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Origins of the GATT - British Resistance to American Multilateralism

by

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### INTRODUCTION

#### Research Program

Just over fifty years after its precarious launch as the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO) has grown into the most potent symbol of globalization. The raucous events at the launch of the Millennium Round of Trade Negotiations in Seattle confirmed this perception. But few activists on any side of the trade issue in Seattle recognized the historical irony inherent in the WTO's current status: while today it is a symbol of integration and free trade, it began as an apparent failure of international cooperation.

Planned while bitter fighting still raged around the world, the International Trade Organization (ITO) was intended to form the third leg of the post-war international economic arrangements, along with the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (the World Bank). Largely because of political division within the United States that resulted from the compromises embedded in the institution and its Charter, the ITO was never established.<sup>(1)</sup> The free trade agenda was forced to balance on a thin branch - the provisional GATT.

The GATT was signed in 1947 as an interim, voluntary agreement. Its signatories intended the ITO to subsume and finalize the GATT in the ITO negotiations scheduled for Havana in 1948. When it became apparent that it had failed, the ITO's architects cast a despondent glance toward the GATT. With no formal institutional structure and very little publicity, the GATT persisted in making a revolutionary demand upon the nation-state - it must perpetually relinquish its sovereign right to raise tariff rates. The endurance of an international regime on such a basis, for so long, is without precedent. Why have members of the GATT / WTO system continued to cooperate? Is there anything in the substance and form of this institution itself that has enabled it to endure and strengthen over time, while other multilateral regimes have crumbled or weakened?

A central part of this paper is to first, uncover the negotiating history of the GATT by investigating hitherto unexamined archival material, and reconsider the historical and political context that gave rise to the Agreement. Second, it seeks to distill the important features of the re-invigorated GATT / WTO that were both present at its origins and have contributed to its durability.

#### The First Postwar Negotiation

Bouncing in a rickety military C-47 "with bucketseats like barrels", Will Clayton and Emilio Collado flew out of Potsdam on a Sunday in late August, 1947. After an exhausting trip, they finally arrived in London. Clayton, the American Under Secretary of State for Foreign Economic Policy, and Collado, his advisor, prepared to meet on Monday with British officials Hugh Dalton, Stafford Cripps and John Maynard Keynes - respectively the Chancellor of the Exchequer, the President of the Board of Trade, and a prominent economist working in the Treasury Department. Monday, however, was "one of those so-called bank holidays", and unfortunately "no one but Keynes was willing to meet [them] to discuss the rehabilitation of the nation on a bank holiday!"<sup>(2)</sup>

The Japanese had just surrendered and, though still elated, Clayton and Collado "were horrified to hear of the action taken over the weekend in Washington to cut off Lend-Lease." Truman had indeed terminated Lend-Lease abruptly on August 21, 1945. Clayton immediately phoned Secretary of State Jimmy Byrnes in Washington, DC. Although he was famous for his even temper and uncommon self-control, Clayton was furious with Byrnes. The British were also shocked and angry. Hugh Dalton soon arrived with Lord Brand from the British Treasury. Dalton exclaimed: "What's the use of sitting here talking to you about what will happen when suddenly we learn from Washington what you're really doing!" Fortunately, Clayton and Brand knew each other from when Brand served as British Treasury Representative in Washington. "The British were terribly upset, and this showed how close [Clayton] was to Brand, for together they bound up the hurts."<sup>(3)</sup>

Two high-ranking, economic civil servants mobilized their friendship to mend diplomatic fences at a tense moment. Like millions of others, from Roosevelt and Churchill through to American soldiers and British civilians, they forged a tight bond during war.

Elite policymakers from both nations, many of whom had recently emigrated from business and academia to join the government, found themselves working particularly closely with their counterparts on the other side of the Atlantic.

Both Clayton and Brand had been involved in postwar planning for several years. Clayton had played an important role in an official planning process that American Secretary of State Cordell Hull first formally launched shortly after war broke out in September of 1939.<sup>(4)</sup> Soon 'postwar planning' came to occupy a significant minority of the State Department's human resources. The Cabinet, the Treasury and Commerce Departments, and various other public and private institutions also eventually became involved.

A comparable effort in Britain did not materialize until several years later. While the Americans worked assiduously and deliberately to map out their ideal postwar order, the British concentrated on survival. Nonetheless, the two countries' interests in the postwar system first came into conflict in August of 1941 when Churchill and Roosevelt met to devise the Atlantic Charter. The Placentia Bay meeting became the first of many such Anglo-American encounters, where officials deliberated postwar policy commitments. For precisely four years following the August 14 signing of the Atlantic Charter, the British and the Americans made various official promises to one another about postwar trade policy,<sup>(5)</sup> through several 'informal' discussions and seminars.

Then the sudden surrender of the Japanese on August 14, 1945 shocked even leading planners like Will Clayton. The planning was over; the postwar world had arrived. With the cancellation of Lend-Lease, Britain found itself in dire financial straits. It had an export industry crippled by war and by the limitations imposed under the Lend-Lease agreement, a deficit of five billion dollars on its international account, and pressure on sterling stemming from cumbersome debts to members of the Sterling Bloc. Britain looked urgently to the US for a loan. With the World Bank and IMF already successfully negotiated, both countries also sensed a critical need to lead the world toward the re-establishment of normal trading relations. They aimed to institute the planned ITO.

Thus Clayton, Cripps and other officials in London hurriedly prepared to launch formal talks on both financial aid to Britain and the structure of the postwar trading system. They scheduled a start date one month later in Washington, DC. Finally, after more than six years of planning on the American side and four years of bilateral deliberation, the first formal, postwar negotiations to establish an international commercial policy regime finally commenced on October 1, 1945.

### British Resistance

For two months in Washington, officials from the British Treasury, Board of Trade and Foreign Office, led by Sir Percivale Liesching and Lord Keynes, negotiated the commercial policy provisions with officials from the American Departments of State and Treasury. Will Clayton and Harry Hawkins, Chief of the Commercial Policy Division and Agreements, led the State Department contingent. Fred Vinson, Secretary of the Treasury, and Harry Dexter White, who had played such a significant role at the Bretton Woods negotiations, concentrated more on the loan negotiations as leading Treasury representatives.

In August of 1945, the American economy was providing more than half of the world's entire output. Arguably, the United States had attained the highest relative level of military, political and economic power it had ever possessed, or ever would again. Britain's economy was in crisis. Keynes circulated a memo on August 13 in which he listed the three main sources of financial assistance upon which the British had depended in order to wage war. Lend-Lease from the United States, Mutual Aid from Canada, and credits from the Sterling Area countries had enabled Britain to fight without having to increase exports to pay for food and raw materials needed at home, or to furnish the cash they spent abroad.<sup>(6)</sup> Thus, as the war suddenly finished, the new Labor Government faced a "predicament unique in British peacetime history": national bankruptcy, "yet imperial world commitments at their grandest and most costly ever."<sup>(7)</sup> In addition, they faced American negotiators who seemed intent to exploit the British need for financial aid in order to gain adherence to State Department plans for the postwar trading regime.<sup>(8)</sup> As Prime Minister Clement Attlee succinctly described the situation: "We weren't in a position to bargain."<sup>(9)</sup>

They bargained, however, very successfully. They went to Washington to negotiate the recently completed 'Draft Proposal to Establish an International Trade Organization', composed by the Americans, based upon the wartime discussions. The British left Washington having transformed the 'Washington *Proposals*' so significantly that each major issue came to represent their interest in a more protectionist trade organization. The Americans surrendered vital concessions on every major trading issue of the time, from the elimination of Imperial preferences, to quotas, cartels, state trading, subsidies, and export taxes.

Publicity surrounding the loan negotiations, which took place simultaneously, proved so intense that contemporary commentators almost completely overlooked the American concessions on commercial policy. Historians have followed suit, generally failing to recognize or examine the baffling tension between British economic and political strength, and their achievements in these negotiations. While all negotiations require compromise to be successful, there is not always equal compromise. Nor is there always equal commitment to success. In this negotiation, the country that needed success the most also had less to compromise, and less to offer in return for concessions from the other side. Yet its position won the day. How? And what was the significance of this peculiar outcome for the formation of the postwar trading system?

At the time of the negotiations, and in subsequent interpretations, critics gave the impression that the Americans were either imposing upon the British, or 'paying' them for, a multilateral system that first and foremost served American interests.<sup>(10)</sup> Even those who have acknowledged the significance of American concessions to the British and others during the ITO

negotiations have focused upon the role of domestic political constraints and strategic considerations; no study has yet examined role of British resistance to American hegemony. More broadly, hegemonic stability theory has conspicuously failed to account for the significance of resistance strategies in the formation and durability of stable regimes.

## Thesis and Structure

Historians and political scientists have explained that the US tolerated European demands for discrimination and protection in order to exert leadership and ensure stability in the postwar world system. Satisfied with this explanation, few have examined the reasons for or the significance of the British success in Washington in 1945. The implication is that the Americans pursued two sets of mutually exclusive goals. Firstly, they sought to open the world economy to suit their own expansionist commercial goals and free trade ideals; simultaneously, they aimed to maintain allied unity and accommodate war-torn economies. The unremarked complication at the core of this analysis is that the Americans believed they could achieve both of these seemingly conflicting goals with the same approach - opening the world economy. Freer trade meant economic recovery and international peace. In light of this interpretation, American concessions in Washington take on greater significance: if the negotiators believed that their agenda could most effectively generate world peace and prosperity, why did they sacrifice so much of it?

