THE UNITED STATES AND THE POST WORLD WAR II INTERNATIONAL TRADE CONFERENCES

by

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Chapter I. The United States and International Cooperation in Trade Policy, 1933-1941

1. Cordell Hull

Any attempt to explain the fact that the United States Government emerged as the champion of international trade policy cooperation in the post-World War II era must concern itself with the career of Cordell Hull. For it was he more than any other man who was firm enough, or yielding enough, as the occasion required, to keep the issue alive and important and finally to make it a central part of the New Deal and of post-war planning in the United States.[1]

A confirmed low-tariff advocate from the days of Grover Cleveland's great campaign on that issue in 1888, and one who helped push the low rates of the Underwood Bill through the House in 1913,[2] Hull nevertheless could not in those days be called an internationalist in commercial policy matters. It was in 1916, as he has related it, that he first began to

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[1] Writing of the post-war trade proposals of the United States, Jacob Viner said "...it would be difficult to overestimate the extent to which the particular pattern which the American proposals have taken is the result of the fortuitous--and fortunate--circumstance that Cordell Hull's vision and drive came into action at a strategic moment in our history." Conflicts of Principle in Drafting a Trade Charter," _Foreign Affairs_, 25:613, July, 1947.

[2] Cordell Hull, _The Memoirs of Cordell Hull_, (New York, 1948), I:22, 71-72.

think of the tariff as being more than a domestic issue, and to see the importance of satisfactory and stable trade relations to international good will.[3] A Hull speech in the House in that year reflected the change.

> ...If I were President of the United States I should... propose to the governments of all commercial nations that at the close of the present European war an international trade conference be held in the city of Washington for the purpose of establishing a permanent international trade congress, the function and duty of such congress to comprise the consideration of all international trade methods, practices, and policies which in their effects are calculated to create destructive commercial controversies or bitter economic wars, and to formulate agreements with respect thereto, designed to eliminate and avoid the injurious results and dangerous possibilities of economic warfare, and to promote fair and friendly trade relations among all the nations of the world.[4]

Hull also made the idea of an international trade organization the subject of a letter to Secretary of State Lansing in February, 1916, setting forth a suggested agenda for a post-war conference;[5] and of a resolution introduced to the House in April, 1917.[6] He believed the latter to have been the forerunner of Point Three of Wilson's Fourteen,[7] but beyond that symbolic success these early efforts were fruitless.

Congress was not allowed to forget the idea, however, as it appeared and reappeared in Hull's speeches during his years in

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[3] _Ibid._, I:81.
[4] _Congressional Record_, 64th Congress, 1st Session, July 8, 1916, 10653-10654.
[5] Hull, I:84-85.
[6] _Congressional Record_, 65th Congress, 1st Session, April 23, 1917, 991.
[7] Hull, I:82.

Congress.[8] With the exhausting sentence quoted above standing as an example of the Hull oratory, we may believe that he was often thought of as a "character" on this and the tariff issue; and even, as a Democratic Senator once told Raymond Moley, that "...every time he makes his speech on tariffs, he clears the floor of the Senate."[9]

But against this mild opprobrium one must set the impressive facts that his analysis of the position of the United States in the world economy, and of the commercial policies called for by that position, were sound; and that the need for international action to shore up the world economy was (as we clearly see now) so great that he attains greater, not lesser stature for having been doggedly insistent in calling for it.

For the system of international exchange that had grown up around England and her liberal trade and investment policies had emerged from World War I carrying more wounds than anyone realized at the time. International specialization and exchange, completely disrupted for a time, was permanently weakened as fear of recurring wars turned nations toward autarky. And its pattern was drastically (and often unworkably) altered. Freedom of enterprise and primacy of commercial

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[8]E.g., Ibid., I:101, 126, 146; see also H. J. Tasca, The Reciprocal Trade Policy of the United States, (Philadelphia and London, 1938), 83.

