The United States, the ITO, and the WTO: Exit Options, Agent Slack, and Presidential Leadership

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Abstract

A central issue facing the newly-created World Trade Organization is "the U.S. question." That is, to what extent will the United States abide by the spirit as well as the letter of the WTO's rules rather than going its own way de facto if not de jure? And what will shape the extent of U.S. compliance? In this paper we attempt to identify the distinctive features of the historical context that will shape the outcome. We do so by comparing the debate over the WTO with that surrounding the International Trade Organization. In analyzing the two episodes, we distinguish three stages in the process of reaching an international agreement: negotiation, ratification, and compliance. Our analysis of U.S. behavior in these stages emphasizes three factors: exit options (the value of the best alternative to ratifying an agreement); the slack between U.S. principals and their negotiating agents; and the presidential effort spent to build domestic support.
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I. Introduction

Its allies and opponents have long complained that the United States is an unreliable partner in multilateral organizations. The hot and cold of US entry into World War I and rejection of Wilson's League established this reputation, and more recent events have revived it. The US shunned the United Nations once the latter undertook initiatives (on Israel and the New International Economic Order) unpleasant to the American public. Today the country where the UN charter was signed and its headquarters were sited refuses to pay its dues in full. Its compliance with GATT panel judgments has been the worst of any country (Hudec 1993). Washington's bilateral arm-twisting and extreme demands regarding agricultural liberalization threatened to derail the Uruguay round and raised questions about the country's commitment to obtaining an agreement. After launching the round, the US then backed away from leadership. In the 1990 services negotiations, for example, Washington sought to exclude air and marine transportation, and its negotiators indicated they could not support MFN treatment in basic telecommunications services (Preeg 1995, p.112). Events since the end of the Uruguay round have also raised doubts about the depth of the American commitment to the multilateral system. For example, the Clinton Administration continued down the bilateral track with its high-profile complaints against Japanese auto companies and walked away from a multilateral deal in financial services.
US leaders would counter that Washington pushed for a new multilateral round in 1980s, that other countries dragged their feet, and that the round still yielded the most ambitious multilateral liberalization of trade and the most significant strengthening of trade-related institutions in history. The US was the principal demander behind arguably the most profound institutional change -- the more automatic and unified dispute settlement and enforcement mechanism. The US remains highly active in Geneva and responded to the first WTO panel judgment against it by affirming that it will comply.2

Either way, one undeniably central issue facing the newly-created World Trade Organization is "the US question." That is, to what extent will the United States abide by the spirit as well as the letter of the WTO's rules rather than going its own way de facto if not de jure? And what will shape the extent of US compliance?

Isolating the critical factors requires us to identify what is distinctive about the historical context. In this paper we do so by comparing the debate over the WTO with that surrounding the International Trade Organization half a century ago. The US negotiated and signed but failed to ratify the ITO charter, while it did ratify the WTO agreement. The contrasting outcomes of the two debates are of more more than historical interest despite the fact that ratification of the WTO is now history, for the same issues that surfaced in the context of ratification will also shape the willingness of the United States to acknowledge the authority of the new organization, abide by its rules de facto as well as de jure, and lead future negotiations.3

In analyzing the two episodes, we distinguish three stages in the process of reaching an international agreement: negotiation, ratification, and compliance. Our analysis of US behavior in these stages emphasizes three factors: exit options (the value of the best alternative to ratifying an agreement); the slack between US principals and their negotiating agents; and the presidential effort spent to build domestic support.
The exit option. A country's exit option is its best alternative to negotiating, ratifying, and complying with an agreement. Exit options can be institutional or regional -- they can take the form of recourse to an alternative negotiating venue or the pursuit of regional trade liberalization.

A key factor in the contrasting outcomes of the two ratification debates is that US exit options deteriorated between the 1940s and 1990s. In both the 'forties and the 'nineties the GATT was the institutional option. In 1948-50, when the ITO debate reached a climax, the first round of tariff reductions had already been successfully negotiated at Geneva. Hence, even in the absence of an ITO the US could still pursue tariff-cutting negotiations, its main objective, through the GATT. While the same was true in the 1990s, the GATT was a less credible exit option. In the wake of World War II, when the major impediments to trade were tariffs and quotas applied at the border, a forum for tariff negotiations which lacked a permanent secretariat, a formal constitution, and enforcement powers could still deliver considerable efficiency gains. By the 1990s, in contrast, most overt quantitative restrictions had been eliminated and industrial-country tariffs had been reduced to nearly zero. Further liberalization meant reforming practices located not at the border but imbedded in domestic political economies: marketing and distribution, environmental regulation, and patent protection, to name three. Limited purchase on these issues could be achieved in what was no more than a venue for multilateral tariff negotiations. Faster progress required an institution with elaborate rules, a substantial secretariat to monitor compliance, and a dispute settlement panel with binding powers -- features lacked by the GATT. Moreover, in the 1990s US concerns focused not on the liberalization of merchandise trade but on services, intellectual property, and trade-related investment. Parallel pacts were developed to address these issues, but the GATT's contracting members could opt out of these agreements at will. Only the WTO's "single undertaking" was capable of containing this free rider problem.
The superiority of the US institutional alternative in the forties helps to explain why key principals spurned the ITO Charter while their successors supported the WTO. But thinking along these lines also raises the question why US negotiators at Havana accepted so many departures from US ideals. Part of the answer is that in the 1940s it was Europe -- and the United Kingdom in particular -- that could play the regional card. The UK possessed extensive trade relations with its Commonwealth and Empire and a political infrastructure to support them. The story of the ITO negotiations is in part the story of US concessions to keep Britain from exercising its imperial option. European regional cooperation was also a potential alternative to the ITO, increasingly so as the 1940s progressed. For its part, the United States did not have any obvious regional alternative for achieving its trade-related geopolitical goals. Hence, US negotiators compromised -- specifically, they agreed to concessions qualifying free trade -- in order to keep other countries from backing away from the table.

In the 'nineties, in contrast, regionalism was a serious option for neither the US nor its principal trading partners. Japan could not credibly threaten to retreat into an East Asian trading bloc, given its dependence on the American market. The Single European Act did raise the specter of a Fortress Europe closed to exports from the United States, but Europe too was heavily dependent on the North American market and never regarded the European Community as a serious alternative to the multilateral trading system. After attempting to launch another GATT round in 1982 and being rebuffed, Washington seemed to head for the regional exit, negotiating free trade agreements first with Israel, then with Canada, and finally with Mexico. But in fact, these countries and even all of Latin America constituted too small a share of world trade to make a regional free trade area preferable to a significant, even if disappointing, Geneva package. Some commentators have suggested that European negotiators regarded Asia-Pacific Economic Cooperation (APEC) as a credible threat insofar as it promised to combine the Western
Hemispheric and East Asian trading blocs, and that by invoking the APEC threat the US was able to obtain last-minute concessions that facilitated ratification of the Final Act and creation of the WTO. In our judgment, however, there was never much likelihood of APEC, an entity spanning political economies as disparate as China and the USA, actually adopting and complying with liberalization measures as significant as those of the WTO. In neither period, then, did a regional exit option offer Washington sufficient reason to reject either multilateral agreement.

Agent slack. While exit options shed light on the balance of concessions, they cannot explain why the Congress agreed to the WTO pact but balked at ratifying the agreement signed at Havana 50 years earlier. To understand this we invoke a second consideration: principal-agent slack. In the 1940s, consultation between US negotiators, domestic interest groups and the Congress failed to marshall a critical mass of domestic support for the package negotiated at Havana. In the 1990s, in contrast, US principals instructed their negotiating agents earlier, more often, and more precisely. Negotiators, for their part, used these consultations to educate principals and move their preferences closer to provisions that could be negotiated internationally. As a result, the terms of the US negotiating position and the final Uruguay round package were closer to Congress's 1994 preferences.

This reduction of agency slack was due to changes in the institutions of trade-policy making. The Trade Act of 1974 required quasi-corporatist consultations with the private sector and mandated reporting to congressional committees. It established an Advisory Committee for Trade Negotiations representing industry, labor and consumers to meet with the USTR in Washington and Geneva. It created advisory committees covering industry, labor, and agriculture. Reporting to these in turn were 27 additional advisory committees composed of industry experts. Negotiators were required to provide access to confidential information to all these bodies and to designated
congressional staff. The law directed the private-sector advisors to publish an advisory opinion on the final agreement.

These institutional changes can be thought of as a delayed response to the failure of the ITO. In response to the logrolling that had produced the Smoot-Hawley Act, the Congress had delegated trade-policy-making powers to the Executive, starting in 1934 with the Reciprocal Trade Agreements Act (RTAA). By the late 1940s the Executive Branch had accumulated nearly 15 years of experience with negotiating bilateral tariff reductions under the authority of the RTAA, whose provisions gave it considerable insulation from the partisan politics. But by the second half of the 1940s, a reaction had set in. The Congress wished to reassert its influence over trade policy to an extent that the US officials who negotiated the ITO charter did not anticipate. When the ratification stage was reached, their failure to engage in ongoing consultations returned to haunt them.

US trade policy gradually returned to the realm of politics over the course of the 1950s and 1960s. To contain the logrolling threat, in 1974 Congress therefore agreed to a "fast-track" procedural rule, under which it could only vote the trade agreement up or down. In return for constraining constituency input in this way, it mandated the institutionalization of consultation. This institutional change transformed the probabilities that the US would actually ratify an agreement that its negotiators signed.

