

Alfred E. Eckes

TRADING AMERICAN INTERESTS

In the aftermath of the Cold War the United States has the opportunity to stop trading access to the American market for foreign policy favors. Import concessions should generate reciprocal export opportunities for American goods and services in foreign markets, not votes in the United Nations or goodwill in diplomatic negotiations.

For 45 years a succession of presidents, beginning with Harry Truman, have consciously subordinated domestic economic interests to foreign policy objectives. To strengthen free world economies and help contain Soviet expansionism the executive branch has rolled back tariffs and removed trade restrictions, opening the giant American market to the world's manufacturers.

This strategy produced some impressive foreign policy victories, but also much domestic dislocation. Trade liberalization accelerated recovery from World War II in Europe and east Asia, and ignited export-led growth in many developing countries. It helped revive international capital flows and hasten the globalization of production. Consumers found that the market system could produce and distribute goods at affordable prices, while state planning could not. The success of free markets therefore exposed the failures of the Soviet empire and contributed to its collapse.

Freer trade has its costs. The record suggests that for diplomatic and national security reasons the U.S. government sacrificed thousands of domestic jobs to create employment and prosperity elsewhere in the noncommunist world. Bowing to external pressures and foreign policy concerns, presidents from Truman to Reagan refused to grant import relief to trade-sensitive industries in the interests of winning the Cold War. In doing so they may have compromised America's

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future competitiveness and alienated public support for international cooperation in the post-Cold War world.

II

Introduced in 1934 as a temporary recovery measure to restore the American living standard, the reciprocal trade program acquired new significance after World War II—becoming a powerful tool for reshaping international economic relations. From 1947 to 1972 the United States agreed to reduce its tariffs from an average 32.2 percent ad valorem on dutiable goods to a negligible 8.5 percent. Thus by January 1972, when the Kennedy Round concessions were fully implemented, tariffs no longer sheltered high-wage American workers from low-paid labor abroad. American producers and workers now found themselves competing in a relatively open international economy at a time when other improvements in transportation and communications and the emergence of many new suppliers intensified competition.

Former Senate Finance Committee Chairman Russell Long (D-La.) was one of the first to perceive that the executive branch's enthusiasm for free trade to assist overseas allies clashed with this nation's long-term economic interest in maintaining high-paying jobs and a viable manufacturing base at home. For nearly twenty years, until his retirement from Congress in 1987, Senator Long regularly criticized the State Department for using trade concessions as bargaining chips in foreign policy negotiations or to buy votes in the United Nations. He charged that to "save the world from a great war" the State Department believed "it would be worth giving away every industry we have."¹

The trade agreements program increasingly became an instrument of administration foreign policy after World War II. Britain and other World War II allies lay exhausted—their industries generally outmoded, their finances weakened—while the Axis powers were left with devastated economies. For nearly a decade after 1945 a "Marshall Plan mentality" caused Washington to pursue economic foreign relations designed to make overseas allies self-sustaining participants in

¹U.S. Senate, Committee on Finance, *Nomination of Veronica Haggart*, Hearing, March 2, 1982, 97th Congress, 2nd session, p. 6.

a thriving open international economy, even at the expense of domestic American economic interests.

As part of the overall containment strategy U.S. economic foreign policy had three principal goals. First, it sought to facilitate the recovery and economic viability of Britain and other west European allies so that they might stand as bulwarks against the expanding influence of the Soviet Union. Second, the United States sought to integrate former enemies Germany, Italy and Japan into a thriving international economy, and thus anchor these nations to the West economically and militarily. And third, the United States sought to deny the Eastern bloc valuable Western technology.

To achieve these ends Washington initially provided reconstruction assistance and then sought to make Europe and Japan self-supporting. From 1946 to 1953 the United States extended some \$33 billion in nonmilitary aid, an amount equal to one-fourth of all its exports. This aid helped rebuild steel mills in Europe and textile mills in Japan, while offshore defense procurement also enabled friendly countries like Japan to build up production bases. Over the longer term, however, American officials encouraged aid recipients to become self-supporting and competitive in the international economy.

