THE DEPARTMENT OF STATE

THE TRADE-AGREEMENTS PROGRAM

ADDRESS BY THE
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ASSISTANT SECRETARY OF STATE

AT THE
NINTEENTH ANNUAL MEETING
OF THE ASSOCIATED INDUSTRIES
OF MASSACHUSETTS

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It gives me great pleasure to address you today regarding the administration's trade-agreements program because of the extremely important place in the foreign commerce of the United States which Massachusetts has held from the earliest days of this country's history.

The early settlers in Massachusetts found that nature had put many obstacles in the way of making a living from the soil. But Massachusetts was quick to realize that the lack of opportunity for farming had been compensated in the excellent fishing grounds nearby. Shipbuilding, navigation, and commerce proceeded directly from this industry, giving to Massachusetts a greater interest in foreign trade than was to be found elsewhere in the American colonies.

This audience is no doubt more familiar than I with the growth of Massachusetts' foreign trade. During the colonial period Massachusetts developed a prosperous trade with the West Indies. Grain, pork, fish, and lumber were shipped to these islands, and tropical products were brought back to make colonial life easier and more comfortable. The trade with the West Indies was expanded into the famous "triangular trade". Shippers carried colonial produce to the West Indies, where they loaded sugar and molasses for Europe, and completed the circuit by bringing European manufactures to the Colonies.

The post-Revolutionary trade was marked by the rich commerce with the Orient, which

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was opened by the voyage of the *Grand Turk*, which sailed from Salem in 1785. The New England shipbuilders developed the fast-sailing clipper ships, which were a most valuable asset in the advancement of the wide-flung sea trade. During this period Massachusetts harnessed the abundant water power of her swift rivers to build up a manufacturing industry. It was in this period that Massachusetts began to export considerable quantities of cotton textiles.

After the Civil War, Massachusetts turned more and more to the development of manufacturing and rapidly gained preeminence as a source of manufactured products. This industry provided the basis of an expanding foreign trade. Manufactures were exported in increasing amounts and replaced agricultural and fishing products as the chief items of the outbound trade. The import trade changed from the purchase of manufactured articles to that of raw material.

Today Massachusetts' diversified economic life, based principally upon manufacturing, requires a far wider market than is to be found within its borders and requires large supplies of raw materials which cannot be obtained either in Massachusetts, New England, or the United States. Massachusetts' trade, however, like that of other parts of the country, has suffered seriously during the last few years. Exports dropped from about 111 million dollars in 1929 to about 32 million in 1933, a drop of 71 percent. Massachusetts' direct stake in world trade, therefore, leads me to believe that it has a vital interest in the administration's program for expanding foreign commerce.

I have endeavored to outline briefly the importance of Massachusetts' direct interest in foreign trade. I shall now indicate that, important though this direct interest is, New England has an equal, if not greater, indirect interest in what the administration is doing to restore our foreign trade.

Since 1929, the world has passed through economic distress and suffering without parallel in peace time. Every country has experienced the ravages of unemployment, of dislocated business conditions, and of acute want, which have lowered the standard of living and brought tragedy into the lives of millions of people. The effect of the depression has been shattering in the realm of international trade. World trade has dropped in volume to 70 percent of the 1929 level; in value, to 30 percent of the 1929 figure. The United States has not come through this debacle unscathed. Its foreign trade dropped from about 9 ½ billion dollars in 1929 to approximately 2 billion dollars in 1933.

Not only has American trade suffered, but relatively it has been more adversely affected than that of other leading trading nations of the world. For instance, the proportion of the world's trade enjoyed by France during the period 1929–32 increased from 6.19 to 7.31, whereas the American proportion dropped from 13.83 to 10.92.

This distressing situation was the cause of great concern to the administration, because of the importance of foreign markets as outlets for some of the country's basic products. Normally 55 to 60 percent of the cotton is exported; 50 percent of the lard; 40 percent of the tobacco; and 20 percent of the wheat. With respect to industrial goods, 40 percent of the typewriters produced in 1929 were exported; 29 percent of the sewing machines and printing machinery; 23 percent of the cash registers and calculating machines; 12 percent of the rubber boots and shoes; 10 percent of the automobiles; and from 5 to 10 percent of iron and steel products.

The drastic decline in the foreign markets for these goods has already resulted in an unprecedented lowering of production levels and in the unemployment of hundreds of thousands of workers, and has reduced the purchasing power of the rest of the country for New England's products. The Secretary of Agriculture has estimated that if our foreign markets are not restored, it will be necessary
to retire permanently about 40 to 50 million acres of average crop land.

