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The Roosevelts and foreign trade: Foreign economic policies under Theodore and Franklin Roosevelt

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"...the decline of protectionism has lagged behind the rise of America's competitive strength in world markets... Our tariff law reflects both sides of the shield of public opinion - a desire to expand trade and a growing fear of foreign competition... Congress is left to reconcile, as best as it can, the growing demand for export markets with the conflicting claim that competition from cheap foreign labor destroys American industry."

Don D. Humphrey,
American Imports,
New York 1955, p. VIII

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I. Introduction

The following comparison of T.R.'s and F.D.R.'s foreign trade policies wouldn't make much sense if it was motivated only by the fact that both Roosevelts were offsprings of a family of Zeeland origin. There is somewhat more to it. Under both presidents, U.S. foreign economic policies were in need of adaption to the leading role the U.S. economy had acquired in the world economy. They both arranged for reciprocity agreements in trade with foreign countries and fought for the open-door principle to protect American trade interests vis-à-vis increasing discrimination and protection in international trade. Yet, the economic and political environment, the shape and substance, and the outcome of their trade policies were quite different.

I shall try to discuss the two approaches to adapt U.S. trade policies to the requirements of the twentieth-century national interest of the United States in the following order. I shall first draw a picture of the economic conditions that preceeded the two inaugurations. Thereafter, I shall discuss the Republican trade policy responses under T.R. and the Democratic policy responses under F.D.R. And finally, I shall try to compare the two policy approaches and to draw a lesson for today's trade policy making.

II. The Economic Conditions

Economic development in the United States - vis-à-vis Great Britain a relative latecomer in the process of industrialization - was more rapid and stronger in the 19th century than in any other part of the world of similar size. In that period the U.S. exhibited a higher population growth than any other comparable area. It was not mainly due to immigration, but to an extremely high difference between the birth and the death rates. This reflected exceptionally favorable economic conditions that allowed for marriages and procreation at a very early age.[1] In this process the famous "frontier" was pushed constantly further westwards and the gradual expansion of population across the entire continent provided for a rapidly growing market for American as well as foreign manufactures. In that period America was importing capital and in foreign trade imports were generally higher than exports. Economic growth concentrated on the domestic market, which was shielded against unwelcome foreign competition by high protective tariffs, especially since the Republican Party had dominated politics in Washington since 1861.[2]

Yet, by the end of the century this situation had changed fundamentally. By the 1890s the frontier had vanished and the industrial output of the U.S. had grown to be larger than that of any other nation in the world.[3] Starting with the so-called Great Depression in 1874, which lasted until the mid-1890s, the US. trade balance showed mostly and from 1893 on only surplusses. U.S. exports exploded at the end of the Great Depression and helped to pull the American economy out of it. From 1895 to 1901, the year in which T.R. was inaugurated, exports in real terms grew at an average annual rate of 8.4 percent compared to a growth rate for real GNP of 5.4 percent. Semi- and finished non-food manufactures had reached 32 percent of total U.S. exports in 1901 compared to only 16 percent in 1870 and 26 percent in 1895. U.S. industries had also substituted their own products for imports, as the share of imported finished manufactures in total imports had dropped from about half in the 1850s to about a quarter in the 1890s.[4]

When T.R. took office in Sept. 1901, U.S. manufacturers and investors had already recognized the vital importance of export markets to absorb the growing output not only of the highly productive

American agricultural sector, but now also of the industrial sector, at that time the biggest and most vigorous in the world. Although still an international net debtor until the First World War, the U.S., from the turn of the century onwards, started to export more capital than it was importing. While in 1908 70 percent of U.S. long-term capital exports were invested in Canada and Latin America,[5] Europe was by far the foremost U.S. foreign trading partner.[6]

This basic structure of U.S. foreign trade and investments still prevailed when F.D.R. became President, although the American continent had, at the expense of Europe, gained somewhat in importance as a trading partner of the U.S. and Europe had assumed a more prominent role in U.S. foreign investments. But by the time F.D.R. was inaugurated, the U.S. economy had even more fully demonstrated its dominant position in the world. While the First World War had weakened the rival economies of Europe, it had provided for a big boost to production and income in the U.S. Before and after U.S. entry into the war in April 1917, the European Allies had placed large orders for raw and war materials as well as foodstuffs in the U.S. These had been paid for mainly by credits that initially American bankers, and from 1917 onwards, the U.S. government had granted for this purpose. In this way the U.S. had become not only an international net creditor, but, by the end of the war, had far surpassed Great Britain on this account.

