THE FOREIGN TRADE POLICY OF THE UNITED STATES

WILLIAM W. LOCKWOOD, JR.

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AMERICAN COUNCIL
INSTITUTE OF PACIFIC RELATIONS

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MEMBER OF THE RESEARCH STAFF, AMERICAN COUNCIL, INSTITUTE OF PACIFIC RELATIONS

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FOREWORD

THE author of this essay sees in the United States trade agreements program "perhaps the major force in the world today working toward the liberalization of commercial policy, the reduction of barriers, and the restoration of equality of treatment as opposed to preference and exclusion." Believers in free and unhampered international exchange of goods as the essential foundation of prosperity may take heart from the trend of American commercial policy in the latest period; or, on the other hand, they may see only grounds for discouragement in the meagerness of the results so far achieved, as well as in the lack of coordination between commercial policy proper and other policies of the United States government, also affecting the conditions of world trade. The conclusion that despite conflicting tendencies "there is here no consistent pattern of withdrawal" from international economic intercourse may, equally, be regarded by some as a harbinger of beneficent cooperation, by others as an omen of destructive competition in merchandise and investment markets. The facts of the case are succinctly set forth in this paper, which, while concentrating upon a discussion of the trade agreements, enables this program to be viewed in its larger setting. The study is one of a series on the United States recovery program, with special reference to its international repercussions in the Pacific area, prepared under the auspices of the American Council as documentation for discussion of this subject at the Yosemite Conference of the Institute of Pacific Relations. The American Council, of course, assumes no responsibility for statements of fact or of opinion; this responsibility rests upon the author alone.

June 1936

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THE FOREIGN TRADE POLICY OF THE UNITED STATES

INTRODUCTION

THE RECIPROCAL trade agreements program is the most signal effort of the New Deal in the realm of economic foreign policy. Both in its objectives and in its procedures, it constitutes a radical departure from American tariff policy in pre-depression years. Within the limits imposed by continuing world depression and the need for emergency measures at home, the United States government has thrown the weight of its influence in the direction of reducing trade barriers and reviving equality of treatment. The success of this program, more than many New Deal policies of a more strictly emergency character, measures the relative political power of groups seeking to maximize and to minimize international economic ties. It also differs significantly from other aspects of the New Deal in that it seeks to diminish rather than to increase the amount of government intervention in economic life, and to restore in greater degree the self-adjusting mechanism of the free market.

To draw the line between foreign and domestic policies is of course to make a false distinction. In their causes and effects, both are inextricably interwoven. The tariff is merely one type of response to the stream of interests and ideas which shapes the whole pattern of collective action. Philippine independence and the silver purchase program, two American policies of especial importance in the Far East, are obvious examples of the international significance of domestic economic pressures. In a broader sphere the international monetary standard and large-scale unemployment are closely related problems. For not only have unstable monetary systems thrown millions out of work, but today international currency relations are vitally conditioned by unbalanced budgets arising primarily from unemployment relief and armament expenditures. Going back to the twenties, the failure of wages in the United States to keep pace with the rise of business profits was not solely a domestic phenomenon.

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It arose in part from credit inflation based upon gold accumulated from abroad. In turn, it gave rise to international difficulties by stimulating an undue expansion of foreign loans and merchandise exports. Finally, the New Deal program of recovery and reform is today a matter of concern to anyone interested in world peace, for it is a truism that the prospects for peace are intimately bound up with the success of the Great Powers in achieving a reasonable degree of economic stability and well-being at home.

The recognition of this truth has led the Institute of Pacific Relations to assign an important place on the agenda of its 1936 Conference at Yosemite to the American recovery program. The American Council has in turn prepared a series of data papers covering various aspects of that subject. The purpose of this paper, as one of that series, is to summarize the trend in the economic foreign policy of the United States and to single out the reciprocal trade agreements program for special consideration.

Apart from the limitations of space, our chief reasons for emphasizing the trade agreements program are as follows: (1) The reduction of trade barriers through bilateral agreements is the New Deal's major effort of a positive character in the field of economic foreign policy. (2) American interest in the recovery of foreign markets has gained as it has become clear that the emergency expedients adopted in the absence of such recovery were costly, in some cases unconstitutional, and often tended toward the restriction rather than the expansion of production. (3) The revision of the tariff by Administration experts within the limits laid down by Congress represents a significant step away from the scandalous procedure employed in previous Congressional revisions and toward scientific tariff-making in the national interest. (4) The trade agreements program of the United States is perhaps the major force in the world today working toward the liberalization of commercial policy, the reduction of barriers, and the restoration of equality of treatment as opposed to preference and exclusion.

BASIC ISSUES

Collapse of Trade

In order to understand and evaluate foreign trade policy under the New Deal, it is necessary first to distinguish the major issues at stake in the light of post-war American policy. For convenience we may

consider them briefly under two headings: (1) should foreign trade be sacrificed or restored; (2) what should be done in the national interest to secure better coordination and balance in international economic relations.

The collapse of American foreign trade under the impact of world depression was especially severe. From 1929 to 1933 foreign trade values declined by two-thirds. Broadly speaking, this reduction exceeded the decline in world trade as a whole; it also exceeded the shrinkage in domestic production and trade. American exports, being composed so largely of agricultural products on the one hand, and capital goods on the other, were especially sensitive to world deflation. Agricultural exports suffered from the catastrophic fall in prices of raw materials and foodstuffs the world over; exports of machinery, automobiles and metal semi-manufactures declined heavily in quantity with the dwindling of investment and the slackening of industrial activity. Agricultural surpluses piled up; idle capacity mounted in export industries and the reduction of incomes from curtailed foreign trade contributed to the downward spiral of prices, profits and wages which characterized the economy as a whole.

This collapse of foreign trade values led, not to a popular demand that steps be taken to revive foreign markets, but rather to a move for greater self-containment. The theory that the depression was an outside disturbance insidiously transmitted to the United States commanded increasing support. Republican leaders asserted in the campaign of 1932 that the country would by then have shaken off the effects of a moderate recession following the stock market collapse had it not been for financial crises originating in Europe in 1931 and blighting American recovery. The debacle of foreign loans occasioned a revulsion of feeling as regards international finance and financiers. Dwindling employment and profits led to efforts further to insulate the home market from foreign competition. "Buy-Americanism" became a popular slogan. All this was paralleled, of course, in other countries contending with the same economic difficulties.

By comparison with the rest of the world, however, the United States took little positive action to heighten its trade barriers in the early years of the depression. This was chiefly due to the fact that it had just completed an upward revision in 1929—in the face of protests and warnings from thirty-three countries. The Hawley-Smoot tariff, which had originated in a move to increase agricultural protection, developed into a general increase in rates. With competitive

imports already very closely restricted, there was little to be gained from further increases after 1930. The pressure of protectionist groups, however, made reduction out of the question, and, in fact, a few rates were increased.[1] Moreover, falling prices raised the ad valorem equivalent of specific rates (duties fixed in terms of dollars and cents per unit). This served to raise the average ad valorem rate on about half the dutiable imports of the United States by as much as 41% from July 1930 to March 1932.[2]

Debate over Self-Containment

Apart from the militancy of tariff-dependent industries, and the traditional, undiscriminating protectionism of most of the American public (including large sections independent of the tariff and injured by many rates), the policy of self-containment has recently gained vigorous support from a group of intellectuals who have sought to provide a new rationale for economic withdrawal and isolation from world affairs.[3] The result has been to precipitate a lively debate which has led to a useful reexamination both of the orthodox precepts of laissez faire, and of their customary violations in practice. To discuss the issue at length is beyond the bounds of this paper, but we may at least give the gist of the matter.

The "self-containment school" centers its argument on the wastes and futilities of American participation in world affairs since 1914, and the potentialities of economic planning to achieve security and abundance on a national basis. Economic balance requires that the country insulate itself from economic disturbances abroad over which it can have no control. Gone forever are the stabilizing forces of free competition in an expanding world market, which kept the international economy on a reasonably even keel in the nineteenth century.

(1) In the Revenue Act of 1932 duties in the form of excise taxes were imposed on imports of petroleum, coal, lumber and copper. Numerous unimportant changes in import duties were also made under the "flexible tariff" powers of the President, but the decreases roughly equaled the increases in number.

(2) Equivalent ad valorem rates on total imports into the United States have averaged as follows:

	1913	*1918*	*1923*	*1928*	*1930*[a]	*1932*	*1934*	*1935*
Dutiable	40.0	24.1	36.2	38.8	44.8	59.1	46.7	41.5
Free and dutiable	17.7	6.3	15.2	13.3	13.7	19.6	18.4	17.6

(a) June 18 (Hawley-Smoot tariff effective) to December 31.

Source: U. S. Tariff Commission, *The Tariff and Its History* (Washington, 1934), p. 109. 1934 and 1935 calculated.

(3) This point of view has found its most effective expression in the writings of the distinguished historian and liberal, Charles A. Beard. See his *The Idea of National Interest* (New York, 1934) and *The Open Door at Home* (New York, 1934).

Yet there is not a remote possibility of world planning to take their place. Planning must begin at home in any case, and its failure is foredoomed unless the national economy is virtually self-contained.

Nor will this involve great sacrifices, it is held, once the adjustments are made. The importance of imports is commonly exaggerated, especially for a country with the great natural wealth and the scientific attainments of the United States. Exports *per se* add nothing to the wealth of the country; in fact, they are a positive evil to the extent that they have depleted the mineral, forest and soil resources of the United States beyond replacement. For decades the farm belt has been exporting its soil in the most reckless fashion. Moreover, so far as the cotton South is concerned, a profitable export market has served to perpetuate a system of property and human relationships which degrades and exploits the mass of the population.

Political security dictates the same policy. The orthodox economists spin beautiful theories of world specialization evolving in terms of a competitive, self-adjusting mechanism, free from political interference. What we have instead is a sordid scramble for markets, raw materials and investment opportunities—a struggle carried on by great industrial and banking combines working in conjunction with their imperialist governments. The whole business is a snare and a delusion; its only possible outcome a repetition of 1914-18.

In short, economic dependence on the outside world is a menace so long as world society is characterized by international anarchy among aggressive nation states. There is no possibility today of modifying the political facts. Consequently, with one of the two greatest free trade areas in the world inside our own continental boundaries, we had better abandon our colonies, give up our interventionist policies, write off our foreign investments, minimize our trading ties, and busy ourselves with tending our own garden.

The answer to these arguments runs along familiar lines. There is a prima facie case for international specialization as well as domestic specialization. Many valuable commodities can be secured only from abroad; others can be obtained more cheaply abroad than at home by exporting in exchange the goods and services in the production of which this country has a comparative advantage. Silk, tin, rubber, sugar, coffee, wood pulp, furs, vegetable oils, the quality manufactures of Europe, tropical fruits and fibers, a number of valuable mineral imports—these are irreplaceable or can be produced in the United States only at great cost. They should not be sacrificed

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unless, indeed, such a sacrifice would actually bring real gains in security.

But is security to be achieved by isolation? Few advocates of autarchy carry their argument to the point of demanding the complete abolition of foreign trade. It is a matter of degree. Yet if trade were to remain at a level, say, of two or three billion dollars, and no more than that, would this not render the country sufficiently dependent on world conditions to nullify whatever promise of greater war-time or peace-time security might be offered by thoroughgoing economic isolation? The post-war tariffs of the United States had already reduced the volume of imports to the point where not more than 10% might be regarded as directly competitive.[4] Yet the crash in 1929 was more severe in the United States than elsewhere. Moreover, foreign trade may be a source of stability in some respects and foreign competition a stimulant to industrial progress as well as a check on domestic monopoly.

Furthermore, is the cause of peace to be served by refusing to allow foreign peoples to share in the benefits of America's preponderant natural wealth and productive capacity through peaceful trade? Would this not sharpen the hunger of the "unsated" powers, intensify the scramble by the stronger nations for remaining raw materials and markets, and deprive the weaker ones of the means to defend themselves? Is there any real prospect that the United States could succeed in remaining aloof from international conflict which such a course of action would only intensify?

Determinants of Policy

But in the year 1933 all the argument on this plane, pro and con, smacked of the academic, important as the issues might be. First, the brief for complete, planned restriction of foreign trade and finance was unreal in this sense: its objectives were not defined in terms of the means at hand for realization. The meat of the argument was lost if foreign trade planning was not to be fitted into comprehensive planning of the entire economy. Yet any such proposal had no immediate and practical significance in the United States for the simple reason that people would not acquiesce; and closely connected with this matter of consent was the fact that the nation had already allowed

(4) Estimate for 1927 made by Professor Arthur Rühl of the University of Berlin and quoted in *International Economic Relations*, Report of the Commission of Inquiry into National Policy in International Economic Relations (Minneapolis, 1934), p. 135.



foreign trade to develop to the point where tremendous dislocation in agriculture and industry would result from its abolition. In fact, far-reaching and distasteful adjustments would have to be made if trade failed to recover from the level even of 1933, when exports were 48% below the level of 1929 in physical volume and 68% below in dollar value.

Thus the choice was a forced one—in fact, no choice at all—unless the United States was prepared to undertake in the midst of a great depression a permanent redistribution of population previously engaged in industries relying on exports and imports, the scrapping of many industrial plants and most of the merchant marine, the writing off of foreign investments, and the liquidation of seaboard cities and of banking, transport and commercial agencies dependent on foreign trade.

