



Foreign Trade and Global Economic Policies



U.S. foreign trade and global economic policies have changed direction dramatically during the more than two centuries that the United States has been a country. In the early days of the nation's history, government and business mostly concentrated on developing the domestic economy irrespective of what went on abroad. But since the Great Depression of the 1930s and World War II, the country generally has sought to reduce trade barriers and coordinate the world economic system. This commitment to free trade has both economic and political roots; the United States increasingly has come to see open trade as a means not only of advancing its own economic interests but also as a key to building peaceful relations among nations.

The United States dominated many export markets for much of the postwar period -- a result of its inherent economic strengths, the fact that its industrial machine was untouched by war, and American advances in technology and manufacturing techniques. By the

1970s, though, the gap between the United States' and other countries' export competitiveness was narrowing. What's more, oil price shocks, worldwide recession, and increases in the foreign exchange value of the dollar all combined during the 1970s to hurt the U.S. trade balance. U.S. trade deficits grew larger still in the 1980s and 1990s as the American appetite for foreign goods consistently outstripped demand for American goods in other countries. This reflected both the tendency of Americans to consume more and save less than people in Europe and Japan and the fact that the American economy was growing much faster during this period than Europe or economically troubled Japan.

Mounting trade deficits reduced political support in the U.S. Congress for trade liberalization in the 1980s and 1990s. Lawmakers considered a wide range of protectionist proposals during these years, many of them from American industries that faced increasingly effective competition from other countries. Congress also grew reluctant to give the president a free hand to negotiate new trade liberalization agreements with other countries. On top of that, the end of the Cold War saw Americans impose a number of trade sanctions against nations that it believed were violating acceptable norms of behavior concerning human rights, terrorism, narcotics trafficking, and the development of weapons of mass destruction.

Despite these setbacks to free trade, the United States continued to advance trade liberalization in international negotiations in the 1990s, ratifying a North American Free Trade Agreement (NAFTA), completing the so-called Uruguay Round of multilateral trade negotiations, and joining in multilateral agreements that established international rules for protecting intellectual property and for trade in financial and basic telecommunications services.

Still, at the end of the 1990s, the future direction of U.S. trade policy was uncertain. Officially, the nation remained committed to free trade as it pursued a new round of multilateral trade negotiations; worked to develop regional trade liberalization agreements involving Europe, Latin America, and Asia; and sought to resolve bilateral trade disputes with various other nations. But political support for such policies appeared questionable. That did not mean, however, that the United States was about to withdraw from the global economy. Several financial crises, especially one that rocked Asia in the late 1990s, demonstrated the increased interdependence of global financial markets. As the United States and other nations worked to develop tools for addressing or preventing such crises, they found themselves looking at reform ideas that would require increased international coordination and cooperation in the years ahead.

From Protectionism to Liberalized Trade

The United States has not always been a forceful advocate of free trade. At times in its history, the country has had a strong impulse toward economic protectionism (the practice of using tariffs or quotas to limit imports of foreign goods in order to protect native industry). At the beginning of the republic, for instance, statesman Alexander Hamilton

advocated a protective tariff to encourage American industrial development -- advice the country largely followed. U.S. protectionism peaked in 1930 with the enactment of the Smoot-Hawley Act, which sharply increased U.S. tariffs. The act, which quickly led to foreign retaliation, contributed significantly to the economic crisis that gripped the United States and much of the world during the 1930s.

The U.S. approach to trade policy since 1934 has been a direct outgrowth of the unhappy experiences surrounding the Smoot-Hawley Act. In 1934, Congress enacted the Trade Agreements Act of 1934, which provided the basic legislative mandate to cut U.S. tariffs. "Nations cannot produce on a level to sustain their people and well-being unless they have reasonable opportunities to trade with one another," explained then-Secretary of State Cordell Hull. "The principles underlying the Trade Agreements Program are therefore an indispensable cornerstone for the edifice of peace."

