

THE RECIPROCAL TARIFF  
COMPROMISING

JOHN BASSETT MOORE once sarcastically wrote that "reciprocity might not inaptly be described as a policy recommended by free-traders as an escape from protection, and by protectionists as an escape from free trade, but distrusted by both and supported by neither."<sup>1</sup> Time has proved him to be wrong in his last statement, but reciprocal tariffs are only a compromise subject to all the drawbacks of compromising. They merely mitigate protection by reducing some duties.<sup>2</sup> Urged by Mr. Hull and President Roosevelt as the only possible way of taking a long step toward freer trade, they were wrung from Congress, and have been renewed since, only with great difficulty. It took all Mr. Roosevelt's power to induce his party's majority to give him permission to make reciprocal agreements, by lowering rates up to 50 per cent below the Hawley-Smoot tariff in return for concessions given by other countries, and, in 1945, to allow the Government to reduce the then existing tariffs by 50 per cent more.

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<sup>1</sup>*The Principles of American Diplomacy* (New York: Harper & Bros., 1918), p. 160.

<sup>2</sup>"But they [people] maintain that this liberty must be reciprocal. If we remove the barriers we have erected against the admission of Spanish goods, for example, Spain must remove the barriers she has erected against the admission of ours. They are, therefore, the advocates of *commercial treaties*, on the basis of exact reciprocity, concession for concession; let us make the *sacrifice* of buying, they say, to obtain the advantage of selling. People who reason this way, I am sorry to say, are, whether they know it or not, protectionists in principle; only, they are a little more inconsistent than pure protectionists. . . ."—Bastiat (*cit. supra.*).

The first Hull reciprocal tariff law was enacted by Congress in June, 1934 and was limited to a three-year period. It not only restricted the President to 50 per cent reductions, but withheld from him permission to put on or to take from the free list any tariff item whatsoever. It stipulated that the benefits of any reduction received by negotiation with other countries must be extended to all countries not discriminating against the United States—this in the spirit of the most-favored-nation policy, under which type of agreement any signatory nation must be given the lowest tariff rates extended to any country. The Reciprocity Act was renewed by Congress in 1937, 1940, 1943 and 1945. Mr. Hull's main motive in laboring mightily to put through the reciprocal tariff program, aside from his general desire for the reduction of tariffs everywhere, was to contribute to the stabilization of the world, to the safeguarding of peace by the revival of world trade, and the removal and prevention of discrimination against American commerce. Undoubtedly, the need of restoring our own shattered economy and re-winning some of our lost international trade, a desire to arouse the nation's interest in the tariff problem, and finally the unemployment situation, which the New Deal found itself unable to meet, must all have played a considerable part as well in moving Mr. Hull and President Roosevelt.

It must not, however, be thought that they originated this policy of reciprocity agreements. Far from it. One such agreement, that with Canada, for example, went into effect in 1854, another with Hawaii in 1875, and a third with Cuba in 1902. Ten other treaties were negotiated, not as a result of special legislative authority, but through the use of the general treaty-making power. When the Dingley tariff was passed in 1897 it made possible the signing of eleven reciprocity treaties, but the Senate declined to ratify them. Thus, in this period, such agreements failed completely to

modify the protection system. But some important results were obtained by the negotiation of no less than twenty-one executive trade agreements not calling for action by the Senate, yet put into effect by the Executive in accordance with authorizations conferred upon him by the McKinley tariff of 1890 and the Dingley Act. There were two groups of these agreements, the first being chiefly with the British and Spanish West Indies, Brazil and Central America, while the second made minor reductions in the duties on a few products from Europe.

