

**International Economic  
Reconstruction**

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JOINT COMMITTEE  
Carnegie Endowment. International Chamber of Commerce

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# **International Economic Reconstruction**

**An Economists' and Businessmen's  
Survey  
of the Main Problems of Today**

Headquarters of the Joint Committee  
INTERNATIONAL CHAMBER OF COMMERCE

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Immediately after the decision to publish these studies and the practical recommendations drawn up in August by the Joint Committee and in which emphasis was placed upon the critical state of international relations and the need for prompt action "by the leading nations to substitute friendship for fear and to stabilize the politics of the world", France, Great Britain, the United States of America, and other principal nations acted in September.

This action seems to be conceived, and, we hope, will be continued, in happy consonance with the needs and facts and tendencies exposed in the attached studies. While the rapid sequence of events renders it superfluous to pursue the study and publication of the detailed recommendations we had at one time thought necessary, we are encouraged to believe that further dispassionate study of the situation as it develops will increasingly enlighten business men and help the Governments of the world to devise the appropriate measures for the restoration of world trade and the attainment of a durable peace.

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## FOREWORD

By two resolutions, the first of which was adopted at the International Conference held at Chatham House, March 5th 1935, under the auspices of the Carnegie Endowment for International Peace, and the second at the eighth Congress of the International Chamber of Commerce, held in Paris from June 24th to 29th, 1935, it was decided by these two organizations to collaborate in an exhaustive survey and study of the principal aspects of international economic relations. Following this decision, a Joint Committee Carnegie Endowment-International Chamber of Commerce, was appointed by these two bodies. At a first meeting held on October 8th, 1935, the Joint Committee agreed to call upon a Committee of Experts to prepare the technical basis on which they would ultimately found their own opinions and recommendations. It was further agreed, at a second meeting held on November 16th 1935, to limit the Joint Committee's present investigations to the two main problems of the *removal of trade barriers* and *monetary stabilization*, whereupon the following statement was adopted, as constituting a summary of the guiding principles to be followed by the Committee in its work :

### *CURRENT PROBLEMS OF ECONOMIC RELATIONS BETWEEN NATIONS*

*The International Chamber of Commerce which was called into existence by the businessmen of the world for the promotion of international economic intercourse, and the Carnegie Endowment created for the purpose of assisting efforts towards the maintenance of peace, believe that economic dislocation leads to world impoverishment and this in its turn is a fruitful source of conflict between nations. They therefore think that there is no more urgent task than an examination of the conditions which would*

*most immediately contribute both to economic improvement and to a more harmonious state of international political relations. It appears to both these bodies that the following problems should in the first place be subject to expert investigation.*

*The improvement of commercial relations between nations and particularly the conditions under which it may reasonably be expected that existing barriers of trade can be lowered including a study of the technique by which this end can be most effectively reached.*

*The improvement of monetary relations between nations and more particularly the conditions under which a satisfactory currency stability can be attained internationally.*

*These problems of course do not exhaust the field of investigation of the economic relations between nations which influence both prosperity and peace. There are, for instance, the questions of internal planning in its relation to international intercourse ; the question of raw materials in all its complex implications ; the whole problem of population and immigration, and so on. But the International Chamber of Commerce and the Carnegie Endowment are of the opinion that the two problems specially set out above should be attacked in the first place. Any solution found for these problems would not only greatly help towards political pacification and economic recovery, but would make a solution of the other problems ipso facto the easier.*

As soon as these general decisions had been taken, the Committee set to work. In order to inform itself more thoroughly in regard to the problems which it had been called upon to study, it sought the assistance of a certain number of economists of various nationalities, especially qualified to deal with international economic questions, and requested them to reply to a list of definite questions addressed to them in accordance with the general program established by the Committee of Experts. The eleven economists thus consulted responded to this invitation. The number of specialists in economic questions collaborating with the Joint Committee, including the six members of the Committee of Experts, was therefore seventeen. Thanks to a close collaboration between the experts and the members of the Joint Committee, the work made rapid headway. The Committee of Experts met for the first time on March 25th, 1936 to examine the memoranda submitted by the experts, a great number of

which it had already received, and to discuss the elements of draft practical conclusions for submission to the members of the Joint Committee. On June 25th, 1936, the Committee of Experts held a final meeting in order to complete the text of its practical conclusions, which subsequently, on August 4th, 1936, served as a basis for the drafting of the practical recommendations of the Joint Committee itself.

