INTERNATIONAL TRADE AGREEMENTS AND OUR LATER AMERICAN NEIGHBORS

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RECI PROCA L TRADE AGREEMENTS AND OUR
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CHAPTER I

INTRODUCTION

Nature of the Study

This investigation is a study of the principles and practices embodied in the Trade Agreements policy inaugurated by the United States in 1934 as it relates to Latin American trade. It is the purpose of this program to make a vigorous effort to bring about a freer international commerce more and more on a basis of reasonable regulation for mutual advantage.

An historical approach to the subject is followed for the reason that the Trade Agreements program was built upon an already established protective system followed more or less consistently since the founding of the United States. Therefore, it will be necessary to explain how the tariff making machinery has operated to perpetuate the protective features.

The program is not an attempt to place free trade in its pure form into the tariff structure of the United States, for the doctrine of free trade is founded on specialization in which given conditions of resources, capital, and labor supply are practically static or final. Neither does the free trade doctrine allow for changed conditions in resources
and value brought about by new consumption habits, industrial techniques, and government action.

The United States has held a significant place in the Western Hemisphere and has played an important role in the affairs of Latin American countries. Her interest in potential Latin American trade has been stimulated in recent years.

In this study an attempt is made to answer the following questions: Why did England exercise trade controls during her colonizing period? Why has the United States been a consistent follower of the protective principles? Have improvements been made in the rate making machinery? What measure of success came from early attempts at tariff bargaining? Has the trade program fundamentally changed the trade of the United States? Have trade barriers been removed by the program? What success has been made relative to trade in products competitive in nature? Does imposition or removal of duties imply that basic changes in economic resources will result? Has the Good Neighbor Policy aided United States trade with Latin America? Has trade increased relatively faster with agreement countries than with non-agreement countries? What are the present trends of the program? What is the possible success of the program for the future? To what extent has the United States completed her role as a creditor nation?

It is hoped that this study may throw some light on
these and other questions relative to the trade agreements program and its influence in trade between the nations.

Justification for the Study

During the past two decades so many changes have occurred in the American scene which affect the trade of the United States and Latin America that the selection of this study appears to be highly justifiable. As these changes have stimulated special interest in finding a method of regulating the flow of trade between nations that will result in the greatest mutual benefit to all concerned, the Government is faced with the task of formulating long-run trade policies to reach this goal.

Trade is fundamental to the prosperity of all nations, therefore markets need be as large and varied and accessible as possible. Relying on the fact that the place of foreign trade has been a vital issue in influencing the stability and general welfare of a nation, a special study of the current trade conditions is worthy of deep consideration.

The present, when trade channels and trade techniques are set for war purposes, affords an opportune time to study the present and future possibilities relative to trade with our neighbors south of the Rio Grande.

Sources

The material and information for this study have been gathered from a variety of sources. Most of the material for
the basic background of the subject came from books. This was gathered from various parts of several books as no complete account of the subject was found in any one reference.

A great amount of information was obtained from periodicals dealing with trade and foreign affairs. Other current material covering vital portions of the subject came from public documents chiefly the Congressional Record.
CHAPTER II

EARLY BRITISH TRADE POLICIES

Mercantilism

Mercantilism is a term usually applied to the general type of economic thought prevalent during the rise and rule of absolute monarchy.\(^1\) In its broadest sense, it denotes the whole body of State policy; while in a more narrow sense, it denotes a particular type of monetary and trade policy. The doctrine of mercantilism involves the coordination of the political and economic forces directed toward building up a national state. It is political in the sense that at the head of the national state is the monarch whose success depends largely upon how well he unites his people against the disintegrating forces within and from aggression without. It is economic in the sense that the chief source to supply his desires comes as a result of his proper manipulation of trade and commerce. To reach these objectives, local sentiment is turned toward national sentiment. This meant that localism as expressed in the Church, the guilds, and the municipalities need be subdued and their interest correlated with national interest. The goals to be reached

\(^1\)Harvey W. Peck, *Economic Thought and Its Institutional Background*, p. 32.
by national unity were to increase the power, the wealth, and self-sufficiency of the state.

The monarch favored a balance of trade as a source of revenue to strengthen his army and decrease his dependence upon subjects of questionable loyalty. The founding of new industries and the development of manufactures were encouraged by monopolies and special privileges. Money was not considered wealth within itself but as a token of profit derived from the channels of commerce and industry. It was the policy of the monarch to free the channels of trade within the state by removing customs and tolls. He favored the imposition of import duties to secure revenue and the stimulation of export trade by premiums. This trade policy relates somewhat to the modern system of protective tariff.

In the sense that the monarch helped to break down the barriers of trade within his domain, thereby liberating trade to flow more freely from one division to another, the result of the mercantile system was the gradual increase in economic freedom.

English Trade Practices in the Mercantile Age

Throughout the long period during the rise and existence of mercantilism, men were confronted with the practical

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problem of adjusting national affairs to meet the necessities of the times. Tradition had its weight in preventing a rapid change in existing conditions.

Other nations of Europe had a powerful influence upon England in her economic development. Some were commercial rivals of England. Holland was recognized by England as a strong competitor in commercial affairs for she had grown so by an expansion of trade with many nations in a variety of commodities. Competition in foreign trade was very acute between the two nations and England believed that the Dutch traders were hindering her foreign commerce. 4

France became the greatest rival of England in the Eighteenth century. This was brought about chiefly by her great gains in territory abroad and a rapid growth in population. The policies and practices set up by England in support of trade were much influenced by this competition between nations in gaining power and wealth.

In analyzing the English trade policies, distinction in the types of trade is to be considered. Trade was considered advantageous to a nation when it exported manufactured articles and surplus products or when raw materials were brought in to be processed at home. As a general rule, goods imported to be re-exported were considered beneficial. The nature of the products imported and exported set the

rule of trade. Therefore England based her trade policies on whether the imports and exports were beneficial or prejudicial to the growth of her home industries.\(^5\) Under this principle the importation of some articles were prohibited by embargo while others were prohibited as a result of heavy import duties. The defense of this policy is clearly seen in the preface of the Book of Rates used by James I which stated that, "if it be agreeable to the rule of nature to prefer our own people before strangers, then it is much more reasonable that the manufactures of other nations should be charged with impositions than that the people of our own kingdom should not be set on work."\(^6\)

At the close of the 17th century a more enlightened view of commerce was being considered. Instead of international trade being a one-sided affair, it was dawning upon the thinkers of England that benefits are derived by both parties in a trade. This would imply that those who set the policies for England saw that in the exchange for goods needed, international division of labor was a contributing factor to be considered in formulating trade practices. England had objected to the continued importation of goods from countries that bought little from her. Especially did she oppose the purchasing of luxuries which were used at home with little or no value in keeping a favorable balance of trade. If the broader conception of

\(^5\)Ibid., p. 14. \(^6\)Ibid., p. 15.
interdependence of the world in the exchange of commodities was to be put into practice, then the policy of protection of industry by discrimination between different branches of trade would have to be modified. The fallacy in reasoning that foreign countries be discriminated against, whose products were used in England with little or no purchases made by the trading country to equal or exceed the value of the products bought, was giving way to a more liberal view. This more liberal policy gradually began to be used as a benefit to her triangular trade. Thus there was instituted in England the beginning of a free trade policy based upon a more reciprocal arrangement.

Writers in England advanced the idea that if she would allow goods to come in free of duty it would, through competition with outside countries, force the development of ingenuity in industry at home. They argued that if England continued her high tariff duties and other restrictions, other nations would offset her gain by retaliation in kind. With trade channels closed, home monopoly would be the result bringing less incentive for ingenuity in home industries.

Tariff preferences to British goods in the colonies.—The English Parliament, during the colonizing period, levied duties on foreign products imported into the colonies, and thus created tariff preferences in the colonies for British

\[\text{\textsuperscript{7} Ibid.}\]
goods. Occasionally, Parliament levied duties on imports of British goods into the colonies. Her guiding principle was that the duties on British imports in the colonies should be mainly for revenue purposes, while the duties of foreign imports into the colonies should be for protection of British industry and trade. 8

During the period from 1823 to 1846, England made many additions to the list of colonial products upon which preferential duties were levied as well as increases in the old practices. The Corn Laws of 1815 provided for outright tariff preference for Canadian wheat. 9

During the forties a considerable opposition developed in England against the taxation of the English consumer to provide preferences to colonial products in the British market. In response to the pressure of public opinion, duties on foodstuffs and other articles imported into England were substantially reduced. 10

In the year 1846 came the climax of the free trade agitation. The Corn Laws were repealed and the preferences on a number of other important colonial products was reduced or repealed. 11 By 1860 all preferences were removed from the British system.