By this time, however, some of the high priests of the tariff system had become frightened by the size and power of the juggernaut which they had helped to create. Even President Harrison and Secretary Blaine appealed for tariff reciprocity, and in 1901 President McKinley made a remarkable speech in Buffalo the day before he was shot, in which he declared, to the amazement of the tariff beneficiaries, that this country could not continue to dwell in a "fancied security" in which it could "forever sell everything and buy little or nothing." James G. Blaine's change was perhaps the most remarkable of all, but it was he, as well as President Harrison, who was responsible for putting the tariff reciprocity principle into the McKinley Act. In later years the most important effort to obtain a reciprocity treaty was President Taft's endeavor with Canada. He induced Congress in July, 1911, to provide for reciprocity with our northern neighbor, despite opposition from western farmers. Because of widespread antagonism in the Dominion and in England, the Canadian Government was forced to submit the question to the electors in a general election which resulted in the defeat of Sir Wilfrid Laurier, the Liberal Prime Minister, and ended the undertaking of the two governments.

It is generally agreed that the adoption of the treaty program was the wisest move for the Roosevelt Administration

from the political point of view. To have attempted wholesale revision of the tariff on taking office would have jeopardized the entire New Deal policies, for it is more than ever difficult to win approval of tariff reductions in a period of major depression,<sup>3</sup> with great unemployment in the country. Moreover, to make extensive tariff changes means, at any time, serious economic dislocation, which becomes the more disturbing if foreign trade is decreasing. Another argument offered for this halfway cure of the tariff disease is that the reciprocity trade agreements introduce stability into the relations between countries. They put an end to part of the incessant economic warfare which, after the First World War, was distinguished by constant changes in tariffs, embargoes, etc. As a step forward there came a proposal that our government undertake a multilateral convention on trade policies simultaneously with various nations.<sup>4</sup> That would have had the advantage of our taking several bites of the cherry at one time, giving the nations involved the certainty that all the other countries taking part in this multilateral agreement would know what their neighbors were doing, and that they were throwing open their markets to the trade of all signers. This plan was superseded, however, by the Government's proposals for the two international trade conferences touched upon elsewhere, notably that at Geneva.

Today, the fact is that, praiseworthy as the trade agreements are, they have made no definite break with the protection policy. Writing in the *Foreign Policy Reports* for April 15, 1940, David H. Popper admitted the damage which might be done by sudden and radical tariff changes. He

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<sup>3</sup>Cf. Frederic B. Garver and Alvin Harvey Hansen, *Principles of Economics* (New York: Ginn & Co., 1928), p. 699.

<sup>4</sup>Cf. "World Trade and Employment," Committee on International Economic Policy (New York, 1944), pp. 6 ff.

nonetheless declared: "Yet, unless something of the sort is undertaken, the trade program cannot be expected to achieve the more comprehensive economic and political objectives of its supporters." He stated that if the reciprocal program were to be criticized on general grounds, "it must be not because it has gone too far, but because it has not gone far enough. Partly because of the legal limit of 50 per cent in rate reduction, partly because of the extreme caution of Administration officials, no basic change has been made in the nature of the American tariff structure. A large number of peaks have been filed down, but in many instances the remaining margin of protection is more than sufficient." Actually, it is far more than sufficient to check a great deal of international trade, and therefore to play a serious part in the postwar reconditioning of the world.

One of the most notable aspects of the reciprocity program is the machinery for the execution of trade agreements which has been carefully and expertly built up and bears little resemblance to the procedure in the past when tariff reform—always upward—was put through by the "friends of protection" only. The method of the government agents in drafting the reciprocal agreements is thus described by a Republican member of the Tariff Commission, Mr. A. M. Fox, when testifying before the Ways and Means Committee of the House in the 1940 hearings for the re-enactment of the Reciprocal Trade Agreements Act:

Since the trade agreements program was initiated during the depression, each agreement had to be planned with extreme caution. The selection of commodities on which the rates of duty were to be reduced demanded meticulous care. To effect any modification of trade barriers by foreign countries, the United States had to reduce some of the tariffs, but tariffs could not be indiscriminately reduced. The level to which particular rates could be lowered and the effect of each change had to be judiciously

weighed. This could best be done by experts and organizations qualified to examine objectively the economic and competitive factors affecting the trade of each commodity.<sup>5</sup>

