The Institutional Foundations of Hegemony: Explaining the Reciprocal Trade Agreements Act of 1934

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The institutional foundations of hegemony: explaining the Reciprocal Trade Agreements Act of 1934

Stephan Haggard

In 1930, Congress approved the highly restrictive Smoot–Hawley tariff, the textbook case of pressure group politics run amok. Four years later, Congress passed the Reciprocal Trade Agreements Act (RTAA), surrendering much of its tariff-making authority to a policy process in which internationalists had increasing influence. While the United States had used reciprocity to expand exports before, the stick of discriminatory treatment took precedence over the carrot of liberalizing concessions. With the transfer of tariff-making authority to the executive, the United States could make credible commitments and thus exploit its market power to liberalize international trade. Despite later modifications, the RTAA set the fundamental institutional framework for trade politics.

This study examines this watershed in U.S. trade policy. In doing so, it makes two sets of arguments that are broadly in line with a "statist" or "institutionalist" approach. The first challenges "weak state" and societal explanations of policy change by showing how executive officials molded the agenda and policy process to their own ideological, bureaucratic, and above all international interests. The second suggests how institutional setting affects the incentives of groups to organize, the balance of power among them, and even the discourse in which groups must frame their efforts to exercise influence.

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1. The problem: the RTAA as institutional change

The concrete achievements of the RTAA are the subject of some controversy; some people doubt that it constituted a "watershed" at all. A number of devices limited both the product and geographical range of liberalization. Francis B. Sayre, an architect of the RTAA, admitted that the "whole program was based upon finding places in the tariff wall where reductions could be made without substantial injury to American producers," including through product reclassification.[1] The promise of liberalizing concessions to trading partners conflicted directly with restrictive trade provisions written into other New Deal legislation. Apparent levels of protection on dutiable goods dropped from 53.6 percent in 1933 to 25.5 percent in 1946, but this was only marginally better than pre-Smoot–Hawley levels.[2]

Canada and Britain signed significant agreements, but most of the reciprocal agreements were with small countries. They were restricted in scope by the "principal supplier" provision that limited the range of goods over which the executive could negotiate. The provision that concessions would not be extended to countries that discriminated against the United States and sector-specific restrictions, such as those against Japanese textiles, diluted unconditional most-favored-nation status. To defend the achievements of the RTAA, even the Tariff Commission could produce only weak evidence that trade with countries signing reciprocal agreements expanded more than trade with non-signatories.[3]

While early studies of the trade agreements program touted it as an exercise in altruistic international leadership,[4] revisionist interpretations have been more restrained. Lloyd Gardner and Joan Hoff Wilson both interpret it as a continuation of previous Open Door efforts to secure markets for American exports.[5] John Conybeare argues that the trade agreements reflected

1. Francis Bowes Sayre, *Glad Adventure* (New York: MacMillan, 1957), p. 170.

2. This result can be partly attributed to price increases over the 1930s and early 1940s. Apparent protection is the ratio of total duties collected to total value of dutiable imports. By 1945, 60% of dutiable imports were entered under specific rates; ad valorem equivalents of specific duties thus varied inversely with prices. Since concessions were greater on raw materials than on manufactures, effective protection on some manufactures probably increased over the 1930s.

3. United States Tariff Commission, *Operation of the Trade Agreements Program, July 1934 to April 1948* (Washington, D.C.: GPO, 1948), Part 1, p. 84.

4. See Henry J. Tasca, *The Reciprocal Trade Policy of the United States* (Philadelphia: University of Pennsylvania Press, 1938), chaps. 4–8; Francis Bowes Sayre, *The Way Forward: The American Trade Agreements Program* (New York: Macmillan, 1939).

5. Lloyd Gardner, *Economic Aspects of New Deal Diplomacy* (Boston: Beacon, 1964), pp. 40–42, 45; Joan Hoff Wilson, *American Business and Foreign Policy, 1920–1933* (Lexington: University Press of Kentucky, 1971), pp. 98–100.

"hegemonic predation": the use of monopsonistic power by the United States to impose optimal trade restrictions.[6]

To assess the RTAA solely in terms of its immediate success in lowering trade barriers is to miss more lasting *institutional* changes in U.S. trade politics.[7] These were of two sorts: First, by delegating its authority, the Congress allowed new organizational interests and centers of expertise to develop within the executive. Giving the State Department a central role in trade policy introduced broader international economic and political considerations onto the policy agenda while providing a strong institutional base for free-traders. Executive influence over trade policy was obviously strengthened.

Second, the structure of business-government relations in the trade issue-area also changed. Prior to the RTAA, direct constituent pressures, coupled with institutional norms of reciprocity, increased the incentives for members of Congress to engage in protectionist logrolling. As Lowi points out in a classic article, the RTAA began the redefinition of the trade issue from a distributive to a regulatory one.[8] But what was key for future trade policy outcomes was the new *institutional setting* in which conflicts among interests were waged. Since gaining concessions in trade negotiations also requires making some, the trade-off between export- and import-competing interests was more clearly exposed. Moving decision-making towards the executive resulted in a relative decline in the influence of protectionist forces. The new structure also created new channels through which export-oriented industries could influence policy, and therefore new incentives for them to organize.

Protectionist forces were not, of course, wholly defeated. New channels of business representation could be bent to protectionist ends, and Congress retained powers of oversight. But industries seeking protection confronted a new institutional "filter" of liberal trade policy experts, a more technocratic decision-making process, and contending export interests. Previous chan-

6. John Conybeare, "Trade Wars: A Comparative Study of Anglo-Hanse, Franco-Italian and Hawley-Smoot Conflicts," *World Politics* 38 (October 1985).

7. These are hinted in Theodore Lowi's classic piece, "American Business, Public Policy, Case Studies, and Political Theory," *World Politics* 16 (July 1964), though, as will become clear, Lowi's interpretation of the change in trade policy from a "distributive" to a "regulatory" issue is only partly correct. Robert Pastor takes an explicitly institutional approach to trade policy in *Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980); see pp. 84–93 for his interpretation of the RTAA. See also the excellent study by Steven Robert Brenner, "Economic Interests and the Trade Agreements Program, 1937–1940: A Study of Institutions and Political Influence," unpublished Ph.D. dissertation, Stanford University, 1977, which influences my interpretation; I. M. Destler, *American Trade Politics: System Under Stress* (Washington, D.C.: Institute for International Economics, 1986), chap. 2.

8. Lowi, "American Business, Public Policy," pp. 699–701; E. E. Schattschneider, *Politics, Pressure and the Tariff* (New York: Prentice-Hall, 1955).

nels of influence and modes of argument were devalued; the nature of issue-relevant power had changed.

2. Contra "weak state" and societal explanations

Told in brief, this story seems to contradict a dominant model of U.S. foreign economic policymaking, according to which the United States is externally strong, but internally "weak."[9] This characterization is not limited to academic studies. From proponents of industrial policy to those advocating stronger leadership in international economic affairs, the incoherence and inconsistency of U.S. foreign economic policy has been traced to unique features of the American system of governance.

Some "weak state" arguments border on the tautologous. When certain outcomes, such as the ability to change private behavior or the social structure, are used to define weakness and strength, it is difficult to use "strength" as an explanatory variable.[10] Also, a number of embarrassing definitional issues continue to plague the strong–weak state distinction, including the failure to differentiate among "the state"—that is, an enduring set of institutions, roles, and procedures—particular parts or branches of the state, a particular government, and individual office-holders.

The weak state argument has emerged primarily in efforts to place American foreign economic policy in a comparative perspective.[11] Viewed comparatively, proponents argue, institutional features of the American state differ from other advanced industrial democracies and affect the nature of public policy outcomes. Each of these institutional features may be viewed as an analytic dimension of state strength, on which the U.S. score is low. First, the policy process is particularly *fragmented,* with Congress and the executive sharing overlapping powers and jurisdictions. Second, all branches, but particularly Congress, are *highly accessible to interest*

9. For examples of "weak state" arguments, see Peter Katzenstein, "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy," and Stephen Krasner, "United States Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," in Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); Raymond Vernon, *Two Hungry Giants: The United States and Japan in the Quest for Oil and Ores* (Cambridge: Harvard University Press, 1983), chap. 4; John Zysman and Laura Tyson, "American Industry in International Competition," in Zysman and Tyson, eds., *American Industry in International Competition* (Ithaca, N.Y.: Cornell University Press, 1983).

10. This problem is visible in Stephen Krasner, *Defending the National Interest* (Princeton, N.J.: Princeton University Press, 1978), pp. 56–57.

11. For some of the problems with this literature, see John Ikenberry, "The State and Oil Shocks," *International Organization* 40 (Winter 1986); Helen Milner, "Resisting the Protectionist Temptation: Industry and the Making of Trade Policy in France and the U.S. in the 1970s," paper delivered to the annual meeting of the American Political Science Association, August 1986; and David Lake, "The State and American Trade Policy in the Pre-Hegemonic Era," in this volume. My arguments are very similar to Lake's, which are developed for an earlier period.

groups, who also gain by having multiple channels through which they can seek to exercise influence. In contrast to countries in which the channels of interest group contact with the state are limited or controlled, the policy-making process in the U.S. is poorly insulated from, or even captured by, societal interests. Third, the consistency of policy is further undermined by the *lack of expertise and cohesion within the bureaucracy.* Turnover at the top of the bureaucracy is rapid, with no high-level bureaucratic cadre to guarantee continuity. While intra-bureaucratic politics is hardly peculiar to the United States, the potential for conflict is increased by the overlapping authority exercised by Congress and the president. Finally, the state is weak in that it *lacks the policy instruments other states possess.* A narrower range of policy instruments naturally limits the government's *ability* to act, but it may also influence the range of issues on which the government deems it *appropriate* to act.

