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FOREIGN TRADE AND THE COTTON SOUTH

It is a real privilege to come to Houston and to join with your Chamber of Commerce in this year's observance of National Foreign Trade Week. Your city, your state, and your nation have a vital interest in foreign trade; and it is highly fitting that here, as in other parts of the nation, we should each year strive to focus the attention of our people upon the important role which a healthy foreign commerce plays in the economic life of our country.

In discussing this subject, I shall begin right here with your native city. Although I had always realized that Houston is an important seaport, I must confess to a little surprise, on looking into the facts, to find her importance in this regard even greater than I had supposed. I find that Houston ranks fifth among the ports of the United States in tonnage handled. In variety of industry, attracted to the city by the facilities for export which the port has to offer, Houston's waterfront ranks high among the shipping centers of the country. A substantial part of its tonnage moves in intercoastal and local trade; but as the first ranking cotton export center of the country and an important exporter of wheat, rice and a variety of agricultural and industrial products, the backbone of Houston's economic life is nevertheless foreign trade.

You in Houston have felt the brunt of the disastrous collapse in foreign trade, and no doubt have watched anxiously developments in the commercial policies of this government designed to assist and revive that trade. Before the depression, although underlying forces were already at work undermining the structure of our foreign trade, the United States exported well over half of its cotton crop, two fifths of its tobacco crop, nearly half of its lard, a third of its rice, three fifths of its gum resin, half of its turpentine, a fifth of its wheat — as well as large amounts of other agricultural and industrial products. In 1929, the value of all American exports was 5.1 billion dollars. The prosperity of the whole country, and particularly of the Southern states, was intimately bound up with access to foreign markets and with the maintenance of purchasing power in those markets. In no place was this more true than in Texas.

It is unnecessary for me to trace the course of events which followed. You are all familiar with the story of the general economic collapse after 1929, of the wiping out of a vast part of our foreign trade and of world trade, and of the sinister part which rising trade barriers in this country and abroad played in this whole situation. In the face of economic crisis, nation after nation sought to protect its economy against what it regarded as competitive imports; and, faced with the loss of exports, each sought to protect itself against excesses of imports over exports and the consequent danger to the stability of its currency occasioned by excessive outflow of gold.
A series of intensive drives toward national "autarchy", or economic self-sufficiency, was launched — still further intensified by military considerations. By means of "quota" restrictions the importation of goods into many countries was cut to absolute, fixed amounts; and by assigning arbitrary quotas to different nations this new economic weapon came to be used to favor some and to discriminate against others. Other weapons were forged for the same ends — exchange control restrictions, government trade monopolies, and import licensing requirements. Preferences and discriminations became the order of the day, and soon the trade highways of the world became blocked with impassable barriers. International trade fell to a third of its 1929 value.

The United States suffered a decline in its foreign trade even greater than the average for the world as a whole. From 1929 to 1933 the value of American exports declined by 68 percent, or from $5,157,000,000 to only $1,547,000,000. During that period the value of our exports of raw cotton — upon which the economic structure of the entire South is so dependent — fell by almost half. Texas suffered cruelly. In 1929 Texas was exporting goods to the value of some $558,000,000, with cotton accounting for $427,000,000 and petroleum $126,000,000 of this total. In 1932 this total fell to $300,000,000 — less than half.

Shipments of meat products from the United States decreased in value by 67 percent, and those of wheat and flour by 90 percent. The economic prostration of the farmer had a direct and devastating effect upon the livelihood of merchants, bankers, those in the service trades, professional men, and others in our small agricultural towns. Exports of manufactured goods (other than foodstuffs) declined by $2,400,000,000 or more than 70 percent, and that, in turn, greatly reduced the purchasing power in our cities for products of the farm. Suffering throughout the country became intense.

In this dilemma there were many views as to what should be done about foreign trade. Among them were the isolationists. Such persons sought to belittle the importance of foreign trade and advocated policies looking to reduction of our dependence upon foreign markets as rapidly as possible and concentration of our efforts upon supplying our needs exclusively from domestic sources. The thought was that by eliminating imports a greater market would be available for domestic producers. Their efforts were popularized by plausible sounding slogans such as "Buy American" and "The American Market for the American Farmer".

I hardly need tell you that the adherents to this school of thought were not very seriously concerned with the problems of the cotton South; nor were the policies they advocated in fact likely to bring anything but harm to other parts of the country. Restricting imports is no solution to the surplus problem but an aggravation of it. History has demonstrated conclusively that an embargo tariff
tariff policy is disastrous to American agriculture as a whole and to the cotton industry in particular. For every acre which under a general embargo policy might be put to work growing things that formerly were imported, or substitutes for them, market outlets might well be lost for several acres devoted to the production of other crops.