To attempt to picture in detail the effects of such a program is to embark upon a sea of conjecture regarding substitutes, alternative occupations, land uses, etc. This is unnecessary for our purpose, but a few figures may make the situation more concrete. In 1929 nearly 9% of total domestic manufactures was exported, to a value exceeding $3 billions. For several major industries the ratio of exports to production was as follows: refined mineral oils, 20%; refined copper, 36%; industrial machinery, 13%; agricultural implements and machinery, 25%; automobiles, 12%. In agriculture, the home market failed to absorb the crop and animal products of some 60 million acres of crop land in the period 1925-29. This included more than 10% of the corn belt (feed grains, 17 million acres); about 30% of the wheat belt (wheat and rye, 18 million acres); more than 50% of the cotton belt (cotton, cotton seed, etc., 24 million acres), and large portions of lesser crops like tobacco, rice and fruits.[5] By 1934 a substantial part of this foreign market had disappeared—some of it permanently. Was it desirable to complete its elimination, even if feasible?

It goes without saying that there was never any widespread sentiment in the United States for such sweeping readjustments as the abandonment of foreign trade would have entailed. For the American farmer, in particular, the decline in foreign markets had already

(5) Figures for industry are from U. S. Department of Commerce, *Foreign Trade of the United States, 1934* (Washington, 1935), pp. 14-17. Figures for agriculture are those of Theodore W. Schultz in *Vanishing Farm Markets and Our World Trade*, World Affairs Pamphlets No. 11 (World Peace Foundation, 1935), pp. 16-25.

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piled up huge surpluses and depressed prices to the point where the Roosevelt Administration, entering office in 1933, was forced to embark on far-reaching farm subsidy and production curtailment. Secretary of Agriculture Wallace[6] and other Administration leaders warned that these were merely stopgap measures. They must give way to elaborate regimentation of agriculture and industry unless vigorous efforts were directed to the restoration of foreign trade.

Thus the natural unwillingness of producers and investors with a direct stake in foreign trade and investment to abandon the prospect of profits and jobs in international dealings was powerfully reinforced by an aversion to the huge expenditures for relief and the extensive government intervention in economic life which a program of self-sufficiency would entail. It is true that business interests which have sought higher tariffs or resisted tariff reduction have generally at the same time attacked the AAA and relief expenditures. Nevertheless the plight of agriculture and the tireless repetition by Administration spokesmen of the alternative between the recovery of foreign trade and increasing regimentation at home has helped to mitigate in some degree the traditional hostility to tariff reduction.

Trade and Loans

The second broad issue in the field of economic foreign policy has been the need for more consistent direction and coordination of the various aspects of international economic contacts, whether those contacts were in general to be maximized or minimized, or whether a middle course was to be pursued.

One might multiply examples of the lack of such planning in terms of any consistent principle or policy. Thus the promotion activities of the Department of Commerce, as expanded during the regime of Mr. Hoover as Secretary of Commerce and President, took the form mainly of assistance to exporters, and, on occasion, to bankers seeking foreign loan contracts, with little apparent solicitude at the same time for the interests of American consumers as represented by importers, or of American investors in foreign securities. The revision of the tariff in 1922 and 1930 conformed to no discoverable formula of tariff-making except that of awarding the spoils to the strongest lobby. Again, the reluctance of the United States government to associate itself with such supervisory and regulatory agencies

(6) Cf. *America Must Choose*, World Affairs Pamphlets, No. 3 (World Peace Foundation, 1934).

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as the Bank for International Settlements or the International Labor Organization, to mention only two international agencies, seems inconsistent with extensive American participation in international finance and industrial competition.

Especially unfortunate in its consequences both at home and abroad was the failure in the pre-depression decade to secure a more stable balance in the inflow and outflow of international payments for goods, services and loans.[7] The post-war return to the gold standard proved to be lamentably short-lived. This was because its essential condition was not fulfilled—that disturbances in international equilibrium be kept within tolerable limits. The basic reasons probably lie deep in the structure and functioning of modern capitalist economies. But some share of the blame for this failure must be placed upon the contradictory policies pursued by the United States. For the failure of the United States to adjust itself to its new-found creditor status contributed to the cumulative financial stress which finally precipitated the general collapse of monetary systems after 1929.

The sequence of events cannot be chronicled here.[8] It is pertinent to our subject, however, to recall briefly several aspects. The World War thrust the United States into the role of an international creditor on a huge scale. Then came the flood of post-war loans and investments which raised total American private long-term investments abroad to a peak of over $15 billions in 1930. This transformation of a country from a net debtor position of $3 billions to a net creditor position of about $21 billions (including $11 billions of war debts) within the space of fifteen years is without parallel in history.

Despite the poor quality of many foreign bonds foisted on the American public by irresponsible and unseeing investment bankers, the fact should be noted that the great bulk of private loans and investments abroad represented bona fide investments. They were not made for the purpose of supporting a favorable balance of trade. In effect, of course, they contributed to that end. So they retarded the building up of an adverse balance of payments for goods and services which would otherwise have resulted from return payments on sums

(7) International payments are always in balance in the sense that total imports and exports, visible and invisible, must be equal—i.e., for every purchase of foreign exchange there is a sale. But the way in which the adjustment is currently effected is important, both for the present and for the future.

(8) For an admirable summary, in compact form, of post-war American trade and financial policy, see the report by Alvin H. Hansen, Director of Research, in *International Economic Relations,* cited, pp. 101-79; also Frank W. Fetter, "U. S. Balance of International Payments," *Foreign Policy Reports,* May 15, 1936.

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invested abroad in earlier years. There was no inherent contradiction in continued lending, provided the transition could be smoothly effected. Yet a serious mistake was made—for one thing—in concentrating such heavy investments in Europe. They merely postponed the evil day when, with the cessation of lending, the impossible burden of Germany's reparation payments should become apparent. Moreover, in conjunction with the war debts they piled up a huge volume of debt obligations on a continent whose trade balance with the United States was heavily adverse, partly because of high tariffs on European manufactures. In modern times the possibility of servicing such debts through triangular operations appears to be increasingly difficult.

But in general the most unfortunate aspect of the post-war creditor relationships of the United States has been their extreme instability. Consider the net movement of private long-term investment funds. From 1919-22 there was a heavy outward movement. In 1923 it disappeared. During the next five years it was resumed on a large scale, averaging over $600 millions a year. Again it dwindled, and since 1931 the net movement has actually been inward. Short-term lending has been subject to equally great fluctuations which have sometimes offset and sometimes reinforced the flow of long-term capital. All this is simply the international aspect of the variations in the volume of investment which characterize modern capitalist economies in their internal as well as external relationships. In this case the abnormal migration of investment funds back and forth and the huge debt obligations thus built up imposed such transfer burdens in international payments as to wreck one monetary system after another.

Debts and the Tariff

Furthermore, the problems arising out of this lending episode were complicated by the official American policy of promoting exports, loans and shipping services, demanding payment of the war debts, and at the same time maintaining and raising a high tariff on imports. Now the effectiveness of the American tariff in preventing loan repayment is commonly exaggerated. Over a period of time the tariff limits the volume of trade, rather than the balance[9]—which is the

(9) But the larger the volume of trade relative to the volume of international lending the less is the strain imposed by loan transfer and repayment. "As world trade has shrunk and prices have fallen during the depression, a widening gap has been opened between these international obligations and the commercial transactions by which alone they can be discharged in the long run." League of Nations; *World Economic Survey, 1934-35* (Geneva, 1935), p. 202.

main point here. In other words, the higher the tariff the more likely it is that loans will be repaid by the relative contraction of exports rather than the relative expansion of imports. Of course, the upward revision in 1930 was most inopportune. It was more serious, however, in the resentment and retaliation it aroused abroad[10] than in its directly restrictive effects. The basic structure of American protectionism was already virtually complete in 1929. The new revision merely plugged up a few holes in the dyke. More important than the tariff as a disrupting force, but associated with it, was the instability of lending cited above. This in turn was simply a particular aspect of the complete failure of the authorities to stabilize credit conditions at home.

As a matter of fact, the balance of goods and services (excluding interest and dividends) was actually "unfavorable" for the United States after 1925. From 1925 to 1929 the debit balance of services exceeded the credit balance of goods by an average of almost $250 millions a year. But reversal of the balance in the necessary proportions was obstructed by the American tariff when the support of continued lending was suddenly withdrawn. The tariff was one of many elements of rigidity in the economic structure. It violated "the rules of the game." So it intensified the strain upon balances of payments imposed by huge and uncontrolled capital movements and contributed to the resultant breakdown.

The fact is that the United States has yet to adjust the structure of its trade to the normal position of a mature creditor. From the days of the World War down to 1934, the surplus of merchandise exports was supported by the export of capital and the import of gold. In the twenties it was long-term capital, of which net exports exceeded $5 billions, together with gold imports in excess of a billion. During the early years of the depression, when the flow of long-term funds turned inward, it was the withdrawal from the United States of huge short-term balances accumulated in pre-depression years. Thus through 1933 net capital export, together with debt default and the decline of earnings on direct investments abroad, continued to support the trade balance. Finally, in 1934 and 1935 the international accounts were adjusted roughly as follows. Taking the two years together, the total commodity and service account was out of balance by the sum of net interest and dividend receipts, about $600 millions.

(10) Cf. Joseph M. Jones, Jr., *Tariff Retaliation: Repercussions of the Hawley-Smoot Bill* (University of Pennsylvania Press, 1934).

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In other words, the surplus of merchandise exports was matched by the net payments of Americans for services apart from interest and dividends. On capital account, the earlier withdrawal of short-term funds ceased, and was replaced by a huge net influx of funds exceeding $1,900 millions. This represented mostly an increase in foreign dollar balances in the United States and the inflow of American banking funds after the devaluation of the dollar in 1934. Set off against this debit balance on both current and capital accounts was a great net import of gold reaching almost $2,900 millions and a net import of silver exceeding $400 millions.[11]

Since the concentration of gold in the United States cannot go much further, it is apparent that imports must be enlarged, if (unblocked) payments are to be made on foreign debts[12] and if exports are to recover. Will the United States again become a lender on a large scale? And if so, will it be to duplicate the disastrous experience of the twenties? The solution of the problem of balance and coordination in this field goes to the heart of the whole subject of economic stabilization. Clearly one of the lessons of the post-war years is the inconsistency of restricting imports and offering subsidies and services indiscriminately to exporters, while at the same time leaving private interests to engage in a tremendous volume of international financing with no regard to its relation to trade or the ultimate means of payment.

TREND OF NEW DEAL POLICY

Emergency at Home

The administration of President Roosevelt opened in the midst of a great banking crisis. The whole economic system was prostrate, and public morale at its nadir. Under these circumstances there was

(11) The net credit balance on goods and services (including interest and dividends) dropped from $466 millions in 1934 to $147 millions in 1935. This change came about largely as a result of increased imports of merchandise and increased remittances of interest and dividends on foreign funds invested in the United States. The pairing-off of items in the above paragraph is done for convenience of exposition and does not imply any necessary causal relationship peculiar to the paired items. All items in the balance of payments are mutually dependent in greater or less degree.

(12) Foreign dollar bonds in default as to interest or sinking fund payment or both at the end of 1935 amounted to $1,825 millions, or 34% of all foreign dollar bonds still outstanding. A substantial, though reduced, share of these bonds is still held in the United States. *Annual Report of the Foreign Bondholders Protective Council, Inc.*, 1935 (New York, 1936), p. 274. No payment has been made on the war debts since June 1934, except for Finland's payments and small sums from Greece. Debt default is one way by which a balance of payments may be brought into adjustment. The extent to which it is resorted to depends in part on how readily the debtor can procure exchange for purposes of payment.

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a clear choice of priority as between measures to restore foreign trade and those directed primarily at domestic recovery. This was indicated by the President in his inaugural address. "Our international trade relations, though vastly important," he said, "are in point of time and necessity secondary to the establishment of a sound national economy. I shall spare no effort to restore world trade by international economic adjustment, but the emergency at home cannot wait on that accomplishment."[13]

Nevertheless, on March 22 it was announced that the President would seek from Congress the authority to negotiate trade agreements with foreign countries. The appointment of Cordell Hull, a lifelong exponent of liberal commercial policy, as Secretary of State had already signified that the Administration would seek to carry out the tariff plank in the Democratic platform of 1932. This ran as follows: "We advocate a competitive tariff for revenue, with a fact finding commission free from executive interference, reciprocal tariff agreements with other nations, and an international economic conference designed to restore international trade and facilitate exchange." The first phrase was the traditional (and meaningless) party declaration; the second a dig at the tariff policy of post-war Republican administrations, and the last two embodied the principles of a bill (H.R. 6662—72nd Congress) passed by a Democratic Congress in 1932, but vetoed by President Hoover.

The London Conference

The first test of economic foreign policy came in conjunction with the World Economic Conference, convened at London in June. This conference had been called early in 1932. President Hoover had accepted the invitation on condition that debts, reparations and disarmament should not be discussed. However, aside from the drafting of a conference agenda by a group of experts, nothing was done to bring it to realization until President Roosevelt invited Prime Minister MacDonald and others, including representatives of Canada, China and Japan, to Washington in April 1933 for preliminary discussions. Late in April the date for convening the conference was fixed as June 12. It now appeared that nations which had sought fruitlessly for three years or more to stem the tide of depression by measures of economic nationalism would attempt a different approach.

How that conference split on the issue of currency stabilization

(13) *New York Times*, March 5, 1933.

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versus tariff reduction is a familiar story. Despite earlier statements in favor of stabilization, the attitudes of President Roosevelt underwent a dramatic change. With the impetus afforded by the banking crisis the Administration had embarked on a sweeping program of domestic recovery based on the cardinal principle of raising the price level. NRA, AAA and a huge spending program were to be the major expedients. As an indispensable accompaniment to this effort, gold convertibility had been definitely abandoned for the time being. It was clearly impossible to combine this reflationary program with currency stabilization. Yet the latter was insisted upon as a prerequisite to tariff negotiation by the gold bloc under the leadership of France. Thus Mr. Hull's efforts at the conference in behalf of tariff reduction came to naught, and a deadlocked conference failed signally in its major objectives.