Presidential leadership. Because the gains from liberalization are widely distributed, they are also diffuse. Political leadership is therefore required for Congress to feel the preferences of the beneficiaries. The American presidency, representing the entire electorate, logically supplies the most forceful institutional voice on behalf of trade liberalization.5

At the same time, the leverage of trade policy over the political economy remains relatively limited in the United States, and other issues often dominate the president's attention. His political
capital is limited. The White House must choose how to spend its scarce domestic bargaining chips. A full-court press by the Truman Administration might have still pushed the ITO charter through to ratification. But Truman and his lieutenants decided to expend fewer of the president's domestic political assets to win ratification of the ITO charter than did Presidents Bush and Clinton for the WTO. Truman's decision to give priority to other objectives, and Clinton's choice to come out strongly for the WTO, played a critical role in the two contrasting outcomes.7

A complete explanation requires accounting for the two Administrations' contrasting priorities. Our hypothesis is that presidents are most concerned with major downside risks. Prospect theory (Kahneman, Slovic and Tversky, 1982; Levy, 1992) suggests that losses are likely to loom larger than gains in the calculations of political decision makers. A major political or economic disaster can do more than anything else to threaten a president's reputation, electability, and place in history. Consequently, foreign policy crises, when they occur, tend to take precedence over trade policy negotiations. Truman faced just such a crisis, in the form of the Cold War and the Korean conflict, to which he chose to devote his scarce political capital. While President Clinton's plate was not empty of foreign policy problems in 1994, they seemed less dangerous than did the Soviet Union, China and North Korea in 1948-50. Hence, Clinton had political capital to spare for the WTO.

II. A Comparative Overview of the ITO and WTO Negotiations

Three parallels between these two negotiations merit emphasis. First, the United States provided the strongest push to initiate each. Second, the negotiation process itself entailed compromises that added additional issues. Third, in neither case was ratification straightforward.8

The ITO. From the start, the ITO was an American idea. The proposal for a postwar trade organization was developed by a set of interdepartmental and interagency committees that met in
Washington, D.C. from the spring of 1943 to the summer of 1945. Its four foundations were (1) generalized most-favored-nation treatment, with exceptions only for long-standing preferences, (2) no increases in existing preferences, (3) a commitment to negotiate reductions in existing trade barriers, and (4) a ban on the use quantitative restrictions except under exceptional conditions.

The Americans sprung an early version of their proposal on the British in December 1944. James Meade described as follows the British government's alarmed reaction. "[T]here is a very dangerous trend of thought in the USA, of which Will Clayton in the State Department may be taken as the symbol, that the way to cure unemployment is to have stable exchange rates and free trade rather than (what is much nearer the truth) that the only way to achieve the conditions in which one can establish freer trade and more stable exchange rates is for countries to adopt suitable domestic policies for maintaining employment." Nonetheless, a prostrate Britain had little choice. As a condition for the 1945 Anglo-American loan, Britain committed to the restoration of current account convertibility and nondiscriminatory trade. In notes exchanged with the United States in 1945-6, Belgium, Czechoslovakia, France, Greece, the Netherlands, Poland and Turkey, all current or prospective recipients of US aid, committed to similar goals.

A series of draft charters was drawn up over succeeding years before the final document was initialed by representatives from 57 countries in Havana in March 1948. The first round of negotiations was convened in London in 1946. Participants agreed that quantitative restrictions should be removed and that all trade barriers should be applied in nondiscriminatory fashion. But the British and French emphasized the need for import controls to support their fragile balances of payments. The British further stressed the importance they attached to trade with the Commonwealth and Empire. The Australians insisted that controls were needed to facilitate industrialization and the pursuit of full employment. The UK, Belgium and the Netherlands opposed American proposals for sanctions against state trading and cartels.
In the next round of meetings, in Geneva in 1947, the key issue remained the use of controls for balance-of-payments and development purposes. The UK and France succeeded in adding to the draft a clause specifying conditions under which their use would be permitted, and in return conceded to the United States an amendment requiring the trade organization, in deciding whether such measures were warranted, to accept the determination of the IMF (in which the United States had dominant voting power).

Negotiators again covered the same ground in Havana. Dispute over the use of controls for balance-of-payments purposes was settled by allowing countries to choose between the London and Geneva provisions while limiting their discriminatory application to a transitional postwar period, as specified by the IMF Articles of Agreement. Alternative methods of obtaining permission to use import quotas to promote the development of new industries were elaborated, but the principle of prior approval was preserved. In return for what they considered significant concessions, the Europeans and Latin Americans obtained American agreement to a one-country, one-vote procedure for decision-making within the ITO (although the United States obtained a permanent seat on the 18 member Executive Board responsible for executing its policies, and negotiators retained the provision requiring the ITO to take recommendations from the IMF, where the United States had greater voting power, when authorizing the use of controls for balance-of-payments purposes).

As Heilperin (1949) emphasizes, other countries were less interested than the United States in trade liberalization and preoccupied in other economic policy goals. The British were worried about their balance of payments and consequently sought exceptions and exemptions from free trade. Primary producers like Australia were preoccupied by the instability of their commodity prices. Developing nations were primarily interested in the right to use import quotas to protect their infant industries. India and Latin America were prepared to accept only a weak agreement
riddled with exceptions. Their reservations about free trade forced the United States, when attempting to create an organization that could bring about the elimination of nontariff barriers, to offer concessions.

These dynamics were further reflected in the negotiation of provisions meant to protect foreign investments. These clauses were of interest mainly to the principal international creditor, the United States. But here too the United States was forced to offer concessions. The draft charter, by asserting that governments could not expropriate or nationalize such assets except under conditions that were "just," "reasonable," or "appropriate," could be interpreted as weakening the protection that US foreign investments had previously enjoyed. Such terminology implied that the United States was prepared to recognize circumstances under which expropriation or nationalization was justified, something it had never done before.

Early drafts of the charter had said nothing about investment. In fact, the offending clauses had been introduced through a process initiated at the behest of US business, over State Department objections. Once again, US negotiators were forced to yield ground in order to secure agreement.13

This discussion omits what turned out to be the negotiators' most significant achievement: the conclusion of General Agreement on Tariffs and Trade. What is most relevant for our purposes is that states concluded this narrower tariff-cutting agreement early — before the ITO negotiations had been finished — and that they did not make the GATT conditional on ratification of the ITO. While the GATT was directly based on the chapter of the ITO charter concerned with tariff cuts, its implementation did not require authorization in US law; US presidents claimed the right to commit the US to the GATT as a contracting party. Tariff cuts could be implemented under the authority of the Reciprocal Trade Agreements Act (and similar subsequent legislation). The GATT, although designed to be part of the charter, was thus available as an alternative to the ITO.
as a whole. (One can imagine that things might have turned out differently had the others made the GATT conditional -- part of a "single undertaking" that required countries also to accept the other elements of the ITO package.)

Negotiations over tariffs commenced at the second Geneva Preparatory Meeting. Twenty-three countries bargained in pairs on a product-by-product basis. Bargaining was confined to products for which one country was the other's principal supplier, and all concessions obtained were generalized to every member of this group. One hundred and twenty-three bilateral negotiations covering 50,000 items were covered in more than 1,000 meetings. Half of world trade was covered, and the average cut in tariffs was 35 per cent. The resulting document, called the General Agreement on Tariffs and Trade, was finalized before the Havana conference began. The GATT's "general clauses" prevented countries from using quotas and domestic impediments to trade to reduce the value of the agreed-upon tariff cuts. Otherwise, there was no discussion of import controls, cartels, foreign investment, commodity-price stabilization, or industrialization. Eleven more countries joined the GATT as Contracting Parties in the second round of negotiations at Annecy in 1949, and the concessions negotiated at Geneva were generalized to their economies.

The WTO. The protectionism associated with the oil shocks and international economic imbalances of the 1970s provided the impetus for the Uruguay round. Again the United States provided the initiative. It sought to enhance access to foreign markets for US suppliers. More fundamentally, it wanted to bring the GATT up to date by extending its coverage to agriculture and services and to remedy shortcomings in areas like intellectual property and foreign investment. But the US proposal met with little support at the 1982 GATT ministerial. The Europeans were leery about US insistence on agricultural liberalization. The developing countries worried that the expansion of the GATT to new issues might deflect attention from the need for the industrial countries to open their markets to exports from the Third World.
The Reagan Administration therefore concentrated on issues like services that could be pursued outside the confines of the GATT. It negotiated bilateral trade agreements with Israel and Canada. In 1986, at Punta del Este, it overcame the lingering opposition of developing countries and initiated the Uruguay round, whose expected concluding date was 1990.

William Diebold (1952) once said that the ITO had been squeezed between the protectionists and the perfectionists. The same was true of the Uruguay round in the second half of the 1980s. The United States insisted on the elimination of all agricultural protection and subsidies, something to which the Europeans could not agree; they countered with a proposal for limited cuts. Other agricultural exporters (the Cairns Group) also insisted on reductions in farm subsidies and refused to accede to US demands for the liberalization of services, in which they had relatively little interest, unless such reductions were forthcoming. The resulting stalemate led to the collapse of the 1990 GATT ministerial in Brussels.