It is obvious that the supporters of "Buy American" campaigns and the like are directly curtailing our exports though often they do not realize that they are doing so. They fail to realize that, broadly speaking and in the long run, every dollar's worth of imported articles brought into this country is balanced sooner or later by a dollar's worth of our exports of goods or services. I need not elaborate the point to this audience because no one in this part of the country who is familiar with the cotton situation could fail to recognize the dangers of economic self-sufficiency.

Such isolationism, fortunately, did not prevail in the determination of the policy to be followed in dealing with the foreign trade crisis. There were, however, some at that time (and there are still some) who wished to deal with it by means of aggressive and discriminatory trade policies which would have been no solution at all. The notion was advanced that by resort to a policy of entering into exclusive tariff bargains with foreign countries, we could somehow force our way back into international markets. Proponents of this policy contended that concessions granted by the United States should be made exclusively to the country with which we bargain; that the lower tariff rates should not be applied to imports from other countries as well. They held that in generalizing our concessions to other countries, we should weaken our bargaining power and "give something for nothing".

Advocates of exclusive bargaining methods do not seem to realize that the granting to one country of special privileges in the form of lower duties, while refusing similar privileges to other countries, is regarded by countries other than the beneficiary as discriminatory and hence cause for retaliation. Every exclusive concession that we granted would be deemed a discrimination against every other nation and an invitation to retaliation and counter-discrimination, leading to endless controversy.

The Trade Agreements Act, adopted in 1934 and renewed in 1937, was designed, as you know, to avoid the dangers and disadvantages just noted. In order to avoid discriminatory practices and enable the United States to obtain non-discriminatory treatment by other countries, the Act specifically requires that duty reductions granted by this country in a trade agreement should be made applicable to the imports from all countries that were not found to discriminate against our exports.

Results have fully justified the decision of Congress. During the five years since the program was inaugurated,
21 agreements have been concluded, including a second agreement with Canada. Our foreign trade with the countries with which agreements have been concluded constitutes approximately three fifths of our total foreign trade. Duties and other trade restrictions have been reduced or bound against increase on many hundreds of tariff items. By means of the most-favored-nation policy the vast bulk of our export trade has been safeguarded against trade discrimination.

Obviously, when trade barriers are lowered commerce must flow more freely and in greater quantity than otherwise would have been the case. It is not possible to measure, with precision, the effects of trade agreements upon trade. There are too many factors influencing our foreign trade to make it possible to isolate the effect of any one of them. It is of interest, however, that in the two-year period 1937-38 our exports to trade-agreement countries were 61 percent greater than in the two pre-agreement years 1934-35 whereas our exports to non-agreement countries increased by only 38 percent during this period. Moreover, imports of American products into trade-agreement countries, generally speaking, have increased at a more rapid rate than imports of the same products from other countries.

The Secretary of State and others in the Department have frequently had occasion to point out that regimented foreign trade based upon the principle of bilateral balancing, implemented by barter or compensation arrangements, is fundamentally unsound and that such practices, when adopted as a general policy, not only constitute a highly disruptive influence in world commerce but are injurious to the very countries which utilize them. It has been pointed out that while there may be circumstances under which special types of barter arrangements may be considered necessary to supplement other methods of trade promotion, the substitution of a general policy of barter or compensation trade for normal, non-discriminatory trade methods inevitably leads to a curtailment of total trade and a reduction of living standards in the countries pursuing such policies.

In recent months, however, a considerable body of opinion, while seemingly convinced of the fundamental soundness of the trade-agreements program, appears to have entertained doubts as to whether it is sufficiently aggressive to hold its own in world markets against the trade policies employed by countries such as Germany. Considerable attention has been attracted to the success of that country in expanding its trade with particular countries. What does not seem to be realized is that under practices such as are employed by Germany, expansion in trade with one country generally can be expected to lead to a corresponding reduction in trade with others. Thus Germany, by concentrating its purchases of certain raw products, has been able to insist upon the supplying nation accepting increased quantities of German manufactured articles; but when it concentrates its purchases of raw products in one country Germany reduces correspondingly its bargaining power in other countries. At
the same time, the methods of economic, and in some cases political, pressure arouse increasing resistance and opposition in countries to which it is applied.