[9]Raymond Moley, After Seven Years, (New York and London, 1939), 114. Of course the feat of clearing the floor of the Senate must not be thought of as one too difficult of attainment.

considerations, replaced during the war by state trading with military or political considerations primary, never again achieved the position it had held during the nineteenth century. And the war and postwar currency inflations rendered international exchange chaotic if not impossible, and made a quick return to the relatively uncontrolled international gold standard impracticable. Yet the nations attempted such a quick return to the old system, dissolved the international economic bodies that had grown up during the war, and trusted to the "unseen hand" to correct any disequilibrium which might appear.[10]

It is at this point that the new position of the United States becomes of obvious importance; for it is now generally recognized that the "unseen hand" of the nineteenth century was given the most generous amount of guidance by the Bank of England and the London capital market.[11] In the course of financing her tremendous war effort, however, Great Britain had liquidated a great part of her foreign assets and in addition had accumulated a large debt. The result was that she found herself replaced by the United States as the world's great creditor, and, of course, as prompter of the "unseen hand." The increased productive and competitive power of the latter, both absolute and relative, made it evident that she

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[10]Cf. Paul Alpert, Twentieth Century Economic History of Europe, (New York, 1951) 24-37, 46-7. Even a bare listing of factors contributing to the difficulty would, of course, be a major undertaking; the above is meant to be only an indication.

[11]Cf. Ibid., 3-4; Wilhelm Röpke, International Economic Disintegration, (Glasgow, 1950), 16.

would retain that position for an indefinite period.

The record of the United States in the 1920's was enough to create the impression, not of the benevolent genius described by Adam Smith, but of some perverse Belial. Her capital markets were fairly responsive until the pent-up demand created by war and reconstruction was satisfied, but when finding markets became the primary problem (when loans were really vitally needed), not only were new loans not forthcoming, but the United States actually became a haven for flight capital, with the result that the flow of the means of exchange literally "dried up."[12]

If this phase of her new role can be weakly defended by the assertion that the United States' private bankers involved acted completely in keeping with commercial considerations (though one may wonder that commercial considerations should demand the bringing down of the whole structure of exchange), her tariff policy cannot. For from the good beginning made in the Underwood Act toward a tariff over which the necessary imports to service the newly acquired credits (and future capital exports) could flow, Congress turned back, in the "Emergency Act of 1921" and the Fordney-McCumber rates of 1922, to a policy of extremely high tariffs. Then, after the debacle in the international capital market began, the coup de

[12]Cf. Hal B. Lary and Associates, The United States in the World Economy, (U.S. Department of Commerce, Washington, 1943), 5-7.

grace was administered to the expiring structure of international trade by the Smoot-Hawley Act of 1930 and its fiery trail of retaliatory actions.[13]

These actions and policies of the United States played no small role in converting the Panic of 1929 into the Great Depression, which, together with the nationalistic war of a decade before, did so much to discredit the Western liberal traditions in politics and economics. The destruction of the international economic base upon which political cooperation could have been built, making the nations strive for economic independence without regard for their neighbors' interests, also contributed heavily to the nationalistic war a decade later.

All this was sorely discouraging to Congressman Hull of Tennessee, especially since his own party's platform in 1928 was by no means a clarion call to tariff reform,[14] and its candidate, Al Smith,had often seemed closer to the Smoot than to the Hull concept of the tariff issue.[15] But by 1932 the kind of economic thinking (or instinct) that had produced the Smoot-Hawley Act was in such strict disgrace that Hull, with the backing of the candidate-to-be Franklin D. Roosevelt, was able to get a platform through the Democratic convention calling for "reciprocal tariff agreements with other nations,"

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[13]Cf. Asher Isaacs, International Trade, Tariff and Commercial Policies, (Chicago, 1948), 221-237.
[14]Ibid., 229.
[15]Hull, I:131, 140.

condemning the Smoot-Hawley Act of 1930 in no uncertain terms, and endorsing the idea of an international economic conference (to which President Hoover had committed the United States).[16] That the Republicans could do no more than strive mightily to find virtue in the Tariff Act of 1930 was indicative of the political bankruptcy that assured their defeat.[17] Hull was "almost thunderstruck" when the victorious Roosevelt extended to him the post of Secretary of State; but at length he accepted.[18]