Canada’s Trade Minister John Crosbie proposed the creation of a World Trade Organization in April 1990 (Preeg 1995, 113), and GATT Director General Arthur Dunkel incorporated the suggestion into the comprehensive compendium of interim agreements (the Draft Final Act, or Dunkel draft) compiled in 1991. In part, this initiative can be understood as an effort to bundle together the various issues and facilitate horse trading. By obtaining a credible commitment on services and intellectual property, the United States might be willing to compromise on agriculture. By obtaining concessions from Europe on agricultural trade, the Cairns Group might be willing to compromise on services. The "single undertaking," which tied together treaties on these issues under the umbrella of the WTO, solidified the issue linkage.

The problem was that it was not clear that Europe stood to gain significantly. The EC sought to limit US recourse to "aggressive unilateralism" (its use of Section 301, for example) and to raise the cost to America of ignoring unfavorable panel rulings. Europe stood to benefit from
protection for intellectual property and from the liberalization of trade in services, albeit less than the United States. But there was also significant resistance to a negotiated agreement. European farmers continued to block agricultural liberalization. The French government's concerns over "cultural imperialism" led it to oppose the liberalization of services if this left its domestic market unprotected from American films. Thus, concessions by the Europeans were essential to bring the round to a successful conclusion.

Most accounts suggest that two factors combined to bring about the desired result. First, resistance was disproportionately concentrated in one European country, France, where the agricultural and cultural issues both had special resonance. But France also had a particularly strong desire for monetary unification, negotiations over which were proceeding in parallel. The turmoil in the European Monetary System in 1992-93 underscored the extent to which reaching this goal was contingent on German support, strengthening the hand of German and other European governments which preferred concessions on these trade issues from France. Second, the Clinton Administration signaled its preparedness to walk away from the table if concessions on agriculture were not forthcoming. It precommitted to a binding deadline by requesting that fast-track authority be renewed only through 1994. It signaled its willingness to pursue the regional option by negotiating NAFTA and giving increasing prominence to APEC meetings.

Ratification met with some resistance in the US Congress, for the agreement did more than bundle together the GATT with other multilateral undertakings. Objections centered on the danger that WTO decisions might force the US to change its laws, and on whether majority voting by WTO members would alter trade rules to the country's disadvantage. In addition, some commentators complained about the powers of the Organization's dispute settlement procedure on the grounds that panel rulings are binding and that countries can no longer block its proceedings;
this raised the danger that the WTO would rule out US efforts to use its trade policy to pry open foreign markets, protect the environment, and maintain labor standards.

In the end other arguments carried the day. While the WTO might rule against US law (as it did in the case of US environmental standards adversely affecting Venezuelan petroleum), the country would only be required to pay compensation, not alter its laws. Small countries rarely vote as a block in the GATT and are no more likely to do so in the WTO. In any case, to address concerns about the implications of the WTO for US law, the implementing bill approved by Congress included provision for the House and Senate to vote again after five years on continued US participation.

III. Rival Arguments and Their Limitations

Declining Hegemony. One approach to explaining this contrast might come from the hegemony theory of international economic stability. Its more benevolent version treats international organizations as suppliers of global public goods, which facilitate the internalization of externalities that spill across borders. Trade is a case in point. At least some of the benefits of a country's decision to liberalize accrue to its trading partners, and a trade organization that promotes the exchange of commercial concessions can be thought of as internalizing such externalities. And large countries, like dominant firms in imperfectly competitive markets, should have the strongest incentive to invest in arrangements capable of internalizing such externalities. Trade liberalization thus proceeds smoothly when there exists a dominant power but slows in periods of hegemonic decline and rising multipolarity.

There are problems with this argument at the levels of both theory and history. Theoretically, while cheating means increasing volume in the cartel context, it means restricting it in the case of trade. While large firms might be thought to have the least incentive to cheat on a
cartel agreement (since their incentive to increase output is partially offset by the induced decline in product prices), the opposite is true of large countries that cheat on an agreement to liberalize, for only large countries can significantly improve their terms of trade by restricting imports or exports.

Historically, by almost any measure the United States was more dominant in international markets soon after World War II than it is today. Other countries value access to the US market today, but in the days of the postwar dollar shortage that access was more vital still. While the US is still the world's single largest economy and largest exporter, it accounts for a much smaller share of industrial production than after World War II. The hegemony theory taken alone, if it had any relevance for our question, would surely imply that the United States would have been more likely to ratify the ITO charter than the WTO.

Fear of war. A second familiar argument holds that the fear of war between 1946 and 1950, when military conflict exploded in Korea, led the United States to pay a higher price to support the security of allied countries for military-political reasons — by lowering its own import barriers to their goods among other things — than it would have otherwise. If this is so, then the decline of this US fear especially after 1989 should have made the Americans less inclined to liberalize, other things equal. Again common wisdom leads us astray. At the same time, as we explain below, foreign policy concerns could have played a role, in the first instance by compelling the president to devote his scarce political capital to more pressing foreign-policy goals, in the second by acquiring less urgency and freeing up presidential capital for the pursuit of ratification.

Congressional overload. Many accounts of the ITO debate emphasize that the Congress was overloaded with other international issues, straining the capacity of internationalists in the Senate and the House. These included the Marshall Plan, NATO, and the Korean conflict, each of which shifted the ITO onto the back burner. But when is the Congress not subject to overload? It is far from clear that this problem was any less severe in the 1990s, when the Congress had to deal
with NAFTA, Operations Desert Storm and Provide Cover, the collapse of the Soviet Union, and potential eastward expansion of NATO, not to mention domestic issues.

Attempts to reject the "Congressional overload" hypothesis are made difficult by the very difficulty of measuring overload. Thus, while not wholly rejecting this interpretation, we elaborate it in two ways. First, we emphasize that overload in and of itself can not explain the choices made and shift attention to the determinants of those choices. Second, as anticipated in the last subsection, we redirect attention from Congressional overload to Executive overload. We suggest that part of the explanation for the failure of ITO ratification was Truman's decision not to expend his scarce political capital on overcoming Congressional resistance in a period when he had many other issues on his plate.

Historical memory. It is widely argued that memories of trade conflict in the 1930s lent powerful impetus to the campaign for multilateral trade liberalization after World War II. The collapse of trade was associated with the Great Depression in the minds of both politicians and the public, legitimizing the campaign for liberalization.

But these memories were fresher in the 1940s, when the Congress refused to charter a multilateral organization, than in the 1990s, when it did. In terms of the ITO-WTO contrast, this explanation too works in the wrong direction.

Openness of the US economy. The US economy was more open in the 1990s than in the 1940s, since it took decades to repair the damage to international markets inflicted by the Depression. More US companies being oriented toward export markets, this argument goes, lobbying for trade liberalization must have been stronger.

Of course, producers of tradables can favor either liberalization or protection, depending on whether they are in export-oriented or import-competing sectors. While the balance between these groups shifted over time, this explanation too works in the wrong direction. As the US trade
surpluses of the immediate postwar years gave way to deficits, presumably augmenting the scope of import competition relative to those with a vested interest in exporting, we should have seen stronger support for ratification in the 1940s than the 1990s. Admittedly, the emergence of multinational corporations as key contributors to both major parties' national political candidates, and hence their acquisition of privileged access, may incline US policymakers toward liberalization. But, as the opposition of groups like the United Auto Workers to NAFTA reminds us, powerful lobbies newly exposed to international competition by the increasing openness of the US economy also pushed in the other direction.

**Ratification hurdles.** Because joining the ITO required congressional ratification of an international treaty, Truman faced the formidable obstacle of marshalling a two-thirds majority. The WTO, in contrast, was adopted as a simple law which required only 51 per cent support. The US failed to ratify the ITO, according to this view, simply because the ratification hurdle was higher. To put the point another way, the WTO would not have passed either had a two-thirds majority been required. In fact, it is not clear in retrospect that the US could not have joined the ITO through passage of a simple law. The US accepted membership in the IMF and World Bank on precisely that basis, by passing the Bretton Woods Agreements Act in 1945.

IV. **Poorer Exit Options**

**The regional alternative.** The United States did not ratify the ITO but did join the WTO partly because its best alternatives were more attractive in the first instance. The difference was not found primarily in improved regional exit options, however. Regionalism was not a better alternative for America in either period.

It is true that in the 1980s the United States negotiated bilateral free trade agreements in part because the GATT contracting parties refused to initiate a multilateral negotiation. A
GATT ministerial, the first in almost a decade, was held in 1982 but failed to set the agenda for a new round. While the Uruguay round was launched in Punta del Este in 1986, it made little progress until the turn of the decade. Washington used North American free trade to concentrate the minds of countries reluctant to embark on serious negotiations. The Canada-United States FTA, signed in 1986, "provided the USTR with a credible threat to warn its trade partners that it could be forced by Congress to abandon the GATT system," and not coincidentally jump-started the Uruguay round. Negotiations acquired a new urgency in 1990 when US Trade Representative Carla Hills warned that NAFTA might be extended into a hemispheric FTA, the Enterprise for the Americas. By the early 1990s the NAFTA debate and not the Uruguay round had come to dominate the US headlines.

In fact, however, even if other negotiators responded to these threats, NAFTA was never a credible substitute for the multilateral tariff negotiation. US objectives in the Uruguay round were to stem creeping protectionism, roll back agricultural protection in Europe, and bring trade in services and intellectual property rights into the multilateral system, goals which could only be achieved in multilateral negotiations with the leading industrial countries. Exports to Canada and Mexico -- indeed, exports to the Western Hemisphere as a whole -- accounted for too small a fraction of the US total to provide an attractive alternative to multilateral liberalization.

