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OD BILATERALISMU K OMEZENÉ NEUTRALITĚ: AMERICKÝ ZAHRANIČNÍ OBCHOD MEZI LETY 1933 – 1939

FROM BILATERALISM TO LIMITED NEUTRALITY: AMERICAN FOREIGN TRADE 1933 – 1939

Zdenka Johnson[1]

Studie se primárně věnuje rozboru vnějších hospodářských vztahů Spojených států amerických v letech 1933 – 1939. Je nastíněna nová strategie zahraničně-obchodní politiky přijatá po roce 1933, stojící na rozšířeném bilateralismu a recipročních obchodních dohodách. Tato liberální politika ovlivnila objemově, strukturálně i teritoriálně zahraniční obchod USA. Ačkoli se americká vláda snažila řešit domácí hospodářské problémy podporou vývozu v některých oblastech ekonomiky (například v zemědělství), v komoditní struktuře se prosadil spíše dlouhodobější trend k obchodu, ktorý odpovídal průmyslově vyspělé zemi. Zásahy vlády se částečně projevily v růstu významu obchodu se strategicky důležitými oblastmi (například Latinskou Amerikou) na úkor tradičních obchodních partnerů. Důležitým závěrem studie je také tvrzení, že význam zahraničního obchodu, jakkoli v průběhu 30. let rostoucí, byl ovšem stále marginální.[2]
Klíčová slova: Spojené státy americké, 30. léta 20. století, zahraničně-obchodní politika, reciproční obchodní dohody, vývoz, dovoz

This study analyzes primarily the United States' external economic relations from 1933 to 1939. The new foreign-trade policy strategy adopted after 1933, based on expanded bilateralism and reciprocal trade agreements, is outlined.

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This liberal policy could influence both the volumes and the structure of foreign trade of the USA. Although, American government tried to solve domestic economic problems by supporting exports in some industries (for example in agriculture), the U.S. commodity structure changed according to a longer-term trend towards that of an industrially advanced country. Government interventions were also partly reflected in greater importance of trade with strategically substantial areas, such as Latin America. A salient conclusion of the study is also the assertion that the significance of foreign trade, albeit rising in the course of the 1930s, was still marginal.
Key words: United States of America, 1930s, foreign trade policy, Reciprocal Trade Agreements, exports, imports
JEL: F14, N42, N72

1 INTRODUCTION

The main purpose of this research study is to characterize and analyze the main aspects of the United States foreign-trade relations after the Great Depression. The Great Depression was a disruptive factor that significantly influenced American economic relations with other countries. During this period, foreign trade was not considered as important as the domestic economy. United States foreign trade policy was largely shaped by internal economic policies. The solution to deep macroeconomic imbalances caused by developments in the 1920s and 1930s lied, inter alia, in the area of foreign trade and capital movements. Especially in the case of the United States, domestic economic policy focused on addressing internal economic problems through protectionism; the impact on external relations was secondary. However, with the arrival of Roosevelt's government in 1933, there were changes in the economic and political priorities and instruments that either directly or indirectly involved foreign trade.

In this context, several research questions arise, which are answered in this text. These questions include the following: Were the measures of the 1930s different from the established course of foreign trade policy? Did the ideological goals of internationalism mirror foreign trade policy in practice? How did the structure of foreign trade change? Did convergence of the United States and European countries occur due to the threat of the Second World War? How did the relations with the Central and Latin American countries change in this regard? Was the United States dependent on the import or export of some commodities? What investment strategies did American businessmen choose on foreign markets? To answer these questions, an analysis of the changes in the objectives, measures, and results of the foreign-trade policy is provided, as well as quantitative analysis of selected foreign trade statistics.

2 DOLLAR DEVALUATION – GOOD OR BAD DECISION?

One of Roosevelt's first radical measures, which also affected foreign trade, was the devaluation of the United States dollar. It was not just a decision in terms of

the gold standard and the liberalization of monetary policy to promote economic recovery and reflation, but also external relations. It was a reaction to the earlier beggar-thy-neighbor policy adopted in the United Kingdom (and generally countries using the British sterling) and Japan.[3] This policy of surprising devaluation of foreign currencies meant a temporary unilateral advantage in price competitiveness, in this case at the expense of the United States. Following Roosevelt's 40% devaluation of the dollar in 1933, it can be said that the official dollar exchange rate was artificially undervalued by 1935 or 1936 (Arndt 1972).

This devaluation of the dollar virtually meant ceteris paribus increase in dollar incomes of American exporters by the same number. On the import side, there were negative (although desired by American government) price effects meaning an increase in import prices by 60%. In the short term, the trade balance showed a larger increase in exports. Despite higher import prices, imports also grew. This development can be considered positive from the point of view of American trade balance, but not from the point of view of the world economic system sustainability. It was the same situation as in the 1920s: the United States was a global creditor, which should have corresponded with the deficit in American trade balance so the system could have been balanced. The situation even worsened in the second half of the 1930s, as is shown below. However, the American economy received significant foreign investments looking for opportunities not only for speculation, but also for rescue because of developments in Western Europe.

The decision to devaluate the US dollar caused an uproar in the ongoing World Economic and Monetary Affairs Conference in London in 1933.[4] The leaders of many developed countries met to agree on another form of the world monetary system. The attempt was to find an agreement, especially among the gold standard countries (such as France), the sterling bloc countries, and the United States. The key point was monetary stabilization, which was logical because of the destabilization of the system due to surprising devaluations, subsequent currency shocks, and crises.[5] The devaluation of the second strongest currency implied not only the loss of previously acquired competitiveness in other countries, but also pressured them for more restrictive monetary policy, further devaluation of their domestic currencies (for example in Australia or Belgium), additional deflation, and import regulation mainly in the countries of the golden bloc (for example France or The Netherlands). Other

[3] The share of United Kingdom and Japan on the world trade increased by 16% and 29% in 1932 in comparison with the previous year (Arndt 1972, p. 74). Eichengreen, Sachs (1985) argue about the benefits of beggar-thy-neighbor policy for the world economy, as collective devaluation of the currencies of several countries, and not the unilateral action of one country.

[4] On the development of American position during the conference see Gardner (1971, pp. 26–33).

[5] On the other conference goals see Crawford (1972, pp. 50–66).

countries, such as Germany and Italy, already resorted to bilateral trade agreements and strict control over foreign exchange.[6]

The introduction of the Smoot-Hawley Tariff Act at the onset of the Great Depression brought about the gradual collapse of foreign trade not only in the United States but ultimately in a global context (United States International Trade Commission 2009, p. 63). Restrictions in American foreign trade, coupled with American capital outflows, forced indebted European or South American countries to further curtail their own trade, devalue their currencies, or regulate the use of foreign currencies. Another impact was expressed in the (total and partial) defaults of many countries towards the United States. Unfortunately, the devaluation of the dollar in 1933, 1934 respectively, did not mean a major change, although it brought about a decline in debt to the United States. In 1933, almost all governments except for Finland defaulted, which in total accounted for about one-third of all United States investment in foreign bonds (Arndt 1972, p. 72). During the Great Depression, American investors lost a lot of their foreign assets gained over the past twenty years. Thanks to the devaluation and stabilization of the dollar, the flow of short-term (but also long-term) foreign capital flows reversed, which brought about the desired flow of gold. Nevertheless, one cannot argue that export growth and capital inflows occurred only through the intervention of the state in the exchange rate. Similarly, the negative effects of the dollar devaluation must be considered not only in the short term, i.e. deterioration in the terms of trade for other countries, as well as in the long term, when their purchasing demand for American goods declined. Ultimately, the devaluation of the dollar most likely delayed, or slowed down, otherwise faster economic recovery in the countries of the United States important trading partners.

In connection with the American withdrawal from the gold standard in 1933, a so-called dollar bloc was created. A group of countries led by the United States officially maintained fixed exchange rates between domestic currencies and the American dollar. Typically, these were economies having close business relations with the United States, namely Canada and the Latin American countries. Much of their currency reserves were deposited in dollars in American banks, and their dollar accounts also served to offset international payments. Within this bloc, but also similarly created (sterling, gold) blocs, there was promotion of mutual internal trade and, on the contrary, the attenuation of trade with areas outside the bloc.[7]

After a successful set up of exchange rate of USD 35 per ounce of gold, President Roosevelt decided to intensify cooperation on the stabilization of the international monetary system and began negotiating with France and the United Kingdom. The result was the Tripartite Agreement of September 1936, which

[6] Compare with Eichengreen (1995, pp. 317–342), or Eichengreen, Irwin (2009, pp. 32–33).
[7] More in Eichengreen, Irwin (1993); Eichengreen, Irwin (1995); Patel (2016, p. 36).

established tripartite fixation of the dollar, British pound, and French franc rates. The agreement also included the resumption of gold convertibility and the need for mutual consultation to avoid surprising devaluations, such as during the Great Depression.[8] The sustainability of this agreement could be attributed to the setting of exchange rates, which largely corresponded with their equilibrium levels in the world market. The United Kingdom devalued its currency in 1931, the United States in 1933, and France eventually in the fall of 1936.

The moderate devaluation of the franc, albeit with subsequent costs to the French government, was not only of economic but also military importance, since the militarization of Germany at that time was obvious (Oye 1985).[9] It was necessary for the French economy to be free from deflationary pressures stemming from strict regulation of imports induced by a gold standard for many years. Economic growth and political stability were very important for France s ability to function and defend itself.