Following World War II, many U.S. leaders argued that the domestic stability and continuing loyalty of U.S. allies would depend on their economic recovery. U.S. aid was important to this recovery, but these nations also needed export markets -- particularly the huge U.S. market -- in order to regain economic independence and achieve economic growth. The United States supported trade liberalization and was instrumental in the creation of the General Agreement on Tariffs and Trade (GATT), an international code of tariff and trade rules that was signed by 23 countries in 1947. By the end of the 1980s, more than 90 countries had joined the agreement.

In addition to setting codes of conduct for international trade, GATT sponsored several rounds of multilateral trade negotiations, and the United States participated actively in each of them, often taking a leadership role. The Uruguay Round, so named because it was launched at talks in Punta del Este, Uruguay, liberalized trade further in the 1990s.

American Trade Principles and Practice

The United States believes in a system of open trade subject to the rule of law. Since World War II, American presidents have argued that engagement in world trade offers American producers access to large foreign markets and gives American consumers a wider choice of products to buy. More recently, America's leaders have noted that competition from foreign producers also helps keep prices down for numerous goods, thereby reducing pressures from inflation.

Americans contend that free trade benefits other nations as well. Economists have long

argued that trade allows nations to concentrate on producing the goods and services they can make most efficiently -- thereby increasing the overall productive capacity of the entire community of nations. What's more, Americans are convinced that trade promotes economic growth, social stability, and democracy in individual countries and that it advances world prosperity, the rule of law, and peace in international relations.

An open trading system requires that countries allow fair and nondiscriminatory access to each other's markets. To that end, the United States is willing to grant countries favorable access to its markets if they reciprocate by reducing their own trade barriers, either as part of multilateral or bilateral agreements. While efforts to liberalize trade traditionally focused on reducing tariffs and certain nontariff barriers to trade, in recent years they have come to include other matters as well. Americans argue, for instance, that every nation's trade laws and practices should be transparent -- that is, everybody should know the rules and have an equal chance to compete. The United States and members of the **Organization for Economic Cooperation and Development (OECD)** took a step toward greater transparency in the 1990s by agreeing to outlaw the practice of bribing foreign government officials to gain a trade advantage.

The United States also frequently urges foreign countries to deregulate their industries and to take steps to ensure that remaining regulations are transparent, do not discriminate against foreign companies, and are consistent with international practices. American interest in deregulation arises in part out of concern that some countries may use regulation as an indirect tool to keep exports from entering their markets.

The administration of President Bill Clinton (1993-2001) added another dimension to U.S. trade policy. It contend that countries should adhere to minimum labor and environmental standards. In part, Americans take this stance because they worry that America's own relatively high labor and environmental standards could drive up the cost of American-made goods, making it difficult for domestic industries to compete with less-regulated companies from other countries. But Americans also argue that citizens of other countries will not receive the benefits of free trade if their employers exploit workers or damage the environment in an effort to compete more effectively in international markets.

The Clinton administration raised these issues in the early 1990s when it insisted that Canada and Mexico sign side agreements pledging to enforce environmental laws and labor standards in return for American ratification of NAFTA. Under President Clinton, the United States also worked with the International Labor Organization to help developing countries adopt measures to ensure safe workplaces and basic workers' rights, and it financed programs to reduce child labor in a number of developing countries. Still, efforts by the Clinton administration to link trade agreements to environmental protection and

labor-standards measures remain controversial in other countries and even within the United States.

Despite general adherence to the principles of nondiscrimination, the United States has joined certain preferential trade arrangements. The U.S. Generalized System of Preferences program, for instance, seeks to promote economic development in poorer countries by providing duty-free treatment for certain goods that these countries export to the United States; the preferences cease when producers of a product no longer need assistance to compete in the U.S. market. Another preferential program, the Caribbean Basin Initiative, seeks to help an economically struggling region that is considered politically important to the United States; it gives duty-free treatment to all imports to the United States from the Caribbean area except textiles, some leather goods, sugar, and petroleum products.