An analysis of the politics of the RTAA suggests that these claims can be misleading. Even for broad comparative purposes, the weak state argument is overly static and ahistorical. It wrongly suggests a constancy in "state strength"—indeed, in the nature of American politics—over time. Rather, the "strength" of the state on any of these four dimensions varies over time and by issue-area. The RTAA resulted in a decrease in the fragmentation of the policy process, a decline in the access enjoyed by at least some interest groups and an increase in the cohesion of the trade-policy bureaucracy. While the bulk of the literature on U.S. trade policy has been devoted to explaining discrete policy outcomes—the level and incidence of protection—much less has been given to examining changes in the institutional context of trade policy.

Second, the weak state argument has explanatory limitations that stem from its affinity with societal models of policy whether pluralist, Marxist, or rational choice in nature. If the state is a relatively passive register of demands, the policy changes are best explained by the interests, organization and power of societal coalitions, working through their representatives in government. Testing such coalitional models is difficult, however. Since the relevant coalition is hard to identify, particularly during crises when interests are somewhat fluid, and the number of possible winning coalitions is often large, the temptation to post hoc analysis is particularly high. Coalitional arguments suffer from a further theoretical weakness, however: they are ill-suited to explain *institutional* change. Theorists of public goods have offered a reason: As Douglass North points out, "institutional innovation will come from rulers rather than constituents since the latter would always face the free rider problem."[12] While interest groups will try to ensure that

12. Douglass North, *Structure and Change in Economic History* (New York: Norton, 1981), p. 32. See also Joanne Gowa, "Public Goods and Political Institutions: Trade and Monetary Policy Processes in the United States," in this volume.

the new structure is vulnerable to pressure, explaining the institutional innovations themselves demands attention to the initiatives, interests, and motivations of state actors (who are, for the purposes of this analysis, the political and administrative officials of the executive branch).

I develop a number of hypotheses consistent with such an intentional "state-as-actor" approach.[13] Before turning to them in more detail, I attempt to show that, in 1933, neither the Democratic majority in Congress, the attitude of the president, the outlook of his closest advisors, nor sectoral interests pointed unambiguously towards trade policy reform.[14]

The Democratic party in Congress

Of course, a tractable and Democratic Congress, with large numerical majorities in both houses, gave FDR wide legislative leeway in trade policy, just as it did on other issues.[15] But the very expansion of the Democratic coalition, which ensured its electoral success, had also subtly altered the party's stand on the tariff. In his 1928 campaign, Al Smith made significant concessions to protectionist sentiment. Formal voting on Smoot–Hawley broke on partisan lines, but Democratic statements on the tariff in 1930 were "nothing but a weak echo of Republican views."[16] Hull and older Wilsonians struggled to steer the party away from the Smith faction precisely because of their protectionist views. Hull's ties with Southern Democrats were an asset in this fight and again in 1934. But Congressional Democrats were not the source of trade policy initiatives; in fact, FDR feared the political forces that might be unleashed if trade legislation were put forward.[17] In addition, institutional interests pulled against the State Department's interest in the centralization of trade policy. Smoot–Hawley had demonstrated the problems of congressional tariff-making even to the legislators themselves, but the resistance to a broad delegation of authority to the executive cut across party lines.

13. On the logic of this approach, see Ikenberry, "The State and Oil Shocks," and Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1985).

14. On the limits of coalitional analysis, see Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain and the United States," in Evans, Rueschemeyer, and Skocpol, eds., *Bringing the State Back In,* p. 115.

15. James T. Patterson, *Congressional Conservatism and the New Deal* (Lexington: University of Kentucky Press, 1967), chap. 1.

16. Frank Whitson Fetter, "Congressional Tariff Theory," *American Economic Review* 23 (September 1933), p. 416.

17. On 9 June 1933, FDR noted in a press conference that "Congress would never give me complete authority to write tariff schedules"; a reporter responded, "Well, they have given you everything else." *Complete Presidential Press Conferences of Franklin D. Roosevelt* (New York: Da Capo, 1972), vol. 1, p. 368; also press conference 25 May 1933, pp. 324–25.

Roosevelt as internationalist

Roosevelt is held by most historians to be an internationalist.[18] Yet coalitional considerations pulled him *away* from tariff revision during the campaign. Roosevelt sacrificed the issue to other domestic legislation in 1933 and wavered on it up to the last minute in 1934. In his inaugural address, he stated bluntly that

> . . . our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy . . . I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment.[19]

Roosevelt was not active in the debate over the RTAA, and even after it was passed, admitted privately that he thought its importance was exaggerated.[20]

The brains trust

The outlook of Roosevelt's closest political advisors—the central policy coalition within the government—did not appear at all sympathetic to trade policy reform, either. Members of Roosevelt's "brains trust" recognized the contradiction between the nationalism of New Deal policies and the making of trade concessions.[21] In addition, there were important differences on trade *strategy*. George Peek thought exports critical for U.S. recovery, but was hostile to the unconditional granting of most-favored-nation status favored by Hull. Not until after the passage of the RTAA was his more mercantilist conception of reciprocity decisively defeated.

Sectoral interests and trade policy

Seeking the explanation of trade policy change in shifting sectoral interests is a more plausible approach, and helps identify the beneficiaries of the

18. Historians credit Roosevelt with internationalist preferences, even where he was forced to modify them in reaction to circumstance. See Frank Freidel, *Franklin D. Roosevelt: Launching the New Deal* (Boston: Little, Brown, 1973); chap. 7; Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy 1932–1945* (New York: Oxford University Press, 1979); William E. Leuchtenberg, *Franklin D. Roosevelt and the New Deal* (New York: Harper & Row, 1963); Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1958), section 3. Schlesinger's qualifications are discussed later.

19. From the 1933 inaugural address, in Franklin Delano Roosevelt, *Public Papers and Addresses,* compiled by S. I. Rosenman (New York: Random House, 1938–1950), vol. 2 (1933), p. 14.

20. In 1935, FDR noted that "the amount involved in the special trade agreements is so small in dollars and cents and so small in relation to our total commerce that it is captious of George Peek to try to make this an issue." FDR to Jesse Jones, 18 July 1935, President's Secretary's File (PSF) 73, FDR Library Hyde Park, New York.

21. See the excellent study by Elliott A. Rosen, *Hoover, Roosevelt and the Brains Trust: From Depression to New Deal* (New York: Columbia University Press, 1977).

new course. Thomas Ferguson and Helen Milner have suggested that an industry's international competitive position, trade, and foreign investment linkages condition preferences for protection.[22] According to Ferguson, a block of internationally competitive, capital-intensive industries had captured the Democratic party, at least by 1936, marking the "triumph of multinational liberalism."[23] Aside from the problem of timing and the mistaken emphasis given to the Democratic party as a source of policy initiatives, Ferguson confuses an argument explaining industry *preferences* for one explaining policy *outcomes*. By focusing on the interests of some industries at the expense of others, he underestimates the continuing ambivalence towards freer trade and virtually ignores the role of state actors in forging a new course.

Export-oriented manufacturers, commercial interests, and the internationalized financial community of New York strongly favored reciprocal trade agreements; a network of interlocking foreign trade associations were active in lobbying the State Department towards that end.[24] Those American banks and underwriters with large foreign portfolios were hurt by the declining capacity of their clients to service their debts through exports. The United States exported over 30 percent of total production of cotton, tobacco, and rice; these interests, concentrated particularly in the South, were well represented in Congress. The export dependence of the manufacturing sector was much less. Industrial machinery, automobiles, and some chemical products showed a small increase in export dependence over the 1920s, but from a low base. These industries were nonetheless hurt by the sharp contraction of U.S. exports, whose value declined 68 percent between 1929 and 1933.[25]

The State Department officials designing the trade legislation understood the link between the international trade and financial systems. They sought to trade concessions in industries in which the United States was less competitive for expanded market access for agricultural products and the new, internationally competitive mass-production industries.[26]

22. Thomas Ferguson, "From Normalcy to New Deal; Industrial Structure, Party Competition and American Public Policy in the Great Depression," *International Organization* 38 (Winter 1984); Helen Milner, "Resisting the Protectionist Temptation," Ph.D. diss., Harvard University, 1986. This explanation also mirrors revisionist interpretations that emphasize export interests. See Gardner, *Economic Aspects*; Wilson, *American Business*.

23. Ferguson, "From Normalcy to New Deal," p. 93.

24. On the interest groups organized around the trade issue, see memo, Office of the Special Assistant on Foreign Trade (SAFT), 7 May 1934, "List of Foreign Trade Associations and their Inter-Relationshps," General Records of the SAFT (Record Group 20), National Archives. Jeff Frieden has argued most convincingly about the influence of financial interests on American foreign policy during this period. See "Sectoral Conflict in U.S. Foreign Economic Policy, 1914–1940," this volume.