The United States was the leader in this respect, and this agreement signaled their key position in currency negotiations even later within the Bretton Woods monetary system during the Second World War. The negotiation of the Tripartite Agreement can be considered as one of the proofs of American isolationism and economic nationalism retreating to internationalism, which ultimately prevailed after the Second World War.[10]

3 Reciprocal Trade Doctrine – The Core of (Non-) Liberal Trade Policy

During the 1930s, under the leadership of State Secretary Cordell Hull, the American foreign and commercial policy strategy was significantly transformed. The original long-term protectionism was replaced by a more liberal attitude. Greater liberalism consisted in the reciprocal reduction of trade barriers.[11] This shift is even more striking considering the more rigorous regulation of trade and bilateralism in other developed countries. This strategy corresponded with one of the goals of New Deal – to revive the economy, especially the export industries. The most important export sector was agriculture, deprived for a decade and reliant on foreign markets in its sales. Substitution of foreign demand by domestic markets had historically proved to be inadequate and the only option was to open up to foreign trade without any

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[8] On the development of American position on this agreement see Crawford (1972, pp. 277–282), or Eichengreen (1975, pp. 348–389).
[9] Compare with Nash (1979, pp. 90–106).
[10] More in Frieden (1988, pp. 87–90); Oye (1985, pp. 191–199); Crawford (1972, pp. 284–288).
[11] A possibility of unilateral decrease in protectionism was not discussed in essence, since it would have meant necessary adjustment processes in American economy. There was a legitimate fear of adverse changes in the balance of payments. In particular, a loss of the position of the world creditor.

severe restrictions. Experience with the Great Depression had shown that foreign trade had been falling under the influence of protectionism and undergoing very negative development in the traditional industries of American agriculture. American foreign trade policy became clearly motivated in every way by addressing domestic problems.[12]

Behind the idea of freer trade, goals similar to those of European countries were hidden, i.e. maximum exports and minimum imports. However, it should be noted that liberalization in foreign trade went in a way against the general nature of New Deal, which was the greater role of the state in the economic sphere. The decision to abandon the autonomous instruments of foreign-trade policy in favor of discretion raised the question of the continuation of the Most Favored Nation clause (MFN) clause that had been used in the past. Although, the principle of non-discrimination in foreign trade was maintained, and the MFN clause became an integral part of all reciprocal trade agreements.

In terms of the domestic politics, a more liberal foreign-trade policy was supported by the financial and investment circles identifying the business potential in not only collection of bad debts and investments abroad in the 1920s, but also of course new investments. Some farmers were strong advocates of this policy as well. On the contrary, protectionism was promoted by industrialists. Their attitude was somewhat illogical, as American industries were not in the position of the infant industries for several decades and did not need external protection. However, the industrial circles were still very influential and shaped United States foreign trade policy through a conservative Congress. Even in the industry, there were exceptions, such as the automotive industry, whose manufacturers (due to their prominent position on the international market) were clinging to the idea of free trade.[13] For these reasons, the American government has also decided not to reduce trade barriers across the board but to reduce them individually in bilateral negotiations. Hence, it could be selectively decided which industries, commodities, and countries were to be covered by liberalization. Reciprocally, the other country was to behave the same way.

The legal basis for bilateral negotiations was provided by an annex to the Smoot-Hawley Tariff Act in the form of the Reciprocal Trade Agreements Act of 1934 (RTAA), which mandated the President to negotiate with other countries with a perspective to mutually reduce trade barriers for the next three years (United States Congress 1934). American duties could be reduced by as much as 50%, with the MFN clause reserving the same terms and conditions for all countries. Those countries discriminating against American trade might have been excluded. The President was

[12] Compare with Frieden (1988, p. 85); Gideonse (1940); Haggard (1988, pp. 107–110); Patel (2016, p. 151).
[13] Compare with Haggard (1988, pp. 97–99).

not allowed to move items between non-duty-free between duty-free groups. The originally three-year period was repeatedly extended in 1937 and 1940 as the Republican Party began to support reciprocal trade agreements and withdrew from its demands for protectionism.[14] Reciprocal trade agreements constituted a unique transfer of power within the legislative and executive branches (Irwin, O'Rourke 2011, p. 25). Foreign trade measures until then had been approved by Congress, now the President could make those decisions. Again, the experience of the last ten years of protectionism could lead to the adoption of this fundamental law. In an effort to prevent Congress from failing to liberalize trade as in the 1920s and during the Great Depression, two-thirds of the congressmen had to vote to abolish this new law (United States International Trade Commission 2009, p. 65).

In one year, more relaxed conditions for mutual trade were agreed especially with the countries of Latin America, namely Cuba, Brazil, Haiti, or Belgium (Berglund 1935, p. 411). By 1938, 18 different contracts were negotiated (Lake 1983, p. 538), by 1940 it was 22 (Hunt 2007, p. 104). Special attention was paid to the countries of Latin America where the United States attempted, through its non-interventionist policy, to acquire inter alia new economic opportunities under reciprocal agreements and to restore their status and influence in Central and South America (Patel 2016, p. 151).[15] Negotiations with Latin America were the easier ones, as these countries were much more dependent on the American market than vice versa, and their products did not pose a greater competitive threat to American manufacturers. By the beginning of the

[14] The main reason for this change was not a sudden ideological shift in the Republic Party, but stronger influence of exporters and their more efficient lobbying (Irwin, Kroszner, 1999).

[15] President Roosevelt defined this attitude as a good neighbor policy, which had been already proclaimed by Presidents Woodrow Wilson and Herbert Hoover. This old/new strategy in foreign relations radically differed from the past policy of intentional interference into Central and South American countries issues, using economic instruments, government coups, or military invasions. This style of foreign/foreign-economic policy of the United States at the beginning of the 20th century (especially during presidency of Howard Taft) towards the countries of Latin America and East Asia is referred to as dollar diplomacy. Its goal was to create a stable environment abroad and even at the cost of military intervention to promote American commercial and economic interests. A typical example may be the participation of the J. P. Morgan financial group in the investments in the Chinese railways. American foreign capital was used retrospectively as an argument for interference in a given country. Basically, it was an extension of the Monroe Doctrine of 1823 in the financial field, as potential financial instability in the Western Hemisphere could mean vulnerability to European powers. For this reason, the United States stipulated the possibility to intervene. Dollar diplomacy was (temporarily) abandoned under President Woodrow Wilson and replaced by the concept of internationalism and global democracy.
Even though, many Latin American countries were originally rightfully skeptical towards the change in American foreign policy, the United States maintained this policy for a time. More in Gardner (1971, pp. 109–133).

war, more than twenty countries had reciprocal agreements with the United States, half of which were Latin American states. One of them was Canada, a very important trading partner for the United States. About one-seventh of American exports headed to Canada, while Canada exported about one-third of its production to the American market.

Europe was a real challenge and a hard test for the New Deal s liberal politics on foreign markets. The production of European countries was the largest competitor of American products not only in the American domestic market but also in the markets of other countries. Logically, a large part of mutual trade was regulated by customs barriers. On the other hand, Europe represented the largest potential market for American agricultural surpluses. Despite (or maybe because) the United States had a positive trade balance with most, their negotiating position was stronger than that of Latin American countries. In the end, however, America succeeded in reaching an agreement with countries such as the Netherlands (which was particularly important due to close ties to the Netherlands territories in South East Asia) and Switzerland. Small positive changes were made with France, Czechoslovakia, or Turkey. Negotiations with other European countries, Spain, Italy, or Germany (as well as Japan in Asia) were doomed to fail in advance (Irwin, 1998, p. 343). Outside the reciprocal agreements, a separate trade agreement in 1935 was signed with the Soviet Union, recognized as a sovereign country by the United States. The agreement guaranteed the Soviet Union the granting of the MFN clause in exchange for a pre-agreed sale of American goods.

Achieving an agreement with the United Kingdom was complicated by several facts. British products were historically the most important competitor for American industrial products, which were the most burdened by British tariffs and regulations. The British market could thus be potentially very important for exporters of American agriculture surpluses as well as for exporters of raw materials. Starting in 1932, the United Kingdom restricted its imports from the United States in favor of its empire area by so-called preferential tariffs. The agreement between these two important market economies would mean a significant shift in freer world trade, including a retreat from the British imperial preferential system. After complicated compromise negotiations, the Anglo-American Trade Agreement of 1938 became an important divide in British-American trade relations (B. S. K. 1938). Although the United Kingdom still selectively applied bilateralism after the signing of the agreement, it was important for American exporters that minor changes happened in the imperial preferential system. Of course, the negotiating position of the United States was

intensified by the forthcoming European conflict and United Kingdom's need to obtain economic and military aid (Smith 1990, pp. 284–290).[16]

Based on 1938 data, it managed to "liberalize" up to 60% of American foreign trade through a system of reciprocal, bilateral trade agreements, which accounted for about one-third of export items (Arndt 1972, p. 83; Irwin 1998, p. 343). The United States reduced the customs burden for about 45% of their dutiable imports.[17] At the beginning of the 1930s the average rate of duty was around 50%, and in 1939 it was less than 40% (Irwin, 1998, p. 350). For roughly two-thirds of the import items, which were previously free of duty, the U.S. managed to maintain this status. The positive effects of the more liberal American foreign-trade policy can certainly be seen in an increase in both American and world trade.