The United States sometimes departs from its general policy of promoting free trade for political purposes, restricting imports to countries that are thought to violate human rights, support terrorism, tolerate narcotics trafficking, or pose a threat to international peace. Among the countries that have been subject to such trade restrictions are Burma, Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria. But in 2000, the United States repealed a 1974 law that had required Congress to vote annually whether to extend "normal trade relations" to China. The step, which removed a major source of friction in U.S.-China relations, marked a milestone in China's quest for membership in the World Trade Organization.

There is nothing new about the United States imposing trade sanctions to promote political objectives. Americans have used sanctions and export controls since the days of the American Revolution, well over 200 years ago. But the practice has increased since the end of the Cold War. Still, Congress and federal agencies hotly debate whether trade policy is an effective device to further foreign policy objectives.

Multilateralism, Regionalism, and Bilateralism

One other principle the United States traditionally has followed in the trade arena is multilateralism. For many years, it was the basis for U.S. participation and leadership in successive rounds of international trade negotiations. The Trade Expansion Act of 1962, which authorized the so-called Kennedy Round of trade negotiations, culminated with an agreement by 53 nations accounting for 80 percent of international trade to cut tariffs by an average of 35 percent. In 1979, as a result of the success of the Tokyo Round, the United

States and approximately 100 other nations agreed to further tariff reductions and to the reduction of such nontariff barriers to trade as quotas and licensing requirements.

A more recent set of multilateral negotiations, the Uruguay Round, was launched in September 1986 and concluded almost 10 years later with an agreement to reduce industrial tariff and nontariff barriers further, cut some agricultural tariffs and subsidies, and provide new protections to intellectual property. Perhaps most significantly, the Uruguay Round led to creation of the World Trade Organization, a new, binding mechanism for settling international trade disputes. By the end of 1998, the United States itself had filed 42 complaints about unfair trade practices with the WTO, and numerous other countries filed additional ones -- including some against the United States.

Despite its commitment to multilateralism, the United States in recent years also has pursued regional and bilateral trade agreements, partly because narrower pacts are easier to negotiate and often can lay the groundwork for larger accords. The first free trade agreement entered into by the United States, the U.S.-Israel Free Trade Area Agreement, took effect in 1985, and the second, the U.S.-Canada Free Trade Agreement, took effect in 1989. The latter pact led to the North American Free Trade Agreement in 1993, which brought the United States, Canada, and Mexico together in a trade accord that covered nearly 400 million people who collectively produce some \$8.5 trillion in goods and services.

Geographic proximity has fostered vigorous trade between the United States, Canada and Mexico. As a result of NAFTA, the average Mexican tariff on American goods dropped from 10 percent to 1.68 percent, and the average U.S. tariff on Mexican goods fell from 4 percent to 0.46 percent. Of particular importance to Americans, the agreement included some protections for American owners of patents, copyrights, trademarks, and trade secrets; Americans in recent years have grown increasingly concerned about piracy and counterfeiting of U.S. products ranging from computer software and motion pictures to pharmaceutical and chemical products. **Current U.S. Trade Agenda** Despite some successes, efforts to liberalize world trade still face formidable obstacles. Trade barriers remain high, especially in the service and agricultural sectors, where American producers are especially competitive. The Uruguay Round addressed some service-trade issues, but it left trade barriers involving roughly 20 segments of the service sector for subsequent negotiations. Meanwhile, rapid changes in science and technology are giving rise to new trade issues. American agricultural exporters are increasingly frustrated, for instance, by European rules against use of genetically altered organisms, which are growing increasingly prevalent in the United States.

The emergence of electronic commerce also is opening a whole new set of trade issues. In 1998, ministers of the World Trade Organization issued a declaration that countries should not interfere with electronic commerce by imposing duties on electronic transmissions, but

many issues remain unresolved. The United States would like to make the Internet a tariff-free zone, ensure competitive telecommunications markets around the world, and establish global protections for intellectual property in digital products.