The dominance of free-trade principles, 1860-1914.—The free-trade principle dominated the commercial policy of

9Ibid., p. 632. 10Ibid., p. 633. 11Ibid.
England for the next fifty years. Some free trade followers objected to the policy of reducing the tariff by treaty bargaining and held that reductions should be made from the standpoint of being beneficial to England regardless of what policy other countries pursued. This attitude prevailed to the extent that subsequent tariff reductions in the sixties were made as a matter of purely domestic policy on the part of England. No attempt was made to use them as a means of securing concessions from other countries. The placing into treaties the unconditional most-favored-nation clause generalized concessions and resulted in a general lowering of tariffs.  

From time to time sentiment turned toward a revival of protectionism for Great Britain. Other nations who were commercial rivals competed keenly with the British exporters in the markets of Europe. By the time the war started in 1914 the preferential-protectionist movement had won the Government to preferential tariffs in the colonies but had no effect upon the tariff in force in the United Kingdom.  

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12 Ibid., p. 635.  
13 Ibid., p. 658.
CHAPTER III

TARIFF HISTORY OF THE UNITED STATES BEFORE 1934

The Birth of Protection in America

The first tariff act of 1789 had its elements of protection. Some of the states, especially Massachusetts and Pennsylvania, had imposed protective duties before that date; and were desirous of keeping duties to aid their industries. The general level of duties passed were by no means such as would have been thought protective in later days; but the intention to protect was present.¹

The legislation for the next twenty years carried no appreciable development of the protective policy. Some notice was taken of Hamilton's "Report on Manufactures" of 1792, "but this document had little, if any, effect on legislation."²

During the Napoleonic Wars the United States felt the need for greater development in home industries. When trade was resumed after the war, severe injury was done to the new industries arising in the Northeastern States by the dumping of foreign goods on American markets.³ Therefore, as a means of self-preservation, the new nation raised the tariff duties.

² Ibid., p. 16. ³ Whitaker, op. cit., p. 304.
A study of the tariff system used in the United States gives a clear picture of how attempts have been made to adjust it to the expanding world trade.

The Period from 1816 to 1860

In the early period of the United States under the new constitution, tariff laws were designed chiefly for revenue purposes. Only a ten per cent ad valorem duty was assessed on imported goods as an encouragement to manufacturing industries of the United States. The War of 1812 served to emphasize the fact that economic prosperity in the United States was dependent upon foreign trade. In order to foster home industries and lessen her dependence upon foreign supplies, a system of protective tariff laws was enacted by Congress in 1816. The New England States favored this added protection given to their small industries, as well as the grain growers whose markets were uncertain abroad. It was thought that the growth of new industries would create new markets at home for both raw and manufactured products. The tobacco and cotton growers in the more southern states opposed the tariff, because they felt it would increase the price of manufactured goods.

By the year of 1819, a new impetus was given to building up home industries. Some attributed the chief cause of the panic of that year to the low tariff rates. As a result, the tariff laws were amended in 1824 which placed higher duties on manufactures of iron, wool, lead and glass. Four
years later rates were again raised to give the protective feature its highest point prior to the Civil War. It carried such high duties that even many New England manufacturers were fearful of its results. The high tariff was so hated in the Southern States that it was called the "Tariff of Abomination." The whole scheme was the product of a political device fostered to influence votes for or against certain candidates for the Presidency. Not until 1838 was a compromise made to relieve some of the high tension created by the tariff act of 1828.

The tariffs passed by Congress between the years 1832 and 1860 fluctuated as the weight of political and special interest groups had its effect on that body. A low tariff succeeded a high tariff, which in turn was succeeded by another low tariff. The protectionists reasoned that prosperity resulted from high tariffs and depression from low tariffs. Those favoring freer trade reversed the order of reasoning. As a result each group affixed a direct connection between tariff rates and the fluctuating industrial progress of the nation. In the main, the changes in tariff duties during this period had less effect on protective industries than was generally accepted. Their growth had been steady and continuous throughout this period, and

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"seems to have been stimulated by the high duties of 1842, and little checked by the more moderate duties of 1846 and 1847.""7

The extent to which mechanical branches of production has been brought into existence by the protective system has been greatly exaggerated by its advocates and even the character and direction of their development have been influenced less than on grounds of general reasoning might have been expected.8

The author gives further argument to the proposition that crises are not the result of tariff systems when he says, "As a rule, the tariff system of a country operates neither to cause nor prevent crises. They are the result of conditions of exchange and production of which it can exercise no great or permanent influence."9

The Period from 1860 to 1930

The tariff duties levied before the Civil War were moderate compared with those after the war. The national expense of the war was great. The first act of this period, the Morrill Tariff Act of 1861, substituted specific for ad valorem duties. In itself, the change is not objectionable but has often been used by the protectionists for a considerable raise in duties, as the change to specific duties invariably are made higher than ad valorem. This has given the connection of free trade and ad valorem on the one hand and protection and specific duties on the other.10

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7 Ibid. 8 Ibid., p. 154. 9 Ibid., p. 121. 10 Ibid., p. 159.
After the war, when the South had no representatives in Congress, northern congressmen carried the protective level beyond what it had ever been in normal conditions of peace.\textsuperscript{11}

By 1872 a large balance had accumulated in the treasury, Congress was urged, especially by the agricultural West, to lower the tariff. Some reform followed by a general reduction of ten per cent on all the products of large protective industries and a sweeping reduction on many commodities of non-competitive industries. Tea and coffee were placed on the free list and lower rates made on whiskey and tobacco. From that time on, the removal of duties on tea and coffee served for a long time the character of legislation on non-competitive products of which they are a type.\textsuperscript{12}

In various tariff acts since the Civil War, the duties on non-competitive articles have been swept away as shown by the removal of duties on sugar in the act of 1890. This emphasizes the fact that the protectionists are willing to give up this type of revenue rather than yield to lowering duties on competitive commodities.\textsuperscript{13}

Not until 1890 did the tariff question come to a matter of principle before the American people. The questions to be answered now were whether the protective system should continue at the present high war levels or should it be

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\textsuperscript{11} Von Metre, \textit{op. cit.}, pp. 384-385.  \\
\textsuperscript{12} Taussig, \textit{op. cit.}, p. 188.  \\
\textsuperscript{13} Ibid., p. 189. 
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lowered or raised. To the established industries, the keeping of the duties high might seem to be the legitimate answer on the ground that vested interest be not disturbed. Again the answer to the questions were somewhat evaded as congress turned to the non-competitive commodities. Raw sugar was kept on the free list but refined was to bear one-half cent a pound and a bounty of two cents a pound was allowed on home refined sugar to encourage the beet sugar industry in the United States.

A high water mark for the protective interest was reached in the tariff of 1897 which greatly increased duties on manufactures of cotton, silk, linen, leather, iron and steel products and upon refined sugar. Imported raw products, such as hides, raw sugar, lumber and the leading farm products, were given substantial protection.

When the Congress met to consider the tariff question in 1909, new trends were in the making. Many people felt that the whole tariff system needed a general overhauling. Huge fortunes and trusts in large industries were thought to be the result of extreme protection given them by the tariffs. No argument could be given now for keeping the tariff rates high to aid the growing American industries. Congress attempted a new plan of arriving at a just rate by using the "Cost-of-production" method. They believed that if this doctrine was applied it would mean a fair rate for

\[\text{Ibid., p. 283.}\]  \[\text{Ibid., p. 359.}\]
all interests throughout the United States. In arriving at this fair and reasonable rate of duty enough would be placed on imported articles to equal the difference between the cost of production at home and abroad together with a reasonable profit to American industries. So confused did they become in trying to apply this method to rate making, that they realized the need for a more scientific method. Some suggestions were made in Congress at that time to entrusting the power of fixing tariff rates by a Tariff Commission. Hearings before the Congressional Committees had become an unsatisfactory source of information.\textsuperscript{16} No considerable revision in the tariff was made at this time, but it was evident that Congress had reached the end of continuing the upward movement in rate making.