Quite a change of outlook had thus occurred for the long-suffering Tennessean since the dark days of 1930. Now he was Secretary of State to a President, who, he had assured himself before the 1932 convention, "entertained the same tariff and general economic views as myself."[19] As such he would be the commanding figure at the economic conference he had long called for. It was true that the President's remarks on trade barriers in the inaugural address were heavily mortgaged to the proviso "I favor as a practical policy the putting of first things first."[20] But the "fireside chat" only three days later had seemed assurance enough for anyone:

> The international conference that lies before us must succeed. The future of the world demands it and we

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[16]Hull, I:152-3, 171; Isaacs, 245.

[17]Their tariff plank read: "Due to the 1930 tariff act and the agriculture marketing act...prices received by the American farmer...are higher than the prices received by the farmers of any competing nation for the same product." Ibid., 244-245.

[18]Hull, I:156-158.

[19]Ibid., I:131.

[20]Quoted in Hull, I:167.

> have each of us pledged ourselves to the best joint efforts to this end.[21]

2. Influences Toward "Insulating" the New Deal

Of course one must not overemphasize the confidence with which Secretary Hull approached the London Economic Conference. The problems which it would face were stupendous and there were many portents of opposition to him within the new Administration, embodied, as Hull saw it, in Assistant Secretary of State Raymond Moley.

This was not the old-school opposition which saw protectionism pure and simple as the way to prosperity. To this new school (which included in 1933 such noted "brain-trusters" as Rex Tugwell, Ralph Robey, and Adolf Berle, Jr., in addition to Moley),[1] protection was not necessarily a virtue in itself, but was vital as a means of "insulation" against the outside world while domestic recovery was effected by domestic means. Of course the means to recovery might vary as widely as is well imaginable, but upon the need for "insulation" there might still be agreement. To some it was a temporary expedient; while to others (including Moley) it seemed the best long-run policy.

Three main policies which were a part of the New Deal at the outset were apt to involve such sentiments in one form or another: 1) the AAA, insofar as it involved raising price

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[21]Samuel I. Rosenman, ed., The Public Papers and Addresses of Franklin D. Roosevelt, (New York, 1938), II:167.
[1]Moley, 71.

levels and restricting production to maintain them, might require higher tariff protection or even drastic quota restrictions to prevent imports from replacing the domestic production which was foregone; 2) the NRA, insofar as it successfully raised wages and prices in industry, might require "insulation"; and 3) the various inflationary schemes might require curtailment of imports so that the resultant purchasing power would create employment at home and not abroad.

To Moley, these policies were the New Deal. An isolationist and economic nationalist at heart, he was as convinced as was Hull that Roosevelt stood with him on the tariff issue. "What Roosevelt's tariff policies contemplated, originally, was a modified protectionism to safeguard his experiments in wage and price raising," he later wrote.[2] He could only conclude that the President failed completely to see "the fundamental conflict between his New Deal and the beliefs of the older Democrats, the basic incongruity of his own program and Hull's Adam Smith economics."[3]

As a result he had no enthusiasm for the Conference or its aims, and he devoted himself through the press and radio to playing down its importance and its chances of success. This brought forth the extreme displeasure of Secretary Hull,[4] who early adopted an attitude of open hostility toward

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[2] Ibid., 368.
[3] Ibid., 112.
[4] Ibid., 208-210; Hull, I:249.

Assistant Secretaries and other subordinates in the Department who publicly deviated from his policies without prior consultation with or leave from him. This attitude has sometimes been deplored with anguish and indignation, and due to Roosevelt's unorthodox use of his cabinet and other advisors, it was often called forth. Yet it is hard to imagine any other reaction on the part of the Secretary, regardless of the esteem enjoyed or the understanding held by the offender with the President.

