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AMERICAN FOREIGN TRADE POLICIES

ADDRESS BY THE
HONORABLE CORDELL HULL
SECRETARY OF STATE

BEFORE THE
CHAMBER OF COMMERCE
OF THE UNITED STATES
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AMERICAN FOREIGN TRADE POLICIES

MR. PRESIDENT, LADIES AND GENTLEMEN:
One year ago, when I had the pleasure of addressing the general session of your twenty-third annual meeting, I took occasion to lay before you the basic ideas which underlie the foreign commercial policy pursued by the Government of the United States during the gravest economic emergency within our peacetime experience. I described to you the pressing needs of this country and of the world in the domain of international commercial relations; the difficulties that stand in the way of meeting these needs; and the dangers which are inherent in failure to solve the vital problems involved. The 12 months that have elapsed have brought these needs and problems into still sharper relief, and in speaking before you today I welcome the opportunity to discuss with you once more, especially in the light of the developments and experience of the past eventful year, the purposes and objectives sought by our Government in the field of foreign trade.

As time goes on, it becomes increasingly clear that no nation can achieve a full measure of stable economic recovery so long as international trade remains in the state of collapse into which it was plunged during the years of the depression. The whole post-war

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1 Address delivered by the Honorable Cordell Hull, Secretary of State of the United States, before the general session of the twenty-fourth annual meeting of the Chamber of Commerce of the United States, Washington, D.C., Apr. 30, 1936, at 11 a.m.
2 See The Foreign Commercial Policy of the United States; Address by the Honorable Cordell Hull, Secretary of State, before the Chamber of Commerce of the United States, Washington, May 2, 1935 (Publications of the Department of State, No. 733), 1935.
period has been characterized by an ever-increasing drift toward economic nationalism, which has expressed itself in a constant growth of barriers to international trade. This drift has become enormously intensified during the past 6 years, though responsible statesmen in many countries have never ceased to deplore it. Under its impact the international economic structure of the world has been all but shattered, and individual nations have sought economic improvement more and more by means of purely domestic measures, on the basis of a greater degree of self-containment than was ever before consciously attempted.

Such a movement toward national economic self-containment is incompatible with the re-establishment of satisfactory prosperity. The basic raw materials needed for modern ways of living and for the development of a higher civilization in the future are not evenly distributed throughout the globe. Similarly, the application of technical skill and the accumulation of financial wealth are more highly developed in some nations than in others. No nation, forced to live in isolation within its own borders, can have everything that it needs. Overabundance of some resources cannot possibly compensate for lack or insufficiency of others. Only through international trade and financial intercourse can locally concentrated natural and man-made resources be utilized in such a way as to afford all nations the indispensable foundations of modern economic well-being.

For generations humanity has built its life upon a recognition of the primary fact that trade is the lifeblood of economic activity. This is equally true whether within or among nations. Each nation has accordingly developed far beyond domestic requirements those branches of production in which it has special endowment or aptitude. Each nation has come to regard foreign markets as the natural outlets for its surplus output, and the surplus production of other nations as the sources from which to supply its own deficiencies.

A rapid and drastic contraction of international trade of the kind that the world has witnessed during the past few years constitutes a double attack upon the economic well-being of each nation’s population. The necessary materials habitually obtained in other parts of the globe become more difficult to secure. The surplus national production habitually shipped to other countries becomes more difficult to sell. Output in the surplus-creating branches of production must be curtailed, or else accumulating surpluses force prices below the level of remunerative return to the producers. In either case, the whole economic structure becomes disrupted. Vast unemployment ensues, not only in the field of production, but also in such lines of activity as transportation, banking, merchandising, and the various avocations and professions. Financial investment and other forms of savings become impaired or are wholly destroyed. Distress spreads throughout the nation in ever-widening circles.

Economic distress quickly translates itself into social instability and political unrest. It opens the way for the demagogue and the agitator, foments internal strife, and frequently leads to the supplanting of orderly democratic government by tyrannical dictatorships. It breeds international friction, fear, envy, and resentment, and destroys the very foundations of world peace. Nations are tempted to seek escape from distress at home in military adventures beyond their frontiers. And as fear of armed conflict spreads, even peace-loving nations are forced to divert their national effort from the creation of wealth and from peaceful well-being to the construction of armaments. Each step in the armament race bristles with new menace of economic disorganization and destruction, multiplies fear for the future, dis-
locates normal constructive processes of economic life, and leads to greater and greater impoverishment of the world’s population.

In the past few months we have witnessed a swift increase in international political tension; a recrudescence of the military spirit, which sees no goal in life except triumph by force; an expansion of standing armies; a sharp increase of military budgets; and actual warfare in some portions of the globe. Human and material resources are being shifted, on a truly alarming scale, in a military direction rather than in one of peace and peaceful pursuits.