President Clinton called for a new round of world trade negotiations, although his hopes suffered a setback when negotiators failed to agree on the idea at a meeting held in late 1999 in Seattle, Washington. Still, the United States hopes for a new international agreement that would strengthen the World Trade Organization by making its procedures more transparent. The American government also wants to negotiate further reductions in trade barriers affecting agricultural products; currently the United States exports the output of one out of every three hectares of its farmland. Other American objectives include more liberalization of trade in services, greater protections for intellectual property, a new round of reductions in tariff and nontariff trade barriers for industrial goods, and progress toward establishing internationally recognized labor standards.

Even as it holds high hopes for a new round of multilateral trade talks, the United States is pursuing new regional trade agreements. High on its agenda is a Free Trade Agreement of the Americas, which essentially would make the entire Western Hemisphere (except for Cuba) a free-trade zone; negotiations for such a pact began in 1994, with a goal of completing talks by 2005. The United States also is seeking trade liberalization agreements with Asian countries through the Asia-Pacific Economic Cooperation (APEC) forum; APEC members reached an agreement on information technology in the late 1990s.

Separately, Americans are discussing U.S.-Europe trade issues in the Transatlantic Economic Partnership. And the United States hopes to increase its trade with Africa, too. A 1997 program called the Partnership for Economic Growth and Opportunity for Africa aims to increase U.S. market access for imports from sub-Saharan countries, provide U.S. backing to private sector development in Africa, support regional economic integration within Africa, and institutionalize government-to-government dialogue on trade via an annual U.S.-Africa forum.

Meanwhile, the United States continues to seek resolution to specific trade issues involving individual countries. Its trade relations with Japan have been troubled since at least the 1970s, and at the end of the 1990s, Americans continued to be concerned about Japanese barriers to a variety of U.S. imports, including agricultural goods and autos and auto parts. Americans also complained that Japan was exporting steel into the United States at below-market prices (a practice known as dumping), and the American government continued to press Japan to deregulate various sectors of its economy, including telecommunications, housing, financial services, medical devices, and pharmaceutical products.

Americans also were pursuing specific trade concerns with other countries, including Canada, Mexico, and China. In the 1990s, the U.S. trade deficit with China grew to exceed even the American trade gap with Japan. From the American perspective, China represents an enormous potential export market but one that is particularly difficult to penetrate. In November 1999, the two countries took what American officials believed was a major step toward closer trade relations when they reached a trade agreement that would bring China formally into the WTO. As part of the accord, which was negotiated over 13 years, China agreed to a series of market-opening and reform measures; it pledged, for instance, to let U.S. companies finance car purchases in China, own up to 50 percent of the shares of Chinese telecommunications companies, and sell insurance policies. China also agreed to reduce agricultural tariffs, move to end state export subsidies, and takes steps to prevent piracy of intellectual property such as computer software and movies. The United States subsequently agreed, in 2000, to normalize trade relations with China, ending a politically charged requirement that Congress vote annually on whether to allow favorable trade terms with Beijing.

Despite this widespread effort to liberalize trade, political opposition to trade liberalization was growing in Congress at the end of the century. Although Congress had ratified NAFTA, the pact continued to draw criticism from some sectors and politicians who saw it as unfair.

What's more, **Congress refused to give the president special negotiating authority seen as essential to successfully reaching new trade agreements.** Trade pacts like NAFTA were negotiated under "fast-track" procedures in which Congress relinquished some of its authority by promising to vote on ratification within a specified period of time and by pledging to refrain from seeking to amend the proposed treaty. Foreign trade officials were reluctant to negotiate with the United States -- and risk political opposition within their own countries -- without fast-track arrangements in place in the United States. In the absence of fast-track procedures, American efforts to advance the Free Trade Agreement of the Americas and to expand NAFTA to include Chile languished, and further progress on other trade liberalization measures appeared in doubt.