Much paper and ink have been expended in putting the major blame for this failure on the United States, and in drawing a distinction between the "nationalist" policy of the United States and the "internationalism" of the gold bloc. In our opinion, the accusation is unfounded, and the distinction not at all illuminating. This is not to say that the presentation of the American case was not badly bungled, partly because of internal conflicts in the Administration. But it seems clear that there was virtually no prospect of accomplishing anything at London in the way of tariff reduction, whatever attitude the United States took on stabilization. Even at the beginning, when stabilization was assumed, no progress toward agreement had been made by the "barrier sweepers" as they have been called. England had just embarked on a broad program of protection and imperial preference; Europe was moving steadily in the direction of mounting trade and production controls. Here, as at the Disarmament Conference of the same year, failure to register any substantial achievement was a foregone conclusion, and the responsibility evenly distributed.

Moreover, both French and American policy may be called nationalist, or internationalist, with equal truth. Both aimed to put national interests before the interests of foreign countries; both were conditioned at home by the pressure of groups having different objectives and political power. And finally, if we are to judge by results in terms of world recovery, it would be difficult to demonstrate that the policies of the gold bloc countries, either before or after the London Conference, were more truly international in character.

To resume our narrative, the tariff issue was not completely shelved in Washington, despite the failure of the London Conference and the preoccupation of the Administration with domestic recovery. True, Congress adjourned without giving effect to the platform pledge. The President, it was reported, had withheld his request for authority to negotiate trade agreements in order not to prolong further an extended legislative session. Nevertheless, in the latter part of 1933 the State Department made preliminary overtures to a number of countries; a commercial treaty was signed with Colombia; some bargaining was done in connection with liquor imports from Europe; the recognition of the Soviet Union in November gave promise of expanded trade; and at the Seventh Pan-American Conference at Montevideo in December, Secretary Hull secured the unanimous adoption of a resolution favoring the reduction of trade barriers and liberalization of commercial policy.

For the time being, however, there was one element of uncertainty in the American situation which precluded any substantial progress in tariff negotiation. This was the uncertain exchange value of the dollar. After its early depreciation, following the departure from gold in the spring of 1933, the dollar had fluctuated unevenly. In the fall it began to show signs of appreciation. Under severe pressure from the inflationist bloc, the President in October adopted Professor Warren's curious but comparatively innocuous scheme of forcing up the price of gold as a means of raising the price level. The wholesale price level did not by any means respond in proportion to the fall in the gold value of the dollar; but exchange rates on gold countries followed closely. By December the dollar-franc rate had dropped more than one-third from its old parity.

At this point the borrowing necessities of the Treasury intervened to check further depreciation. With the prospect ahead of financing a spending program of many billions, the government had to provide wary investors with reasonable assurance concerning the future value of the dollar. In the Gold Reserve Act of 1934, signed January 30, a modified version of the gold bullion standard was adopted, with the proviso that for a period of three years the President might fix the gold value of the dollar anywhere between 50% and 60% of its old parity. The dollar was promptly stabilized provisionally at 59.06%. There it has since remained.

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This was not international stabilization to be sure. In fact, no headway has been made to this date in implementing the vague declarations in favor of such action which have emanated periodically from Washington and London. Nor does it appear that any considered effort was made at that time to arrive at a figure for the dollar which would provide an equilibrium in international payments without resort to gold. At any rate, if such considerations did enter in, they went sadly astray. As already stated, the de facto stabilization was the signal for an influx of capital which, together with other factors, including an expansion of the favorable trade balance, brought the tremendous sum of almost three billions of gold into the already overstuffed vaults of the Treasury, during the next two years. Nevertheless, the qualified return to gold gave a measure of external stability to the dollar. One of the consequences was to prepare the way for a vigorous attack on the problem of tariff reduction for which Secretary Hull and his aides had been busy preparing for some months.[14]

The need for some such action, if exports were to be revived, was daily becoming more apparent. The inflationary boom of the spring and summer of 1933 had long since ebbed away though prices and money incomes had been lifted. While the crop reduction program of the AAA was now in full swing, and was soon to be reinforced by a severe drought, it was clear that it offered no permanent and satisfactory solution of the farm problem. Administration spokesmen were at pains to point out that this was primarily emergency action designed to take up the slack occasioned by the loss of foreign markets. Yet there was danger that the resultant increase in domestic prices might jeopardize the recovery of those markets and increase the pressure for higher tariffs. It thus threatened to enlarge the necessary scope of what the President referred to as "heart-breaking adjustments" to a permanently more self-contained basis.

On the other hand, it was obviously difficult to effect any substantial reduction of the American tariff while industry was still depressed and the unemployed totaled many millions. At the behest of busi-

(14) The case for proceeding with tariff negotiation without waiting for exchange stabilization was stated as follows by Secretary of State Hull: "The monetary and economic sides of it are interlocked. Permanent monetary arrangements . . . would improve commerce. . . . But if we attained permanent monetary arrangements and permanent exchange stability, before achieving economic rehabilitation, in 90 days the exchange and monetary situation would snap right back to where it is now." *Reciprocal Trade Agreements.* Hearing before the Committee on Finance of the United States Senate on H. R. 8687 (Washington, 1934), p. 14.

ness interests, moreover, a clause (3e) had been inserted in the National Industrial Recovery Act which authorized the President to restrict imports where any increase threatened the maintenance of an NRA code or agreement. As it turned out, little use was made of this sweeping power prior to the invalidation of NRA by the Supreme Court in May 1935.[15] The recovery program raised prices and costs substantially in many industries, but the depreciation of the dollar, by and large, apparently offset any broad disadvantage there might otherwise have been in meeting foreign competition.

The Johnson Act

A fresh international difficulty arose at this time in connection with the war-debt controversy. The passage of the Johnson Act, signed April 13, 1934, could hardly be said to have brightened trade prospects. By this act, it will be recalled, the money markets of the United States were closed to all future borrowing by foreign governments (and their political subdivisions) which were in default on war-debt account.[16] As subsequently interpreted, at least by implication, the ban was to be placed on all debtor nations which failed to meet their obligations in full on the next due date, June 15, 1934. Except for Finland, this precipitated virtually complete default on the part of all the debtors, including six who had sought to avoid the stigma of default by continuing token payments after the expiration of the Hoover moratorium.

The passage of the act served to end token payments and to stiffen the resistance of the debtor countries to any further payment. By this unlooked for result it contributed modestly to the balancing of the international accounts of the United States. On the other hand, it

[15] During the two-year period in which Section 3e was in force, import restrictions were applied only on lead pencils, cotton rugs and red-cedar shingles. These took the form mainly of agreements with foreign governments or exporters voluntarily to restrict shipments to the United States, although in the case of cotton rugs, fees were also applied from June 1934 to June 1935. A number of requests for restrictions on other articles were pending at the time NRA was invalidated. Like cotton rugs and pencils, these were very largely concerned with Japanese competition. Cf. *Nineteenth Annual Report of the United States Tariff Commission* (Washington, 1935), pp. 14-17.

[16] The resentment and bitterness prevalent in Congress at this time over the war-debt issue was revealed, not only by the Johnson Act and its accompaniment of "good round cursing," but by numerous abortive measures introduced in 1934. These included the imposition of penalty duties and special immigration restrictions on the defaulters. For an incisive account of the war-debt situation, the Johnson Act, and the controversy over German debt payments see Whitney H. Shepardson and William O. Scroggs, *The United States in World Affairs, 1934-35* (Council on Foreign Relations, New York, 1935), chap. 5.

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eliminated whatever slight possibility there might have been that American lending to these governments would be revived in the near future.

Moreover, fresh complications were injected into the negotiations with the Soviet Union for the purpose of developing trade and settling the vexatious debt question. Both purposes would have been served by arrangements for the granting of credits to stimulate trade. The provision of such credits was one of the objectives of the Export-Import Bank of Washington, incorporated on February 12, 1934 with a capital of $11,000,000 supplied by federal agencies, and designed to assist in the financing of foreign trade. Now the Attorney-General, in interpreting the Johnson Act, ruled that the Soviet Union was in default on its debt. It is true that the act had specifically excluded from its loan prohibition any credits extended by a government agency such as the Export-Import Bank. But the difficulty was this: the amendment granting such exception had only passed Congress when the trustees of the Bank had themselves adopted a ruling that no credits would be extended to the Soviet government until the debt question was settled. Thus the stimulation of trade with the Soviet Union through the medium of the Export-Import Bank was in effect blocked by the Johnson Act.[17] Trade relations between the two countries were subsequently improved by the commercial agreement signed in July 1935 (see page 32) but the vexatious debt question remains unsettled to this day.

The Outlook Abroad

Finally, the outlook abroad for the recovery of export markets was bleak, especially in the case of agricultural products. The steady piling up of trade barriers of every description abroad had not been abated, but intensified. It represented in part a long-term trend away from the ruthless adjustments of laissez faire. In Europe, where the bulk of American agricultural exports was marketed, the recent drive toward self-sufficiency had only accentuated a tendency apparent since the war at least.[18] Here economic exigencies dictated a policy which

(17) Ibid., pp. 82-84, 104-106.

(18) Secretary Roper, in arguing the case for tariff bargaining in 1933, pointed out that in the case of wheat, an important American export, increases in import duties from 1928 to 1933 had been as follows: France, 31% to 171%; Germany, 26% to 316%; Italy, 32% to 217%; Mexico, 46% to 143%; etc. In addition, quotas and exchange control had been widely adopted. In the latter year the volume of United States exports of grains and grain products was only one-fifth of what it had been in the former. *Reciprocal Trade Agreements,* cited, p. 126.

ideals of political nationalism made to seem desirable and technical progress made possible—usually at a cost. The spread of mass production methods, the advances in the chemistry of substitutes, and the opening up of new raw materials and foodstuff-producing areas had robbed American exports—both industrial and agricultural—of the semi-monopolistic position many of them had once enjoyed. In fact, the boom export trade with Japan was about the only bright spot in the picture. Nevertheless Administration leaders, notably Secretaries Hull and Wallace, hoped that a determined assault on the tariff problem would arrest the trend toward autarchy before structural changes of a permanent character would make even a measure of recovery in international trade a lost cause.

TARIFF BARGAINING: THE ISSUES

The Act

Early in 1934 the Administration moved to carry out along broad lines the Democratic platform pledge of "reciprocal tariff agreements with other nations." In his special message of March 2, 1934 President Roosevelt requested of Congress the authority to "enter into executive commercial agreements" for reciprocal tariff reduction. The requirements of speed and flexibility in negotiation, as well as the lesson of past American attempts at reciprocity, demanded that the President be given a broad grant of authority to conclude such agreements without the necessity for submitting each one to the Senate for ratification by a two-thirds majority, as constitutionally required in the case of treaties.[19]

The Administration bill (H.R. 8687), which took the form of an amendment to the Tariff Act of 1930, was approved by the House, March 29, with a vote of 274 to 111, and on June 4 by the Senate, voting 57 to 33. The vote followed party lines rather closely. The most solid support for the measure came from the South; its chief

(19) From 1844 to 1934 the United States concluded only three reciprocity treaties. Ten were negotiated without ever becoming effective. Of these abortive attempts, six failed because of congressional action or inaction. On the other hand, trade agreements negotiated under a specific grant of authority from Congress had been more successful. Cf. United States Tariff Commission, *Reciprocity and Commercial Treaties* (Washington, 1919); Percy W. Bidwell, *Tariff Policy of the United States. A Report to the Second International Studies Conference on the State and Economic Life* (Council on Foreign Relations, 1933). See Documents of the Fifth Biennial Conference, Institute of Pacific Relations, Banff, Canada, Volume 6.

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opposition from the tariff-dependent industrial constituencies of New England and those rural areas which stood back of the sugar tariff, the wool tariff, etc., and the barriers against competitive Canadian products generally. With the addition of several minor amendments, the bill became a law on June 12, 1934 (Public No. 316—73rd Congress).

The major provisions of the Trade Agreements Act of 1934 may be summarized as follows:

(1) For a period of three years, the President was empowered to enter into foreign trade agreements with foreign governments modifying duties and other restrictions upon imports. Every agreement was to be subject to termination upon due notice at the end of not more than three years from the date of its going into force, or thereafter upon six months' notice to the foreign government concerned.

(2) No existing duty was to be altered by more than 50%, nor was any article to be transferred between the dutiable and free lists.

(3) Duties and restrictions embodied in agreements were to apply to imports of like articles from *all* countries; provided, that the President might suspend their application to any country which discriminated against American commerce or followed other policies tending to defeat the purposes of the act. (An exception was made of Cuba, with which the President was authorized to continue the special preferential tariff arrangement dating back to the commercial convention of 1902.)

(4) Certain paragraphs of the Tariff Act of 1930 which violated the principal of equality of treatment were repealed. They had provided for contingent or penalty duties on articles imported from countries which levied higher duties on American goods than were imposed by the United States on similar articles from abroad.

(5) Before concluding an agreement, reasonable public notice of intention to negotiate was to be given in order that interested persons might have an opportunity to present their views.