Tariff rates remained generally high until the Underwood Tariff Act of 1913 which provided for a downward revision of rates. However, the general trend toward lower rates which this act seemed to provide, never materialized because of the outbreak of the World War in 1914. The tariffs after the war, the Emergency Tariff Act of 1921 and the Fordney-McCumber Act of 1922, were consistently protectionist. Then followed the Hawley-Smoot Tariff Act of 1930 which provided for the highest rates in the history of the United States.

The Tariff Act of 1930

The Smoot-Hawley Tariff Act of 1930 was the product of

\textsuperscript{16}Ibid., p. 406.
a year in rate making wrangles in the special session of Congress in 1929 and until June of 1930 in the regular session. This act is the fruit of give and take in the political machinery of both houses of congress. The old established custom of favoritism, logrolling, and senatorial courtesy had full sway. The House Committee and the Senate Finance Committee went about their work in about the same fashion. Most discussions were held in committee meetings where each side tried to gain or retain some particular favor. No consistency in the rate making was to be found throughout the entire year as often the work of one committee was undone by the decisions of another. To add to the confusion, the Tariff Commission was trying to apply the cost of production in its recommendations. 17

The Tariff Commission, which had been created in 1913, had gathered a volume of statistics and other information to be used in helping congress in levyng tariffs and taxes. The congressional committees utilized much of the material of the Tariff Commission by reporting from its documents. But these reports were given chiefly to carry a point in debate or were used in committee hearings. The Tariff Commission was supposed to be a judicial body standing aloof from controversial questions, and was not to be swayed by party politics. The protectionists, themselves, were losing

respect for this body for not holding to high standards in the prosecution of its work. 18

The intention of Congress in revising the tariff structure was to give the agricultural industries relief, since the law setting up the debenture plan had been repealed. Rates were changed on many agricultural commodities imported. Corn was kept at 42¢ per bushel, sugar raised to 2¢ per pound, beef raised from 3¢ to 6¢, hides to 10% ad valorem, leather to 15%, shoes to 20%, and raises of rates were made on a whole host of fruit and vegetable products. 19

Experiments in Tariff Bargaining Before 1934

Reciprocal provisions were placed in the McKinley Tariff Act of 1890. They would allow the President power to impose, by proclamation, certain duties on sugar, molasses, tea, and hides, if he considered that the country exporting these products to the United States "imposes duties or other exactions on the agricultural or other products of the United States, which in view of the free introduction of sugar, molasses, tea, and hides into the United States, he may deem to be reciprocally unjust or unreasonable." 20

This provision would act as a threat of re-imposing duties if concessions to the United States might seem to be

18 Ibid. 19 Ibid., p. 523. 20 Ibid., p. 508.
unjust. The countries from whom the United States were chiefly concerned in getting concessions were in Latin America.

The ordinary form of reciprocal arrangement had been of a bilateral nature, which consists in the simple remission of duties to a favored nation. Duties remained on goods coming from countries not favored. Such a remission may not be an advantage to the domestic consumer unless the favored country can easily supply the whole market. If the favored country cannot supply the full import needs, the prices will tend to remain as high as before, and the favored nation will reap the benefits of the remission. Countries making such arrangements may not reap much benefit, as sooner or later they are extended to others. The experience of European countries under commercial treaties, especially under the net-work of treaties which spread over Europe after the treaty of 1860 between England and France, shows that remission of duties in favor of one country was extended to others and became practically equivalent to a general lowering of the custom scale. A similar outcome would likely result from concessions to the United States from Latin American countries under these reciprocal provisions; a result no doubt advantageous to all concerned, but peculiarly less advantageous to the United States than more limited concessions would have been.

In the year 1892, treaties were concluded with the following Latin American countries: Salvador, Dominican Republic, Nicaragua, Honduras, Guatemala, Brazil, and Spain for Cuba and Porto Rico. Recessions to the United States were chiefly on agricultural products and others produced abundantly and cheaply in the United States. By Executive authority given in the reciprocal provisions of this act, duties were imposed on coffee, tea, sugar, and hides coming from Venezuela, Columbia, and Hayti.

All these arrangements came to an end with the tariff act of 1894. The act of that year, it will be noted, did contain a saving clause by which the reciprocity treaties were to remain in force "except where inconsistent with the provisions of this act." Since the act admitted tea and coffee free unconditionally, and a duty of forty per cent on all sugar, its provisions were necessarily inconsistent.

The reciprocity arrangement was again revived in 1897. In the Dingley Tariff Act of that year a provision was made whereby the President, when satisfied that other countries imposing duties were "reciprocally unequal and unreasonable," might suspend the free admission of certain specified articles, among which were coffee, tea, tonka beans and vanilla beans, that would be subject to duty.

The President was authorized also to apply reduced

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23 Ibid., p. 232 (footnote).  
24 Ibid.  
25 Ibid.  
26 Ibid., p. 253.
rates of duty on spirits, wines, argols, paintings, drawings, and statuary, in return for concessions deemed by the President to be reciprocal and equivalent. These agreements required no Congressional approval. All the agreements made under authority of this act were terminated by the Payne-Aldrich Tariff Act of 1909. 27

Altogether, 21 unsuccessful attempts at reciprocal treaties were made before 1933; of these, 16 failed because of Senate opposition. 28

Later tariff acts passed by Congress conferred no special power upon the President in regard to tariff bargaining. In the early thirties, when it seemed desirable to loosen the trade restrictions, interest in tariff bargaining again revived, and eventually led to the passage of the Reciprocal Trade Agreements Act of 1934.

27 Ibid., p. 407.

CHAPTER IV

THE RECIPROCAL TRADE AGREEMENTS ACT OF 1934

Unstable Commercial Relations, 1919 to 1934

The Trade Agreements Act, an amendment to the Tariff Act of 1930, came from a background of unstable conditions which affected the economic structure and activity of the world. From the end of World War I until 1929 there was a continuous process of reconstruction of business and trade practices. The process of recovery was neither easy nor uniform, and complete readjustment of production and trade to the changed conditions was by no means attained. Many nations reverted to a policy of economic nationalism and state intervention in the affairs of economic life.

The United States had suddenly rose from a debtor to a creditor nation. She made large loans to foreign countries which gave temporary relief to those depleted by the ravages of warfare. The structure of the financial machinery for international trade rested upon a rather precarious foundation. It rested to a large extent upon the continued expansion of loans to foreign countries by the United States. From 1925 to 1929 these loans averaged over one billion dollars a year.¹ In this way the foreign nations were enabled

¹ Public Affairs Bulletin No. 33, op. cit., p. 7.
to meet some of their wartime obligations to the United States despite the high American tariff wall which made it impossible for them to settle their obligations by increased exports to the United States. The great expansion of industries and agriculture increased production of goods in the United States to a point whereby she was able to export in excess of imports over a period of years.\textsuperscript{2}

The sudden crash of the New York Stock Exchange in 1929 and the subsequent cessation of American foreign loans dealt a severe blow to the delicate structure of international economic relations and exposed its underlying weaknesses. Debtor nations which had been dependent on American loans were faced with a deficit in their balance of payment which they could meet only by draining their gold reserves. Prices and production fell rapidly and the world entered a depression of unparalleled scope and intensity.\textsuperscript{3}

The depression worked undue hardships upon American agriculture. President Hoover pictured the protective tariff as the best cure for the farmers' plight. He little realized that what the farmers needed was not a protected market but an adequate market. While the depression deepened in the United States, other nations in the world were not idle. They offered a glad hand to help America achieve her declared goal of self-sufficiency. Germany entered an

\textsuperscript{2}\textit{Ibid.}, p. 7. \hspace{1cm} \textsuperscript{3}\textit{Ibid.}
intensive drive to gain markets in Latin America through various trade devices. Soon she had gained many markets once dominated by the United States and England.\textsuperscript{4}

Another loss to the United States came by the passage of the Ottawa Agreements in 1932. In this act England had to compromise with her doctrine of free trade. She agreed that for five years, products (chiefly foods) would be allowed to enter from her Empire units free or at a very low tariff. Empire units were to do likewise. Thus England would replace the United States, somewhat, in manufactured goods to enter Canada and Canada would, in part, replace the United States as a source for raw materials. All these actions came about as a result of the isolation practices set up in the United States.