Despite partial positive results, it should be stressed that customs protection of American domestic market remained relatively high (Irwin 2012, p. 86). Limitations of the original 50% reduction in tariffs, the struggle with strong domestic interest groups or the existence of MFN clause effectively prevented the further trade opening. If the President wanted the law to be extended, he could not afford more significant changes. The MFN clause worked in some cases reversely of what was intended. In order to not grant a special advantage to one country in some commodity, the negotiations between the United States and other countries were locked or the commodity duty was not reduced.

Liberalization changes in foreign trade might not have brought as great results as expected. The share of the United States in world trade from 1933–1937 increased by more than one-fifth, nonetheless in 1937 the volume of American foreign trade was not even close to its level of 1929 (Arndt 1972, p. 87). It was obvious that liberalism in foreign policy is not a panacea and deep problems of the American economy – surpluses in agriculture and stagnant export industry – had not been solved completely. Nevertheless, one can claim that it was a revolutionary approach with regard to past cruel interventions in international trade, which had a positive impact on the American export sector, and hence economic recovery.

Bilateral agreements had a positive impact on the growth of world trade.[18] However, the blossoming international business cooperation was problematic. Discrimination against some countries continued to exist, and the United States was

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[16] The trade agreement with United Kingdom was significant for the British–American cooperation during the Second World War and then led to the establishment of the Bretton Woods Monetary System where the key elements of the after-1945 economic order were formulated (Irwin 1993, p. 113).

[17] Frieden (1988, p. 87) claims that bilateral agreements covered about 30% of American exports and 60% of imports.

[18] Compare with Lake (1983, p. 538).

also subject to this discrimination.[19] Although the United States also kept obtaining the MFN clause from other countries, this advantage was not always enough, and non-tariff barriers to trade in the form of quotas, licensing conditions, barter agreements, etc. came up as well. So while tariff barriers diminished, there was still extra trade regulation which manifested in non-tariff forms of protectionism.

Unilateral, discriminatory trade decisions were fairly common not only towards the United States but also coming from the U.S. The possibility of excluding a discriminatory country from the MFN clause granted by the United States was used sporadically. There were two exceptions: Australia for several months and later Germany, which was officially accused of discriminating against American goods. Discrimination practiced by other countries was either deliberately ignored or "satisfactorily" explained. In the case of United Kingdom, the preferential tariffs were explained such as the British Empire was actually a unitary state, a sovereign political unit setting its own internal trade policy.

4 SELECTIVE AMERICAN NEUTRALITY

Already in 1934 President Roosevelt made it clear that the United States would not be dragged into another European war: "I have made it clear that the United States cannot take part in political arrangements in Europe, but that we are ready to cooperate at any time in practicable measures on a global basis looking at immediate reduction of armaments and the reduction of barriers to trade" (Gardner 1971, p. 85). Apparently, he was willing to get close to Europe in economic relations. This position remained the same even in the second half of the 1930s. The United States tried to remain strictly neutral, although there was no clear consensus in this attitude towards the developments in Europe and East Asia.

There were clear and understandable reasons for wanting to maintain neutrality. The majority of the American public fundamentally rejected the active participation of the United States in European and potentially world conflict. This was especially true after the experience of the First World War and the discovery of the Nye Committee, which confirmed the presumption that the United States was dragged into this war by the prospective profits of industrial and commercial circles.[20] Another

[19] Wide-spread discriminatory practice of the 1930s is very well depicted in contemporary review study (The Past and Future of Exchange Control 1940).

[20] However, the results of the Nye Committee (officially Special Committee on Investigation of the Munitions Industry) can be perceived in isolation, not as a "political affirmation of the correctness of isolationism in the 1930s", but as dealing with the First World War by finding internal, domestic reasons for entering it, when ultimately Americans (not everyone, of course, especially the so-called "merchants of death"), were not motivated by higher goals, but merely profits. Roosevelts relationship with Nye Committee changed over the years; from the enthusiasm in 1934 when it was founded, through laxity to skepticism in 1936. For example,

reason was that even indirect participation in the war would require additional financial resources, which would burden the domestic economy, and could potentially lead to a rise in debt to the United States, which again did not appeal to many Americans after First World War experiences.[21] Before the outbreak of the Second World War, military and strategic considerations also played a significant role when the U.S. Army leadership feared that any material (not military) assistance to the United Kingdom or France could fall into the hands of the Germans. American resources should not be wasted on the European continent but used to defend the Western Hemisphere, the sphere of American influence.[22]

The result of isolationist efforts was the approval of the first Neutrality Act of 1935, which inter alia prohibited trade in arms and ammunition with countries at war, and forced exporters to obtain a special export permit (United States Congress 1935). The second Neutrality Act of 1936 extended the prohibition to the granting of loans and credits to belligerent countries, but this did not concern countries in the civil war (United States Congress 1936).[23] Some American companies like Ford Motors, General Motors, or Texaco used this deficiency to supply the Franco s regime in Spain.[24] The legislative error was corrected in the Neutrality Act of 1937, which also included a ban on arms transfers to countries in the war (regardless of the arms' country of origin). American presence was banned on ships of warring countries. This law did not have a time of expiration, as did previous laws. The last modification occurred in 1939 when the compulsory licenses for arms trade were introduced and the statutory regulations of 1935 and 1937 were abolished.

Congress was particularly representative of political isolationism. President Roosevelt shared a rather internationalist vision of the world, demonstrated by the active role of the United States in world affairs. He also did not like the neutrality acts as they did not differ between the aggressor and the victim, and de facto gave the aggressor the advantage. The President therefore sought to circumvent the neutrality acts by approving the cash-and-carry clause under the Neutrality Act of 1937 (United States Congress 1937).[25] This clause gave the President the opportunity to trade (excluding arms) with the countries he selected, in exchange for immediate cash or

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just in 1936, when the Committee published its results, it was openly supported by the President because of presidential elections in the same year (Coulter 2001, p. 34).

[21] Under the Johnson Act of 1934, the United States was not allowed to borrow to countries that had not paid their First World War debt. United Kingdom was one of them. Compare with Hunt (2007, p. 103).

[22] An extensive analysis of the evolution of American isolationism was brought for example by Jonas (1966).

[23] In essence, it was an annex to Neutrality Act of 1935.

[24] More in Tierney (2007, pp. 55–75).

[25] In essence, it was an annex to Neutrality Act of 1935.

gold payments and shipping on non-American ships. Cash-and-carry was designed for all countries, but in the 1930s only United Kingdom and France had enough money or gold and a large fleet to efficiently take advantage of it. Although the Neutrality Act had no time of expiration, the cash-and-carry measures were to expire after two years. Despite the initial failure, cash-and-carry was extended in 1939 and the arms trade exemption was removed (United States Congress 1939). At the same time, the applicable act on neutrality in 1939 revised the arms trade and basically legalized it under cash-and-carry. The ban on loans and transport of war material on American ships was still valid. Over the years, the United Kingdom paid for her deliveries by transfers from her dollar accounts and by sales of United States obligations worth USD 570 million, as well as the transfer of gold worth more than USD 2 billion (Rockoff 1998, p. 74).

Neutrality acts represented a compromise between the isolationism of Congress and the American public and the internationalism of Roosevelt's administration. From the point of view of foreign trade in the form of goods and investments, they certainly represented unwelcome regulation and threatened the interests of many businessmen. This regulation, of course, caused distortions in the commodity and territorial structures of American trade by the federal government. They could be only be partially offset by the special cash-and-carry clause. Neutrality acts finally lost their purpose after the United States entered the Second World War at the end of 1941.

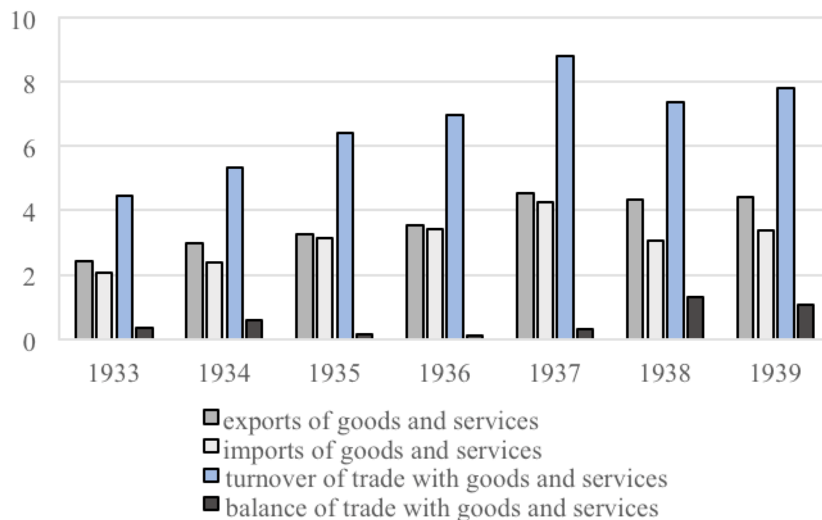
5 Transformations in American Foreign Trade

Thanks to more favorable American foreign-trade policy, devaluation of the American dollar, increasing American demand, improved international economic environment, and revived partner economies, the value of American foreign trade steadily increased from 1933 to 1937 (see Fig. 1). Exports of goods and services at current prices[26] increased on average by 9.3% year-on-year from 1933 to 1939 (in the case of exports of goods only, which accounted for three quarters of total exports, it was about 11%). Year-on-year absolute decreases of this indicator could be observed in 1933 and 1938 (see Fig. 2). On the other hand, the highest growth of over 25% was achieved in 1934 and 1937. The annual growth of imports of goods and services stabilized to 9% (in the case of imports of goods only, it was 10.9%). The timing of absolute declines coincided with development of exports. Most of the goods and services were exported in 1935 and 1937. In the 1930s, the U.S. managed to export more than it imported, so the motto "export as much as you can and import as less as

[26] Given the fact that following more detailed analysis of the development and structure of foreign trade is based on current prices data, it is appropriate that the analysis of the total export and import indicators is also provided in current prices.

you must" was fulfilled, but just with a negligible cushion. The very small difference between exports and imports of goods and services logically led to a minimal positive surplus of exports over imports, which in absolute terms meant barely over USD 100 million in a given year (for example, 1935 or 1936).