Eager to promote "trade, not aid," and thus lighten the direct costs of reconstruction, officials actively encouraged U.S. imports, not exports. The State Department, Commerce Department and Economic Cooperation Administration all promoted foreign exports to the dollar bloc, as did U.S. occupation forces. They wanted to reduce the U.S. merchandise trade surplus in order to relieve a dollar shortage abroad. They approached this task with enthusiasm, unconcerned about long-term competitiveness and employment issues or the need to secure market access for U.S. exporters. Indeed, in communicating to domestic audiences, the State Department espoused the view that this country's balance of trade surplus posed a "serious" problem: "We have an unfavorable balance of trade, unfavorable to the taxpayer and unfavorable to the consumer. . . . We must become really import-minded."²

Public officials seem to have had complete confidence in America's ability to lead during the 1940s and 1950s. At a time

²U.S. Department of State, *The United States Balance of Payments Problem*, Commercial Policy Series No. 123, Department of State Publication 3695, December 1949, pp. 8-14.

when imports of goods and services were less than four percent of gross national product they spoke and acted as if American manufacturing would remain permanently strong, efficient and invulnerable to foreign competition. A 1953 report, prepared by President Truman's Public Advisory Board for Mutual Security, even called for the United States to eliminate "unnecessary" tariffs on industries producing automobiles, machinery and consumer electronics, such as radios and televisions. These industries are so "highly developed and very efficient" that "this country has nothing to fear."³

President Truman was concerned that foreign policy matters should take priority over domestic economic interests: "Our industry dominates world markets. . . . American labor can now produce so much more than low-priced foreign labor in a given day's work that our working men need no longer fear, as they were justified in fearing in the past, the competition of foreign workers."⁴

This emphasis on opening the huge American market to aid foreign allies first surfaced during the 1947 Geneva trade negotiations, which produced the General Agreement on Tariffs and Trade (GATT). American officials were initially determined to crack the discriminatory British Commonwealth preferential system, but, when the Labour government refused, neither side wanted to break off negotiations. London desired Marshall Plan aid to facilitate European recovery and Cold War cooperation, and Washington shared these goals. So, apparently convinced that an unbalanced deal was better than no deal at all, the United States signed an agreement that cracked open only one market—its own. The State Department acknowledged that Washington gained concessions at Geneva with a trade value of \$1.19 billion, but yielded concessions worth \$1.77 billion. American tariff reductions averaged 35 percent on dutiable items.

Participants in the talks commented on the way U.S. negotiators abandoned their quest to open the British preferential system. According to declassified British records, the agreement came after British negotiators were invited to make "innocuous improvements" on offers that would enable the U.S. chief negotiator to "dress up his statistics so as to have. . .

³Public Advisory Board for Mutual Security, *A Trade and Tariff Policy in the National Interest*, Washington: GPO, February 1953, pp. 18–21.

⁴Unpublished pages from "Memoirs," Truman Library, Independence, MO.

a chance of getting away with it with Congress."⁵ In an unusual display of dissension among U.S. delegates, Tariff Commissioner John Gregg refused to approve the result, believing the United States had received inadequate compensation for its many concessions.

As it turned out many of the claimed U.S. gains were placed in cold storage. Convinced that the foreign dollar shortage hampered unregulated two-way trade, the United States acceded in 1947 to discrimination against U.S. exports on balance-of-payments grounds. Thus the pattern was established. In the interests of global economic recovery and containment the United States would lower its duties on imported goods while tolerating continued discrimination against dollar exports.

III

Reviving the economies of wartime adversaries presented special difficulties in light of negative public opinion. Determined to bind these former enemies to the West the United States extended most-favored-nation trade treatment to Italy, Germany and Japan after the war and also sponsored their membership in GATT.

The bilateral trade agreement signed with Japan in 1955 was the most egregious example of sacrificing domestic interests for foreign policy advantage. Concerned about Japan's economic viability and political stability, Washington embarked on a program of one-sided tariff concessions to stimulate Japanese exports. In August 1952 the National Security Council insisted that the United States should facilitate the entry of Japanese goods into the U.S. market.

State Department officials championed efforts to promote Japanese exports. They actively lobbied European allies to buy Japanese products, argued for Japan's membership in GATT and sought a bilateral trade agreement to facilitate Japanese exports. The Commerce Department opposed that recommendation, fearful of ruinous competition from cheap labor. In June 1953 it yielded to the foreign relations judgment of the State Department, that anything less than Japanese accession to GATT would jeopardize U.S. objectives in Japan.

