A PROPOSAL FOR NEW INITIATIVES IN U.S. FOREIGN TRADE POLICY*

The Trade Expansion Act of 1962 (TEA), which inspired the Kennedy Round of trade negotiations, will expire on June 30, 1967. Thus, the President and the Congress are confronted with the necessity of making some basic and crucial decisions regarding future U.S. foreign trade policy. Five years ago, when the last major review of the entire U.S. trade program was carried out, President Kennedy and the Congress agreed upon substantial changes, embodied in the Trade Expansion Act. In my judgment, preparation should now be made for new trade legislation authorizing even more far-reaching initiatives. Before examining these proposals, it will be instructive to review briefly the history of U.S. trade and tariff policy since 1930, with emphasis on the TEA and the Kennedy Round negotiations.

At the beginning of the great economic depression, Congress passed the Smoot-Hawley Tariff Act of 1930 establishing the highest tariff rate in U.S. history, hoping thereby to protect U.S. industries rather than to increase exports. Inevitably, this legislation set off a series of tariff retaliations abroad, and world trade declined precipitously. In effect, depressions were exported from one country to another. Disillusionment quickly followed, and there was growing awareness that an expansion in world trade must depend on reciprocal tariff reductions by all major nations. To lead the way, the Reciprocal Trade Agreements Act of 1934 authorized the President to reduce U.S. import duties by not more than 50 per cent in exchange for equivalent concessions from other governments. By 1945, several bilateral trade agreements had been negotiated by the United States, thereby reversing the trend to protectionism.

In 1945, with World War II coming to a close, Congress extended the Trade Agreements Act, authorizing the President to reduce existing tariffs by an additional 50 per cent. Most of the authority under the original act had been exhausted. Concern about potential injury to U.S. industries led Congress to add a "peril point clause"[1] in the Trade Agreements Extension Act of 1948 and an "escape clause"[2] in the 1951 Act. In the 1955 and 1958 extensions of the act more "escape clause" restrictions were added, including safeguards dealing with national security.

By 1962 it appeared that the old form of trade legislation had become outmoded for a variety of reasons. The 1958 renewal of the Trade Agreements Act, permitting a 20 per cent reduction in the U.S. tariff on an item-by-item basis, resulted in the Dillon Round of 1960—the fifth series of trade negotiations since the war. This produced only marginal tariff cuts.

When President Kennedy proposed the Trade Expansion Act of 1962, he was motivated by other considerations: the potential threat of the European Common Market (EEC) to American exports and the desire to promote unity in the Atlantic Alliance. The new legislation was framed, not so much to protect our import-competing industries, but to enable our exports industries to keep their dominant positions in world trade, and to "bargain down" the common external tariff of the six-nation Common Market or of an enlarged Common Market. (In 1962 it was anticipated that Great Britain and possibly many other European countries would soon join the EEC.)

Moreover, the Common Market was offering a 20 per cent across-the-board or "linear" reduction in its common external tariff which the United States, be-

---

*By Ralph I. Straus, business executive and economic consultant; Member of the Board of The Atlantic Council (Washington); Member of the Board and one of the founders of The Committee for a National Trade Policy (Washington). Formerly, one of eight divisional directors of The Marshal Plan (Paris); and Special Assistant to C. Douglas Dillon, Under Secretary of State for Economic Affairs.

This article is reprinted with permission from *Orbis*, a quarterly journal of world affairs, published by the Foreign Policy Research Institute of the University of Pennsylvania.

[1] The "peril point clause" directs the Tariff Commission to determine—prior to negotiations—the minimum level of duties necessary to prevent injury to domestic producers.

[2] The "escape clause" authorizes the U.S. Executive to withdraw tariff concessions that result in substantial injury to domestic industries.