Both Hull and Moley were ultimately made a part of the American delegation (with the latter arriving, amid much fanfare, toward the end of the conference), and the rest of the American delegation was scarcely less heterogeneous. Add to that the chaotic state of the world economy and the uncertainty that plagued the wisest of men in those times and the failure at London is not surprising. The difficulties for the historian arise from the fact that men of such different inclinations as Moley and Hull could both feel that they enjoyed Roosevelt's full support; and that, having given the conference his support, he could cause its breakdown by his famous "bombshell" message.[5]

Moley, as we have seen, attributed all this to the President's ignorance in matters of economics. Certainly his handling of the conference stands as one of the most universally

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[5]For the text of the message, Rosenman, ed., op. cit., II:266.

condemned actions in his four terms as President. The English economist John Maynard Keynes stood almost alone in praising the President at the time; and Keynes was at his extreme in isolationism in those days both for reasons of economic "insulation" and because of a vaguely expressed feeling that minimising "economic entanglements" among nations would contribute to peace.[6]

Any attempt to understand the President's action must begin with the dismissal of the idea that it was entirely within his power to achieve currency stabilization and trade barrier reduction at this time. The widely varying approaches to these problems of the various nations represented at London is well known. In the impasse that was already evident there, one may suspect that the "bombshell" message was pounced upon with more than ordinary eagerness as the "cause" of the breakdown.

But what is less widely recognized is that he had a Congress to cope with that was much less of a "rubber stamp" in certain respects than is popularly believed. Certainly wide latitude was given the President in many respects; but on two matters, currency inflation and tariff protection, Congress was adamant. It is seldom remembered by those who like to

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[6]See his articles covering the conference in the London Daily Mail, June 8, June 20, June 27, and July 4, 1933; and his articles on trade and peace in the New Statesman and Nation, July 8 and July 15, 1933; excerpts from all quoted in Roy Harrod, The Life of John Maynard Keynes, (New York, 1951), 445-446.

condemn Roosevelt for his unorthodox monetary policies that this Congress came within an eyelash of passing a Bryanesque silver-coinage bill, even before the New Dealers could act.[7] Under these circumstances it would have been foolhardy to accept a rigid currency stabilization agreement.

And on the tariff matter, evidence abounds that reductions were politically impossible at the time. Moley tells us "...congressional leaders told him [Roosevelt] that no matter what he and Secretary Hull had agreed upon Congress would refuse to give the administration authority to reduce tariffs... There was a vastly greater amount of give and take in his attitude toward the 'Hundred Days' Congress than the country realized."[8] Hull has recorded his disappointment upon receiving this knowledge (while at London).[9] And in a letter to Sumner Welles in Cuba at the same time the President confessed his inability to force emergency action on the sugar tariff through the Congress, although political violence in Cuba was not unlikely as a result.[10]

But laying political possibilities aside, what were Roosevelt's own feelings about the matter? His later actions seem convincing proof that he stood with Secretary Hull, as

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[7]Cf. Frederick Lewis Allen, Since Yesterday, (New York and London, 1940), 115.
[8]Moley, 193.
[9]Hull, I:250-251.
[10]Elliott Roosevelt, editor, F.D.R., His Personal Letters, 1928-1945, (New York, 1950), I:349-350 (Roosevelt to Welles, June 8, 1933).

a matter of long-term principle. But the economic tragedy of 1929-1933 had left the international economic structure as unstable as shifting sands. To the practical statesman and politician it seemed lunacy to base a domestic recovery program upon it. As recovery was achieved, trade ties could be reestablished. But if he could be convinced that they were inimical to recovery, he would avoid them. Without domestic recovery, there was nothing.

When the President said, in 1933, "Our international trade relations, though vastly important, are, in point of time and necessity, secondary to the establishment of a sound national economy,"[11] it was clearly a temporary departure from Hull. But certainly Moley, when he read into such a statement an endorsement of his own brand of economic isolationism, was himself much more naive than he believed Hull to be. There now seems no reason to believe that Roosevelt did not mean exactly what he said: as the domestic economy begins functioning again, we will return to liberal trade principles. At the outset, then, the counsel of a Moley might be preferred to that of Hull or his supporters. But over the long pull, and most particularly in the case of planning groups such as laid down the blueprints for the postwar economic organizations, the Hull concepts would dominate.

[11]Quoted in Moley, 196.