25. Department of Commerce, *Foreign Trade of the United States: Calendar Year 1933* (Washington D.C.: GPO, 1934), pp. 12–14.

26. Wilson, *American Business*, pp. 73–74 and chap. 3, passim; "Report of the Executive Committee on Commercial Policy," enclosed in Phillips to FDR, 23 December 1933, Presi-

Only four short years before, however, Congress had been swamped by industry representatives clamoring for protection. The inward-looking perspective of uncompetitive business, the changing views associated with industrialization in the South, and the severity of the Depression pulled strongly in a protectionist direction.[27] The "nationalists" were not limited to small firms, but included in their ranks concentrated sectors such as chemicals, steel, and rubber and well-organized industries, such as textiles and shoes.[28] Even export-oriented industries were ambivalent about making trade concessions. A hundred and fifty large and medium-sized firms telegraphed Roosevelt to voice their support for the reciprocal trade agreements in 1933, but noted at the same time that they "believed thoroughly in the protective principle."[29] Despite its export orientation, agriculture took a similar stance, and played a crucial role in Roosevelt's ambivalence towards trade policy during the campaign and after.

How do we know, without reference to the outcome, that a sectoral coalition favoring freer trade was "dominant"? In fact, Ferguson's hypothesis of the emergence of a "hegemonic bloc" would lead one to expect a more open trade policy than the United States adopted. Nor should it be forgotten that, in 1933, when trade policy was being rethought, the political standing and influence of business had reached an all-time low. Without allies in industry and agriculture who were capable of benefiting from a new trade policy, the administration could not have acted. But executive initiatives and interests were crucial in defining the trade policy agenda, and even in shaping the "dominant coalition."

3. The state as actor

I have argued that congressional majorities and the interests of export-oriented industry and agriculture were necessary, but not sufficient, conditions for the policy and institutional changes associated with the RTAA. An explanation emphasizing executive initiatives raises two further puzzles, however, First, if coalitional interests are ruled out, why would elites in the executive want to innovate? If a statist approach is to avoid purely voluntarist explanations, it must tackle the issue of where state interests come from.

dent's Official File (OF) 614A (cited hereafter as *Executive Committee Report*), FDR Library, Hyde Park, New York.

27. This point is made by Fetter, "Congressional Tariff Making," and by Wilson, *American Business*, chap. 3.

28. Ferguson, "From Normalcy to New Deal"; Wilson, *American Business*, chap. 3.

29. See two telegrams, D. S. Ingelhart (President, W. R. Grace and Co.) to FDR, 8 June 1933, OF 61, FDR Library. The first, signed by thirty-nine large manufacturers, supported the negotiation of reciprocal trade agreements, citing growing bilateralism and systems of imperial preference as the principal reason. The second telegram reports a poll of "upwards of 150 important manufacturers" and found almost unanimous support for the reciprocal trade program. Two days later, however, FDR announced that he was not seeking trade legislation!

One approach focuses on ideology. Cordell Hull's fanatical devotion to free trade is well known. While Hull was particularly single-minded in his concern, the core group of economic advisers most influential on the trade issue shared his Wilsonian outlook, which resonated with the internationalist outlook of the State Department as a whole.[30] An alternative approach focuses on bureaucratic interests and conflicts. To achieve their ideological ends, the State Department needed to consolidate its power vis-à-vis Congress and other agencies; the Department's interest in the reform of trade policy was therefore linked to particular institutional interests. New Deal legislation had fragmented trade policy among a number of competing agencies. Each dealt independently with foreign governments, making the conduct of economic diplomacy more complex. The State Department criticized the incoherence of policy, using historical precedent to justify a recentralization of trade policy.[31]

Ideological and bureaucratic motivations thus had some role in the reform process. But both were linked to more fundamental *international political* interests and a concern with American influence. Hull's liberalism represented a broad world-view that was concerned primarily with international order and American power. Hull recognized clearly that the exercise of U.S. power rested on a particular domestic institutional foundation. The broad move within the international trading system towards bilateralism and the creation of preference schemes that accompanied the depression put a premium on executive ability to negotiate credibly and flexibly.[32] It was not the international *structure* that changed during the interwar period; if anything, the international structure was less conducive to liberalization attempts. Rather, it was the international *processes* and *rules* governing world trade that had changed.[33] Testifying before the House Ways and Means Commit-

30. On the "internationalist" outlook, see Frieden, "Sectoral Conflict," this volume.

31. On the problem of the fragmentation of trade policy, see "The Urgent Necessity of Working Out an Adequate and Co-ordinated Method for Dealing with Commercial Policy," Memo for the President, enclosed in Hull to FDR, 27 October 1933, OF 614 A; *Executive Committee Report*.

32. On the changes in the processes that governed trade in the 1930s, see Richard Snyder, "Commercial Policy as Reflected in Treaties from 1931 to 1939," *American Economic Review* 30 (December 1940); Joseph M. Jones, Jr., *Tariff Retaliation: Repercussions of the Smoot-Hawley Bill* (Philadelphia: University of Pennsylvania Press, 1934); Margaret Gordon, *Barriers to World Trade: A Study of Recent Commercial Policy* (New York: MacMillan, 1941). The Tariff Commission began investigating reciprocal negotiations in early 1933 at the request of Congress. United States Tariff Commission, *Tariff Bargaining Under Most-Favored-Nation Treaties,* Report to the United States Senate (Tariff Commission Report #62, 2d Series, GPO, 1934).

33. Examples of a structuralist view are Charles P. Kindleberger, *The World in Depression, 1929–39* (Berkeley: University of California Press, 1973); Stephen Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976); and David Lake's sophisticated synthesis in "Beneath the Commerce of Nations: A Theory of International Economic Structures," *International Studies Quarterly* 28 (June 1984). Lake defines structural position in

tee, Hull spelled out the implications:

> . . . it is manifest that unless the Executive is given the authority to deal with the existing great emergency somewhat on a parity with that exercised by the executive departments of so many other governments for purposes of negotiating and carrying into effect trade agreements, it will not be practicable or possible for the United States to pursue with any degree of success the proposed policy of restoring our lost international trade."[34]

The "state as actor" approach raises a second set of problems, however. Even if we concede that executive interests and initiatives are important, there is still the question of why some innovations succeed while others fail. From the passage of the Corn Laws to the present, even modest liberalization attempts have sparked political controversy. We need to specify the political conditions under which state initiatives are likely to succeed.

The RTAA case suggests two hypotheses and one more idiosyncratic factor. The first is the existence of a manifest crisis. Economic crisis was not important simply because of the export-oriented interests it served to mobilize; the Depression also served to mobilize countervailing nationalist forces. "Crisis" was important for more purely political reasons. Reformers used crisis conditions to justify an "extraordinary" delegation of power to the executive. Crises break the normal incremental mode of decision-making, generate demands for centralization and leadership, and thus strengthen the flexibility of the executive.

The second condition for successful reform is the partial compensation of opponents. The construction of winning coalitions, whether congressional or sectoral, demands compromise. The process of compensation helps explain several enduring features of U.S. trade policy, since *some of the compromises were themselves institutional in nature.*

The RTAA did not usher in "free trade," but instead what John Ruggie has called the "compromise of embedded liberalism."[35] This historic com-

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terms of both relative size and relative productivity—the first variable explaining the capacity to act as leader, the second the interest in doing so. Yet Frieden has pointed out that while relative productivity was higher than that of any other advanced industrial state in 1929, U.S. share of world trade was only 13.9%. Yet in 1960, the highpoint of American hegemony, U.S. share of world trade was 15.3%. Frieden, "The Internationalization of American Banking and the Transformation of American Foreign Policy, 1890–1940," paper delivered to the annual meeting of the American Political Science Association, Washington, D.C., 1–3 September 1984. In addition, between 1929 and 1938, U.S. share of world trade went *down,* while its relative productivity remained constant.

The idea of a "process" level of the international system separate from the structural level is articulated in Robert O. Keohane and Joseph Nye, *Power and Interdependence* (Boston: Little, Brown, 1977).

34. House of Representatives, Reciprocal Trade Agreements. Hearings before the Committee on Ways and Means, 73d Congress, 2d session, pp. 5–6.

35. John Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Post-war Economic Order," *International Organization* (Spring 1982). See also Judith Goldstein, "The Political Economy of Trade: the Institutions of Protection," *American Political Science Review* 80 (March 1986), pp. 161–84.

promise sought to accommodate the benefits of liberalism to growing social pressures, in part by expanding the role of government in the management of economic life. Uncertain of its passage in 1933, Roosevelt put off the tariff issue until 1934, when domestic legislation was passed that shielded business and agriculture from external threat and extended new guarantees to labor. Roosevelt also forged institutional compromises that set the basic nature of executive-congressional relations on trade policy ever since.[36] While the executive clearly gained, the final success of the legislation hinged on allowing some congressional oversight and granting trade-affected industries circumscribed access to trade policymaking. The "escape clause" provisions, which permit the protection of industries injured by liberalizing concessions, represents the clearest example of the institutional "compromise of embedded liberalism" in the trade area. First written into reciprocal trade agreements during the war, the escape clause muted the confrontation between internationalist and nationalist industries, and thus the potential for conflict between the executive and Congress as well.

