

I

GATT, The Marshall Plan and OECD

[. . .] these three organizations [GATT, the Marshall Plan and OECD] have many aspects of interdependence in origin and, to some extent, in operation.

In my meetings with these representatives of other nations [at the trade conference in Geneva which opened April 11, 1947 to discuss multilateral negotiations and resulted in an agreement known as the General Agreement on Tariffs and Trade, or GATT]; we not only talked about tariff negotiations and the Charter for an International Trade Organization but I took this occasion to inquire as to economic, financial, and food conditions in their respective countries. I was surprised and in some cases shocked by conditions in the countries of western Europe, particularly the serious food situation which most of them faced.

In most cases, the farmers knew that their surplus grain, if carried to market and sold, would

yield only paper money, in which farmers had no confidence. The things that the farmer desperately needed — implements, clothing, and manufactures of various kinds — were mostly unobtainable, because industry had not got back into full production of such items. Under these circumstances, farmers not only curtailed their acreage but in many cases grazed their cattle on the grain instead of harvesting it. Thus, the division of labor, on which modern peacetime society rested, had almost broken down in these countries.

This situation weighed heavily on my mind, and I longed for an opportunity to present it personally to Secretary Marshall, and to Under Secretary Acheson. The latter had made a speech on May 8, 1947 in which he referred to the serious conditions.

It was agreed that I should return to Washington to see if I could help prevent the passage of the wool bill [increase in wool tariff]. On my arrival in Washington [May 19, 1947], I found the Planning Committee of the Department of State, under the chairmanship of George Kennan, actively considering the western European situation because of the receipt of cables from our embassies and from me. I had made notes on the plane of a memorandum which I wanted to hand Secretary Marshall regarding the economic, political, and food situation in Western Europe . . .

On account of my illness [a bad cold] this memorandum was not completed and handed to Secretary Marshall until May 26, 1947. This memorandum, plus my several talks with Secretary Marshall, between May 27, 1947 and up to the time he left to make his speech at Harvard on June 5, 1947, merely confirmed the information that many of our embassies and I had been cabling to the Department of State.

There were two main points which Secretary Marshall and the Department of State insisted upon:

- (1) That the recipients of Marshall Plan aid should organize themselves into a committee of cooperation, not only for the life of the Marshall Plan but even after Marshall Plan aid should end.
- (2) Furthermore, that this committee, composed of recipients of Marshall Plan aid, should work out the measure and mechanics of this aid and present it to the United States as an agreed plan.

I arrived in London June 22, 1947. Thereafter, Ambassador Douglas and U.S. Ambassador Caffery in Paris and I worked as a team of three on the Marshall Plan. We attended many meetings in Paris of Sir Oliver Franks' committee, the Committee for European Economic Cooperation (CEEC). I not only had the counsel of Douglas

and Caffery in dealing with Sir Oliver Franks' committee, but I conferred often with Jean Monnet who came several times to Geneva to see me, and whom I saw often in Paris. Soon after I was made Assistant Secretary of State for Economic Affairs in December, 1944, I had met Jean Monnet in Washington and, as he represented the Treasury Department of the French Government, had numerous dealings with him. I have always believed that tariffs and other impediments to international trade were set up for the short-term, special benefit of politically powerful minority groups and were against the national and international interest. As shown by paragraph 9 of my memorandum of May 27, 1947: [This 3-year grant to Europe should be based on a European plan which the principal European nations, headed by the United Kingdom, France and Italy, should work out. Such a plan should be based on a European economic federation on the order of the Belgium-Netherlands-Luxembourg Customs Union. Europe cannot recover from this war and again become independent if her economy continues to be divided into many small watertight compartments as it is today.] I felt that the Marshall Plan presented an opportunity to introduce the principle of regional free trade in western Europe. I discussed this matter frequently with Monnet who convinced me

that western Europe was too weak in 1947 to accept conditions of regional free trade. Europe had to get a good deal more flesh on its bones before setting up a common market. However, the object which Secretary Marshall and the Department of State had in mind in insisting upon the formation of a Western European Committee of Cooperation was to get these countries working together, so that the effects of aid would cause western European countries to follow policies conducive to benefits for the entire section rather than for individual countries.

The committee, informally organized into the CEEC under Sir Oliver Franks, was then set up formally under the title of Organization for European Economic Cooperation (OEEC). In time the U.S. and Canada became associate members; still later, it was changed to Organization for Economic Cooperation and Development (OECD) — its present name.

II

What Free Trade Means to America

... The earth is one third land and two thirds water, and it has been made this way so as to facilitate transportation and communication, so that the fruits of the land could easily be taken every where. This is as it should be, for there should be easy access by everyone all over the world to the goods of the earth. Now, here in America, we are blessed with a greater abundance of those goods than any other land. But instead of distributing our fruits and opening our doors to the products of other lands, so that the people there may gain the wherewithal (the result of a sale of their products to us) with which to buy the many things they need — instead of give and take — we make it hard for the rest of the world to have access to us, we put up barriers of trade, and kill pigs and plow under corn.

