

TARIFFS, PLANNED ECONOMIES  
AND DICTATORSHIPS

CAN THE United States do business with countries whose economic systems differ radically from our own? This is an oft-repeated question today and a crucial one in view of the rapid drift toward highly controlled and elaborately planned economies, if not Communism. Indeed, on its answer may possibly depend the future peace of the world. It is especially vital to this country since it is seeking to lead the nations in reconstructing the war-ruined economies, in raising the standard of life everywhere and in building up international trade to a level never before attained, as the best means of preventing further economic radicalism and of heading off further wars. How, the query runs, will it be possible for our free economy to trade with Soviet Russia or the United Kingdom in view of the governmental controls of business, imports and exports in both countries? The answer that it *is* possible can best be illumined by an examination of the foreign trade policies of the countries in question. Perhaps the most realistic answer was given by Secretary Vinson who, when he was head of the Treasury said: "We've got to take the world as it is."

The deep-rooted tendencies toward self-contained nationalism created by the First World War had developed because of economic controls and political pressures into economic blocs by the coming of World War Two. They were greatly accelerated by the necessities of that global struggle and, whether we like it or not, the blocs and economic controls are an important part of the world structure today.

Moreover, it is not only state-controlled economies that impose restrictions on trade or use them for noncommercial purposes, but capitalist nations as well can, and do, erect these barriers and even use them for political ends. Thus the American Government became very skillful in preclusive buying of materials and in other aspects of economic warfare during the hostilities. It is, of course, obvious that we cannot set ourselves up in judgment on, or attempt to interfere with, the internal affairs of countries that have been forced by dictatorships into economic planning. Professor J. B. Condliffe points out that "by 1947, the Soviet economic system will have been in existence for thirty years . . . . A whole generation has grown up which has never known any other way of life." Moreover, the State trading monopoly which controls external transactions is also "an integral and essential element of the planning of domestic production and employment. It cannot be modified without imperilling the whole structure of the Soviet economy."<sup>1</sup>

It is Professor Condliffe's correct belief that the best hope of bringing these totalitarian or socialistic countries into close trading contact with the Western world is to set up an effective multilateral trading system which it will be to their interest to deal with. He continues thus:

The question for the United States, therefore, is how to construct a bridge between these different economic systems. It is not necessary to assume that because they are different, they must resort to economic warfare. There is, on the contrary, a great deal of evidence that they can coexist and co-operate. In trade, their needs are not competitive but complementary. They both attach importance to economic efficiency and particularly to scientific research. The possibilities of disagreement between them lie less in the economic than in the political sphere—in power politics

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<sup>1</sup>Gunnar Myrdal, "The Reconstruction of World Trade and Swedish Trade Policy" (a pamphlet published December, 1946), p. 26.

based on narrow concepts of competitive security and on suspicions and fears. Active trade might do a great deal to promote contacts and co-operation and might bring representative and leading personalities into closer knowledge and understanding.

Once we have decided that we should trade with such countries—as we already have—it will not take us too long to devise means whereby we can.

By its very nature, freedom of trade is out of place in a dictatorship or a state ruled wholly by planned economics. Free trade guarantees freedom to the individual trader—the freedom to buy in the cheapest market and to sell to his fellow-citizens at the price he and they agree upon, without first having to obtain the consent of his all-ruling government. It must be held in mind, however, that different countries where state planning exists offer different problems. Whereas the autarchical policies followed by the German Fascists in the 1930's were a direct deterrent to those aiming at a high level of international trade and were used as a means of achieving self-sufficiency or even world domination, there are other countries where both the form of planning and the motivation differ from those of Hitler's State. Where this planning is not aimed at self-sufficiency or world control, and seeks to raise the level of international trade, it is obvious that, despite our own preference for individual initiative, for uncontrolled production and distribution, we shall be able to trade with countries of a different type. It must, however, be noted that a forthright examination of the economic realities existing in the world today reveals many difficulties for the free trader to face.<sup>2</sup> That

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<sup>2</sup>“Even the European governments most eager to see their countries' foreign trade move back toward normal were handicapped by the disorganized condition left in the wake of the war—the destruction of productive facilities, the exhaustion of supplies, the disruption of transport and distributive channels, the scrambled ownership of industry, and inadequacy of foreign exchange assets, the internal financial confusion, and often also the unsettled status of the gov-

does not mean that this ideal should not be most vigorously pursued as it should have been from the day of peace. It does not detract from this need to say that today we are facing a world wholly different from the one of John Bright, Richard Cobden, and the other great classical free traders.