A final, more idiosyncratic aspect of the policy setting was a series of distinctly uncooperative actions that were taken on the international monetary policy. Though a "liberal" international order is usually seen to consist of mutually interdependent and reinforcing monetary and commercial regimes, FDR's internationalism was hardly of a piece. The RTAA was not introduced until *after* Roosevelt, in the name of national policy autonomy, had crushed any meager hopes the London economic summit might have offered for international cooperation. The dollar's steady descent over the second half of 1933 naturally improved the situation of American exporters and effectively raised the level of protection to domestic industry. Hoover had sought to shelter American industry behind high tariffs while surrendering American finance to the workings of the international gold standard; the New Deal reversed that policy. It "aimed at securing national control over finance while at the same time it sought to unfetter and increase world trade."[37] In fact, an autonomous monetary policy provided strong arguments to those in the administration who defended trade liberalization.

My argument may now be summarized. I draw a distinction between discrete changes in policy—such as a lowering of tariffs—and those reforms that change the policy *process*. I suggest that institutional innovations in the trade issue-area in the 1930s "strengthened" the state in a number of enduring ways. Moving trade policy authority towards the executive, establishing new centers of policy expertise, and insulating the policy process from interest group pressures facilitated a gradual move towards a more liberal trade policy. On both empirical and theoretical grounds, it is difficult to explain

36. Pastor, *U.S. Foreign Economic Policy*, pp. 84–93.

37. Arthur M. Schlesinger, *The Coming of the New Deal*, p. 260; see also Ken Oye, "The Sterling-Dollar-Franc Triangle: Monetary Diplomacy 1929–1937," *World Politics* 38 (October 1985).

such changes by reference to societal interests alone. I focus on the initiatives and interests of state actors, particularly in the State Department, who sought reform to expand American power. The reform process benefited from crisis, from compensatory procedural and institutional compromises, and from monetary policies that offset the political costs of trade policy reform.

I organize this case historically. Section 4 identifies the political forces that surrounded Roosevelt prior to his election. I show that these forces were by no means conducive to trade policy reform. Section 5 traces the initial focus of Roosevelt's economic policy, stressing the domestic compromises that set the stage for trade policy reform in 1934. Section 6 shows the resurgence of State Department interest in trade policy reform in late 1933, its strategy towards restructuring the trade policy machinery, the conflicts between the internationalists, and George Peek's more mercantilist conception of reciprocity. In Section 7, I suggest how the new institutional structure partially insulated trade policy from protectionist pressures and consolidated a "liberal machinery." The conclusion makes some theoretical observations on systemic theory and the utility of the state–society distinction in explaining public policy.

4. The political foundations of Democratic nationalism: trade policy through March 1933

The constellation of political forces in the Democratic party in 1932 was hardly propitious for tariff reform. Over the course of the campaign, Roosevelt gradually abandoned his internationalism for a program that stressed domestic autonomy. In addition to their immediate political desire to cement a winning coalition by placating farmers' protectionist impulses, FDR's advisers were beginning to formulate plans for an interventionist state role in agriculture and industry to meet the crisis of the Great Depression. This program dictated a softening commitment to freer trade.

Since the first decade of the century, progressives had recognized the importance of moving tariff-making out of a Congress habituated to logrolling. Their advocacy of a "scientific tariff" entailed both a shift in arena towards a non-partisan, independent investigatory body and the elaboration of principles on which the Tariff Commission would make investigations. But depressed agricultural prices and the demand for protection from industries which developed during World War I conspired against a consistent low-tariff stance on the part of the Democrats.[38]

The return of the Republicans to political power demonstrated the under-

38. See William B. Kelly, Jr., "Antecedents of Present Commercial Policy, 1922–1934," in Kelly, ed., *Studies in United States Commercial Policy* (Chapel Hill, N.C.: University of North Carolina Press, 1963).

lying idealism of the progressive design. With only limited advisory powers in the first place, the now-Republican Tariff Commission was subject to significant political pressures. Moreover, the commission was expected to "equalize" costs of production between the U.S. and its trading partners. This equalization guaranteed that "flexibility" would be exercised to raise, rather than lower, tariffs; logically, the principle of "flexibility" denied the principle of comparative advantage altogether.[39]

By 1932, political forces within the Democratic party tugged in four directions. In one corner, the Democratic millionaire John J. Raskob, with close ties to the DuPont empire, wanted to stick with the conservative strategy of 1928 by committing the party more openly to protection. Al Smith had concurred, in part to lure agriculture and Eastern labor, but more importantly because of his deference to business.[40] For Wilsonian Democrats, the second important group, these policies seemed a betrayal. Cordell Hull supported Smith in 1928, but thereafter launched a campaign to get the party out of the hands of the Smith–Raskob faction; he was motivated primarily by the importance he placed on a free trade policy.[41]

Understanding the intellectual motivations behind Hull's liberalism is crucial to assess his interest in reform.[42] As a Wilsonian, Hull argued against the unequal and monopolistic benefits conferred by tariffs. Hull saw imports as largely noncompetitive with domestic industry, however, and he showed little understanding of the principle of comparative advantage. Hull relentlessly attacked the assumption that the United States could export without importing, pointed to the contradictions between U.S. trade and financial policies, and staunchly defended the most-favored-nation (MFN) principle as a way of reducing discrimination abroad. More important to Hull, however, were international leadership and the connection he drew between protectionism, nationalism, and international conflict. For Hull, free trade was a universal political solvent that would dissolve underlying international conflicts.

Hull recognized an important source of opposition to a liberal trade pro-

39. Wilson, *American Business*, pp. 67–71. For a commissioner's view of the problems of the flexible provision, see John Lee Coulter, "The Tariff Commission and the Flexible Clause," *Proceedings of the American Academy of Political Science* 15 (June 1933).

40. In choosing Raskob to chair the National Committee, Smith wished "to let the businessmen of this country know that one of the great industrial leaders of modern times had confidence in the Democratic Party and its platform." Cited in Mathew and Hannah Josephson, *Al Smith: Hero of the Cities* (Boston: Houghton Mifflin, 1969), p. 371. Smith's views are included in his acceptance address, Albany, 22 August 1928 and his Louisville speech, 13 October 1928, *Campaign Addresses of Gov. Alfred E. Smith* (Washington, D.C.: Democratic National Committee, 1929), pp. 7, 165–67.

41. See Cordell Hull, *Memoirs*, vol. 1, pp. 142, 146; Rosen, *From Depression to New Deal*, chap. 2.

42. The most careful analysis of Hull's thinking on the issue is William R. Allen, "The International Trade Philosophy of Cordell Hull, 1907–1933," *American Economic Review* 63 (March 1953).

gram in a third group, the intellectuals around Roosevelt.[43] Roosevelt's nomination meant a defeat of the Smith group, and it also increased the stature of the "brains trust": Raymond Moley, Rexford Tugwell, and Adolf Berle, Jr. According to Moley, the brains trust "proceeded on the assumption that the causes of our ills were domestic, internal, and that the remedies would have to be internal too."[44] This line of thinking contradicted Hoover's claim that the causes of the Depression were international, but also clashed with Hull's liberalism and the "financial internationalists" who tried to steer Roosevelt towards multilateralism.[45] Tugwell and Moley recognized the contradictory nature of the Republican policy of high tariffs, and they sought a gradual return to a more open commercial system—but both believed that this policy would have to await recovery.[46]

The reasons had to do less with manufacturing than with agriculture, a fourth political force and one that proved decisive in Roosevelt's campaign stance on trade.[47] During the 1920s, agricultural production was high worldwide and prices correspondingly low. Tariffs might raise the prices of imported commodities, but for exporters, world market conditions set domestic prices. While many farmers did support the tariff—irrationally, Democratic free-traders argued—increasing attention was turned to the problem of the "exportable surplus."

George Peek was responsible for devising a solution to the agricultural depression, in which trade policy played an important role. Peek developed a two-price system that would offer the farmer a "tariff equivalent": a high domestic price that would bear the same ratio towards other commodities that it had borne before 1914; and a low foreign price, which implied that agricultural surpluses would be dumped abroad. An Agricultural Export Corporation would be authorized to buy on the American market at the "ratio price" and sell abroad. To cover the losses, farmers would be assessed an "equalization fee," on the assumption that the fees would be less than the benefits of higher domestic prices. Legislation introduced by Senator Charles L. McNary of Oregon and Representative Gilbert N.

43. Hull, *Memoirs*, vol. 1, p. 352.

44. He continued, "How unorthodox this was at the time may be judged by the amount of bitterness with which we were called nationalists by older economists." Raymond Moley, *After Seven Years* (Lincoln: University of Nebraska Press, 1971), p. 23.

45. See Elliot Rosen, "Intranationalism vs. Internationalism: The Interregnum Struggle for the Sanctity of the New Deal," *Political Science Quarterly* 81 (June 1966).

46. As Tugwell argued, "We were convinced that in order to work out our problems of recovery and reform we would have to be insulated from European interference." Rexford Tugwell, *The Brains Trust* (New York: Viking, 1968), p. 475; Rexford Tugwell Diary, vol. 5, "June 1933 to March 1934," pp. 9–14; Tugwell Papers, FDR Library, Hyde Park, N.Y.