This important study having been terminated, the Joint Committee decided to publish the results as soon as possible, considering that it was its urgent duty, in view of the contemporary character of the problems dealt with and the gravity of the international situation, to make the documentation thus collected immediately available to all interested in economic questions, to important business leaders, in short, to all who were in a position to exercise a favourable influence on public policy.

Readers should bear in mind that the documents published are the work of *experts*. The conclusions by which they are followed have also been drawn up by experts. As for the recommendations strictly speaking, they only engage the personal responsibility of the members of the Joint Committee. They represent the results of the task assigned to the Committee by the Carnegie Endowment and the International Chamber of Commerce and are at present under consideration by both these organizations as a basis of future action and work.

August 4th, 1936.

Nicholas Murray BUTLER,  
President of the Carnegie Endowment  
for International Peace ;

F. H. FENTENER VAN VLISSINGEN,  
President of the International Chamber  
of Commerce

THE JOINT COMMITTEE IS COMPOSED AS FOLLOWS

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Dr. F. H. FENTENER VAN VLISSINGEN, President of the International Chamber of Commerce.

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- Mr. Hisanori MUNAKATA (Japan), Superintendent of the London Agency of the Bank of Japan ; Member of the Board of Directors, Bank for International Settlements ;
- On. Gr. Uff. Avv. Gino OLIVETTI (Italy), Member of the Council of the International Chamber of Commerce ; President of the Associazione Italiana Fascista di Industriali Cotonnieri ;
- Mr. Björn PRYTZ (Sweden), Member of the Council of the International Chamber of Commerce ; Managing Director of the Aktiebolaget Svenska Kullagerfabriken.
- Alternate :* M. K. G. LUNDAVIK, Former Minister of Commerce ; General Manager of the Sveriges Industriförbund ;
- Lord RIVERDALE, K.B.E. (Great Britain), Vice-President of the International Chamber of Commerce ; Chairman and Managing Director of Arthur Balfour & Co. Ltd., Capital Steel Works, Sheffield ;
- Dr. James T. SHOTWELL (U.S.A.), Trustee of the Carnegie Endow-



- ment ; Director of the Division of Political Economy and History of the Carnegie Endowment ;
- Mr. Harper SIBLEY (U.S.A.), President of the Washington Chamber of Commerce ;
- Dr. Hans SULZER (Switzerland), Member of the Council and Executive Committee of the International Chamber of Commerce, President of the Swiss National Committee of the I.C.C., President of the Swiss Union of Commerce and Industry, President of the Sulzer Brothers Ltd., Winthertour.
- Alternate* : Dr. E. WETTER, Member of the Council of the I.C.C. ;
- Dr. Ernst TRENDELENBURG (Germany), Staatssekretär i. e. R. ; Vice-President of the Economic Chamber of the Reich ; President of the Reichsgruppe Industry ;
- Mr. Eliot WADSWORTH (U.S.A.), Vice-President of the International Chamber of Commerce ; President of the Boston Chamber of Commerce ; former Assistant Secretary to the Treasury ;
- Mr. Thomas J. WATSON (U.S.A.), Member of the Council and Executive Committee of the International Chamber of Commerce ; President of the American National Committee of the I.C.C. ; Trustee of the Carnegie Endowment ; President of the International Business Machines Corporation ;
- The Associate Director of the European Centre of the Carnegie Endowment for International Peace : Mr. Malcolm W. DAVIS ;
- The Secretary General of the International Chamber of Commerce : Mr. Pierre VASSEUR.

