THE DEPARTMENT OF STATE

INTERNATIONAL TRADE
AND
DOMESTIC PROSPERITY

ADDRESS BY THE
HONORABLE CORDELL HULL
SECRETARY OF STATE

BEFORE THE
NATIONAL FOREIGN TRADE COUNCIL

NEW YORK CITY, NOVEMBER 1, 1934

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1934
INTERNATIONAL TRADE

INDISPENSABLE TO FULL AND STABLE DOMESTIC PROSPERITY

It is very agreeable to have the opportunity to discuss world trade before this representative body and to tell something of the Government’s plans to revive it. Because of its wide knowledge and experience, the National Foreign Trade Council has always taken an enlightened view regarding the exchange of commodities between our country and others, and has been sympathetic to all efforts to facilitate this movement. I feel, therefore, that in deploring the strangulation of international commerce by quotas, embargoes, exchange restrictions, and other methods, and urging the immediate adoption of measures to release the victim, I shall be speaking to an understanding audience. But there are other elements in the public who are not so well informed, who still believe we can and should live to ourselves, and that we can safely ignore the interests of the rest of the world. Although there are indications that this belief is not so generally and passionately held as before the depression had caused us to do some hard thinking, it still persists in sufficient strength to make itself heard and felt. Our task is to persuade this class that their view is narrow and short-sighted, and that not only the general welfare but intelligent self-interest also demands that it should be abandoned. Economic education is one of the world’s greatest needs today.

1 Address of the Honorable Cordell Hull, Secretary of State, read by the Honorable Francis B. Sayre, Assistant Secretary of State, at the World Trade Dinner of the National Foreign Trade Council, New York City, Thursday, Nov. 1, 1934.

94695—34 (1)
No statistical stimulant is needed to arouse you to consciousness of the present sad state of international trade. But let me mention briefly a few striking figures. World trade comprising exports and imports, of a value of $68,000,000,000 in 1929, had shrunk in 1933 to $24,000,000,000, and the share of the United States in it had fallen from around $10,000,000,000 in 1929 to about $2,500,000,000 in 1933. Our domestic exports in 1932 were valued at $1,576,000,000, which was the lowest figure for 30 years. Not since 1904 has their value been so low. For 1933, they had increased approximately $100,000,000.

In the light of such an appalling loss, how can any thinking person desiring his own and his country's prosperity fail to search out the causes of the disaster and seek to remove them? It should be obvious, it seems to me, that if this could happen when the country was under the highest tariff in its history, then high tariffs could not be the infallible and inevitable producers of prosperity they had been represented to be. Yet despite this very simple demonstration with its necessary conclusion, despite the fact that for nearly 5 years the nations of the world have had the most complete try-out of the policy of economic isolation and find themselves fundamentally worse off than before, there are those right now who are loudly demanding that tariff rates be still further increased.

To find one of the main sources of our distress is not difficult. At the close of the World War, the United States, which during all of its previous existence had been a debtor to the world, suddenly found itself a creditor nation. It had no organization or machinery to fulfill that function, and very, very few of its political or industrial leaders had the vision to comprehend what the new position of the United States meant or what possibilities it held out. No greater opportunity ever confronted a nation than was presented to us at that moment. Every circumstance conspired to favor us. Politically, we enjoyed the good will of virtually all countries. Economically, most of the world was hungering for the commodities of peace which we, with our production speeded up by the war, could supply. All that was required to give us supremacy in every line of international endeavor was the wisdom to comprehend the situation and the statesmanship to take advantage of it. But we missed this opportunity. Instead of meeting the urgent demand for our goods from the countries which had their supplies exhausted by war, and permitting them to pay in such commodities as they could still produce, we raised our tariff barrier higher so as to exclude them. This would have meant an equally profitable exchange of surpluses, and so did not mean that the United States would be expected to take commodities it did not need or did not want, or which would seriously affect our own domestic production of the same commodities on a satisfactory basis. By emergency legislation, and by regular legislation later, we served notice on our would-be customers that we would do business with them for cash only, as we did not want their products.