In order to protect themselves against the effects of a disturbed world economy, some countries resorted to new restrictions on imports more drastic than ever before. Tariff barriers increased in number, height and intensity. New measures to restrict trade, particularly in the form of quotas and exchange controls, were adopted in a number of countries. Still other nations, whose exports were affected by these restrictions retaliated by similar controls and a wave of trade restrictions swept the world.\textsuperscript{5}

\textsuperscript{4} John Chamberlain and others, "Background of Peace," \textit{Fortune}, XVI (September, 1937), 155.

\textsuperscript{5} Public Affairs Bulletin No. 33, \textit{op. cit.}, p. 7.
Tariff barriers were raised by the United States by the Hawley-Smoot Tariff Act of 1930 which increased import duties above any previous level and led to retaliation on the part of other nations. A weak voice of protest came from the League of Nations charging that the Hawley-Smoot Act had deepened the world depression.

As the depression increased in severity there developed a movement in the United States toward the reciprocal reduction of tariff and trade barriers. As a result of concerted action on the part of various trade and agricultural organizations to adjust matters, the question became an issue in the Presidential campaign of 1932. Upon coming into office, the new Administration, led by Secretary of State Cordell Hull, began to prepare a reciprocal trade plan which was formulated, passed by Congress, and signed by the President on June 12, 1934. The Act has been renewed in 1937, 1940, 1943, and again in 1945.

Chief Features of the Trade Program

The Trade Agreements program is an expression of the principle that economic activity of one nation is profoundly influenced by the economic conditions in other parts of the world. Part III, Section 350(a) of the Act states its purpose as follows:

For the purpose of expanding foreign markets for the products of the United States (as a means of assisting in the present emergency in restoring the American standard of living, in overcoming domestic unemployment and the present economic depression, in increasing the purchasing power of the American public,
and in establishing and maintaining a better relationship among various branches of American agriculture, industry, mining, and commerce) by regulating the admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States, the President, whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted by the means hereinafter specified, is authorized from time to time—

"(1) To enter into foreign agreements with foreign governments. . . . 6"

Its chief feature is essentially one of tariff bargaining in which the President is authorized to negotiate trade agreements on a reciprocal basis with other countries. In the negotiation of such agreement, he offers concessions to another nation in the form of lowered import duties in return for like privileges granted on the importation of products from the United States. In the original act and in each of its extenuations before 1945, the President was limited in the maximum reductions offered to any country to fifty per cent of the existing duties at the time the Trade Agreements Act was passed. In the renewal of the act in June of 1945, the President is granted power to make the maximum fifty per cent reduction based on the level of duties in force on January 1, 1945. Another limitation

prevents the President from transferring any article from the dutiable list to the free list or vice versa. Thus the tariff bargaining process is essentially a procedure of bargaining within the framework of an established tariff system and rate structure. As a maximum has been placed on reductions, a decision as to whether certain articles shall be dutiable or not is not a matter of negotiation. Power is granted to "freeze" a commodity at its present level; that is, the President may agree to allow a commodity now on the free list to remain free for the duration of the agreement or that a commodity on the dutiable list shall remain dutiable at the rate existing at the time negotiations are concluded. All agreements may be terminated at the end of three years, or thereafter, upon six months' notice.

The portion of the act that contains the basic foundation of the international trade policy of the United States is the unconditional most-favored-nation clause. In the application of this clause a reduced duty granted to a country with which an agreement is negotiated is extended to all other countries in the world not discriminating against the commerce of the United States. That is, when the United States offers concessions in the form of lowered

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7 Paul R. Olson and C. Addison Hickman, Pan American Economics, p. 246.

8 Ibid., p. 247.
import duties to a nation signing an agreement these same lowered duties are automatically extended to any country which supplies the United States with the commodities in question. In the use of the principle of equality of treatment, the concessions granted by the United States are not reserved for the exclusive benefit of the nations participating in trade with the United States. From the standpoint of world trade, "the significance of such treatment lies in the fact that application of benefits from tariff reduction only to the signatory would constitute discrimination against the export trade of other nations" not signatory.

The generalization of rates does not seriously reduce the bargaining power of the United States because the reciprocal agreements deal primarily with articles of which the other parties to them are the principal supplier to the United States. Sometimes, in the use of this "principal supplier formula" concessions are made so specific as to limit the benefits chiefly to the signatory nation. Since the extension of reductions to other nations, no matter how small the proportion of the United States imports they may supply, "is concrete evidence of the desire of this country to enlarge the volume of world trade in which the nations may share." The unconditional most-favored clause

\[^9\text{Ibid.} \quad ^{10}\text{Ibid., p. 246.} \quad ^{11}\text{Ibid.}\]
in the agreement guarantees that privileges extended a third nation by either of the signatories, the third country shall in return grant like treatment to all other nations trading on the most-favored-nation basis. Only one exception to this rule is to be noted as authorized in the original act. Preferential treatment is accorded Cuba which allows her to keep in force the agreement made in a treaty with the United States in 1902.  

How a trade agreement is made.---In the Trade Agreements Act of 1934, Congress delegated power to make agreements to the President without being approved by Congress. The President does not act arbitrarily in the making of trade treaties. The State Department is responsible for negotiating trade agreements assisted by inter-departmental committees representing the State Department, Department of Commerce, Tariff Commission, Treasury Department, Department of Agriculture and in the last renewal of the act was added the Departments of War and Navy. The committee that does the most detail work and in reality the most important is the Trade Agreement Committee, consisting of about sixty sub-committees, some dealing with countries, some commodities, and some with special problems. A certain committee investigates with great care the exports and imports of the United States with the country concerned in the negotiation for the purpose of preparing recommendations as to how  

12 Ibid.
trade might be improved. Usually several months of study are spent on the question, following which the recommendations of the country committee, assisted by the commodity committee, are reviewed by the Trade Agreements Committee. Their report is then sent to the Secretary of State and the President for approval. Once the committees decide what concessions can be made and what is wished from the country in return, negotiations with this country begin. 13

Any interested person or industry is given three opportunities to express his views to another inter-departmental group called the Committee for Reciprocity Information. At an early date in the negotiation, a public announcement is made that an agreement is contemplated and any interested party is given a chance to offer recommendations as to the products to be included in the agreement. Later a formal notice of intention to negotiate is given and a period is fixed—usually six weeks—when any one may file a statement relative to duty reduction. At the same time, a detailed list is published of the products on which reductions may be made. Finally, public hearings are held at which time an industry may present its oral views. The various committees and departments concerned with the conclusion of a trade agreement, study all petitions carefully

before making their final recommendations to the Secretary of State.\footnote{14}{Ibid., p. 41.}

At no time in the history of the United States has tariff formulation been undertaken in such painstaking and scientific manner, or inspired by such concern of the national welfare. These methods stand out in striking contrast with the log-rolling which dominated tariff making until and including the Hawley-Smoot tariff of 1930.\footnote{15}{Ibid.}
CHAPTER V

UNITED STATES AGREEMENTS WITH LATIN AMERICA

A New Doctrine For The Americas

The feeling of the Latin American countries toward the United States has at times not been very satisfactory. A change in the application of the Monroe Doctrine had taken on the nature of protection of the vested interest of the United States in these nations. America had become a type of "big brother" over the affairs when internal strife seemed imminent. By 1919 American investors had two billion dollars invested in Latin America while the United States government had one-half billions in loans. To protect loans, debt claims, and oil interests, the United States landed marines and took over administration of customs houses in Haiti, Santo Domingo, and Nicaragua. She fomented a revolution in Honduras and fought a short war with Mexico. By 1924 the finances of nearly half of the Latin American Republics were more or less under the control of the United States. ¹

Little attempt was made to improve this bad situation until the Pan American Conference in Montevideo, 1923. At the sixth International Conference of American States held