This act, and the reciprocity program adopted pursuant thereto, represented a distinct departure from post-war American tariff policy. As already indicated, it reflected the sentiment in the political party bearing the Wilsonian tradition in favor of some measure of tariff reduction. But it also meant the adoption of new procedures—of a new commercial policy in the technical sense. In both respects, the primary force behind the new program was the desire to restore the crippled export trade, especially in farm products. But there were at

least two other elements. One was the spirit of New Deal reform, seeking in this field to correct the gross inequities of the Hawley-Smoot tariff and secure a tariff constructed with some consideration for the consumer. The other was a genuine concern for the ideals of peace and democracy, believed to be threatened by the rapid spread of discriminatory and all-embracing trade controls. No account of the trade agreements program would be complete without due allowance for the integrity, the idealism and the sincere internationalism of Secretary of State Hull, and the men to whom he has given direction of the reciprocity program.

Having previously dealt with the basic issue of self-containment versus trade recovery, we shall now outline briefly the choice of procedures embodied in the Trade Agreements Act and its subsequent application.

Failure of Post-War Commercial Policy

The post-war tariffs of the United States had been autonomous, single-column tariffs.[20] They were legislated directly by Congress except as minor adjustments were made by the Tariff Commission from time to time under the cost equalization formula laid down by Congress in the Tariff Acts of 1922 and 1930. Thus they differed from those of many other countries which had double—or triple—column tariffs, often conventionalized in commercial treaties with foreign nations, and commonly altered by administrative action under a wide grant of authority to the executive branch of the government.[21]

Combined with a single-column tariff was the general policy of giving and asking most-favored-nation treatment. In 1923 the United States shifted from the conditional to the unconditional form,[22]

(20) The long-standing exception of preferential treatment on Cuban products, amounting to about 20%, is based on historical considerations and geographical propinquity.

(21) Out of a total of 43 countries tabulated by the U. S. Tariff Commission, 27 countries had laws on July 1, 1934 empowering the executive to change tariff rates without reference to the legislature, and 12 more pending approval of the legislature. U. S. Tariff Commission, *Regulation of Tariffs in Foreign Countries by Administrative Action* (Washington, 1934), pp. 41-45.

(22) The most-favored-nation clause is a pledge of non-discrimination, or a pledge of treatment equally favorable with that extended to a third country. It may take either of two forms. The unconditional form promises that the other contracting party shall be accorded "simultaneously and unconditionally, without request and without compensation," any concessions extended to a third country. The conditional form promises that when such a concession has been granted the third country in return for an equivalent, that concession will be accorded the other contracting party only for an equivalent concession in exchange.

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which prevailed abroad. On April 1, 1933 it was a party to 14 treaties and agreements containing the conditional form, and 29 containing the unconditional. In practice equal treatment was generally extended to all foreign countries, except when penalties were applied in cases of discrimination against American commerce, dumping, unfair trade practices, etc.

The cardinal purpose of this set of policies was to protect American industries threatened with import competition, and to secure equality of treatment abroad. It was felt that American exporters (assisted by government promotion activities) could take care of themselves in world competition, provided they did not suffer discrimination. In actual practice, however the export safeguards proved a failure, especially after 1929. A few countries, notably France, refused to sign most-favored-nation agreements. Moreover, the conditional form, found in the agreements with England, Italy, Belgium, Argentina, Japan and other important countries, was no guarantee of non-discrimination as long as the United States refused to grant concessions. In the case of tariff rates, however, most countries had been content to accord the United States their lowest rates. There was no serious discrimination.

But when it came to newer forms of trade control—quotas, clearing and compensation agreements, import permits, purchases by government monopolies—American exporters were burdened with increasingly discriminatory handicaps. This type of control was assuming growing importance. Yet it was outside the most-favored-nation pledge, as customarily defined. At any rate, here the promise of equal treatment had no precise meaning. Discrimination abroad might be countered by threats of penalty duties on imports from offending countries. But such an approach held no promise of effectiveness. American duties, especially those on European manufactures, were already extremely high. Equal treatment was offered; but in practice this had meant equally bad treatment. The United States might agree with Walter Runciman that quotas were "the curse of Europe," but was not its own tariff highly restrictive? Moreover, its definition of equality was somewhat legalistic, for obviously the economic effects of the American tariff were highly unequal among countries.

Thus a systematic evasion of the spirit of the most-favored-nation obligation was encouraged, not only by the acute trade and currency difficulties in which many nations found themselves as the depression

deepened, but also by reluctance to extend to the United States, freely and without compensation, concessions extracted from them at a burdensome cost. In addition, the application of imperial preference to British agricultural imports widened the sphere within which the most-favored-nation principle was inoperative—to the growing disadvantage of American exporters.

Preference versus Equality

Faced with this situation, many advocated scrapping the most-favored-nation principle and launching upon a program of bargaining for preferential concessions. This proposal was championed, for example, by George N. Peek, influential farm leader and Special Foreign Trade Adviser to the President until June 1935. Preferential bargaining, based on the principles of bilateral trade balancing and the conditional most-favored-nation clause, was the only realistic policy, he argued. It should be carried out by a single, comprehensive government agency whose task would be the vigorous promotion of exports by the selective admission of non-competitive imports, the provision of extensive subsidies and export credits, and aggressive bargaining for exclusive concessions abroad.[23] This was the trend abroad. Mr. Peek listed some 290 agreements among foreign countries embodying concessions not generalized to the United States. The policy of quid pro quo was complicated, but effective. The United States should shape its policy accordingly, or it would lose out.

To all this Secretary Hull turned a deaf ear. The United States would have to denounce 29 commercial treaties and agreements embodying the unconditional most-favored-nation clause. This would entail at least a year's delay. It would open up dangerous possibilities. Moreover, the policy of preferential bargaining had failed demonstrably in the past to produce either the reduction of barriers or international amity. Preference meant discrimination; discrimination meant retaliation. Eternal bickering, tariff instability, spreading state control, and the constriction of trade were the outcome.

The argument in favor of equality of treatment was summed up as follows by Assistant Secretary of State Francis B. Sayre in an appeal to American business men:[24]

(23) Cf. testimony of Mr. Peek in *Causes of the Loss of Export Trade and the Means of Recovery* (Hearings before the Committee on Agriculture and Forestry, U. S. Senate, 74th Cong., 1st Sess., Washington, 1935), pp. 177 et seq.

(24) Address before the National Convention of the United States Junior Chamber of Commerce at Columbus, Ohio, June 28, 1935.

"Those who, swept along in the present day events of economic nationalism, now advocate replacing it with a plausible policy of preferential bargaining, do not stop to count the consequences or the cost. The policy of preferential bargaining means the shifting and adjustments of the currents of world trade, not in response to the operation of fundamental economic laws of supply and demand, but in accordance with the arbitrary and political decisions of public officials. It means the placing of the economic life of every nation at the mercy of the bargains and political manipulations made, sometimes by its own officials and sometimes by those of other nations over whom it has no control. It means the straight-jacketing of world trade and a growing economic nationalism with mounting costs to domestic consumers and a decreased standard of living. For each nation which follows the policy it means growing regimentation and strangulation of individual enterprise; for preferential bargaining leads logically and almost unescapably to a selective system of exports and imports, and thus places domestic trade and industry under the domination and, sooner or later, if the policy is consistently pursued, under the arbitrary direction of governmental officialdom.

"Once governments embark on the policy of preferential bargaining, the political abuses and indefensible practices connected with lobbying for high protectionist favors will be extended from the legislative halls of the nation to the chancelleries of the world. When nation is pitted against nation in the effort to secure and retain protective preferences in world markets, each seeking to undercut and undersell the other, commercial stability and the security of established business go out the window."

Clinching the argument against preferential bargaining was the fact that it probably meant the destruction of triangular trade. Experience had shown that it tended to result in bilateral balancing of trade —the practice of buying only where a nation can sell. Now bilateralism generally brings in practice a reduction in total trade.[25] Its tendency is to level down rather than up. And for the United States the consequences of bilateralism would be especially serious. The country bought heavily of raw materials and tropical foodstuffs in northern Latin America and Asia. At the same time it had a heavy export balance in trade with Europe, on the one hand, and with a second group of countries, roughly the British Dominions and Argentina, on the other. To maintain American exports under conditions of bilateralism would call for enormously expanded imports of competitive European manufactures, and of competitive raw materials and foodstuffs from other primary producers abroad. It would also probably mean writing off at least the European debt, public and private,

(25) Cf. League of Nations, *World Economic Survey 1934-35* (Geneva, 1935), pp. 178-84; *Enquiry into Clearing Agreements* (Geneva, 1935), pp. 9-19.

which has hitherto been serviced by triangular operations. But neither was politically feasible; and both would be costly.

The fact is that the bargaining position of the United States was none too strong. In seeking concessions[26] for its foodstuffs and raw materials in Europe, it would have to compete not only with colonies and with the British Dominions accorded special treatment for political reasons, but also with independent primary producers who, unlike the United States, were willing to accept an equal amount or a surplus of European manufactures in exchange. In securing markets for manufactures in the Dominions and similar areas, empire preferences and the diversified nature of the American economy were again obstacles. And in tropical and Asiatic markets (excepting Japan) where the United States had a bargaining advantage because of its huge purchases, low purchasing power barred the way to any great expansion of exports. For these reasons, if no others, opposition to preferential bargaining was nothing but "hard-headed common sense," if trade recovery were the aim.

The principle of equal treatment was thus well suited to the needs of the United States. It had no exchange problem to force it in the direction of bilateralism. Its exports were in a reasonably strong competitive position, given a free market. Moreover, the policy conformed to the social philosophy of a Secretary of State who is no collectivist, but rather a nineteenth-century liberal intent upon freeing trade from the tightening grip of state control.

The Case for Bargaining

Nevertheless, if tariffs were to be reduced, strategy clearly called for some form of bargaining. The autonomous tariff, written without regard to or consultation with foreign countries, was no longer suited to the exigencies of either the international or the domestic scene. The advantages of tariff bargaining as a means of leveling trade barriers may be summarized as follows:

(1) It would accomplish a double reduction of tariffs and other restrictions—i.e., foreign as well as American. The offer of access to

[26] In common parlance, to get a concession is to secure more favorable treatment abroad for exports; to give a concession is to grant more favorable treatment on imports. We use the word in this accepted meaning without subscribing to the usual implication that to export is good and to import is bad. Also, for purposes of convenience "the United States buys," "Japan sells," and similar phrases are used elliptically to refer to the economic activities of private citizens.

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the great American market could be used as an effective lever to secure equal treatment for American commerce as well as general tariff reduction.

(2) Two-way reduction was safer than unilateral action in respect to the economic dislocation it would bring at home. Lowering the American tariff unilaterally might eventually stimulate exports by encouraging imports, but in the midst of a depression there was no assurance that it would do so. In the short run, the dollar exchange acquired by foreigners as a result of increased sales in the American market will not necessarily or automatically lead to increased purchases of American goods.

(3) From the angle of domestic politics, it would enlist the support of American exporters in piecemeal reduction of the American tariff by tying in this reduction with trade concessions abroad. Thus, as a matter of domestic strategy, reciprocity would balance more effectively the pressure of vested interests upon the government. In fact, unilateral reduction was politically out of the question.

(4) A program of reciprocity agreements would necessitate taking tariff revision more or less out of the hands of Congress under a broad grant of authority to the President in order to assure speedy and effective action. But this would also mean an opportunity to rectify some of the flagrant abuses of the Tariff Act of 1930 and to approach scientific tariff-making. The Executive was in a stronger position to resist the importunities of special interests. Tariff revision in the hands of Congress might easily lead to another upward rather than a downward change of rates. In thus securing a broad delegation of authority the President followed the precedent established in numerous other New Deal efforts. Here, however, the constitutionality of such delegation has not yet been successfully challenged in the courts,[27] through it has been bitterly denounced as "dictatorship" by Republican politicians and protectionist business interests.

If, then, some form of reciprocal bargaining was clearly required, and yet if the principle of equality of treatment was to be retained, how could these two be combined in a workable program? If a concession accorded to one country had to be generalized freely to all countries, would this not nullify the benefits of the concession and

(27) At the date of going to press (June 1936), the United States Customs Court is hearing a suit brought by Florida agricultural interests who claim that the duty reduction on imported pineapples in the Cuban trade agreement represents the exercise of unconstitutionally delegated power by the President. It is doubtful if a final court test can be obtained before the expiration of the Trade Agreements Act in June 1937.

destroy the chief incentive to the negotiation of agreements? Would France, for example, enlarge her quotas on American radios or typewriters in return for a duty reduction on wine which was automatically extended to other wine-producing countries enjoying unconditional most-favored-nation treatment in the American market? And would not each country delay negotiating an agreement itself in the hope of benefiting from other agreements without being forced to give anything in return?

The way out of this dilemma has been sought in the principle of the "chief supplier." A special effort has been made to single out for favored treatment those articles of which the negotiating country is the principal supplier. Even though such a concession is then generalized, it redounds to the primary advantage of the negotiating country. Also, there still remains an incentive to other countries to bargain for reductions. A study was made of dutiable imports in the United States from 29 countries which furnished over 96% of total dutiable imports in 1931. It was found that "taking for each country only those articles in which it was the leading source of imports to the United States, the value was . . . $480,000,000, or 71% of the value of total dutiable imports from the 29 countries."[28] So concessions restricted in this way can still cover a large share of the import trade.

By employing this device, an old one in Europe, an attempt has been made to retain the principle of equal treatment and yet to make the reciprocal concessions of substantial and direct benefit to exporters in both negotiating countries. While the immediate value of such a concession may be less than a preferential one, successive benefits are likely to follow from the general application of the principle. For example, in the trade agreement with Belgium the Belgian duty on unassembled low-priced cars was cut from 10,000 to about 6,000 francs. Seventeen days later Belgium concluded an agreement with France reducing the duty to 4,000 francs. American automobile exporters received the benefits of this second reduction under the terms of the most-favored-nation clause in the Belgian-American trade agreement.[29]

This was the choice of procedures, then, embodied in the trade

(28) U. S. Tariff Commission, *Tariff Bargaining under Most-Favored-Nation Treaties* (Washington, 1934), p. 9.