In his message of March 3, 1921, returning the so-called “emergency tariff bill” to Congress without his approval, President Wilson pointed out that the United States had become a creditor nation and that Europe was in debt to it both governmental and commercially. He noted that these debts could be paid only by the establishment of private credits, by the transfer of gold, or by the delivery of commodities. The first method was not possible, he said; the second was also not possible, but even if it were, would prove embarrassing to us; and that left only the third way. President Wilson then continued:

“If we wish to have Europe settle her debts, governmental or commercial, we must be prepared to buy from her, and if we wish to assist
Europe and ourselves by the export either of food, of raw materials, or finished products, we must be prepared to welcome commodities which we need and which Europe will be prepared, with no little pain, to send us.

"Clearly, this is no time for the erection here of high trade barriers. It would strike a blow at the large and successful efforts which have been made by many of our great industries to place themselves on an export basis. It would stand in the way of the normal readjustment of business conditions throughout the world, which is as vital to the welfare of this country as to that of all the other nations. The United States has a duty to itself as well as to the world, and it can discharge this duty by widening, not by contracting, its world markets."

This warning of President Wilson, which in the light of subsequent events may be called a prophecy, was not heeded. To the folly of the emergency tariff was added the Fordney-McCumber tariff, with its then unprecedentedly high rates. But though we thus discouraged importations, we still insisted on keeping up our exports. When we found other countries unable to buy because their goods were refused even to the extent that would have been highly profitable to us and they had no cash or could arrange no credit, we provided them with both to the extent of billions of dollars. These loans, largely improvident, bore little or no relation to sound foreign loans and investments, which are justifiable as a general policy. For 6 or 7 years, we played this merry game of booming business by both selling on credit and buying from ourselves. The show looked so good to those who never thought to peep behind the scenes or to examine the fragile supports of the stage that they determined to continue the engagement. The Hawley-Smoot Act of 1930 lifted the tariff rates still higher into the realm of fantasy. About that time, we decided we would like to have some of the money which we had lent foreigners to buy our goods paid back. Then, to our amazement, we found much of this could not immediately be paid, and probably never would be. So a great deal of our glittering volume of exports became simply a present of several billion dollars' worth of commodities to other peoples.

How many times many of you, in looking back over these last years, must have regretted that this country failed to sense and seize the great opportunity that was offered to it just after the war! Is there any intelligent, unprejudiced student of events who does not now realize the soundness of President Wilson's warning given 13 years ago?

The appalling repercussions of the 1930 tariff act upon our own domestic prosperity bring home the lesson that in this day and age the tariff is no longer a purely domestic issue. We learned that a prohibitive protective tariff is a gun that recoils upon ourselves. The time was when we could fix the tariff to suit ourselves without serious injury to our exports, then consisting largely of raw materials of which we were the chief source of supply. That day is gone. We now face vigorous world competition in both our agricultural and our industrial products. Slamming the door shut against foreign products, we have found the door shut against our own products. Other countries were forced to raise their tariffs as a means of protection in retaliation for our own exclusive attitude. At last, with most countries frantically building barriers of tariffs, quotas, import licenses, and exchange restrictions against their neighbors, international trade has been choked down to a fraction of what it was. With a cessation of our foreign lending, we have found that we cannot continue to export without importing goods. The blocked balances which our exporters are now facing in various parts of the world are the conclusive proof that exports cannot continue indefinitely without an expansion of imports. Foreign countries do not have the purchasing power with which to pay for our goods. They cannot borrow indefinitely. They cannot send us any appreciable
additional quantity of gold. We have reached the end of the road. The frail stage of our play-acting has collapsed and our dream world dissolved.