A more detailed statement of precisely how the administration intends to deal with the situation and of the principles underlying the administration's policy may be of interest to you.

Investigations disclosed that although much of the trade decline was the direct result of the depression, some of America's largest customers had aggravated the situation by erecting barriers against imports. Quotas, prohibitions, exchange restrictions, and numerous other economic and currency impediments have clogged the channels in which American goods had formerly flowed abroad. Many countries, by Executive action, had negotiated commercial agreements designed to expand trade in the face of these many difficulties. At that time, the Executive power in this country was without authority to put into effect trade agreements with foreign governments without the delays incident to obtaining the consent of Congress. To protect American interests, it was essential that the Executive be placed in a position where in a given moment he could act promptly.

To enable the United States to regain its foreign markets and to put it on an equal footing in the negotiation of trade agreements, the Congress, at the instance of the President, passed the so-called "Trade Agreement Act". This legislation confers authority upon the Executive to enter into trade agreements with foreign countries without the necessity of referring such agreements to Congress for approval. In exchange for concessions granted on American products, the President is empowered to reduce rates of duty on foreign products entering this country by not to exceed 50 percent.

The theory behind this legislation is, I am sure, obvious to you. In order to promote foreign markets for the products of the United States it is necessary to assist foreign countries to secure the means of payment for imports of American goods. No policy of the previous administration was more ruinous than that which was based upon the assumption that American export trade could be indefinitely expanded without a corresponding increase in goods imported. Exports must be paid for—that is, unless the United States is to play fairy godfather to the rest of the world by making uncollectible loans to finance this trade. The experience of the people of this country in foreign investments has been far from happy, and it appears that our bankers, far from thinking of extending new short-term loans, are now chiefly concerned with collecting those already advanced.

All clear-thinking people will agree, I believe, that in order to sell, it is necessary to buy. There is less unanimity of thought, however, on the proposition that the United States as a creditor nation must currently import more goods and services than it exports, unless its current loans are greater than the interest due, which, of course, cannot continue indefinitely without default on old loans.

Until the World War, this country was the debtor of Europe, from which it had borrowed to build houses, railroads, factories; in short, to construct its agricultural and industrial plant. In order to pay interest on and amortize this indebtedness, an excess of exports over imports was essential. Inasmuch as high tariffs cut down purchases from abroad, there is that justification for tariffs in a debtor country that needs a favorable balance of exports over imports.

The World War in more ways than one marked a turning point in the economic history of the United States. Almost overnight, from a debtor, this country became a creditor. Not only was the major part of the foreign indebtedness paid off, but vast sums were loaned abroad
by both the Government and the people of the United States.

Under the new conditions, the old formula of an excess of exports over imports required a change in policy. Instead of high protective duties that excluded many goods, lower duties were in order so that foreign countries might acquire the means of payment for liquidating their indebtedness. However, during the post-war period the American tariff, instead of being lowered, was raised. That this policy did not sooner result in defaults was due to the prodigality of the American people, who loaned enormous sums to these debtor countries, a part of which was employed, in true Ponzi fashion, in meeting debt service. When the flow of loans dried up, it was only a question of time, in view of the tariff policy then prevailing, as to when wholesale defaults would occur.

The administration's tariff policy, however, recognizes the necessity, unless extremely difficult readjustments are to be undertaken, of disposing of a large part of our production abroad, and the desirability of helping to bring about conditions which will make it possible for our foreign debts to be repaid.

Having described the objectives of the administration's tariff policy, it seems appropriate to mention some of the fallacies which continue to obscure the tariff question. Perhaps the most persistent of these fallacies is the notion that the high standard of living of this country is a result of a high tariff. Only a few years ago, wage-earners were told that "the full dinner pail" would be empty without the tariff. The Hawley-Smoot tariff of 1930 provides the highest rates in the history of the United States. On the "full dinner pail" theory, labor should be better off today than ever before. Instead, many millions have neither jobs nor dinner pails.

The fact is that our high standard of living is not a result of, but rather in spite of, the tariff. In the words of Secretary Wallace, "the fundamental cause is simply that we have a small efficient population relative to huge natural resources. . . . In a broad, general way the physical standard of living in the United States can exceed the standard in foreign countries only to the extent that our labor turns out more goods than the labor of other men does elsewhere. In parts of Europe and the Orient, labor may receive only one-fourth or even one-tenth of United States wages, but the output of labor per hour in these regions is likely to be so low as largely to counteract the effect of the low wages."

