

# No Return to Protection

FOR twenty years the world's major trading nations have been slowly but persistently dismantling the barriers to trade between them. Last summer, the successful conclusion of the Kennedy Round negotiations in Geneva brought the promise of the largest-ever cut—on average, about one-third—in world tariffs on trade in manufactures. But in spite of this achievement, there is a growing tendency to wonder whether there is further scope for liberalising international trade, or whether, on the contrary, we are threatened by a widespread relapse into protectionism.

In some respects we can be optimistic. The Kennedy Round agreements are being put into effect. On a regional basis, too, the trading barriers are still coming down. EFTA's free trade area is effectively complete; the EEC's customs union is only a few months away from completion; integration is going forward in Central and South America; various countries are constructing bilateral free trade areas. The developed nations have agreed to study seriously the idea of giving tariff preferences to the manufactured exports of the less developed, and in New Delhi the UNCTAD Conference is trying to put this new-found agreement on principle into practice.

But there are disturbing signs, nevertheless, that the drive for freer trade is, after two decades of remarkable achievements, running out of steam. It may or may not be true, as is sometimes suggested, that the Kennedy Round's success leaves little scope for further world-wide tariff-cutting exercises. It is all too clear, however, that in any case the will to embark on new negotiations is conspicuously lacking in some key countries. Even the achievements of the Kennedy Round are not entirely secure: there are doubts whether the United States Government will be authorised to abolish the American Selling Price system of customs valuation, and this in turn places in jeopardy the matching reductions in European chemical tariffs. More serious still, it seems possible that new distortions, in the form of export subsidies and import taxes, may be introduced into international trade.

Few, if any countries, have a perfectly clean record in their treatment of exports and imports. Human nature and economic pressures being what they are, domestic industries like being protected, and they like their exports to be subsidised. Protectionist forces often have greater political influence than those who argue for a liberal trade policy. Trade barriers have nevertheless been coming down in recent years because governments have seen this to be in their own country's interests *provided that other nations do the same*. In GATT, in EFTA, and in the EEC, individuals have accepted potentially painful competition, and foresworn export aids, because others were prepared to do so too, and thus to join in enlarging potential trade to everyone's benefit.

Unfortunately, reciprocity is the rule not only for freeing trade, but for restricting it. Although a country may gain temporary advantage by re-erecting the barriers, or by distorting the conditions of competition, it thereby invites others to do the same. President Johnson rightly reminded Americans recently of the "chaos" that resulted from competitive "begar-my-neighbour" policies in the 1930s. If we start to put the clock back, there is no knowing how far the hands may eventually be turned.

This is why it is so alarming to see the reappearance in influential quarters, and especially in the United States, of the idea that export subsidies or import taxes should be introduced to correct a payments imbalance or

to counter what are felt to be the unfair side-effects of new taxation systems. Friends of the United States recognise America's need to reduce its balance of payments deficit, even if they are unwilling to accept that this should be done by artificially enlarging an already-large trade surplus.

They can also comprehend the U.S. feeling that the existing GATT rules may give an advantage in encouraging exports to countries which rely more than others on indirect taxation. But they do not feel that these difficulties need be tackled in the ways now being suggested.

Today world prosperity depends as much as—and perhaps more than—ever on liberalising free trade. The present stalemate in European integration, the slower growth of international trade in past months, the plight of the developing countries, all require that we hold fast to the gains of the Kennedy Round, and try to improve still further upon them.



## Protection on the March

ECONOMIC chauvinism had been threatening the post-war impetus towards free trade for some time . . . Britain alone has introduced in recent years an important surcharge, an export rebate, a £50 travel allowance, cuts in Government spending abroad, concealed Buy British policies on the part of Whitehall ministries and nationalised industries, and successively stricter controls on overseas investments. Following devaluation the only gesture towards disarmament of all this was the abolition of the export rebate which had proved a blunt weapon anyway . . . Now, with pre-war unemployment almost forgotten, protectionism is on the march again. We all still pay lip service to free trade, but when it comes to action we do not have the enthusiasm to subjugate short-run national interest to it. The spirit is half willing and the guts are weak.

—Richard Casement in *Crossbow*, April-June