¹ Charles Wertenbacher, A New Doctrine for the Americas, p. 64.
in Havana, Cuba in 1926, Dr. Honorio Pueyrredon, chief of the Argentine delegation introduced the subject of trade barriers as a part of his program of opposition to the United States. One such barrier in mind was the sanitary prohibition which the United States maintained against beef from countries with the foot-and-mouth disease. He insisted that the committee in charge of the program place in it discussions leading toward economic cooperation so essential in suppressing unjust obstacles and excessive barriers that restrict the flow of commerce between the nations of America.²

When the conference refused to accept his amendment, Dr. Pueyrredon refused to sign the convention for Argentina. His colleagues appealed over the head of their chief to their government and received instructions to sign. Thereupon he resigned his place in the delegation and also his position as Ambassador to the United States. Mr. Hughes, chairman of the United States delegation, had opposed the amendment believing it would invite the destruction of Pan Americanism by it getting into controversies with Congresses and Parliaments of various nations.³

At the Conference at Montevideo in 1933, Secretary Hull wanted the states to consider this most delicate subject and had no fear at all of it inviting the destruction

²Samuel F. Bemis, *The Latin American Policy of the United States*, p. 239
³Ibid.
of the Pan American Union. Before the time of the meeting at Montevideo, the Governing Board of the Pan American Union saw that the program included additional items on import quotas, import prohibitions, and collective commercial treaties as proposed by the Cuban Ambassador to Washington. These items represented Hull's chief concern in foreign affairs and one may well surmise that he had much to do with helping the Cuban Ambassador put these subjects in the program.  

The day before the United States delegation sailed for the Conference, President Roosevelt announced that economic discussions were out. Hull could not see any possibility of national recovery without international cooperation, and by this time he had undoubtedly made up his mind to do things his own way and then resign if the President did not like it. As business got under way, Secretary Hull proposed a general reduction of high tariffs and trade barriers among all nations. Already his mind was on his reciprocal trade program and in bringing the project before the Conference, he made the first positive United States contribution in history to the doctrine of Pan Americanism.  

Agreements in the Caribbean Area

Secretary Hull was particularly anxious to remedy the

4 Ibid., p. 301.  
5 Ibid.

Results of these agreements soon became evident. In 1938-1939, the total trade between the United States and the Caribbean group showed a substantial increase over the 1934-35 levels. The increase amounted to 32 per cent for Nicaragua, 49 per cent for El Salvador, 91 per cent for Guatemala, and 110 per cent for Costa Rica. A proportionate gain was made by Honduras by 1941.

By 1940, all the Central American countries were doing approximately two-thirds of their trading with the United States and the ratio was steadily increasing. In every country the value of the trade with the United States exceeded the 1935 levels.

Agreements with countries of the Caribbean area do not change the nature of United States imports inasmuch as the products are largely tropical foods of a complimentary type. Most imports upon which concessions have been made consist of duty-free products, and in many cases, are made binding on the free list. A special analysis of the trade agreements

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7 Ibid.
made with these countries is not particularly significant in the study of tariff bargaining.

Trade agreements with Venezuela, Peru, and Argentina are chosen for special analysis. Venezuela is chosen as an exception to the rule of complementary trade with tropical America. Peru is chosen as a representative from the West coast section whose trade has been divided between the United States and Europe. A special analysis of the agreement with Argentina is highly significant because of the competitive nature of her products and her position as a leading nation of Latin America.

Agreement with Venezuela

Venezuela is an exception to the general rule of complementary trade with tropical countries. Her chief export to the United States is petroleum—a competitive product. By the terms of the agreement signed in 1939, reductions in duty were granted by Venezuela on thirty-five products, including lumber, hog lard, metal furniture, wheat flour and parts for agricultural machinery.

These products made up one-tenth of United States exports to that country in 1938, and reductions in rates ranged from 2.5 per cent to 62 per cent of the existing duty. On 61 other items, aggregating over one-fourth of Venezuelan purchases from the United States, Venezuela

9 Olson and Hickman, op. cit., p. 252.
agreed to stabilize rates at their existing levels. Concessions by the United States made to Venezuela cut to one-half the excise tax on petroleum (subject to annual quota) and guaranteed continued free duty on crude petroleum and fuel oil for use in vessels. In 1938 the products covered in the agreement accounted for almost nine-tenths of the value of United States imports from Venezuela, petroleum alone accounting for four-fifths. 10

The real significance of this agreement lies in the fact that the United States and Venezuela both export petroleum, crude oil being the chief product that Venezuela exports to the United States. An import excise tax was placed on petroleum by the United States in 1932. A reduction in this tax as agreed in this trade agreement has given an advantage to Venezuela. There is evidence that the United States imports of petroleum have increased since the agreement became effective. 11

The quota limitation is evidence of the obstacles involved in making concessions on a competitive product.

Trade Agreement with Peru

Peru signed a trade agreement with the United States in May, 1942. She is a representative of the West Coast section of South America, and traditionally divided in economic allegiance between Europe and North America. The

10 Ibid. 11 Ibid.
products on which concessions were made amounted to one-fourth of total Peruvian imports from the United States in 1940. The principal products upon which Peru grants reductions are automobiles and trucks and their parts, typewriters, calculating machines, certain dried fruits, canned fruits and vegetables, prepared cats, and fresh apples, pears, and plums. 12

Concessions granted to Peru by the United States covered items which accounted for one-fourth of the total imports from Peru in 1940. The chief products on which the United States made concessions include sugar, bismuth, long staple cotton, hair of the alpaca, llama and vicuna, and cacao leaves. Reduction on long staple cotton was one-half, but the agreement has no effect on the total quantity of long staple cotton permitted under the cotton quota.

The general provisions of the Peruvian agreement include unconditional-most-favored-nation-treatment. However the United States does not ask that this clause apply in respect to tariff preferences which Peru may give to a contiguous country; if such preferences are in accord with a formula recommended by the Inter-American Financial and Advisory Committee. The agreement does not apply to measures imposed by the United States on imports of coffee pursuant to the provisions of the Inter-American Coffee Agreement. 16

12 Ibid., p. 259. 16 Ibid., p. 260.
Unrefined copper, the leading import from Peru, was not included in the negotiations since it enters the United States for refining purposes and for export and thus is not subject to the import excise tax. Sugar, the second largest item in terms of value, has increased since the signing of the agreement. Cotton imports have been small. This again illustrates the difficulty of granting concessions on competitive products.

Items being limited by quotas is probably to be explained as a result of the wartime demands for all types of materials. The agreement of the United States to waive most-favored-treatment in respect to Peru's arrangements with contiguous countries emphasizes the increased attention in Latin America to expansion of trade within this area.

Agreement with Argentina

The Tariff Act of 1930 not only penalized Argentinian imports into the United States by its high rates, but placed unjust quarantine restrictions upon the entire Argentine live stock industry. In addition, the impact of the depression upon Argentina's economy forced her to make changes in her commercial policy. In normal times she could balance her unfavorable trade account with the United States through foreign exchange proceeds from sales to other countries. When the oversea markets collapsed, the multilateral type of trade agreements was replaced by exchange
control in 1931 and a system of import permits in 1938.\textsuperscript{14} Such a policy operated to the disadvantage of the United States, since Argentina allocated foreign exchange to favor those nations which bought more from her than they sold to her. By fall of 1940, after her trade in Europe had been cut off by the war, she then had to depend more and more upon exports to the United States. As a result, the deficit in the balance of payment with the United States had to be met by a shipment of gold.\textsuperscript{15}

All this brought on negotiations for an agreement between the two countries. In the first attempt to negotiate in 1939, the United States seemed to be unwilling to run the risk of antagonizing those groups in the United States who opposed the granting of concessions on agricultural products from Argentina and they insisted also on the use of import quotas in connection with tariff concessions. The import quotas suggested were not considered large enough by Argentina to compensate for removing, in part, her bilateral commercial agreements. By 1941, both countries were no longer fearful of being flooded by products from the other. Negotiations were renewed and the agreement signed in October, 1941.

The real significance of this agreement lies in the fact that both nations operate on a competitive basis.

\textsuperscript{15}\textit{Ibid.}, p. 254. \hspace{1cm} \textsuperscript{16}\textit{Ibid.}
Both these temperate zone countries have been great exporters in products of a complementary nature, but at the same time there has been substantial trade between the two countries. The United States has been an important market for Argentine cattle hides, wool, canned beef, flax seed, quebracho extract and other commodities. Argentina has imported from the United States motor vehicles and parts, iron and steel products, agricultural, industrial and electric machinery, business machines, and other products.