The conclusions of Secretary Wallace are based upon ample statistical data. The Tariff Commission, for example, made a study of blown-glass tableware. It was found that the man-hour output for domestic hand-blow articles was approximately double the man-hour output of Czechoslovakian workers. It is not surprising, therefore, that the wage rates of the American workers were higher. The International Labor Office, which the United States has recently joined, made a study of production in the coal industry in various countries, and it was found that in 1931, the daily output per underground worker, in short tons, was 1.8 for Upper Silesia, Poland 1.6, Czechoslovakia 1.2, and in France less than 1. Somewhat comparable studies made in the bituminous coal industry in the United States show a production of more than 5 tons per worker per day.

Our efficient industries do not need tariffs. It is the inefficient industries that require protection. Moreover, it is the efficient industries that have always led the way toward wage increases. The inefficient, tariff-protected industries generally have fought wage increases. As Professor Taussig has aptly said, "Those countries have high money wages whose labor is efficient in producing exported commodities, and whose exported commodities command a good price in the world's markets."
To this generalization there are, of course, sound and valid exceptions. Some types of production are not adapted to mass-production methods. In these branches countries with low labor costs can produce for export specialties more cheaply than can the United States. Moreover, it is obvious that a too sudden reduction of duties would have an unsettling effect. There are many duties on commodities of which domestic production is negligible, if not non-existent, that could be reduced immediately. Then there are other duties that should be gradually reduced. But, lest the impression be gained that the administration intends to cut rates of duties indiscriminately, I can assure this audience that the administration is proceeding with painstaking care. Naturally, at a time when recovery is our major problem our Government is not disposed to endanger the employment in industry of the American worker. Recommendations with respect to the provisions of trade agreements are formulated only after the most exhaustive studies. Every trade agreement to be concluded must be considered by an interdepartmental organization on which are represented all the interested Government agencies—the Departments of State, Treasury, Commerce, and Agriculture, the Tariff Commission, the AAA, the NRA, and the Special Adviser to the President on Foreign Trade. Both as to the concessions to be requested, and the concessions to be offered, detailed analysis based on the fullest data available is made by this interdepartmental organization. The administration is especially desirous of receiving suggestions from industry and from agriculture as to changes in rate of duty, nomenclature, basis of assessment of duty, etc. A special committee, the Committee for Reciprocity Information, has been established, with offices at the Tariff Commission, to receive comments from trade sources. All data submitted are immediately distributed to the proper departments, where they are analyzed.

The first and only trade agreement concluded so far is the one with Cuba. Cuba is one of our nearest neighbors geographically, and closest in sentiment. Thirty-five years ago the United States assisted the Cuban people to obtain liberty and establish an independent republic. Unfortunately, since that time, as a result of the so-called “Platt Amendment”, which gave the United States the permissive right to intervene in Cuba to maintain a government “adequate for the protection of life, property, and individual liberty”, the United States directly or indirectly guided the destinies of Cuba, with disastrous results. In 1933, when President Roosevelt took office, Cuba was ruled by the tyrannical dictatorship of General Machado. Moreover, largely as a result of the Hawley-Smoot Tariff Act, Cuban economic life was prostrated. Poverty, starvation, and their companion, terrorism, stalked throughout the island.

It is not my purpose here to recall the events that led to the resignation of General Machado, the eventual assumption of the Provisional Presidency by that fine patriot, Carlos Mendieta, and the signature of a new treaty of relations that abolished the Platt Amendment. Suffice it to say that it is my hope and belief that Cuba is on the road to democratic constitutional government, to economic prosperity, and to social stability.

The tyranny of General Machado had its roots in the distressing economic condition of Cuba, and it was obvious that no permanent solution of the political problem could be effected as long as the economic life of Cuba was strangled. Inasmuch as the Cuban economy is built upon exports, improvement is dependent upon the extent to which Cuban products find foreign markets. The United States has been and is Cuba’s largest customer, also its largest supplier. Cuba has always sold here the major portion of its sugar and a large share of its tobacco, and in return has pur-
chased here about two-thirds of its manufactured goods and foodstuffs requirements. Thus the basis for reciprocity already existed. An improvement in trade awaited only the rectification of the tariff barriers erected by both countries either as revenue or protective measures. That an improvement was desirable is obvious from a glance at the trade statistics. In 1924, total trade between the two countries was over 550 million dollars; in 1933, only 75 million dollars. Its restoration was the aim of the trade agreement.