As Germany, the strongest industrial rival of the U.S. in the decades before 1914, had been crippled in its international trade by the Allied blockade throughout the war, U.S. exports to non-belligerent areas, like Latin America and Asia, had also risen strongly. With German competition eliminated on the American domestic market, U.S. industries had moved into new production lines to substitute for German imports, e.g. of dye stuffs and other chemicals. The munitions, steel, shipbuilding and motor vehicle industries had expanded not only their production, but their production capacities enormously, as - by the way - had American agriculture.[7]

After a sharp, but relatively short postwar depression in 1920/21 the boom of the 1920s provided for an uninterrupted further strong growth of American industry till the end of the decade. Prosperity was based on the rapidly expanding domestic demand for construction and such new consumer durables as the automobile and electrical household appliances.[8] In addition, the U.S. continued to export large quantities of capital and thus contributed to the economic reconstruction of Europe. But while real GNP in the U.S. increased about 40 percent from 1919 to 1929, real export growth did not even reach 10 percent.[9]

World War One had not only reshaped the map of Europe geographically, but had resulted in a world of either new or higher trade barriers, just at the time when U.S. export products had become more vulnerable to them than ever before. The share of semi- and finished non-food manufactures in total U.S. exports had reached 45 percent in 1919 and even 63 percent in 1929.[10] And it was at these industrial products that the postwar protectionism abroad was primarily targeted, in contrast to raw materials and foodstuffs, the import of which foreign countries mostly needed to feed their industrial machinery and their population respectively. Desperate for foreign exchange not only to overcome balance of payments deficits and currency instabilities, but also to pay for reparations or interallied war debts, European nations tended to be protectionist and even Great Britain ended its long tradition of free and undiscriminated trade.[11] The U.S. was now not only the leading international net creditor, but also in an outstanding industrial competitive position being at the same time free of balance of payments problems. But instead of leading the way towards freer trade, it reverted to protectionism, when the Republican Party, traditionally a high-tariff advocate, regained control of the White House in 1921 (Emergency Tariff Act of 1921 and the Fordney-McCumber Act of 1922). Thus European war and reparation debtors had a hard time earning by exports the foreign exchange needed to pay their ultimate creditor in America. And American businesses generally found markets abroad less profitable than those at home. American capital exports postponed the crisis in the 1920s. But when they started to dry up in 1928 and when the U.S. boom collapsed in the great crash a year later, the lack of international leadership in the world economy led to most painful results, as the depression was reinforced by domestic and international financial crises and developed into the deepest and longest economic crisis ever.

Great Britain had played the role of an international stabilizer in the 19th century.[12] It provided for a relatively stable supply of international money, the Pound Sterling. The British market was kept open for imports. Whenever the domestic economy slackened, foreign exchange receipts from exports to Britain diminished for the rest of the world. Britain made up for it by increasing capital exports, when the slack in the domestic economy offered little investment opportunities at home. The U.S., however, in terms of economic and financial power, in the post-World-War-One period the natural heir of Great Britain's leadership role, not only failed to pursue free-trade policies, but reacted to the first signs of the Great Depression with further tariff increases (Smoot-Hawley Act of June 1930). In addition to that, U.S. capital exports were not anticyclical, but procyclical, i.e. when the depression deepened, U.S. capital was withdrawn from abroad instead of being additionally exported. From hindsight, the consequences didn't come by surprise. When F.D.R. was inaugurated in March 1933, the monetary system, the painstakingly re-established gold standard of the 1920s, was in shambles, trade restrictions had expanded world-wide,[13] world exports had dropped by about two thirds in value and about a quarter in real terms since 1929.[14] U.S. exports even went down to about half in real terms, while real U.S. GNP had dropped by about 30 percent.[15]

III. Republican Policy Responses under T.R.

When President William McKinley was assassinated and T.R. succeeded him in Sept. 1901, the Dingley Tariff Act of 1897 was in force. It had been drafted and passed in Congress by the Republicans, immediately after McKinley had taken over the White House from the Democratic President Cleveland. The Republicans instituted the highest tariffs in American history until then. In its first full fiscal year of operation the average rate on dutiable goods reached 52 percent and on dutiable and free goods combined almost 30 percent.[16] The Dingley Tariff had the longest life of any tariff act in American history, it remained in force throughout T.R.'s Presidency, and its successor, the Payne-Aldrich Tariff that was enacted in 1909 was only slightly less hostile to foreign competitors.