A close reading of the negotiations in the final months of 1945 presents two answers. Firstly, the British succeeded because they effectively applied 'soft' diplomacy in the actual negotiations. While most histories of the period examine factors external to the negotiations, such as strategic and economic interests, there are no accounts of the crucial internal dynamics that led the Americans to cede ground. Without the traditional tools of 'hard' diplomacy - military, political and economic prestige - the British negotiators resisted American demands with a combination of lucid arguments (presented to a receptive audience), pragmatism (versus American idealism), bluff (in the face of American openness), plain stubbornness (aided by American flexibility), and the shrewd manipulation of the Commonwealth and Dominions to transform an ostensibly bilateral negotiation into a multilateral forum where Britain and its allies outnumbered the US by a factor of five to one.<sup>(11)</sup>

This last factor proved the most significant, and key to the second reason for British success: by pressuring the Americans in Washington to negotiate the most controversial elements of the organization in a multilateral context, the British ultimately gained a simple, tactical advantage - numerical superiority. Again, this success required the unwitting aid of the Americans. The British succeeded by exposing and manipulating a fundamental tension in the American negotiating position that had become apparent shortly after planning began in 1939. Realizing that they needed a modicum of cooperation to re-invigorate world trade after the war, the Americans unwittingly elevated their desire for international collaboration to the same level as their advocacy of free trade principles. The State Department simultaneously advocated a multilateral process and liberal trading principles. Yet they failed to recognize the tension at the core of this dual program, and thus they never considered the trade-offs involved in securing both aims. The British, however, were conscious of this conflict. They deliberately pressed the Americans toward a multilateral forum where British power would be augmented by its ability to form coalitions that challenged US ideals.

The three parts of this paper tease out the longer term repercussions of one tense and critical moment at the end of World War II, before the Cold War set in, and before the Anglo-American alliance settled into a more lasting, postwar posture. Part two briefly examines four of the key policy provisions secured by the British during the negotiations. Next, part three proffers an explanation for the British success in 'winning' these policies. Finally, part four examines the particular type of multilateralism that the British pressed upon the Americans. It posits a hypothesis about the longer term ramifications of the American compromises in Washington on substance and, more importantly, the durable form of postwar multilateralism.<sup>(12)</sup>

Ultimately, the British goal was simply to open American markets and delay the opening of its own. It succeeded. In doing so, it played a role disproportionate to its material power in forcing the American postwar planners to accept a more moderate, heterodox, inclusive and flexible trading regime than they would otherwise have supported. They exerted disproportionate influence upon the origins of the international trading system, which evolved from a truly multilateral political process. The durability of the GATT is best understood in light of this initial inclusiveness.

## BRITISH VICTORIES IN WASHINGTON

### Preferences

Imperial preferences sparked the strongest emotional reactions on both sides of the Atlantic. Secretary of State Cordell Hull, the father of the Reciprocal Trade Agreements Act, saw free trade as an end in itself. His remarkably zealous support for free trade stemmed from his conviction, maintained over four decades, that it "dovetailed with peace."<sup>(13)</sup> Hull concluded from the depression and the two world wars that economic conflict, brought on by coercion and discrimination in international trade, exacerbated economic crises and fomented political disputes. Thus for the Hullian free traders,<sup>(14)</sup> preferences represented the most dangerous political manifestation of trade barriers -- discrimination. Worse still, they directly harmed US exporters. In Britain, imperial preferences served as a political symbol of Empire (especially for the Conservatives), to which they clung all the more passionately as it dissolved around them. Tariff preferences also represented the loyalty of Commonwealth allies, who had fought alongside the British long before the Americans did. As a result, American ambitions to dismantle a system that united loyal allies precipitated a stubbornly defensive posture.

The first British tactic was to move the American view of preferences from the unassailable realm of ideology<sup>(15)</sup> to the

negotiating table. While policies themselves are negotiable - as a means to reach an end - policymakers generally invest more emotional and moral capital into the ostensibly immutable principles which policies serve. Non-discrimination was a central principle in the American plan. They had come to view it in grand terms, as " a vital element in the moral armament of the democratic world."<sup>(16)</sup> The State Department wanted a British commitment to abolish preferences immediately. The Americans stressed during the Atlantic Charter and Mutual Aid deliberations that the British should agree as a matter of principle. In response, the British argued in London, before the formal negotiations even started, "that tariffs and preferences should be dealt with side by side: any attempt to separate preferences for treatment as a matter of doctrine would raise grave difficulties."<sup>(17)</sup> In Washington, they were emphatic. In the first formal meeting of the 'Top Group' of negotiators, Liesching insisted that preferences would not be yielded but would come "into the general horse trade so that any reductions in preferences would be handled *pari passu* with reductions in tariffs." When the Americans resisted, Keynes blurted: "You cannot make a horse trade if [the] other side knows your horse will fall dead in 3 hours."<sup>(18)</sup>

Keynes' comment incisively clarified the British view of preferences. It was purely pragmatic. Without preferences as leverage, the British had less to exchange for American reductions in tariffs. They wanted to exchange preferences for tariff reductions. The British would not commit to any specific deadline for the final abolition of preferences, because their abolition depended upon the receipt of compensating reductions in tariffs. British intransigence stemmed from weakness. Preferences had become one of their only economic weapons. Rather than turning Keynes' confession to their advantage, the Americans yielded the point based upon the merits of the British argument. Despite the passionate aversion to preferences in the State Department, the Americans did not press the British as far as they might have on this point.

The final language veered far from the simple American proposal:

Members should undertake to take effective and expeditious measures, in accordance with methods to be agreed upon, for the substantial reduction of tariffs and the elimination of tariff preferences.<sup>(19)</sup>

The compromise involved more perplexing language:

In the light of the principles set forth in Article VII of the mutual aid agreements, members should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariff preferences, action for the elimination of preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous arrangements contemplated in this document.

Note that the British inserted the qualifying language that the elimination of preferences would be "taken in conjunction with adequate measures", as "part of the mutually advantageous arrangements" in this document. The precise definition of "adequate measures" remains unspecified. The British also borrowed a broad reference to "mutually advantageous arrangements" from Article VII of the Mutual Aid Agreement in order to press the Americans into accepting their bid to keep preferences indefinitely -- it is certainly not to their "mutual advantage" to eliminate preferences without concessions on the American side. The article continues:

As an initial step in the process of eliminating tariff preferences it should be agreed that:

- A. Existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences.
- B. All negotiated reductions in most-favored-nation tariffs will operate automatically to reduce or eliminate margins of preference.
- C. Margins of preference on any product will in no case be increased and no new preferences will be introduced.<sup>(20)</sup>

Point "A" is an American reference to the British insistence that they cannot eliminate preferences without the consent of the rest of the Commonwealth. This point is, in effect, moot, because the British delayed the negotiation to reduce preferences until a later date when Commonwealth countries would be present. Point "C", however, represents an American success. It guaranteed that preference rates would remain static until they were reduced, with an eye toward eventual elimination.

Having resolved the preference issue, the British delegation cabled the Cabinet Offices in London on November 6, 1945:

We feel sure that Dominion Governments will share our gratification that, notwithstanding the extreme sensitiveness of U.S. official opinion on the preference issue, in the final result all our main desiderata have been secured...As regards substance, the Americans have now abandoned the proposals originally put forward for the immediate sweeping away of all preferences as morally reprehensible and the position is now established that the reduction or elimination of preferences can only be considered by agreement between all the parties concerned (i.e. including the party enjoying the preferences) in conjunction with adequate reductions of tariffs and other trade barriers by the U.S. and other countries. Thus the overriding principle which we and our negotiators have throughout insisted upon is fully secured..<sup>(21)</sup>

The negotiators had reason to feel satisfied with themselves.

A secret, internal American assessment by the State Department proved less accurate:

The section on tariff preferences finally agreed upon was a substantial victory for the American delegation... In lieu of the straightforward provision of the original United States draft...the final language agreed upon still provided for the elimination of tariff preferences, but went out of its way to sugar-coat the pill.[\(22\)](#)

This analysis neglected to mention that no specific deadline was set for the abolition of preferences. The "sugar-coating" actually altered the terms so that instead of a free and immediate termination, preference reductions would be purchased with American tariff reductions. The State Department report blatantly misrepresented a major American concession as a "substantial victory".[\(23\)](#)

### Quotas / Quantitative Restrictions

On three other key issues, the report provided a more accurate account:

Other matters on which there was initial disagreement as to substance or method, viz. quantitative restrictions, state trading, and cartels, were worked out during the Washington negotiations by amending the draft American proposals along the general lines of suggestions submitted by the British delegation.[\(24\)](#)

Again, the Americans objected to quantitative restrictions, or quotas, because of their discriminatory nature. Due to their ideological resistance to discrimination even in the transition phase, this issue became the second most contentious during the negotiations. Liesching reported to the Cabinet on November 3 that for four successive meetings he had debated the point with Hawkins. He used "every available argument". Still, he found Hawkins "most obstinate and doctrinaire". Hawkins stressed that he had definite instructions from Clayton. Finally, Liesching threatened him. Hawkins' insistence "might wreck the prospects for reaching any agreement upon commercial policy as a whole".