THE COMMITTEE OF EXPERTS IS COMPOSED AS FOLLOWS :

- Professor T. E. GREGORY (Great Britain), Chairman ; Professor of Economics, University of London ;
- Professor Dr. E. BOEHLER (Switzerland), Professor of Economics, Technische Hochschule, Zurich ;
- Professor Bertil G. OHLIN (Sweden), Professor of Economics, College of Commerce, Stockholm ;
- Dr. Leo PASVOLSKY (U.S.A.), Member Research Staff of the Institute of Economics, Brookings Institution, Washington, D.C.<sup>1</sup> ;

<sup>1</sup> Dr. Pasvolsky served on the Committee during the early stages of its work. He resigned on taking up an official Government appointment.

- Professor Dr. Andreas PREDÖHL** (Germany), Professor of Economics, Institut für Weltwirtschaft, Kiel ;
- Professor Charles RIST** (France), Former Professor of Economics, University of Paris ; Honorary Deputy-Governor of the Bank of France.

The following economists were also consulted by the Joint Committee :

- Dr. Antonin BASCH** (Czechoslovakia), General Director of the Manufactures Réunies de Produits Chimiques et Métallurgiques, Prague ;
- M. Dag HAMMARSKJÖLD** (Sweden), Member of the Finansdepartementet ;
- Dr. Hubert Douglas HENDERSON** (Great Britain), Joint Secretary Economic Advisory Committee since 1930 ;
- Mr. Per JACOBSSON** (Sweden), Economic Advisor to the Bank for International Settlements ;
- Dr. Ludwig VON MISES** (Austria), Professor of Economics at the University of Vienna ;
- Dr. Feliks MLYNARSKI** (Poland), Honorary Deputy-Governor of the Bank of Poland, Professor of Banking at the Academy of Commerce in Warsaw ;
- Professor Giorgio MORTARA** (Italy), Professor of Economics at the Università Commerciale Luigi Bocconi, Milano, General Manager of the *Rivista di Politica Economica*, Rome ;
- Professor Lionel ROBBINS** (Great Britain), Professor of Economics, University of London ;
- Mr. A. A. VAN SANDICK** (Netherlands), Secretary general of the Rotterdamsche Bankvereniging ;
- Professor Jacob VINER** (U.S.A.), Professor of Economics, University of Chicago.

*Secretary of the Joint Committee and of the Committee of Experts:*  
**Mr. G. COURTOIS DE VIÇOSE.**

## INTRODUCTION

The program of work elaborated by the Committee of Experts, which provided for the preparation of memoranda by various specialists in economic questions, included a study of the following problems :

### **Improvement of Commercial Relations between Nations**

**PART. 1.** — *The technological long-term factors in the reduction of the volume of overseas trade* : Professor Eugen BOEHLER (Zurich).

**PART. 2.** — *The fundamental reasons for increased protectionism* : Professor Lionel ROBBINS (London).

**PART. 3.** — *The technique of protectionism* : Dr. Leo PASVOLSKY (Washington) and Professor Jacob VINER (Chicago).

**PART. 4.** — *The road to recovery* : Dr. PASVOLSKY, Professor Andreas PREDÖHL (Kiel) and Professor Charles RIST (Paris).

### **Monetary Stabilization**

#### **PART 1.** — *The Significance of Stabilization*

1. The relationship between currency instability and tariff (and allied) changes : Prof. PREDÖHL.
2. New technical arguments for postponing stabilization : memoranda by Prof. T. E. GREGORY, Dr. H. D. HENDERSON (London) and Prof. Ludwig von Mises (Vienna).
3. Exchange stabilization and the problem of internal planning : memoranda by Prof. BOEHLER and Prof. von Mises.