President Eisenhower strongly backed a program of trade

⁵U.K. delegation to Foreign Office, Oct. 2, 1947, Board of Trade 11/3648, British Public Records Office, London.

concessions for Japan. He accepted the State Department argument that "Japan cannot live and Japan cannot remain in the free world unless something is done to allow her to make a living." Indeed Eisenhower told Republican congressional leaders that "all problems of local industry pale into insignificance in relation to the world crisis."⁶

The president's preoccupation with foreign policy considerations troubled businessmen in his own cabinet, including Treasury Secretary George Humphrey and Commerce Secretary Sinclair Weeks. They felt that Eisenhower's policy was wrong, and they anticipated that cheap foreign labor would bring vast unemployment to this country.

Nonetheless Secretary of State John Foster Dulles discounted any future Japanese commercial challenge. At a meeting with visiting Japanese Prime Minister Shigeru Yoshida in November 1954 Dulles held up a "brightly patterned flannel shirt made in Japan of cheap material, copying a better quality cloth made in the United States" and commented that "this is one of the reasons the Japanese have difficulty in expanding their trade." A year later, in August 1955, he told Japanese officials there "will always be an imbalance in Japan's direct trade with the U.S." Dulles and the State Department took the view that trade concessions were necessary to secure Japanese cooperation in mutual defense activities and in national-security export controls.

State won the interagency battle, asserting that national security required taking steps to bind Japan to the free world. At the White House officials also considered "the Japanese negotiations . . . vastly more important than efforts to raise minimum wages in Puerto Rico." Thus the Eisenhower administration continued to subordinate U.S. domestic commercial interests to foreign policy considerations.⁷

What tangible benefits did the United States obtain from its bilateral negotiations with Japan and with third countries in 1955? Despite official claims that the United States received concessions on exports valued at \$394 million, while yielding

⁶Dwight D. Eisenhower, *Public Papers*, 1954, pp. 585-90; Feb. 8, 1955, Whitman File-Legislative, Eisenhower Library, Abilene, KS.

⁷U.S. Department of State, *Foreign Relations of the United States*, 1952-54, XIV, p. 178; *FRUS*, 1955-1957; XXIII: pp. 112-113; Carl Corse memorandum, Oct. 22, 1954, White House Central File, Eisenhower Library.

concessions of only \$123 million, the reality was an unbalanced agreement loaded with bogus concessions—benefiting Japan.

The *Mainichi Daily News* reported that “domestic industries in Japan will not suffer any unfavorable influence. . . . Fifty-six out of 75 tariff rates conceded [sic] by Japan are reduced only by less than 5 percent”; the *Nippon Times* also cited Japanese government sources who “anticipated that the adverse effects the Japanese concessions would bring on the domestic industries would be negligible as compared with the benefits Japan would gain.”⁸

While Japan provided few major tariff concessions, the United States granted extensive tariff reductions covering almost all of Japan’s major export items: many of them labor-intensive manufactures like earthenware, chinaware, textiles, apparel, tile and electrical products. Furthermore it was understood that the United States would not immediately gain the benefit of Japanese concessions, because Japan continued to retain other trade and exchange controls to conserve foreign exchange reserves.

The 1955 agreement contained other controversial aspects. For example Washington cut duties on products of primary interest to third countries in exchange for their extending export opportunities to Japan. Negotiated at a time when other nations actively discriminated against Japanese goods, official Washington viewed these tariff cuts as essential to helping Japan establish a viable pattern of expanding trade. Such benefits went to Canada, Denmark, Finland, Italy, Norway and Sweden. U.S. officials therefore purchased market share in Europe and Canada for Japanese exports at the expense of American producers and workers.

How did the reciprocal trade agreement with Japan affect bilateral trade? From 1955 to 1960 Japan more than doubled its share of America’s manufactured imports, from 7.6 percent to 15.4 percent, and Tokyo achieved its first postwar trade surplus with Washington in 1959. Over the same period, however, the U.S. share of Japan’s manufactured imports declined from 66.3 percent to 51.7 percent.