It was not until after the most strenuous and prolonged discussions with Hawkins and some of his colleagues on three separate days and after the exchange of numerous drafts and counter-drafts that, upon Wilcox being brought in, we finally drew from the Americans reluctant acceptance of the provisions relating to balance of payments restrictions which form paragraphs 2 to 6 of the text in my immediately following telegram.[\(25\)](#)

The Americans conceded the point again. For balance of payments purposes in the transition period, quotas would be permitted to countries "confronted with" an unfavorable balance of payments. In addition, the British quietly ensured that the language of the quota provision was sufficiently vague to allow not only for "curative", but also for "preventive" measures.[\(26\)](#)

### Cartels

The settlement on cartels was more explicit, and also more surprising. Cartels had played a particularly poignant role in American history. President Roosevelt and Cordell Hull had come of age in a period often referred to as the 'Progressive Era'. Progressive reformers attacked many traditional, American political and economic practices. Business monopolies, or cartels, figured prominently among the reform targets. In fact Roosevelt's cousin, President Theodore Roosevelt, had been in the vanguard of the self-styled, cowboy 'trust-busters' around the turn of the century. By the time of the Washington negotiations, the US had developed a good deal of anti-trust case law. Roosevelt himself, who usually remained relatively aloof from the details of the postwar planning process, sent an impassioned memo to Hull in September of 1944.[\(27\)](#) As an issue that was guaranteed to resonate in Congress, the Americans placed a strong emphasis on delineating strict rules to curtail restrictive business practices.

The British, however, viewed cartels more in terms of their contribution to stability than in light of their threat to competition. They had little experience in the details of fighting monopolies, and almost no case law on the subject. They thus had trouble imagining how the ITO could, in practical terms, combat international cartels. To counter the rigid American proposals, they insisted that the ITO be empowered to examine the issue on a case-by-case basis. The British themselves were shocked by the rapid success of their proposed amendment:

We have had further extensive discussions with the Americans on the Cartel question and they have shown a most welcome disposition to accept our mode of approach--Certainly it is not an outcome which we should have ventured to predict after the first rather stormy meeting on this subject.[\(28\)](#)

The British negotiators realized that they had received a good deal more rapidly than they had thought possible. In London the Cabinet decided that it had come upon a good opportunity. It cabled instructions for the negotiations to further alter the negotiated text so that the countries themselves, instead of the ITO, would be able to make enquiries and report on suspected "restrictive agreements". Liesching responded:

We are reluctant to propose revision of wording which might well revive suspicion of our good intentions, especially since we understand that American negotiators, in putting the draft forward, are taking a definite risk that it may appear to Congress to concede too much.[\(29\)](#)

The British negotiators in Washington were so surprised by their sudden success that they refused a Cabinet request to push

the Americans further. The grounds they provided for refusing are even more astonishing: they had apparently begun to worry that their blatant success might damage the ITO's prospects for passage through the American Congress.

### State Trading

On October 12, the same day that the Americans agreed to the British cartel proposal, they conceded to the British requests on state trading. State trading was another issue of crucial importance to American ideologues.<sup>(30)</sup> But the British delegation happily cabled home: "On this subject too the Americans have accepted completely our point of view."<sup>(31)</sup> As had become by then a pattern, the Americans at first resisted passionately, sometimes even incoherently; on October 9, the British reported that, "as so often happens, when state trading is under discussion, the Americans seem to be inspired more by perplexity than by any positive attitude one way or the other."<sup>(32)</sup> The final compromise allowed for state trading as long as complete monopolies pledged to buy and sell on a commercial basis. Again, the vague provision which the British pursued allowed plenty of room for interpretation in practice.<sup>(33)</sup>

Critics will observe that the Americans survived the Washington negotiations with their over-arching goal intact: the world's two most powerful trading nations agreed to a joint proposal for an international organization that would liberalize and normalize trade relations. Even though each provision contained major exceptions, the Americans could still anticipate the eventual elimination of trade preferences and quotas, the curtailment of restrictive business practices, and the clarification of relations with state traders. Compromise could be viewed as the price for lead authorship. In any case, the Americans had not yet committed to these concessions.

None of the British modifications, however, would be reversed. They would be extended, and creep into new areas of the *Washington Proposals*. The tentative nature of the negotiated agreements served British interests more than it did the Americans'; as will be shown, the British pressed for a non-committal approach to the negotiations, and all along planned to extract further concessions at a later date. These later concessions ultimately robbed the Americans of lead authorship - for the planned ITO never materialized.

**TABLE 1**

**American Compromises on Economic Principle - 4 Key Issues**

	September, 1945	December, 1945
	Pre-negotiation positions:	Compromises in the <i>Washington Proposals</i> :
Preferences	US: The Americans demanded the abolition of Imperial preferences. VS. UK: The British intended to keep Imperial preferences.	UK position accepted: No demand for an immediate elimination of preferences; Americans also accepted the British charge that reduction in preference margins required considerable US tariff concessions.
Quotas	US: The Americans wanted to eliminate quantitative restrictions. VS. UK: The British supported quotas to help with balance of payments difficulties.	UK position accepted: Exceptions for balance of payments reasons, as the British had demanded.
Cartels	US: The Americans adamantly opposed cartels in principle, because of their damaging effects on competition. VS. UK: The British felt that cartels should not be prohibited, as they provide stability in prices & business conditions.	UK position accepted: Rather than providing strict rules curtailing the practices of cartels, as the State Department had proposed, the planned international trade organization would investigate any purportedly malignant trusts on a case-by-case basis.
State Trading	US: The Americans aimed to outlaw state trading. VS. UK: The British supported non-discriminatory state traders.	UK position accepted: Americans agreed to permit state trading as long as complete monopolies pledged to buy and sell on a commercial basis.

### HARD WEAKNESS, SOFT STRENGTH: THE BRITISH BLUFF

How did the British persuade the Americans to accept their policies? Diplomacy played a significant factor. One particular diplomatic tactic, entailing bluff and delay, may have proved decisive. But the British were helped in no small measure by a series of American miscalculations, and more generally by American sympathy and largesse. The US negotiators manifested a rare willingness to tolerate the British perspective and tactics.

### The Americans

The British did not anticipate the American attitude. In his description of the pre-negotiation atmosphere, historian Robert M.

Hathaway observed: "Just how much the Americans would be willing to cooperate with their British cousins remained to be seen. The answer, moreover, rested as much on emotion and irrationality as on any cold-blooded calculation of the national interest."<sup>(34)</sup>

American calculations could not fairly be described as cold-blooded. In fact, they adopted very few explicit pre-negotiation strategies. Will Clayton delivered the draft proposals to the Foreign Office in August and the State Department then adopted a wait-and-see attitude until the British arrived in Washington. This approach stemmed partly from understandable surprise at the end of the war and the sudden on-set of the negotiations.

Nonetheless, a series of American miscalculations carried over from the wartime planning process. Most fundamentally, the Americans overestimated the appeal of their free trade agenda. As conceived by Hull's State Department, the postwar trade program had by 1945 come to serve so many otherwise irreconcilable policy goals - ranging from national economic and security interests to world peace - that its inherent appeal was no longer questioned. It came as a shock when the British attacked free trade on its merits.

Although the Americans were not only oblivious to general resistance to their approach, they specifically misread the British. It was widely recognized in the State Department that the British Empire had historically depended upon trade.<sup>(35)</sup> They thus viewed the Ottawa Agreements of 1932, which established the Imperial preference system, as a temporary aberration devised in response to the Smoot-Hawley Tariff hike of 1930. Even after several years of discussions in which the British resisted American efforts to commit them to liberal postwar policies, the Americans viewed British hesitancy as a temporary bargaining tactic. Until Keynes arrived in September of 1945 with hard economic data demonstrating Britain's unprecedented financial crisis, most of the postwar planners assumed that an American tariff reduction would be enough to induce the British to accept a multilateral trading system on US terms.

They also overestimated the impact of their own potential tariff reduction. They were empowered by Congress to reduce tariffs to fifty percent below 1939 levels,<sup>(36)</sup> which proved insufficient to satisfy the British negotiators. The British claimed that their economy needed more help in the transition from war to peacetime production. Will Clayton recognized the British dilemma, but presumed that the loan would satisfy their last legitimate basis for opposition to a multilateral regime--the transitional period. But the State Department over-estimated the loan's potential to persuade Britain to risk abandoning protection. "If the [loan] agreement is ratified," Clayton testified to the House of Representatives, "we will have multilateral trade."<sup>(37)</sup>

The US negotiators also had a propensity for seeking formal and specific policy commitments. This led, historian Richard Gardner has argued, to an appearance of consensus, but did not contribute toward reconciling fundamental differences. In fact this very attempt to draft detailed statements of principles could lead to hardening of positions and diminished the prospects for long-term settlement.<sup>(38)</sup> Again, the US planners presumed that other nations, especially Britain, adhered to the State Department perspective on free trade. Only weakness, ignorance, or aggression led to discriminatory and protectionist policies.