Yet during T.R.'s Presidency some reduction of the average protective rate resulted from the fact that the price trend was upward in the first decade of the 20th century, while many tariffs were expressed as specific instead of ad-valorem duties. Thus by 1908 the average protective rate on dutiable goods had fallen to 43 perent and on dutiable and free goods combined to 24 percent.[17] But the same price rises also eroded the purchasing power of consumers, as wage increases could hardly keep pace with inflation. There was widespread public resentment against the high tariffs as they were regarded as a boon to big industry at the expense of the majority of the population.[18]

After his triumphant re-election in 1904 T.R. himself considered some downward revision of the tariffs. Although loyal to the protectionist dogma of the Republican Party that tariffs should adjust for competitive differences between home and foreign producers,[19] he became aware of tariff rate abuses that he wanted to put an end to. He soon realized, however, that "the high priests of protectionism" were too numerous and powerful within his party and that an all-out fight for the issue "would have destroyed his effectiveness."[20] He dropped it in exchange for Congressional support of his railroad regulation program which he considered more important. This is hardly surprising, as T.R.'s ceterum censeo was repeated in his inaugural address in March 1905: "The great development of industrialism means that there must be an increase in the supervision exercised by the Government over business-enterprise."[21] On this issue he had made promises to the electorate, not on tariff revision, and, indeed, history records his undisputed contributions to the "decline of laissez faire" in America, while his "inability to alter the tariff stands as one of the signal failures of his presidency."[22]

Although T.R. failed to move the U.S. towards the path of free trade at a time when the American competitive position was already strong enough to allow for such a policy, he had recognized the vital importance of export markets for industrial America's economic development. He agreed with the analyses and recommendations published in the 1890s and shortly thereafter by Alfred T. Mahan and Brooks Adams that - after the domestic frontier was closed - overseas expansion of American commerce and political influence, protected by sea power, i.e. naval bases abroad and a strong navy, should open a new frontier.[23] Already as assistant secretary of the navy in the McKinley government he advocated imperialistic expansion of the U.S. in the Pacific and in Central America to secure commercial expansion in Asia, mainly in China, and in South America. The Spanish-American War of 1898 marked the final turning point toward the new imperialism by the U.S. and T.R. did his best to have America declare that war on Spain. As is well-known it resulted in American victory and the annexation of Hawaii, Wake, Guam, the Philippines and Puerto Rico and in short-term military and long-term political control of Cuba. With the new footholds for trade expansion in the Pacific, the Secretary of State in the McKinley government, John Hay, worried about trade-discrimination in China, formulated the open-door principle, the cornerstone of American trade policy in the 20th century, in his famous notes of 1899/1900 to each of the great powers with an influence on Chinese affairs.[24]

When T.R. moved into the White House in Sept. 1901, the U.S. already played its part in the concert of world powers and had expressed its special interest in commercial expansion in Asia and Latin America. During his presidency, T.R. advanced the cause of America's new imperialism forcefully. He was not only driven by economic motivation, but also by the conviction that the Americans should join the British in sharing "the white man's burden" of spreading the fruits of advanced western civilization and Anglo-Saxon democratic ideals worldwide. He shared Mahan's view that "personal liberty is a greater need than political independence"[25] and justified American military inventions by pointing out: "Our armies do more than bring peace, they bring freedom. Remember always, the independence of a tribe or community may often and does have nothing to do with the freedom of the individual."[26] He respected any country's aspiration to self-government and was willing to grant it on the condition that its population had learnt to govern according to western standards, i.e. establish law and order for the community, and political and economic freedom for the individual.

In this spirit, T.R. withdrew American troops from Cuba in 1902 after he had forced the Cubans to incorporate the Platt Amendment into their constitution. By its terms, Cuba was not allowed to conclude international treaties that would impair its independence or to incur any public debt for which its ordinary revenues were inadequate; and Cuba consented to U.S. intervention, should that be necessary in the future for "the maintainance of a government adequate for protection of life, property and individual liberty"[27] and to the sale or leasing of land for an American naval base. Although the Spanish-American War had been started with tremendous popular support to free Cuba from Spanish oppression and to fight for a "Cuba-Libre", i.e. for complete Cuban independence, as it was expressly underlined by the Teller Resolution in Congress in 1898, the independence now granted was a mere formality; in substance Cuba became an American protectorate.