In subsequent tariff negotiating rounds this pattern of exchanging access to the U.S. market for foreign policy advantages continued. During the Dillon Round of GATT,

⁸*Mainichi Daily News* and *Nippon Times*, Tokyo, June 10, 1955.

which concluded in 1962, the Kennedy administration sacrificed import-sensitive domestic producers and agricultural export interests to appease Britain and the European Community. Eager to reach a commercial agreement with Britain and to encourage the movement for European integration, the State Department persuaded the White House to ignore the Tariff Commission's peril-point recommendations on some 70 tariff items—including steel, machine tools, tableware, ferrochromium, toweling and linen handkerchiefs. Even though the Tariff Commission had made statutory findings that cuts below the peril-point might injure domestic industries, President Kennedy decided to accommodate foreign trading partners. On agriculture the United States made another particularly damaging concession. It acquiesced to the EC's highly protective Common Agricultural Policy, over objections from the U.S. Department of Agriculture.

The State Department's insensitivity to domestic concerns during the Dillon Round created bitter feelings on Capitol Hill. Several months later Congress retaliated in passing the Trade Expansion Act. It established the special representative for trade negotiations and stripped State of its dominant role in trade policy.

IV

Despite this reorganization, foreign policy concerns continued to drive U.S. participation in the Kennedy Round. Eager to continue the trade liberalization process begun in 1947 the executive branch initially sought an accommodation with the emerging EC on outstanding trade problems, especially agricultural protectionism. Indeed President Johnson warned in April 1964 that the United States would enter no agreement unless Kennedy Round participants made progress toward liberalizing trade in agricultural products. Another important negotiating objective was to modify the Japanese government's highly protective attitude toward its industries.

Preoccupied with managing the Vietnam War President Johnson gave little attention to details of the Kennedy Round negotiations. When the EC refused to yield on agriculture, and when Japan stonewalled on market access, his negotiators reluctantly abandoned the farm export issue and recommended that Johnson accept an agreement on industrial products that left the United States in substantial deficit with Japan. At the moment of decision Johnson heard from his

advisers what foreign negotiators had long suspected: the U.S. interest in a "successful" Kennedy Round outcome required accepting a compromise that did not satisfy principal U.S. negotiating objectives.

Failure to achieve an agreement, a staff aide informed the president, risked "spiraling protectionism" and "even more serious" political implications. "It would encourage strong forces now at work to make the EC into an isolationist, anti-U.S. bloc, while, at the same time, further alienating the poor countries." Thus the Kennedy Round ended with a face-saving agreement intended to sustain the multilateral process and demonstrate U.S. support for European unification.⁹

From this distance, however, Japan appears to have won the Kennedy Round tariff-cutting negotiations. While average post-Kennedy Round duties on nonelectrical machinery fell to 5 percent ad valorem for the United States and 6.6 percent for the EC, Japan insisted upon retaining rates averaging 12 percent. Moreover Japan retained its discriminatory industrial policies, including subsidies and import restrictions, and continued to bar access to the Japanese market. Indeed on nonelectrical machinery Japan's average tariff in 1972 actually exceeded 1954 levels, reflecting increased protection for computers and other office equipment.

For transportation equipment the average import duty at the end of the Kennedy Round was 3.8 percent in the United States, 7.1 percent in the EC and 12.2 percent in Japan. Moreover many countries, including Japan, imposed high nontariff barriers, such as excise taxes and registration fees on large American-style vehicles.

Not surprisingly the Japanese press hailed the Kennedy Round agreement as paving the way for continued export expansion. Government sources in Tokyo indicated that "Japan will gain much eventually . . . because U.S. products to be affected by the Kennedy Round include many heavy industrial and chemical products, which this country [Japan] intends to emphasize in the future." Another reason for anticipating that Japanese exports would rise more than imports from the

⁹Francis Bator to Johnson, May 10, 1967, National Security File, Johnson Library, Austin, Texas.