There is no need for me to dwell long upon the appalling implications of this tragic picture. Overwhelming evidence of it is startlingly apparent on every side. I shall rather devote the time which you have so kindly placed at my disposal to a consideration of the possibilities of turning back this rising danger of a new world catastrophe. For myself, I am firmly convinced that such possibilities exist, and that the world has at its disposal adequate remedies for overcoming the virulent disease which is now so widespread.

Only as the world’s economic health is restored will individuals and nations develop again adequate resistance to the psychological madness that makes possible internal and external strife. Only as constructive economic effort once more fully engages the energies of mankind, as the machinery of production and distribution regains and expands its scale and speed of operation, as sterile unemployment is replaced by fertile toil, will the nations of the world restore and develop their economic prosperity in full and sound measure and turn their thoughts away from war and toward lasting peace.

The disease is so widespread and so all-pervasive that the attack upon it must be on a wide front. In addition to the break-down of international trade, the economic life of each nation is subjected today to the strain of many maladjustments, both internal and external. Each of the major maladjustments must be corrected, for there is little hope of adequate and stable recovery if any of the more important ones are ignored or neglected.

Many of these maladjustments can yield only to constructive domestic measures, and such measures, looking especially toward the fullest practicable development of the domestic economy, are therefore indispensable to recovery. They are being taken today in many countries. But they cannot be really and permanently effective unless they go hand in hand with appropriate action in the international field. The prospect of full and durable recovery will be bright and hopeful only as each important nation determines to go forward both on a domestic and on an international program, in order that an expanding world prosperity may develop to sustain and promote the expansion of domestic recovery.

We in the United States are engaged today upon such a combined economic program. Under the influence of constructive internal measures, we have achieved a substantial recovery in production, employment, and prices. But we are also buttressing this developing economic improvement by a determined effort to reestablish international trade upon a basis that will permit it to regain its volume of a few years ago and to go forward as a process mutually beneficial to all nations.

At the time I addressed you a year ago, our foreign-trade program was still in its beginnings. Since then it has developed into what we, who are daily engaged upon the task of its execution, believe to be an accomplishment of importance and increasing promise. We have now concluded 12 trade agreements, which have opened to larger American exports such markets as those of Canada, Cuba, Brazil, the Netherlands, Belgium, Sweden, and Switzerland.
In the process of preparing and negotiating these agreements, we have been confronted with the need of deciding many questions of method and of policy. If you will bear with me for a few minutes, I should like to describe to you briefly the methods we are employing for the attainment of our objectives, the decisions we have had to make in formulating our policy, and the reasons for choosing the particular methods and decisions.

The foreign-trade program of this Government is based fundamentally upon what to us is an indisputable assumption—namely, that our domestic recovery can be neither complete nor durable unless our surplus-creating branches of production succeed in regaining at least a substantial portion of their lost foreign markets. Our production of cotton, lard, tobacco, fruits, copper, petroleum products, automobiles, machinery, electrical and office appliances, and a host of other specialties is geared to a scale of operation the output of which exceeds domestic consumption by 10 to 50 percent. In his message to Congress recommending the passage of the Trade Agreements Act, the President urged the need of restoring foreign markets in order that our surplus-producing industries may be “spared in part, at least, the heart-breaking readjustments that must be necessary if the shrinkage of American foreign commerce remains permanent.”

Our exports have shrunk for many reasons, among which two stand out prominently, both because of their effectiveness in reducing the volume of trade and because their removal or mitigation lies within the realm of possible action on our part. These are, first, the increase of trade barriers in those countries which constitute the normal markets for our exports, and second, the development of discriminatory practices on the part of such countries, which place our exporters at a disadvantage with respect to their foreign competitors.

Our needs are clear: we must induce foreign countries to mitigate the obstructions which they place in the way of our shipments to their markets, and we must free our export trade from disruptive discrimination directed against it. In what ways and by what means can we provide for these needs?

As regards the problem of trade barriers, it is not necessary for me to recite how, in recent years, customs duties have been raised to unprecedented heights in nearly all the countries of the world, nor how the use of new, powerfully restrictive devices has become widespread. You, as businessmen, are fully as familiar as I am with the operation of these measures and with their stifling effect upon the exchange of goods among the nations of the world. Nor is it necessary for me to emphasize the fact that our own country has contributed greatly to the rise of these barriers to trade.