Yet, T.R. and Congress literally also added a sweetener to the bitter pill of dependence from America. A trade treaty with Cuba shaped according to the reciprocity provisions for general tariff reductions contained in Section 4 of the Dingley Act of 1897[28] became effective in December 1903, shortly after Congress had passed a special enabling act, which was necessary, as the Dingley Act had granted authorization for such treaties for two years only. U.S. goods were admitted to the Cuban market under preferential treatment, i.e. at a general reduction of duties of 20 percent, and a long list of specified U.S. goods received the advantage of even a 25-40 percent reduction.[29]

In exchange Cuban goods, primarily sugar, could enter the U.S.

market at a 20 percent reduction of duties, which in effect provided for prosperity in the Cuban sugar industry during the following years. This was similar to the treatment the Philippines had received for their sugar since annexation by the U.S., while sugar and other export products from Hawaii and Puerto Rico were admitted totally duty-free into the U.S.,[30] as these protectorates were included into the U.S. customs territory.

T.R. favored reciprocity agreements, not only with American dependencies, but with other countries as well, including the big industrial rivals in Europe, in order to reduce the tariff wall around the U.S. without changing the Tariff Act. U.S. tariffs in general were far higher than those in Europe.[31] Continental European countries, especially France, tended to be increasingly protectionist after the passage of the Dingley Act. France had a double column tariff, and by applying the maximum rates to imports from the U.S. and the minimum rates to those from European countries had in fact created a zone of preferential tariff treatment for intra-European trade and was discriminating against the U.S., as did a number of other European countries.[32] In his first message to Congress in December 1901 T.R. declared: "The phenomenal growth of our export trade emphasizes the urgency of the need... for a liberal policy in dealing with foreign nations. ... The customers to whom we dispose of our surplus products in the long run, directly or indirectly, purchase those surplus products by giving us something in return."[33] T.R. borrowed the idea from Brooks Adams who in his Atlantic Monthly article "Reciprocity or the Alternative" argued that, as the trade balance shifted more and more in America's favor and against Europe, Europe would be put under tremendous financial pressure and might therefore go to war with America, unless the U.S. helped the export of European products by a wise reciprocity policy.[34]

But although favoring a policy of reciprocal tariff reductions in trade with other countries, T.R. continued to stand by the protective principle his party was so strongly attached to. "Reciprocity must be treated as the handmaiden of protection. Our first duty is to see that the protection granted by the tariff in every case where it is needed is maintained, and that reciprocity be sought for so far as it can safely be done without injury to our home industries," T.R. declared in his first message to Congress and likewise a year later in his second.[35] This echoed the view of the National Association of Manufacturers expressed on a special "reciprocity convention" in November 1901[36] and also of the Republican majority in Congress. The Republicans in Congress had refused to ratify the rather far-reaching reciprocity treaties under section 4 of the Dingley Act that were similar to the 1903 arrangement with Cuba and that the special reciprocity commissioner Kasson had negotiated with the UK and Denmark for their possessions in the West Indies, with Nicaragua, Ecuador, the Dominican Republic and Argentina, and most important of all with France, whereby tariff rates on a wide range of products would have been reduced by up to twenty percent.[37]

Section 3 of the Dingley Act provided for the legal basis on which the T.R. government could conclude reciprocity agreements without the consent of Congress. But the authority was very limited. With a view to the export interests especially of France, the President was authorized to reduce tariffs on argols, crude tartar or wine lees, on wines, brandies, spirits, champagne, paintings, and statuary, in each case to specified lower rates, in exchange for reciprocal concessions by the contracting partner.[38] Such "argol agreements" had been concluded with France, Germany, Portugal, Italy and Switzerland, before T.R. took office. Under his government the list was extended to

Great Britain, Bulgaria, Spain, and the Netherlands and supplementary agreements were reached with the first-mentioned countries. But this activity in reciprocity matters occurred only in his second term of office, from 1906 to 1908, in reaction to the threat of increasing European discrimination against American exports.[39] The Payne-Aldrich Tariff Act of August 1909, shortly after T.R. had left office, ended these agreements. Their economic effect was as limited as the authorization of the executive for this purpose had been.[40] But - apart from two such treaties with Canada and Hawaii that had been in force in the 19th century - the "argol agreements" and the reciprocal trade treaty with Cuba that lasted until suspensed by a new trade agreement in 1934, were "the only examples of negotiated tariff agreements made effective by the United States until after passage of the Trade Agreements Act in 1934."[41]

There was one more provision in section 3 of the Dingley Act that led to an important result under T.R.'s presidency. It authorized the President to impose penalty duties on the otherwise freely admitted imports of coffee, tea, tonka and vanilla beans from countries that treated American products on a "reciprocally unequal and unreasonable" basis.[42] This provision was directed at Latin American trading partners. With the threat of imposing the penalty duty on the substantial American imports of Brasilian coffee, the T.R. Administration reached an understanding with Brazil in 1904, in which Brazil granted a number of tariff concessions to imports from the U.S., most important of all for wheat flour.[43]