3. An Instrument for Cooperation--The Reciprocal Trade Agreements Act

Even before the London Conference the Hull forces had been drafting legislation which would make it possible to fulfill the pledge in the platform of 1932 calling for reciprocal trade agreements with other nations.[1] At that time little opposition had been expected, but, as noted above, the "new Protectionism" that went with inflationary schemes, crop control, etc., added to the old school (still far from dead), rendered tariff action impossible in 1933.

Well before the next session of Congress, however, Hull was making preparations for a new attempt. The story of this attempt is of the first importance for the student of post-war affairs. For the principles laid down in the original Reciprocal Trade Agreements Act were the guide for the whole post-war program of international trade policy cooperation;[2] and the tariff reductions it (and later amendments) made possible were one of the principal bargaining weapons used by the United States in obtaining acceptance of that program.

On November 11, 1933, the Executive Committee on Commercial Policy was formed by Executive order, on which Committee was to serve, in addition to a Chairman from the State Department, representatives of the Departments of Commerce, Agriculture, and the Treasury, plus members from the Tariff

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[1]Hull, I:248.

[2]Cf. J. M. Letiche, Reciprocal Trade Agreements inthe World Economy, (New York, 1948), I.

Commission, the NRA, and the AAA. This organization, the first experiment with the type of interdepartmental group that was to become so common during the Second World War,[3] was charged with coordinating the Government's export and import policies so that no department or agency would take action inconsistent with the general policy to be agreed upon and formulated by the Committee.[4]

The original permanent chairman of this group was Assistant Secretary of State Francis Bowes Sayre, a key man of the Hull team. A graduate of Williams College and Harvard Law, he later taught at both of those institutions (at the latter 1919-1933). His previous government experience was limited, but included a period spent as advisor to the King of Siam, for whom he negotiated several treaties and by whom he was decorated. The son-in-law of Woodrow Wilson, he was a champion of Wilsonian principles and had gladly assumed a role which might let him put at least some of them into practical operation.[5]

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[3]W. J. Parks, United States Administration of its International Economic Affairs, (Baltimore, 1951), 5.

[4]Francis Bowes Sayre, The Way Forward; the American Trade Agreements Program, (New York, 1939), 54-55.

[5]Register of the Department of State, October 1, 1938, 165; Current Biography, 1940, 717-718. Sayre later served as High Commissioner to the Philippines, Chairman of the U.N. Trusteeship Council, and, upon leaving the Department of State in 1952, as the personal representative of the Presiding Bishop of the Protestant Episcopal Church to the Episcopal Church of Japan and its Presiding Bishop; idem.; New York Times, August 8, 1951; May 23, 1952, 6:2. For Hull's appraisal of him, op. cit., I:356.

Under his chairmanship the Committee agreed upon the reciprocal trade agreements principle and drew up a draft bill which received the President's approval on February 28, 1934.[6] This was introduced to the House on March 2, and on March 29 it was passed on an almost straight partisan vote (269 Democrats for, 11 against; 2 Republicans for, 99 against.)[7] The Senate Finance Committee reported the bill out on May 2 with an amendment providing for "reasonable public notice of the intention to negotiate an agreement" so that all interested parties could present their views before an agreement was concluded; an amendment generally recognized as one constructive in nature.[8] After rejecting several crippling amendments and the learned constitutional arguments of several Senators (which were to become traditional whenever the bill was up for consideration), the bill was passed on June 4, by an only slightly less partisan vote than was the case in the House (51 Democrats for, 5 against; 5 Republicans for, 28 against).[9]

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[6]Sayre, 56; Hull, I:356-357.

[7]Sayre, 57. For the roll-call, Congressional Record, 73rd Congress, 2nd Session, March 29, 1934, 5808.. For a breakdown of the vote by party on the Act from 1934 through 1945, New York Times, January 26, 1947, IV, 5:3. See also United States Tariff Commission, Operation of the Trade Agreements Program, June 1934 to April 1948, Part II, History of the Trade Agreements Program, 6-10, for a brief legislative history of the Act and its operation through 1937. Hereafter cited as Operation of the Trade Agreements Program, Part II.

[8]Sayre, 58; Isaacs, 250.