The final significant American miscalculation involved the negotiators' propensity for arbitrarily singling out certain types of protection as more damaging than other types. This tendency puzzled the British. One example particular illustrates the point:

The Americans mustered all their resources in an attempt to demonstrate the particular iniquity of export taxes. In the end Clayton summed up by saying that he thought that he agreed with much that had been said on both sides and suggested that a further attempt should be made to reach agreement at the expert level. We are not sure that in fact agreement will be possible; for the Americans have committed themselves very strongly about this particular variety of sin. But in any case we intend to make no concession. At the worst the position will remain open.<sup>(39)</sup>

This excerpt also illustrates other important characteristics of the American approach to these negotiations. Export taxes was another "particular variety of sin" robustly attacked by the Americans, before they completely withdrew their protest to the British point of view.<sup>(40)</sup> As in this instance, they showed a notable tendency to bluster and then retreat. After an impassioned attack, they sometimes surrendered their position without waiting to wrest a better offer from the British.<sup>(41)</sup> This extract also demonstrates a conspicuous flexibility on the part of the Americans; Clayton stated "that he thought that he agreed with much that had been said on both sides". Their commitment to the success of the negotiations led Clayton and his colleagues not only to be receptive in practice -- by sincerely remaining open to persuasion by British arguments<sup>(42)</sup> - but to ensure that they *appeared* receptive to the British. While the Americans consistently voiced appreciation after the British finished putting forward their arguments, the UK negotiators rarely, if ever, returned the favor.<sup>(43)</sup>

## The British

These differing approaches may have been influenced by the fact that while the Americans arrived ideologically committed to a cooperative and open trading system, the British had come to ensure their own economic survival. The Americans, it has been argued, could "afford" to sacrifice immediate economic advantage for the sake of their ideology, and to ensure the operation of a stable system. Such was the hegemon's duty. And, as one historian has argued, the hegemon's "dilemma" -- "trying to maintain a congenial international system can sap the national power it is supposed to protect."<sup>(44)</sup>

Yet the British, with an economy more dependent on foreign trade, had an even greater stake in the restoration of world trade.

Their top economists, however, led by Keynes and James Meade, were less convinced than Hullian free traders that liberalism served as a panacea for economic and political maladies. Although both Hull and Keynes hoped to encourage a dramatic increase in trade volume after the war, Keynes expressed a strong distaste for Hull's strategic emphasis on border issues such as tariff levels. He believed that the quantity of trade was ultimately determined by its relationship to the quantity of domestic employment and economic activity; Hull believed that the height of trade barriers determined the quantity of trade. Whereas Hull placed his faith in market capitalism, Keynes expressed skepticism about the price mechanism upon which free trade ultimately relied: he doubted "that increased exports sufficient to pay for those imports which had previously been offset by earnings on foreign investments would be 'automatically generated by the price system.'" (45) Most significantly for the Washington negotiations, Keynes, Meade and British policymakers shared a conception of full employment that allowed for the strategic use of protection. Freed from the constricting bonds of doctrinaire opposition to discrimination in trade, UK negotiators challenged American ideology with British pragmatism.

The British successfully synthesized two conflicting strands in their negotiating position. They combined a plaintive plea for mercy on grounds of war devastation, with an unyielding demand for equal respect at the conference table. While most of the American postwar planners were unreconstructed Wilsonian idealists, many of the British negotiators such as Lord Halifax, Liesching, and even Keynes descended from a diplomatic tradition based upon maintaining the balance of power in Europe and protecting the British Empire. In 1933 the Empire reached its apogee. It covered one quarter of the earth's land surface and comprised one quarter of its population. As David Reynolds has argued, however, "its resource-base lay across the seas in far-flung colonies which lacked a natural unity." Its base was tenuous and its collapse imminent. The British Empire had long relied upon the appearance rather than the substance of power. To compete with rivals the British often used their 'prestige', and the 'intangibles' of Empire. "The image of power was often as important as the reality - more exactly, image was a part of the reality, prestige was a form of power." "Bluff" tactics proved intrinsic to the maintenance of power. (46)

Rarely had Britain's ruse served them better than in the Washington negotiations and the multilateral conferences that followed them. They could not rely on hard diplomacy to support their stance, and yet every time the Americans protested a particular stance, the British merely held firm and obstinately refused to budge. Of course, they Americans helped by relenting, often when the British were nearly ready to capitulate. Nonetheless, simple British diplomatic resistance played an important role.

## The Negotiations

Two tactical approaches served the British diplomats well when the two sides came together. The first involved the manipulation of interested parties external to the negotiation, and the second required the exploitation of a tension in the American conception of postwar multilateralism.

The first tactic was to neutralize the use by Americans of their favorite 'bad cop' - Congress. In an early conflict stemming from the American group's anxieties about Congressional approval of the *Proposals*, Keynes persuaded Clayton that both sides faced equal domestic political constraints. Therefore, he demanded, these constraints should not unduly favor the positions of either the Americans or British. Clayton concurred. (47) Unfortunately for the Americans, the comparative political constraints were by no means equal. Whereas the American negotiators needed to persuade a Congress dominated by Republicans hostile to both the State Department trade agenda and to the Truman administration, the British Labor Cabinet faced less daunting opposition in Parliament, where they commanded a significant majority (without which it would not be in office in the first place). Soon after this exchange took place between Keynes and Clayton, all of the participants adopted a remarkable attitude toward Congress: it was viewed as a common enemy. Both sides collaborated in an effort alternately to deceive and appease critics in the American legislature.

When the two groups were debating the possibility that one Dominion might hold the US and the rest of the Commonwealth to ransom, the Americans worried more about objections that might be raised in Congress to this potential problem, than about the substance of the problem itself - the very real possibility that a small trading nation might use its position in the Commonwealth, and its close relation to Britain, to force concessions out of the US. (48) As would become a pattern, the Americans expended more energy at the negotiating table considering how to outwit Congress than their opposition. Based upon their actions during the negotiation, they appear to have viewed their own legislature as a greater threat to their plans than they did the British. While they may have been correct, in that the British views on trade were closer to their own than some of their critics in the American government, this tactic led to an ironic result: by focusing on persuading Congress to accept the compromises, instead of resisting the compromises themselves, they ceded more ground to the British than they might otherwise have done. As a result, the increasingly protectionist *Proposals* began to alienate the State Department's best weapon against Congressional opposition -- their free trade allies in the US.

Part of the challenge facing the Americans stemmed from their commitment to success. They had invested so much time and energy into their postwar planning process, that they refused to contemplate the best alternative to a negotiated agreement with the British. Failure was not an option. While the British made several threats to walk out of the negotiations, the Americans did not threaten such bold action once. This attitude may have accounted for their inability to hold out long enough for the British to offer counter-concessions. It also explains the American commitment to the hope of agreement, even at the unreciprocated sacrifice of their own positions. The US negotiators invested themselves more in the negotiation process itself, while the Brits stayed close to their positions.

One of the most important British negotiating positions, paradoxically, stemmed from a major investment in the process. To

secure their own policies, the British gambled on American support for an open, multilateral negotiating procedure in which they could draw strength from the Commonwealth and other countries opposed to American positions. Thus while the Americans had over-committed themselves to immediate progress and commitment in Washington, the British favored tentative agreement, and sought to delay commitment until they could bring in reinforcements.

## PRESSING FOR PROCEDURAL MULTILATERALISM

To understand the longer-term consequences of the British pressure for a multilateral negotiating process, it is important briefly to consider the evolution of the term 'multilateralism'. Since the Second World War, definitions of multilateralism have developed in relation to the trading system.<sup>(49)</sup>

While, as will be shown, the definition evolved during the planning and negotiation process that led to the GATT, the General Agreement has come so significantly to embody multilateralism, that it is difficult to define the idea without referring to trade. This habit makes it hard to understand the concept itself. Moreover, as we have come to view multilateralism largely through the operation of the GATT, it is difficult to determine how the concept initially arose and developed. Examination of the planning and a negotiating process indicates that the concept itself was intended to have far wider implications for its adherents.

### Definitions and Precedents

While the term has been broadly applied for more than fifty years, few authors have attempted to clarify its precise meaning -- even through study of the GATT's origins. In 1956, Gardner defined multilateralism purely in terms of trade and payments:

For the purpose of this history we may define such a system as one in which barriers to trade and payments are reduced to moderate levels and made non-discriminatory in their application. This objective is obviously not the same as free trade. ... Multilateralism does not mean the elimination, but only the reduction, of tariffs and other trade barriers. Any trade barriers remaining after this reduction, however, must be non-discriminatory in their application.<sup>(50)</sup>

Gardner's definition actually incorporated the purposes of the GATT spelled out in the Agreement's own preamble: "to contribute to rising standards of living and full employment by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce." The American negotiators, however, had greater ambitions than this preamble in the end reflected. An understanding of both the origins and functioning of the GATT requires a more nuanced definition than Gardner has provided.

In the late 1980's and early 1990's, several authors began engaging one another in an effort to define multilateralism. For Robert Keohane, multilateralism simply meant "The practice of coordinating national policies in groups of three or more states."<sup>(51)</sup> William Diebold, Jr. differentiated between "formal" and "substantive" multilateralism. For Diebold this difference is illustrated in the difference between the bilateral agreements of Cordell Hull and those of Hjalmar Schacht.<sup>(52)</sup> John Gerald Ruggie then interpreted Diebold's definition to mean that "the issue is not the number of parties as such [formal], as the *kinds of relations* [substantive] that are instituted among them." Ruggie in turn advocated a definition building on this distinction; where Diebold described formal and substantive multilateralism, Ruggie referred to "nominal" (Keohane's definition) versus "qualitative" (involving a principle) multilateralism.<sup>(53)</sup>

With Keohane's definition as a starting point, Ruggie's focus on qualitative or principled multilateralism under-emphasizes the importance of multilateral *coordination*, which is the most vital part of the meaning. When the aim is to understand the origins and durability of multilateral institutions, study should focus on how cooperation is established and maintained. In other words, what incentive does each participant have to relinquish a degree of sovereignty for the sake of multilateral policy coordination?