Some European policymakers were reportedly sufficiently alarmed by APEC to offer key concessions in Geneva in 1993. By that summer, the Uruguay round threatened to run aground over the opposition of European farmers to agricultural liberalization. President Clinton therefore upgraded the November 1993 Seattle meeting of APEC ministers, adding a high-profile Leaders' Meeting. NAFTA had already demonstrated the Administration's readiness to pursue the regional route; now the APEC meeting raised the possibility of its duplicating its NAFTA achievement. While APEC was a loosely-structured organization which possessed neither the institutional
infrastructure nor the political will to engineer a free trade agreement, it accounted a much larger share of world trade (40 per cent) than NAFTA and was by far the most rapidly growing share of the world total. When President Clinton flew to Seattle the day after the key House vote approving NAFTA and posed outside the Indian long house on Blake Island, Washington, with 13 other APEC leaders, European policy makers grew concerned that the US would again play its regional card. The result was German pressure on the French and concessions on agricultural liberalization by the Europeans. Thus, regional moves could affect the terms of a GATT agreement at the margin.

Still, given US objectives, we find it difficult to imagine US delegates walking away from Geneva, even absent those last concessions, because they regarded APEC or NAFTA as equivalent. The value of APEC as a vehicle for trade liberalization was more symbolic than real. It is difficult to imagine that countries as diverse as China, Japan, the United States and Mexico, lacking the institutional infrastructure of the GATT, not to mention its 45 years of experience, could have rapidly arrived at significant agreements. Nor was it obvious that extending NAFTA into South America would have been politically straightforward. NAFTA had provoked a firestorm of opposition in the US Congress, partly because of the immediacy of free trade with contiguous and much poorer economies. It is not clear that negotiating free trade agreements including countries like Colombia, with its history as a source of drug traffic, and Brazil, with its history of dirigisme, would have been straightforward.

The United States lacked a credible regional option in the 1940s as well. As the cold war heated up, Washington sought to rebuild the trade and the economies of Western Europe, Japan and other parts of the world perceived as vulnerable to the Communist threat, as well as to benefit the US economy through trade. No one regional arrangement could accomplish these goals in all
of the relevant regions. From the standpoint of US objectives, the GATT was a more efficient solution.

To the extent that a regional option existed, it belonged to the Europeans. The British had established an extensive set of imperial preferences starting with the Ottawa Conference in 1932. Trade with the Commonwealth and Empire accounted for nearly half of the UK's merchandise trade in the second half of the 1940s. If Britain failed to obtain acceptable terms in the ITO negotiation, it could credibly threaten to walk away, and to fall back on trade with the Commonwealth. The British, dead set against liberalization, obtained a GATT clause that grandfathered in pre-WWII preferences, allowing them to hold out against their removal.

While other European countries did not possess equally extensive imperial ties, they could look to the possibility of European integration. This option was attractive on both economic and political grounds. Much of the trade of the countries of the Continent was with one another. In 1948 some 43 per cent of Western Europe's trade was within the region, and historically this share had been higher still. There was a strongly-felt desire to look a peaceful Germany into Europe by strengthening its trade links with its neighbors. This process commenced with a proposal in July 1947 by Italian Foreign Minister Carlo Sforza for a Franco-Italian customs union, the First Agreement on Multilateral Monetary Compensation of November 1947, and the Agreement for Intra-European Payments and Compensations of October 1948, and culminated in the European Payments Union of 1950 and the European Coal and Steel Community of 1951. The EPU as ultimately constituted incorporated not only Britain but its overseas dependencies as well. Participants were required to pledge to liberalize restrictions on trade with one another. But they could use import licensing and foreign-exchange rationing to discourage purchases of goods from nonmembers. Thus, while the liberalization provisions of the agreement committed the participants
to free their trade with other EPU members, it allowed them to continue restricting imports from other countries.\textsuperscript{21}

The United States strengthened Europe's resistance to the nondiscriminatory multilateralism of the ITO by amending the GATT to facilitate the formation of regional customs unions.\textsuperscript{22} The drafting of GATT regulations in 1947 coincided with the advent of the Marshall Plan, which capped the evolution of US State Department opinion toward European integration as an engine of recovery. The Havana Charter had included only a short section on customs unions, but GATT as drafted in 1947 expanded these provisions to legitimize their use. Customs unions would be permitted if they freed "substantially" all trade among the members and if barriers to trade with the rest of the world were "on the whole no more restrictive" than before.\textsuperscript{23} These ambiguous phrases became the subject of endless debate and opened the door for Europe to pursue the regional option.\textsuperscript{24}

Empirical work confirms that intra-European trade expanded more rapidly than trade with the rest of the world under the EPU, but it does not suggest that the EPU was strongly trade diverting in the sense that its discriminatory provisions actively discouraged trade with other continents.\textsuperscript{25} This could not have been anticipated at the time, however. Some who forecast that the EPU might give rise to subsequent initiatives like the European Coal and Steel Community and the European Economic Community, under whose aegis Europe might pursue a customs union agreement at the expense of multilateral initiatives. For all these reasons, then, it was Europe rather than the United States that possessed the credible regional alternative.

These regional options go part way toward explaining bargaining outcomes in the two negotiations. In the 1940s it was the Europeans -- especially the British -- who possessed the most credible alternative to multilateralism, and it was they who managed to extract concessions, on such matters as the use of trade restrictions in the event of unemployment or payments problems.
In 1993 the coincidence of NAFTA ratification, an APEC summit meeting, and the Uruguay round final deadline evidently helped Washington to extract final agriculture concessions from the Europeans. In both periods, however, the value of the regional option was significantly lower than that of a multilateral deal for the United States.

**The institutional alternative.** The US did have a better institutional exit option in the 1940s than the 1990s. This helps explain why key principals decided to spurn the ITO charter while their successors supported the WTO.

In both periods the GATT (supplemented in the second episode by the GATS and other multilateral agreements) was available as a fall-back option. In the 'forties US officials were aware that drafting and ratification of the ITO charter would not be quick. By 1946 they had less than three years of authorization to negotiate tariff reductions under the authorities of the Trade Agreements Act (TAA). 26 Hence, the State Department decided to proceed with tariff negotiations before concluding ITO ratification. The GATT would be used to build on the TAA and generalize bilateral tariff cuts while completing the construction of the ITO, which would ultimately subsume the trade agreement. 27

The timing of the Geneva round, coincident with the Havana conference and hence prior to Congressional consideration of the ITO, was dictated by Europe's worsening economic circumstances and tension with the Soviet Union. Shortages were pervasive and the European economy threatened to grind to a halt in the winter of 1947. The reconstruction of intra-European trade lagged behind the recovery of the trade elsewhere. While the Marshall Plan was one response to these problems, the negotiation of mutual tariff reductions under the aegis of the GATT was another. The Truman Administration's bargaining position with the Congress might have been strengthened by delaying the effort to operationalize the GATT, but circumstances did not permit.
By the end of the 1940s, two GATT rounds had established the viability of the limited strategy of generalizing bilateral tariff cuts to all contracting parties. The Geneva round reduced the tariffs applied by the contracting parties to one another’s exports by more than a third, and the Annecy round increased the number of GATT signatories by nearly a half. Congressional opponents of the ITO could invoke the GATT as a proven alternative to a convoluted ITO charter which some saw as a threat to US sovereignty and others criticized as loophole and exception ridden. 28

In 1994 the GATT remained the obvious fall-back option in the event of a failure to accept the WTO agreement. But there were a number of reasons to think that further recourse to the GATT might be ineffectual. The GATT had run its course: it was easy to foresee the day when the tariff cuts that were its bread and butter would reduce import duties to zero. Designed as a venue for negotiating tariff cuts, the GATT had proven less adequate as a device for removing the nontariff barriers that remained. Among other things, the incidence of nontariff barriers was difficult to quantify, complicating the calculation of terms of trade between them. An agreement designed to reduce trade barriers at the border was of limited effectiveness in the age of deep integration, when liberalizing the market access meant modifying a variety of domestic practices over which the GATT had little authority.

Perhaps most importantly, the new issues around which efforts at trade liberalization now revolved -- services, intellectual property, and trade-related investment -- were covered not by the GATT but by parallel agreements like the GATS and the agreement on intellectual property. Participation in the GATT did not oblige countries to accept these agreements. They could and did opt out as they saw fit. The WTO required its members to adhere not only to GATT rules but also to these other trade pacts (under the terms of the so-called “single undertaking”), but the same would not have been true had the United States rejected the WTO and had subsequent negotiations
proceeded under the aegis of the GATT (and parallel arrangements like the GATS). The United States was particularly concerned with trade in services, intellectual property and trade-related investment. It thus stood to lose disproportionately if forced to exercise this institutional fall-back option.

V. Reduced Agent Slack and Stronger Presidential Leadership

While countries' relative exit options help to explain which issues were bundled together in these two negotiations and the resulting mix of concessions, they are not sufficient to explain why Congress agreed to US participation in the WTO but balked at ratifying the ITO charter, or why the US negotiator in 1948 added concessions that turned out to sink the charter at home. For these questions we must add two additional points. Second, US principals instructed their negotiating agents much more frequently, at more levels of government, and in much finer detail during the Uruguay round than during the earlier episode. During the war US trade negotiators lost touch with their principals, and especially during the Havana conference chief agent Will Clayton made several additional concessions that soured the opinions of powerful organized groups at home. In contrast, the final 1994 package and Congressional opinion at that time were much closer together.