United States was that Japan excepted "almost all strategic industrial goods" from tariff cuts.¹⁰

Early in the Kennedy Round in March 1964 economist John Kenneth Galbraith, a former ambassador to India, had written President Johnson the following warning: "If we are screwed on tariffs this will have an enduringly adverse effect on the balance of payments. It will be a serious problem for you for years to come."¹¹

Galbraith's forecast was prescient. As Kennedy Round tariff cuts were implemented, the U.S. merchandise trade surplus vanished. From 1893 to 1970 U.S. exports consistently had exceeded imports, but beginning in 1971 the United States generated merchandise trade deficits in 19 of the next 21 years. Some economists attributed the emerging trade deficit to inflation, an overvalued dollar and ballooning energy costs, but a series of Tariff Commission investigations reached a different conclusion. At the industry-specific level the commission found that rising imports, resulting from tariff concessions, were a major factor causing unemployment among workers producing shoes, radio and television receivers, audio equipment, flatware and textile products. President Nixon concurred in those findings and authorized federal adjustment assistance.

v

Congress was not oblivious to the domestic consequences of trade liberalization. Repeatedly, in renewing the trade agreements program, Congress made procedural changes intended to assure that domestic industries injured as a result of tariff concessions obtained escape-clause relief. In 1947, for instance, President Truman agreed that an independent agency, the Tariff Commission, forerunner of the International Trade Commission (ITC) would hear complaints from domestic industries and make a recommendation to the president. If the commission found that increased imports of a product granted a tariff reduction caused serious injury to the domestic industry, it could recommend withdrawal or modification of the appropriate tariff concession.

But in practice the escape-clause process seldom benefited

¹⁰*Mainichi Daily News*, May 17, 1967.

¹¹Galbraith to Johnson, March 11, 1964, White House Central File, Confidential, Johnson Library.

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

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

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

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

reaching trade remedy decisions the administration should take into account "the damage to national security which could result from restrictions which might weaken the ties which bind us to our allies in the collective security effort."¹²

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

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

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

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

¹²June 4, 1959, National Security Council discussion. *Declassified Documents Reference System* (DDRS): Research Publications Inc., Woodbridge, CT, 1990; 16:970-71.

¹³Department of State to Bureau of Budget, Nov. 2, 1953, and April 20-21, 1954, White House Central File, Eisenhower Library; Dulles to President Eisenhower, Aug. 12, 1954, DDS:1983, 9:2103.

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

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

VI

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

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

¹⁴Department of Defense to Bureau of Budget, June 7, 1954, and Nov. 8, 1956, White House Central Files, Eisenhower Library.

domestic consumption in 1967 to 30 percent in 1970, while the number of production workers fell from 202,000 to 185,000.

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

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

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

commitment to the economic well-being of the Third World." Furthermore Spain and Greece warned that footwear exports were "vital" to their respective bilateral relationships with the United States.¹⁵

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

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

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

VII

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

¹⁵Scowcroft to President Ford, April 12, 1976, Seidman Papers, Ford Library, Ann Arbor, MI; Brzezinski to Carter, March 16, 1977, and Special Trade Representative to Vice President, Feb. 4, 1977, White House Central File, TA4-12, Carter Library, Atlanta, GA.

countervailing duty determination by the U.S. Treasury that had been expected to damage bilateral political relations. The result was a one-sided "free trade agreement" opening the U.S. market to Canadian automotive products. But only original equipment manufacturers could import vehicles and parts freely into Canada; consumers could not. Other separate understandings between U.S. auto producers and the Canadian government effectively transferred auto production—and jobs—to Canada. The result: a \$657 million automotive products trade surplus with Canada in 1965 turned negative. Over the last 25 years the United States has experienced automotive deficits with Canada in all but one year.

During Tokyo Round negotiations the archival evidence also indicates that the Ford and Carter administrations rejected trade-remedy petitions from U.S. industries to avoid unsettling allies and disrupting multilateral negotiations. Indeed at the November 1975 Rambouillet economic summit President Ford specifically pledged to deal with bilateral trade problems on a "common sense basis." He said: "Where flexibility exists under our domestic law and procedures, I am prepared to exercise it."¹⁶

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

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

¹⁶Notes of Rambouillet Summit, Nov. 16, 1975, Seidman Papers, Ford Library.

would damage relations with Canada, Peru, Chile, Zambia and other copper exporters, while violating commitments made at the Bonn and London economic summits to resist protectionism.