Mr. Fox also pointed out that a number of agencies have been set up by the Government to sift all available information as to the trade between the United States and any given country and to review the mass of pertinent information supplied by all interested in any commodities which may be affected by the proposed agreement. That this work has been well done may be judged from the fact that the opposition to the agreements is based, not upon criticisms of any particular agreement, but upon the policy as a whole. Mr. Fox is entirely justified in including in his statement the tribute to the unbiased character of the drafting of the several treaties paid by William L. Monroe, the president of the protectionist American Tariff League, at its annual meeting in 1938:

I will also stress the fact that in carrying out the trade-agreement policy by Mr. Hull, great credit should be given to the fact there has been no suspicion of political influence regarding the reduction in duties on any article placed on the reciprocal trading list. I believe that everyone who has had occasion to contact the staff that makes up the schedules must admit that regardless of whether we approve of the policy or not, the agreements are prepared solely from the viewpoint of endeavoring to increase foreign trade with the least injury to domestic industries.

What has been achieved in this administrative enterprise bears out well the belief of those who are certain that, whenever the Government of this country sets itself seriously and honestly to doing well a complicated, technical task, it can obtain remarkable results.

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<sup>5</sup>Mr. Fox's full statement was also read into the 1945 hearings before the Ways and Means Committee, and will be found in the proceedings, pp. 641-47.

Finally, to show the thoroughness of this undertaking, the State Department set up a Trade Agreements Division and brought about the establishment of an Interdepartmental Trade Agreements Committee representing the Departments of State, Commerce, Agriculture and Treasury and the Tariff Commission. This committee was subdivided into groups dealing with each country involved and each commodity, and special sub-committees handled such problems as quotas, monetary exchange and tariff reclassification. In addition, the State Department set up a Committee for Reciprocity Information, which gives notice of public hearings to all interested parties, and holds special ones for ascertaining public sentiment before the negotiations with a given country are undertaken.

By the beginning of 1940, Mr. Hull had completed twenty-four trade agreements, which included the revised treaty with Canada and two supplementary agreements. On April 15, 1940, when World War II was already in its eighth month, there were reciprocal treaties with twenty nations and some colonial areas, and the total number of concessions and definite assurances from foreign countries considerably exceeded three thousand, of which sixteen hundred represented tariff rates reduced or removed. At the same time 1,112 rates on American imports were reduced, 59 more imports were "bound" against increases of duties, and 151 others "bound" to the free list. The number of countries with which we have reciprocal arrangements was twenty-nine in November, 1945. The vote for the three-year extension of the Trade Agreements Act in the House of Representatives in 1945 was 239 for and 153 against. In the Senate the vote was 54 for and 21 against. It became a law on July 5.

Since some of the most outspoken opponents of the reciprocity treaties have been the farmers with their dread of

Canadian and Argentine competition, it is only proper to point out that Henry Wallace, notably when Secretary of Agriculture, has been the outstanding champion of reciprocity in this field. He insisted, as Secretary, that, while it had been necessary to reduce rates on agricultural products, "such actions as have been taken with respect to duties on agricultural products have been so carefully considered and safeguarded as to preclude significant injury to our domestic agriculture." He continued: "As a matter of fact, we are convinced that those branches of agriculture which have been affected by reductions in our duties in the trade agreements will gain far more from a successful trade agreements program than they could possibly lose," arguing that there were two important advantages gained by the pacts which far offset any injury incurred by the change in rates.<sup>6</sup>