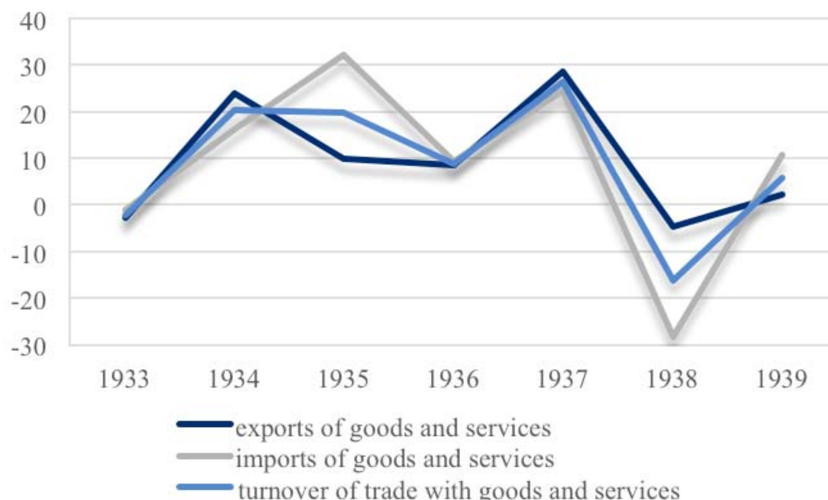
Figure 1: Exports of goods and services, imports of goods and services, turnover of trade with goods and services, balance of trade with goods and services 1933–1939 (billions of USD, current prices)



Note: A negligible part of the export were military transfers of goods and services.
Source: U. S. Bureau of the Census (1975, pp. 864, 866–867) and author's calculations based on the same source, author's layout.

The trend of the positive balance thus continued in the 1930s, but compared to the previous decades, the scissors between export and import were closing (at least until 1936). The development of both of its components logically copied the turnover of foreign trade, which in 1933 was less than USD 4.5 billion. Four years later, the turnover figure roughly doubled, illustrating not only the recovery in domestic and foreign trade of the United States, but also trade and economies of trading partner countries. The year 1938 brought a reversal in this favorable trend, largely due to domestic factors in the form of a short but deep recession. This could be seen in the rapid fall in imports in this year. Unfortunately, the return to the growth trend in 1939 could not compensate for the rapid economic crisis.

Figure 2: Exports of goods and services, imports of goods and services, turnover of trade with goods and services 1933–1939 (%, current prices)



Note: A negligible part of the exports were military transfers of goods and services.
Source: author's calculations based on data from U. S. Bureau of the Census (1975, pp. 864, 866–867), author's layout.

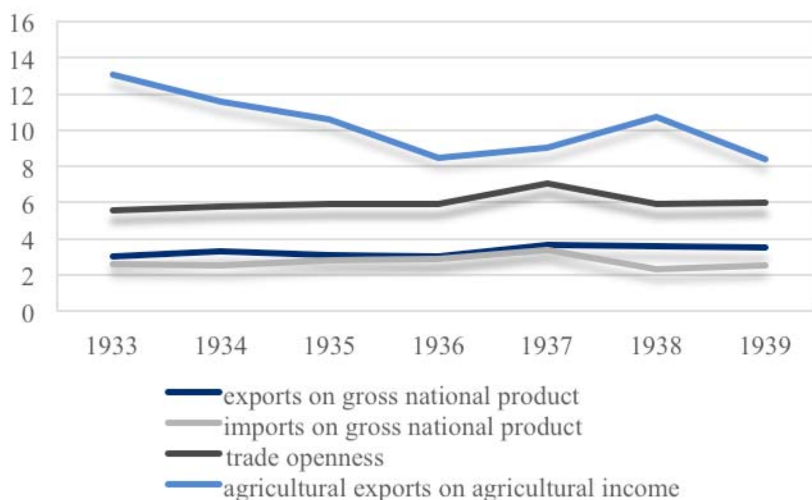
As already mentioned, foreign trade was not as important to the United States of America (generally as an economy) as for European countries. Probably due to the long-term protectionism and size of the American market, the degree of trade openness of the American economy oscillated around 6% of the gross national product (see Fig. 3). The United States thus remained one of the most closed economies.[27] As for the time comparison purpose, the degree of openness in the 1920s was 10%, at the time of the Great Depression 6.7%. It is therefore not without interest that despite the liberalization efforts in foreign trade, the United States was relatively more isolated than in the 1920s. The reasons for this development have already been highlighted and can be found on the American side, partner countries and, in general, the climate of international trade. Smaller openness also meant less vulnerability, and perhaps the United States could also "afford" to leave foreign trade without more fundamental government regulation and rely on market forces (unlike other developed countries). The small importance of foreign trade for the massive American economy is also

[27] The trade "relative insignificance" can be confirmed by the international comparison. United States showed trade openness of 7.3% (as in the share of national income) in 1933, the United Kingdom then 25%, France 23.5%, or Germany 19.5%. The only country that approached the United States in this respect was Soviet Union with a similarly large internal market and resources. However, Soviet Union operated on the principles of the centrally planned economy, so the 7.6% is not a surprise (Arndt 1972, p. 80).

evidenced by the share of exports to GNP, which averaged 4.7%. For imports it was only 4%. Although the shares of the two components were volatile, one can somewhat simply claim that in the share of exports to GNP there was a growing trend, while the share of imports stagnated (see Fig. 4).

The lack of price competitiveness of American agriculture was severely present even after 1933, despite many federal government regulations in this area. The truth is that these measures tended to artificially raise prices in the agricultural sector and had no ambition and could not even have an influence on world prices for agricultural products. In effect, the price unprofitability of domestic producers in agriculture was conserved. The consequence was that between 1933 and 1936, the ratio of agricultural production for exports to the total income in agriculture gradually decreased (by a significant 4.6 percentage points). During the 1920s, this ratio was 20% on average. At the time of the Great Depression it was almost 14%. In both periods the values gradually decreased, of course with a certain degree of volatility. The clear, decreasing trend fully corresponded to economic fundamentals. This trend continued even during the period from 1933 to 1939. Although there was growth in the ratio of agricultural exports to agricultural income starting in 1937, it was only a short-term, two-year fluctuation (see Fig. 3).

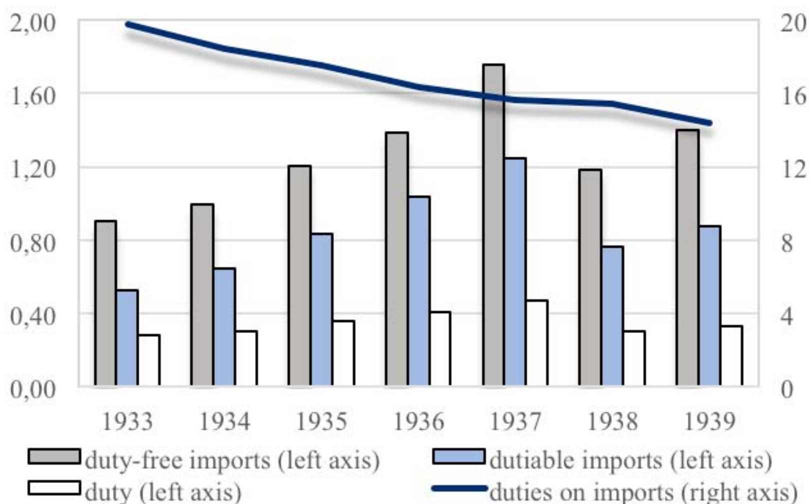
Figure 3: Exports of goods, imports of goods as a share of gross national product, trade openness, share of agricultural exports on agricultural income 1933–1939 (%, current prices)



Source: U. S. Bureau of the Census (1975, p. 887) and author's calculations from the same source, author's layout.

Despite the liberalization efforts in the area of foreign trade, the value of imports for consumption subjected to duty did not decrease dramatically. Changes in total imports in individual years in the period 1933–1939 were broadly reflected in movements of imports for consumption both duty-free and dutiable goods (see Fig. 4). The practically unchanged ratio of duty-free imports for consumption was 60% on average, with 40% then being covered imports with a customs duty. There was no major structural change due to the liberalization of foreign-trade relations. During the 1930s a relative reduction was observed in the customs burden on American imports, illustrated by the evolution of the indicator ratio of duties on imports for consumption. From 1933 to 1939, its downward trend was evident (falling from less than 20% to less than 15%), although the relative share of duty-free imports on total imports did not de facto change. Consequently, a conclusion that is consistent with the earlier findings can be made. The United States was more open to foreign trade (imports), but not through an absolute reduction in duty-free trade items; instead, it was the rate of duty which was reduced.