It must be borne in mind that all these reciprocal trade arrangements were based on the <u>conditional</u> most-favored-nation clause, which was the standard American interpretation of the most-favored-nation principle until the 1920s.[44] This meant that tariff concessions by the U.S. reached in reciprocity agreements with one country were extended to third most favored nations only in exchange for equivalent concessions on their part. In practice, therefore, the reciprocity agreements created zones of preferential trade, in other words trade discrimination that the U.S. itself was fighting against with its open-door policy. The trade treaty with Cuba of 1903 even expressly stated that the tariff concessions granted "shall be distinctly preferential and shall be extended to no other nation."[45]

T.R.'s rather limited success in reducing the extremely high American tariff walls contrasted with his considerable successes in defending American interests in the promotion of U.S. exports. Upon the 1902 recommendations of the Industrial Commission the U.S. consular services were improved and the Department of Commerce (until 1913: and Labor) was established in 1903.[46] In foreign policy, T.R. advanced U.S. influence in Latin America whose exports, mainly primary products, entered the U.S. mostly free of duties,[47] with offensive and even aggressive diplomacy. In December 1902 he acted on the grounds of the Monroe Doctrine and successfully forced international arbitration in The Hague Tribunal in a conflict between Great Britain, Germany and Italy on the one hand and Venezuela under the dictator Castro on the other over foreign debts that had turned sour. German and British war ships had already blockaded the principal ports of Venezuela and further military action leading to occupation seemed imminent. T.R. didn't hesitate to force the Germans to accept arbitration under the threat of American naval action.[48] In 1903 he supported a revolution that led to the independence of Panama from Columbia and paved the way for a treaty that granted the Panama canal rights to the U.S.[49] In 1904 T.R. pronounced the Roosevelt corollary to the Monroe Doctrine which declared that in cases of "chronic wrongdoing, or an impotence which results in a general loosening of civilized society" (that is according to American standards and definitions), the U.S. would "exercise... an international police power" in Latin America.[50] This was done with a view to eliminate the danger of European interventions with the possible consequence of European zones of influence in Latin America.

After chaotic financial conditions had broken out in Santo Domingo in 1904 and the country was unable to meet its foreign debt, T.R. acted in accord with the newly defined principle and imposed an agreement on Santo Domingo that provided for the U.S. collection of Dominican customs duties and the funding of the country's debts by a private American banking house, Kuhn, Loeb and Co. This was a model of "dollar diplomacy" that came to full swing under T.R.'s successor William Howard Taft.[51]

Twice T.R. appeared on the international scene as the successful arbiter of peace, when the commercial and financial interests of great powers conflicted in Asia and Africa. For his role in arbitrating the Treaty of Portsmouth of September 1905 that ended the Russian-Japanese war in the Far Orient, he won the Nobel Prize for Peace in 1906. He also played a key role in the 1906 Algeciras Conference that terminated a conflict between Germany and France over influence in Morocco. In both cases, he not only defended world peace, but, fearful of the European powers' strife for partitioned zones of influence in China and North Africa, also American commercial interest in the Open Door.[52]

IV. Democratic Policy Responses under F.D.R.

When F.D.R. took office in March 1933, the Smoot-Hawley Tariff Act of 1930 was in force. Although the U.S. had emerged from the First World War as a strong creditor nation, the Republicans in 1921/22 had reversed the downward trend of tariff protection that had been started with the Underwood-Simmons Tariff Act of 1913 by Woodrow Wilson in the White House and a Democratic majority in Congress. When the Great Depression was already under way, the Republicans raised tariff protection even further and made it the highest ever in American economic history.[53] It was answered with a sweep of retaliation by foreign trading partners and instigated even Great Britain to depart further from her free-trade tradition and to introduce discriminatory Commonwealth preferences in the Ottawa agreement of 1932.[54] The U.S. saw its open-door policy in shambles. And especially the Democrats believed that Republican tariff policy had significantly contributed to the deepening of the Great Depression. In early 1932 a predominantly Democratic Congress passed the Collier Bill which provided for a unilateral reduction of U.S. tariffs, provisions for reciprocal trade agreements and an international conference on trade questions. But President Hoover vetoed the Bill on May 11, 1932, primarily on the grounds that "there has never been a time in the history of the United States when tariff protection was more essential to the welfare of the American people than at present."[55]