First he pointed out that, with decreased foreign markets, there was a marked tendency for certain nonexporting industries to increase their domestic production. He illustrated it in this way: "It is apparent that, if our cotton, corn and wheat belts can keep on producing for export, they will be less likely to shift to the production, let us say, of dairy products and cattle." His second point was that the nonexport branches of our agriculture gain in particular if there is an increase in the purchasing power of our urban centers because of larger exports of manufactured goods. Thus, he said, "there is no question but that our dairy industry, for example, is much better off when the payrolls of the automobile and other similar export industries are high." Of course, there had been an increase in agricultural imports, he added. He then stressed the fact that many of the agricul-

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<sup>6</sup>Statement of Secretary Wallace to the Senate Finance Committee on February 11, 1937, in support of the extension of the Reciprocal Trade Agreements Act. Between 1934 and May, 1935 the agricultural tariff schedules were reduced in 245 cases, in 156 for the 50 per cent decrease permitted, without any large-scale protests from the farmers.



tural products imported from abroad which showed increases were noncompetitive products, such as rubber, coffee, cocoa, tea and silk. This simply showed that the people had more money to buy such products. As for the competitive field, the largest increases occurred in the drought-affected products. This was a temporary condition, but Mr. Wallace warned that it was extremely important at all times to maintain as large a foreign outlet for our export agricultural products as possible, consistent with proper soil conservation, and he felt that the trade agreements program was making definite progress along the line of permitting larger imports of goods and services abroad and obtaining reductions in very high foreign tariff barriers.

As for the argument used by the farmers that it was extremely inconsistent to raise farm prices and then reduce the tariffs on agricultural products, the Wallace argument also applies directly to it. Increased buying power in our cities which especially benefits our export industries with its indirect aid to agriculture, is in line with the policy of keeping up agricultural prices—if that is economically warranted. The advocates of trade agreements have never stated that they would be a cure for all farm ills. But they have held them to be a most important supplementary program. Hence they have insisted upon the trade agreements policy as being especially in the interest of the farmer. It should be added that the farmers who would suffer most from considerable importations of agricultural products are the inefficient ones and those living upon marginal lands which should be abandoned.

What have been the results of the agreements so far made? That is difficult to answer today because of the enormous complications due to the war, Lend-Lease, and other factors. But there is no doubt that prior to the war our commerce with other countries with which we had entered into recip-

reciprocal trade agreements had risen much faster than with the nations which had not entered into such relations with us. Exports to the principal countries with which we had treaties have almost invariably shown a greater rate of increase than have our exports as a whole. In 1933 the United States supplied only 12.2 per cent of the total imports of sixteen countries with which agreements were subsequently negotiated. By January 1, 1938, the American import percentage had increased in those countries to 19.7 per cent. By contrast, this country's share of the total imports into twenty of the most important countries which had no reciprocal agreements with us increased during the same period only 2.4 per cent, from 12.1 per cent to 14.5 per cent. In the two post-agreement years of 1937-1938, the United States imports into the then existing sixteen agreement countries increased 43 per cent, while it rose only 11 per cent for twenty nonagreement States.

How radical have been the reductions in tariff rates under the Hull agreements? Actually, the ratio of duty to the value of the dutiable imports was reduced from 40.10 per cent in 1929, to 39.30 per cent in 1938, a strikingly small change. Between 1932 and 1938 our imports of finished manufactures increased only by \$77,000,000, or 22.5 per cent, while exports of our finished manufactures increased by \$900,000,000, or 142 per cent. There is nothing in these last figures to justify any American manufacturer's asserting that the reciprocal tariffs have injured our manufacturing and turned over important business to low-wage-earning foreigners. As a matter of fact, during the period under consideration, American manufacturing, which had dropped from \$68,000,000,000 worth of products in 1929, to \$40,000,000,000 in 1931, had, by 1937, risen to \$60,000,000,000. Of course, there were numerous other factors concerned besides the reciprocal tariffs, such as the slow recovery to more normal levels of produc-

tion in industry, followed by the beginning of the mad armament race which immediately preceded the coming of the Second World War in 1939. But the trade agreements unquestionably played an important part in our achieving a higher level of international trade before the war.