To provide a helpful conceptual framework in which to understand the origins of the GATT, this study proposes and considers four general types of coordination that generate a multilateral result. A multilateral institution may establish and sustain itself with just one, or with a combination of these incentives. The definitions of multilateralism discussed below are crucial because, firstly, they stem from a close reading of the actual process that led to the advent of postwar multilateralism;<sup>(54)</sup> and, secondly, they highlight the significance of particular agents' decisions in the planning and negotiating process.

*Procedural* multilateralism results from what the British refer to as a 'talking shop': the direct involvement by three or more participants in the actual negotiation and design of the shared policy. Countries may participate in a multilateral institution whose principles they do not support because, through their involvement in the negotiation process, they offer concessions on principle in return for payment in another form. Historians have argued about whether, for instance, the Americans intended Lend-Lease and the postwar loan to Britain as a form of payment for British support of the principle of non-discrimination. While this paper takes challenges that contention, the argument maintains that the British received Lend-Lease, a postwar loan, and an exclusive seat at the negotiating table in return for their acceptance of the principle of non-discrimination and freer trade.

*Principled* multilateralism evolves when there is sufficient consensus on principles or policies such that all parties are prepared to coordinate their actions, whether or not they took part in negotiating the characteristics of the joint policy. In other words, whether or not they sat at the table to design the multilateral agreement or institution, nations will cooperate

because they agree with the principles upon which the cooperation is based.

*Instrumental* multilateralism arises when parties decide to coordinate their behavior with other countries without having taken part in the negotiation of the action, and without necessarily believing in the merits of the principle upon which the coordination is based; they view multilateralism as an instrument to gain an ancillary benefit. A nation that did not help to design the GATT, and does not believe open trade will help its economy, may nonetheless join the institution in order to bolster its political relations with other participants and to receive the benefits of lower barriers to other markets (all the while it may stubbornly resist the measures to reduce its own barriers, by delaying their implementation and applying for exemptions).

*Coercive* multilateralism results when a party coordinates its policy with one or more powerful nations because these nations force it to do so, through economic, political or military means. Nazi Germany aggressively manipulated its trading partners and thereby provides the best example of coercive multilateralism.

The American postwar planners focused on obtaining two types of multilateralism. As Gardner has argued, from the outset of the Second World War the State Department determined that "post-war planning should be carried on in advance; that the United States should base its foreign policy on membership in a world organization; and that achievement of peace would require the adoption of appropriate policies in the economic field."<sup>(55)</sup> In other words, the Americans intended to institute *principled* multilateralism in the postwar trading system, and advocated *procedural* multilateralism to establish it.

### Procedural Multilateralism as a Counter-Intuitive Decision

The major external models upon which the Americans could alternatively have considered basing their proposed system involved asymmetrical systems of either principled or coercive multilateralism. The most comparatively benevolent option derived from the British, nineteenth century system. In this system, Britain served as the pivotal nation in a series of bilateral trade agreements, many of which they applied more broadly through application of the most favored nation principle. The Soviets presented a far more manipulative model to the Americans, where Moscow dictated trade relations among its satellites based on a planned, centralized, hierarchical system of state-trading. Many Americans considered another major model, the Nazi bilateral system, the very worst example of discrimination and coercion. Under Hjalmar Schacht, the Nazi official who designed and implemented the system, the Germans often deliberately imported more than they exported, and then they required that their trading partners "liquidate their claims on Germany through reinvestment there or by purchasing deliberately over-priced German goods. Thus, its trading partners were doubly dependent on Germany." In addition, the Germans additionally manipulated their partners, generally smaller and weaker states in East or Central Europe, the Balkans, and Latin America, through monetary clearing arrangements.<sup>(56)</sup>

Having seen fifty years of the GATT and experienced the strengthening of support for open trade, it is very difficult for us to understand the degree to which the planners' advocacy of multilateralism challenged conventional practice. Furthermore, in terms of American commercial interests, pursuing international coordination seems like a counter-intuitive decision. The US had far more unilateral and bilateral options available to it than any other country in the world; it passed up the opportunity to establish a system that would more directly leverage its power advantage. Given its support for principled multilateralism and the stability that non-discrimination promised, support for procedural multilateralism ran directly counter to apparent American interests. A bilateral / MFN system would have accounted for the American desire for non-discrimination and better suited American economic and business aims: bilateralism was more specific, addressed concrete issues on a case-by-case basis, and would have enabled the more effective application of US power over weaker, individual trading partners.

In fact the Americans could simply have continued the trade pattern that they had already established after the inception of the Reciprocal Trade Agreements Act (RTAA) in 1934, where they negotiated a series of bilateral agreements and extended them broadly through application of the most-favored nation principle. In the thirty-two bilateral agreements that the US completed between 1934 and 1945, the Americans utilized their economic and political predominance to their advantage. Why risk diluting that power in a multilateral forum, at a time when its dominance was greater than it had ever been? Douglas Irwin has asked the counterfactual question, "how would trade policies have evolved in the absence of the GATT?"

Had there been no GATT, the postwar system would not necessarily have reverted to the interwar chaos. Because the United States had initiated a program of bilateral trade liberalization (largely with Latin American countries) after the passage of the Reciprocal Trade Agreements Act of 1934, the United States might have become the central node of a series of bilateral trade agreements, although not necessarily with unconditional MFN as the ruling principle.<sup>(57)</sup>

It is very likely indeed that the Americans could have successfully continued the operation of the RTAA and begun to re-establish stable trading relations.

In addition to its lack of external models, the US decision to advocate procedural multilateralism in international commercial negotiations was without precedent in the history of American trade relations. The US shunned or obstructed the majority of interwar, international economic conferences; as recently as 1930 the US had adopted the highest non-negotiable tariffs in its history. Yet the US appears to have voluntarily led the way in creating an institution whose mode of operation diminished its sovereign right to raise tariff levels and, additionally, seemed to undermine US hegemony.

What seems stranger still, why did it invite twenty-four other countries to, as Churchill put it, "jaw-jaw" rather than "war-war"<sup>(58)</sup> in the *design* of the procedures and principles of the American, proposed multilateralism? US planners could

simply have invited foreign nations to join them in a multilateral forum that they had already constructed, based on principles and procedures that the Americans alone had devised. (The inclusive lure of procedural multilateralism in the system's operation, in addition to American political and economic pressure, might have attracted wide participation despite the fact that the system was unilaterally imposed by the US.) Instead, while the Americans did put forward a pre-drafted blueprint of a 'Charter' for world trade, they constantly involved the British in the planning process during the war. In effect the Americans advocated a talking shop to get a talking shop -- procedural multilateralism not only in the operation but also in the design of the postwar, multilateral trading system.

### The British Strategy -- Press for Procedural Multilateralism

Why did the Americans adopt this approach? Again, pressure from the British played a significant role. From early in the war, and at the highest levels, the British deliberately pursued a strategy in which they attempted to delay and outnumber the Americans.

When first confronted in 1941 with American pressure to commit to non-discrimination after the war, Churchill adopted a strategy that would similarly characterize his later resistance to allied demands to open a second front between 1942 and 1944 - give the appearance of agreement, while desperately stalling. This was a tactic Churchill apparently learned from watching the way his own staff handled him.<sup>(59)</sup> Churchill and British officials then applied this approach to the Atlantic Charter and Article VII of the Mutual Aid Agreement, in which they pressed for vague and general agreements - where Britain would dismantle preferences in what they termed "mutually advantageous" conditions, without specifying any further what this term might entail - that committed them to continue discussing the issues, but little else.