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

According to Clyde Prestowitz, a Commerce Department official in the 1980s, the executive branch was also reluctant to defend U.S. producers from subsidized Japanese and European competition.¹⁷ In the Houdaille machine-tool case Prestowitz notes that President Reagan declined to impose sanctions that would embarrass his friend, Prime Minister Yasuhiro Nakasone, and harm the overall bilateral relationship with Japan. When the administration considered challenging European subsidies to Airbus—Boeing's leading competitor—Secretary of State George Shultz exhibited similar aversion. Vigorous representations would have upset European governments and harmed cooperation on national security issues.

VIII

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

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

¹⁷Clyde Prestowitz, *Trading Places*, New York: Basic Books, 1988, pp. 217–249.

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

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

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

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

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

supported tariff liberalization. But, when the impact of Kennedy Round tariff cuts began to harm workers in a variety of import-competing industries, the public mood shifted. Since about 1973 solid majorities have consistently favored increased import restrictions.

In 1992 rising public dissatisfaction with government and with the costs of international involvement reflects the pervasive perception that American leaders have neglected for too long the bread-and-butter concerns of average citizens. The future of Russia and eastern Europe, the success of the Uruguay Round and the promise of a North American Free Trade Agreement all may mesmerize and motivate Washington policymakers. But in the American heartland these initiatives translate as further efforts to promote international order at the expense of existing American jobs.

Continued public support for a liberal trade policy depends on more than vague promises about future export-related jobs and lectures on the benefits that consumers derive from low-cost imports. In the absence of secure and abundant employment, consumer concerns fade in importance. Most consumers are less concerned about the price of goods than about their own ability to pay the price. And recent experience in the current recession underscores another economic truth: the unemployed worker is not a happy consumer. Indeed the rapid transfer of jobs from high-cost to low-wage countries in a world of deregulated markets multiplies uncertainty and discourages consumption among those lacking employment security. Twenty years ago only production workers had to worry about losing jobs to cheap foreign competition. In the 1990s open borders have spread this insecurity to millions of service and professional workers.

Chairman Long, and his Republican and Democratic colleagues on the Senate Finance Committee, anticipated this reaction years ago. At a hearing in January 1976 he warned Secretary of State Henry Kissinger: "If we trade away American jobs and farmers' incomes for some vague concept of a 'new international order,' the American people will demand from their elected representatives a new order of their own, which puts their jobs, their security and their income above the priorities of those who dealt them a bad deal."¹⁸

¹⁸U.S. Senate, Committee on Finance, *Oversight Hearings on U.S. Foreign Trade Policy*, 94th Congress, 2nd session, p. 105.

IX

To restore public confidence in American leadership and strengthen the domestic economy, the next president and Congress need to focus their efforts closer to home. They must develop policies that will remedy the fiscal mess, help strengthen the competitiveness of domestic industries, improve the quality of the work force, rebuild domestic infrastructure and provide productive jobs for low-skilled workers.

For the United States trade policy must increasingly become an instrument of domestic policy, as it is for our leading competitors. Obviously government cannot construct nineteenth-century style protectionist walls to shelter permanently inefficient industries. But the experience of the Harley-Davidson company and the domestic steel industry in the 1980s shows that prudent and selective use of escape-clause type procedures can strengthen the competitiveness of even mature industries. Harley successfully used a five-year period of tariff relief to regain its competitive edge. Such safeguard actions are consistent with U.S. obligations under GATT.

In essence Washington must revive the concept of genuinely reciprocal trade. We should exchange market opportunities in the domestic market only for meaningful market access abroad. In future bilateral and multilateral agreements each party should gain the same opportunity to invest, distribute and conduct business in the other's market.

Finally the new administration needs to give greater attention to key personnel appointments. Too often in the past the U.S. Trade Representative's Office, the Commerce Department and the ITC have served as training schools for foreign lobbyists. Desire for personal advancement may have inhibited a judicious weighing of facts and assessment of statutory intent in trade remedy cases. Congress needs to undertake a more thorough oversight of trade policy to protect the public interest. To establish a strong domestic foundation for continued global leadership U.S. officials must demonstrate a greater sensitivity to the interests of domestic workers and producers.

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