An intervening change in US institutions was an obvious cause of the more intense instruction and persuasion of the principals during the negotiation. In 1962 Congress took trade negotiations away from the Department of State, and the "fast-track" procedural rule, first passed by Congress in 1974 and renewed thereafter, mandated such consultations with constituents. Thus the ratification campaign had to begin in practice well before the agreement was signed.

President Truman and his aides also spent less political effort mobilizing domestic support for ITO than Presidents Bush and Clinton and their trade ministers spent on building support for NAFTA and the WTO. Even facing a split in the business lobby and substantial opposition, a
comprehensive and sophisticated presidential political campaign might well have been sufficient to achieve ratification. (We stress this point because it has not been emphasized in the earlier literature.) Consider the analogy with the Bretton Woods Agreements Act of 1945. When that bill was submitted to Congress, the banking community opposed ratification and prospects in the relevant Congressional committees was quite bleak (Eckes 1975). Yet presidential leadership helped turn this situation around. The same might be said of the Marshall Plan. Relatively few thought at the time that an unpopular Democratic administration could push such an ambitious plan through an increasingly isolationist Republican congress. But Truman launched a full-court press. Repeatedly over the fall and winter of 1947 and into the spring of 1948, Truman used messages and speeches to pound home the need for congressional action. He accommodated the desire of the Senior Senator from Michigan, Arthur H. Vandenberg, to depoliticize the issue and delink it from the 1948 election. He authorized giving Vandenberg continuous advice and support, including weekly briefings by Marshall. As Neustadt (1980) puts it in his discussion of presidential leadership in support of the Marshall Plan, "Truman himself had sufficient hold on presidential messages and speeches, on budget policy, on high-level appointments and on his own time and temper" to "deliver [what his political allies and opponents] wanted in return."²⁹

The American presidency, representing the entire electorate, typically supplies the most forceful institutional voice at home on behalf of trade liberalization (Goldstein 1993 and 1996). At the same time, trade is only one of many issues on which presidents are asked to provide statesman-like leadership. Choices are made made continually (Neustadt 1960). But when will a president choose to expend his scarce political capital defending the general interest in a trade liberalization agreement against hostile special-interest lobbies? A superficial answer is "when he is not preoccupied by more pressing issues," but this only begs the question. We argue that major foreign-policy conflicts tend to be identified as more pressing, and their presence (as in the 1940s)
or absence (as, relatively speaking, in the 1990s) is a powerful predictor of whether a president will provide a forceful institutional voice for trade liberalization. Prospect theory suggests that policymakers focus their time and energies on issues that pose major downside risks. A foreign policy conflict with potentially disastrous consequences (the Cold War, the Korean conflict) pose just such risks. Hence, it was to these issues, and not ratification of the ITO charter, that Truman chose to devote his political capital after 1948. President Clinton, in contrast, may have had to content with Bosnia, Russia, North Korea, Iraq and Iran, but he still faced no foreign policy problem of comparable severity. He consequently retained the political capital needed to push through US participation in the WTO. From this perspective, the problem in the 1940s was not so much Congressional overload as presidential overload created by a series of pressing foreign policy crises.

The ITO: Greater agent slack and weaker presidential leadership. During the planning and negotiation of the GATT and the ITO from 1941 through 1948, and especially before 1947, US agents largely insulated themselves from their principals. The trade planners between 1943 and 1945 were chiefly Secretary of State Cordell Hull, his special assistant Leo Pasvolsky of the Brookings Institution, and Harry C. Hawkins, and they made a deliberate decision to give top priority to building international support for trade liberalization, over building domestic support (Aaronson 1993, chap. III). Not only was this attitude consistent with wartime planning in general. In the 1934 Reciprocal Trade Agreements Act, the Congress had delegated tariff-setting to the executive branch precisely in order to insulate it to a greater extent from constituency pressures that were difficult to resist.

Hull, Pasvolsky, and Hawkins envisioned the ITO as a critical component of a radically new US foreign policy that would stand as a more hopeful legacy left by the generation that had fought this terrible second world war. Professor Clair Wilcox, economist and chief trade planner who with
William Clayton succeeded Passvolsky and Hawkins in 1946, quoted Stimson admiringly when he wrote, "The attitude of isolationism—political or economic—must die; in all its many forms, the vain hope that we can live alone must be abandoned." Wilcox went on:

"The logic of our position allows us no alternative. We must go on, in international cooperation, from politics to economics, from finance to trade. World organization for security is essential; but if it is to succeed, it must rest upon continuous international participation in economic affairs. . . . If political and economic order is to be rebuilt, we must provide, in our trade relationships, the solid foundation upon which the superstructure of international cooperation is to stand" (Wilcox 1949, p. xvii).

After 1945, these planners continued following the priorities set during the war, and US negotiators made the compromises sought by other diplomats that we summarized earlier.

The State Department negotiating agents operated differently at home from Henry Morgenthau's Treasury, which planned the 1944 Bretton Woods conference and secured passage of the implementing legislation, and differently even from the way United Nations planners concentrated on involving members of Congress and the general public. Crucially, they kept Congress in the dark as to the essential details until 1946. They did not include representatives from either Congress or the public on their interagency trade planning committees. In 1944 some planners advocated creating a formal channel for business opinion, but after extensive internal debate, senior State officials rejected the idea explicitly (Aaronson 1993, p. 96). Vague were their public statements about promised plans for trade liberalization. During 1945 while they sought renewal of the 1934 Trade Agreements Act, their testimony never discussed plans for an International Trade Organization or spelled out how they would use this authority in multilateral rather than in bilateral negotiations as before. This reticence was not attributable to lack of interest on Capitol Hill. On the contrary, expressed industry opposition to further liberalization was as
plentiful as support. Members too had been sending signals that support for further liberalization would need to be cultivated (Aaronson 1993, p. 69). Hearings in 1946 on the loan to the United Kingdom can be seen as providing further warnings.

In 1946 Clayton and Wilcox continued to concentrate on the international level, Clayton rejected Wilcox’s and Hawkins’s suggestions to involve the Congress and the public at home (Aaronson 1996, pp. 65-67). After publishing the first version of their proposals in December 1945, they published the first complete suggested charter only on 20 September 1946, just before the opening of the London meeting, the first multilateral conference on this proposal. Only on 9 November did the State Department reveal information on specific products likely to be affected in the coming tariff negotiations (Aaronson 1993 p. 120). The relation between the two was a sensitive matter. On the one hand, the Smoot-Hawley tariff was commercially the largest card the USA had to play abroad. Thus US negotiators expected the others to insist on US tariff concessions as a part of their price for accepting the general principles the United States sought in the Charter. At the same time, the administration feared what would happen should they ask Congress for negotiating authority beyond a simple renewal of the Trade Agreements Act. For this reason State maintained that the TAA provided authority sufficient for the tariff cutting process under the GATT and for this reason specified in both London and Geneva that this process had to be legally independent of negotiations to create an ITO. The TAA provided the President no authority to act on the maintenance of employment, subsidies, or creation of an international organization. At US insistence the General Agreement’s Part II, containing many of the substantive obligations, could be applied provisionally to the extent that it was not inconsistent with a nation’s existing legislation. The US executive then rushed to implement the first tariff cuts on 1 January 1948 before the authority could expire (Jackson 1989, 34-37).
The strategic decision to keep the home front largely in the dark during these years would prove costly. By 1946 American public enthusiasm for new civilian multilateral organizations had passed its high water mark and was beginning to subside. That year strikes and inflation agitated the home economy, and just before the congressional elections a meat shortage drove President Truman to lift price controls on meat. Citizens were frustrated by higher taxes and insufficient housing and employment for returning veterans. American voters punished Democrats on balance and gave control of both Houses to the Republican party Republican leaders, foreshadowing 1994, who then announced enthusiastically that voters must want fundamental change from the New Deal path. Some Republican leaders concentrated greater fire on the trade agreements program. That fall and winter State’s trade planners privately voiced fears that they had missed their chance by largely disregarding congressional and other domestic opinion for so long (Aaronson 1996, pp. 70-71). While polls showed no strong mass opposition to a new trade organization, neither did ordinary people care much about it.

In response to Republican and special interest concerns, Truman in February 1947 modified the trade agreements program through an executive order that guaranteed an "escape clause" to any sector that might be affected by the coming GATT negotiations. During 1947 and 1948 State department leaders finally did hold public hearings to collect views on the ITO, and they made some changes in their negotiating positions as a result. They invited private-sector and congressional representatives to advise the delegation at Havana. At the same time, however, they overestimated public support for their general plans and held to their earlier domestic tactics in some ways (Aaronson 1996, pp. 71-78). At the Geneva trade conference in 1947 negotiators settled on the General Agreement and a provisional draft of an ITO, and the Havana conference completed the Charter late that year and in early 1948.
After the negotiations, the US administration did make some efforts to mobilize domestic support for ratification, but these efforts were long delayed and lukewarm at best. President Harry Truman and Secretary of State George Marshall decided to spend most of their scarce Washington political resources on other issues. By this time, as is well known, continuing post-war frictions between the USSR and the west had escalated dramatically to proxy wars and even the brink of superpower war. From 1947 onward, trade negotiations had to compete for US official and media attention with subversion and violence overseas and pleas for new foreign commitments to avoid World War Three. During 1947 the European emergency especially seemed to demand measures that could make a difference quickly. Top leaders in State -- Marshall supported by Robert Lovett and others -- decided to give priority in Congress to winning ratification of their own expensive European recovery program and the North Atlantic Treaty. Efforts by Clayton and Wilcox to convince their new superiors of the ITO’s continuing centrality and its need for greater domestic political support proved unsuccessful (Aaronson 1996, pp. 86, 93-96). The wartime vision of international economic organizations as means of keeping allied capitalist and communist governments joined in productive common endeavors was beginning to look too optimistic. As for trade, Truman and Marshall evidently found the TAA plus GATT a useful second best. The GATT contracting parties completed their first round in 1947.

