing various safeguards and limitations.

For example, the test which a country must meet in order to be permitted to use quantitative restrictions for balance of payments reasons is designed to limit the use of these restrictions to real cases of disequilibrium in the country's international accounts. The Charter permits retention of the restrictions only to the extent justified, and so long as can be justified, to meet the financial problem. The International Monetary Fund is made the judge of the basic facts and of the conclusions which follow from them regarding the country's financial situation.

Again, the opportunity for any significant discrimination in applying import restrictions is available only for a transitional period. As a long-range matter, discrimination may be practiced by a member only under certain limitations, and for (I quote) "a small part of its external trade", "temporarily", and "where the benefits to the Member or Members concerned substantially outweigh any injury which may result to the trade of other Members".

Moreover, such discrimination may be resorted to only with the prior consent of the International Trade Organization. Beyond this narrow, carefully circumscribed opportunity for discrimination, a particular country may discriminate only so long as that country is operating under its transitional period as provided in the Articles of Agreement of the International Monetary Fund. Countries which have not left the transitional period by March 1952 are required to justify their continuation in this status annually thereafter. As each country leaves the transitional period, its opportunity to discriminate under one or the other of the two options contained in the Charter ceases. The experts who are to testify later will, I am sure, be able to supply all the details concerning these ^{provisions}~~questions~~ which you may require.

I should also like to make special mention of the important provisions of the Charter relating to customs administration and procedure. The goal of this Government is to encourage the further development of world trade. With respect to tariff levels we have sought to cooperate to the utmost with other nations toward mutually advantageous tariff adjustments under the trade agreements program, while at the same time avoiding material injury to our domestic industries. World trade has also long been hampered by what some people call "customs red tape" which, in some areas, is said to be more of a restrictive trade barrier than the tariff rates themselves. The Charter now takes the further step of prescribing a basic set of rules requiring world-wide cooperation to modernize customs procedures by sweeping away provisions which were devised long ago

under economic and political conditions differing widely from those we face today. If this Government accepts membership in the ITO under the Charter, we would be obligated to make a few changes in our customs laws, but these changes could not be effected without further legislation.

I think it is fair to say that the provisions of the Charter relating to customs administration and procedure reflect Treasury ideas, and indeed flow in large measure from the customs management improvement program of the Treasury Department. In attendance with the United States representatives at the preparatory meetings and at Havana when the Charter was being negotiated were our own experienced customs technicians who knew exactly the difficulties connected with administration and the causes thereof. The Bureau of Customs has made considerable progress with the improvements called for by our management program which can be accomplished administratively, through changes in regulations and operating procedures. We have continued our study to determine what legislation is needed further to accomplish the objective of improving our management, making our operations more economical, and of providing better service to the public. The result is that we have been able to draft a bill which is designed to simplify customs administration. This bill will not only meet the requirements provided by the Charter but also the many other desirable changes which we have studied since the drafting of the Charter. This bill ~~will~~ will be ready for submission to the Congress in the near future. I presume it will be referred to ~~the~~ ~~is now before~~ the Ways and Means Committee. Hence, the requirements of the Charter as to customs procedures are not the primary motivating force in efforts to improve our own customs operations. But they remain of

great importance if we are to secure equitable treatment for our own exporters who seek markets abroad.

In conclusion, Mr. Chairman, the ITO Charter was bred of our experience with a long period of great economic hostility which, as it became progressively more harmful to the peoples of the world, brought increasing threats to peace and security. I can think of no greater mistake than to permit such economic conflicts to persist and to become aggravated. The Charter offers a practical road toward the establishment of the rule of law in international trade. As the product of negotiation and compromise among representatives of more than 50 countries, it is probably not considered ideal by any of those countries. But it represents the only feasible alternative to the unrestricted practice of economic nationalism which is both harmful and dangerous. Therefore, I should like to express my strong support of House Joint Resolution 236 which authorizes acceptance by the United States of membership in the International Trade Organization.