(29) F. B. Sayre, *America Must Act*, World Affairs Pamphlets, No. 11 (World Peace Foundation, 1936), p. 47.

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agreements program launched in 1934. The basic philosophy was a return to laissez faire. It combined a fresh attempt at reciprocity with the continuation of the principle of equality. Direct barter schemes sponsored by Mr. Peek were rejected,[30] as was the rest of his program. The aim was bilateral tariff reduction and the elimination of discrimination against American commerce abroad. No preferential treatment has been sought abroad or accorded at home. Equal treatment has been extended without regard to the balance of trade or the absolute level of foreign tariffs or even the lack of a most-favored-nation agreement. The only criterion is non-discrimination. As defined by the State Department this has been broadened to cover not only customs duties but also quotas, exchange allocation and other direct trade controls. In practice, equitable treatment in this sphere has been judged by reference to some representative period prior to the institution of the control.

TARIFF BARGAINING: RESULTS

Scope of Agreements Concluded

On June 15, 1936, two years after the Trade Agreements Act went into effect, fourteen reciprocal trade agreements had been negotiated, and all but two of them were in effect. These are listed in the table on page 33.

In addition to the agreements listed, three other commercial understandings should be mentioned because they are closely related to the reciprocity program. The first is a provisional agreement with Czechoslovakia, signed on March 29, 1935, which provided simply for reciprocal unconditional most-favored-nation treatment in respect to tariff duties and equitable treatment as regards exchange and quota allotments. The second is the exchange of notes between Ambassador Bullitt and M. Litvinoff at Moscow on July 13, 1935. In this agreement the United States undertook for the period of one year to extend to the Soviet Union the benefits of tariff reductions proclaimed in its reciprocal trade agreements with other countries, while the Soviet

(30) See the controversy over Mr. Peek's abortive attempt in 1934 to dispose of 800,000 bales of American cotton to German merchants and spinners. Payment was to be made in dollars (25%) and blocked reichsmarks (75%), the latter to be used in importing goods from Germany. The State Department vetoed the proposal for a variety of reasons which may be summed up by saying that any proposal for bilateral barter under state supervision ran counter to the whole philosophy of Secretary Hull's program. Cf. *Causes of the Loss of Export Trade and the Means of Recovery*, cited, pp. 181-92, 513-17, 573-83.

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TRADE AGREEMENTS CONCLUDED, JUNE 15, 1936
(trade values in millions of dollars)

Country	Date Signed	Date Effective	United States Trade, 1935 Imports from	% of total	Exports to	% of total
Cuba	Aug. 24, 1934	Sept. 3, 1934	111.5	5.5	60.2	2.6
Brazil	Feb. 2, 1935	Jan. 1, 1936	99.3	4.9	43.6	1.9
Belgium	Feb. 27, 1935	May 1, 1935	39.3	1.9	58.2	2.6
Haiti	Mar. 25, 1935	June 3, 1935	1.2	0.1	3.3	0.1
Sweden	May 25, 1935	Aug. 5, 1935	41.2	2.0	38.2	1.7
Colombia	Sept. 13, 1935	May 20, 1936	50.1	2.5	21.6	1.0
Canada	Nov. 15, 1935	Jan. 1, 1936	285.1	14.0	323.2	14.2
Honduras	Dec. 18, 1935	Mar. 2, 1936	6.3	0.3	5.6	0.2
Kingdom of the Netherlands (Netherlands in Europe, Netherlands India, Surinam, Curacao)	Dec. 20, 1935	Feb. 1, 1936	101.8	5.0	73.8	3.2
Switzerland	Jan. 9, 1936	Feb. 15, 1936	16.1	0.8	7.6	0.3
Nicaragua	Mar. 11, 1936	(a)	2.6	0.1	2.4	0.1
Guatemala	Apr. 24, 1936	June 15, 1936	6.1	0.3	3.9	0.2
France (and its colonies, dependencies and protectorates other than Morocco)	May 6, 1936	June 15, 1936	81.7	4.0	140.3	6.1
Finland	May 18, 1936	(a)	12.2	0.6	6.1	0.3
Total			854.5	42.0	788.0	34.5

(a) Not yet effective.

Union in turn gave assurances of its intention to purchase American goods to the value of $30,000,000 within the ensuing twelve months.[31] The third is the reciprocal pledge of most-favored-nation treatment between Ecuador and the United States on June 12, 1936.

During the first two years of the reciprocity program negotiations were pushed simultaneously with a large number of countries. The agreements listed above constitute the fruits of that effort. In addition, announcement of intention to negotiate with four other countries—Italy, Spain, El Salvador and Costa Rica—was made at least as early as January 1935. But a year and a half or more has elapsed without the conclusion of an agreement with any of the four. Some snag has apparently been struck in the course of negotiations. In no other case is the early conclusion of a pact to be expected, for the signing of an agreement usually follows by some months the announcement of intention to negotiate. Consequently the first phase of the program appears to be near completion, although the Admin-

(31) In the ten-month period beginning July 1, 1935, United States exports to the Soviet Union totaled $31.1 millions, compared with $11.3 millions in the corresponding period a year earlier. Imports of Soviet goods increased at the same time from $11.3 to $16.7 millions.

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istration has repeatedly announced its willingness to negotiate an agreement with any country which would accept the basic conditions laid down. What are the accomplishments to date?

Of the fourteen agreements successfully concluded that with Canada is by all odds the most important. Of the remainder five are with West Indian and Central American republics (Cuba, Haiti, Honduras, Nicaragua, Guatemala); two with countries of South America (Colombia, Brazil); and six with European nations (Belgium, Sweden, the Netherlands, Switzerland, France, Finland). Taken together, these countries furnished 38.4% of United States imports in 1926-30 and 42.2% in 1935. Of total American exports, they took 36.7% and 34.5% respectively in the two periods.

Conflicts of Policy

The list is interesting no less for the countries missing than for those included. Omitting the Philippine Islands from consideration, it includes 8 of the best 20 customers of the United States in 1935, and 9 of the 20 chief sources of supply. Conspicuously absent is the greater part of the British Empire, which accounts for more than a third of American imports and exports. It is represented only by Canada. The United States is reluctant to admit agricultural imports from the Dominions, and manufactures from the United Kingdom. On the other hand, its exports of manufactures to the former are restricted, as are its farm exports to the latter. The course of trade negotiations with members of the British Commonwealth is inevitably linked with the future of the Ottawa agreements. There have been informal discussions of a trade agreement with Britain, but neither government is willing at present, according to press reports, to engage in concession trading except within a rather narrow range.

Trade relations between Australia and the United States have recently received a sharp setback. On May 23, 1936 the Australian government enacted a severe increase in duties and adopted a system of import licenses having as one of the purposes the diversion of Australian purchases to the United Kingdom and to "good customer nations." Two of the countries most directly affected are Japan and the United States. Both promptly adopted retaliatory measures. In accordance with the provisions of the Trade Agreements Act, President Roosevelt announced on June 29 that beginning August 1 Australian goods would be denied the benefits of any duty reductions proclaimed in trade agreements with other countries. The

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point at issue is the continuation of the United States' heavy export surplus of $42 millions in trade with Australia. Washington officials decline to entertain the proposal that trade be balanced bilaterally, here or elsewhere. Where American export surpluses exist, they point to the possibilities of triangular trading through such countries as British Malaya, which last year sold to the United States $125 millions more than it bought. The blacklisting of Australia as regards concessions in the trade agreements, however, will not seriously penalize Australian exporters, for the time being at least. Nor does it seem likely that an agreement will be concluded in the near future granting substantial concessions on imports of farm products from Australia, especially since 1936 is an election year in the United States. A sharp decline in American exports to Australia is in prospect, unless other factors intervene to alter the policy adopted in Canberra.

In the western hemisphere, Mexico and most of the South American republics are still missing from the list of concluded agreements. So also are Germany, Italy and most of eastern Europe, where the most-favored-nation treaties of the United States have long since lost their force. Trade negotiations with Italy were presumably interrupted by the hostilities in Ethiopia. A time when American opinion was generally critical of the course of Italy's foreign policy and when trade in munitions with the belligerents was being banned under the terms of the Neutrality Resolution of August 1935 was hardly propitious for officially expanding trading ties with Italy through tariff bargaining.

The case of Germany warrants brief examination because it is in some respects a test case. Economic relations between the United States and Germany have moved steadily from bad to worse as a result of the head-on collision of two opposing policies. One is the liberalizing commercial policy of a country which has had no exchange problem since devaluing its currency. The other is the elaborate control policy of a nation which has been desperately hard put to export enough goods to cover its exchange requirements for raw material imports and external debt service. Bankruptcy in exchange has driven Germany into a whole series of bilateral clearing and compensation agreements. These usually result from negotiations initiated by the party having the passive balance in trade with the other. Thus, when Germany began to scale down its debt remittances in 1933, its European creditors were able to secure relatively favorable treatment by

threatening to impound exchange balances arising out of Germany's active trade balance with them. The United States lacked such a bargaining weapon, for its sales to Germany customarily exceed purchases by a wide margin. It had to content itself with sharp, but comparatively ineffectual, protests.

However, neither Germany's discriminations against American creditors, nor the drastic decline in its purchases of American goods, has served to bend the United States government to acceptance of the principle of bilateral barter as applied either to trade alone, or to trade and debt payments. (See footnote, page 32.) When Germany formally terminated the most-favored-nation agreement between the two countries on October 15, 1935, the United States, citing German discrimination, promptly barred German goods from receiving the duty reductions proclaimed in the new trade agreements.[32] American duties on German manufactures are generally high, and in recent years have been reinforced by the boycott waged by anti-Nazi forces in the United States. Moreover, Germany's export subsidies have now become a bone of contention. On June 4, 1936 the anti-bounty clause of the Tariff Act was invoked to levy countervailing duties on German goods then estimated to total 30% to 40% of total imports from Germany. This further aggravates Germany's exchange problem, which was already acute. Germany's American creditors are hardly likely to receive more kindly treatment in return, though direct trade retaliation is handicapped by a pressing need for raw materials. The situation clearly calls for some compromise which will reconcile the conflicting policies of Washington and Berlin.

Continuing our survey of the scope of the trade agreements, the only Far Eastern countries included to date are French Indo-China and Netherlands India, both brought in by virtue of their colonial status. The reason for the failure to negotiate a reciprocity agreement with China has not been made public. In the absence of information it is idle to speculate as to the cause, though political factors may have entered in.

In the case of Japan, the failure of the United States to conclude a trade agreement is readily explicable. The expansion of Japanese trade since 1931 has aroused fear and hostility on the part of certain American business interests, particularly those which have been

[32] It has been estimated that the American concessions in the Swiss and Belgian agreements were worth $3-$3.5 millions annually to Germany.

affected, or thought they might be affected, by increasing shipments of cheap Japanese manufactures to the United States.[33] The tendency of such shipments to increase rapidly in a few competitive lines led to strong pressure upon the Administration to raise the duties upon Japanese goods, especially cotton textiles. It was also used effectively to rally opposition to the trade agreements program as a whole. Thus to have negotiated reciprocal tariff reductions with Japan would have been highly inexpedient politically. Moreover, it was deemed hardly necessary in view of the high level of American exports to Japan and the success of Japanese manufactures in penetrating the American market despite the obstacle of existing tariff barriers. Since 1932, as a matter of fact, the United States has tightened restrictions upon a number of articles imported from Japan and has indicated that the further penetration of such competitive imports will be opposed for the time being at least. The attitude of the present Administration on Japanese goods has been moderate by comparison with that of high protectionists; but the raising of the tariff here and there where Japanese competition threatened stands in marked contrast to the general policy of reciprocal reductions elsewhere. It is an interesting and significant fact that Italy, Germany and Japan, the three countries now seeking aggressively to acquire colonial empires on the plea of trading necessities, have failed for one reason or another to be brought within the scope of the American reciprocity program.

General Provisions of Pacts

What is the nature of the trade agreements so far concluded?[34] Space does not permit of a description, item by item. But since all the agreements tend to conform to one general pattern we may at least attempt a broad characterization. Without elaborating the qualifications and exceptions as they vary from one agreement to another, we may first note several provisions of a general character which are typical.

1. Most of the agreements run for three years, and, if not then terminated, continue in force until after six months' notice. A few are for shorter periods. The agreement with France is for one year

(33) See accompanying data paper on *Trade and Trade Rivalry between the United States and Japan*, by William W. Lockwood, Jr.

(34) A detailed analysis of each agreement may be found in the extensive reports issued by the State and Commerce Departments at the time of its anouncement. For a consolidated list of tariff changes see U. S. Tariff Commission, *Changes in Import Duties since the Passage of the Tariff Act of 1930* (Washington, 1936).

only, and that with Belgium is terminable at any time on six months' notice. All are subject to termination under certain conditions, as noted below.

2. Each agreement contains a broad and inclusive statement of the unconditional most-favored-nation principle, worded explicitly to cover not only duties and other charges on imports (e.g. the French import turnover tax), but also quotas, exchange allotments, import permits and government monopoly purchases. The most important exception to most-favored-nation treatment is that of regional tariff relations. The agreements with Central American republics contain not only the customary exception in respect to advantages offered by the United States to Cuba and the Philippines but also the exemption of tariff arrangements among the Central American republics. A similar exception is granted to Czechoslovakia in the case of relations with Austria and Hungary. This is an attempt to meet the objection that the most-favored-nation pledge may stand in the way of regional tariff reduction, as it did, for example, in the case of the Ouchy Convention of 1932 between Belgium and Holland.[35]

3. Certain safeguards are imposed against arbitrary and adverse methods of valuation and currency conversion for duty purposes. Thus one of the most valuable concessions granted by Canada to the United States was the assurance that a large measure of relief would be afforded with respect to arbitrary assessments (for duty purposes) exceeding invoice values on imported goods.