47. The following draws on John D. Hicks, *Republican Ascendency, 1921–1933* (New York: Harper & Row, 1960), pp. 195–202; Gilbert C. Fite, *George N. Peek and the Fight for Farm Parity* (Norman, Okla.: University of Oklahoma Press, 1954); Rosen, *From Depresion to New Deal*, pp. 188–89. FDR's first mention of the tariff issue in the campaign was in a speech before the New York Grange; Roosevelt, *Public Papers and Addresses*, vol. 1, pp. 155–57.

Haugen of Iowa in 1924 embodied these ideas, and Smith gave the legislation his half-hearted support in the 1928 campaign. Despite a sharp presidential veto, McNary–Haugenism held considerable popular appeal during the 1920s.

More important were the ideas on agriculture that were brewing within the brains trust itself. Tugwell's domestic allotment system drew ideas from agricultural economist M. L. Wilson, who was a strong proponent of planning; the system first became a campaign issue over the summer. Henry A. Wallace, later to become secretary of agriculture, was particularly torn between his commitment to domestic planning and internationalism; he tried to seek a middle way between the two, but the eventual move towards a focus on planning by Moley and Tugwell forced them to openly abandon their internationalism.[48]

Reconciling the Wilsonian internationalists with the political imperative of wooing the Midwest was one of the most divisive issues of the campaign.[49] Early in September, Roosevelt was given draft speeches that reflected Hull's proposal for a unilateral 10 percent tariff cut and a compromise that called for negotiated tariff reductions. Roosevelt left Ray Moley "speechless" by telling him to weave the two contradictory drafts together.[50] M. L. Wilson argued that advocating a unilateral reduction, as Hull urged, would be politically suicidal, particularly as Hoover was planning to launch a vigorous defense of the tariff in an effort to hold the corn and wheat belts. These electoral considerations proved decisive. Roosevelt's Sioux City speech on agriculture and tariffs was a hodge-podge of compromises.[51] Denouncing the excesses of Smoot–Hawley, Roosevelt supported the cost-equalization formula and confessed that his doctrine was "not widely different from that preached by Republican statesmen and politicians."[52]

Despite these concessions, two important departures remained intact. The first was the commitment to international negotiation as the means of lowering tariff rates, which guaranteed greater executive involvement in trade policy. Second, Roosevelt recognized the importance of limiting congres-

48. As Rosen argues, "their conflict with Hull . . . was rooted in the requirement for a self-contained economy and an artificial internal price structure." *From Depression to New Deal,* p. 180ff. For Wallace's views, see his *New Frontiers* (New York: Harcourt Brace, 1934), and the critique by Alonzo E. Taylor, *The New Deal and Foreign Trade* (New York: MacMillan, 1935). For an analysis of state intervention in agriculture, see Theda Skocpol and Kenneth Finegold, "State Capacity and Economic Intervention in the Early New Deal," *Political Science Quarterly* 97 (Summer 1982).

49. Tugwell saw the fight as one between the brains trust and certain Westerners, including Senators Walsh and Pittman, against Hull, traditional Democrats, and "others in Wall Street who sold foreign securities to American investors . . . and wanted to speculate as they liked and therefore objected to national economic fences." *The Brains Trust,* p. 476.

50. Moley, *After Seven Years,* p. 47.

51. The speech was drafted by protectionist Senators Pittman and Walsh. Hull's representative, Charles Taussig, was pushed to the side. Ibid., p. 50; Tugwell, *The Brains Trust,* pp. 478–90.

52. Roosevelt, *Public Papers and Addresses,* vol. 1, pp. 766, 767.

sional logrolling by supporting restrictions on the ability of Congress to amend Tariff Commission recommendations. With this innovation, "each particular tariff rate proposed would be judged on its merits alone."[53]

Following his Sioux City speech, hundreds of telegrams from farmers and processors asked whether his reference to "outrageously excessive" rates under Smoot–Hawley referred to specific commodities. In October, Roosevelt relented altogether on the lowering of agricultural duties. Immediately, the barrage from the East and Northeast began. Did Roosevelt mean to suggest that tariffs on manufactured articles were too high? In the very last days of the campaign, Roosevelt announced that he favored "continuous protection for American agriculture as well as American industry."[54] Roosevelt wavered briefly towards a multilateral approach during December and early January, but Moley and Tugwell held the line against what they characterized as the "Wall Street view."[55]

5. The triumph of domestic priorities

The administration's nationalism had two components. First, sectoral policies that were formulated to launch industrial and agricultural recovery rested on the assumption of an insulated domestic market. Second, the United States went off gold and pursued an independent monetary policy. These policies put in place certain guarantees to industry, agriculture, and labor that ultimately strengthened the administration's political position in moving towards trade policy reform in 1934.

The conflict between the domestic priorities of the brains trusters and Cordell Hull's internationalilsm was first revealed in the administration's handling of the London Economic Conference.[56] In April, Roosevelt had announced his intention to seek trade legislation. The State Department drafted a bill for submission to Congress that authorized the executive to negotiate reciprocal trade agreements on an MFN basis. Hull describes the bill repeatedly in terms of its importance for U.S. leadership:

53. This idea had already been put forward in the Collier trade bill of 1932, which contained many innovations in trade policy, but was vetoed by Hoover. Roosevelt, *Public Papers and Addresses*, vol. 1, p. 769.

54. Moley, *After Seven Years*, p. 51; Roosevelt, *Public Papers and Addresses*, vol. 1, p. 853.

55. Rosen traces Norman Davis's effort to push a multilateral view in "Intranationalism vs. Internationalism," p. 285.

56. The best overview of the London economic conference is Kindelberger, *World in Depression*, chap. 9. The most thorough discussion of the commercial aspects of the conference are in Richard N. Kottman, *Reciprocity and the North Atlantic Triangle, 1932–1938* (Ithaca, N.Y.: Cornell University Press, 1968), chap. 2. For the views of the principles, see Herbert Feis, *Characters in Crisis 1933* (Boston: Little, Brown, 1966) chaps. 14–20; Raymond Moley, *The First New Deal* (New York: Harcourt Brace, 1966), chaps. 33–38; and Hull, *Memoirs*, vol. 1, chaps. 18 and 19. Norman Davis raised hopes through successful negotiation of a limited tariff truce in May, but the many reservations expressed by its adherents called the value of the agreement into question.

> I expected to be able to show this to other delegations in London and to use it to prove to them we were sincere in our efforts to reduce tariffs and also that I had the power to do so.[57]

Yet on the same day that Hull set sail for London, Roosevelt was announcing to a press conference, off the record, that the bill was too complex and that he still feared congressional resistance.[58] On 10 June, in the middle of his journey, Hull found out that Roosevelt was not going to submit the trade bill to Congress, citing the priority of other legislation.[59] Roosevelt claimed somewhat disingenuously that Hull already had the authority to negotiate commercial treaties. The State Department and Tariff Commission had begun investigating the prospects of negotiating reciprocal agreements. But for Hull, the State Department's authority suffered from a crucial defect: tariff treaties demanded approval by two-thirds of the Senate. As Hull knew, "no American Senate had ever approved a trade treaty negotiated by the Executive which materially reduced tariffs."[60] Hull's legislation, by contrast, enhanced American bargaining power because of its novel institutional arrangements. Under the proposed bill, negotiated agreements could be overturned only by congressional veto within sixty days. Hull's *Memoirs* stress again and again the lack of American credibility:

> When I arrived in London, I found that delegations of other countries were well aware of the severely handicapped situation in which the American delegation was thus left . . . I had represented to Washington that the hands of the delegation would be virtually tied . . . and they were tied indeed.[61]

In fact, Hull's expectations for the conference were optimistic, if not fanciful.[62] By the time of the conference, the "hundred days" were just coming to a close, and the new direction in U.S. economic policy was unambiguous. The negotiation of industry codes under the National Industrial Recovery Act (NIRA) was the prime New Deal task in the summer of 1933.[63] The philosophy of both the NIRA and the Agricultural Adjustment Act (AAA) was to raise prices. Increased prices could leave code signatories vulnerable to imports. To correct this anomaly, the NIRA gave the president virtually unlimited powers to restrict imports. Turf battles between the

57. Hull, *Memoirs,* vol. 1, p. 250. For the draft bill see Record Group 59, 611.0031/428, National Archives.
58. Roosevelt, *Press Conferences,* 31 May 1933, vol. 1, pp. 324–25.
59. See Frank Freidel, *Launching the New Deal,* pp. 439–40, 450; Feis, *Characters in Crisis 1933,* p. 174; Hull, *Memoirs,* vol. 1, p. 251; Moley, *The First New Deal,* pp. 420–22.
60. Hull, *Memoirs,* vol. 1, p. 252.
61. Ibid.
62. Feis calls Hull's laments on the fate of the conference "histrionic." Feis, *Characters in Crisis 1933,* p. 175.
63. William E. Leuchtenberg, *Franklin D. Roosevelt,* p. 64.

