STATEMENT DELIVERED TO THE RANDALL COMMISSION

BY MR. L.D. WILGRESS ON 11 NOVEMBER 1953

Mr. Chairman,

I am appearing before you as the Chairman of the contracting parties to the General Agreement on Tariffs and Trade, a position which I held during the first three years of the Agreement and to which I was re-elected on 24 October last. Any views I express to you will be in that capacity and not as a representative of the Canadian Government.

The General Agreement, commonly known as GATT, is the result of large scale multilateral tariff negotiations, at first between twenty-three countries and now increased to thirty-three. The concessions establish the tariff treatment for nearly three-quarters of the world's trade. These concessions are protected by a set of trade rules embodied in the articles of the Agreement. The contracting parties meet at least once a year to deal with problems and settle disputes arising out of the application of these rules. Thus GATT is not only the first multilateral tariff agreement ever to be negotiated, but it is also the only world-wide forum ever successfully established for the discussion and settlement of the practical problems of commercial policy.

The two main principles on which the General Agreement is based are:

(i) barriers to trade should be reduced by entering into reciprocal and mutually advantageous arrangements;

(ii) discrimination should be eliminated.

Another of the fundamental principles underlying the GATT is that protection for domestic industries shall be afforded exclusively by customs duties or subsidies without resort to such arbitrary devices as quantitative import restrictions or manipulation in the granting of foreign exchange. Exceptions to this principle had to be made for countries in an early stage of economic development and, more importantly, for countries experiencing balance-of-payments difficulties.

It is well known to members of your Commission, Mr. Chairman, that most of the contracting parties have been obliged to take advantage of this exception and apply quantitative restrictions in order to safeguard their payments positions. This, in turn, has meant that, while the United States and Canada granted tariff concessions which were of immediate benefit to the
recipients, they themselves have often not been able to benefit immediately from tariff concessions granted in return because these have been over-ridden by quantitative restrictions.

During the past year or so there has been growing recognition that these restrictive measures are self-defeating. They seriously distort the economies of the countries imposing them. They undermine their competitive capacity. Payments difficulties have been recurrent and increasingly acute. These facts have created some disillusionment among the deficit countries and strengthened their desire to reduce and eventually do away with import restrictions and achieve balance in the only other possible way, that is by increasing exports.

The first steps in this new approach (recognizing the connection between internal finance and the balance of payments) have been in the field of domestic policy. Important progress has been made in bringing inflation under control. This has been followed by concrete steps in a number of countries to reduce trade restrictions. The liberalization of trade and currency arrangements is a policy which, though in the interest of the countries concerned, involves risks. The principal risk is of course that the increased United States dollar payments which would result from liberalization will not be matched by increased United States dollar earnings and will therefore result in a loss of reserves and renewed exchange crisis. There is anxious questioning whether policies followed by the United States will hold out reasonable hope that, if other countries keep their own houses in order by avoiding inflation, they will be able to earn enough dollars to balance their accounts without continued resort to severe restrictions against dollar goods.

Pessimists argue that for a variety of alleged reasons - the size and efficiency of the American economy, the protectionist tradition of American commercial policy, the likelihood of economic recession in the United States entailing a sharp decline in imports - the rest of the world would do well to recognize that it will not be able to rely, year in and year out, on earning enough United States dollars to balance its international accounts at a high level. The pessimists often come to the conclusion that they should resign themselves to increasingly severe discrimination against the dollar countries and should try to develop trade with the rest of the world, including the countries of Eastern Europe, on a regional basis.

For the time being, this pessimistic view is fortunately not in the ascendant. Important plans have been formulated and actions taken based upon a more optimistic appraisal of the outlook. I feel it my duty to emphasize that the balance of forces is very even, and that it will require definite and concrete encouragement from the United States side if the optimistic or expansionist views are to prevail in the rest of the world.
The United States has shown over recent decades a persistent tendency to run a surplus in her current balance of payments and has built up an international creditor position of formidable proportions. Alone among the great trading nations of the world, her international trade policy can be based on rational considerations of long-run self-interest. For other countries import policy must to a greater or lesser degree be guided by the amount of cash there is available to pay for imports. Cash in this context means gold and United States dollars as these are the only internationally acceptable means of payment. Hence the ability of other countries to earn United States dollars necessarily acts as a limiting factor on their international economic policy.

What I have said up to this point, Mr. Chairman, explains why other countries attach so much importance to the work of your Commission. I might here attempt to summarize the attitude of these countries and the main considerations they would like the Commission to take into account in formulating its recommendations:

(1) No one expects the United States to follow a policy which is not in her own self-interest. What is hoped for is that the policies followed will be framed in terms of the whole national interest of the United States, which includes the interests of exporters and consumers as well as those of other sections of the community.

(2) As the centre of the free world, the political as well as the economic interest of the United States lies in strengthening the economic foundations of friendly countries. Policies which encourage restrictionism and high cost production have the opposite effect.