Since the end of the World War, we have revised our general tariff structure upward on three different occasions. The third and most drastic of these revisions, embodied in the Smoot-Hawley Tariff Act, occurred at the very outset of the depression, from the devastating effects of which the world is just beginning to recover. Through that ill-starred action, we helped to set into motion a vicious spiral of retaliation and counterretaliation, and to start a race for a forcible contraction of international trade on a stupendous scale. In this race some nations have far outstripped us in the scope and effectiveness of restrictive action. Our export trade has become the victim of the formidable array of economic armament created by other nations, just as the export trade of other nations has likewise become the victim of our thrust into the heights of superprotectionism.

If international trade is to function again on an adequate scale, and if we are to regain our fair share of that trade, the nations of the
world must retrace their steps from this supreme folly. As I said at the London Economic Conference in 1933, the nations, in the matter of tariffs, must embark upon a sound middle course between extreme economic internationalism and extreme economic nationalism. All excesses in the matter of trade barriers should be removed, and all unfair trade methods and practices should be abandoned.

When we were formulating our basic policy, there were two ways open to us to make our vital contribution to the process of economic demobilization. We could undertake a downward revision of our tariff by unilateral and autonomous action, in the hope that other nations would, as a result, also begin to move away from their present suicidal policies in the field of foreign trade. Or else we could, by the negotiation of bilateral trade agreements, attempt a mitigation of trade barriers on a reciprocal basis.

We chose the second course as offering by far the better promise of trade improvement. An autonomous reduction of our tariff would provide no assurance that our example would be followed by other nations or, if it would be followed, that the resulting mitigation of trade barriers would, in fact, apply to those commodities which are of the greatest interest to us. On the other hand, the bilateral method, combined with the principle of equality of treatment which I shall presently discuss, contemplates simultaneous action by many countries and, in its effects, operates to drive down excessive trade barriers throughout the world. Moreover, it affords us an opportunity to secure in each country the relaxation of restrictions with respect to those of our export commodities the sale of which in that country’s markets is either of special importance to us or else has been particularly hard-hit by recently established restrictions. It was in order to make possible the securing of such concessions for our export trade by negotiation with other countries that Congress empowered the President, for a 3-year period, to conclude reciprocal trade agreements and, in connection with such agreements, to modify, within strictly defined limits, customs duties and other import restrictions operative in the United States.

The process of negotiating foreign-trade agreements of this type involves a task of enormous difficulty and complexity. In carrying it out, all appropriate divisions of the Government participate in a series of interdepartmental committees, and thus bring to bear upon the problem their specialized knowledge and judgment.

In addition, the Government seeks the fullest cooperation of the business community and the general public. Any interested person is given full opportunity to present his views to the interdepartmental Committee for Reciprocity Information. In the case of the countries with whom negotiations have been announced, approximately 2,500 briefs and statements have been submitted by interested firms and trade associations. These statements, as well as transcripts of the oral testimony presented to the Committee for Reciprocity Information, are placed in the hands of all the officials of the Government concerned with the preparation and negotiation of trade agreements. They are given careful study and constitute an important part of the material upon which decisions with respect to the requesting or granting of concessions are based.

In entering upon preparatory work with respect to any particular country, the experts of the interdepartmental organization of which I spoke a moment ago endeavor to obtain, first of all, a picture, as comprehensive as possible, of the trade relations existing between the United States and the other country. As regards our exports to the country with which
negotiations are in progress, the experts make a thorough study of each commodity from the point of view of the customs treatment which it is accorded in that country.

All this and a great deal of other information is embodied in reports dealing with the commodities under review. Together with the representations made through the Committee for Reciprocity Information, the reports constitute the foundation upon which the decision is made as to what sort of concessions we should seek from the other country as regards duties, quotas, exchange controls, and other trade-obstructing devices. A schedule is then made up, comprising our requests, and is presented to the government of the other country for its consideration.

At the same time the representatives of the other country transmit to our Government a schedule of concessions which they would like to receive from us. These requests are immediately subjected to a close scrutiny by the experts of our Government comprising the interdepartmental organization. Previously to that, these experts had already made a thorough investigation of the principal commodities imported into the United States from the other country, and they are, therefore, prepared to give early and thorough consideration to the requests made by the other country.

In connection with each request, an examination is made of our recent tariff treatment of that commodity; of the status and development of the domestic production of that or similar commodities; of the competitive factors operating as between our domestic production and the production, not only in the country with which we are negotiating, but in all other countries which are actual or potential suppliers of the same commodity; of the effects—so far as they can be determined—of the present customs treatment upon trade in the particular commodity; of the probable effects of any change in the existing tariff rates; and of many other factors. The influence of possible tariff changes upon both producers and consumers in the United States is given careful consideration.