Let us take the United Kingdom as the first example. All the planning measures undertaken in the field of international trade and in domestic affairs by the government of that country since the war, have had only the one aim of increasing that country's foreign trade in order to head off bankruptcy and starvation. It was, therefore, it was alleged, impossible to allow trade to develop of its own accord, and there must be further and further restriction of imports as the only way to conserve dollars and save the British Empire. Gunnar Myrdal, lately the Swedish Minister of Commerce, whose country has been traditionally devoted to free trade, pointed out to the Swedish Economic Society on December 5, 1946, that: "An advanced and active trade policy on an international scale is required merely to create the possibility of trading at all, and still more to expand it to a volume corresponding to commercial possibilities—which is the real purport of free trade." He added: "The modern doctrine of free trade is in fact, very different from its predecessor." His own country has been compelled, almost at pistol's point, to enter into an agreement with Russia to give that country a loan which is a huge one for so small a nation and to supply goods over a period of years which may prove to be beyond the power of even as able and industrious a people as the Swedes.

To return to the English situation, the decision of the British Labor Government made while the great loan to

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ernmental regime itself . . . . a large measure of governmental control and even direct official intervention in foreign trade arrangements seemed unavoidable, at least for a time."—Henry Chalmers, "Current Trends in Foreign Trade Policies," reprint from *Foreign Commerce Weekly*, February 9, 16, and 23, 1946.

England was before the American Congress, to abolish the historic Liverpool Cotton Exchange and to continue bulk purchase of cotton by the State, is an illustration of its growing involvement in purely commercial matters. Even the free trade *Manchester Guardian*, the historic champion of British liberalism, admitted that the postwar conditions would probably continue to be incompatible with the free trading methods of the Liverpool Cotton Exchange for a long time to come. Whether, in the long run, this will prove to be a wise economic move, time will show. As said, however, all international trade planning by the British Government has as its objective a *great increase in world commerce* rather than any limitation or restriction of it. It must remain our prime concern whether the future measures taken by the United Kingdom to increase her foreign trade are compatible with co-operative measures which may be taken to increase the level of world trade as a whole. That it will be very important for us to trade with the United Kingdom in the coming period, *in our own interest*, is evidenced by the statistics on our prewar trade with that country. In 1937 it amounted to \$739,181,000 or approximately 11½ per cent of the total export and import trade of the United States in that year. In the ten years from 1928 to 1938, the United Kingdom was a leading market for our exports, taking from 16 per cent to 19 per cent of all American products sold abroad. This trade is not only important to ourselves and to England, its repercussions are felt at all levels of the international commercial structure,<sup>8</sup> so its heavy reduction in the autumn of 1947 is bound to affect seriously our export business.

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<sup>8</sup>"Inasmuch as the trade policies of the United States and the United Kingdom have influence throughout the world, the reduction of trade barriers by these two countries should affect the commercial policies of many other countries." This citation is from "Trade Agreement Between the United States and the United Kingdom," vol. 1, Introduction (Washington: U. S. Tariff Commission, 1938).

When it comes to Russia, the best hope of maintaining peace with that war-ravaged country is not only to give it loans, but to build up normal trade between our two nations. There is no doubt that a main purpose of the "iron curtain" which secludes Russia from foreign observation is to conceal the horrifying extent of the damage done to Russia by the Germans, and the suffering and need of the people. There is an overwhelming lack of consumer goods of the type which are best produced in the United States. Economic interdependence, as well as the success of the United Nations, requires peacetime commercial and cultural intercourse between us. Russia can do, and has done, business with us in the past, not to the extent, however, of her needs or of our potentialities. An increase in trade would give great benefit to both of us and might well serve as an indirect stimulus to trade in many different parts of the world.

With our expanded productive facilities requiring additional customers, particularly in the capital equipment field, we are in an excellent position to supply Russia's needs. The problem of increasing trade between the two countries will not be easy to solve, particularly if political considerations are to govern all the moves of the Washington Government. But if a large expansion of multilateral trade could be organized around the United States and British spheres of trade influence, the U.S.S.R. could develop greatly increased markets for oil, lumber, furs, minerals and grain. That any commercial relationship of the democracies to Russia will call for endless patience, tact and forbearance, need not be stressed. It seems certain, however, that the lower the tariffs, the wider the world markets and the greater diversity of trade there is between them, the easier should be the relationship of Russia to the other trading nations, particularly if they stress multilateral agreements.