Duty concessions made by Argentina cover a long list of American industrial and agricultural products. Duties were reduced on 89 tariff items and the present rates bound against increase, for the term of the agreement, on 88 items. In 1940, the United States exported 13 percent of the total sales to Argentina from items on which reductions were granted, whereas the amount of exports on duty bound items amounted to 12 percent of 1940 exports.

The reductions made by Argentina fall within three types: those effective at the time of the agreement; those which become effective in two stages, part immediately, and part when the second concession stage comes in force; and those which do not apply until the second concession stage becomes effective. Some items in the first group are fresh apples, pears, grapes, raisins, and prunes, effective

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17 Ibid., p. 253.
18 Ibid., p. 256.
during the winter season in Argentina. Other items reduced in rates are rubber hose, Kraft liner board, raw motion picture film, canned salmon and mackerel, and certain kinds of sardines. The remainder of rate reductions depends in part or in whole, upon Argentine custom receipts, a condition which may not be met as long as Argentine trade is curtailed by war. This class includes chiefly electrical, car, and refrigerator parts, light industrial machinery, and some types of lumber.  

Products bound are leaf tobacco and cigarettes, small radio sets, expensive passenger cars, auto parts, radio parts, automatic refrigerators, small electric motors, agricultural machinery, pumps, oil burners, and typewriters, calculating machines, cash registers, fountain pens, chewing gum, razor blades, and photographic films.

The concessions made by the United States fall in two classes; one, of which Argentina is normally the chief supplier, and the second, of supplies which the United States ordinarily obtains from other countries than Argentina. Duties on canned meats were reduced from 6¢ to 3¢ per pound, quebracho extract reduced one-half or 7.5 per cent ad valorem.

"The general provisions of the agreement are of particular significance and, in a sense, constitute the real core of the attempt to reconcile the commercial policies

19 Ibid.  20 Ibid.  21 Ibid., p. 257.
of the two nations." Argentina pledges to grant most-favored-nation-treatment to the United States, assuring that any concessions made to a third country would automatically be granted to the United States. Important exceptions to this rule are of interest: (1) As long as Argentina's exports are blocked by the United Kingdom, the United States does not ask for most-favored-nation clause to operate for the duration of the war due to Argentine exchange or quota treatment of imports from the "sterling" area; (2) Similar exceptions are made concerning exchange and quota arrangements to contiguous countries and Peru; and (3) She does not ask that it apply to duty reductions made to contiguous countries in commercial agreements, so long as their benefits are not extended to any other non-contiguous country, and providing they conform to a formula recommended by the Inter-American Financial and Economic Advisory Committee. "Assurances are given, however, that Argentina will allot exchange, at least in limited amounts, for articles upon which tariff concessions have been given."24

The agreement also contains a provision not included in previous trade agreements signed under the Trade Agreements Program. This allows a mixed commission consisting of representatives of each government to serve as a

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22 Ibid., p. 258. 23 Ibid. 24 Ibid.
consulting body on matters pertaining to the future operation of the agreement.

Under present conditions of international trade, it is very difficult to evaluate the agreement between the United States and Argentina. As has been suggested above, the agreement stands as evidence that both governments are closer in accord on commercial policy than at any time in recent years. Its economic effect in the near future will depend, however, upon the collaboration of the two countries in such matters as shipping and priorities. International trade in wartime is motivated by military necessity, and changes in tariff rates are of little significance in altering the flow of goods needed for prosecution of the war. Liberal concessions in import duties do not open shipping lanes that are blocked or prevent sinking by marauding submarines. On the other hand, the agreement does establish a basis for the exchange of goods between Argentina and the U.S., which might conceivably be expanded in the post-war world. The right to withdraw or modify concessions when more normal trade has been restored could be regarded as an indication of uncertainty concerning improved relations in the future. On the contrary the present agreement could point the way to still more substantial concessions.26

25 Ibid. 26 Ibid., pp. 258-259.
CHAPTER VI

PRESENT STATUS OF LATIN AMERICAN TRADE

General Nature of Latin American Trade

The trade routes of both North and South America have tended to run east and west rather than from north to south. Latin American products are principally agricultural while the products of the United States are both commercial and agricultural. Some staple products from both areas, such as wheat, corn, cattle and sheep, compete in world markets. United States exports to Latin America consist chiefly of manufactured products as steel and iron goods, automobiles, industrial machinery, chemical products, textile manufactures, electrical machinery and calculating machines. The chief imports from Latin America in 1940 were, in order of value, coffee, cane sugar, copper, petroleum, raw wool, hides and skins, cocoa, and sodium nitrates.¹

During the ten year period, 1929 to 1939, the United States had an import balance of trade with Latin America except for two years, 1938 and 1939, when United States exports exceeded imports therefrom by 41.3 million and 50.8 million dollars, respectively. Due largely to the loss

of oversea markets, the countries of Latin America have increased their purchases from the United States to an extent that the export balance of 50.8 million dollars in 1939 had grown to 106.6 million in 1940.  

In the past several years there has been a strong tendency for United States exports to Latin America to show a greater increase than imports. Such unbalances in the exchange of commodities under normal conditions is not an unfavorable sign. Under normal conditions a country pays for merchandise and services from other countries from the sale of its own commodity exports and services. But during the past decade, many Latin American countries have been forced to make exchange settlements with the United States by shipments of silver and gold reserves. Some countries have been sending newly-mined gold and silver. These shipments of gold and silver to the United States amounted to 15 per cent of the total imports from Latin America in 1929, 34 per cent in 1938, and 26 per cent in 1939. But as newly-mined gold and silver constituted commodity shipments, they did not figure as the balancing item in the settlement of payments.

The progressive increase of exports over imports presents an unhealthy condition as between these trade areas.

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3 Ibid., p. 18.
Since Latin America has been traditionally a debtor area, it has depended on its exports, not only to pay for purchases of United States products, but also for paying obligations on foreign investments and for making remittances on shipping and other services provided by United States citizens. This debtor position was made somewhat worse by the second World War. Some countries like Argentina have been able, in the past, to offset an unfavorable balance with the United States from the sale of merchandise to European markets. The blocking of most trade channels has made this impossible.\textsuperscript{4}

Realizing the pressing need for equalizing trade differences between nations, the United States established the Export-Import Bank of Washington in 1934. The work of the bank is to aid in financing exports and imports and the exchange of commodities between the United States and foreign countries. This bank by 1941 had paid out over 42 million dollars to nations in Latin America with 229 million dollars more authorized but not yet disbursed.\textsuperscript{5}

To meet the demands of the defense program in the United States for strategic materials such as copper, manganese, tin, tungsten, wool, hides and skins, exports from Latin America increased to such an extent that in the first nine months of 1941 the import balance was converted to an export balance of 119.2 million dollars. Latin

\textsuperscript{4}Ibid. \hspace{1cm} \textsuperscript{5}Ibid.
America was again favored with a dollar exchange. The increased exports to the United States in 1941 had counterbalanced the growing dependence of Latin American nations on the United States for the essentials formerly bought from overseas markets. 6

But along with the bright side of the trade picture there were other factors that limited its continued success. The limitations on shipping facilities, along with priority regulations in the United States, have curtailed the flow of goods to Latin America. Shortages in critical materials have occurred in some countries which has added weight to an unfavorable exchange settlement.

The Effects of World War II on the Trade Program

Besides using the tariff as a regulating factor in trade relations, other devices have been used to determine the commercial policy of the United States. These non-tariff devices range from import restrictions to various ways to control exports. Some of these were in common use before the war, but the emergencies created by the war brought changes in the application of these controls. Measures closely associated with the prosecution of the war include import quotas, freezing of foreign funds, purchasing agreements, price controls, and shipping priorities.

Shipping priorities in relation to trade.—Beginning in

6 Ibid., p. 19.
1942, the greatest limiting factor on Latin American trade was shortage of shipping space. After the turning of peace time fleets to war services and the outbreak of submarine warfare, the problem of shipping became more acute. The use of all available ships for war purposes tended to increase to a large extent the amount of intra-Latin American trade. The nations have been forced by necessity to trade more with one another. With the shortage of shipping space to the United States, trade between these republics will no doubt continue to rise. In the year 1940, the Latin American republics sold 20 per cent more goods to other nations south of the Rio Grande than was sold in 1939. This gain, to a large measure, was due to the increased exports from Argentina, which accounted for half of the total increase. Most striking is the amount of trade increase in the South American countries, although it has permeated all the Latin American nations. Brazilian exports increased 83 per cent in the first nine months of 1941 over the corresponding period of 1940.