After all these studies are completed by our Government and the government of the other country, the negotiators come together, and the process of adjusting differences begins. It is inevitable, of course, that some differences of view are bound to exist and that many features of the schedule originally exchanged should become modified and adjusted.

The general aim of our negotiators is to secure concessions for those American exports the marketing of which in the other country offers the best opportunity of development and, at the same time, promises the greatest degree of revival in our export industries; and to grant the other country concessions with respect to commodities the possible increased importation of which would be beneficial to our country. The representatives of the other country are, naturally, actuated by very much the same motives. In the actual experience of negotiation, it has been found possible to reconcile the desires of both sides in sufficient measure for the final agreements to embody worth-while mutual concessions and thus open the way for an increase of mutually profitable trade.

Our officials who are concerned with carrying out this complicated process of preparation and negotiation are actuated by only one purpose: to administer the Trade Agreements Act cautiously, conservatively, and practically, with the best interests of the country as a whole as their sole guide, and thus to carry out, scrupulously and accurately, the instructions and policy of Congress within the limits prescribed in the act. They are free, so far as is humanly possible, from partisan considerations. I do not know the politics of most of the persons
engaged in this important task. I only know that some of them have had a long experience in practical business affairs, that some of them have devoted their lives to the study of industry, or agriculture, or trade, or tariffs, or economics in general. I know that each agreement, forged by their combined effort, represents an effective instrument for reopening the channels of international trade on an economic and constructive basis.

Unlike a general revision of the tariff, when Members of Congress are expected to read and digest, usually within a few weeks, many volumes of testimony and to determine how to vote on thousands of rates and classifications, each trade agreement requires the adjustment of a relatively small number of rates. These adjustments are made on the basis of tireless and earnest investigation, of constant checking and rechecking of all essential considerations, by the ablest and most practical and disinterested experts in trade and tariff matters that the State, Treasury, Agriculture, and Commerce Departments and the Tariff Commission can secure.

These men must, of necessity, work some of the time in executive session, just as committees of Congress do when the task of tariff revision is undertaken. Congressional tariff acts are usually drafted, in all their essentials, in such executive sessions, behind closed doors. Both political parties in Congress have almost invariably pursued this practice, for the purpose of necessary deliberation as well as in self-defense from day-and-night importunities of outsiders. Who would today attempt to label this a star-chamber procedure? Yet there are those who would carelessly apply this epithet to this identical method when practiced in connection with the negotiation of trade agreements. It must be clear to such critics that we have adopted our method on the basis of the long experience of Congress in dealing with questions of this type. It is with Congress, therefore, rather than with us, that necessity of the executive-session practice should be debated.

I come now to our second primary need in the field of foreign commerce—the freeing and safeguarding of our export trade from adverse discrimination on the part of foreign nations. It is clear that the mere mitigation of the tariff, quota, and other burdensome obstructions to our trade is not sufficient to enable us to regain our foreign markets; it is also necessary that the customs treatment accorded to our goods in each such market be at least as favorable as that accorded to the goods of our foreign competitors. In recent years our trade has suffered greatly because some of our competitors have secured, in many of our most important markets, exclusive advantages which have resulted in serious discrimination against us.

We could have embarked upon a similar line of policy. We, too, could have attempted to negotiate arrangements embodying exclusive advantages for our export trade. But it was clear to us from the outset that such a policy would have provided but a precarious safeguard for our trade. It would merely have served as an incentive for each of our competitors to seek further exclusive advantages, which would have immediately set up new discriminations against our trade—to be overcome by us in turn by means of new negotiations.

Generations of experience with various forms of international commercial relations have demonstrated fully that only the policy of equal treatment can secure for a nation stability of its international trade and freedom from disruptive discrimination, and that such a policy can operate only on the basis of the unconditional most-favored-nation principle. Only if the foreign country with which we enter into a trade agreement assures us the benefit of that principle can we be certain that our exports to that country’s market will be able to compete with similar goods coming from other for-
eign countries on an equal footing, since under the most-favored-nation principle each advantage or concession granted to any other country would immediately and automatically be extended to us.

But if we were to ask of other countries a condition of complete equality for our trade—and, in justice to ourselves, we could accept nothing less—we could clearly offer other nations only a similar kind of treatment. Each exclusive concession granted by us to a foreign country would have constituted an immediate discrimination against 50 or more other countries. It would have involved us in constant negotiation and renegotiation, and would have given rise to retaliation abroad and continuing uncertainty for our business interests engaged in foreign trade. Hence, a provision was written into the Trade Agreements Act directing the President to generalize the duty adjustments effected through any trade agreement to goods coming from other countries, except those which discriminate against our trade or pursue other policies likely to defeat the aims which we seek to accomplish through the act.