Figure 4: Duty-free imports, dutiable imports, duty (billions of USD, current prices), duties as a share of imports (%, current prices) 1933–1939



Source: U. S. Bureau of the Census (1975, p. 887) and author's calculations from the same source, author's layout.

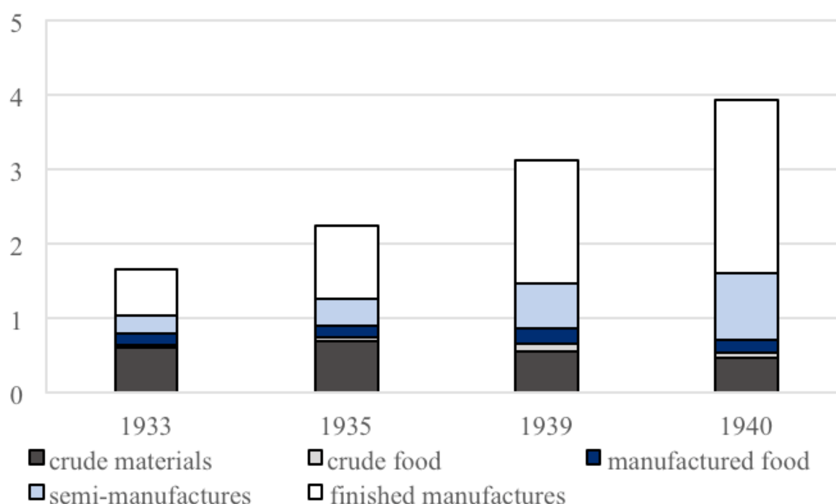
6 Commodity structure of exports and imports

As for the commodity structure of American exports in the 1930s, American producers mainly exported mineral raw materials and finished goods. Exports of raw materials corresponded with the mineral wealth of the United States. National supply covered not only domestic demand but was also demand in foreign markets. At the

same time, one can claim that the raw materials exports are typical of a developing economy, which is unable to compete in more complex levels of production. However, regarding the validity of that argument, one can legitimately argue that the United States also exported substantial amounts of finished products.

During the 1930s, the share of raw materials continued to decline, with the arrival of ready-made products and semi-products (see Fig. 5). The share of raw materials fell from 35.9% to 17.5% in specific numbers of shares of individual product groups in total exports. On the other hand, there was a significant increase in the share of finished products from 37.5% to 53.4%. Semi-finished products increased from 14.4% to 19.2%, while unprocessed food, recorded an increase as well (from 2.9% to 3.6%). Processed food, on the contrary, underwent a steeper drop (from 9.4% to 6.5%). During the 1930s, the American economy was far more profitable from the point of view of exports as a developed country with a corresponding export structure based mainly on the exports of industrial goods with higher added value. The needs of the future Allies, especially the United Kingdom and France, certainly played a significant role. In essence, this was a continuation or renewal of the early 20th century trends, which were to some extent disrupted by the Great Depression.

Figure 5: Structure of exports of good (excluding reexports) according to the goods groups 1933, 1935, 1939, 1940 (billions of USD, current prices)

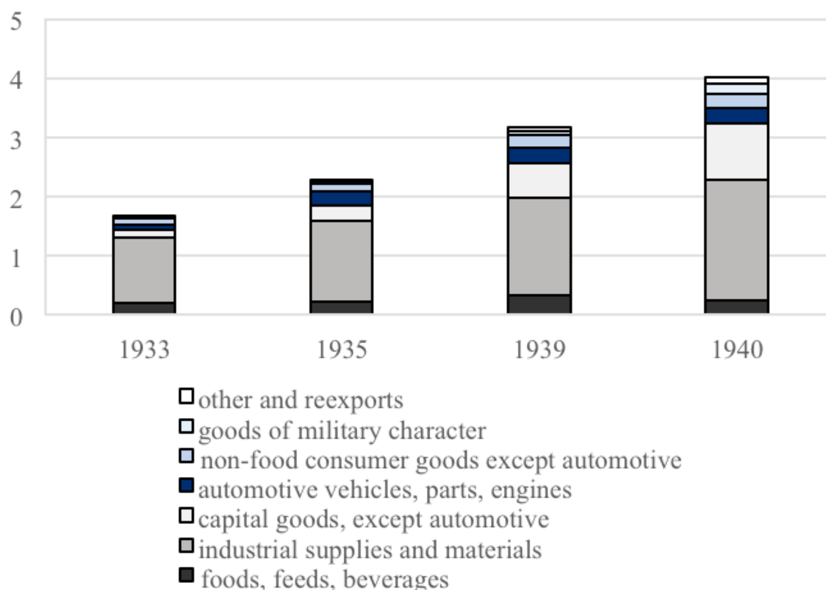


Source: U. S. Bureau of the Census (1975, p. 889), author’s layout.

Changes in the commodity structure of exports are more noticeable in a detailed breakdown in Fig. 6 and 7. On average, roughly 60% of the total sum of selected export groups consisted of a core group of industrial supplies and materials,

but this share declined over 1933–1939. The other relatively most important group was capital goods except automobiles with an average share of about 13%, which increased sharply in the second half of the 1930s. Similarly, the share of the group of automotive vehicles, parts, engines rose with an average of around 8%. Non-food consumer goods except automotive averaged more than 6% with an increasing share. The third most important group was food, feeds, and beverages with an average share of less than 11%. However, its importance gradually decreased over the decade. With the coming war conflict, a group of goods of military character that was not included in other groups became important. The share of this group de facto quadrupled to 1.7% in 1939, although on average it was only 0.8%. On the basis of this more detailed analysis, it is clear that the structure of American exports changed qualitatively towards finished products and, more importantly, from agricultural to industrial products, as mentioned above.

Figure 6: Structure of exports of goods according to final consumption 1933, 1935, 1939, 1940 (selected groups of goods, billions of USD, current prices)



Note: Data for other years were not available.
Source: U. S. Bureau of the Census (1975, p. 895), author's layout.

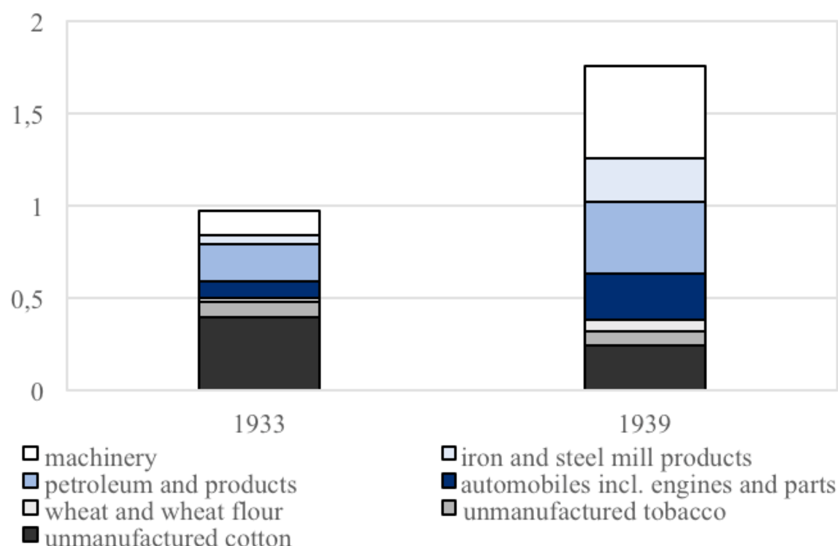
Based on Fig. 7, it is possible in a very schematic manner to designate representatives from the group of industrial supplies and materials such as unmanufactured cotton, unmanufactured tobacco or petroleum and products from it. In the case of food, feeds, beverages, it could be wheat and wheat flour. Among the

capital goods, it was certainly the machinery, with cars forming a separate group. Industries producing higher added value goods such as those in automotive, engineering, and petroleum and related petrochemical branches experienced an unprecedented increase during the 1930s. This success was also evident in the structure of exports, for example the huge boom in the iron and steel industries. These industries seemingly benefited most from the bilateral agreements reducing barriers to trade initiated by President Roosevelt's government.

Although traditional American agricultural products such as raw cotton, unprocessed tobacco, or wheat were among the most stable and key items of American exports for long time, they lost their importance during the 1920s and the Great Depression. This trend continued largely after 1933. This development only illustrated long-term problems with the efficiency and competitiveness of American farmers on the international market. In connection with the crisis of 1937–1938, it was clear that deprived American agriculture had still not solved its problems.

Therefore in 1938, the federal government decided to introduce export subsidies aimed at promoting the sale of wheat, cotton, tobacco and other commodities abroad. The price at which bushels of wheat were sold abroad was almost half of the price paid to American farmers at home. Similarly, a plan to save cotton exports in 1939 was introduced. In the same year, an international barter agreement with the United Kingdom was concluded, which allowed the United States to dispose of unsold surpluses of cotton in exchange for natural rubber. Albeit, in the author's opinion, the long-term trend could not be reversed by the anti-crisis policy of the federal government. A certain upbeat for the agricultural sector was represented only by the Second World War and the supply of the Allies and war-wounded Europe in the first years after the end of the war.