The U.S. Trade Deficit

At the end of the 20th century, a growing trade deficit contributed to American ambivalence about trade liberalization. The United States had experienced trade surpluses during most of the years following World War II. But oil price shocks in 1973-1974 and 1979-1980 and the global recession that followed the second oil price shock caused international trade to stagnate. At the same time, the United States began to feel shifts in

international competitiveness. By the late 1970s, many countries, particularly newly industrializing countries, were growing increasingly competitive in international export markets. South Korea, Hong Kong, Mexico, and Brazil, among others, had become efficient producers of steel, textiles, footwear, auto parts, and many other consumer products.

As other countries became more successful, U.S. workers in exporting industries worried that other countries were flooding the United States with their goods while keeping their own markets closed. American workers also charged that foreign countries were unfairly helping their exporters win markets in third countries by subsidizing select industries such as steel and by designing trade policies that unduly promoted exports over imports. Adding to American labor's anxiety, many U.S.-based multinational firms began moving production facilities overseas during this period. Technological advances made such moves more practical, and some firms sought to take advantage of lower foreign wages, fewer regulatory hurdles, and other conditions that would reduce production costs.

An even bigger factor leading to the ballooning U.S. trade deficit, however, was a sharp rise in the value of the dollar. Between 1980 and 1985, the dollar's value rose some 40 percent in relation to the currencies of major U.S. trading partners. This made U.S. exports relatively more expensive and foreign imports into the United States relatively cheaper. Why did the dollar appreciate? The answer can be found in the U.S. recovery from the global recession of 1981-1982 and in huge U.S. federal budget deficits, which acted together to create a significant demand in the United States for foreign capital. That, in turn, drove up U.S. interest rates and led to the rise of the dollar.

In 1975, U.S. exports had exceeded foreign imports by \$12,400 million, but that would be the last trade surplus the United States would see in the 20th century. By 1987, the American trade deficit had swelled to \$153,300 million. The trade gap began sinking in subsequent years as the dollar depreciated and economic growth in other countries led to increased demand for U.S. exports. But the American trade deficit swelled again in the late 1990s. Once again, the U.S. economy was growing faster than the economies of America's major trading partners, and Americans consequently were buying foreign goods at a faster pace than people in other countries were buying American goods. What's more, the financial crisis in Asia sent currencies in that part of the world plummeting, making their goods relatively much cheaper than American goods. By 1997, the American trade deficit \$110,000 million, and it was heading higher.

American officials viewed the trade balance with mixed feelings. Inexpensive foreign imports helped prevent inflation, which some policy-makers viewed as a potential threat in the late 1990s. At the same time, however, some Americans worried that a new surge of imports would damage domestic industries. The American steel industry, for instance, fretted about a rise in imports of low-priced steel as foreign producers turned to the United

States after Asian demand shriveled. And although foreign lenders were generally more than happy to provide the funds Americans needed to finance their trade deficit, U.S. officials worried that at some point they might grow wary. This, in turn, could drive the value of the dollar down, force U.S. interest rates higher, and consequently stifle economic activity.

The American Dollar and the World Economy

As global trade has grown, so has the need for international institutions to maintain stable, or at least predictable, exchange rates. But the nature of that challenge and the strategies required to meet it evolved considerably since the end of the World War II -- and they were continuing to change even as the 20th century drew to a close.

Before World War I, the world economy operated on a gold standard, meaning that each nation's currency was convertible into gold at a specified rate. This system resulted in fixed exchange rates -- that is, each nation's currency could be exchanged for each other nation's currency at specified, unchanging rates. Fixed exchange rates encouraged world trade by eliminating uncertainties associated with fluctuating rates, but the system had at least two disadvantages. First, under the gold standard, countries could not control their own money supplies; rather, each country's money supply was determined by the flow of gold used to settle its accounts with other countries. Second, monetary policy in all countries was strongly influenced by the pace of gold production. In the 1870s and 1880s, when gold production was low, the money supply throughout the world expanded too slowly to keep pace with economic growth; the result was deflation, or falling prices. Later, gold discoveries in Alaska and South Africa in the 1890s caused money supplies to increase rapidly; this set off inflation, or rising prices.