[9]Sayre, 58; for the roll call, Congressional Record, 73rd Congress, 2nd Session, June 4, 1934, 10395. Eleven Democratic Senators voting for the bill had replaced Republicans who in 1930 voted for the Smoot-Hawley Act; two Republicans (Capper

The House accepted the Senate's amendment,[10] and on June 12, 1934, Roosevelt, while the delighted Hull looked on, signed the Act into law.[11]

In form, the Act was merely a brief amendment (Section 350) to the 283-page Smoot-Hawley Tariff Act. The latter remained (and remains today) the basic tariff law. Passage of the Reciprocal Trade Agreements Act in itself did not lower a single rate; but its provisions set forth a method by which they might be lowered.

The basic provisions allowed the President, for a period of 3 years from the date of enactment, 1) to enter into trade agreements with foreign governments; 2) to alter or bind treatment of imports, including modification, not to exceed 50%, of existing duties, in order to carry out said agreements;[12] and 3) to extend the latter to all foreign countries

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of Kansas and Couzens of Michigan) and one Democrat (Fletcher of Florida) who had voted for the Smoot-Hawley Act supported the Reciprocal Trade Agreements Act. (For the Senate roll call on the Smoot-Hawley Act, ibid., 71st Congress, 2nd Session, June 13, 1930, 10635). For an exhaustive listing of minority objections to the 1934 Act, Isaacs, 247-250.

[10]Congressional Record, 73rd Congress, 2nd Session, June 6, 1934, 10636.

[11]Hull, I:357.

[12]These two provisions have been held by some to violate the Constitution as delegation of legislative control over tariffs, and as an evasion of the treaty power of the Senate. These arguments ignore the facts that 1) delegation to the executive of control over import restrictions may be found as early as the Embargo Act of 1794 and as recently as the Smoot-Hawley Act; 2) many international agreements, including commercial agreements, have been entered into by executive agreement, as is contemplated in the Reciprocal Trade Agreements Act. Both of these principles have been upheld in numerous court

(unconditional most-favored-nation principle), except such of them as the President might find discriminating against American commerce in such a way as to defeat the purposes of the act.[13] These agreements could be terminated "upon due notice to the foreign government concerned" at the end of 3 years after entering into force, and thereafter upon not more than six months notice.[14]

The Act was not, of course, nor was it intended to be,

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decisions, including one in 1892 upholding Section 3 of the Tariff of 1890 against this same pair of charges. For examples of the argument against constitutionality of 1934 vintage, Congressional Record, 73rd Congress, 2nd Session, May 17, 1934, 9006 (Borah), May 18, 1934, 9096 (Schall). For the history of U.S. participation in reciprocal trade negotiations, Operation of the Trade Agreements Program, Part II, 1-4. For an excellent treatment of the arguments and the relevant precedents and decisions, Sayre, 65-79.

[13]The unconditional most-favored-nation principle was not new to American policy, having been adopted under the Harding Administration in 1923. Previous to that, U.S. policy had been conditional most-favored-nation, i.e., to qualify for concessions we gave one country, each other country had to give us concessions. The arguments against this (and in favor of the unconditional form) are 1) the conditional form is very awkward, requiring myriad negotiations to effect anything like world-wide barrier reductions; 2) the unconditional form, once widely adopted, brings to all the concessions made by each. Adherence in administration to the rule of negotiating only with the principal supplier of a product mitigates the seriousness of "free riders." For letters relevant to the adoption of the most-favored-nation policy, and the circular instruction from the Department of State to its diplomatic officers for its inclusion in future commercial treaties, W. S. Culbertson, Reciprocity, A National Policy For Trade, (New York and London, 1937), 238-279; see also Operation of the Trade Agreements Act, Part II, 4-6; Sayre, 98-108; Hull, I:359-362; Isaacs, 255-256.

[14]Text of the Act is in J. C. Pearson, The Reciprocal Trade Agreements Program, (Washington, 1942), 307-309. Further provisions: no item is to be switched from the free to the dutiable list, or vice-versa; Cuban preferences are excepted from the most-favored-nation principle.