America, with her great resources, has been appointed a kind of trustee for supplying the rest of the world, but, instead of being faithful to her trusteeship, she has belied it by her isolation, her tariffs, her plowing under the fruits that should

be distributed. When a trustee is unfaithful to his trust, what happens? It is inevitable that it should be taken from him. And this will happen to America if we do not change our course and fulfill our responsibilities.

The United States protective tariff and the United States farm program are both intended to serve the selfish interests of minority groups, as against the national and international interest.

The adoption by the United States of a policy leading eventually to free trade would hearten the world. It would cause other countries to follow our example. It would release and stimulate productive facilities the world over. It would raise the standard of living throughout the world.

[Clayton cites the U.S. farm program as an example of the inseparability of domestic from foreign policy on which his plan is founded.] Food-and-fiber importing nations [he comments] see the richest country in the world fixing prices above the world market, using its wealth to create artificial scarcities, diverting food and fiber from the channels of trade into government warehouses, paying farmers not to produce and in the past paying them to destroy what they had produced. How would we feel toward a nation that hoarded a billion bushels of wheat if our children went hungry to bed? Now and then we give some

millions of bushels to the needy, but people want to earn their way by trade, not aid.

We are fully conscious of the domestic American political difficulties inherent in the policy we recommend, but we believe nonetheless that at this juncture in our history we must face the issues realistically.

In the summer of 1945 the Hull Reciprocal Trade Agreements Act was renewed by Congress for the fourth time, and with broadened powers. About a year ago the Government issued its *Proposals for the Expansion of World Trade and Employment*.

Our objective is an expansion in world economy through an increase in the production, distribution, and consumption of goods. Our method — international agreement.

These proposals deal with such problems as reductions in trade barriers, elimination of discriminations in international trade, prevention of restriction of international commerce by the action of cartels and combines, intergovernmental commodity arrangements for dealing with the problem of surpluses, the adoption of a common code to govern the regulation of international commerce by governments, and the creation of an International Trade Organization under the Economic and Social Council to administer such a code.

The increasing interdependence of nations.

Domestic economic policy can no longer be made without regard to possible external effects, nor can existing external conditions be ignored when domestic policy is being shaped. This country has known for years that it is not an isolated political system. It must realize that that is no less true of the body economic.

If the United States is to continue to meet its responsibilities of Western leadership in preserving the freedom of the Western World, it must again, as in 1947, put the national and international interest ahead of the short-term, special interest of its politically powerful minority groups.

The time has come for the United States to take a giant step.

III

What Free Trade Means to the Atlantic Community

Military alliances are short-lived and undependable.

It was no doubt for this reason that the NATO agreement contemplated economic collaboration between the contracting parties.

Unfortunately the U.S. seems to have successfully blocked any action by NATO toward this end.

NATO was conceived and fashioned as a means of strengthening Western unity. It has succeeded measurably well in the military field, but the economic field has been neglected.

The declaration of Soviet economic hostilities against the non-Soviet world has been made. The immediate objective in this war is the control of the contested countries, more than three score and ten in number. The ultimate objective is the control of the world. If Western determina-

tion is less than the Soviet bloc's, eventual Soviet triumph is assured.

Permanent world peace can only be built on a foundation of economic justice and economic progress for all the peoples of the world.

Just as the first job (military defense) awaited military unification of the democracies, the second job depends upon closer economic unity.

Just as the U.S. took the lead in military unification (NATO), she must take the lead in the economic field.

Given closer economic unity, the job can be done without heavy grants or subsidies; indeed it can be done with profit to the whole world. It can be done by development of the world's resources, accelerating and expanding production, accompanied by elimination of barriers to the movement of goods, to the end that markets may be enormously enlarged and production rationalized on the basis of comparative advantage.

The twenty nations of the Organization for European Economic Cooperation are now divided into the Inner Six and the Outer Seven, with five still on their own. Under U.S. leadership, and with Canada added, this could become one free trade area.

The only thing that has happened meantime in the direction that I urged is the trip to Europe

of Douglas Dillon, Undersecretary of State for Economic Affairs, to get the OEEC reorganized into the OECD with the United States and Canada as full members.

To what extent my urging contributed to this result, I do not know.

I only know that what is being done is only a modest gesture to what must be done if the West is to win this war between Communism and Christianity, between slavery and freedom, between socialism and free enterprise.

I repeat what I have said so often, and that is, we are looking at the beginnings of a world economic revolution and that, of course, means a world political revolution as well.

This revolution is being forced and accelerated by technological progress which is bursting out all over the world, drawing the world together so fast that any country which tries to find an isolationist haven or which tries to keep the one it already has is doomed to bitter disappointment and perhaps more.