Our trade-agreements program is thus a standing offer to all the nations of the world to deal with each of them in commercial matters on a basis of equal treatment. In carrying out the mandate of Congress in this respect, we have, save only in the case of a few well-recognized exceptions, steadfastly refrained from securing or granting preferential or discriminatory treatment. In generalizing the duty reductions negotiated in the individual trade agreements, we have sought to place on an equal footing those nations which, in turn, extend equality of treatment to our commerce, and to refuse such equality to those nations which refuse equality to us. Thus all phases of our policy are on a reciprocal basis.

Here again, as in the adjustment of duties, we strive to carry out our policy cautiously,

conservatively, and practically. Our rule is that the duty reductions granted to each individual country are restricted to those commodities of which the particular country is the chief supplier to the United States. If it should happen, however, that, under existing abnormal conditions, some other country at any later stage profits unduly from the benefit of the concession, we retain the right, when such contingency arises, to modify the original grant.

Our interpretation of the most-favored-nation principle is sufficiently flexible to permit the negotiation of multilateral trade arrangements. We welcome such arrangements, provided they have for their object the liberalization and promotion of international trade in general, rather than the creation of closed areas of special preference. At the Seventh International Conference of American States at Montevideo, I proposed an agreement designed to pave the way for such arrangements. This agreement, which is open to adhesion by all countries, has been ratified by our Government.

These and other practical exceptions and safeguards, which existing abnormal conditions render necessary, in no way detract from the force and importance of the unconditional most-favored-nation principle as the foundation of the rule of equality of treatment in international commercial relations. Discrimination and preference can only result in a diversion of trade from channels of economic benefit to channels of political influence, and can provide but a weak and unsatisfactory basis for a restricted trade that is constantly at the mercy of political chance and change. Equality of treatment broadens and hastens the process of reduction of trade barriers. It offers the best general basis for restoring and expanding trade as an economically sound and universally beneficial process.
The firm determination on the part of the Government of the United States to reassert the rule of equality of treatment has already gone far to slow down the world's recent drift toward the chaos of discrimination and special advantage. We are doing everything in our power, through the trade-agreements program and through other channels of influence open to us, to induce the other great trading nations of the world to adopt a similar attitude toward the problem of a rehabilitation of world trade. In such rehabilitation lies the greatest single hope that the world may still be spared the tragedy of another destructive upheaval.

In brief, through our present foreign-trade program, we are attempting to increase trade by a mitigation of existing trade barriers and to restore trade to its accustomed economic channels by the reestablishment of the rule of equality of treatment in commercial relations. This twofold endeavor is directed, first and foremost, toward overcoming the emergency conditions which have resulted in drastic contraction and diversion of trade. The Trade Agreements Act is a temporary measure which was enacted primarily for the purpose of enabling us to deal effectively with this acute emergency.

Although experience has already demonstrated that, under existing circumstances, the negotiation of reciprocal trade agreements represents the only constructive approach, in the field of commerce, to the problem of broad and sound economic recovery, there are some in this country who, without waiting for the economic emergency to be brought under control, demand the immediate repeal of the act and the abandonment of the trade agreements negotiated under its authority. Let us face squarely what that would mean. We would automatically go back to the Smoot-Hawley tariff and face once more the vicious discrimination against our trade which it caused and the virtually suicidal effort at economic self-containment which it represented. This futile and fatal course backward would involve a steadily increasing aggravation of regulation and regimentation in our economic life. Yet some of those who voice loudest their opposition to regimentation in general demand, at the same time, a commercial policy that would inevitably lead to such regimentation, and to a permanently increasing dole as well.

This is the real alternative to our present course of action. It would represent an inglorious surrender to the emergency that has overwhelmed us. Far from overcoming that emergency, it would deepen and widen the ravages of the maladjustments that constitute the very foundation of our present economic difficulties, and of the existing threat to world peace. Our program, on the other hand, holds increasing promise of success in dealing with the grave exigency that confronts us at this time.

Through its trade-agreements program, this country is furnishing its fair share of leadership in the world movement toward a restoration of mutually profitable international trade and, as a consequence, toward an improvement in the employment of labor, a fuller measure of stable domestic prosperity, and the only sound foundation for world peace. And we, who are concerned with the execution of the program, find special gratification in the fact that our effort in this direction has widespread support in the Nation as a whole. The press of this country, in its vast majority, has been clear-sighted enough to recognize the vital importance of the program. Great business organizations, like yours, have given us invaluable encouragement. With such inspiration to guide us, we shall go forward in our effort to bring peace and prosperity out of political tension and economic distress.