4. Products on which duty concessions are granted, and which are not subject to quantitative restrictions at the time of the signing of the agreement, shall not thereafter be subject to such restrictions. This clause, however, does not apply to quotas imposed in conjunction with governmental measures such as the Agricultural Adjustment Act, operated to control the production or prices of domestic products. If such restrictive action is taken, however, and if consultation fails to result in a mutually satisfactory arrangement, the other party to the agreement is free to terminate the entire pact on 30 days' notice. The need for emergency control measures is thus recognized, but they are to be non-discriminatory.

5. The right to modify or terminate the agreement on due notice is also given in two further contingencies:

(35) The United States, in company of other members of the Seventh Pan-American Conference, in September 1933 went on record favoring the exception from the most-favored nation pledge of multilateral treaties reducing tariffs and open to all on even terms.

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(a) If exchange fluctuations should seriously undermine the benefits of an agreement, either country may propose modifications in the agreement, or may terminate it on 30 days' notice. By means of this clause it is hoped to break through the vicious circle of currency instability as an obstacle to tariff reduction and tariffs as an obstacle to currency stabilization.[36]

(b) Either government may withdraw a concession, if, contrary to expectation, a third country proves to be the major beneficiary and an undue increase in imports occurs in consequence. The other government is then free to terminate the agreement on 30 days' notice. This reinforces the principle of the "chief supplier."

Trading of Concessions

The fourteen agreements concluded by the United States in the first two years of the trade agreements program fall naturally into two groups. These may be distinguished broadly by the nature of trade relations and the type of concession which figures most importantly in the trade agreement. The first group consists of ten countries whose exports to the United States are predominantly foodstuffs and raw materials. This includes Canada, Sweden, Finland, Cuba, Haiti, Nicaragua, Guatemala, Honduras, Colombia and Brazil. To it may also be added the French and Dutch colonies. The second group consists of four European countries—France, Belgium, the Netherlands and Switzerland—whose exports consist chiefly of manufactured specialties.

The concessions secured by the United States from countries in the first category consist primarily in the reduction of customs duties on a wide range of agricultural products and typical American manufactures. For example, Colombia's duty reductions averaged 46% and together with rates bound against increase, affected more than half its imports from the United States. American imports from these countries are largely duty-free raw materials and foodstuffs. Hence concessions granted by the United States take the form mainly of "binding" these articles on the free list—e.g. coffee, cocoa, beans, bananas, platinum, tropical woods and nuts, tapioca, manufactured

(36) For example, the belga was devaluated 28% on April 1, 1935, midway between the date when the trade agreement between Belgium and the United States was signed and the date when it went into effect. Under the provisions of the above clause, the United States government was free to terminate the agreement. But it declined to do so, following assurances from Belgium that the government would supervise the prices quoted by Belgian exporters in order to prevent serious disturbances detrimental to American interests. Department of State Press Release, April 13, 1935.

sisal and kapok, certain skins, furs and fishery products, pulpwood, wood pulp, newsprint, unmanufactured wood and asbestos. Articles thus bound against the imposition of duties constituted as much as two-thirds of the value of imports from Sweden in 1934, 88% of imports from Colombia and over 90% of imports from Finland, Brazil, Nicaragua and Guatemala. But, in addition, United States duties were reduced or bound at their existing level on a variety of commodities, most of them agricultural products.[37] These include sugar, tobacco and perishable vegetables imported seasonally from Caribbean countries, as well as cattle, dairy products, seed potatoes and certain types of lumber and timber, dairy and other farm products imported from Canada. Many of these reductions were extended only to specified quotas, which limits but does not necessarily nullify their significance.

Summarizing the Canadian agreement, which is of outstanding importance, the United States bound on the free list articles which accounted for 44% of total imports from Canada in 1929, and reduced the duties on another 16%, the latter consisting of commodities of which Canada is overwhelmingly the principal supplier. In return Canada promised (1) duty reductions on articles representing one-third of dutiable imports in the year 1929-30, (2) most-favored-foreign-nation treatment on all other articles, (3) a change in the duty valuation system, and (4) benefits to travelers and transit trade.

Of the agreements in this group, that with Canada is the most complex. The simplest are those with countries to the south, where the United States had little to offer except a guarantee of continued free admission of tropical products. In the case of a commodity like coffee this may seem to be meaningless, though the United States is one of the few countries that does not tax coffee imports. It serves at least to assure Brazil and Colombia that the United States does not propose to adopt the principle of bilateralism and thus force them to increase enormously their purchases of American goods in order to retain their major foreign market. The principal effect of this group of agreements taken together is to bind more closely the trading ties of those countries north of the equator in the western hemisphere on a continuing triangular basis. But at the same time the State Department has been emphatic in pointing out that the United

(37) They also include a variety of wood and iron and steel specialties exported from Sweden, which country falls to some extent in the second category of countries as defined above.

States has asked for nothing but equal treatment, and foreign governments are free to generalize concessions as they see fit.

The second category of agreements includes those with Switzerland, Belgium, the Netherlands and France. The export trade of these four countries had suffered from their reluctance to devaluate their currencies, while their purchases had been progressively restricted by quotas and import licensing arrangements. Concessions granted by the United States consisted largely in duty reductions on a variety of manufactured specialties, most of them dutiable at high rates under the Hawley-Smoot tariff. Swiss exports benefited mainly by reductions in the duties on watches, cheeses, coal tar dyes and fine cotton goods. France secured important reductions on perfumes, tinsel products, wines, broadsilks, laces and cigarette paper. The rates on 47 Belgian items were cut by an average of 24%. Reductions in the Dutch agreement covered almost half of dutiable imports from the Netherlands and included the maximum 50% reduction on a number of items such as X-ray apparatus, tulip bulbs, many vegetable and flower seeds, gin, cocoa and chocolate. Here as elsewhere care was taken to confine concessions to products of which the negotiating country was the chief supplier and which were largely noncompetitive with domestic output. Thus the Netherlands supplied four-fifths of total imports of those articles upon which American duties were reduced in the Dutch agreement. Particular attention was given to the numerous items on which American tariff rates ranged from 50% up as high as 150%.

By contrast, the duties imposed on American goods by these four countries have always been moderate on the whole. But other restrictions had multiplied in depression years. Consequently concessions to the United States, except in the case of Belgium, took the form mainly of liberalizing quotas and other newer forms of trade control. For example, Switzerland's import license scheme had extended since 1931 to cover 50% of her purchases from the United States and had virtually eliminated American wheat and lard. New and liberalized quotas were granted in these two commodities and other typical American products like fruits, lumber, autos and oil products. As an adjunct to the agreement the Swiss government also undertook to aid in suppressing the thriving business of smuggling watches into the United States. France made concessions affecting articles representing 40% of her total dutiable imports in 1935. Along with the reduction of duties and liberalization of quotas, assurances were given

regarding purchases of American leaf tobacco by the French tobacco monopoly. Belgium granted concessions affecting one-third of her imports from the United States in 1933. More than half of this was accounted for by duty reductions, which averaged about 35%. The Netherlands concessions consisted of (1) minimum quota allotments; (2) concessions on import duties, monopoly fees and "crisis" taxes; and (3) a purchase agreement by which the government, through its central control system, committeed itself to buy a minimum quantity of American wheat or flour equal to 5% of Netherlands domestic consumption, provided that the price was a competitive world price. All this serves to illustrate the varied types of trade control with which American exports have had to contend in recent years.

Stimulus to Trade

What stimulus has been afforded to American foreign trade by the agreements negotiated thus far? No summary answer can be given to this question for two reasons. Most of the agreements are of too recent origin. In addition, the reductions in trade barriers cannot be accurately distinguished in their effects from other influences which have brought a moderate recovery of trade under the New Deal. Nevertheless, there are indications that the reciprocity program has had results. In the first year of the Cuban agreement exports rose 59% and imports 101%. Duty collections jumped 40%, despite tariff reductions. Exports to Belgium rose 15% in 1935, as against 7% for total exports; imports from Belgium gained 52%, as against 24% for all imports. During the first quarter of 1936, six agreements were in effect. Exports to and imports from these six countries increased 12% and 32% respectively, in comparison with the first quarter of the previous year. But the gain in total exports and imports was only 10% and 17% respectively. These figures in themselves prove nothing, but there is little doubt that the slow and patient bargaining program bit by bit is having its effect.[38]

It will be noted in the above figures that the import gains exceed

[38] For an estimate of the significance for agriculture of the seven agreements signed before December 15, 1935, see L. R. Edminster, "The Trade Agreements Program and American Agriculture," *American Economic Review*, Supplement, March 1936, pp. 129-40. Tariff reductions and liberalization of quotas were obtained on 42% of American agricultural exports to these seven countries in 1929. Preexisting rates were bound on an additional 22%, and most-favored-nation treatment was assured for the future.

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the export gains. As a matter of fact, this movement characterized American trade as a whole in 1935 and the first part of 1936. The total export surplus dropped from $478 millions in 1934 to $235 millions in 1935, largely as a result of rising imports. The first four months of 1936 witnessed a continuation of this trend, the balance shifting from an export surplus of $21 millions in 1935 to an import surplus of $13 millions in 1936.

Does this mean that the reciprocity program is achieving what purported to be one of its major aims—the expansion of imports relative to exports? The statistics do not warrant such an assertion, for the shift in the balance is less a result of the trade agreements than of higher agricultural prices resulting from crop restriction and drought, and of the expanding raw material needs of American industry.[39] In general it appears that the American negotiators have sought to secure a good bargain for exports, and have not offered duty reductions freely, but only when necessary to secure concessions abroad. Of course, no outsider can accurately judge the extent to which this has been true. But it could hardly be otherwise in view of the necessity to justify the program before the country in terms of export expansion. The main point, however, is that the moderation of trade restrictions should permit the readier adjustment of the trade balance to changes in other items in the balance of payments.

Campaign for Equality

No less important than reciprocal tariff reduction in the trade agreements program has been the effort to secure the abatement of discrimination against American commerce. The Administration has clung to the traditional American policy of equality of treatment, with the exceptions noted below. It has urged its general adoption throughout the world on the ground that it offered the only effective way of reviving world trade as a whole and checking the sharpening struggle for an increased share of a shrinking world total. Hence the success of the trade agreements program in achieving the aims of its sponsors is to be judged in good part by its success in reestablishing the most-favored-nation principle and extending it to cover the newer forms of trade controls.

(39) In 1935 there was an increase of $51 millions in imports of articles on which duty reductions were in effect at the end of the year. This represents only 3% of total imports in 1934, and is attributable only in part to tariff adjustment. But total imports gained 24% in 1935, or $392 millions. Thus tariff reduction was not a major factor. Department of Commerce Press Release, January 27, 1936.

As evidence of its own good intentions, the United States has freely generalized the duty reductions proclaimed in trade agreements to all countries which do not persist in discrimination against American trade. This includes those countries which do not have most-favored-nation agreements with the United States as well as those which do. But the State Department also announced in April 1935 that this favorable treatment was provisional in the case of a number of countries practicing substantial discrimination. These it proceeded to name,[40] expressing the hope that they would conclude new trade agreements, or at least cease discrimination and thus assure themselves of continuing most-favored-nation treatment by the United States. Within this group four such agreements have now been signed, each containing a full guarantee of equality worded specifically to cover newer forms of trade restrictions. In only two cases—Germany and Australia—have proclaimed duties been withheld, as noted above.[41]

Thus reciprocal bargaining has meant, in effect, piecemeal reduction of the American tariff with the reductions at present generalized so widely as to leave the tariff virtually a single-column schedule.[42] In return for this offer of equal treatment plus reductions, the United States has secured a substantial amelioration of the discrimination practiced against American commerce in wide areas, and a guarantee of equality in the future.

The ultimate success of the campaign against preference and bilateralism depends, of course, on whether other nations will follow the leadership of the United States in adopting the principle of equality generally. For example, if trade between Europe and South America is permanently constricted to the balanced exchange of goods and services to an equal value, the effect will be to force a considerable degree of bilateralism on the United States, whether welcome or not. Against this trend the trade agreements program is a powerful entering wedge. How much world support it can rally remains to be seen. The basic principles of Secretary Hull's policy were endorsed by the twenty nations represented at the Seventh Conference of American States at Montevideo in 1933, by the Paris Congress of the Inter-

(40) Canada, the Netherlands, Spain, Switzerland, Denmark, Germany, Italy and Portugal. In December, France was named as well. Department of State Press Releases, April 1 and December 1, 1935.

(41) See pages 34, 36.

(42) The exceptions are the preferential treatment accorded Cuba, the Philippine Islands, and the overseas possessions of the United States, and retaliatory discrimination against Germany and Australia.

national Chamber of Commerce in July 1935, and by the Economic Committee and Assembly of the League of Nations in September 1935. But when it came to actual practice, there had been little abatement of the trend to preference and bilateralism in Europe or in Latin America as late as the spring of 1936. Nor was there any evidence of intention on the part of the imperialist powers, including the United States,[43] to equalize trading opportunities in colonies.