Figure 7: Structure of exports of goods according to the most important commodities 1933, 1939 (billions of USD, current prices)



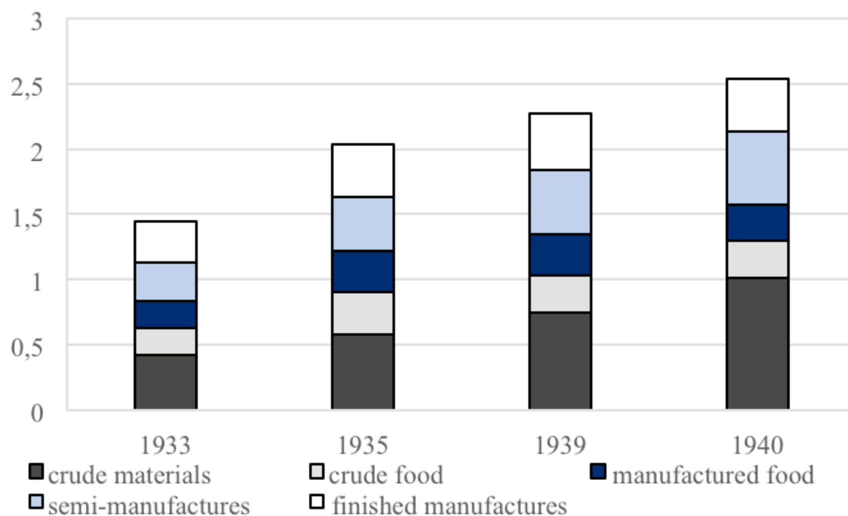
Note: Data for other years were not available. Commodities with a total nominal value over USD 300 mil.

Source: U. S. Bureau of the Census (1975, p. 898), author's layout.

The commodity structure of American imports was more balanced compared to exports of goods over the period 1933–1939 (see Fig. 8). Important import groups included raw materials whose share increased from less than 29% to one-third of total imports, taking into account the needs of the rapidly growing American economy. American importers further concentrated on imports of semi-finished products, and their importance slightly increased during the 1930s (from 20.1% to 21.4%). A similar share was also reported by finished products, but their trend was rather downward (from 22.2% to 19.3%). Unprocessed food contributed with diminished tendency, i. e. less than 15% of imports in 1939. Thus, the importance of unprocessed food was reduced from 14.9% to 12.8%, while manufactured food rather stagnated slightly below 14%.

On the basis of this simple analysis, even in the structure of imports there could be a tendency towards the classical requirements of a fully developed, industrially-based economy with high demand for industrial inputs. Also, there was a good trade exchange with other developed economies, especially in semi-finished products. Imports of agricultural products were gradually weakening as the United States was facing regular surpluses on farms. As in the case of exports, it was possible to see a relation to trends in the 1920s in imports as well. The Great Depression also constituted a temporary interruption, or a delay in this long-term direction.

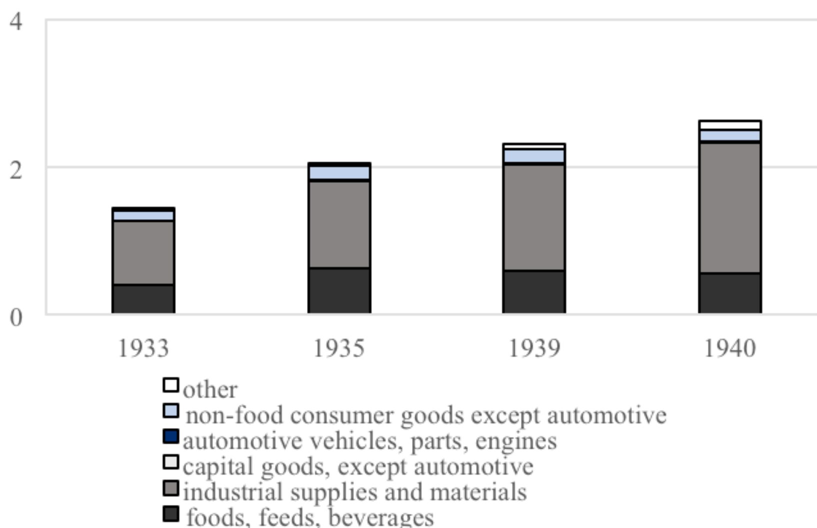
Figure 8: Structure of imports of goods according to goods groups 1933, 1935, 1939, 1940 (billions of USD, current prices)



Note: In 1933 general imports, later imports for consumption.
Source: U. S. Bureau of the Census (1975, p. 889), author's layout.

The suggested reasoning on changes in the commodity structure of imports can be confirmed by a more detailed analysis based on groups of goods for consumption. It can be seen in Fig. 9 that two groups of goods dominated imports. The first was industrial supplies and materials with an average share of 60% in the years 1933–1939, but this share was very volatile. Second, a group of food, feeds, beverages averaging about 28% had an unclear general trend. Another important group was non-food consumer goods except automotive, but their share declined over time (the average value was 9.1%). Capital goods, except automotive contributed to the import at a fraction of a percentage, a group of automotive vehicles, parts, engines was not imported at all. All domestic demand for these goods was covered by local production. From the point of view of this analysis, it may be concluded that imports from the United States mainly provided inputs necessary for further production, in particular of industrial and consumer goods.

Figure 9: Structure of imports of goods according to final consumption 1933, 1935, 1939, 1940 (selected goods groups, billions of USD, current prices)

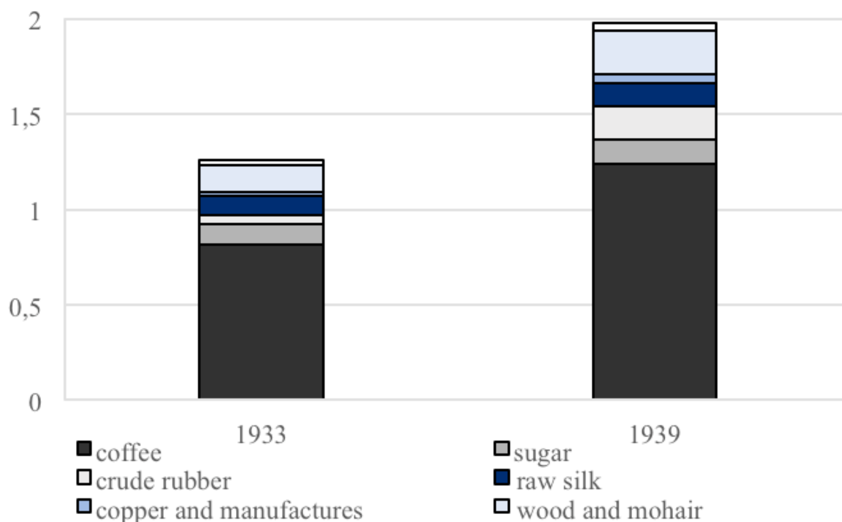


Note: Data for other years were not available.
Source: U. S. Bureau of the Census (1975, p. 895), author's layout.

Not surprisingly, despite the vast mineral wealth and agricultural production of the United States, their import structure was dominated by commodities that domestic producers were unable to obtain in sufficient amounts from local sources (for example due to an inappropriate climate), such as copper, crude oil, or wood. Exotic imports were dominated by coffee and raw silk already in the 1920s. As for agricultural commodities (important for the food industry) the main import was still sugar. In terms of industrial inputs rubber, copper, or oil (typically from Mexico) prevailed. Imports of the most important commodities were influenced by the preference of wealthy American households, as coffee or sugar were considered to be luxury goods in the 1920s and 1930s.

It is interesting that de facto no commodity group or commodity exceeded its level achieved in the 1920s during the 1930s (on the basis of available data). On the contrary, the results of the 1930s were often well below the trade values of the previous decade. Although the Great Depression was seemingly overcome, foreign trade liberalized and supported, American foreign exchange did not fully recover. The sufficient impetus for offsetting and overtaking 1920s values of foreign trade was the Second World War and the intense trade and economic ties between the Allies (though for not all commodity groups).

Figure 10: Structure of imports of goods according to selected most important commodities 1933, 1939 (billions of USD, current prices)



Note: Data for other years were not available. Commodities with a total nominal value over USD 300 million.
Source: U. S. Bureau of the Census (1975, pp. 900–901), author's layout.

7 Territorial structure of exports and imports

Historically, the United States' most important trading partners in exports of goods and services were located in Europe and the Americas. This was also true in the 1930s. From the point of view of the continents, the United States traded the most with Europe, although its economic importance significantly reduced comparing 1939 and 1933 (by 10 percentage points to 40.6% of total exports). European continent countries were significant purchasers of agricultural production. Within Europe, the United Kingdom had a privileged position, but she also ceased to be interesting for American exporters (its share dropped from 18.6% to 15.9%). This is true despite the fact that the average year-on-year growth of exports was almost 9%. Interestingly, in 1938 and 1939 there was an absolute drop in exports to the United Kingdom.