National Recovery Administration (NRA) and the State Department revealed the ascendence of domestic priorities. In July, Undersecretary of State William Phillips brought the problems that the codes created for American trade to the attention of the NRA. Phillips asked that the codes not contain clauses that would negatively affect imports and exports, and also asked that State Department officials be allowed to help regulate the codes. The NRA refused.[64]

In October, an executive order established the procedures to administer the NRA's trade provisions.[65] This order created a channel for industry grievances that was similar to the one later adopted under the RTAA. The NRA was empowered to make a preliminary investigation based on industry or labor organization complaints. The president was then empowered to either dismiss the complaint or direct the Tariff Commission to launch a full investigation.[66]

Monetary policy constituted the second pillar of Roosevelt's nationalism.[67] As with the NIRA and the AAA, the goal of monetary policies over 1933 was to raise prices in the questionable belief that price increases were a precondition for recovery. Roosevelt was fiscally orthodox, however, as shown by his draconian Economy Act, and he was also opposed to outright money creation. His monetary policy unfolded in three stages. Beginning in April 1933, Roosevelt came under strong congressional pressure for inflation. The Thomas amendment to the Farm Relief bill gave the president discretionary power to create paper money. This necessarily entailed going off gold; that decision came on 20 April, triggering a steady descent of the dollar. Depreciation was accelerated in July by Roosevelt's famous "bombshell" to the London Economic Conference in which he rejected international cooperation aimed at stabilization. Finally, in mid-July, after intervention to break the dollar's decline had produced drops in the stock and commodity markets, a sharp debate broke out within the administration over whether further monetary measures were required. On one side stood

64. State's relations with Henry Wallace and the AAA were less strained, but in agriculture the principle problem was promoting exports. Section 15(e) of the AAA empowered the president to levy an equal compensating tax on agricultural goods, subject to processing taxes. On the turf fights, see Dick Steward, *Trade and Hemisphere, the Good Neighbor Policy and Reciprocal Trade* (Columbia: University of Missouri Press, 1975), pp. 15–16.

65. *New York Times,* 25 October and 5 November 1933.

66. *New York Times,* 5 November 1933. The NRA could also initiate its own investigations. Herbert Feis argues that the trade provisions were used only to prevent codes from toppling, although the United States did place import quotas on liquor, lumber, tobacco, potatoes, cotton, and sugar. Feis, *Characters in Crisis 1933,* p. 262; Steward, *Trade and Hemisphere,* p. 15ff.

67. This paragraph draws on Kindleberger, *World in Depression,* chap. 9; Oye, "The Sterling-Dollar-Franc Triangle"; Elmus Wicker, "Roosevelt's 1933 Monetary Experiment," *The Journal of American History* 57 (March 1971); James R. Moore, "Sources of New Deal Economic Policy: The International Dimension," *Journal of American History* 61 (December 1974); Jeanette Nicholas, "Roosevelt's Monetary Diplomacy in 1933." *American Historical Review* 56 (January 1951).

officials in the Treasury, the Federal Reserve, and the budget bureau, on the other, Henry Morgenthau, at that time head of the Farm Credit Administration, and a Cornell professor named George F. Warren. Warren managed to convince Morgenthau and Roosevelt that by simply increasing the purchase price of gold, the price level would automatically rise. On 8 September, Roosevelt raised the gold price sharply. While the economic effects of the gold purchase policy are questionable, it was a political success. By January, Roosevelt was in a position to support stabilization and a refixing of the price of gold.

The changed competitive position of American industry that resulted from the devaluation of the dollar gave the administration an important set of arguments for a new trade policy. Between February and December 1933, American exports doubled. In his congressional testimony on the 1934 bill, Secretary of Commerce Daniel C. Roper argued that the devaluation amounted to "an additional all-around tariff protection or handicap on imports which has been in only small measure offset by increased costs of production . . . resulting from the NRA or other recovery measures." Similarly, "the pick-up in exports . . . reflects the new advantage which American exporters now have . . . because of the depreciated exchange value of the dollar." As a result, "this dollar devaluation has put the American tariff on such a heightened level that the United States is now in a better position than it has been for a long time to make partial reductions in duties . . . without inducing destructive competition through enlarged imports."[68]

6. Towards the RTAA

The array of New Deal initiatives had as its corollary an increasing fragmentation of authority over trade policy. Undersecretary of State Phillips worried that "various departments and more especially the new Government agencies, such as the N.R.A., the R.F.C. [Reconstruction Finance Corporation], et cetera, are dealing with these matters independently as they see fit without cooperating with the State Department."[69] "Driven to distraction," Herbert Feis noted, "we in the State Department strove to inaugurate some plan of unified control."[70] Four times between August and October 1933, Hull took State Department recommendations for a reorganization to Cabinet meetings, but with little effect. Finally, in early November, Hull convinced Roosevelt to create an interdepartmental Executive Committee on Commercial Policy to be chaired by the State Department. Two circumstances were cited as compelling reasons for the moves: the fragmentation of

68. House of Representatives, *Hearings*, pp. 65–66. Feis also recognized the importance of devaluation for trade policy in his *Characters in Crisis 1933*, p. 264.
69. William Phillips Diary, 8 December 1933, Houghton Library, Harvard University.
70. Feis, *Characters in Crisis*, p. 262.

trade policymaking, and the move to greater state intervention in trade on the part of other governments.

The new group was chaired by Harvard economist Sayre. Sayre, a Wilsonian, defined the task of the committee as enlarging American export markets through the negotiation of reciprocal trade agreements on an unconditional MFN basis. Sayre recognized that this required a shift of tariff-making authority from Congress to the president.[71] The reasons were outlined by Feis after a crucial meeting with Roosevelt on 28 December:

> The President clearly recognized the fact that if we are to sustain or develop foreign trade we must find a way of deciding that industries should *not* be protected. It was agreed that the type of commercial policy envisaged in the memorandum [of the executive committee] could only be carried out if the President were given certain tariff-making powers.[72]

Bargaining demanded the ability to make trade-offs. The committee developed a complex—and secret—scheme to classify all American industries. At one end of the spectrum were those export industries, mainly agricultural staples and mass-produced manufactures, that depended on exports and in which the United States had a comparative advantage. The underlying objective of trade policy would be to gain concessions for these industries by opening the market for other products, at least where necessary. Some of these goods would be commodities that were not competitive with American manufactures, but the committee recognized that the protection granted some inefficient industries might have to be relaxed.[73]

Even though reciprocal trade agreements would necessarily require extended negotiations, the legislative strategy of the administration was to exploit the opportunity presented by crisis conditions. The increase in executive authority was justified as a temporary and emergency measure. Before the Senate, Hull argued that "there should, I repeat, be no misunderstanding as to the nature or the purpose of this measure . . . Its support is only urged as an emergency measure to deal with a dangerous and threatening emergency situation."[74] In his 2 March message to Congress that introduced the legislation, FDR emphasized two factors to justify this extraordinary grant of authority: the economic crisis and the resultant decline in U.S. exports; and the move on the part of the other governments towards reciprocal bargaining.[75]

71. Sayre, *The Way Forward*, p. 56; Hull, *Memoirs*, vol. 1, p. 354.
72. Feis, *Characters in Crisis 1933*, p. 264.
73. It was widely recognized that the negotiation of reciprocal agreements would require lifting protection from some industries. See *Executive Committee Report*, supplement 1, which offers a detailed classification scheme; Tariff Commission, "Draft Statement on Reducible Tariff Rates," 13 February 1934, OF 60; and Willard Thorp's observations on the thinking in the Department of Commerce in Katie Louchheim, ed., *The Making of the New Deal: The Insiders Speak* (Cambridge: Harvard University Press, 1983), pp. 275–76.
74. Senate Finance Committee, *Hearings*, p. 5.
75. *Public Papers and Addresses*, vol. 3, pp. 113–16.

The individual components of the legislation were not new, but grouping them together into a single piece of legislation was.[76] Given the drift to bilateralism, the choice of reciprocal bargaining as the means of lowering tariffs was hardly surprising, and had its roots in earlier reciprocity efforts. Even Hull, who in 1932 had suggested a 10 percent unilateral, across-the-board reduction in tariffs and preferred multilateral action, recognized that neither were politically viable.[77] Once reciprocity was favored over either unilateral action or multilateralism, tariff-cutting clearly would be selective rather than horizontal. Though the inclusion of the unconditional MFN clause in reciprocal agreements was to become one of the more controversial elements of the new trade program, American adoption of unconditional MFN treatment dated to 1923. Even the delegation of tariff-making authority to the executive had its precedent in the "flexible" tariff provisions.[78]

Despite these precedents, the administration's trade legislation provoked a heated debate, particularly on the floor of the Senate. In contrast to 1930, however, when interest groups were the main protagonists and specific tariff rates the issue, the most important issues at stake in 1934 were institutional, centering on the transfer of authority from Congress to the executive. Critics argued on two grounds that the delegation of tariff-making authority was unconstitutional. First, since the trade agreements were in fact treaties, they required two-thirds Senate approval. Second, the power delegated to the executive under the RTAA was unconstitutionally broad and discretionary, threatening to cut both Congress and industry out of the trade policy process. Senator Arthur Vandenburg complained that the bill would entitle "Washington bureaucrats" to "identify so called 'inefficient industries' and to put them out of business by their fiat."[79] Congress was being forced to give advance approval for any agreements into which the president might enter. Rejecting the Democratic theory that linked Smoot–Hawley and the Depression, Senator Walcott even defended the tradition of tariff logrolling, arguing that it at least gave representatives some voice in trade policy.[80]

In the course of debate within the Senate Finance Committee, the administration accepted two important institutional compromises. These mollified congressional concerns and established the delicate balance between congressional and presidential authority that has characterized trade politics ever since.[81] First, the authority for the president to negotiate trade agreements was limited to three years. This allowed protectionist groups to hold the renewal of broad negotiating authority hostage to particular compro-

76. I am thankful to David Lake for this point. See Kelly, "Antecedents."

77. Hull, *Memoirs,* vol. 1, p. 356.

78. On the growth of executive power over the tariff, see John Day Larkin, *The President's Control of the Tariff* (Cambridge: Harvard University Press, 1936).