It may be somewhat anticlimactic to point out that the significance of the principle of equality of treatment, as currently defined, is somewhat limited. But the truth is that the most-favored-nation clause has lost a good deal of its force in recent years. Aside from evasion which can be covered by a more comprehensive statement of the principle, as in the trade agreements, it has been weakened by the progressive subdivision of customs classifications. Where a tariff schedule is elaborately subdivided, the generalization of a reduction in this or that particular item often has little meaning. Especially is this true when the concession is selected with a view to benefiting one foreign country in particular. Yet this is the procedure upon which the whole reciprocity program is based, and the complexity of the Tariff Act of 1930 gives ample scope for its application.

For example, the reductions in the duty on cheese in the agreement with Switzerland applied only to Emmenthaler and Gruyere cheese. They have no value to Dutch or Canadian cheese producers, who specialize in other types. The lace concession granted Belgium is restricted to laces valued at $50 per pound and upwards. It does not affect imports of low-grade Chinese laces. To take another example, in the American tariff cotton cloth is divided into several classes and within each class every different yarn count up to No. 90 is a different item carrying a different rate of duty. The trade agreement with Switzerland lowered the duty on fine, light-weight organdies and dotted Swisses. But this was of no significance to Japan, even though she is entitled to the reduction on a most-favored-nation basis. As a matter of fact, the duty has recently been raised on medium-count cotton cloth of the type imported from Japan. Examples might be multiplied. The point is that the more minute is the subdivision of items, the less significant is equality of treatment, when equality means

(43) See the restriction of Japanese cotton textile shipments to the Philippines in October 1935. The future tariff relations of the United States and the Islands, however, are still to be determined. Cf. data paper on *Trade and Trade Rivalry between the United States and Japan,* cited, pp. 16-18, 56-57.

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only that a particular item pays the same rate of duty regardless of the country of origin. Reductions can be hedged about with precise descriptions to benefit a particular country.[44] This is in fact the whole theory on which reciprocal bargaining is combined with the most-favored-nation principle.

In answer to this criticism that the retention of equality of treatment in the trade agreements program is really a subterfuge, it may be said that in very few cases have the negotiators gone beyond the Tariff Act of 1930 in further refinement of classifications. Moreover, the principle at least avoids the most glaring forms of discrimination commonly found in tariff bargaining. It presumes legal, if not economic, equality. It is the minimum concession which must be made to the principle of preference, if bargaining is to be really effective. And bargaining in some form is the only way of commanding support at home for lowering the American tariff.

Yet obviously the more closely rate concessions are circumscribed the less effective the whole process is in leveling barriers to trade—which is presumably the whole objective. Moreover, foreign nations viewing the American tariff may be pardoned for believing that the height of trade barriers is more important than inequality of treatment. If the United States is prepared to offer only concessions in minute channels of trade which leave the basic structure of American protection unimpaired, the plea from Washington for equal treatment abroad is robbed of much of its force.

Reform in Tariff-Making

One of the hopes of the New Deal was the reform of tariff-making procedure with a view to eliminating many of the abuses and inequities which have characterized congressional tariff-making in the past. This, indeed, has been the case in large degree. An elaborate organization has been set up, involving the cooperation of some seven government departments and agencies under the leadership of the Secretary of State. The preparation and negotiation of agreements is in the hands of interdepartmental committees, specializing by countries, commodities or problems. Questions of policy are referred to

(44) Where this is not possible, the practice is often to withhold from one negotiating country a concession that is of major benefit to a second country which has not yet concluded an agreement. For example, it was reported in the press that the United States withheld from France a contemplated reduction in the duty on olive oil in order to use it for bargaining with Spain and Italy, which are more important suppliers than France.

an Executive Committee on Commercial Policy under the chairmanship of the Assistant Secretary of State in charge of the trade agreements program. Public notice is given of intention to negotiate an agreement, as provided in the act, and the views of interested persons are digested and reported by the Committee for Reciprocity Information, before which such persons appear.

Thus the major part of the work is in the hands of competent committees of specialists. "It is not done in open committee under the watchful eye of the well-fed lobbyist," as Chairman R. L. O'Brien of the Tariff Commission put it.[45] Their decisions are of course modified or altered by the high command as political expediency seems to require. But those in authority testify that the program has been remarkably free from high-pressure tactics and lobbying on the part of special interests. And even where strong pressures are focused on the Administration, as is often inevitable, reciprocal tariff reduction ensures a better balance of forces by enlisting the active concern of exporters as well as protected interests.

No definite criteria of tariff revision have been publicly announced, apart from the limitations imposed by Congress in the act itself. The Administration carefully avoided any advance pronouncement as to where it proposed specifically to reduce protection. This was partly to avoid prematurely antagonizing special interests, and partly because of the impossibility of devising a general formula which could be applied automatically to a host of varied situations. An elaborate report of the Tariff Commission in 1934, however, revealed a wide field within which rates might be reduced without substantial injury to domestic industry.[46] It presented, for example, the following lists of commodities (not mutually exclusive): 1,021 separate items, imports of which were less than 5% of domestic production in 1931; 540 articles on which the tariff exceeded 50%; and 360 dutiable commodities of a non-competitive nature with respect to which foreign producers have a clear, inherent advantage.

(45) Radio address, March 23, 1935. Secretary Hull, long a member of Congress, described lobbying by "little, high-pressure minorities" as follows: ". . . Two people could go out and send 50 telegrams to me when I was over in the House and I would jump across the room as though I had been shot at, almost. (Laughter.) . . . I saw that for 22 years. . . ." *Causes of the Loss of Export Trade and the Means of Recovery*, cited, p. 39.

(46) U. S. Tariff Commission, *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff*. Senate Document No. 180, 72nd Cong., 2nd Sess. (Washington, 1934). Cf. also Maxwell S. Stewart, "Tariff Beginning under the New Deal," *Foreign Policy Reports*, May 23, 1934.

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A complete analysis of the agreements would probably prove what cursory examination suggests—that the duty reductions have been largely confined to articles on these lists. Also, many of the concessions granted by the United States have been of a negative character —the binding of rates at existing levels or the promise not to remove articles from the free list. Agriculture has been treated throughout with especial solicitude. In other words, the process has consisted in freezing some rates and in skilfully effecting moderate downward reductions elsewhere without substantially injuring any important American industry. Of course, this is merely another way of saying that the basic structure of American protection has been altered but little. Yet the long upward trend of rates has been arrested and cautious reductions have been made here and there, with particular attention to relatively "inefficient" industries—i.e., those which are unable to survive without a permanent, high level of protection.

The caution of the Administration in altering the tariff is evidenced by the fact that there have been few widespread cries of pain from important, protected industries, once the agreements have been announced. Nor, on the other hand, has there been any massing of export interests in an aggressive campaign of support. The negotiators have been compelled to operate within a rather narrow range of bargaining. This has involved not only considerable technical skill but a good deal of political strategy in distributing and timing gains and losses for different sections of the country.[47] Preoccupation with domestic issues and pessimism over the recovery of foreign markets made the reciprocity negotiations something of a side-show in the recovery program through 1935. They have moved nearer the center ring, however, as one after another of the New Deal activities fell under the ban of the Supreme Court, and as the conclusion of a batch of new agreements in the spring of 1936 multiplied the fruits of the program. The antagonism to it expressed at the Republican National Convention[48] in June 1936 indicated that it would provide an important issue in the coming presidential campaign.

[47] See table in *America Must Act*, cited, (pp. 61 et seq.) showing the wide geographical distribution of concessions secured in the first seven agreements.

[48] The tariff plank adopted at the convention is so ambiguous that it does not repay analysis except to show how the party again sought to face two ways on the foreign trade issue. It is worth observing, however, that when the party platform was read before the convention, only two planks drew more thunderous applause than that advocating protection and denouncing the Trade Agreements Act as "futile and dangerous." They were the planks pledging efforts to collect the war debts and condemning all "entangling alliances in foreign affairs."

Opposition and Support

Opposition and support for the trade agreements has of course followed closely the economic interests of those passing judgment upon it. For tariff changes mean in effect a redistribution of wealth. In both industry and agriculture there have been sponsors and opponents. Support has come from such organizations as the National Foreign Trade Council, the American Manufacturers' Export Association, the National Council of American Importers and Traders and the National Committee for Reciprocal Trade. The *Wall Street Journal* termed the reciprocity program the best thing in the New Deal; even the arch-Republican *New York Herald Tribune* gave the Canadian treaty qualified approval. The *Journal of Commerce* indicates its approval by advising the Republican party not to make an issue of the reciprocity program, observing that at most it has failed to compensate for the increased protection afforded American industry by the devaluation of the dollar. Shipping and shipbuilding firms, American chambers of commerce abroad, and the seaboard cities, which have $2,000,000,000 invested in port facilities, naturally join in combating "Buy-Americanism" as inimical to their interests. Financial interests, as well, have in general bestowed upon it their blessing.

In the industrial field there is of course no unanimity of opinion. Protectionist organizations like the American Tariff League, the Made-in-America Club, and the Home Market Club have resisted the program all along the line.[49] The heavily protected chemical industry, as represented in the Chemical Foundation, Inc., has taken the leadership in advocating ultra-nationalism. The Hearst press has cooperated 100%. Opposition to tariff bargaining early made its appearance in protected industries like paper, pottery, matches, toys and structural glass. Textile manufacturers, dependent in greater or less degree on tariffs, have viewed reciprocity with suspicion and hostility for the most part. The lace industry of Rhode Island, long dependent on high duties, fought the French agreement bitterly through Senator Metcalf of that state. Wool and silk manufacturers

(49) The common complaint that the Administration's policy in effect amounts to star chamber proceedings is expressed as follows by the secretary of the American Tariff League: "Under the existing rules of procedure by which the negotiations are carried out, it would seem that domestic industries are made the defendants in each proceeding, and that the summons issued for them is in the nature of a 'John Doe' document. In other words when a negotiation is announced, the attitude of the administration is that this is adequate and sufficient warning to the industry that it is on the spot!" *American Exporter*, May 1935, p. 23.

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likewise fear its effects. Cotton textile manufacturers, thrown into a state of panic by cloth imports from Japan, battled persistently and successfully for increased duties on Japanese goods, and apparently doubt that non-preferential concessions in their export markets will profit them much. Makers of watches naturally do not welcome increased competition from Switzerland. Lobbyists for the manganese producers protested bitterly over the reduction in the manganese duty in the Brazilian treaty, though Secretary Hull was able to show that with a duty amounting to 110% in 1933 the domestic industry supplied only 10% of domestic consumption.

The machinery and equipment industries of the eastern states, on the other hand, have been encouraged by concessions secured for them by Secretary Hull's program. Automobile manufacturers, with export shipments in the first four months of 1935 up 32% from the previous year, requested from delegates to the Republican National Convention a plank approving the reciprocity principle. Other industries are in the position of the steel industry, which opposed duty reduction on imports of high-grade Belgian steel, and yet has a large stake in exports of autos and machinery and in imports of manganese and other materials entering into the manufacture of steel.

The Chamber of Commerce of the United States, being an inclusive organization of business men, is cautiously approving. Early in 1935 it expressed itself in favor of reciprocal bargaining, but with "reasonable protection" as a first consideration. A year later its president in affirming the support of the Chamber put it as follows: "Anything that stimulates business helps solve the tax problem because it creates more business to tax, thereby eliminating the need to replace higher taxes on existing business."[50] By and large, it appears that big business generally has become increasingly sympathetic with the aims and efforts of the reciprocity program.[51] Secretary Hull's caution in tariff reduction has reassured them; his pertinacity has won their admiration; and the laissez faire aims of this aspect of the New Deal are in accord with their economic and political preconceptions.

Organized labor, as well, so far as it is vocal on the tariff issue, divides along industrial lines according to producer interest. The American Federation of Labor is opposed to tariff reduction, if one

(50) *New York Times*, May 19, 1936.

(51) "Responses to an inquiry as to what American business men generally can do to improve world trade, revealed overwhelming support for the principle underlying Secretary of State Hull's reciprocal treaty program." *Dun and Bradstreet Monthly Review*, July 1935, p. 5.

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may judge by the vociferous pleadings of Matthew Woll, its vice-president.[52] On May 3, 1936 Mr. Woll joined with spokesmen for three farm organizations in petitioning Congress for a super-tariff which would wipe out dutiable imports by applying a tax such as to equalize differences in cost of production or wholesale selling prices, whichever was higher. Earlier in the year the United Mine Workers Convention unanimously approved a petition requesting an increase in the duty on Soviet coal from $2 to $5. Lace operatives, together with their employers, are high protectionists. On the other hand, officials of the United Textile Workers declined to join in the 1935 campaign for further restriction of Japanese goods on the ground that it was an unimportant factor in the plight of the cotton textile industry.

Tariff and the Farmer

In the case of the American farmer it is difficult to generalize regarding opinion on the reciprocity program. The American Farm Bureau Federation stands back of it; the National Grange and the National Farmers' Union are opposed. Protectionism is deeply rooted in the farm belt, save for the Democratic South. For generations the western farmer, exporter as he might be, accepted the home market argument of the manufacturer wing of the Republican Party. Moreover, with prices rising during the past three years, a number of agricultural duties have become effective for the first time and there has been increasing apprehension over competitive farm imports, small as they are.

The Administration has handled farm tariffs with kid gloves. Yet the Canadian agreement, with its closely restricted concessions on farm and range products, aroused strong opposition from Maine potato farmers, Vermont maple sugar producers, Wisconsin dairy interests, Western cattlemen, and the lumber industry of the Northwest. Lumber interests opposed extending the lumber rates to Soviet lumber; cattlemen opposed extending cattle duties to Mexican cattle. Farmers and stockmen are wary of agreements with Argentina, Australia or New Zealand which would presumably entail concessions on such commodities as flax seed, corn, meat products, wool and but-

(52) Interesting evidence of the "solidarity of labor" was given in February 1936 by an affiliate of the American Federation of Labor. As a result of an agreement with the American Farm Bureau Federation, the International Union of United Brewery, Flour, Cereal and Soft Drink Workers of America refused to handle imported barley products. Seven foreign governments protested.