In his memo to the Cabinet on August 16, 1945, Cripps made clear the reason that the British did not want to be pressured into accepting American trade principles during the war: "We and the Dominions should not be dealt with one at a time and squeezed on preference reductions."<sup>(60)</sup> Later, the Ambassador to the United States at the time of the Washington negotiations, Lord Halifax, made more explicit the strategy he and the other negotiators planned to adopt. In a telegram to Hugh Dalton, the Chancellor of the Exchequer, and Cripps, the President of the Board of Trade, he explained:

I anticipate this talk will be pretty general. Clayton may perhaps be preparing to hand to us a revised paper showing any changes made by the U.S. side since the London talks. If so, we should propose to go through it with him in an endeavor to establish broadly agreed points and points which we know are unacceptable. We should hope in this way to avoid delay and *to postpone as long as possible consideration of the sticking points*, thus facilitating financial talks and possibly *leaving over to the Conference in the Spring points on which we should hope to bring the U.S.A. up against opinions of other countries.* <sup>(61)</sup> [emphasis added]

Halifax emphasized here the intention to postpone the "sticking points" until they could bring the American negotiators "up against opinions of other countries." The British clearly knew precisely how they would benefit from procedural multilateralism.<sup>(62)</sup>

### Applying the Strategy

On October 1, during the first meeting of the 'Top Group' of negotiators in Washington, the British applied their strategy. Liesching made a point of expressing his support for the American document outlining the "procedure for implementing multilateral arrangements" because it "makes it clear that the proposed arrangements would not be forced on outsiders without their having an opportunity to participate in the formulation of the arrangements."<sup>(63)</sup> The inclusion of "outsiders" was buttressed by delays to get them involved. Here is how they conceived of the preference settlement:

The requirement [stipulated in Article VII of the Mutual Aid Agreement] may be met equally logically by reduction [note: instead of elimination, as the Americans proposed] of preferences now against reduction of tariffs, coupled with an understanding that at a future date...a further conference at which in return for further reductions of tariffs there would be further reductions of preferences and so on into the future, until at some indefinite date the final stage was reached with preferences eliminated but tariffs, although greatly reduced, still perhaps above zero.<sup>(64)</sup>

The imprecise focus in this explanation to the Americans - "further" conference and "future" and "indefinite" dates - typifies the British approach to commitments on controversial issues. By November, the British had begun to congratulate themselves:

We feel sure that Dominion Governments will share our gratification that, notwithstanding the extreme sensitiveness of U.S. official opinion on the preference issue, in the final result all our main desiderata have been secured. No cards have been thrown away in advance of the detailed negotiations in which all members of the Commonwealth will participate, and not only has nothing been agreed which would in any way prejudice the basis on which each one of us would enter the March conference [which in the end was held in London from Oct - Nov, 1946], but the formula ensures that there can be no reduction or elimination of preferences without adequate compensation for those affected.<sup>(65)</sup>

Here again the British characterized as a victory the fact that "nothing has been agreed which would in any way prejudice the basis on which each one of us would enter the March conference."

Soon after, the Americans began to resist the attempt to bring the Commonwealth directly into their bilateral negotiations with the British. On November 9, Clayton grew angry:

1. The core of the new difficulty that has arisen is this. It appears that Clayton has taken violent exception to the last part of paragraph 3 of our explanation, saying that the acknowledgment of the dependence of modifications on the "consent" of third parties is in effect a repudiation of 2(a) of the formula.

2. We have protested at great length to his officials that this rests on a misconception of the process envisaged and that the idea of consent is integral at once to the conception of a bargain and to the way we run affairs in the Commonwealth and Robbins, who has now returned, was able to impress upon them the insurmountable difficulties which would be created in London if they persisted in their attitude. [\(66\)](#)

It became apparent that the British had begun attempting to transform their bargaining in Washington into a multilateral negotiation to serve their own interests, even before the conferences in London and Geneva that followed the bilateral exchanges in Washington. The "third party" referred to above does not refer to any American allies or 'dominions', such as Cuba or the Philippines, but rather to the Commonwealth. The British had managed a subtle but crucial victory by demanding Commonwealth "consent" before they made any commitments. Thus they effectively "neutralized" the American external, interested party - Congress - while they used their own external party to full advantage.

Of course, they sought more than just immediate Commonwealth support in Washington. In a later telegram, they explained the importance of making the American commitment to Commonwealth "consent" explicit:

We would call your attention to the fact that we have included in paragraph 2 of the draft in Nabob 351 the words "in the light of the views expressed by other countries" taken from 5 (A) of Baboon 279, which would leave it open to us to support any valid points put forward by the Dominions or other countries at the Spring conference. It is important to get this phrase on record. [\(67\)](#)

With the phrase "on record", the US would soon contend with the opinions of many other countries at the conferences which followed the Washington negotiations.

## CONCLUSION - CONSEQUENCES

A central, working hypothesis of this research program is that a key American miscalculation in the planning process made a disproportionate impact on the GATT's origins and evolution. The most significant mistake that the US made was to presume that it could impose its own brand of neo-classically inspired free trade via a multilateral negotiating procedure. Partly because the GATT developed as a truly multilateral institution, and the US postwar planners overestimated their ability to further US aims in that context, the American free trade agenda was thwarted.

The British played a significant role in this process, not only by diluting the American free trade agenda during the bilateral negotiations in Washington, but by pressing for procedural multilateralism in the design of the trading system. The British recognized the ambiguity of the American position; they supported and enhanced the cooperative element of the State Department approach as an aid in undermining the economic agenda of the free trade idealists.

Historians who have examined the origins of the GATT have completely overlooked the untenable stance that the Americans adopted. While analysts have focused upon the State Department demand for free trade, their arguments have underestimated the significance of the *negotiating process* that the Americans simultaneously demanded. The most significant direct consequence of the Washington negotiations was the demise of the ITO. Paradoxically, American misjudgments and concessions, during the very multilateral negotiation process that the US advocated, contributed to the GATT's survival. The more rigid and structured ITO did not survive the American compromises - as Diebold has argued, it lost the domestic support of its free trade constituency as a result of the loopholes and exceptions that it permitted. [\(68\)](#)

In its wake, the provisional, flexible GATT survived and expanded.

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*Proposals for Consideration by an International Conference on Trade and Employment.*

*Suggested Charter for an International Trade Organization of the United Nations.*

*Official documents, First Session of the Preparatory Committee, at Church House, Westminster,*

*London, 15 October 1946 to 26 November 1946.*

*"Drafting Committee Report " or "New York Report " , at Lake Success, New York, 20 January to 25 February, 1947.*

*Second Session of the Preparatory Committee, held at the European Office of the United Nations in Geneva, 10 April 1947 to 30 October 1947.*

US Government: *Analysis of the General Agreement on Tariffs and Trade, signed at Geneva , 30 October 1947.* US Dept of State Publications 2983, Commercial Policy Series 109. Washington, DC 1947.

UK Government: *Report on the Geneva Tariff Negotiations, with text of the General Agreement on Tariffs and Trade, and supplementary agreements with the United States and Canada.* HMSO. Cmd. 7258. London, 1947.

*Report on the Geneva Tariff Negotiations , With Text of the General Agreement on Tariffs and Trade and Supplementary Agreements with the U.S.A. and Canada", Geneva, October 30th, 1947, "Presented by the President of the Board of Trade to Parliament by Command of His Majesty, 18th November 1947", London, HMSO, Cmd. 7258.*

Provisional application, under the Protocol, of the 30 October 1947 text of the General Agreement began as of 1 January 1948.

The "*Final Act and Related Documents of the United Nations Conference on Trade and Employment* ", UN Conference on Trade and Employment held at Havana, Cuba 21 November 1947 to 24 March 1948.

## Notes

1. For the most authoritative analysis of the ITO's demise, see William Diebold, Jr., "The End of the ITO," *Essays in International Finance*, No.16, (October, 1952).

2. Interview with Emilio G. Collado by Mrs. Ellen Garwood, New York, November 6, 1958, Columbia Oral History Project.

3. Ibid.

4. Historians have argued that the policymakers who devised enduring Cold War policies did not have a prior strategy; they did not plan very far in advance the policies, such as the Truman Doctrine, that developed to meet crises following the Second World War. The American position with regard to the postwar trading system, however, was *meticulously planned*. The State and Treasury Departments, under the leadership of Cordell Hull, Dean Acheson, Harry Dexter White, and Leo Pasvolosky, carried out a planning process that began in 1939 (although the American position really began to take shape after the advent of the Reciprocal Trade Agreements Act of 1934). Fortunately, as a result of this deliberate process, the evolution of the American understanding and advocacy of multilateralism lends itself to the type of close scrutiny that this study undertakes.

5. Most notably: Article Seven of the Mutual Aid Agreement was signed on Feb. 23, 1944, "to provide mutually advantageous economic relations between them and the betterment of world-wide economic relations," and to include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the objectives [of the Atlantic Charter].

6. August 14, 1945, PREM 8/35, CP (45) 112, British Public Record Office (BPRO).

7. Barnett, Corelli, *The Lost Victory*, London: MacMillan, 1995, 9.

8. In his memorandum of August 16, 1945 entitled, "Article VII of the Mutual Aid Agreement: Commercial Policy, Memorandum by the President of the Board of Trade to the Cabinet", Cripps explained:

If, as I understand, we are likely to be discussing with the Americans in the near future the financial arrangements on the

cessation of Lend-Lease, we must not fail to recognize the fact that assistance on the scale required will not be forthcoming unless the Americans have obtained from us some assurances of our readiness to enter upon international discussions on commercial policy and related questions with the determination to seek an international trading agreement on the general lines they propose. This has been made clear both by Mr. Clayton in his present talks and in a recent published letter from Mr. Grew, Acting Secretary of State, to a Congressman in which he said:

We feel that any credit granted by this country to Great Britain should be accompanied by satisfactory arrangements with respect to the timely relaxation of the restrictive financial and trade practices which have grown up of necessity during the war. [August 16, 1945, (UE 934/113/53), FO 371 45680, BPRO.]

9. Williams, F., *A Prime Minister Remembers*, London: Heineman, 1961, 134, as cited in Dobson, Alan P., *US Wartime Aid to Britain 1940 - 46*, (London: Croom Helm, 1986), 226.