Much of this increase in trade is due to wartime necessity, but certain post-war implications may be noted. With the increase in Latin American industrialization, improved transportation facilities, and lowered tariff restrictions, such trade may continue to grow on an even larger scale.

7 Olson and Hickman, op. cit., p. 78. 8 Ibid. 9 Ibid.
Import quotas.—The United States has used the import quota system to limit imports permitted since 1933. Through wartime necessity its use has been expanded to regulate the flow of more different kinds of commodities entering the United States. Different types of quotas are in use. A quota may be absolute. In its operation, a certain quota is filled and no more is allowed during a certain period of time. The chief difference between this type of control and tariffs is that tariffs do not restrict the amount of goods entering just so long as the duties are paid. Most of the absolute quotas used by the United States were designed to bring higher prices for domestic products. Quotas placed on wheat, sugar, cotton, cotton wastes, and wheat flour are examples of the use of this type quota. 10

Another form of limitation on imports is the tariff quota. Tariff quotas differ from absolute quotas in that the limitation applies only to quantities which may enter under preferential tariff treatment. Imports in excess of the quantitative limits are not prohibited but are denied favorable tariff treatment as given to the amounts within the quota. 11

The tariff type of quota has been used in trade agreements to limit the effect of tax or duty concessions. The quotas on fuel oil and petroleum are examples of this type. In the trade agreement with Venezuela in 1939, the excise

10 Ibid., p. 266. 11 Ibid.
tax on oil was reduced, but a limit was placed on the amount of oil which could come in free of duty. A limitation of 5 per cent of all crude petroleum refined in the continental United States is placed on all importing countries combined and shares are assigned to the supplying countries on the basis of United States total purchases abroad for the first ten months of 1939. Entries above this annual quota is taxable at the former rate.

The export quota placed on petroleum has raised a question of equality of treatment accorded various suppliers of oil. By using the year 1939 as a representative period on which to base allocations, it produced a hardship on Mexico, as importation of oil from that country was influenced by expropriation matters, resulting in a decreased amount of exportation of oil to the United States.

Export control.—Another modification in the commercial policy of the United States, resulting from war necessity, is the use of export control. Modern warfare is world wide in scope and foreign trade must fit into plans for making resources of supply secure for a nation's military organization. In time of war, imports are considered in terms of national security rather than on the basis of cost. Exports are considered from the standpoint of whether they add to, or subtract from, the sources available for war purposes.

12 Ibid., p. 269.
In 1940, the President was given authority to prohibit or curtail exportation of any munitions or other military equipment, tools, machinery, or materials and supplies necessary for manufacture and service of the military machine. Selective embargoes were placed upon such items as iron and steel scrap, certain iron and steel products, gasoline, and many other commodities used in military defense. 13

A more general license was made by proclamation in 1941. By this time Latin American nations were feeling the necessity of more consumer goods. Also they had more purchasing power available to be used in purchases from the United States. The enforcing of the export control was a blow to the prospective buyers of Latin America who looked to the United States for supplies to relieve the shortages.

Assurance was given by the United States that the Latin American countries would have more goods available to them on a basis of equality with allotments under priority regulations in the United States. But the United States gave no assurance that goods would be available after prior needs of the country had been supplied. Latin American nations then requested a system of allocation of fixed quotas to give more certainty in supplies. Allocations were soon made to cover many types of commodities. In the

13 Ibid., p. 277.
latter part of 1941 and through the year of 1942, allocations were made on a number of commodities including chemicals, rayon, tungsten, nickel, steel, platinum, and miscellaneous farm equipment. Since 1942, export controls have become better organized to give aid and assistance to export control authorities in the United States. An export agency has been set up in each Latin American country to issue certificates of necessity to importers up to the total amount of the United States allocation of products to each country.

The freezing of foreign funds.—The wartime move to control the movement of foreign funds in the United States began in 1940. German and Italian funds were free to operate in potential Latin American trade as such funds had not been blocked. In June of 1941, German and Italian assets in the United States were frozen along with those of other continental countries of Europe. Any financial transactions between nationals of the United States and any blocked country or its nationals were prohibited. Since many enterprises in Latin America were under the direction of Germans and Italians, this prohibition caused much concern. American exporters were afraid to accept orders from them in violation of the freezing regulations. No one was certain what concerns were so controlled by foreign

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14 Ibid., p. 276.

nationals. The problem of who could not enter into trade relations with the United States was settled in 1941 when a black list of more than 1,800 persons of business firms were placed on a Proclaimed List of Certain Blocked Nationals. The full intent of the plan was to prevent aid to the Axis with as little interruption of the flow of needed goods to Latin America as possible.  

Reaction came from some firms affected in Guatemala, Columbia, Mexico, and Brazil.

Purchasing agreements.—The purchasing program is an attempt to acquire all available surpluses of particular commodities as a stock pile for present and future uses. These purchases of supplies by the government are made by agreements with certain countries that supply the products needed. Through an executive order in January, 1942, surplus sugar was ordered to relieve the shortage; and this order was soon followed by another which agreed to take the entire 1942 sugar crop of Cuba. The United States has also bought the entire Brazilian rubber output for five years and has guaranteed a market for Brazilian iron ore.  

These agreements are bilateral in nature but involve payment in money. These agreements also constitute a recognition by the Latin American nations of wartime realities and an adjustment to an all-inclusive war effort. This arrangement makes possible the movement of goods to

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16 Olson and Hickman, op. cit., p. 279. 17 Ibid., p. 350.
the only available markets whatever commercial policy might be employed. If such preclusive purchases are continued after the war, however, they would constitute merely a modified form of barter and preferential bilateral trading.\footnote{18}

**Price control.**—The interrelated activities of Pan American trade is greatly affected by prices of American commodities. Prices in the United States influence price levels in the Latin American countries. Therefore the United States extends its price control policy to exports to these countries. This control operates to prevent exporters from charging more than domestic price ceilings, plus a reasonable profit margin. The aim is to keep goods moving into the Latin American countries which are dependent upon manufactured goods and materials of the United States.\footnote{19} The greatest problem in this matter is to keep prices in check and low enough that exporters will be interested in continuing their production for foreign markets. If prices were allowed to rise to a point where needed supplies to Latin American nations were greatly hampered, a disastrous condition to both producers and consumers would result.

The Trade Program as an Instrument of Peace

In the relation of the trade program to the maintaining of peace among nations of the world, quotations from some of our national leaders will aid in emphasizing its significance.

\footnote{18}{Ibid., p. 351.} \footnote{19}{Ibid., p. 286.}
Secretary of State, Stettinius, speaking of the work done at the Mexico City Conference on March 8, 1945, expressed his sentiment in the following terms:

... in the Declaration of Mexico and in other resolutions, we have rededicated ourselves at this conference to American principles of humanity and to raising the standards of living of our peoples, so that all men and women in these republics may live decently in peace, in liberty and security. That is the ultimate objective of the program for social and economic co-operation which has been agreed upon at Mexico City.  

When the Trade Agreement Act came up for renewal in June of 1945, Senator Thomas of Utah remarked in a speech to the Senate concerning the program in relation to peace:

Mr. President, I deem that I am not speaking out of bounds when I call attention to the fact that reciprocal trade agreements have had some little part in the theory and in the fact of making it possible for men and nations to unite in peace. The techniques of the trade agreements practiced now and tried for more than ten years is a technique, in which two nations, and then more unite, not to do hurt to one another as a result of special privileges asked for each but to discover where each can help the other, and agreement is brought about under the theory and under the ideal which General Eisenhower mentioned and called attention to.  

The reference here related to a speech by General Eisenhower before a joint meeting of the two Houses of Congress. In his address, among other words concerning peace, he urged that we need to unite for peace as we have for war.