79. "Minority Views," in *Congressional Record,* 27 March 1934, pp. 5532–33; Vandenburg, *Congressional Record,* 18 May 1934, pp. 9081–82. For an overview of the constitutional issues see Sayre, *The Way Forward,* chap. 7.

80. *Congressional Record,* 25 May 1934, p. 9567.

81. This balance is the main theme of Pastor, *U.S. Foreign Economic Policy.*

mise, and made specific negotiations more sensitive to political pressures. Of thirty-one bilateral agreements signed between 1934 and 1945, only two unimportant ones were signed between January and June of the year in which authority had to be renewed.[82]

Second, a machinery was established by which industries could express their concerns over pending negotiations. The administration had opposed this move because it would reintroduce the very type of politics that the RTAA was designed to limit.[83] Many amendments seeking exemptions for particular products were defeated on the floor of the Senate, however, with solid support from the Southern Democrats.

7. Aftermath: the Peek–Hull controversy and the consolidation of liberal machinery

Even before the passage of the RTAA, Roosevelt created difficulties for the liberal program by appointing George Peek to act as a special adviser on foreign trade issues in December 1933.[84] Peek reflected a very different conception of reciprocity than that favored by the State Department.[85] Roosevelt was ambivalent, if not simply ignorant, of the details at stake, and was willing to grant Peek wide leeway. Peek operated at a considerable institutional disadvantage, however, To succeed, he would have to force centralization of all trade policy in an independent Foreign Trade Board outside the control of the State Department.[86] Peek's efforts to this end were a losing battle. The passage of the RTAA allowed the State Department to control the trade policy agenda and to design a new policy machinery that was not only centralized, but at least somewhat more insulated from industry pressures than what had gone before.

The story of the Hull–Peek controversy can be summarized briefly.[87] In December 1933, Peek was given a position as presidential adviser on trade

82. Kelly, "Antecedents," p. 81; Pastor, *U.S. Foreign Economic Policy*, pp. 179–85. On the renewals of 1937 and 1940, see Steven Robert Brenner, "Economic Interests and the Trade Agreements Program, 1937–1940."

83. For the administration's objections to public hearings, see Senate Finance Committee, *Hearings*, pp. 15, 29, 80–81, 130.

84. See Phillips Diary, 11 December 1933.

85. Peek's views also reflected more immediately the interests of the food and textile industries. Steward, *Trade and Hemisphere*, p. 32.

86. A 70-page draft of Peek's plan for a Foreign Trade Board is enclosed with Peek to FDR, 16 July 1935. See also FDR to Peek, 17 July 1935, both in President's Secretary's File 73, FDR Library; Phillips Diary, 2 January 1934.

87. On the Peek–Hull controversy, see George Fite, *George N. Peek*, chaps. 16–17; Steward, *Trade and Hemisphere*, chap. 2; George N. Peek and Samuel Crowther, *Why Quit Our Own?* (New York: Van Nostrand, 1936). The correspondence between Peek, FDR, and Hull, and Peek's objections are set out in "Report of the Special Adviser on Foreign Trade," enclosed with Peek to FDR, 31 December 1934; OF 614A, cited hereafter as *Report of the Special Adviser*, and in a series of six articles in the *Saturday Evening Post*, 16 May–20 June 1936.

questions. When the Export–Import Banks were established in early 1934, Peek was made their president, giving him a base from which to widen his ties with industry.[88] In March, just as the RTAA was going to Congress, Roosevelt created the Office of the Special Adviser on Foreign Trade for Peek, an appointment that could not have stunned Hull more "if Mr. Roosevelt had hit me between the eyes with a sledge hammer . . ."[89] At first there was some confusion over the fate of the Executive Committee on Commercial Policy, which had become the meeting point for liberals in the State, Agriculture, and Commerce Departments and had been responsible for drafting the trade legislation. Only with a second executive order did Roosevelt signal his intention of keeping that body in place, creating a system of "dual power" in trade policy.

After the passage of the RTAA, the new institutional machinery for implementing the legislation began to take shape. Peek had suggested the creation of an independent centralized body, a move bitterly opposed by the State Department.[90] Failing that, Peek sought to control the newly created interdepartmental Committee on Trade Agreements. A new Trade Agreements Division was also created within the State Department, and became the center of trade-policy expertise. It reviewed each proposed trade agreement, examined in detail the concessions recommended for inclusion, oversaw the activities of the country subcommittees responsible for drafting bilateral agreements, and incorporated the information provided by the Committee for Reciprocity Information, the body set up to hear industry concerns. The discussions of the Executive Committee were based largely on facts supplied by the professionals staffing the Committee on Trade Agreements. The interdepartmental nature of the two key committees allowed Peek's Office of the Special Adviser to air its views, but the new machinery was clearly rooted in an internationalist State Department.[91]

Nonetheless, the conflicts between Peek and the State Department were to drag on for over a year-and-a-half. Two substantive issues were at stake; both centered on the way the United States was to exercise leverage in gaining advantages with trading partners. The first concerned the emphasis to be given to exchange controls in the Trade Agreements Program. Peek argued, rightly in many cases, that exchange restrictions and competitive devaluations were a more damning limitation on trade than tariffs. The

88. On the establishment of the Ex-Im banks, see Frederick C. Adams, *Economic Diplomacy: the Export–Import Bank and American Foreign Policy 1934–1939* (Columbia: University of Missouri Press, 1976), chap. 3.

89. Hull, *Memoirs,* vol. 1, p. 370.

90. Francis Bowes Sayre, "Draft: Memorandum on Machinery for the Effectuating of a Foreign Trade Policy," attached to *Executive Committee Report;* Phillips Diary, 2 January, 27 February, 23 March, 1934.

91. See Mary Trackett Reynolds, *Interdepartmental Committees in the National Administration* (New York: Columbia University Press, 1939), pp. 47–70; Sayre, *The Way Forward,* chap. 8; Rexford Tugwell Diary, vol. 5, pp. 13–14; Steward, *Trade and Hemisphere,* pp. 44–45.

United States should use the promise of trade agreements to eliminate these practices or to secure preferential treatment.

This argument was closely related to a second, more complex concern—Peek's contending vision of reciprocity and opposition to unconditional MFN. Peek raised five objections.[92] First and foremost, unconditional MFN led to free-riding. This took two forms: 1) countries not signing agreements would exploit U.S. concessions, leading to an uncontrollable flood of imports; and 2) equally important, Peek believed that committing the United States to unconditional MFN would constitute "unilateral economic disarmament," and discourage other states from negotiating.[93] Making MFN conditional allowed the United States to exploit its market power more effectively. Second, Peek pointed out that the principle supplier clause was inadequate to control free-riding, since many smaller countries, such as Haiti, were not the principle supplier of anything. Third, Peek noted that maintaining U.S. presence in third markets might rest on the ability to force smaller countries to establish quota systems that protected U.S. market share against lower cost producers, such as Japan. These agreements would violate our commitment to unconditional MFN. Fourth, on several occasions, Peek suggested that the State Department was poorly situated to consider trade issues because of its tendency to mix diplomatic and political concerns with purely commercial ones. Finally, Peek argued that the United States needed flexibility in its export promotion methods. While barter, subsidization, and dumping were perhaps inferior ways of conducting international trade over the long run, they could be important in disposing of surpluses, maintaining market share, and increasing bargaining power. It was, in fact, a barter deal with Germany involving the sale of American cotton that led to the most heated controversy between Peek and the State Department, a fight that Peek eventually lost after a concerted State Department effort to sway Roosevelt.[94]

In the meantime, a new institutional machinery for the conduct of trade policy was being consolidated under State Department auspices that insulated the government from protectionist pressures. The activities of the country committees responsible for drafting agreements were closely guarded, and even the identities of their members were held secret. Not until the process of gathering and analyzing data was fairly far advanced was an announcement made of the intention to negotiate. According to Sayre, "partisan or purely political considerations play no part throughout this long

92. The following passage draws on the *Report of the Special Adviser*.

93. See "Memorandum submitted by the Special Adviser . . . for consideration at its Meeting December 4 . . . ," enclosed with the *Report of the Special Adviser*.