The excess of exports based on loans, the inevitable collapse of foreign lending, the consequent gap in the balance of payments of debtor countries, the ensuing break-down of currencies, and the strenuous effort to close the gap in the balance of payments by a restriction on imports, with consequent demoralization of world trade and international prices—these are basic factors in the world-wide depression and the complicated tangle in which we now find ourselves.

Naturally, I do not wish to say that the sharp reduction in international trade brought about by the various restrictions I have enumerated was the sole cause of the economic depression. But it must be admitted, I think, that it was one of the most potent contributing causes. And it shows clearly, to my mind, how much a healthy, balanced, enduring domestic economy is dependent upon a smoothly adjusted movement of goods among nations. If the world as a whole is to progress, we must get away from the shabby heresy that acceptance of the products of other countries is inimical to our own interests. Every import pays for some export, and every export gives employment to labor and profit to industry. Everything we buy from another nation enables that nation to buy more from us.

As I have indicated, the war and post-war development of economic nationalism was one of the major fundamental causes of the drastic fall in commodity prices, and this calamitous decline in prices and in production in turn tremendously reinforced and strengthened the trend toward economic nationalism, so we have now reached a point in which the barriers to world trade are no longer chiefly high tariff walls. Extreme nationalism, if persisted in, is destined soon to wreck our entire structure of western civilization.

The current obstructions to international trade have taken on forms not wholly new but multiplied and developed with amazing ingenuity in numberless directions. We are now confronted with the close regimentation and intricate control of imports by means of quotas, import licenses, exchange control, government monopolies, and control boards. The international price structure is no longer functioning. Many countries, unable through the automatic adjustment of the price system to achieve an equilibrium in their balance of payments, are struggling desperately to achieve a balance by seizing control directly of the quantity of imports which may be admitted.

This extraordinary special form which economic nationalism has assumed in recent years has shifted the currents of trade from its more normal and established channels. The quantitative regulation of foreign trade has resulted in the arbitrary diversion of trade from one country to another. A strenuous effort is being made in many countries to bring their international accounts into equilibrium by the process of achieving a bilateral balance between themselves and each separate country. This particular trend of present-day economic nationalism is a reversion to the crudest and worst form of mercantilism, which preceded the introduction of the regime of liberal commercial policy in the period of modern industrialism. It is an intensified form of arbitrary interference with freedom of enterprise, and with the operation of the productive process under the guidance of the price system.

Such regimentation of foreign trade inevitably forces the country that pursues these policies into an extension of internal control over its domestic industries. It leads to classification of imports according to need and to the allotment of raw materials to the various domestic industries on a priority basis. In the final analysis, therefore, it drives inevitably in an ever-widening circle to the regimentation of the whole system of production and ulti-
mately to a regulation of consumption. If production is forced into abnormal channels by the control of imports, the consumption of the population is thereby necessarily in part predetermined.

The rapidity with which these controls are being introduced is a serious disturbing factor in the current industrial situation and a serious obstacle to recovery. The world confronts anew each day fresh interferences with foreign trade. The disruption of economic life consequent thereto spreads in cumulative fashion from industry to industry, and creates new uncertainties which destroy the spirit of enterprise without which substantial revival is impossible.

If this tendency cannot be halted, if we do not succeed in reversing the trend toward more liberal world-wide commercial policy, it appears certain that the progress toward economic recovery will stop far short of the goal of full employment, or a recovery of pre-depression standards of living. If the trend toward this intensified regimentation and control of foreign commerce and the close bilateral balancing of trade is not checked, the world economic system will be forced over a period of years to make a violent structural shift in international division of labor. During this transition, economic conditions will necessarily be seriously disturbed. When, at last, this structural adjustment has been made, the inevitable result will be a materially lower standard of living than might have been achieved under a liberal commercial policy.