In this connection particular interest attaches to a recent study by the United States Department of Commerce which clearly suggests that the policies embodied in the trade-agreements program have been more effective in increasing our trade than have the policies of heavily subsidized barter and compensation trade employed by Germany. This study compares the development of United States and German trade with sixteen countries with which the United States had concluded trade agreements prior to 1938. The comparison is based upon average annual imports of American and German goods into the sixteen countries in 1936-38 as compared with 1934-35. During this period, the value of imports of American goods into the 16 countries increased by approximately 46 percent while imports into those same countries from Germany increased only by an average of less than 2 percent. These two figures are even more significant when compared with the average increase in total imports into the 16 countries, which amounted to about 17 percent. In other words, barter and discrimination failed to increase German trade even by an amount equal to the average rate of increase in the total trade of these countries, much less by an amount equal to the increase in American trade under the trade-agreements program.

Because of the great interest which it holds for the South, and particularly for Texas, I want to turn now to the subject of cotton.

As a result of the sharp decline in cotton exports in the past season and the various plans which have been suggested for remediating the situation, attention has been sharply focused upon the relationship between the commercial policy pursued by the government and the welfare of the cotton industry.

In this connection some strange ideas have found public expression in recent months. Because — as is manifestly the case — neither the trade-agreements program nor any other program has solved the cotton problem, one sometimes hears it said that the trade-agreements program has little effect on cotton; or even hears the decline in our cotton exports during the current year cited as evidence of the futility of trade agreements, with the sly inference that trade agreements might have been partly responsible. Such utter misunderstanding of the facts leads me to emphasize once more what has already been pointed out by others but evidently needs repeating, namely that the trade-agreements program does have a fundamentally important and highly constructive relationship to the welfare of our great cotton-growing industry. That relationship derives from several sources.

Because of the fact that most foreign countries do not place tariffs on raw cotton it is easy to jump to the conclusion
conclusion that the benefits to cotton producers which can be derived from the program are not great. This deduction, however, is far from correct.

The vital interest of the cotton industry is obviously in the stimulation of demand for its product. Emergency conditions may make necessary the adoption of other expedients; but restoration of the effective demand for American cotton is basic. The more successful our efforts in that direction are, the less painful will be the readjustments that the industry must face. It is with this aspect of the problem -- the stimulation of demand for cotton, both at home and abroad -- that the trade-agreements program is concerned.

Trade agreements stimulate the demand for cotton in several ways. In the first place, let me call your attention to the fact that the prosperity of our cotton industry is to a considerable extent dependent upon general world prosperity. Analyses have been made which indicate that a 10 point rise or fall in the average world index of industrial production normally tends to cause a rise or fall of about 2 cents a pound in the price of American cotton.

World prosperity, in turn, is closely related to the volume of international trade. When world trade drops to low levels, as it did after 1929, the economy of every nation suffers. The trade-agreements program represents a major effort on the part of this country to rehabilitate our own commerce and at the same time lead the way toward a general restoration of world trade upon secure and lasting foundations.

The interest of our cotton industry in the recovery of international trade as a whole is clear. The possibilities for increasing world cotton consumption and demand for American cotton are limited only by the possibilities for improving purchasing power. If world cotton textile consumption increased even to the average per capita consumption of the present population of Western Europe, it would call for some 40 million bales of cotton a year for piece goods alone, instead of the present consumption of about 26 million bales for all uses.

In addition to the general stimulus to the purchasing power of consumers through the improvement of economic conditions, trade agreements promote cotton exports more directly by making available to foreign buyers dollar exchange needed to pay for our product. By reducing our tariff duties in trade agreements, we enable foreign countries to sell us more of their goods. In recent years an important cause of reduced American exports has been that our excessive tariffs have prevented other countries from selling their products in our markets and thus obtaining the means of payment for our cotton and other export commodities.
In the agreements with a number of countries we have obtained guarantees that free entry for cotton would be continued and in several instances the tariff treatment of our cotton has been improved. As I have previously noted, however, cotton is free of duty in most of the important consuming countries. The possibilities for obtaining benefits in the form of duty reductions therefore, are limited.

On the other hand, our exports of cotton are hampered by other forms of trade control in some parts of the world which are even more restrictive. In such countries as Germany and Italy exchange restrictions and other measures associated with economic nationalism have drastically reduced cotton consumption and have greatly stimulated consumption of domestically produced substitute fibers. Every advance that can be made, through the trade-agreements program, toward unblocking the channels of world trade and lessening the use of highly restrictive and abnormal trade control devices is directly in the interest of the American cotton industry.