10. Historian Thomas W. Zeiler is an important exception. In his recent book, *Free Trade, Free World, The Advent of GATT* (Chapel Hill: The University of North Carolina Press, 1999), he observes that in the Washington negotiations, "British trade interests had been upheld and America's doctrinaire free trade ideas stymied." [57] More broadly, he surmises: "And all the time, in war and now in peace, visionary free-traders in the State Department had beaten a slow but inexorable retreat." [58] Judith Goldstein, a prominent analyst of the intellectual history of American trade policy, has also argued that the GATT let the planners down. "Seeking an explanation for America's [postwar] preferences is especially important since the benefits of hindsight, it is clear that GATT rules did not serve America's long-term interests." Rather than blaming the reasons for this failure upon a combination of international concessions and domestic constraints, Goldstein places the preponderance of the blame upon internal factors in the US: "The United States did not get what was in her objective best interest, not because of a lack of power but because of domestic institutional, ideational, and social constraints." However, research into the GATT negotiations has, arguably, already demonstrated that in fact a lack of power did play a crucial role. (Judith Goldstein, "Creating the GATT Rules: Politics, Institutions, and American Policy", in John Gerard Ruggie, ed., *Multilateralism Matters, Theory and Praxis of an Institutional Form*, (New York: Columbia University Press, 1993).

11. The main Empire countries called upon by Britain during the negotiations were Australia, New Zealand, South Africa and India.

12. These findings are based on an initial review of archival evidence, and concentrate upon the influence of British negotiators from the Board of Trade, Foreign Office and Treasury Department upon American officials in the State Department. As the State Department officials, or planners, had intellectual responsibility for developing postwar policy, external influences upon their thinking is vital to understanding the American position. This analysis, however, does not yet account for the role of the American Congress or private individuals with influence in foreign economic policy formation. Also, it is hard to assign intentionality to an amorphous and constantly mutating structure such as the coalition government that led Britain throughout World War II. Regardless of the difficulties for both sides in generating domestic consensus on foreign economic policy, each government ultimately negotiated as a single entity. Each group of representatives brought to the table a discrete, concrete negotiating position. The following arguments are based upon an examination of these positions and the negotiations that stemmed from them.

13. For more on the development of Hull's views, see Cordell Hull, *The Memoirs of Cordell Hull*, vol. 1 (New York: MacMillan, 1948), 81 - 82.

14. While Hull was no longer in office during the Washington negotiations, he was (and remains) the longest-serving Secretary of State in American history. He had almost twelve years to fill the important economic posts with people who viewed his most important issue, free trade, from the same perspective. People like Will Clayton, Harry Hawkins, John Leddy, Winthrop Brown, Clair Wilcox, E.F. Penrose, Harley Notter and Leo Pasvolosky confronted the British in late 1945. These men were committed to Hull's values. Economists like Herbert Feis with more nuanced and skeptical views were ousted by this time. Hull had by then developed a notorious reputation for his zealous advocacy of free trade. According to contemporary Harold Ickes, Hull possessed a one-track mind and the only station on that one-track mind is >trade agreements=. @ The columnist Ernest K. Lindley described his relief that Hull had been reared on Adam Smith instead of Karl Marx, for he might have been one of our foremost revolutionaries. @ (Harold L. Ickes, *The Secret Diary of Harold L. Ickes*, 3 vols., New York, 1953-1954, and Ernest K. Lindley, *Halfway with Roosevelt*, New York, 1936, both cited in Arthur W. Schatz, "The Anglo-American Trade Agreement and Cordell Hull's Search for Peace 1936 - 1938", *The Journal of American History* 57 (June 1970): 87.)

15. The term >ideology= here refers to the government's overarching *diagnosis* of social problems and its *plan* to address them in the economic arena.

16. Richard Gardner, *Sterling-Dollar Diplomacy*, (New York: McGraw-Hill, 1969), 20.

17. "Summary of Discussions held at the Board of Trade", August 9, 1945, (UE 934/113/53), FO 371 45680, BPRO.

18. From pencil-written notes in "US-UK Economic Negotiation; Com/Trade -- Draft Minutes", October 3, 1945, Records of International Conferences, Commissions, and Expositions, Record Group (RG) 43, International Conference on Trade and Employment (International Trade Organization), Box No. 82, National Archives (NA).

19. "Proposal to Establish an International Trade Organization", July 21, 1945, "Document II Handed to United Kingdom Officials on 4<sup>th</sup> August, 1945", FO 371 45698, BPRO.
20. "Washington Proposals to Establish an International Trade Organization", Chapter III, B, 1, December 6, 1945, Archives of the World Trade Organization.
21. Telegram from Washington to Cabinet Offices, November 6, 1945, BT 11 2809, BPRO.
22. Richardson Dougall, "The Negotiations Leading to the Anglo-American Joint Statement on Commercial Policy of December 6, 1945", April, 1947, Foreign Policy Studies Branch, Department of State, RG 59, Box 2, NA.
23. Two American negotiators publicly released their own appraisals of the negotiations. Their books were intended to persuade people in favor of the ITO, and hence also carefully re-framed the American concessions on preference. Winthrop Brown, in *The United States and the restoration of world trade : an analysis and appraisal of the ITO charter and the General Agreement on Tariffs and Trade* (Washington: Brookings Institution, 1950), described the preference formula as a major victory because the British agreed to the uncompromising requirement not to increase margins of preference during future negotiations. In his study, *A Charter for World Trade* (New York: MacMillan, 1949), Clair Wilcox largely skipped over the preference concession, stressing instead the "distinctively American" quality of the *Proposals* on the whole.
24. Ibid.
25. Telegram from Washington to Cabinet Offices, November 3, 1945, BT 11 2809, BPRO.
26. Liesching explained the quota compromise to New Zealand officials: "How far these exceptional cases extend will, of course, be a matter for discussion at the March Conference, but in meantime you will see from text in my telegram D No. 2090 that, in point of principal concern to you, wording at present proposed is "confronted with" an adverse balance of payments, and this would allow countries to use quantitative restriction as a preventive (and not only a curative) measure, subject to appropriate international consultation." (Telegram from Washington to New Zealand, Nov. 9, 1945, BT 11 2809.)
27. Memo from Roosevelt to Hull, September 6, 1944, Roosevelt Presidential File, Official File, Franklin Delano Roosevelt Library.
28. Telegram from Washington to Cabinet Offices, October 12, 1945, BT 11 2795, BPRO.
29. Telegram from Washington to Cabinet Offices, October 15, 1945, BT 11 2795, BPRO.
30. It is important to note here that the Americans and the British made deliberate efforts to accommodate the Soviet Union, a 'pure' state trader, in the ITO provisions. In the postwar planning on both sides of the Atlantic, in all of the wartime meetings, and in this first formal negotiation, the Cold War is remarkable only for its complete absence as a factor. The thrust of the argument in historian Thomas W. Zeiler's recent study of the GATT's origins, *Free Trade, Free World - The Advent of GATT* (see footnote 11 for citation), is that the Cold War played a decisive role in the formation of the Agreement. This paper challenges that interpretation. Many of the decisive factors that shaped the GATT as both an Agreement and an institution were set in motion long before the Cold War exerted significant influence over foreign economic policy.
31. Telegram from Washington to Cabinet Offices, October 12, 1945, BT 11 2795, BPRO.
32. Telegram from Washington to Cabinet Offices, October 9, 1945, BT 11 2795, BPRO.
33. Please see Table 1 (next page) for a summary of the compromises that the Americans made in the Washington negotiations of 1945.
34. Hathaway, Robert M., *Ambiguous Partnership, Britain and America, 1944 - 1947* (New York: Columbia University Press, 1981), 35.
35. For evidence of this perspective in countless reports and memoranda, see Department of State Decimal Files, 1910 - 1944, 840.50, NA.
36. This level was the maximum permitted by the renewal of the Reciprocal Trade Agreements Act in 1943.
37. Cited in Gardner, 245.
38. Ibid, 152.
39. Telegram from Washington to Cabinet Offices, October 6, 1945, BT 11 2795, BPRO.
40. The official State Department study simply reported: "The British position on export taxes was accepted by the United States." (Richardson Dougall, "The Negotiations Leading to the Anglo-American Joint Statement on Commercial Policy of

December 6, 1945", April, 1947, Foreign Policy Studies Branch, Department of State, RG 59, Box 2, NA.)

41. In at least two instances, the British would have offered further concessions if the Americans had not so readily accepted their position. During the tense negotiations on the abolition of preferences, the British negotiators cabled home that they were prepared, "if the developments of the situation appear to warrant it, to clinch the bargain by offering to add to the draft statement of principles a provision abolishing" preferences where only five percent or less of preferred commodity imports come from preferred sources. Although not a major modification, it was more than the Americans in the end received, and would have helped the State Department to sell the Washington *Proposals* to Congress.

(Telegram from Washington to Cabinet Offices, October 9, 1945, BT 11 2795, BPRO.) For another example, see BT 11 2809, November 8 - 9, 1945 where the negotiators report back: "Our suggestions for a possible additional sentence need not be considered." It also appears that the British anticipated this tactic. Note the following telegram from Sterling in the Cabinet Office to Shackle in Washington:

You may find it useful to compare the so-called American "must" list of 1937 (enclosed with Embassy despatch No. 188E of 2<sup>nd</sup> March, 1937) of concessions on Imperial Preference which the Americans considered "essential" to the negotiation of a Trade Agreement with what we actually gave them in the Agreement of 1938.