It is of utmost importance that the current artificial trends in foreign commercial policy be reversed. To achieve this end requires an advance on many fronts. An effort must be made simultaneously to achieve an improved price-and-cost relationship in the several domestic economies, to reestablish equilibrium in the international price structure, to secure currency and exchange stability, and to remove step by step the current close regulations of foreign trade through quota restrictions, import licenses, exchange control, and clearing and compensation agreements.

This raises a large question with respect to the policy which should be pursued in the Western Hemisphere. In Latin America, under the pressure of the gap in the balance of payments created by the fall in the price of their leading exports, an effort was first made to close this gap by allowing the exchanges to seek the level required to balance their international accounts. Subsequently, it was necessary to introduce the device of exchange control whereby the out-payments and in-payments were forcibly brought into accord. Since, at the official rate, there is not enough foreign exchange available in these countries to meet all payments, exporters have been compelled to wait, frequently many months, for payment in terms of dollars. In some cases, the United States might compel immediate payment by blocking the exchange created by American purchases of imports from these countries. By undertaking such clearing arrangements, however, the United States would encourage the spread of clearing and compensation agreements over the Western Hemisphere, thereby prolonging and strengthening the grip of these injurious practices upon international trade. If, on the other hand, this country takes a sympathetic position looking toward the gradual reestablishment of a free exchange market, and refuses to force upon these countries preferential treatment of our own nationals and trade, we shall hasten the movement toward liberal commercial policy and bring nearer the day when all these artificial restraints are wholly removed from international economic relations.

Conditions are improving with sufficient rapidity in the Latin American countries to make one optimistic that if right policies are pursued, the achievement of free exchange
markets is feasible in the not far distant future. This is a time in which it is important to resist immediate and short-sighted advantage and to look toward the steady rebuilding of a sound international structure with a view to achieving the far more valuable long-run benefits obtained thereby.

The objective of the United States which we are all vitally concerned to reach is full, stable, and permanent business recovery, and experience teaches that this requires both a domestic and an international program. The purpose is to promote the maximum amount of production that can be consumed at home and sold abroad, thereby giving the fullest employment to labor. In the foreign field, this calls for a liberal commercial policy of fair trade methods and practices and friendly relations; and to attain the desired end, we hope to enlist the simultaneous cooperation of other important nations in the work of effectively abolishing existing destructive trade barriers which the experience of the past few years has demonstrated are discredited relics of the medieval mercantile period.

The real cure for unemployment in any country is the fullest measure of production enjoying markets at home and abroad. Losses and dislocations resulting from shrunk foreign trade cannot possibly be compensated by mere increase of domestic trade, but we find some nations attempting the impossible by supporting movements for domestic production of inferior qualities or substitutes for imports at two to five times their cost elsewhere.

While seeking to make particular trade agreements, the United States still stands for the most-favored-nation policy as calculated to bring down trade barriers generally. At the same time, it rejects the practice sometimes employed of raising tariff rates on the eve of negotiations, solely for bargaining purposes, as being repugnant to the spirit in which the negotiations should be undertaken.

In entering upon the negotiation of trade agreements, authorized by the act of June 12 of this year, we are willing frankly to admit that we have erred in the past, that we have now repented and wish to do works meet for repentance. Just as we set the vicious example of erecting the trade barriers of high tariffs which induced others to follow us, so now we are asking other nations to join us in an attempt to undo the damage our collective action has worked. We wish to break down all the artificial and excessive impediments put in the way of world commerce, not only in our own interest but for the benefit of all others as well, since only by restoring the whole world can individual countries hope, in this day of rapid communication and interdependence, to remain economically healthy long. One rotten apple will spoil the entire barrel, and one diseased part of an organism will upset the entire system. So we are endeavoring to frame agreements which will be fair and beneficial to the contracting parties and, at the same time, fit advantageously into the international scheme. For only by having due regard for the interests of every nation can the equilibrium of the world be maintained. Fierce and unregulated struggles among nations for trade produce both economic and political disturbances. They are the almost certain precursors of war. Friendly, orderly international trade, however, is not only indispensable to the domestic prosperity of most countries; it is also one of the greatest educators, civilizers, and peacemakers. Through it the arts, the scientific discoveries, and the inventions of one country follow its special products into other countries, increasing their material wealth and enriching their learning and culture. A hermit nation means a hermit civilization.