Because the effect is indirect, many people overlook the influence of trade agreements upon the domestic demand for cotton. Yet this aspect is no less important than the effect upon export demand. The chief factor governing the domestic consumption of cotton is, of course, consumer purchasing power in this country. Consumer purchasing power, in turn, depends to a considerable extent upon a healthy flow of foreign trade. Indirectly, every concession obtained in a trade agreement which increases export possibilities, whether of farm products or manufactured articles, benefits the producer and handler of cotton.

Finally, I wish to emphasize the benefits from the trade-agreements program which accrue to everyone in the United States as a consumer. It is hardly necessary to elaborate upon this point. Everyone in this part of the country is well aware of the burden upon Southern producers which results from excessive tariffs. Because of the fact that the South must sell a large part of its output in world markets it derives little benefit from tariffs but pays heavily, in the form of increased costs, for tariffs upon many things that its people must buy. It sells in a free market and buys in a highly protected market. Our extremely high tariff policy in the past, therefore, has in its effects been fundamentally discriminatory against the bulk of the farmers of the country, and especially against cotton producers, as well as against many of our most important manufacturing industries which likewise sell in foreign markets. The trade-agreements program tends to correct this inequitable situation by lowering living and other costs and increasing the real income of our people.

I have stressed the immediate relationship of the trade-agreements program to the interests of the cotton industry because it is extremely important, in the present juncture of our commercial and political relations with
the outside world, that the significance of that program be fully understood by the cotton industry and trade, as well as by every other person who has the real interests of this country at heart.

To understand its full significance, however, the program must be viewed in the larger setting of the critical situation which prevails in the world today. On all sides we are witnessing the diversion of human energy, on a gigantic scale, to the piling up of huge armaments. Respect for the principles of law and order, for the sanctity of treaties and agreements, has given way, in some parts of the world, to the doctrine of force. That mutual confidence between nations which is so essential to the orderly conduct of the world’s economic affairs has been displaced by distrust, uncertainty, and general insecurity which have seriously undermined economic life everywhere. While this situation of wholesale diversion of human energy and resources to building of armaments continues unabated, and while insecurity and fear continue to prevail, there can be nothing but increasing economic and social deterioration throughout the world.

No country can escape this dilemma through isolationist measures. Efforts on the part of our own country to escape it would be wholly illusory and foredoomed to futility. For the truth is, whether we like it or not, that our whole economic life is so closely bound up with that of the rest of the world that there is for us no possible escape from the world situation which would not be infinitely more costly and burdensome to our people, in terms of lowered standards of living and of the necessary regimentation of our entire national economy, than would our continued adherence to a system of world economy. There is hardly a phase of our business, economic, social, cultural, and political life which is not affected by events beyond our frontiers. The high standard of living which we have been able to bring about for a good part of our country and the efforts we are making to bring about a nation-wide opportunity for decent living, are dependent in great measure upon the manner in which the present crisis in world affairs is resolved.

In this state of affairs it is obviously the part of wisdom that we should exert every effort toward tipping the scales on the side of cooperation and the resumption of normal economic and political relationships throughout the world. It is this situation which gives to our commercial policy today a far greater than ordinary significance. For the trade-agreements program, which is the mainspring of that policy, is perhaps the sole important constructive undertaking advanced by any government to restore order to the dislocated commercial markets of a disordered world. It is almost the only sustained effort being made anywhere in the world today to reconstruct international economic relations on a sound and permanent basis.
In a recent address the Secretary of State pointed out a number of things which are highly pertinent in this connection and which I want especially to re-emphasize at this time. I cannot more appropriately close my remarks than by quoting them to you:

"There is", he said, "ample room on this earth for the two billion human beings who inhabit it. There are ample known resources of materials and skill to enable all nations to enjoy a high level of economic prosperity and to face a future of continued plenty. There are ample proven resources of mind and soul to enable the whole of mankind to enjoy the blessings of spiritual advancement. But there has never been, and there is not today, room on this earth for a political organization of mankind under which a single nation or a group of nations will enslave and dominate all the others.

"No single nation holds a monopoly of material resources needed by all to maintain the modern level of civilized existence. While some nations are more generously endowed than others, none is or can be self-sufficing within its frontiers, except at the price of a disastrous decline in the level of satisfaction of its people's wants. In the present stage of civilization and technical progress, the material and spiritual resources of the entire world are available to all nations through mutually beneficial trade and through all those innumerable peaceful and friendly international relationships in every phase of human activity, whose capacity to enrich the lives of individuals and of nations has already been convincingly demonstrated. No nation can prosper without adequate access to the resources of the entire world, rather than only to those contained within its own frontiers. And such access is possible only on the basis of peaceful international cooperation."