An exact calculation is impossible, but it would be not unfair to say that they had eventually to be content with about half of what they had said was an essential pre-requisite to successful negotiations.

Americans appeared no less sincere then than now. I send this for what it is worth as background. (Telegram from Cabinet Office to Washington, BT 11 2795, October 9, 1945).

42. This receptive approach to the British stemmed from an Anglophilic sentiment that was pervasive in the State Department, having developed during the war. In an apparently near-treasonous confession, Hawkins shared his own reservations with the American position in the draft *Proposals* : in early September, before the formal negotiations began, Liesching reported back to London that, during a private meeting with Harry Hawkins, he learned "the American proposals handed to us by Clayton should not be regarded as representing a final American attitude but a 'negotiating attitude' as agreed so far between U.S. Departments and, speaking personally, he [Hawkins] hoped, that some of them would be substantially modified." [emphasis added] (Telegram from Washington to Cabinet Offices, September 6, 1945, BT 11 2795, BPRO.)

43. There is a tremendous amount of evidence to support this assertion. In one striking example, the Americans accept that Britain will not guarantee that the entire process of negotiation may be delayed by the decision of a single Commonwealth country. The Americans explained to the British what they will tell Congress when the question inevitably arose. Liesching reported to London that, "in the event of their making such a statement further questions would be likely asked in London about the answer given in America, and they completely understood that in such circumstances our reply would be in the nature of a hedge. That is to say, we should take the line that we preferred not to say in advance what we should do if it should arise." (Telegram from Washington to Cabinet Offices, Nov. 9, 1945, BT 11 2817, BPRO.)

44. Reynolds, 301.

45. Cited in Penrose, E.F., *Economic Planning for the Peace* (Princeton, NJ: Princeton University Press, 1953), 16.

46. Reynolds, 301. According to Reynolds, "The supreme exponent of bluff was Winston Churchill, with famed success against Germany in 1940 and ignominious failure against Japan in 1941 - 2. Churchill's most notable pupil in the diplomacy of bluff has been Margaret Thatcher." (62)

47. Telegram from Washington to Cabinet Offices, October 6, 1945, BT 11 2795, BPRO.

48. Telegram from Washington to Cabinet Office, November 9, 1945, BT 11 2817. In Geneva in 1947 this situation transpired. The Australians proved themselves the most intractable negotiators, gaining concessions far beyond what they could offer in return.

49. Prior to World War II, multilateralism was not a major feature of the debate over trade policy in the US. A glance at two of the major dictionaries of the time, *The Oxford English Dictionary* in Britain and *Webster's New International Dictionary* in the US, demonstrates that during the interwar years and the Second World War the Americans initiated both a popular and a technical reconception of the term. *Webster's* second edition, put out in 1934, defines multilateral as A1. Having many sides; many-sided. 2. Participated in by more than two states; as a multilateral treaty. Cf. UNILATERAL, BILATERAL. 3. Law. Of a contract, having three or more parties.@ (*Webster's New International Dictionary* , Second Edition, Northampton, MA: G. & C. Merriam Company, 1934.) *Webster's* 1934 edition does not even include the word multilateralism. In the third edition, however, which came out in 1961, multilateralism is defined as Afreedom of international trade and currency transfers so as to achieve for each country a trading balance with the total trading area but not necessarily with any one particular country B contrasted with *bilateralism* .@ (*Webster's Third New International Dictionary* , Chicago, IL: G. & C. Merriam Company, 1961.) Where the word multilateralism was not recognized in 1934, after the Second World War it became associated with free trade and the balancing of payments.

The same pattern emerged in the *Oxford English Dictionary*. The first edition, put out in 1933, did not include the word multilateralism. Unlike Webster's, in its definition of Amultilateral@ the *Oxford English Dictionary* did not even mention states: A1. Having many (i.e. more than four) sides.@ (*The Oxford English Dictionary*, [first edition], vol. VI, Oxford: The Clarendon Press, 1933.) The next major edition, put out in 1989, included both an expanded definition and the word multilateralism: AMultilateral, ... 3. Pertaining to or concerning three or more countries, esp. of the trade and financial agreements made by them, or of the control of (part of) their armed forces by a supranational authority. ... Hence multilateralism, the quality of being multilateral (sense 3)...@ (*The Oxford English Dictionary*, Second Edition, vol. X, Oxford: The Clarendon Press, 1989.) According to these two dictionaries, the principled and procedural multilateralism embodied by GATT were literally invented during the trade negotiations of the 1930's and 40's.

50. Richard Gardner, *Sterling-Dollar Diplomacy*, (New York: McGraw-Hill, 1969), 13.

51. Robert O. Keohane, AMultilateralism: An Agenda for Research,@ *International Journal* (Autumn 1990), 45:731, cited in John Gerard Ruggie, ed., *Multilateralism Matters, Theory and Praxis of an Institutional Form*, (New York: Columbia University Press, 1993), 6.

52. Diebold, William, Jr., ed., *Bilateralism, Multilateralism and Canada in U.S. Trade Policy*, (Cambridge, MA: Ballinger Publishing Company, 1988), 1.

53. Ruggie=s analysis of the word=s meaning is the most thorough and provocative. He formally defines the term multilateral as An adjective that modifies the noun *institution*. What distinguishes the multilateral form from others is that it coordinates behavior among three or more states on the basis of generalized principles of conduct.@ He argues that the nominal definition is unsatisfactory because it could include such things as the Schachtian model, which he believes certainly did not involve multilateralism. The difference between the GATT and the Schachtian model, both of which involved bilateral negotiations, is that Awithin GATT bilaterally negotiated tariff reductions are extended to all other parties on the basis of most-favored-nation (MFN) treatment, whereas the Schachtian scheme was inherently and fundamentally discriminatory, so that bilateral deals held only on a case-by-case basis *even if* they covered the entire globe in doing so.@ Even a system that coordinates policies among as many states as did the Schachtian model may not be deemed multilateral in Ruggie=s definition, if it does not involve a principle such as non-discrimination.

However, while shared policy may involve a Aguiding principle@, it need not necessarily do so. The fact that policy involves a shared course of action does not mean that the participants share the same principle or purpose in pursuing that action. When multilateral coordination does revolve around a particular principle, rather than merely functional or practical purposes, the participants do not all have to view the principle as directly serving their national interests; a country may view the principle upon which it has based its policy as directly opposed to its national interest, and yet participate in any case in order to attain an indirect advantage. In sum, countries may agree to coordinate their behavior, but for very different reasons. Therefore Ruggie=s focus on principle is misplaced, because a purportedly >central= principle may prove incidental rather than central to a multilateral institution=s existence and survival.

54. As Edward Ingram has explained, "Whereas political scientists theorize first and then apply or illustrate their theories, historians 'work from life to theory'." (Paraphrased by Colin Elman and Miriam Fendius Elman in *International Security*, Vol. 22, No. 1 (Summer 1997), 19.)

55. Gardner, 12.

56. Ruggie, 8-9.

57. Irwin, Douglas A., AThe GATT in Historical Perspective,@ AEA Papers and Proceedings (May 1995): 327.

58. Cited in Ruggie, 4.

59. For an account of Churchill's successful strategy to delay D-Day despite General Marshall's vehement opposition, see John Keegan, *The Second World War* (USA: Penguin, 1990).

60. "Article VII of the Mutual Aid Agreement: Commercial Policy, Memorandum by the President of the Board of Trade to the Cabinet", August 16, 1945, (UE 934/113/53), FO 371 45680, BPRO.

61. Telegram from London Embassy to Chancellor of Exchequer and President of the Board of Trade, September 13, 1945, BT 11 2795, BPRO

62. It is important to qualify the British pursuit of procedural multilateralism. While they pressured the Americans to adopt a relatively pure form of it during the design stages of the ITO, they intended to curtail it in the operation of the system. This intention is evidenced by Keynes, who in the Washington negotiations acknowledged the ability of smaller countries to unite against larger ones in a multilateral context: "LORD KEYNES said that he earnestly hoped that further thought would be given to the question of voting. From his experience at the Peace Conference after the First World War he could say that the principle of "one State, one vote" was extremely dangerous. The smaller nations, having a greater preponderance than their status merited, could wreck plans upon which the greater nations were agreed. He said that a satisfactory solution to this problem had

been reached at Bretton Woods and he therefore strongly recommended that the ITO follow this precedent." ("US-UK Economic Negotiation: Com/Trade -- Draft Minutes", December 1, 1945, RG 43, Box No. 82, NA) In the establishment of the ITO, the British intended to utilize procedural multilateralism to challenge American hegemony. But in the long run operation of the system they hoped for a less inclusive system, in order to institutionalize their (diminishing) status as a major player.

63. "US-UK Economic Negotiation: Com/Trade -- Draft Minutes", October 1, 1945, RG 43, Box No. 82, NA.

64. Telegram from Washington to Cabinet Offices, October 9, 1945, BT 11 2795, BPRO.

65. Telegram from Washington to Cabinet Offices, November 6, 1945, BT 11 2809, BPRO.

66. Telegram from Washington to Cabinet Offices, November 9, 1945, BT 11 2809, BPRO.

67. Telegram from Washington to Cabinet Offices, November 20, 1945, BT 11 2817, BPRO.

68. See William Diebold, Jr., The End of the ITO," *Essays in International Finance*, No.16, (October, 1952).