1930-32
Ø 53%
May '32

F.D.R., by training and conviction an internationalist, held Republican trade and credit policies responsible for the depression in the U.S. and in the world. In September 1932 he denounced the Republican argument that economic trouble in Europe had inflicted the depression on the U.S. as "a classic of impertinence."[56] In his election campaign he already favored tariff reductions on reciprocal terms and announced a "new deal in the restoration of foreign trade."[57] Democrats and Republicans shared the view that the U.S. economy needed unrestricted world markets, not only for the procurement of raw materials, but also for the sale of agricultural

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and industrial surplus products. A policy of autarky, like that practiced by Germany and Italy in the 1930s, was therefore not a policy option suited to the U.S. economy. The Democrats believed, however, that U.S. exports in the long run could expand smoothly only if the American market would be opened to imports sufficiently to balance the trade accounts. The Republicans, in contrast, had pursued a policy of highly protecting the home market and of expanding U.S. exports by extending credit abroad.[58]

There was some tug of war within the Democratic Party over how to win export markets and at the same time balance the trade accounts. The foremost spokesman of the internationalist position, Cordell Hull, advocated the multilateral approach based on the <u>unconditional</u> most-favored-nation principle, while other influential Democrats of more nationalist orientation, prominent among them George N. Peek, Raymond Moley, and Rexford G. Tugwell, favored a more bilateral approach to foreign trade, i.e. "pushing exports through 'horse-trading', <u>quid pro quo</u>, nation by nation,"[59] an approach based on the <u>conditional</u> instead of the <u>unconditional</u> most-favored-nation principle.

The "nationalists" considered the domestic causes of the crisis more important than those in international trade which were Hull's favorite culprit. They didn't want to endanger the domestic program of the New Deal, the introduction of a managed national economy, by simultaneously opening up the U.S. market to imports. And indeed, F.D.R. followed their advice in 1933 and stated: "Our international trade relations, though vastly important, are in point of time and necessity, secondary to the establishment of a sound national economy. I favor as a practical policy the putting of first things first."[60]

On these grounds he had refused to cooperate with President Hoover who urged the new President-elect to support his efforts at international cooperation to stem the tide of falling world trade;[61]

and in the summer of 1933 - by refusing any agreement on exchange rate stabilization - he torpedoed the chances of success for the World Economic Conference in London, where Secretary of State Cordell Hull had hoped to reach an international agreement on the reduction of trade restrictions.[62]

F.D.R.'s temporary departure from his basically internationalist position was also due to provisions in the National Industrial Recovery Act and the Agricultural Adjustment Act that ran counter to liberalizing American trade. They "authorized the imposition of higher tariffs and quantitative restrictions on imports if they interfered with domestic programs designed to raise prices of industrial and agricultural products,"[63] and F.D.R. actually increased the tariff on cotton products in May 1933.

What changed F.D.R.'s mind in late 1933 to end his procrastination on the trade policy issue? F.D.R.'s decision in April 1933 to take the dollar off gold and let it devalue, although international in effect, was motivated by his domestic goal of reversing the falling trend of U.S. agricultural prices. It antagonized foreign trading partners who saw no justification for such a "beggar-thy-neighbor" policy move except in a balance-of-payments crisis which the U.S. didn't have. When F.D.R. signaled serious attention to foreign trade issues by creating the interdepartmental Executive Committee on Commercial Policy in early November 1933,[64] the dollar had already devalued almost to the extent of 41 percent vis-à-vis gold, the rate at which it was stabilized again in January 1934. But agricultural prices were still depressed and therefore commercial policy as a supplementary remedy for the crisis became attractive to F.D.R. at that time. In December 1933 at the Seventh International Conference of American States at Montevideo, Cordell Hull achieved what he had failed to obtain at the London World Economic Conference. A resolution was unanimously adopted that "called for the reduction of tariffs and the removal of quantitative restrictons through bilateral or multilateral agreements, all such agreements to include the unconditional MFN clause."[65]

Shortly thereafter the Reciprocal Trade Agreements Bill was drafted and F.D.R. asked Congress to legislate it on March 2, 1934. It was enacted - against opposition especially from the Republicans, but also from some "nationalists" in the Democratic Party - with F.D.R.'s signature on June 12, 1934, as an amendment to the Smoot-Hawley Act of 1930. It was a sort of enabling act, as Congress delegated its traditional power to set the tariff rates to the President for a period of three years, thus freeing tariff negotiations from Congressional log-rolling. The Administration was empowered to lower (or raise) the Smoot-Hawley rates by 50 percent in reciprocal trade agreements with foreign governments on the basis of the unconditional most-favored-nation principle. Although Cordell Hull would have favored even a unilateral reduction of U.S. tariffs, he was quite happy to settle with the next best solution. On the signing of the Act Hull commented in his memoirs: "My fight of so many long years for the reciprocal trade policy and the lowering of trade barriers was won. To say I was delighted is a bold understatement."[66] Congress extended the authority provided by the Reciprocal Trade Agreements Act in 1937, 1940, 1943, and in the post-World-War-II period, in which it became the legal basis of American GATT policies. Thus its original passage in 1934 truly marked the beginning of a new American approach to trade policy, away from the traditional protective principle towards liberalism and multilateralism in foreign trade.[67]