This problem of destructive commercial policies which have spread havoc in business everywhere was attacked by the representatives of 21 American republics at Montevideo last De-
The circumstances were most discouraging, but they came to the solemn conclusion that the existing excessive trade barriers should be lowered to a moderate level. And pursuant to this decision they unanimously adopted a compact and unified, as well as a comprehensive program, which they invited the rest of the world to join them in carrying out. This program was and is well calculated to restore international trade to a flourishing condition and have beneficial effects upon the individual nations for their welfare, their peace and prosperity.

The Montevideo program specifically calls for the negotiation of agreements reducing or removing all manner of obstacles to international commerce. It undertakes to revive and revise the convention of 1927 for the abolition of import and export prohibitions and restrictions. It declares that the subscribing governments will maintain unconditionally and unrestrictedly the principle of equality of treatment.

This program which was thus brought to the notice of all the nations of the world is the only constructive plan for world economic rehabilitation that has yet been proposed.

On the domestic side, our chief concern will be the interest of the country as a whole—what will most benefit United States, Incorporated, so to speak. This question must be looked at from the standpoint of the Nation. We must think and act as a people and not alone as the representative of special industries, large or small. What may be gainful to a particular individual in some instances may be damaging to the country as a unit, and insistence by him in such circumstances that his interest be served at the expense of the public is both selfish and short-sighted. He cannot remain unaffected if the body of which he is a part is harmed.

I have been struck by some examples of this narrow, greedy attitude. In some of our States whose share of our foreign trade in good years amounts to much over $100,000,000, there are small industries with outputs valued at only several hundred thousand dollars which would wreck the entire foreign trade of the State in order that they might be protected from imagined damage. And I have also observed representatives of large industries complain that they were losing their markets to foreigners, that they would be ruined unless the Government came to their rescue, and then admit, without seeming to be conscious of it, that the cause of their troubles was their own inefficiency. Doubtless, the same persons would go out and make spread-eagle speeches at business men's luncheons about "incomparable American efficiency, American ingenuity, American initiative, and American enterprise."

I do not believe that this kind of helpless faint-heartedness in one place and boastfulness in another truly represents the attitude of American business. More characteristic and more laudable is that self-reliance, energy, and hardihood which moved our forbears to go forth into the world with constructive programs for the promotion of human welfare, human progress, and civilization. This attitude of urging the Government to make exorbitant demands upon other countries, while granting nothing itself, is asking for a repetition of the follies of the past. It presupposes no conception of the meaning of reciprocity, of good neighbor, or of fair play. Negotiations entered into in such a frame of mind serve no useful purpose.

We are, therefore, approaching the trade negotiations with the intention of effecting not only mutual but universal benefits. We wish to allay, not to excite animosities. In this manner, it is hoped to galvanize moribund world commerce into life, put it on a more equitable footing, and recover for this country its proper share in the trade thus restored.
We believe exchanges of goods among nations can be so arranged as to be fair and profitable to all.

Time and patience will be required for the restoration of international economic relationships. The necessary adjustments must be proceeded with carefully, gradually, and progressively so as to aid rather than to unsettle any portion of business. This Nation is in a logical position to join with others in furnishing leadership with a program. Shall we, through fear of being reminded that we too have been an offender, or because the path back to economic sanity is difficult, remain mute and float with the economic tide until some other nation moves to the front and offers leadership? Are we ready to concede our inferiority as a trading nation?

To this proposal for world-wide trade rehabilitation there is no alternative, unless economic destruction and trade suicide is an alternative. We must not miss our opportunity a second time. Let us not keep our gaze so intently bent upon our own narrow garden that we never see the horizon and the stars.