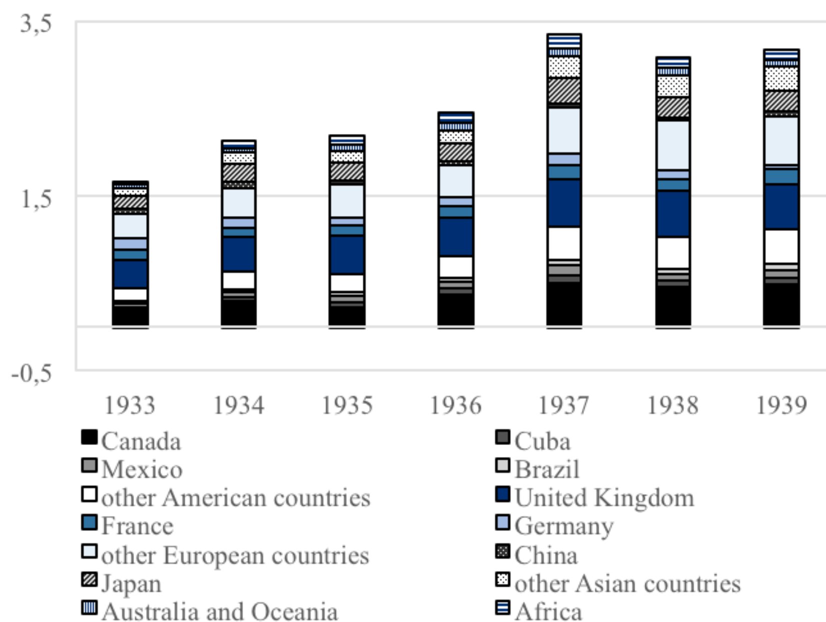
Exports to France were also very similar (the share of total exports fell from 7.3% to 5.7%). Nevertheless, the most significant decline occurred in exports to Germany, where the United States exported more than 8% of its exports in 1933 (roughly equivalent to the 1920s data), but in 1939 it was only 1.4%. The average decline in American exports to this country was about one-tenth per year. The reasons were obvious: political views were increasingly being taken into account in economic relations. Economic uncertainty at first changed over the years to basically a trade war. Through restrictions in German foreign trade, Germans discriminated against

American capital and goods as well. Knowing this, the United States did not want to sign any special trade agreement in which Germany was interested.

The United States focused in its bilateral negotiations on the less developed markets of Central and Latin America, where they were more likely to succeed in exporting their industrial goods than in a competitive European environment (see Fig. 11). European markets were largely replaced markets in the Americas. The share of the Americas (North America and South America in total) increased from 27.2% of exports in 1933 to almost 36% in 1939. American goods were readily accepted in majority of American countries from Canada through Mexico, and from Cuba to Brazil. The share of the key business partner in North America – Canada – grew by almost 3 percentage points to over 15%. An average of 15% was also the year-on-year growth in exports to this country. In particular, American exporters succeeded in the Cuban market, where exports increased on average by one-fifth each year, and Cuba's share on total exports de facto doubled (to 2.6% in 1939). The rest of countries of the Americas also saw a significant rise in trade with the United States. Generally speaking, the countries of Latin America were most interested in processed cotton, leather, paper, steel, electrotechnical, and automotive products (Gardner, 1971, p. 52). After 1937 the Axis countries progressively influenced foreign trade policy of the United States. The South American markets were very important in relation to Nazi Germany and Japan, as both countries began to focus much more on them. Germany especially represented a serious rival in industrial products (Patel 2016, p. 153).

Asian countries did not embody a significant potential for American exports in relative terms, as Asia's share of total exports stagnated around 17.5%. The blame for this disappointing development in the 1930s was, among other things, a decline in the share of civil-war China (from 3.1% to 1.8%), where hopes in the big Chinese market did not materialize. Similarly, the share of militarizing Japan diminished (from 8.5% to 7.3%) a key partner in the Asian market. At the sector level, however, the Far East was of great importance. One-third of American iron and steel production, a quarter of copper mining, 15% of engineering products, and 40% of the paper industry exports were placed there (Gardner 1971, p. 78). Americans managed to penetrate the more exotic markets in Australia and Oceania and in Africa as well. The share for Australia and Oceania grew from 2.1% to 2.5%, and for Africa from 2.6% to 3.6%.

Figure 11: Structure of exports of goods (including reexports) according to countries, areas of destination 1933–1939 (billions of USD, current prices)



Source: U. S. Bureau of the Census (1975, p. 903), author's layout.

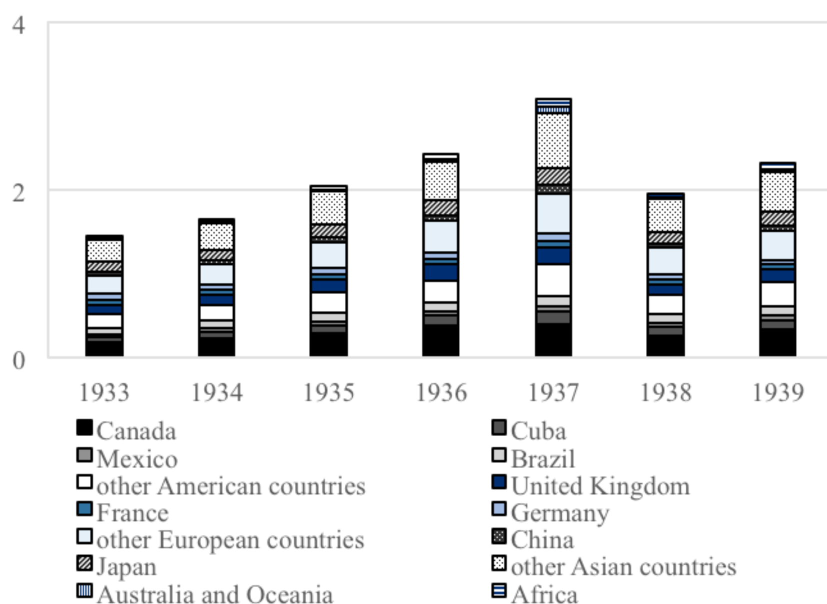
The development of imports of goods according to their territorial structure was pretty similar to exports (see Fig. 12). European countries did again retreat to the Americas. In 1933 Europe's share was less than 32% in order to reach about 5 percentage points less at the end of the decade (26.6%). The share of all important European partners logically declined over time. In the case of the United Kingdom, it was a drop of 1.3 percentage points to 6.4% (although import volumes grew by almost 15% each year), for France by 0.7 percentage points to 2.7% (with an average growth rate of imports by more than 6%) and for Germany by 3.2 percentage points to a modest 2.2% (imports declined by 3.6% year-on-year).

The Americas (North and South America combined) reached a share of 38.7% on total imports in 1939, although in 1933 it was 35.9% and it was almost a continuous increase. Canada and Cuba were particularly vital. Canada's share grew from 12.8% to 14.7% (at an average import growth rate of 12.6%), Cuba, an important sugar supplier, from 4% to 4.5% (11% growth year-on-year). In Brazil, where coffee, among others, was imported, the share slightly reduced. As well as in exports, in imports, Americans, Germans, and possibly Japanese competed for local agricultural crops and industrial raw materials. Brazilian markets were the place where Americans and Germans clashed hard. Both countries wanted to gain a more prominent position. While Brazilian and American governments concluded a bilateral agreement with the MFN

clause in 1935, Brazil still continued to trade with Germany on the basis of another bilateral agreement. The share of German exports to Brazilian imports has virtually doubled. Brazil was in a dual situation, skillfully using her convenient position as a very important Latin American buyer and supplier (Smith 1990, p. 278).

Asian nations as a whole slightly increased their significance by less than 1 percentage point to 31.4%. The biggest contributor to this increase was China, which grew by almost one-fifth year-on-year, resulting in an increase in its share of 0.8 percentage points to 3.4%. Last but not least, other Asian countries had their influence. The importance of Japan as an Asian supplier decreased by 2.2 percentage points to 6.6% (average import growth rate was 5.5%). Importers from Australia and Oceania as well as from Africa became more successful in the American market. Their share increased respectively from 0.9% to 2.2% (with very high year-on-year import growth of almost 39%) and from 1.9% to 3.0% (at an average growth rate of imports of almost 24%).

Figure 12: Structure of imports of goods according to countries, areas of origin 1933–1939 (billions of USD, current prices)



Source: U. S. Bureau of the Census (1975, pp. 905–906), author's layout.

The commodity and territorial structures of American foreign trade were determined, to a certain extent, due to prior historical development and nurturing of existing business relationships. It should be recalled that the conclusion of bilateral contracts, i.e. lowering of barriers to trade in selected agricultural and industrial

commodities, could, to a certain point, shape the structure of American exports and determine countries of their destination. The same relationship probably held on the American import side. The American government, particularly the President, had a unique instrument to "regulate" foreign trade. Despite, from the point of view of the commodity composition of exports, there was a visible shift towards higher value-added industrial goods, which was the result of long-term development. The United States preferred trade cooperation with the countries of the American continent to the detriment of Europe and Asia. In contrast, industrial inputs and materials and more exotic agricultural commodities prevailed in imports.

East Coast containing highly developed industry was the most foreign trade active area of the United States. It was true for both exports and imports. The Gulf of Mexico was in the second place in exports since it was a traditionally agricultural area focusing on the export of agricultural commodities or oil (from Texas). The West Coast and the Canadian border were equally important for both exports and imports. On the contrary, from the point of view of any trade, the least interesting area was a border with Mexico (U. S. Bureau of the Census 1975, p. 896).

The meaning of reciprocal agreements for American foreign trade can be discussed in an analysis of the development of trade with countries with concluded bilateral agreements and countries without concluded agreements. First, exports to countries with agreements (such as Canada, the United Kingdom, or Australia) grew several times faster than exports to countries with non-negotiated agreements. The same can be claimed about the share of the United States in imports from these countries (Arndt 1972, p. 86). On the other hand, the share of "under agreement" countries in American imports was falling over time, and the United States was relatively more oriented towards "no-agreement" countries. Within this simple analysis, reciprocal agreements likely had a more positive impact on the United States than on partner countries.