The TAA was due to expire in mid-1948. Early that year the Democratic administration, facing a Republican Congress and a general election, decided to concentrate domestically on the safer course of seeking renewal of the expiring TAA, and to postpone submitting the more ambitious ITO Charter until the next Congress. Even then the TAA hearings were a platform for hostile Republican attacks on the State Department, revealing how much distrust its largely closed process had planted, as well as Republican determination to take charge of trade policy. Some politicians began to associate support for freer trade by their domestic rivals with being “soft” on
Communism. Still, a vigorous effort to round up supportive industries bore fruit and Congress did extend the TAA—but for only one year, to 1949.

In 1949 State assigned some officials to monitor and influence elite opinion through speeches to and private lunches with representatives of the American Farm Bureau Federation, the National Association of Manufacturers, the US Chamber of Commerce, and narrower interest groups. Junior staffers drafted articles for business journals. William Batt, president of SKF Industries, a manufacturer of ball bearings, agreed to head a private-sector Committee for the International Trade Organization, after two more prominent business leaders had declined. Batt secured endorsements from some one hundred leaders in business, unions, civic organizations, and universities (Aaronson 1996, p. 103).

In April 1949, the US administration finally submitted it for congressional action, during yet another consideration of limited TAA extension. By then, an informal coalition of US protectionists and perfectionists had come out in opposition to ratification. While some individual business owners favored the ITO, organized groups that had supported earlier tariff liberalizations now split. Labor, the Farm Bureau, and the Committee for Economic Development, the National Planning Association and the Committee the ITO called for approval. In addition to predictable protectionists, however, the Chamber of Commerce of the United States, the National Association of Manufacturers (NAM), the National Foreign Trade Council (NFTC), and the US Council of the International Chamber of Commerce opposed ratification. The US Chamber of Commerce and the NAM were the largest business organizations in the country, and the NFTC had been at the heart of earlier coalitions for liberalization. These, whom Diebold dubs the perfectionists, objected mainly that the Charter as it turned out failed to implement the liberalizing principles it also included. Many critics concentrated on the exceptions that allowed continued use of quotas during balance-of-payments difficulties. Many corporate managers also felt hostile to the full-
employment provisions, even though they went no further than US law; these same individuals had opposed that law as well. They objected that the Charter might sanction government commodity cartels, even though its provisions provided tighter controls on the use of commodity management than had ever been agreed before.

The Charter's provisions on investment provoked some of the loudest corporate cries. Investors complained that once passages on compensation for expropriation had been qualified with adjectives such as "just" and "appropriate," they could actually end up with less protection than they had under the status quo (Diebold 1952, p. 18). Ironically it was these same business lobbies that had insisted that a reluctant State Department add the investment issue to the negotiations in the first place. The diplomats had warned that other countries might not accept a provision that would satisfy US business. After business representatives had told Clayton they would "strongly support the ITO charter in toto in Congress," . . . and "will swallow all other provisions" if it covered investment, Clayton had agreed (Aaronson 1996, 85). The NAM adviser in Havana did support the final Charter text and labored, unsuccessfully, to persuade his organization to endorse it.

These critics felt, in sum, that the ITO did not add much value because the USA would live up to its Charter obligations but most other countries would use loopholes to escape its principles. But rather than saying that the Charter was a package of compromises that fell short on balance, some organizations chose to denounce it as "a dangerous document" sanctifying principles utterly contrary to the American way, that "in effect commits all members of the ITO to state planning for full employment."33 The administration had done relatively little to generate understanding and support in the mass public and Congress that could have offset the special-interest critics politically.
During this internal debate, the Congress was also investigating possible treason in the State Department. A jury convicted Alger Hiss of perjury in January 1950. On 25 June 1950 North Korea suddenly attacked southward across the thirty-eighth parallel, and thereafter American soldiers were dying again in another hot war. This time the other side seemed to have atomic weapons. The President sent US troops back to Europe as well and decided to abandon the ITO.

**The WTO: Reduced agent slack and stronger presidential leadership.** Between the ITO and the WTO, the United States changed its domestic institutions for making public trade decisions in ways that influenced US negotiating positions and made ratification of signed trade agreements much more likely. Two particular changes stand out. In 1962 Congress, wanting to take chief authority for trade negotiations away from the Department of State, created a new position, the Special Trade Representative (STR), in the same legislation that authorized US concessions in the Kennedy round (Richter-Thornton, 1975). The STR, in addition to serving now as the chief US agent in trade talks, was also to manage the related domestic political process. President Kennedy, by executive order, located this officer in the Executive Office of the President and not in State. President Nixon, however, allowed the Secretary of Commerce to take some of this authority for himself, which disturbed farm organizations especially as well as their influential friends in Congress (Destler 1995, 108-109). Thus in 1974 Congress strengthened STR by locating it in the Executive Office by statute, and giving its leader cabinet rank and salary. The title was changed in 1979 to “United States Trade Representative” (USTR). Therefore after 1962 the lead agency in trade diplomacy no longer had any responsibilities for other foreign policies. If military or political objectives came into conflict with trade guidelines, only the President could overrule the latter. This institutional change at least freed trade policy from compromises down inside the State Department like those that had weakened its domestic position in 1948 to 1950. To be sure, even if such institutions had been in place then, the dramatic events of the early cold war would probably have
been sufficient to shift the Truman administration's priorities sharply toward immediate military-political gains. Since then, hardly any US trade representatives have been among the most influential members of presidents' inner circles. Still, after 1962 US commercial objectives were likely to dominate daily decisions to a greater extent on average.

Second, the Trade Act of 1974, which authorized the President to participate in the Tokyo Round laid down new rules greatly reducing agent slack. This law mandated quasi-corporatist consultations with the private sector and reporting to the key congressional committees throughout negotiations. The act established an Advisory Committee for Trade Negotiations: forty-five citizens appointed by the President to represent all social sectors including labor and consumers, and to meet frequently with the USTR in Washington and Geneva. In practice, management representatives dominated overwhelmingly. At a lower level the act created three advisory committees covering industry, labor, and agriculture respectively. Reporting to these in turn would be no fewer than twenty-seven additional, sectoral advisory committees each composed of industry experts. Negotiators were required to provide access to confidential information to all these constituents and designated congressional staff. The law directed the private-sector advisors to publish an advisory opinion—in effect a report card—on the final agreement (Winham 1986, 133-137). Little opportunity was left for incomplete information about special-interest opposition to an agenda item.

Planners were concerned not only about the risk of ratification defeat but also the risk of Congress simply delaying indefinitely or enacting conditions inconsistent with the agreement and impossible to negotiate—problems that had dogged the Kennedy round's outcome. Thus came new rules creating a sui generis "fast track" for ratification. The 1974 act stipulated that once the President presents the results to the Congress, it would then have no more than sixty days to vote. No amendments or delays would be in order after the President had formally submitted his bill.
This rule created a strong incentive for the administration to involve key congressional leaders informally in writing the implementing legislation as well as the negotiation itself. Equally, to the lobbyist seeking changes after the negotiation, this rule left only the possibility of entering the private process of crafting the President’s bill, where negotiators have much greater autonomy to block entry. Five years later the US House of Representatives and the Senate did ratify the Tokyo round’s complex set of compromises, and by remarkable margins of 395 to 7 and 90 to 4, respectively (Winham 1986, 308).

Thus in sharp contrast to the pattern of 1943 to 1946, US negotiators during the Uruguay round as well reported to principals, heard their particular demands frequently and in detail, and in turn had opportunities to influence Congressional expectations. These agents knew from the beginning—because the 1974 rules had been carried forward into later legislation — that the negotiation and the domestic ratification campaign would overlap to some extent in practice. For example, the very agenda of this round, launched in 1986 in Punta del Este, bore the clear fingerprints of a huge coalition of US industries seeking better protection of intellectual property rights abroad, that had been meeting in Washington for a year under US Chamber of Commerce auspices. The Emergency Committee for American Trade (ECAT), the fifteen-year old organization representing only the largest US multinationals, also voiced their shared concerns about investment regulations overseas. To supplement the formal machinery, USTR Clayton Yeutter and his Deputy Alan Holmer in 1987 also met secretly and regularly with an informal “insiders’ group” of especially privileged corporate lobbyists (Dryden 1995, 338).