In the execution of the Trade Agreements Program Hull won his battle with his nationalist adversary in the administration and in the formulation of the Trade Act, George N. Peek, who in view of the reality of trade relations in the world still favored a strictly bilateral approach to trade agreements and scorned at Hull's multilateral view.[68] Until the end of 1937, Cordell Hull managed to conclude 16 trade agreements covering one third of American foreign trade,[69] especially with Canada and Latin American countries. By 1940 22 agreements had been concluded, by 1945 even 29. Among the European industrial countries, prewar agreements were reached with Finland, Sweden, Switzerland, France, the Netherlands, Belgium, Czechoslovakia and especially Great Britain. London even conceded a certain lowering of the Commonwealth trade barriers, i.e. an easing of the discriminatory policy started with the Ottawa agreement of 1932. But Japan and Germany, the aggresors in the Second World War, were excluded from the program. Cordell Hull who continued to emphasize that his trade program contributed not only to world prosperity, but also to world peace, thus failed to meet the ultimate test of his hypothesis.

F.D.R.'s and Hull's reciprocal trade program as well as the Export-Import Bank, founded in 1934 in support of U.S. foreign trade, provided for a tool not only to advance U.S. commercial interests proper, but also to pursue the political goal of establishing American leadership in binding Western democracies together vis-à-vis the threat to Western ideals emanating from fascist and militaristic countries like Germany, Italy and Japan.[70]

At the same time F.D.R. reversed American policy in Latin America and substituted his policy of good neighborhood for the T.R.-like imperialism of dollar diplomacy and unilateral military action.[71] Although as assistant secretary of the Navy during and after World War I, F.D.R. still had been in favor of such hard-line imperialism, he came to realize in the late 1920s that the political ill will it had created in Latin American countries outweighed the economic benefits to the U.S. F.D.R.'s Latin American policies, therefore, ran counter to those of T.R., most visible in 1934, when F.D.R. abrogated the Platt Amendment, thereby renouncing to the U.S. right of intervention in Cuba, withdrew the Marines from Haiti and approved of the Tydings-McDuffie Act providing for Philippine independence in ten years.[72]

In 1943, Undersecretary of State Sumner Welles praised the Reciprocal Trade Agreements Act as "one spot of sanity in a world outlook that seemed wholly and hopelessly dark."[73] But did the reciprocal trade agreements program reach the desired results? Its advocates, especially Cordell Hull, but also F.D.R. himself, pointed out that U.S. foreign trade with trade-agreement countries grew faster than that with other countries in the years up to World War II.[74] But the program failed to meet the goal of balancing U.S. trade accounts. The surplus in the U.S. merchandise trade balance more than doubled from 475 million dollars in 1934 to around one billion dollars in 1938 and 1939.[75] This was partly due to the underlying principle for American tariff concessions, namely that U.S. tariffs should be cut primarily for those products that were not or little produced in America.[76] Their reduction, therefore, benefitted foreign suppliers and domestic users of those products alike, but led to relatively little increase in imports, as there were no or only few domestic suppliers to be displaced.

A second principle underlying the agreements eroded in practice the value of the unconditional most-favored-nation treatment that the U.S. had made the cornerstone of its new trade policy. Tariff concessions were granted on those products for which the contracting partner was the main supplier on the U.S. market anyway. Thus the practical value of extending these concessions to other most-favored nations automatically was minimal.[77] Hull himself pointed this out in 1937: "... on the basis of 1934 trade figures, the value of our exports safeguarded from discrimination because we receive most-favored-nation treatment from other countries was no less than Dollars 265,000,000, while the value of our imports from third countries to which we have generalized trade agreement concessions, amounted to about 30,000,000...The ratio of direct and national benefit from our adherence to the principle of equality of treatment has been 9 to 1 in our favor."[78]