(3) Basically, what other countries want is increased opportunities of earning dollars. They hope that all aspects of United States commercial policy, including rates of duty, tariff classification, customs administration, valuation for duty, peril point and escape clause procedures, and the Buy American Act will be reviewed from this point of view. The greater competitive opportunities they seek in the American market might have the effect of involving some adjustments in particular American industries. In view of the overall competitive position of the United States in world markets it seems unlikely that these adjustments would be of a major character or of a type different from those required day by day in any dynamic economy as a result of the development of new domestic sources of supply, new products, etc. Moreover, the volume of exports which the United States is able to sell is directly related to the volume of imports she takes. An alternative and expensive method of maintaining exports, by giving them away, is unlikely to be satisfactory either from the point of view of the United States or of foreign countries.
The element which has the most discouraging effect on those contemplating exports to the United States is the uncertainty they face. The United States market is highly competitive. It requires a high degree of productivity and sales effort to penetrate. Exporters fear that even if they make the effort, the moment their sales in the American market rise at all substantially the escape clause will be used to cut them off. They turn, therefore, to easier and more assured markets in non-dollar areas protected by restrictions of dollar imports and exclusive regional arrangements. The complexities and uncertainties and delays of United States customs administration have similar effects.

Another preoccupation of many of the contracting parties concerns the future of United States policy in the highly sensitive agricultural sector.

We are worried in GATT that the United States may embark upon a policy of using arbitrary devices to dispose of agricultural surpluses in foreign markets. Nothing could be more disturbing to international trade than the sale abroad of United States agricultural products at cheaper prices than those prevailing in the domestic market. Measures such as these would have widespread repercussions on the economies of countries dependent upon the export of agricultural products.

We are also worried by United States quotas on the importation of dairy products. This has not only had serious practical adverse effects on the economies of some countries but it has created doubts about United States import policy as a whole. As the representative of one important European country put it: "What worries us is that what happened to cheese today may happen to some other product tomorrow".

Having reviewed the attitude of other countries, Mr. Chairman, I would now like to give you two impressions which I brought away from our GATT session in Geneva last month.

One impression was that for the first time in six years we had concrete evidence that countries were prepared to dismantle their restrictions against the dollar. This means that exporters in dollar countries will now begin to benefit from the tariff reductions made in the General Agreement.

Importers in the United Kingdom are now free to obtain their requirements of almost all raw materials and essential foodstuffs on strictly commercial considerations from any source whatever. Belgium reported that nearly all her dollar trade restrictions have been removed. The Netherlands announced an important list of imports which may now be imported freely as a first step in returning to a trading system free from restrictions. Germany has done likewise. South Africa announced that from the first of the year all discrimination against dollar imports will be eliminated.

The second impression I brought away with me from Geneva was that the maintenance and extension of this forward movement depends upon the participation
and cooperation of the United States. Time and time again reference was made to this point and to the concern with which the work of your Commission is being anxiously followed.

I must emphasize, Mr. Chairman, that the encouraging progress to which I have referred is a demonstration of faith in a liberal United States commercial policy. It is a setback for the pessimists who are prepared to seek their economic future in regional blocs in relative isolation from the North American economy with all the unfortunate political and economic implications that would be involved. While common markets in regional areas such as Western Europe are desirable ends in themselves, they are obviously not alternatives to the freer flow of goods across the Atlantic. Even a closely integrated Europe, for example, would not be able to resist the blandishments of communist sources of supply if it could not earn the dollars with which to buy essential foodstuffs and raw materials.

Finally, I would like to say a word about the work of the CONTRACTING PARTIES at their recent session in the field of tariffs. As you know, one of the great contributions of GATT to better trading relations has been the successful effort to reduce tariff barriers and to provide for tariff stability. Many have hoped that 1953 would have been a year for further tariff negotiations. This has not been possible largely because the United States is not at present in a position to engage in further tariff negotiations pending the current re-examination of its foreign trade and tariff policies. In these circumstances, we did the next best thing. We agreed to freeze the present pattern of GATT tariff schedules for a further period of 18 months. Under present arrangements we will have to re-examine the whole position in about a year's time. If by then the United States is in a position to contribute in an effective way towards a greater reduction of trade barriers, I am confident that we will be able to make further progress. Should the United States not be in a position to do so I doubt how far we will be able to hold the present line.

Despite the considerable reductions in the United States tariff in recent years, it nevertheless remains a very effective barrier to imports. The experience of other countries in negotiating with the United States has been that, while it has been relatively easy to secure reductions in the duties on raw materials and semi-manufactured goods, it has been very difficult to secure really worthwhile concessions on finished goods. The rates on these goods remain high - so high as often to shut out completely any imports.

In the cooperative and mutually advantageous effort toward freer trade, it is the structure of the United States tariff that calls for first attention. It would be very helpful if, except for the protection of industries needed for defence, these could be a ceiling on ad valorem rates or the ad valorem equivalent of specific rates of duty. Such a ceiling, if a reasonable one, would have a wonderful psychological effect on the rest of the free world as proof of United States desire to participate in this common effort. The advantages of a tariff ceiling are its simplicity and its avoidance of any appearance of singling out certain industries for special treatment. For an indication of European thinking
of this subject of high tariffs I would commend for your most serious study the French Plan for the Reduction of Tariff Levels, discussed and refined at the recently concluded session of GATT. This may suggest directions in which you could recommend action by the United States.

My remarks have made it clear, I think, that the present position under the General Agreement is one of marking time pending the outcome of the comprehensive policy review which you are undertaking. If the recommendations of your Commission and the resulting trade policies of the United States are positive, I feel the prospects are good for making a real advance towards an effective system of multilateral trade and payments, from which all countries, including the United States, would benefit. If United States policies are not encouraging, I very much fear a progressive deterioration in world trading relations, a resumption of restrictionist and discriminatory policies, and a revival of autarky and economic blocs in many parts of the world. The economic structure of the free world is truly at a turning point. It is not unrealistic to say as well that the political future is also at a turning point, since it is doubtful if we can develop successfully our common policies for the maintenance of security and social stability unless these are built on sound economic foundations.