At the time the preparatory studies for the agreement were undertaken, I was impressed with the amount of trade which Massachusetts had at one time enjoyed with Cuba. The prosperous Cuban market had dwindled away, however, exports in 1933 being only 29 percent of those in 1929.

In the agreement concluded on August 24, Cuba made concessions on a wide range of products that should assist Massachusetts to regain its lost trade. Of prime interest are the lower duties on hardware and cutlery, industrial machinery, rubber products, office appliances, iron and steel manufactures, nonferrous metal manufactures, paper and cardboard manufactures, and electrical machinery and appliances. These concessions took the form of either a reduction in rates or increases in preferences. The first method, which does not alter the relationship between the general rates of duties applied to all third countries and the preferential rates to the United States, was employed in those cases where the American products encounter little or no competition from foreign sources. Obviously a lowering of the tariff hurdles was the desideratum. The second method, increases in preference, was resorted to when American products were having difficulty in meeting foreign competition. It has the effect of increasing the spread in dollars between the general duties and those applied on American goods, thereby making it possible for American goods to be offered more cheaply than competing foreign goods.

These concessions, which are already proving to be of enormous benefit to the United States, were in some cases at the expense of Cuba’s domestic industries. In certain cases, however, where local enterprise was adequately supplying the market demand, and at reasonable prices, the Cuban authorities were naturally unwilling to make the concessions desired by the United States. To those manufacturers who may possibly believe that insufficient concessions were obtained in some schedules, I would suggest that they reverse the situation and ask themselves whether they would have approved of this Government making tariff reductions on commodities produced by efficient, well-organized, and established industries. It is not the purpose of the trade-agreements program to request foreign countries to reduce duties that would jeopardize efficient domestic industries nor to lower our tariffs in similar cases.

The agreement had instantaneous results. Imports from the United States, exclusive of coal, which is on the free list, increased from about 26,700 tons in September 1933 to 43,340 tons in the same month of 1934, a trade expansion of over 60 percent. Although it should be mentioned that some orders presumably were delayed by Cuban importers pending signature of the trade agreement, it cannot be denied that the bulk of this 60 percent increase in trade was the result of purchases that previously either would not have been made, or would have been placed with foreign countries.

Massachusetts has participated in this trade expansion. The commercial attaché at Habana informs me that between September 6 and 26, four steamships from the port of Boston arrived, with 1,473 tons of miscellaneous cargo. The shipments included hides, leather, paper and cardboard products, cotton goods, chemi-
cals, wire and nails, paints, machinery, and medicines. This is by no means the full picture, inasmuch as some Massachusetts manufacturers export from other ports than Boston. The commercial attaché further reports that there has been such a brisk demand for products from Massachusetts and New England, including potatoes from Maine, which previously had been displaced in the Cuban market by Canadian potatoes, that one steamship company has put its sailing from Boston on a weekly instead of a fortnightly basis. Although this service may revert to its former basis, at present there appears to be sufficient business to justify its continuance.

The country as a whole has benefited also, which will interest Massachusetts because of the enormous sale of its products to other sections. Since a large percentage of Massachusetts production is sold to the rest of the country, it is evident therefore that Massachusetts prospers when the rest of the country prospers. To the extent, therefore, that the farmers of the country sell more foodstuffs to Cuba, new markets within this country will be opened up for the purchase of Massachusetts goods. For instance, it is estimated that next year approximately 50 million pounds of lard will be exported to Cuba. In 1933 about 9½ million pounds were shipped. With an expanded income from the sale of agricultural produce, farmers should purchase more textiles, shoes, machinery, and other goods produced in Massachusetts.

In effect only 7 weeks, the trade agreement with Cuba has already demonstrated the enormous benefits to be derived from the trade-agreements program. Spurred by the enthusiastic reception that manufacturers and farmers have given the Cuban agreement, the administration has announced that negotiations shortly will be undertaken with twelve countries. These are Brazil, Colombia, Haiti, the five republics of Central America, and four European countries, Belgium, Sweden, Spain, and Switzerland. The preliminary studies for these negotiations have been speeded, and conversations with the diplomatic envoys will begin any day. I can foresee no reason why these agreements should not continue the expansion of foreign trade already begun by the Cuban agreement.

In conclusion, let me again say that the administration is most desirous of receiving data and suggestions. I urge that anyone here today, or any industry or trade association that has an interest in seeing a particular tariff adjustment made in connection with any of the agreements about to be negotiated, make known his views to the administration at the earliest opportunity.