4. The position of individual countries or groups of countries : Dr. PASVOLSKY on the United States ; Dr. Antonin BASCH (Prague) on Czechoslovakia ; Prof. GREGORY on the sterling area ; Prof. RIST on the gold bloc ; Prof. PRÄDÖHL on the countries practising exchange control.
5. The possibilities of the sterling area : Prof. GREGORY.
6. The technique of the forward exchange market and the elimination of uncertainty : Mr. A. A. VAN SANDICK (Rotterdam).

*PART. 2. — The Technique and Nature of Re-stabilization*

1. The existing price problem : Prof. GREGORY.
2. The gold problem Prof. Feliks MLYNARSKI (Poland).
3. The cooperation of Central Banks : Prof. Feliks MLYNARSKI.
4. The frozen credit problem in Central Europe : Dr. Antonin BASCH.
5. International short-term indebtedness : Mr. G. CONOLLY (Assistant to Mr. Per JACOBSSON, Bank for International Settlements).
6. The changes in economic structure and their repercussions on the movements of capital and balances of payments : Prof. Giorgio MORTARA (Milan).
7. The problem of parities : Prof. Giorgio MORTARA.
8. Note on « A desintegrated, provisional monetary standard as a basis of stabilization » : Mr. Dag HAMMARSKJÖLD (Finansdepartementet, Stockholm).

This series of memoranda, which is published in English only, forms a volume distinct from the present one, and can be obtained at the seat of the Carnegie Endowment and at the International Chamber of Commerce.

On the basis of these documents, a general report has been prepared by Professor Gregory, setting forth the essential ideas and suggestions submitted by the various authors of the memoranda. This is the document which we are publishing in the following pages together with an introductory report by Professor Ohlin on the Problem of International Economic Reconstruction, the conclusions submitted by the experts and the practical recommendations of the Joint Committee.

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# **International Economic Reconstruction**

by

Professor Bertil G. OHLIN,  
Professor of Economics, College of Commerce, Stockholm

## **Contents**

### **INTRODUCTION**

The goal of economic activity. — Defence and economic policy. — Peace and international economic organisation. — The national and social, not the individualist or socialist view-point. — Impossibility of « back to 1914 ». — Possibility of rapid progress.

### **CHAPTER I. — ECONOMIC PROGRESS BEFORE THE WAR**

#### *A. International trade, Capital movements and Migration*

Migration as a condition of economic growth. — The export of capital. — The changing character of trade. — Trade and productive factor movements as substitutes.

#### *B. The Functioning of the Pre-War Gold Standard*

Why did the gold standard function well? — Short-term credit transactions. — Credit policy and the adjustment of trade balances. — The rôle of London. — Foreign exchange stability, capital movements and trade. — Liberty of action in domestic economic policy. — Failure to keep the wholesale price-level stable.

### **CHAPTER II. — BREAKDOWN OF THE INTERNATIONAL ECONOMIC SYSTEM IN 1930-1935**

#### *A. The instability of the Economic Situation in the Years before the depression*

The restoration of international commerce in the 1920-ies. — The causes of instability. — Price relations and indebtedness. — The changing character of international indebtedness.

#### *B. The international Relations during the Depression*

Difficulties of countries producing primary commodities. — Growth of

international short-term indebtedness. — Increasing obstacles to foreign trade. — Causes and consequences of the fall in prices. — The international liquidity panic. — The internal liquidity crisis. — The vicious circle of deflation, depreciation and trade restrictions. — The causes and effects of the new commercial policy. — The different development in the gold and sterling blocks. — The different policies of the gold and sterling blocks. — The financial policy in gold and sterling countries. — Foreign trade. — The main lessons of the course of events since 1930. — Revival before readjustment.

### CHAPTER III. — THE ECONOMIC AND PSYCHOLOGICAL BASIS OF THE RE-ORGANIZATION OF INTERNATIONAL ECONOMIC RELATIONS

Re-organization is not the same as restoration. — Comparison with the pre-war system. — Economic nationalism and the spread of a new technique. — Less need of certain trade. — Losses caused by foreign trade restrictions. — Can manufacturing nations pay for the necessary import of raw materials? — The Japanese competition. — Social legislation and international competition. — The immediate difficulties resulting from continued policy of restriction. — State intervention and foreign trade. — Anti-dumping measures. — Conclusion concerning the rôle of international trade. — The advantages of a free export of capital before the war. — Less favourable effects in the future. — Capital export and unemployment. — The claim for control of capital exports. — International migration and unemployment. — Reconstruction presupposes expansion.