I have never had any illusions regarding the attainment of Federal Union except by a well thought out process, step by step, beginning with economic integration.

I feel certain, if we ever have a Federal Union of the Free, it will start with a common market or free trade area.

By far the biggest, most reliable and profitable markets for United States exports are in the industrialized countries of the free world. When competition has forced all or practically all such countries to join the Common Market, the only way this country can hope to hold its export markets is by associating itself with the Common Market movement. And the United States must hold and add to its export markets, to pay for essential imports and to permit continuation of its heavy commitments abroad.

One of the first tasks of a unified West must be the negotiation of a basis of unilateral free trade for the imports of raw materials from the contested countries and a fair basis on which these countries could be associated with the Common Market movement.

The conditions surrounding world trade have lagged far behind world technological progress. These conditions must be modernized. Moreover, the volume and value of exports of the underdeveloped or contested countries must be greatly increased

I believe in an Atlantic Central Agency to control credit, currency, discount rates and reserves, with membership in the IMF, but such an agency is inevitable if the other things are adopted and will naturally follow.

IV

What Free Trade Means to the Free World

Man has never yet found any means of keeping a balance between supply and demand except through the operation of a free market.

The Communists now have one out of three people in the world under their domination. If they ever get two out of three, then freedom in the world becomes merely an historical reference. As to their chance of getting two out of three, one only needs to look at the field in which they are working, i.e., 1 - 1 3/[^] billion people in 100 of the desperately poor countries of the world.

Under a free world common market the standard of living through the world would rise, sound industrialization of the poorer countries would occur, the economic gap between them and the richer would be progressively narrowed, and the whole world would become a more healthful and peaceful place in which to live.

All countries are faced by serious commercial problems and are taking action on them. Unless they act together, they will act at cross purposes and may well do serious damage to each other. Powers of production are now the greatest that the world has known. To bring them into play requires agreement on principles of exchange and distribution which will permit trade, production, employment, and consumption all to expand together.

The Proposals reflect awareness that we live in a world of many countries with a variety of economic systems. They seek to make it possible for those systems to meet in the market-place without conflict, thus to contribute each to the other's prosperity and welfare. In no case do they impinge upon sovereign independence, but they do recognize that measures adopted by any country may have effects abroad and they suggest for general adoption fair rules of mutual tolerance.

The purpose is to make real the principle of equal access to the markets and the raw materials of the world, so that the varied gifts of many peoples may exert themselves more fully for the common good. The larger purpose is to contribute to the growth of international confidence and solidarity, and thus to the preservation of the peace.

Since October 15, representatives of our

Government have been meeting in London with spokesmen from 17 other countries as members of a preparatory committee of the United Nations Conference on Trade and Employment to discuss plans for a broad international agreement on the conditions of trade and a suggested charter of an International Trade Organization. This conference was called by the Economic and Social Council of the United Nations.

Next spring we shall meet again with the same countries to negotiate specific reductions in tariffs, the elimination of discriminations in international trade and to reach more definite agreement on the charter.

Formerly, nations acted unilaterally in matters affecting their international trade; in doing so, they usually hurt their neighbors, the neighbors retaliated, and, in the end, everybody was hurt and everybody was mad. Hereafter, we expect that actions affecting other countries will only be taken after consultation, through the machinery of the proposed International Trade Organization.

I do not need to argue before this audience the merits of measures designed to increase the exchange of goods and services between nations. The purpose of our attack on excessive barriers to such exchange is to bring about a rising standard of living for our people and for all peoples.

Although this alone cannot guarantee peace, the realization of higher living standards everywhere will create a climate conducive to the preservation of peace in the world.

I think the adoption of a policy looking to economic integration of the free world depends on an understanding by the American people of the gravity of the threat to their freedom in Communism's war to conquer the world; and of the overwhelming necessity of wresting the initiative from the Communists if we are to win this war.

If our people don't have such understanding, little can be done.

Only the President of the United States can take the leadership in bringing about this understanding.

It will be necessary to convince our people that mere maintenance of our military power at a point where we hope it may continue to be an effective deterrent to a shooting war is not enough and that we could lose our freedom without a shot being fired.

One way to ease the adjustment for the contested countries and to meet our principal objective of raising their living standards, would be to grant unilaterally to groups of contested countries, as distinguished from individual countries, the right to free trade on their exports of raw materials to industrial countries. Another way would be by reduction in import tariffs by the contested countries at the rate of 5 per cent per annum in consideration of the industrial countries reducing their duties at the rate of 10 per cent per annum.

Without restrictive tariffs or other impediments to the movement of goods across national frontiers, production would be rationalized on the basis of comparative advantage, just as it has been in the 50 States of the U.S.A.