8 American Investments Abroad and Vice Versa

If during the 1920s the United States' positive trade balance was "offset" by America's positive balance of investments abroad, the situation in the 1930s was different. This sort of compensation was limited. During the Great Depression, many American foreign borrowings and unsuccessful investments took place. American investors were subsequently reluctant to send their money in larger volumes outside of the United States. On the contrary, they pulled billions of dollars back into the domestic economy. The uncertain political situation in Europe did not contribute to a better investment mood. Domestic investors tended to focus on conservative purchases of American government bonds. When some American money was invested abroad, most of the capital went to the manufacturing industry in Canada or Europe

and mining in Latin America. The state of American investments in selected years is illustrated in Tab. 1. It is clear that during the 1930s (1931–1940, and not 1933–1939 in this case), the United States' foreign investments increased by more than USD 14 billion, or more than 170%, but especially because of huge government (public) investment.

The government, specifically public institutions, decided to orient their investments abroad much more than in the past (public investments increased more than 5 times). Many of these investments were made to support American exports through the Export-Import Bank, specially created for this purpose (Patel 2016, p. 151).[28] For example, China was granted a loan to secure the Chinese currency and also to sell American cotton there. In a similar way, Americans lent to the Soviet Union (Gardner, 1971, pp. 33, 36). Cuba gained money support for the purchase of silver and the issue of its currency in the United States. Brazil was granted a loan for the development of railways and construction of a steel factory (Smith 1990, pp. 197–260). An important factor in these loans was surely the growing influence of the Axis countries in Latin America and Asia, the coming war conflict in Europe and the effort to help European countries.

Foreign investors certainly found a safe harbor in the United States for their investments. In one decade, foreign investments increased by about 350%, from USD 3.8 billion to USD 13.5 billion. Most of these investments were classified as long-term direct investment. The American economy was also a great destination for short-term capital coming from abroad. According to data from the second half of the 1930s, United Kingdom, Switzerland, the Netherlands, France, Canada, Germany, Italy and, of course, the Latin American countries were among the most important investors (Crawford 1972, p. 309). Foreign direct investment from these countries were most often directed into the manufacturing, banking, and petrochemical industry (U. S. Bureau of the Census 1975, p. 871).

Precious metals also played an important role in the inflow of foreign capital. They were deposited with the American banks. The reasons for the gold inflows were many. Among others, a greater degree of security, greater profitability of investment in the American economy, a higher price of gold fixed by the American government, etc. With regard to still high debts of European countries to the United States and American surplus foreign trade, it was clear that the United States would suck up more gold from the world system. After stabilizing the dollar in 1934, the flow of gold into the American economy became a reality. From 1934 to 1939, inflowing gold amounted

[28] On the functioning of the Bank and her credit operations see for example Smith (1990, pp. 197–260).

to about USD 10 billion.[29] This meant that the United States' share of the world stock of currency gold increased from 38% in 1929 to 58% in 1939 (Arndt 1972, p. 91).

Table 1: International investment position – stock as of 1931, 1935, 1940 (billions of USD)

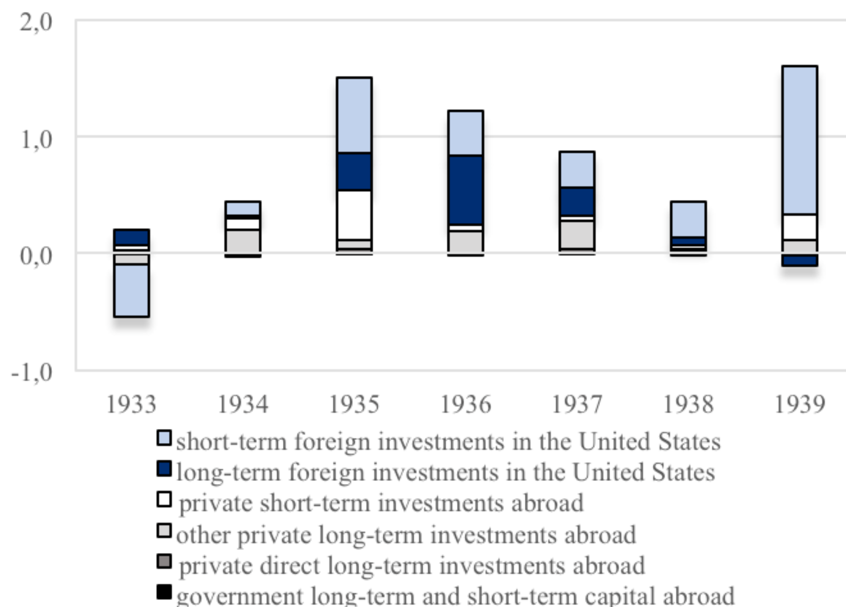
	1931	*1935*	*1940*
United States investments abroad	20.1	23.6	34.3
- private long-term investments (including direct)	14.6	12.6	11.3
- private short-term investments	1.3	0.9	0.9
- government (public) investments	4.2	10.1	22.1
Investments from abroad in the United States	3.8	6.4	13.5
- long-term investments (including direct)	2.3	5.1	8.1
- short-term investments	1.5	1.2	5.4

Source: U. S. Bureau of the Census (1975, p. 869), author's layout.

The evolution of the stock of investments was logically related to the development of the flows in individual years as shown in Fig. 13. Since 1934, there was an influx of foreign investments into the United States, both short and long-term, in the order of hundreds of millions to billions of dollars. In the case of short-term foreign capital, the years 1935 and 1939 appear to be exceptional, and with respect to long-term foreign capital, the years 1936 and 1937. The negative difference between the private capital invested abroad by Americans and withdrawn by private American investors to the United States (in the context of the Tab. 1) indicates that businessmen on a much larger scale were withdrawing private capital from the world economy rather than investing in it. The situation in the course of the 1920s, when the outflow of private American capital abroad exceeded significantly its inflow, did not repeat in similar proportions. As already mentioned, government (public) capital also became engaged abroad, but its mutually counted movements probably cancelled each other out.

[29] Only in 1934 it was more than USD 1.1 billion of net inflow of gold. For the most part, countries of origin were United Kingdom and France. In 1935 it was USD 1.7 billion, in 1936 USD 1.0 billion in gold. A year later, net gold inflow to the United States amounted to almost USD 1.4 billion and about USD 0.2 billion more in 1938. In 1939, an unprecedented increase up to more than USD 3 billion was recorded (Crawford 1972, pp. 269, 275, 282, 286, 289).

Figure 13: Inflow of foreign investments to the United States, outflow of foreign investments from the United States 1933–1939 (billions of USD, current prices)



Note: Negative value means outflow.

Source: author's own calculations based on data from U. S. Bureau of Census (1975, pp. 866–867), author's layout.

9 Conclusion

The effort of the United States to play a role in the international economic system as a leader was more pronounced in the 1930s than in the previous decade. The American government was aware that the protectionism of the 1920s was not an appropriate business strategy in the 1930s, neither from the point of view of the domestic economy nor international development. Government officials also realized that there was a need to "offer" the international dollar system (gold), but not through more loans, but trade, so that other countries can first buy American goods and secondly repay their debts. It was necessary to open the American market to foreign importers. However, this idea has always been undermined by the idea of reviving the domestic economy, in other words, "export as much as you can, import as least as you must". The primary objective of reciprocal agreements was not to help world trade, but the domestic economy. Positive impacts on the rest of the world were by-products.[30]

[30] An interesting view is provided by the theory of hegemonic stability. According to this theory, it was obvious that after of the Great Depression and before the Second World War, the United States was not a world economic leader, but a so-called supporter. A country tending to prioritize the interests of its economy over the interests of the system and not accepting short-term costs in exchange for long-term profits. The result of this is a higher degree of

In the second half of the 1930s, however, these "by-products" in Latin America or East Asia proved to be of strategic importance.

On the other hand, the economic isolationism in the form of the creation of currency and trade blocs that European countries carried out for themselves during the Great Depression and afterwards (then perhaps in a slightly modified form) continued. Similarly, the United States maintained unilaterally positive balance of payments in both trade and investments. The outflow of gold from other (especially European) economies forced them to a more stringent regulation of trade in the form of clearing or barter, thus avoiding the use of foreign currencies, respectively gold, in their business relations. The unilaterally positive balance of the United States eventually paradoxically pushed for bilateralism and ultimately justifying reciprocal agreements.

However, it was true that the international monetary economic system had been greatly disturbed already during the Great Depression due to the lack of coordination and selfishness of policies of individual countries. The United States had not responded to this disruption, but had, by contrast, deepened its protectionist policy. This policy of ignoring the basic patterns of the world economy and of the superiority of the domestic economy continued in the 1930s and caused further problems. The mere liberalization of customs barriers alone could not remedy these errors as it was not and could not be sufficiently extensive under the present conditions. It also turned out that the path to unregulated, multilateral world trade was not possible at that time. The effects of the Great Depression, not only in the United States but also in other developed countries, were still striking.

Nevertheless, the foundations were laid for the future multilateral trading world, which was to be created after the Second World War, led by the United States of America. The tariff negotiating procedures established under the reciprocal trade agreements provided the model for the General Agreement on Tariffs and Trade (GATT). The GATT provided the necessary framework for multilateral trade liberalization in the post-war era.

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protectionism. The second greatest power – United Kingdom – then acted as a spoiler; a country not supporting the world system, but rather damaging it. As a consequence of this unilateral supportership, the imbalance in the international economic system and greater regulation in international trade occurred. More in Lake (1983, pp. 517–543).

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