The round’s most binding constraint turned out to be agriculture, specifically the European Community’s refusal to accept dramatic reductions in agricultural production and export subsidies, matched by the equally intense determination of exporting countries including the USA to walk away from the entire round unless they did make such concessions. USTR Carla Hills, at the
December 1990 Brussels ministerial conference just before the original deadline, did choose no agreement over what had been offered, including significant gains outside agriculture. When her business advisers in Brussels were informed that she had walked away from a bad deal, they gave her a standing ovation (Dryden 1995, 368). After two more cabinet-level cliff-hangers in 1992 and 1993, US farm groups did get greater satisfaction from this round than from any previous one, even though European concessions fell far short of what they sought.

During the same period, US negotiators expended great additional energy in many bilateral fights with allied countries on behalf of particular industries. The long list of constituents benefiting included California and Florida citrus farmers, from agreements with the EC and Japan; corn farmers, from a 1986 near-"war" with the EC over Spain’s entry; cattle ranchers in Japan’s market; and lumber producers regarding Canadian softwood exports. Cigarette makers saw USTR leveraging open doors in lucrative Asian markets for them. Boeing and McDonnell-Douglas enjoyed Washington support for years in their rivalry with the European Airbus. The huge automobile industry got President Bush to push their interests to the top of his list during his first overseas trip after the Soviet Union’s collapse—to Tokyo in January 1992. NAFTA was even more dear to Detroit’s heart.

The industry that achieved the most impressive Washington trade leverage, pound for pound, must have been semiconductors. On their behalf President Reagan negotiated a bilateral agreement with Japan and in 1987, in its name, he imposed the first economic sanction on Japan since the occupation. President Bush insisted on renewing this agreement despite Japanese resentment. President Clinton maintained the pressure and appointed high-technology executives to key Washington positions. His administration also managed to insert a new loophole into the final Uruguay round subsidies agreement—running counter to the general US position—to shelter research and development spending favored by high-technology producers.
The beleaguered US steel industry, another political heavy-weight, had begun to strengthen by the nineties, after the Reagan administration had negotiated a set of five-year bilateral agreements restricting US imports from the most significant supplying countries. Meanwhile, steel also lobbied to prevent the WTO agreements from imposing serious limits on their freedom to continue using anti-dumping complaints to coerce their competitors into such restraints in the future. While USTR Mickey Kantor managed in 1993 to negotiate some weakening of the multilateral agreement designed to do just that, some serious limits remained.

The Clinton administration then found technical ways in its implementing legislation to mute the new disciplines (Destler 1995, 240-244). In fact, “as it shopped for Congressional support for the pact, the Clinton administration agreed to do favors for a host of industries: steel, cars, wheat, lumber, cement, ball bearings, cellular telephones, civil aircraft, and apparel.” During the unseen drafting of the implementing bills, lobbyists for each of these sectors managed to insert new special provisions benefiting themselves.

After failing to win any commercially significant concessions for Wall Street securities firms, USTR Mickey Kantor neutralized their possible opposition with an agreement to continue financial services negotiations for an additional eighteen months. One of the last high-profile struggles took place on behalf of Hollywood’s exporters of film services against European Community protectionism.

The addition of the World Trade Organization itself to the bundle would also engage the Presidency directly. US trade diplomats had taken a lead in efforts to strengthen the GATT as an institution for exposing one nation’s violation of another’s rights. Their proposals attempted especially to limit the convention under which an accused state could prevent the parties from endorsing an unwelcome GATT expert panel report (Preeg 1995, 77-78 and 103). However, US officials had resisted creation of a World Trade Organization, partly because of fears of domestic opposition. The Americans did not agree, in fact, until the morning of the last day of the Uruguay
round, 15 December 1993. Because this institutional issue had been added to the bundle near the end of the process, Congress and US constituents heard relatively little about it. This relative lack of consultation would come back to haunt advocates, just as it had in the forties (Destler 1995, 232).

Presidents Bush and Clinton, personally and through their White House trade representatives Carla Hills and Mickey Kantor, certainly spent greater political resources to achieve ratification of the WTO than did President Truman for the ITO. Throughout the negotiation, as one close Washington observer summarized just after the round had concluded, "what Kantor sought above was an agreement that could pass Congress" (Dryden 1995, 389). William T. Archey, vice president of the US Chamber of Commerce, enjoyed a commanding view of both the international talks and the private process of US business preference aggregation. Looking ahead in February 1994 to the coming domestic decision, he felt this goal had been achieved.

"The genius of the negotiation was that those who would have made the gravest problems [on Capitol Hill] were to some degree taken care of. There are a number of people who do not love this agreement but are not disposed to oppose it."

On 12 January 1994 the President's Advisory Committee for Trade Policy and Negotiations, chaired by James D. Robinson III and W. L. Lyons Brown, Jr., commended the negotiators for their gains, and concluded, after balancing these against disappointments, that the President and Congress should implement the package. One member of thirty-seven, representing the AFL-CIO, dissented, concluding that the agreements offered little if anything positive to US workers and in certain respects would directly harm them (US, Advisory Committee for Trade Policy and Negotiations 1994).

By this time, said the vice president of ECAT, "it's not a question of whether or not the Uruguay Round implementing legislation will pass, but which year, how is it going to be paid for, and what is going to be attached to the implementing bill." While the AFL-CIO opposed ratification, one of its lobbyists confirmed this congressional forecast. "They will light up the braziers and incense will fill the air and it will blind the guys and they will vote for it."
Implementation turned out not to be a foregone conclusion, however, and it required further personal attention from the President. In May 1994 the \textit{Financial Times} reported a warning from House Speaker Thomas Foley that Congress faced “a very real crisis” over ratification. Said the \textit{Times}:

"Although President Clinton's power to pull off more victories ought not to be under-estimated, passage this year of the implementing legislation for the GATT agreement now seems almost as improbable as did the NAFTA victory last year. Mr. Foley and his colleagues see as the chief impediment the need to raise $10 billion to $14 billion over the next five years and perhaps as much as $40 billion over the next decade to compensate for the tariff revenue lost under the Uruguay Round deal. Budget rules require this to be done either by programme cuts or taxes."\textsuperscript{36}

A second prominent argument raised by critics was the charge that creation of a World Trade Organization, together with its virtually automatic enforcement mechanism, would infringe US sovereignty, including the authority to regulate pollution and consumer safety at home. Here the threat came from political rather than commercial entrepreneurs. Senator Bob Dole, the Republican Minority Leader, cited many constituency concerns about sovereignty as a reason to delay consideration.\textsuperscript{37}

The Uruguay round agreements generated less grass-roots opposition than had NAFTA the year before, but opponents were not absent.\textsuperscript{38} Consumer advocate Ralph Nader on the left and Patrick J. Buchanan on the right were the most vocal. The Citizens Trade Campaign, which had worked against NAFTA the year before, also ran advertisements against GATT.

On the other side, some twenty corporate chief executives lobbied Congress together on behalf of GATT in June. Other elements of the three-level strategy of their “Alliance for GATT NOW” were grass-roots campaigns and $2 million worth of advertising. The main organizations behind this Alliance were the Business Roundtable, the National Association of Manufacturers, and the US Chamber of Commerce.\textsuperscript{39}
The process of writing implementing legislation lasted until 27 September 1994, when the Clinton bill finally went to the Capitol. This was the period during which Kantor and Clinton sealed all those special industry deals. After the November elections, however, Senator Jesse Helms, now expected to become the chairman of the Foreign Relations Committee, and Senator Ernest Hollings attempted to delay the vote. \(^{40}\) Senator Dole, despite his long history of advocating trade liberalization, held out until Thanksgiving before announcing that he would support WTO ratification. He then said he had extracted from President Clinton an agreement to support later legislation that would create a ‘WTO Dispute Settlement Review Commission.’ \(^{41}\) This group of five federal appellate judges would review all final WTO panel judgments adverse to the USA. If the commission found, during any five year period, three such decisions in which a WTO panel “demonstrably exceeded its authority” or “acted arbitrarily or capriciously,” then any member of Congress could introduce a joint resolution pulling the United States out of the organization. \(^{41}\) This last deal was additional to the provision for a congressional vote again every five years, which Representative Newt Gingrich had negotiated earlier to provide his own political cover.

With Dole too now on board, and after further personal meetings and telephone calls by President Clinton, the Senate voted its approval by a margin of 76 to 24 and the House ratified by 288 to 146—with majorities of each party in each house voting in favor. \(^{42}\) A bill to enact the Dole reservation was introduced in Congress in November 1995, but no votes had been taken on it by the time of writing. \(^{43}\)

VI. Speculations for the Future

Our arguments, if they have any validity for the past, may also help inform our thinking about the future. They point to the following conjectures.

**US exit options will remain limited.** In the next half decade, the United States will not have attractive international alternatives to the WTO for several issues it cares about. For the enforcement of US trade rights provided by multilateral agreements, the WTO dispute settlement mechanism is now much more valuable to the United States than was the 1947 GATT. As for
regional options, NAFTA accounts for less than a third of US trade. APEC remains too heterogeneous a grouping to become more than a forum for periodic discussions and special negotiations.

For particular purposes, to be sure, plurilateral and bilateral agreements could appeal to Washington when US initiatives run into strong opposition in Geneva. The former could be deployed as a lever for influencing negotiations in Geneva. Investment and financial services are two of the more likely areas for plurilateral agreements, since the interests of the US, the Europeans and the developing countries are so disparate. The United States is likely to resort to bilateral negotiation to handle complaints about practices not covered by WTO rules. This option will seem attractive not only as a means of attaining immediate commercial gains but also, like the 1980s FTA negotiations, as a prod to move partner country and others closer to agreement on new multilateral rules to cover these issues.