V

The Need for a Federal Union of Free Nations

When the Atlantic Pact is ratified, as it must be, the danger of a shooting war in the foreseeable future will have been greatly lessened; but, make no mistake about it, the cold war will go on with perhaps greater vigor than heretofore.

Soviet Russia's principal objectives in the cold war are to frighten democratic governments into excessive expenditures for defense, and to frighten private capital and initiative so that it will not operate freely.

Soon we must decide between additional taxes and deficit financing. Either route is fraught with grave danger to democratic government and free enterprise.

Circumstances have thrust this country into world leadership, which we did not want, but which we cannot avoid; and this Pact will give us a little time to consider what the next step ought to be.

History shows that these pacts are not permanent, and there have been instances in history where they have not been lived up to. So that they

do not give the full sense of protection and security and confidence to the world that something else would give, something stronger, something of a political nature.

A Europe united without the United States can become a Europe united against the United States.

For the United States cannot continue indefinitely to support the insupportable burden of forever feeding — and arming and defending — the entire free world. We are not strong enough to carry our own military burden now estimated at \$30 billion or more a year, plus the burden of rearming the North Atlantic Pact countries, plus \$3 or \$4 billions annually for bolstering the economy of Western Europe, plus, perhaps, an equal amount to help them rearm.

Actually, it is not governments which are sovereign. It is people. In a democracy, sovereignty rests with the individual, where it belongs. Clinging to the sovereignty of government is a kind of negation of democracy itself. It places the state above the individual. Real sovereignty is surrendered only with the surrender of individual freedom. Misplaced, stubborn pride in national sovereignty can lose the world for freedom.

But all of us should now realize that man's victory over time and distance and matter renders

completely archaic the present political and economic structure of the world.

The machine has freed man of his physical handicaps, but he still remains bound by mental concepts, deeply rooted in the dead past.

One machine calls for another and another, and so it will be until the end of time; and all machines cry out for freedom.

National boundaries and national sovereignties grew out of the limitations of nature on man's movements and communications; but still remain long after man himself has broken down the barriers to his travels and to the range of his voice.

Like the old doctor in the "Tale of Two Cities" who continually went back to his prison job of shoemaking, long after regaining his freedom, we cannot break away from the habits and vested interests of the past.

Federal Union should take the offensive in the cold war in every country in Europe. And we would win that war. Because Federal Union would fight with the weapons of freedom, of prosperity, and of a rising standard of living.

A Federal Union of the democracies would be so powerful, prosperous and free that the pull on these satellite states lying in between would be so much greater from the West than from the East that in time Soviet Russia would surely lose them — and her drive for world conquest would

end in failure and without World War III.

The United States, having more to lose than any other country, should take the lead in calling a convention of representatives of the Nations composing the Atlantic Pact, to explore how far they can go, in forming a Federal Union within the Charter of the United Nations.¹

Now I don't know what position any particular country in Europe might take with reference to this proposal. I only say this, that in my judgment, if the U.S. really, seriously proposes a union of this kind, proposes a convention to study and explore the matter, the people of Europe — as opposed to their leaders — will force those countries to cooperate, because they will see in that movement a great, new hope for peace; and in my opinion, it is the only kind of movement that is going to restore and recreate in their minds and hearts the spirit and the will to go forward in freedom and democracy.

We can form this union and have one currency. If you have got one currency and it is exchangeable throughout the union, you certainly have solved the dollar problem.

Nobody contemplates cutting the economic pie into more pieces. It is merely intended to add more pie through an intense re-activation of the forces of free enterprise.

The total military costs of Atlantic Union

would undoubtedly be less than the aggregate of such costs to the separate states at this time. It is unnecessary to argue this point. The U.S. would, of course, have to bear its proper share but this would unquestionably be much less than the \$20 billion plus which we are now putting out in one way or another to prevent another world war.

Only if the democracies pool their sovereign powers can they establish a standard of living against which the ideology of communism would have no argument. Only so can they establish a military strength against which the armed forces of communism would not dare to hurl, anywhere in the world, the kind of challenge hurled in Korea.

In the first place, the creation of a federal government need not change the forms of the governments it federates. State governments differ considerably in the United States.

To unite democratic governments is not to remodel the present structure, but to add another story in the same architectural design. This is not a proposal to mix dictatorships and democracies, but rather to unite the democracies. All civil freedoms would be safer in a world where nations that respect human dignity pooled their facilities for keeping the individual free.

DECLARATION OF ATLANTIC UNITY

Will Clayton was one of its original American Sponsors in October 1954. Others were Lithgow Osborne, William H. Draper, Jr. and Philip D. Reed. These were later joined by Christian A. Herter, Hugh Moore, Hans Christian Sonne and

Adolph W. Schmidt. The aim of the *Declaration of Atlantic Unity* is to bind together the Atlantic Community as closely as possible through its 326 distinguished signers in all 15 NATO countries.