Another development which seriously makes for restric-

tion of trade and limits freedom of enterprise is the international monopoly, or cartel. How it works can be illustrated by the apportioning of the world prior to the war between such great manufacturers of electrical lamps as the American General Electric, the German Siemens interests and the N. V. Phillips Company in Holland, etc. Their agreement bound each signatory not to enter the domain of another or to permit any other similar business in their respective countries to do so. Professor Walton Hamilton's remedy for the cartel is "clearly to sterilize the political frontier; to remove the barriers which hold industries to narrow and artificial markets; to tear down the dams which hold back the forces of an expanding economy. . . . If, however, tumultuous industry is to continue to beat against obsolete national boundaries, mankind—in a world of scarcity susceptible to war—must take the consequences."<sup>4</sup> While the prevailing opinion in the United States, and especially in government circles, is largely against cartels, it cannot be denied that there are marked differences of opinion. Some officials, as in the Department of Agriculture, lean toward international government agreements in order to keep up world prices on vital commodities.

The Department of Justice, on the other hand, has been strongly opposed to cartels of every kind, especially the former Assistant Attorney-General, Thurman W. Arnold, who believes that these combinations were largely responsible for the Second World War, and in his judgment would lead again to mass killings if they are revived and developed. Assistant Attorney-General Wendell Berge, who is now in charge of the antitrust division of the Department of Justice, is also bitterly antagonistic and has declared that "one might as well urge that a railway wreck promotes transportation as to urge that a cartel agreement promotes trade." He

<sup>4</sup>"Cartels, Patents and Politics," *Foreign Affairs*, July, 1943, p. 593.

has stated, however, that for political reasons government participation in some cartels is justifiable and has said that "as an economic matter it makes no difference whether an agreement to restrict trade is private or governmental. As a political matter, I would agree that if we are going to have such agreements, with their widespread economic diseases, they had better be the responsibility of the government, if only because the governments which make such agreements can be changed by voters."<sup>5</sup> Yet he is also of the opinion that government control of private monopolies would require such a degree of interference with private industry as to place in jeopardy our whole free enterprise and private property system.

The undemocratic functioning as well as structure of cartels is well described in the following:

In the case of cartels, treaties are made for private not public, ends. The consequences of their acts may be vital to society, but their aims are framed with reference only to their own welfare. In the purview of cartels, the whole world economy is an area of exploitation. From this perspective they determine spheres of influence and divide hemispheres by treaties which require no consent either from the public or from legal governments.

When, for instance, the United States enters into a treaty with a foreign nation, its acceptance must be ratified with the advice and consent of two-thirds of the Senate, in the light of national policy. When a monopoly enters a cartel agreement, which equally affects the foundations of our national economy, no voice can be raised to question or approve. In fact, it is characteristic of cartel agreements, which, because of their economic importance, may be of greater moment than political understandings, that they are arrived at secretly and maintained in silence. There are

<sup>5</sup>Address to the Export Managers Club of New York, *The New York Times*, May 17, 1944. See also the lengthy address of Congressman Jerry Voorhees on "Peace or only an Armistice; the Menace of German-Controlled Cartels," in the House of Representatives, May 21, 1945.



no "open covenants, openly arrived at." There could not be, for otherwise it would be too evident that cartel agreements transcend any standard of national interest.<sup>6</sup>

Before the Second World War, it is further stated, "Germany, through international cartels, built up its own production and assisted the democracies in restricting their production in electrical equipment, in drugs, in chemicals, in basic war materials, such as magnesium and aluminum. International cartels with the active assistance of American interests have operated to deprive us of markets in our own hemisphere by giving them away to Germany."<sup>7</sup>

Cartels may be, as the English aver, an inevitable outgrowth of modern capitalism, but there can be no denying that they point toward totalitarianism at home and to the most serious consequences in the international field. This has led to the suggestion, among other remedies, that there be established an international forum or court to which countries lacking raw materials may turn for protection from international monopolies. The true remedy, however, lies in the striking down of tariffs, the freeing of the seas, the opening up of the backward areas to all countries alike, and the complete encouragement of merchants everywhere to trade without restrictions of any kind. Meanwhile, a refusal on our part to trade with planned-economy countries would result in moves against us in the form of blocs, tariffs, quotas, hostile exchange manipulations, and all the other measures of economic warfare distinguishing the interwar period and leading to World War II. There has never been any question that the tariff was the mother of American trusts, and it has without doubt been the mother of trusts abroad. What is more natural than that these trusts should strike

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<sup>6</sup>Joseph Borkin and Charles A. Welsh, *Germany's Master Plan: The Story of an Industrial Offensive* (New York: Duell, Sloan & Pearce, 1943), pp. 154-55.

<sup>7</sup>*Ibid.*, introduction by Thurman Arnold.

hands and seek to divide up the entire world among themselves? If we are not to see the establishment of global business organizations almost powerful enough to defy their own governments, then we must certainly plan counter-measures without loss of time, notably the immediate acceptance of the principles of the International Trade Organization including the protection and advancement of backward regions.