### CHAPTER IV. — THE MONETARY SYSTEM AND THE INTERNATIONAL CAPITAL MOVEMENTS

Can the gold standard function under present conditions? — The contradiction of internal and external stability. — Rigid parities and foreign trade. — Short-term capital movements and rigid parities. The primary aim : internal economic stability. — Necessity to avoid deflation and inflation. — A two-blocks monetary system. — Pre-requisites of any international monetary reconstruction. — Adaptation of cost levels and external currency values. — The liquidity problem and the distribution of gold. — The foreign debt problem. — Foreign exchange restrictions. — New foreign investments.

### CHAPTER V. — COMMERCIAL POLICY AND WORLD TRADE

#### A. *The Effect of the Present Commercial Policy*

The fall in world trade. — The industrialization of « young » countries. — Growth of regional trade. — The bilateral equalization of trade balances. — The productive character of multilateral trade. — Bilateral equalization reduces trade. — Effects of foreign exchange regulation. — General characteristic of commercial policy. — Bearing upon political relations.

#### B. *Re-organization of International Commerce*

The goal. — The need of domestic expansion. — Less discrimination. — Influence on the State revenue. — Erroneous opinions an obstacle.

A beginning should be made by financially strong countries. Autonomous action. — Non-discriminatory bilateral agreements. — Lead of the Great Powers. — Quotas and Equality of Treatment. — Discriminatory bilateral methods. — The direct connection between imports and exports. — The reduction of three-cornered trade. — A general conclusion. — A new discriminatory policy. — Multilateral agreements. — International cartels.

#### CHAPTER VI. — THE AGRICULTURAL CRISIS

Introduction. — Origin of the crisis. — Development of agriculture in the absence of an industrial depression. — Coincidence of industrial and agricultural depression. — Policy of restriction and price-raising. — The output of cereals. — The output of animal foods. — Policy has counteracted tendencies to adjustment. — Better conditions in 1934-1936. — Animal Foods. — The present position of vegetable foodstuffs. — Sugar. — Mitigation of the agricultural crisis. — The future outlook. — Autarchical tendencies as regards food supplies. — Conditions of solution. — A higher standard of consumption. — Cheaper food. — Reduction of the area under wheat. — Industrial expansion essential. — Military considerations.

#### CHAPTER VII. — THE PROBLEM OF « OVERPOPULATION », COLONIES, MARKETS AND RAW MATERIALS

##### THE TWO PROBLEMS

##### A. *Raw Materials, Markets and Colonies*

High raw material prices. — A non discrimination agreement. — Most raw materials are produced in non-colonial areas : a political transfer of colonies would not provide a solution. — Importance of colonial markets. — The real source of gain. — Preferential policy of today. — Conclusions. — An alternative solution. — Where lies the interest of the « have-nots » (states poor or altogether lacking in colonial territories) ? — Interests of the colonial powers. — Access to the world market all-important. — Importance of freer trade and balanced currency conditions. — Colonies and the standard of living. — Raw materials in wartime.

##### B. *Over-population, Employment and Territorial Expansion.*

Density of population and « over-population ». — Growth of population. — Emigration. — Net reproduction rate. — The « over-population » problem in Germany, Italy and Japan. — Employment without territorial expansion. — Terms of exchange. — Importance of reasonably free trade. — Influence of new colonies. — Emigration to colonial districts. — Growth of the native population. — Investments in colonies. — Not colonies, but industrialization a necessity. — Industrialization depends on international trade. — Different problems can be solved on the same lines. — Importance of international understanding. — Dangers of discrimination. — Respect of contracts.