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21 Congressional Record—Senate, 79th Cong., 1st Sess., June, 1945, XCI, 6515.
Quoting from an article by Francis B. Sayre in the New York Times of January 9, 1945, he had these words of praise:

If we are to have prosperity in the United States and in the world, we must have peace. And we shall never be secure in peace unless and until sound economic foundations are built for it. . . . The American trade agreements program means building the kind of foundation upon which alone the peace of the world can rest. Upon the outcome of the program may hang the welfare or the tragic suffering of millions yet unborn.22

The stand our late President of the United States, Franklin D. Roosevelt, took on the effectiveness of the program is seen in his Message to Congress in April of this year, 1945.

We owe it to the vision of Secretary Hull that another of the essential measures we shall need to accomplish our objective has been tested and perfected by ten years of notably successful experience under his leadership. You are all familiar with the Trade Agreements Act, which has been on the books since 1934 and which on three occasions, since that time, the Congress has renewed. The present law expires in June of this year. I recommend that it again be renewed so that the great work which Secretary Hull began may be continued.

Under him the reciprocal agreements program represented a sustained effort to reduce the barriers which the nations of the world maintained against each other's trade. If the economic foundations of the peace are to be secure as the political foundations, it is clear that this effort must be continued, vigorously and effectively.23

22 Appendix to Congressional Record, 75th Cong., 3d Sess., LXXXIII, 918.

I cannot believe that the people of the United States, and of the Western Hemisphere, will ever relinquish the inter-American system they have built up. Based as it is on sovereign equality, on liberty, on peace, and on joint resistance to aggression, it constitutes the only example in the world today of a regional federation of free and independent peoples. It lightens the darkness of our anarchic world. It should constitute a cornerstone in the world structure of the future.\textsuperscript{24}

Cordell Hull further confirms his belief in the possibilities of the program, as stated in the following words:

"If the goods of the world cannot freely cross frontiers, armies will . . . ."\textsuperscript{25}

\textsuperscript{24} Sumner Wells, "World Leadership to Protect Peace," \textit{Congressional Digest}, III (June 15, 1942), 516.

\textsuperscript{25} Cordell Hull, \textit{Senior Scholastic}, XLVI (March 15, 1945), 8.
CHAPTER VII

SUMMARY AND CONCLUSIONS

The facts contained in this study reveal that nations have spent much time and effort in an attempt to formulate the proper trade policies to give the best possible support to national prosperity. The two segments of the English speaking peoples, one in Europe and one in America, embarked upon two radically contrasting trade theories. These two theories carried the title of free trade and protection. Under these two headings have come volumes of material, oratorical debates, and legislative enactments, all in an effort to express the benefits derived from adhering to the principles under which they operate.

Writers in England headed by Richard Cobden and John Stuart Mill were convinced that application of the free-trade principle in international trade would unite peoples of the world in bonds of peace and national prosperity. To the growing British Empire free trade was necessary for it conditioned the growth of its colonies and trading posts.

To the colonies in America free trade was a continental affair. They were interested in the development from within and trade practices that tended to restrict national growth were relegated to afford freer movement of trade. The facts represented by tariff legislation bear out the idea that
if she were to grow from within, a barrier had to be placed at the shore line. This idea put into practice served its purpose for nearly a century.

But operating over this long period of time, these two trade theories created new conditions. Free trade as practiced by England had not wholly prevented the colonies in America from developing their own manufacturing. England was generally friendly toward the nationalist movement of the day as it meant free movement of commodities, peoples, and capital. She saw in it a strengthening of her empire which, in turn, she hoped, would result in good will between nations. Even after England lost her American colonies, the advocates of free trade viewed the War as only a temporary break in the fulfillment of their hopes and ideals.

The United States continued to strengthen her belief in the policy of protection. This was continued long after the purpose for which it was originally intended had been achieved. No longer were industries in the infant stage; they had grown to full maturity. The more liberal trade practices set up before 1914 were given a severe shock by the World War. The traditional protectionists read out of the War a justification for returning to the former principle of self-sufficiency to foster national welfare. In response to this feeling, tariff restrictions were passed under the head of emergency. This emergency was declared permanent in 1922 as expressed in the tariff act of that
year. By these acts fears were somewhat allayed, but through it all, the policies being formulated had only reached the border of the inevitable. The inevitable came with the passage of the Hawley-Smoot Tariff Act of 1930. The record shows unmistakably that this act marked the turning point in world trade history. The United States had again resorted to the protective system as a basis of safety to American agriculture and industry. Little did the Administration see that the need was not a protected market but an adequate market.

From the accounts given in this writing, other nations gave the United States a helping hand to achieve her declared goal of self-sufficiency. England and Canada especially helped to give the United States trade a push back to its borders. But in doing so, they had to compromise with the free trade principle. This change came as a result of the tariff act passed in 1930. The trade pacts England made with her Empire units reveals the extent a nation will go in the form of retaliation to protect and serve its own interests.

The action of Britain was a severe blow to American isolation. From across the sea the League of Nations raised a feeble protest against the United States and read in the record that the restrictive measures had deepened the world depression.

While the United States was busy at home arranging to
live in isolation, other countries abroad, particularly Germany, were gaining new markets in the Latin American countries. Germany utilized barter and other bilateral methods to gain Latin American markets formerly dominated by England and the United States. Soon nation after nation set up a series of bilateral agreements to foster trade.

For the purpose of expanding foreign markets to re-store American prosperity and to overcome the depression, the trade agreements program was set forth. The progress made toward restoring international trade under the program before the present war changed the course and character of foreign trade gives evidence of its effectiveness. War conditions so distorted both the character and the volume of our foreign trade that figures subsequent to those for 1933 would not be appropriate.

The records produced in this study give evidence to the following conclusions:

1. England was justified in maintaining trade controls while expanding her territorial units in order to successfully develop her resources and thus be able to rely less upon products from other nations which were growing more imperialistic in nature.

2. The United States has been a consistent follower of the protective principles due to the fact that those who formulated her trade policies believed that a protective system aided in industrial growth from within. It
promised the best possible method of preserving home markets for home producers.

3. A more scientific method of rate adjustments has replaced the old type much influenced by party beliefs and special interest groups.

4. Early attempts at tariff bargaining were largely unsuccessful due to an attempt to apply economic theories in rate making unsuited to economic conditions then existing.

5. The trade agreements program has modified rather than determined the course of American foreign trade. In so far as the trade agreements with the different countries have imparted stability to commercial relations and opened channels for a freer flow of goods, they have achieved their purpose.

6. Discriminatory barriers have not been wholly eliminated by the program but they have been materially lowered.

7. The fact that the program has moved from early negotiations with countries whose products are chiefly non-competitive in nature to include other countries whose products are competitive with similar products of the United States, is concrete evidence of improved trade relations.

8. Changes in tariff duties will encourage and protect domestic industry where it likely would not be established otherwise; but duties do not alter the resources which allow another country to produce similar commodities at lower costs. Removal of import duties does not, of
itself, imply an expansion of trade will result. The United States has not built a large import market on goods which she can economically produce on an export basis.

9. Since intervention has been abandoned in Latin America and the imperialistic attitude modified, a better understanding has developed between the United States and her neighbors south of the Rio Grande.

10. Over a number of years United States exports to trade agreements countries as a whole have tended to expand more rapidly than imports and since the legal limit on rate reduction has precluded any basic changes heretofore, the present additional 50 per cent allowance promises greater support on the import side.

All statistics relative to the increase in trade are modified by the fact that concessions in agreements are ordinarily limited very closely to articles of which the contracting parties are the principal sources of supply.

The elimination of all trade statistics on imports and exports, except the total value of imports and exports, began early in the war, therefore no official figures are available at present.

11. In the absence of stability and a constant expansion of trade in the present war, great strain is placed upon Latin American nations to balance their trade from the sale of relatively few export products. Some countries
have lessened their dependence upon the United States for
many consumptive goods by an increase in industrialization.

Many concessions made are relatively insignificant
since the war began due to the imposition of quotas. Other
modifications of the trade program have resulted from the
use of other trade devices such as purchasing agreements
and export controls.

In some of the recent agreements, the United States
has waived unconditional most-favored-nation treatment in
favor of trade between contiguous countries in Latin
America.

12. The present attempt to seek the best arrange-
ment attainable by quiet and diplomatic representation
holds out the brightest prospect for American trade in
the long run.
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