Nations attempted to revive the gold standard following World War I, but it collapsed entirely during the Great Depression of the 1930s. Some economists said adherence to the gold standard had prevented monetary authorities from expanding the money supply rapidly enough to revive economic activity. In any event, representatives of most of the world's leading nations met at Bretton Woods, New Hampshire, in 1944 to create a new international monetary system. Because the United States at the time accounted for over half of the world's manufacturing capacity and held most of the world's gold, the leaders decided to tie world currencies to the dollar, which, in turn, they agreed should be convertible into gold at \$35 per ounce.

Under the Bretton Woods system, central banks of countries other than the United States were given the task of maintaining fixed exchange rates between their currencies

and the dollar. They did this by intervening in foreign exchange markets. If a country's currency was too high relative to the dollar, its central bank would sell its currency in exchange for dollars, driving down the value of its currency. Conversely, if the value of a country's money was too low, the country would buy its own currency, thereby driving up the price.

The Bretton Woods system lasted until 1971. By that time, inflation in the United States and a growing American trade deficit were undermining the value of the dollar. Americans urged Germany and Japan, both of which had favorable payments balances, to appreciate their currencies. But those nations were reluctant to take that step, since raising the value of their currencies would increase prices for their goods and hurt their exports. Finally, the United States abandoned the fixed value of the dollar and allowed it to "float" -- that is, to fluctuate against other currencies. The dollar promptly fell. World leaders sought to revive the Bretton Woods system with the so-called Smithsonian Agreement in 1971, but the effort failed. By 1973, the United States and other nations agreed to allow exchange rates to float.

Economists call the resulting system a "managed float regime," meaning that even though exchange rates for most currencies float, central banks still intervene to prevent sharp changes. As in 1971, countries with large trade surpluses often sell their own currencies in an effort to prevent them from appreciating (and thereby hurting exports). By the same token, countries with large deficits often buy their own currencies in order to prevent depreciation, which raises domestic prices. But there are limits to what can be accomplished through intervention, especially for countries with large trade deficits. Eventually, a country that intervenes to support its currency may deplete its international reserves, making it unable to continue buttressing the currency and potentially leaving it unable to meet its international obligations.

The Global Economy

To help countries with unmanageable balance-of-payments problems, the Bretton Woods conference created the International Monetary Fund (IMF). The IMF extends short-term credit to nations unable to meet their debts through conventional means (generally, by increasing exports, taking out long-term loans, or using reserves). The IMF, to which the United States contributed 25 percent of an initial \$8,800 million in capital, often requires chronic debtor nations to undertake economic reforms as a condition for receiving its short-term assistance.

Countries generally need IMF assistance because of imbalances in their economies.

Traditionally, countries that turned to the IMF had run into trouble because of large government budget deficits and excessive monetary growth -- in short, they were trying to consume more than they could afford based on their income from exports. The standard IMF remedy was to require strong macroeconomic medicine, including tighter fiscal and monetary policies, in exchange for short-term credits. But in the 1990s, a new problem emerged. As international financial markets grew more robust and interconnected, some countries ran into severe problems paying their foreign debts, not because of general economic mismanagement but because of abrupt changes in flows of private investment dollars. Often, such problems arose not because of their overall economic management but because of narrower "structural" deficiencies in their economies. This became especially apparent with the financial crisis that gripped Asia beginning in 1997.