94. On the German deal, see Steward, *Trade and Hemisphere*, pp. 52–53; Phillips Diary, 13 and 14 December 1934. For almost a year after that conflict, Roosevelt kept Peek around. Only after Peek had supplied the press with material critical of the reciprocal trade program, did Roosevelt finally lose his patience. FDR to Peek, 22 November 1935; Peek to FDR, 26 November 1935; FDR to Peek, 11 December 1935.

study."[95] The announcement of negotiations included only the name of the country in question, rather than a listing of particular products under consideration. Industries protested this arrangement, but the Stae Department held firm.[96] Industry could air its views through the Committee for Reciprocity Information, based on their calculations of which products were likely to be negotiated. But expressing concerns before a nonpartisan committee of trade policy experts was quite different than lobbying Congress. The setting of the agenda and the analysis of concessions to be sought and offered rested on independent economic criteria, and as a result, the information supplied by industry was heavily discounted.[97]

An interesting exchange of letters between Senator Frederick Steiwer and FDR over the efficacy of the Committee for Reciprocity Information shows a sense of industry frustration.[98] At the negotiation of the Canadian agreement, Steiwer pointed out that Canadian producers dealt directly with American negotiators, but American producers "present their cause through an information committee which at the most can act only as an intermediary." Steiwer argued that representatives of producer associations should be given access during the earlier stages of the formulation of the trade agreements. Somewhat disingenuously, FDR denied that the committee was only a "buffer agency," arguing that Steiwer's proposals would "so complicate and delay the negotiation of trade agreements as to hinder seriously the carrying out of the purposes of the act."

The Committee on Reciprocity Information exposed cross-cutting cleavages within industry, provided additional incentives for export-oriented interests to organize, and thus strengthened the hand of the liberals. In the case of smaller developing countries, the vast majority of petitioners sought concessions from the foreign country; industry signals were unambiguous and the committee became a means of collecting information from exporters. Negotiations with more advanced countries were quite different. After announcing the intent to negotiate an RTA with Belgium, for example, the committee received eighty-six communications. Forty-eight opposed granting concessions in particular products, twenty-one sought Belgian concessions while another eleven actually sought reductions in U.S. tariffs.[99] The

95. Sayre, *The Way Forward,* p. 94.

96. Typical of the numerous letters protesting this arrangement is Congressman Edward Eicher to Hull, 17 August 1934, which encloses a letter from the Iowa Manufacturers Association and R. Walter Moore (State Department) to Eicher, 1 September 1934, Record Group 59, 611.0031/1013, National Archives. See also Robert Lund, chairman of the board, National Association of Manufacturers to FDR, 23 April 1935, RG 59, 611.0031/1650.

97. Brenner, "Economic Interests," p. 108ff.

98. Steiwer to FDR, 4 April 1935; FDR to Steiwer, 8 April 1935; OF 614A.

99. Six of the communications asked that particular concessions not be sought from the Belgians. See "Belgium: Committee for Reciprocity Information: Record of Correspondence, Oct. 19–Oct. 25, 1934," RG 59, 611.0031/Committee for Reciprocity Information/75, National Archives.

Cotton Textile Institute went on record against U.S. concessions in textiles, while the National Council of American Importers and Traders sought them.

The negotiations themselves provided a second opportunity for industries to exert pressure, particularly since the president passed judgment on the agreement and thus had to weigh the political costs of concessions. The bargaining period itself posed the most difficulty to the State Department, because, according to Sayre, "high-powered lobbyists make their voices heard throughout the country using every device to prevent the giving of concessions . . . Pressure is brought against members of Congress; Washington is deluged with inspired letters and telegrams."[100] No doubt these last-minute pressures had some effect on limiting the range of concessions. But the very process of bargaining allowed, in fact, demanded, that negotiators build liberalizing coalitions. In the British negotiations, for example, Sayre explicitly recognized that "opposition in New England to the tariff relaxations on British textiles could be offset by support for the agreement and the administration from the Far West and agricultural regions."[101] The combination of negotiated tariffs and a new trade policy structure enhanced executive autonomy.

8. Conclusion

The RTAA marked an important institutional innovation in American trade policy. Expanding the executive presence in the trade area created new expertise and institutional interests in liberalization while broadening the context for formulating trade policy. The new structure also changed the relationship between business and government. Protectionist forces were by no means silenced. But congressional tariff-making had obscured the costs of particularism and made protectionist lobbying relatively cost-free. The new institutional structure exposed the trade-off between export expansion and protection, provided new incentives for internationally competitive industries to organize, and thus increased the costs of protectionist lobbying while decreasing the likelihood of success.

The dramatic fall in exports during the Depression stimulated agriculture and export-oriented manufacturers to support some trade-policy initiative. Yet, as Judith Goldstein has argued most cogently, conflicting norms were institutionalized.[102] Even as liberals sought to advance the cause of freer trade, the "compromise of embedded liberalism" guaranteed at least tacit political support from potentially affected industries. This compromise took two forms. The NRA, the AAA, and an independent monetary policy offered an additional layer of protection to the economy. The institutional compro-

100. Sayre, *The Way Forward*, p. 96.
101. Kottman, *Reciprocity and the North Atlantic Triangle*, p. 257.
102. Goldstein, "The Political Economy of Trade."

mises included congressional oversight and channels, albeit circumscribed, for industry to express its grievances.

The initiative for reforming the policy machinery came not from the private sector, nor from the White House, but from champions of freer trade in the State Department. The State Department had ideological and institutional interests in institutional reform, but these were largely tied to broader international interests. The State Department saw that the move to preferences and bilateralism in the international system demanded a more flexible and credible *domestic* bargaining structure. Negotiating tariff reductions required some insulation from protectionist pressures. This insulation was achieved in part by shifting authority towards the executive, and in part by expanding the government's expertise and capacity to independently gather and process information.

This study raises three larger theoretical issues: one concerns the utility of international structural explanations; the second concerns the contention that the United States has a "weak" state; the third concerns the controversy over "statist" and "societal" approaches to policymaking.

Attempts to construct international systemic explanations of trade policy have stumbled on the interwar years. Though the United States had achieved the stature of a hegemon by many objective indicators, it refused to play its assigned role. In his study, *World in Depression,* Charles Kindleberger summarizes the political as well as explanatory puzzle: the British *couldn't* supply international leadership in 1929 and the United States *wouldn't.*[103] Power to act as a stabilizer was not at issue, only "will." But what explains the change in will?

Beginning with structural explanations, Stephen Krasner and David Lake revert to domestic political factors to explain the "lag" in policy.[104] Oddly, they may abandon the international level of analysis too quickly. The weakness of their systemic argument stems from an overly narrow conception of international structure as the distribution of capabilities and from paying inadequate attention to how domestic actors actually perceived international constraints and opportunities. The international system comes into an explanation of the RTAA in two ways, but neither fit neatly into a Waltzian conception of structure. First, changes in the international political *processes* that governed trade demanded greater domestic flexibility, pushing State Department officials to seek a restructuring of the trade policy machinery. Second, a series of uncooperative actions, beginning with Smoot–Hawley and continuing through Roosevelt's monetary policy, ultimately facilitated a more forthcoming trade policy by compensating potential losers. Redundant levels of protection and an improvement in trade in

103. Charles P. Kindleberger, *World in Depression,* p. 292.

104. Krasner, "State Power." Contrast Lake, "Beneath the Commerce of Nations" and "The State and American Trade Policy in the Pre-hegemonic Era," this volume.

1933—both associated with an aggressive monetary policy—gave the administration arguments for moving ahead.[105]

This article casts some doubt on the value of a "weak state" approach to U.S. foreign economic policy. While it is perhaps useful for some broad comparative purposes, the approach is overly static, suggesting a constancy in "state strength" over time. In fact, the "strength" of the state, or more simply, the capability of the executive, can shift, particularly in response to crisis. If institutions matter in explaining policy outcomes, political scientists should spend more effort unravelling those historical conjunctures or "turning points" when the context of policymaking changes fundamentally. Second, the weak state argument overlooks the various ways that state actors can take the initiative to pursue their own organizational and ideological interests and to structure opportunities for new or latent social coalitions. In the trade case, the reforms that were associated with the RTAA made protectionist alliances more difficult by moving authority towards more insulated executive arenas, in which broader foreign policy calculations and technical expertise entered into decision-making. Gil Winham's insightful analysis of the Tokyo Round negotiations reaches a similar conclusion, showing how astute institutional engineering limited the ability of different sectors to veto executive initiatives.[106]

I have attempted to counter purely societal explanations of trade policy by examining the role of executive initiative and by showing that the very power of "societal" actors cannot be divorced from their institutional context. The distinction between "statist" and "societal" models seems, in the end, artificial.[107] Students of American politics have long observed that bureaucratic and business interests frequently converge, resulting in policy coalitions that span the state–society divide. They have also paid attention to the agenda-setting and coalition-building power of the executive.[108] The debate on the domestic determinants of American foreign economic policy should rotate less around whether state actors, societal actors, or international pressures are more important in particular instances, and more on how institutions differentially process external constraints and structure the access of groups to decision-making.

105. Oye makes a similar argument in "The Sterling-Dollar-Franc Triangle."

106. Pastor, *U.S. Foreign Economic Policy*; Gil Winham, "Robert Strauss, the MTN and the Control of Faction," *Journal of World Trade Law* 14 (September/October 1980). Pastor virtually ignores the role of the private sector.

107. For example, Stephen Krasner, *Defending the National Interest* (Princeton, N.J.: Princeton University Press, 1978).

108. Examples of recent work in American politics that gives weight to "state" actors would include the literature on agenda-setting; see John Kingdon, *Agendas, Alternatives and Public Policies* (Boston: Little, Brown, 1984); and on policy communities, Hugh Heclo, "Issue Networks and the Executive Branch," in Anthony King, ed., *The New American Political System* (Washington, D.C.: American Enterprise Institute, 1978).