There are some reasons to think that the regional option will grow more attractive over time. APEC and Western Hemispheric leaders hold annual summits. APEC has created a “wise men's” group. These institutions and interactions help to articulate a vision, build a consensus, and create a momentum regionally. The absence of an annual WTO ministerial to provide a counterweight is disturbing from this point of view. But working in the other direction is the increasing multilateralization of trade, as one country after another joins the ranks of those with outward-oriented trading systems. As the web of US trade relations is spread increasingly wide, regionalism will become a progressively less attractive alternative to multilateral negotiation.

Future “US problems” will not take the form of failure to ratify agreements US negotiators have signed. With hindsight, the ITO failure marked the end of an era. After each of the eight GATT rounds that began in 1947 and ended in 1994, the US government essentially did what its negotiators had agreed it would. One of the more important lessons of this history is that during the second half of the century, the US became a more reliable partner in the sense that it always implemented the trade agreements it signed. The institutional changes of 1974 and later
years insure that US negotiators and their key principals will remain locked in much closer interaction during negotiations, heightening the likelihood of ratification.

**Presidential leadership effort at home on behalf of the WTO will probably continue to fluctuate in strength.** If one were to judge from this study, one implication would be that a severe international political crisis coinciding with trade negotiations might again reduce the political capital devoted to trade liberalization.

Presidential leadership will probably continue to support multilateral institutions in general but with strains and interruptions. The US public continues to support participation in United Nations peacekeeping operations. Special interests inside the United States will remain dependent on a healthy world economy to a greater extent than during most of the twentieth century. Since calls for old-fashioned protection will fall on increasingly educated and globalized ears, national political leaders who attempt to ride such rhetoric to victory will probably lose—like Richard Gephardt in 1988 and Patrick Buchanan in 1996—to rivals who appear more centrist or more ambiguous on this issue. Old-fashioned protectionism no longer pays in US elections excepting a few localities, and least of all for raising campaign finance in globalized cities like Los Angeles and New York.

On the other side, the US economy also remains one of the most self-sufficient in the world. Unlike the chief executives of many other countries, future presidents will also probably find that trade policy still offers less leverage for achieving key objectives than other moves. Trade specialists on all sides will probably continue to have difficulty holding the White House's attention for long. During the 1992 election Democratic candidate Bill Clinton partly straddled the sensitive NAFTA issue, endorsing this Republican agreement but only on the condition that Canada and Mexico accept further agreements demanded by his labor and
environmental constituents. After the side agreements had been negotiated and grass-roots opposition to ratification then surprised Clinton, he made an brief but intense and successful effort to help persuade Congress to approve in late 1993. The following year, however, Clinton chose to give top priority to health care. Consequently WTO ratification waited for eight months before receiving great public attention from anyone in Washington. At that point, WTO advocates including Clinton delivered again. Next, however, after the Democrats’ losses in the 1994 elections the President shifted his focus again to tax cuts, teenage smoking, and uniforms in the public schools. These frequent shifts away from trade are more than reflections of Clinton’s personality.

At this writing, Washington remains divided with one party in the White House, their rivals controlling Congress, and the median voter dissatisfied with both. Assuming that US institutions remain essentially unchanged, the degree and predictability of presidential leadership at home will probably also remain roughly what we have seen. Rather than shifting decisively away from multilateralism, America will continue to give it two and only two cheers (Keohane and Nye 1985).
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1 The authors are John L. Simpson Professor of Economics and Political Science, University of California, Berkeley, and Professor of International Relations, University of Southern California. This paper was prepared for the 1996 Stanford conference on the World Trade Organization. We thank Nisha Mody for sterling research assistance.


3 After the first draft of this paper was written, we encountered an article by Vernon (1995a) that adopted a rather similar approach, although emphasizing different factors and reaching very different conclusions. In this paper we do not address the question of whether the structure of the ITO and WTO agreements was desirable from the point of view of US or world welfare. Their views informed by more than 50 years of hindsight, more than a few economists would question the efficacy of an ITO agreement that featured multiple exceptions from the commitment to liberalize trade. Similarly, the WTO has been criticized both for being too interventionist and for not being interventionist enough. But, to repeat, our focus here is on why the US acted as it did, not on the actual or counterfactual welfare effects of the two agreements.

4 The US also possessed some ability to pursue its trade-policy goals bilaterally, as we will describe below.
It is sometimes said that these institutional changes largely "privatized" the making of US trade policy, effectively allowing the private sector to set the agenda.

See for example the discussion in Frendres and Tatalovich (1994), chapter 6.

Relative to the existing literature, our perspective suggests that the problem in the 1940s was not Congressional overload, as frequently suggested, but Executive overload: that the Executive had so many other pressing draws on its scarce political capital. We return to this point below.

Standard sources for the two episodes, upon which we draw, are Brown (1950) and Schott (1994).


Howson and Moggridge (1990), p.106.

At American insistence, delegates also discussed discrimination against foreign motion pictures and the treatment of private foreign investment.

Heilperin was an advisor to the Intentional Chamber of Commerce and attended both the Geneva and Havana Conferences.

Recent archival research finds that the deputy US negotiator in Havana, Clair Wilcox, saw much opposition to a strong charter consistent with US principles and he preferred no agreement to accepting a "skeleton ITO" as a fallback. His superior, Will Clayton, however, had identified himself with the Charter and insisted on further bargaining, overriding Wilcox's reservations. During January through March Clayton made several additional concessions on the use of import quotas and on voting rules. See Dryden (1995), chap.1.

Jackson (1990) had provided important intellectual support for this approach.

When a small firm reneges on its agreement to restrict output, this puts negligible downward pressure on prices and hence is relatively attractive. A small firm is presumably in the best position to avoid detection when it cheats. A small firm in an oligopolistic market has little capacity to punish producers who fail to restrict their output. The same logic is said to apply to small and large countries in international markets.

As argued by Schott (1989).


Triffin (1957), p.203.


The GATT further tolerated "interim agreements" leading ultimately to a customs union; in other words, the participating countries did not have to go immediately all the way to zero tariffs.

See Dam (1970).


The TAA was scheduled to expire in June of 1948. While it was renewed, this involved a considerable battle and could not be anticipated at the time.


The case should not be overstated: in 1950 there was still reason to worry about other countries' commitment to trade liberalization. Latin America was pursuing import-substituting industrialization. Other primary-commodity producers sought to support their export prices through the use of marketing boards and other trade restrictions. France and other European countries saw trade liberalization as incompatible with their programs of state-led investment in industrial modernization. Countries other than the United States had already displayed their reservations about tariff reduction in the course of the ITO negotiations, extracting a variety of other concessions in return for agreeing to negotiate tariff cuts. It was possible to dismiss the 35 per cent cuts negotiated
at Geneva and Annecy as nothing more than the removal of the most onerous wartime restrictions and to question whether they would have real effects in a Europe still riddled with quantitative trade controls. Contemporaries dismissed the results of the 1950-51 Torquay round and the 1956 Geneva round as "meager," "modest," and "not...a success." Irwin (1995), pp.135-137. In retrospect, we know that the post-World War II GATT system was remarkably successful. But this could not have been known for sure in 1950.

29 Neustadt (1980), pp.41-42.

30 Aaronson (1993 and 1996) provides by far the most thorough available evidence on this process, going well beyond William Diebold's early and still valuable essay (1952).

31 On forming the Bretton Woods delegation and ratifying this agreement, see Eckes 1975 and Odell 1988. Vernon (1995b) detects a common pattern in all US economic negotiations during the 1940s -- executive officials launch bold institutional initiatives but in the end the US rejects significant constraints on its own future policy choices.

32 Churchill delivered his famous "iron curtain" speech in Fulton, Missouri, with Truman on the platform in March 1946. In response to fighting in Greece, Truman in 1947 issued his famous anti-Communist doctrine and rushed weaponry and other aid to Turkey as well as Greece. In June 1947 at Harvard's commencement, Marshall proposed his sweeping, unprecedented US economic assistance to accelerate European recovery from what were still miserable conditions in some areas. Early in 1948 communist partisans overthrew the elected government of Czechoslovakia. In June, Stalin blockaded Berlin, including the US soldiers there. In China the Red Army and Nationalist forces had resumed their internal war.

33 The Executive Committee of the United States Council of the International Chamber of Commerce, quoted by Diebold (1952), 414-5.


New York Times, 3 October 1994, p. C1. The definitive account of the NAFTA negotiation and
ratification struggle is Frederick W. Mayer, Interpreting NAFTA: The Science and Art of Political
Analysis (Duke University, forthcoming).
40 Sanger, David E., “Helms requests a delay in vote on trade accord,” New York Times, 16
42 Cooper, Kenneth J., “House passes GATT in bipartisan spirit,” Washington Post, 30
Post, 1 December 1994, p. A40, and Helen Dewar. “Senate approves GATT on big bipartisan vote,”
44 In 1975 Secretary of State Henry Kissinger proposed creation of a financial support fund in
the OECD, as part of his strategy of preventing the oil crisis from splitting US military alliances.
Later after the presumed uncertainty of large-scale financial recycling seemed to diminish and the
IMF staff strongly objected, the President decided not to submit this plan to Congress as well (Cohen 1996).