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ter. Florida fruit growers feared the Cuban and Honduran treaties, and are contesting the constitutionality of the former. Yet, notwithstanding the tariff dependency of groups like sugar and wool producers, American farming is still predominantly on an export basis by virtue of its surplus capacity in grains, cotton, tobacco, livestock and fruits. This was true in 1936 as in 1929, for the simple reason that despite the collapse of export markets after 1929, little had yet been done to reorganize the economy on a permanent basis of greater self-containment.

In other words, the issue of what is to be done about the farmers' foreign market still awaits settlement. So far the restoration of balance in American agriculture has been sought chiefly through subsidized crop reduction, soon to enter its fourth year. The 1936 agricultural program contemplates the shift of about 30 million acres (one-twelfth of the total cultivated area) out of cotton, tobacco and grain and into soil-improving crops. This is roughly the acreage no longer needed for the European market. Adjustments have brought a much-needed rise in farm income; but curtailment and a heavy drought reduced agricultural output in 1934-35 to the lowest level in 40 years, while farm exports touched the lowest point in 67 years.[53]

Administration leaders have been emphatic in urging the revival of foreign demand rather than the permanent shrinkage of agriculture to a domestic basis. Secretary Wallace has labored tirelessly to persuade the farmer of the need for at least middle-of-the-road tariff reduction to achieve that end. Up to the present, however, the farmer has been more insistent upon securing his own political subsidy than in embarking upon the more difficult task of bringing about a substantial lowering of trade barriers. Especially in the traditionally Republican grain belt of the Middle West, the reciprocity pacts have enjoyed little popularity, even though it is realized that higher farm tariffs can offer little aid. Rather, the attitude seems to be this: Industry has its tariff subsidy. So why not farm benefits—"the farmers' tariff?"[54] This may be scarcity economics, it is conceded. But are

[53] An upturn in United States agricultural exports set in about October 1935. Although by the following April the volume index had fallen again to 52, the average for the first ten months of the 1935-36 season (June-April) was 61, as compared with 54 in the previous season, and 117 in 1928-29. For an account of the farm program, including its effect on exports, see accompanying data paper on *Agricultural Adjustment under the New Deal*, by Miriam S. Farley.

[54] This argument overlooks the fact that a large section of the population benefits directly neither from the tariff nor from farm benefits. Yet it pays a large share of the costs of both. Out of 50 million gainfully employed in 1929, it has been estimated that only 8 million received direct benefits from the tariff.

taxpayers and urban consumers who grumble at the burden ready to face the alternative of reducing industrial tariffs?[55]

So far farm subsidy has not taken the form of export bounties in any important degree.[56] The Administration has resisted strenuously any general resort to this alternative to the reduction of trade barriers. It has been able to do so only because the dollar has been devaluated, and because agricultural subsidies have been coupled with production control. If, however, modified production restriction under the new Soil Conservation Act proves ineffective in holding output in check, there may be increasing pressure from farm regions for a resort to extensive dumping abroad. At the present writing, there is prospect of another disastrous drought in the summer of 1936, the effect of which would be to produce a shortage in many crops as in 1934, and thus to postpone the issue. The ultimate solution depends also, of course, upon whether farm markets can be revived by other means.

The success or failure of the reciprocity program will exert an important influence on the outcome. Its failure may mean that the next phase of farm relief will be to counterbalance the tariff with a system of export subsidies paid for by either the taxpayer or the domestic consumer. How else can preservation of the home market be combined with the rapid recovery of foreign markets? It may be significant that this scheme in one form or another has been broached by several Republican politicians bent upon capturing the strategic Middle West in the coming presidential campaign of 1936.

CONCLUSION: WITHDRAWAL?

In order to deal concretely with one phase of economic foreign policy under the New Deal, we have been forced to omit many phases

[55] For a majority of American newspaper editors the answer is no, if we may trust the returns from a questionnaire recently sent to 10,000 editors of newspapers and farm journals by the National Industrial Conference Board. Editors representing papers with a combined circulation of 17,500,000 replied to questions concerning the prevailing opinion in their communities. Of the replies, 64% opposed reducing tariffs on manufactured goods; 72% opposed bounties to farmers; 73% opposed the redistribution of wealth by taxation; 75% opposed an increase in taxes; 81% opposed crop restriction: 86% opposed the fixing of farm prices; and 92% were against public control of private business! *New York Times,* May 14, 1936.

[56] Pacific Northwest wheat and flour exports have been subsidized on two occasions. A small subsidy has also been granted recently on pecan exports. But the request of cotton textile manufacturers for an export bounty has been refused. Cf. *Agricultural Adjustment under the New Deal,* cited, pp. 17-18, and *Trade and Trade Rivalry between the United States and Japan,* cited, pp. 58-59.

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altogether, or to deal with them only in passing. By so doing, we have neglected a number of policies commonly described as "nationalistic" in character. In particular, we have given little attention, or none, to gold and silver policy; domestic price-raising programs accompanied by legislation permitting the adoption of import quotas; the enactment of Philippine independence; President Roosevelt's "good neighbor" policy of non-intervention in the internal affairs of Latin American states; the rejection of the World Court and hostility to the League of Nations; the Johnson Act and war debt collection; and the Neutrality Act of 1935.

These congressional acts and executive policies, to which might be added others equally diverse in aims and results, are commonly cited as evidence of a tendency to withdraw from foreign entanglements, political and economic, and to seek domestic recovery on a more self-contained basis. Some are emergency measures; others are more permanent in character. Many of them reflect a genuine disillusionment over the insecurity of foreign markets and the waste of foreign loans, which in turn reinforced the natural depression tendency to reserve an increasing share of a shrinking home market for the exclusive control of domestic industries. Another factor has been a fear intensified as a series of international crises swept Europe and the Far East—a fear that economic entanglements would once again draw the United States into a conflict which was none of its concern. Finally, we may note the prevalence of that attitude expressed by General Johnson of NRA fame when he referred to "the wiles and ways by which the chancelleries of Europe have made a sucker out of the United States since 1916."[57]

Yet a casual perusal of the measures cited above is sufficient to indicate the inadequacy of such policies to effect any real degree of withdrawal, as well as the lack of any clear purpose to achieve such an end. The domestic recovery program contains no evidence of any intention to revise permanently the contacts of the American economy with the outside world, except as that may be rendered necessary by forces beyond the control of the Administration. American monetary policy represents an attempt by one expedient or another to bring about a reflation of prices and incomes without at the same time closing the door to eventual international stabilization on a formal, if qualified, basis. Agricultural adjustment has been pursued as an emergency measure, designed as a stopgap to relieve acute agrarian

[57] *New York World-Telegram*, October 28, 1935.

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distress pending the hoped-for recovery of foreign and domestic markets. What likelihood there was that it would broaden out into the permanent readjustment of American agriculture on a more self-contained basis has been measurably reduced by the recent decisions of the Supreme Court severely restricting the scope of federal powers to regulate production.

As for other policies suggesting withdrawal, the "freeing" of the Philippines was made possible by the desire of the domestic producers to rid themselves of the competition of duty-free Philippine products. It was also facilitated by the general indifference of the American public toward overseas possessions. Its final outcome, however, is by no means certain when viewed in conjunction with the policy of "standing on the record" in the Far East and making vast naval preparations in the Pacific. The reform of Latin American policy represents, not economic withdrawal, but an intelligent recognition of the fact that the more blatant forms of imperialism in the Caribbean do not pay, owing to the general hostility they arouse throughout Latin America. The rejection of the World Court, Mr. Roosevelt's first major defeat at the hands of the Senate, was, in truth, a reassertion of traditional political isolationism. It is more than counterbalanced, however, by the growth of Pan-Americanism, the quiet entry of the United States into the International Labor Organization, and the establishment of diplomatic relations with the Soviet Union.

The Johnson Act originated in the pique of Congress over the default of the war debtors, rather than in any general policy respecting foreign loans. Back of it also lay a revulsion of feeling over the excesses of foreign lending in earlier years. But this attitude has not eventuated in any governmental control over dealings in foreign securities beyond what is contained in the registration requirements and exchange supervision established in the Securities Act of 1933, and the Securities Exchange Act of 1934.[58] On the other hand, the Administration itself in a small way has experimented in providing

[58] The Securities Act is designed to compel full and fair disclosure to investors regarding securities publicly offered and to prevent fraud in the sale of securities. The purposes of the Securities Exchange Act are to eliminate abuses in securities markets, to make available current information for investors concerning the management and financial condition of corporations, and to regulate margin trading in securities. Both statutes provide civil remedies and impose criminal responsibility for the protection of the investor. Neither statute, however, gives the Securities and Exchange Commission, the regulatory agency, the power to pass upon the merits of any security, but only to compel the production of information for the investor and to regulate security trading practices.

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export credits through the Export-Import Bank and in financing the sale of wheat, flour and cotton to China[59] and cotton to the Soviet Union through the federal agencies. With regard to American claims on existing foreign debts it has stood on its record in the matter of war debts, has intervened actively in behalf of Americans holding German securities, and has taken the initiative in creating the Foreign Bondholders' Protective Council, Inc., a private organization set up to negotiate with foreign debtors concerning the adjustment of defaulted obligations.

Finally, efforts to avoid economic entanglements which may lead to war have concerned themselves largely with one particular aspect—ways and means of preserving neutrality once hostilities break out between two or more foreign nations. The Joint Resolution of August 31, 1935, as extended and amended February 29, 1936, has three main provisions: a mandatory embargo on exports of "arms, ammunition, and implements of warfare" to belligerents in the event the President proclaims the existence of a war; a mandatory embargo (qualified) on loans and credits to belligerents; and an authorization for the President to withhold protection from American citizens traveling on the vessel of a belligerent in time of war. This obviously falls far short of the sweeping program which alone would guarantee effective neutrality. Indeed, it is more than doubtful if the American public really desires to be neutral anyway, as shown by recent public condemnation of Italy, Japan and Germany. "If the World War is to be regarded as a precedent," writes Raymond Leslie Buell, "the American people can be certain of keeping out of a new conflict only if they become completely indifferent to events outside their national frontiers."[60]

In short, there is here no consistent pattern of withdrawal. What we find instead is a variety of policies arising out of the cross-currents of domestic political forces and aimed at this or that specific and exigent problem. It is superfluous to add that the net result has not been to recast in any new and permanent mold the fundamental ele-

[59] Cf. *Agricultural Adjustment under the New Deal*, cited, p. 17, footnote 9. In June 1936 the Export-Import Bank took over and consolidated the balance of the loans advanced by the Grain Stabilization Corporation and the Reconstruction Finance Corporation to finance the sale of wheat, flour and cotton to China. Of the 1931 relief loan, amounting to $9,212,000, a balance of $3,070,000 was still outstanding. RFC advances on wheat and flour in 1933 and 1934, totaling $17,105,000, had been reduced to $13,537,000.

[60] "The New American Neutrality," *Foreign Policy Reports*, January 15, 1936, p. 281.

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ments in the international economic relations of the country. The economic and social readjustments which such a course would involve are repugnant to most Americans. Consequently there is no evidence but that in the sharpening competition for new investment opportunities, new markets and new sources of raw materials the United States will play an increasingly active role.

The trade agreements program, in fact, is based on this assumption. It is an attempt to make that role a more intelligent and effective one than it has been in the past. It is a recognition that the practical issue is not whether the United States will adopt a policy of self-containment or not, but whether it will revise its economic foreign policy in such a way as to help to stabilize international economic relations and to mitigate economic conflict.

Accepting its premise, one must concede that the reciprocity program has been ably conceived and administered in the national interest. Its scope has of course been narrowly restricted by the obvious difficulty of reducing the protective barriers of industries still severely depressed, both at home and abroad. There remains a strong belief in "the hellishness of imports." But so far as tariff reduction has been politically feasible in the United States, it has been carried through in a carefully planned program which is new in American tariff history. And within the same limits the program should contribute to a more stable equilibrium in international payments, and to adjustment of the balance by import expansion rather than by debt default and the contraction of exports. Of course such stability is far from actual achievement, as shown by the recent huge influx of gold, which has carried the United States stock past the 10½ billion mark. In fact, no kind of international stabilization is possible in the face of such huge and uncontrolled fluctuations in international capital movements. The liberalizing of commercial policy is, however, a contribution toward a solution.

Finally, the reciprocity program has been fashioned so as to reestablish the principle of equality of treatment abroad. The Administration has thrown the weight of its influence against the growing practices of bilateralism and preferential treatment among nations. Its program envisages a world system in which governments, while they limit their total import trade as they see fit, leave the distribution of that trade among foreign countries to the competition of private producers unhampered by discriminatory treatment. Equality of treatment is conceived to be the road to peace as well as to trade

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expansion. This reliance upon the functioning of private enterprise and resistance to the extension of government control conforms to the general social philosophy of those in charge of American foreign policy. It represents their diagnosis of the ills afflicting the international economic relations of the United States and the world generally.

Whether Secretary Hull will succeed in persuading the world, or, for that matter, the American people, to the permanent adoption of this policy is still doubtful. Its laissez faire aspects run counter to a drift which is more than a depression phenomenon. Yet in the present stage of national planning, which is commonly restrictive as regards international trade, the American program is probably the only alternative to the progressive curtailment of world specialization. Within the first two years considerable success has been achieved within a broad area. The prospects are not unfavorable for the gradual extension of this area, if continuing recovery lightens the pressures which have led to the wholesale abandonment of liberal commercial policy in recent years.

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