In the early 1990s, countries like Thailand, Indonesia, and South Korea astounded the world by growing at rates as high as 9 percent after inflation -- far faster than the United States and other advanced economies. Foreign investors noticed, and soon flooded the Asian economies with funds. Capital flows into the Asia-Pacific region surged from just \$25,000 million in 1990 to \$110,000 million by 1996. In retrospect, that was more than the countries could handle. Belatedly, economists realized that much of the capital had gone into unproductive enterprises. The problem was compounded, they said, by the fact that in many of the Asian countries, banks were poorly supervised and often subject to pressures to lend to politically favored projects rather than to projects that held economic merit. When growth started to falter, many of these projects proved not to be economically viable. Many were bankrupt.

In the wake of the Asian crisis, leaders from the United States and other nations increased capital available to the IMF to handle such international financial problems. Recognizing that uncertainty and lack of information were contributing to volatility in international financial markets, the IMF also began publicizing its actions; previously, the fund's operations were largely cloaked in secrecy. In addition, the United States pressed the IMF to require countries to adopt structural reforms. In response, the IMF began requiring governments to stop directing lending to politically favored projects that were unlikely to survive on their own. It required countries to reform bankruptcy laws so that they can quickly close failed enterprises rather than allowing them to be a continuing drain on their economies. It encouraged privatization of state-owned enterprises. And in many instances, it pressed countries to liberalize their trade policies -- in particular, to allow greater access by foreign banks and other financial institutions.

The IMF also acknowledged in the late 1990s that its traditional prescription for countries with acute balance-of-payments problems -- namely, austere fiscal and monetary policies -- may not always be appropriate for countries facing financial crises. In some cases, the fund eased its demands for deficit reduction so that countries could increase spending on programs designed to alleviate poverty and protect the unemployed.

Development Assistance

The Bretton Woods conference that created the IMF also led to establishment of the International Bank for Reconstruction and Development, better known as the World Bank, a multilateral institution designed to promote world trade and economic development by making loans to nations that otherwise might be unable to raise the funds necessary for participation in the world market. The World Bank receives its capital from member countries, which subscribe in proportion to their economic importance. The United States contributed approximately 35 percent of the World Bank's original \$9,100 million capitalization. The members of the World Bank hope nations that receive loans will pay them back in full and that they eventually will become full trading partners.

In its early days, the World Bank often was associated with large projects, such as dam-building efforts. In the 1980s and 1990s, however, it took a broader approach to encouraging economic development, devoting a growing portion of its funds to education and training projects designed to build "human capital" and to efforts by countries to develop institutions that would support market economies.

The United States also provides unilateral foreign aid to many countries, a policy that can be traced back to the U.S. decision to help Europe undertake recovery after World War II. Although assistance to nations with grave economic problems evolved slowly, the United States in April 1948 launched the Marshall Plan to spur European recovery from the war. President Harry S Truman (1944-1953) saw assistance as a means of helping nations grow along Western democratic lines. Other Americans supported such aid for purely humanitarian reasons. Some foreign policy experts worried about a "dollar shortage" in the war-ravaged and underdeveloped countries, and they believed that as nations grew stronger they would be willing and able to participate equitably in the international economy. President Truman, in his 1949 inaugural address, set forth an outline of this program and seemed to stir the nation's imagination when he proclaimed it a major part of American foreign policy.

The program was reorganized in 1961 and subsequently was administered through the U.S. Agency for International Development (USAID). In the 1980s, USAID was still providing assistance in varying amounts to 56 nations. Like the World Bank, USAID in recent years has moved away from grand development schemes such as building huge dams, highway systems, and basic industries. Increasingly, it emphasizes food and nutrition; population planning and health; education and human resources; specific economic development problems; famine and disaster relief assistance; and Food for Peace, a program that sells food and fiber on favorable credit terms to the poorest nations.

Proponents of American foreign assistance describe it as a tool to create new markets for American exporters, to prevent crises and advance democracy and prosperity. But Congress often resists large appropriations for the program. At the end of the 1990s, USAID accounted for less than one-half of one percent of federal spending. In fact, after adjusting for inflation, the U.S. foreign aid budget in 1998 was almost 50 percent less than it had been in 1946