In addition, safeguards against too much foreign competition were attached to the trade agreements program in theory and practice. The 1934 Act provided for the suspension of tariff concessions which "cause or threaten serious injury" to domestic producers. This was a predecessor of the so-called escape clause that was incorporated into the arsenal of U.S. foreign trade policy instruments in 1947.[79] And in practice, the U.S. also applied import quotas, although these, when practiced by other countries, it considered the greatest threat to its own exports. Hull himself admitted in Congress in 1940: "Where necessary, as an additional safeguard, we have limited the amount of imports which would be permitted to come in at the reduced rate of duty."[80]

Thus in spite of all the rhetoric about non-discrimination and multilateralism, the initial practical outcome of F.D.R.'s and Hull's new trade policy approach was bilateral favors and factual discrimination of third countries. All in all, the effects of the Trade Agreements Program on domestic economic activity in the U.S. and on foreign trade have been judged as rather modest and limited up to the Second World War.[81]

V. Comparative Summary and Conclusions

No doubt, T.R. as well as F.D.R. were both quite aware of the importance of international trade for U.S. economic growth. In spite of their different party affiliations, they both recognized that a too protective U.S. trade policy endangered the U.S. national interest in open and expanding foreign markets. They both fought for the Open Door, albeit in quite different economic environments and with quite different approaches to U.S. imperialism or leadership. They both promoted trade policies based on the reciprocity principle, although, their main concern in economic policy rested with domestic matters, like control of monopoly power even in both cases. T.R. as well as F.D.R. took a special interest in promoting economic ties with Latin America, but both recognized the need of avoiding increasing trade barriers in trade relations with the industrialized European countries. They both declared themselves in favor of the cost-equalization approach of tariff-setting and advocated tariff reductions only insofar, as these would not hurt domestic production. They disapproved of the log-rolling process involved in Congressional decisions on tariff rates and favored a curtailment of Congressional authority in these matters.[82]

When T.R. took office his power to conclude reciprocal trade agreements, the argol agreements, was extremely narrow, and for tariff concessions beyond that he was dependent on congressional approval. T.R.'s failure to ask Congress for a new trade act - with possibly reduced tariff rates and/or greater authority for the President to conclude trade agreements - has been mentioned. F.D.R., in contrast, asked and received from Congress a broader authority for trade agreements than the legislature had ever granted to a president. For T.R. a break with the protective principle, although necessary in view of the stage of development and of the economic structure the U.S. had attained, was obviously out of reach due to the protectionist orientation so deep-rooted in the Republican Party and due to the absence of severe economic shocks that often play the role of a midwife for basic changes in economic policy. F.D.R., in contrast, could count on the traditional opposition of his party to the extremely protective trade policies of the Republicans and on the great depression to support his revolutionary change in trade policies as an emergency measure.

During T.R.'s presidency the protectionist dogma of the Republicans developed into even theoretical nonsense, when the cost-equalization formula for tariff rates was made the official doctrine for setting tariff rates in the Republican Party platforms for the presidential elections in 1904 and 1908.[83] Minimal presidential authority for reciprocal tariff reductions, still based on the conditional most-favored-nation principle, were at that time a diet ill-suited to the mature economic body of the U.S. with its great competitive power and a leading position in the world. But as a vigorous person can get by with the wrong diet for quite a while, the American and the world economy kept growing strongly while T.R. was president and beyond. Only later, in the 1920s, the harmful effects of the Republican protectionist diet became more apparent. Already in 1923, with the Republicans in power, U.S. trade policy adopted the unconditional most-favored-nation principle; but it didn't affect the tariff rates, these were then not negotiable.[84]

In contrast F.D.R.'s very broad authority to reduce tariffs in connection with the unconditional most-favored-nation treatment provided for the right diet that suited the needs of the U.S. and world economic body. But again it took a very long time , before the then ailing patient fully reacted to the new treatment. The triumph of

F.D.R.'s and Cordell Hull's trade policy didn't occur until after World War II; the foundation of the GATT in 1947 under American leadership, based on the authority of the Reciprocal Trade Agreements Act, was the real breakthrough towards a truly multilateral reduction of trade barriers. It was rewarded by vigorous growth of the economies and of world trade for the next 25 years.

b

If there is a lesson to draw from those experiences, it is that trade policy traditions tend to be rather sticky. But when basic shifts occur, it also takes a long time for their effects to become fully visible. Even F.D.R. who remained in the White House longer than any other American president, did not live to see the triumph of his 1934 trade policy innovation in the period after World War II.

So today our economies might digest doses of the "new protectionism" for quite a while, before reacting fully with depression. Those of our present politicians who contribute to bar or to promote protectionism are unlikely to reap the fruits of their actions while still in office. But let's hope that they act with a strong sense of responsibility in these matters nevertheless.

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